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Nielsen Holdings NV (NLSN)

Q3 2013 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Operator: Good morning and welcome to the Nielsen Holdings NV 3Q 2013 Earnings Conference Call. All participants will be in listen-only mode. [Operator Instructions] After today's presentation, there will be an opportunity to ask questions. [Operator Instructions] Please note that this event is being recorded. Now, I'd like to turn the conference over to Kate Vanek. Ms. Vanek, please go ahead.

Kate White Vanek
Senior Vice President-Investor Relations, Nielsen Holdings NV

Thanks so much and good morning, everybody. Thanks for joining us this morning to discuss Nielsen's third quarter 2013 financial performance. Joining me on today's call from Nielsen is David Calhoun, Chief Executive Officer; and Brian West, Chief Financial Officer.

Before we begin our prepared remarks, I'd like to remind you all that the following discussion contains forward-looking statements within the meaning of the Safe Harbor provisions within the Private Securities Litigation Reform Act of 1995. These forward-looking statements may include comments about Nielsen's outlook, expectations and prospects.

These and other statements that relate to future financial results and events are based on Nielsen's view as of today, October 23, 2013. Our actual results in future periods may differ materially from those currently expected because of a number of risks and uncertainties. The risks and uncertainties that we believe are material are outlined in our 2012 Form 10-K and other filings and materials, which you can find on nielsen.com/investors or at sec.gov. A slide presentation that we'll use on this call is available under the Event section of our IR website at nielsen.com/investors.

And today, we do use certain non-GAAP measures to evaluate the results of our operations. We believe these non-GAAP measures provide useful information to investors regarding financial and business trends when viewed in conjunction with our GAAP results from operations. Further definition and a reconciliation of these non-GAAP measures to our results under GAAP is available at the end of our press release. It's also in the appendix of the webcast slide presentation we're using on today's call and on our IR website.

So, let's kick it off. Dave will start with comments on our results for the quarter and an overview of some key highlights. And then he will provide a business update and then close with an update as well on how things are looking going forward. Then Brian will discuss financials for the quarter and will provide updates on our full-year guidance. Then we'll be happy to take your questions.

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

Okay, Kate, thank you, and good morning, everyone. I'm going to make a few brief comments upfront here, let Brian do some things, we'll get quickly to the Q&A. We had a very solid third quarter. Revenue grew 3.7% constant currency, 3.3% on the top line in Buy. We felt good. We saw momentum in Insights and we saw a continuing growth in the developing markets based on the investments that we've made and the developed markets were steady. We fought a tough comp because of the Walmart win over the course of last year, but all in all, very good and very solid.

4.2% growth in Watch. Our core TV metric, the one that delivers each and every year grew 5%. We'll talk about some things that dropped that down a touch, but those are more or less one-time events.

Adjusted EBITDA grew 5.6% on a constant currency basis because this model doesn't need a lot of volume to scale and it continues to do so. Adjusted net income grew 18.4% on a constant currency basis. Our cash flow generation was $326 million, up almost 50% year-to-date. Arbitron acquisition got closed. I know it all felt like it took too long, but it is done. We've got a great plan. We started right out of the block by rebranding it as Nielsen Audio and our integration plan is well underway and we're very positive about the outlook.

We continue to be in what we refer to as a full investment mode, meaning where we see opportunities to invest for growth and competitive advantage, we do. Most of that is built around our global expansion, but also some big innovative solutions in the Watch space. We will update our guidance. We're going to get a little more specific and discrete around the fourth quarter because there's a lot going on in our fourth quarter. My only comment would be not to get used to it. I don't like getting that specific on quarterly stuff, but we can and we will in this case.

Basically, you'll see an extrapolation of our third quarter performance into the fourth quarter with respect to the information business that we saw in the third quarter, and therefore, it will keep us at the low end of our revenue guidance. And we're going to have one quarter of Arbitron and Brian will get little more discrete about that. And we'll continue to focus on our program to deliver shareowner value.

So just a couple of things that we work on every day that we continue to feel real good about. Our investments in building more coverage in the places where our clients want it the most, Africa, China, India and most recently in Mexico, continue to go well. They continue to foster and develop real differentiated growth for us. Anyway, it's been a great program, we'll continue it.

Expanded online ratings, both Campaigns & Programs. I think, as everybody knows, our program ratings get launched at the beginning of next year. Remember, program ratings really facilitates more use and better campaign management on the part of agency participants. That, in combination with the data that we announced recently here with Experian, which is one of the biggest data sets available out there, will give them new and added demographic and lifestyle planning tools. So in the end, this just becomes a much more robust platform. These were always part of the product vision. It took us quite a while to get these things to the stage they are today. But next year, we're going to go into the year with some real momentum around that product.

Extending video measurement to mobile, of course, this is tablets and smartphones. The program we have in place, the program we have reviewed and beta test with our clients will be available for possible currency inclusion in fall of 2014. I'll reiterate that we don't make decisions on whether it gets baked into currency, the market does. But in the end, we're going to have a metric that we believe will be robust enough to do that.

The Social Media platform, which we launched with SocialGuide, and then most recently, the Nielsen Twitter TV Ratings, which we're only a couple of weeks into, real, real good progress, a lot of excitement around it. We have 70 TV clients. We went from zero to eight agency clients as we launched the ratings products. And so we're feeling real good about the early momentum there. And importantly, what it does to energize television in general, not just Social.

We continue to make real progress on what we call activating our data. So we made investments in a product call Global Track, Marketing Mix, Catalina, which we've talked about a few times, and Buyer Insights. All of these products are intended to take data that Nielsen has had and continues to develop and activate them within our clients, so that they can make more operational decisions, get more discrete, and more accurate around where they place advertising, ultimately what they get for that advertising and proving their overall ROI. So it's a big mix of products, but they all intended to serve that purpose and they do so really well, and we continue to have real growth.

And then finally, Nielsen Audio, we know we've got a terrific program for integrating this company into ours and there are some wonderful cost synergies and straightforward cost synergies that we'll realize. What we're getting increasingly excited about are the revenue opportunities that we will attach to it. And that predominantly revolves around the linkage of audience data with our retail data, again, to demonstrate improved ROI, also streaming as a new market opportunity, and then ultimately taking this technology and audience measurement around the world. So a lot of fun and a lot of excitement around the potential.

So with that, I'll turn it over to Brian, and then we'll talk about Q&A at the end.

Brian J. West
Chief Financial Officer, Nielsen Holdings NV

Thanks, Dave. I'm now going to refer to page eight in the webcast slides. Total Nielsen results for the quarter, third quarter revenue was $1.39 billion, up 3.7% constant currency. Adjusted EBITDA was $398 million, up 5.6% constant currency and margins expanded by over 50 basis points.

We did see the impact of foreign exchange rates in the quarter. There was a 100 basis point drag on revenue, and a 140 basis point drag on adjusted EBITDA.

Adjusted income for the quarter was $193 million, up over 18%, and adjusted net income per share came in at $0.50.

Finally, we generated $236 million of free cash flow, which was down versus prior year largely due to the impact of the Expositions sale. Free cash flow year-to-date is $326 million and up almost 50% or over $100 million versus last year.

As we close three quarters of the year, revenue growth is steady at 4%, margins have expanded by over 60 basis points while we continue to reinvest, and earnings growth is over 25%. And we're delivering very strong free cash flow and returning capital to shareholders.

Moving on a little bit more on revenue. The third quarter marked our team's 29th consecutive quarter of top-line growth. And that starts off with the Buy business, which was $871 million, up 3% constant currency. Within Buy, Information Services was $664 million, up almost 2%, and as Dave mentioned, increased momentum in developing markets as clients invest more in retail measurement and we had a stable performance in the developed markets even though we no longer had benefit from last year's coverage expansion in the U.S. from Walmart.

Turning to the Insights business, $207 million, that's up 8%. Another good consecutive quarter of forward momentum versus the 3% growth we saw in the second quarter and growth was broad-based across most regions. Developing markets were up 7.5% constant currency and we continue to see strong double-digit growth in key markets, driven primarily by growing burgeoning local clients.

Watch revenue was $516 million, up 4%. Core TV measurement, which is by far the biggest part of Watch, was up 5%. We saw very nice growth in areas such as Ad Solutions and our U.S. digital offerings. We did have about a 1 point drag due to the exit of two legacy online products in five markets outside the U.S.

Moving on to page 10, segment profitability, Buy EBITDA was $174 million and grew close to 2% with flat margins as we continue to invest primarily in the developing world. Watch EBITDA was $234 million, up 11%, reflective of the scalability of our business model, and total EBITDA was $398 million, up 5.6%. And overall, we continue to execute on technology and infrastructure improvements to drive cost productivity.

Moving on to page 11, I remind everyone we do have the impact of foreign currency rolling through our reported results, although we measure ourselves on a constant currency basis, because we don't take on transactional risk.

You can see on the chart on the left, a little under half of our revenue is outside the U.S. with the single biggest currency is the euro. So we have a lot of little currencies. And the chart on the right is just the quarterly impact. The blue is revenue, the orange is EBITDA. And in the third quarter, as I mentioned, we had a 100 basis point drag on revenue, which is a little bit less than we expected. Rates are moving around quite a bit and we have a big basket of currencies. And then EBITDA was about a 140 basis point drag, which is about where we had expected as we ended September.

And then if you project, if rates stay the same where they were as of Monday the 21st, and they stay for the full fourth quarter, you would expect to see a 60 basis point drag on revenue and a 100 basis point drag on EBITDA. I remind you that we always think about constant currency as we run the business and reflect the operating performance of the company.

Page 12, cash flow and balance sheet, in the box in the upper left, free cash flow was $236 million, I covered that one. CapEx came at $85 million, cash taxes $35 million, and restructuring at $16 million. On the balance sheet, gross debt came in at $6.9 billion, cash of over $700 million for a net debt of $6.1 billion. And our pro forma net debt ratio, adjusted pro forma for the last 12 months of Arbitron and would be 3.56 times. I will mention that of that big cash balance, over the course of a matter of days, a big chunk of that's going to go out between paying off the 11.625% [Senior Notes], which is over $200 million, and then the remaining Arbitron fees and equity payments. So about $300 million is going to go out any day.

On the cap table, I would highlight, we finally have taken care of those 11.625% [Senior Notes]. They are the last high coupon legacy notes. We're glad we were able to get that done and felt good about the rate that we were able to raise at the 5.5% notes that we did recently. I'd also point out that our weighted average interest rate while here as of the end of September, it's 4.64%. If you pro forma the benefit of the refinancing of those high coupon notes, it gets about 36 basis points better. So, again, we continue to de-risk the balance sheet.

Moving on to page 13, as Dave mentioned, since there are so many moving parts as we head into year-end, we thought it would be helpful to make an exception and provide guidance for the fourth quarter. I start with the upper left, fourth quarter total constant currency revenue growth, we expect to be between 12% and 13%. So that obviously has a benefit of one quarter – one full quarter of Arbitron in our numbers.

If you look at our fourth quarter core constant currency revenue growth, we see 3% to 4%. With two quarters in a row at 3.7% core growth, and discretionary spending still is under scrutiny, we see a range of 3% to 4%, which gets us to the low end of our original full-year range or just a bit below at 3.75% to 4%.

On the full-year profit metrics, these all got better. So adjusted margin growth is now 50 to 60 bps. Adjusted net income is up to 17% to 19%; both those are higher than last time we talked. And I make a note that the previous adjusted income per share was $1.89 to $1.95. When you take into consideration the profitability bit getting better and you add in Arbitron, we see a full-year 2013 outlook for ANI per share at about $2.

If you then move over to the right hand side, the full year numbers, we always give these kind of elements to be helpful as you do your models. These would all include the adjustment for the one quarter of Arbitron. So we see deleveraging right in the 0.3 times reduction. CapEx $370 million to $380 million; that's a little higher, because now we're going to have a quarter of CapEx for Arbitron.

Depreciation and amortization is $500 million to $510 million; that – the high end got narrowed a bit, basically, not much change there. Net book interest, no change there, $305 million to $310 million. The way you think about that is the benefit from the refinancing of the high coupon note is offset by the Arbitron interest for that little bit of debt we had to raise.

Cash taxes, we narrowed that and actually made it a little bit better at $140 million to $145 million. And cash restructuring is $75 million to $85 million; before that, it was $60 million to $80 million. There are some restructuring payments, initial actions that we did have to do, that we expect to pay out in cash relative to Arbitron.

And the estimated weighted average share is at 382 million. So core earnings remains intact, and at $2, we are able to have the benefit of Arbitron being in our numbers for one quarter.

With that, I will turn it over to Kate.

Kate White Vanek
Senior Vice President-Investor Relations, Nielsen Holdings NV

We'd love to kick-off the Q&A session, one question, one follow up. Thank you.

QUESTION AND ANSWER SECTION

Operator: Thank you. We will now begin the question-and-answer session [Operator Instructions] And the first question comes from Andrew Steinerman with JPMorgan.

Andrew C. Steinerman
Analyst, JPMorgan Securities LLC

Q

Good morning, solid results. I'd like to talk about the Watch business and the deceleration. We talked about some legacy products on line, getting sunset. Are these the international equivalent to the domestic products that had been sunset? Is this a sign that OCR is replacing these products? And when will this sort of be behind us so that we could kind of lean forward in growth on Watch?

Brian J. West
Chief Financial Officer, Nielsen Holdings NV

A

Yes to both your questions, Andrew. So you got that spot on. And in terms of when we'd expect to see on the international side, maybe middle next year. I'd point out that our U.S. digital business was the first one to go through the exit of the legacy products and now we're in a position where we feel good about that growing. And we'd expect to see the same thing in our international markets.

Andrew C. Steinerman
Analyst, JPMorgan Securities LLC

Q

Okay. Thank you.

Operator: Thank you. The next question comes from Suzi Stein from Morgan Stanley.

Suzanne E. Stein
Analyst, Morgan Stanley & Co. LLC

Q

Hi. Can you just give some more detail on what you're seeing in developing markets, specifically, which markets are strengthening? And also, how would you compare the pace of investment in developing markets versus where you were two years ago?

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

A

Second one first. We are investing at the same pace. So in effect, we have a team that does this. It does it all day, every day, 365 days a year. We're not increasing it in a big way, we're not decreasing it. There is always another city to measure. We could go – we could double down. I don't think it would be worth it because the way I think about that investment is I just want to be far enough ahead so that I can basically capture that market before anyone else ever shows up, and then ultimately, the odds that I can keep it there for myself are pretty high. And that's how I think about it and that's how we continue to do it. So pretty straightforward. Brian made a comment with respect to growth in the developing world. For us, it's -actually still feels pretty good. Now, it's not significantly double-digit. I still believe it's going to return to that over time just because of the population growth and continued expanded territories, but at almost 8%, it still feels good. Local clients – and this is – we talked about this over many years – continue to be the majority of that growth. So local clients in China, local clients in India, local clients in Brazil, and not so much so yet, but in the future, local clients in Africa. That's really what propels us. We're so under-penetrated, Suzi, that I just – it's – I don't think a GDP problem is going to get in my way. So we just – our job is just to continue to penetrate with all the new players in these countries. So I still feel good about it. I'm no less optimistic about the future of it. And I have not seen a slowdown at all.

Suzanne E. Stein
Analyst, Morgan Stanley & Co. LLC

Q

Okay. Thank you.

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

A

Yes.

Operator: Thank you. And the next question comes from Matt Chesler with Deutsche Bank.

Matthew T. Chesler
Analyst, Deutsche Bank Securities, Inc.

Q

Yeah. Good morning. Didn't hear a lot mentioned about Europe this morning. So I'm curious to get an understanding as to whether or not that became an incremental headwind in the quarter or whether it was stabilized. And just generally, what your clients are talking about in Europe. And then secondly would be a better understanding about the recovery in the making in Insights. It did recover, as you guys indicated it would. But I'd like to get a sense as to whether or not you're seeing demand coming back there or whether we're just talking about easier math? Thanks.

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

So let's start with Europe, because we debated about just whether we should say something or not. It is this – literally the same as it's been and it'll continue that way. So all of our forward looks reflect our historic looks, which is this is a flat business for us. We're not losing stuff, but we're basically flat, and we think it's going to stay that way. I don't – I hear lots of people talking about big recoveries, blah, blah, blah, I don't see it, I haven't felt it, and I don't think it's going to happen. I think our core business is in great shape and will stay that way because everyone wants to know where they are, but I do not see incremental investments in the CPG industry moving down that path.

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

Yeah, and on the second one, Matt, there are clearly some pockets of demand where there are clients who are increasing their investment, there's no doubt about it, it's not broad-based as we've seen it historically. But there's no doubt we're benefiting from the math. But we like the trajectory we're on, and we're enthusiastic.

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

Okay, thanks a lot.

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

Yes.

Operator: Thank you. Next question comes from David Bank with RBC.

David Bank
Analyst, RBC Capital Markets LLC
Q

Thanks. I think last quarter you called out the Ad Solutions business as having a pretty positive impact overall on Watch. I'm wondering, have you seen, can you kind of quantify what it contributed to growth in the quarter this quarter? And is that number accelerating or is it kind of – was stable at what it contributed last quarter? Thanks.

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

We still had very nice growth in that business, and we'll get more consistent at calling that out. And we're having an Investor Day in December, we'll talk more about what that business looks like and get more consistent. But, look, we love the products that are underneath that business. It's things like, Nielsen Buyer Insights experienced some great growth. These new products are relatively small, but the growth is good, and we'll continue to invest behind them, because they're very unique assets that nobody else can do.

David Bank
Analyst, RBC Capital Markets LLC
Q

So generally, though, that – we saw probably more of a contribution in this quarter [indiscernible] (23:24)...

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

Yep. There – no change. It still is a good grower for us, no change.

David Bank
Analyst, RBC Capital Markets LLC
Q

Okay. Thank you very much.

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

The big thing in Watch was the one point drag obviously. That was a thing that took us down. We believe that's, as Dave mentioned, episodic.

David Bank
Analyst, RBC Capital Markets LLC
Q

Thank you.

Operator: Thank you. The next question comes from Sara Gubins from Bank of America Merrill Lynch.

Sara Rebecca Gubins
Analyst, Merrill Lynch, Pierce, Fenner & Smith, Inc.
Q

Hi. Thank you. Good morning. I wanted to follow up on an earlier question, around the Buy segment. I know that the Walmart comp is an issue and Europe is a drag. But I'm wondering if there's anything incremental that you're seeing that caused you to lower the revenue guidance for the year? Are you concerned at all about losing market share in Europe or is there some incremental hesitation on spend somewhere else?

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

Absolutely none. This really is the Walmart comp. We are – in the share world, we're gaining share, next year will be an even better share year. This is just – this – so I'm very comfortable and confident in that because I know where all the share fights are. And I know exactly how they turn out. While we don't report on it, it's always been a slight positive for us. And it will continue to be so. So nothing on that front.

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

I would just add that as we close out the year, like any year, there will be discretionary dollars that will be available or not. And at this moment, we want to make sure we don't get overly optimistic on what we're going to count on. Because the world is not real confident about itself, there's mixed around the world about general business confidence. And we don't want to put ourselves in a position where we're counting on discretionary dollars that don't show up. So I think that kind of informs our 3% to 4%.

Sara Rebecca Gubins
Analyst, Merrill Lynch, Pierce, Fenner & Smith, Inc.
Q

Okay. Great. Just as a follow up, as you think about next year, do you think it's reasonable to think that you could return to faster growth? You'll still have a bit of the Walmart comp, but are there other barriers holding back the growth?

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

A

No, look, we always – I would like to be at a higher growth rate. And I think as I enter the year, I'm going to feel as though that's very achievable. On the other hand, as we give guidance and we extrapolate, we're not going to cloud the future and we're not going to just assume that the market gets friendly. But I like our prospects, I like mostly on the basis of the investments we've made and the opportunities we've created for ourselves.

Sara Rebecca Gubins
Analyst, Merrill Lynch, Pierce, Fenner & Smith, Inc.

Q

Thank you.

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

A

Yes.

Operator: Thank you. The next question comes from Todd Juenger with Stanford (sic) [Sanford] Bernstein.

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

Q

Hi. Good morning. I'm going to return one more time, probably the last time, to Watch revenue. There's just so many good guys and bad guys and trying to think about going forward, would love any color. So I've got, as a bad guy, I've got this Internet product that shut down and we learned a little bit about that, sounds like it's 100 basis points or something. Remind us again, I didn't hear before exactly how much – how many more quarters that will last. And then, as good guys, I've got, I'm assuming some pricing, I've got a whole laundry list of new products, I've got Ad Solutions. Any more framing you can provide in front of the relative magnitude of all those ins and outs just to help us think about the future? Thanks.

Brian J. West
Chief Financial Officer, Nielsen Holdings NV

A

Yeah, Todd, you have the pieces right. I will remind you that the Core TV measurement is like a big – the biggest part of the business and that was very steady. And like we've always said, there always will be some ins and outs, as you mentioned, but you've got them all. They're just not all collectively big enough to really move needles aggressively. But I think we're – consistently said that Watch business has historically grown 4% to 5%. Through the first three quarters, we've grown 4.7%, closer to 5%, we feel good about where we're headed. And we think that, we've always said that we expected to grow faster towards that upper end of that range. So I think we feel bullish about where we're headed, but I think that materially moving a lot heavily outside that range is nothing we've really talked about.

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

A

Your quantification of the exit is exactly right, and Brian said earlier, through the middle of next year, that would be end of the second quarter, there's really nothing left. So I guess the answer is it would be over.

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

Q

All right. Fair enough. Kate said we could have one quick follow-up. So I'll take that. Just last quarter you announced an authorization of a buyback. Any further thinking on exactly when or how much you might look to start using that? Thanks.

Brian J. West
Chief Financial Officer, Nielsen Holdings NV

A

Yeah, Todd, we have not done anything as we closed the quarter and we'll always look at that opportunistically, but no real update on that one.

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

Q

Fair enough, thanks.

Operator: Thank you. The next question comes from Andre Benjamin with Goldman Sachs.

Andre Benjamin
Analyst, Goldman Sachs & Co.

Q

Hi, good morning.

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

A

Hi, good morning.

Andre Benjamin
Analyst, Goldman Sachs & Co.

Q

First question, as the competitive environment evolves and more customers are citing the benefit of additional demographic data as demonstrated by your Experian announcement, do you have any updated thoughts on the willingness to make changes or supplement your traditional survey-based, the TV measurement technology? And if not, for some of the ones that I've mentioned, I guess is there anything that you can talk about working on for the future?

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

A

Well, listen, I – that is our mission is to continue to embellish the currency that the market has decided it wants to use to trade advertising, but to embellish it for the benefit of advertisers and agencies with additional demographic and behavioral data. That is our mission. We use panels. We use now this Experian collaboration to allow for that and to continue to develop alternatives for that. I believe that's exactly the way it'll continue to unfold. There will not be sort of an embedded behavioral survey that we put into the TV panel. There will be a hundred other ways to skin that cat. But having that as the currency from which to build is just – it's an enormous asset and it is the way our clients would prefer it get done. So they continue to trade efficiently all day long. In the meantime, we continue to add tools to both advertisers and to agencies and to media companies who can sell their audience discreetly around behavioral attributes. That is the world, that's way the world is moving. We believe almost everything we do caters to that. And I don't want to call out one product because it's not one product, it's a whole series of products. It's our participation in every step of that chain that gives us sort of a bigger window and a big advantage in pursuing it.

So that's how we think about it and it's your right to point it out. It's an overriding objective of our company. We're just – we're going to do it with a whole bunch of different products. But it's going to get built off of currencies and metrics that our clients are comfortable using.

Andre Benjamin
Analyst, Goldman Sachs & Co.
Q

And as I guess we look at the Arbitron acquisition, I know you've given some guidance on annual accretion. Any help that you can provide in terms of milestones that we should be looking forward to know that you're on track for that, whether it be presence of radio measurement translating into additional opportunities for both Watch and the Insights business as planned or is there any work being done on streaming audio now that your – the deal is closed? I don't if you have any more freedom to talk about that?

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

My view is that Q1 is going to be a milestone where you'll see not only the progress on the integration and the synergies that we've committed to, but also more about how we prioritize to begin to lean into the revenue opportunities that Dave had mentioned.

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

Yeah. You won't have to wait long.

Andre Benjamin
Analyst, Goldman Sachs & Co.
Q

Great. Thank you.

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

Yes.

Operator: Thank you. Next question comes from Tim Nollen with Macquarie.

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

Hi, thanks. My question is also about Arbitron actually. If you could just let us know what potential integration issues there may be, what actually are you doing in terms of integration? It seems like it's kind of a fold-in and there's probably some back office cost savings and things. But if you could let us know what the integration procedure is? And then, again, what the opportunities could be, for example, rolling PPM technology out across more of your measurement using more out of home measurement for your TV panel. Could you elaborate a little bit more on what potential revenue opportunities Arbitron brings? Thanks.

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

Yeah. So we have a – I'll remind everybody, when we started the integration of our company back in 2007, we have been integrating companies literally since day one. So we're pretty schooled at it. So on day one at Arbitron, we have a plan literally by function and by operation, a plan for really almost complete integration with the Nielsen Company. And so the headquarters stuff is easy because you don't need two headquarters. The functional support stuff is relatively straightforward because you only need one accounts payable processing and you only need one receivables. The fit with this company, I've said this many times, is really, relative to the 35 we did before this, is probably better than any of those and so we're just going to march down that path. And like I said, I'm confident that we can express big synergies quickly because I know that path and we're on it. I don't think I need to get a whole lot more specific than that.

We dealt with the brand issue right out of the chute. So everyone knows it's Nielsen Audio. We have had real good support out of the marketplace for that move. And then on the revenue side, I think our client base, what they want more than anything from Nielsen is they want to marry their audience measurement with retail data so that they can begin to go to the marketplace and demonstrate the effectiveness of the medium against all other mediums. And this is what we do and do well. It's the Advertising Solutions business for audio or for radio. And so that one is the one everybody wants the most, that's the one we'll prosecute the earliest.

Streaming audio is a big opportunity that we intend to go full after just like we did in video. And so that one, it might take a little longer to get the product exactly right, but by the middle of next year, you'll know exactly what we have in mind and exactly what the timeframe in which we attempt to go after it.

And then finally, we already know of three international competitions that we'll run after in audio that we never would have before, that Arbitron would not have done on its own because they're there. And then, there'll be a long list after that. And then I'll remind everybody that the investment case we built never included revenue synergies because we don't tend to value our acquisitions on that basis. But make no mistake, our pursuit of those revenue synergies will be fierce. So that's it in a nutshell.

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

Q

Okay, great. Thank you very much.

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

A

Yes.

Operator: Thanks. The next question will come from Dan Salmon with BMO Capital Markets.

Dan Salmon
Analyst, BMO Capital Markets (United States)

Q

Good morning, guys. Just I guess a bigger picture question about all of the digital products. I know many of them are in the early going and I'm sure a big focus is selling them into your current client base. But as you look across them, how many sort of new conversations, new clients, people are new to Nielsen are you engaged in conversations with? And is that better or worse than you'd expected?

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

A

Well, it's better, but I always expected it. It just – it happened a little quicker. So the big one is, now everything social and everything mobile related on video. So all of our media clients who we've known for a long time now are fully engaged in both, understand the benefit of the measurements we've brought to both. And so that is a – that's an all-out engagement, we're seeing revenue attached to it, all those things.

And then the one that is – was always the important one because it facilitates trade in this world is the agency world. And this is the one where the products that we have been developing and launching, mostly program ratings, but everything Experian, this opens up all kinds of new opportunities for them because they're the ones that marry sort of the campaign, like who am I trying to get, what behaviors am I trying to reach with the placement of advertising. This is the set of tools that that agency crowd really needs. And so our engagement with the agencies on this subject, our engagement with social with the agencies, that's the new part and that's a very important part because it's the lubricant in the gear. And we intend to continue to develop that relationship in a big way.

Dan Salmon
Analyst, BMO Capital Markets (United States)
Q

Great. Thank you.

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

Yes.

Operator: Thank you. And the next question comes from Ashwin Shirvaikar from Citi.

Ashwin Shirvaikar
Analyst, Citigroup Global Markets Inc. (Broker)
Q

Thanks. Guys, a good quarter here. My question is, a key part to the business model that you have is the pricing power associated with being the currency in the markets you serve. So as you sign new developing market clients and introduce these new solutions to sort of deal with an increasingly fragmented world, do you find you have that historical level of pricing power or is that gradually changing? And if it is, in which direction is it changing?

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

So we have a policy and a practice, more importantly, of earning price. So whether you have pricing power or not, you can exercise it in lots of different ways. So how do I think about that? If I can add audience, as in I'm going to measure something new, like everything mobile, everything social for my media clients, I'm increasing their reach and their audience and that is ultimately what I negotiate for when I'm trying to build a new contract and ultimately get price. So is that price? Is that revenue for value? Who knows. Our principle is to earn it. And in the reach – in the retail measurement world, it's the same. I try to build new coverage, add new territories, new reach for them. And in the end, that's what we negotiate around. Could I extract more? Of course. Would it be well received by my clients? Of course not. So that's what – that's the fence we walk on.

I will tell you, because of our global reach and our willingness to invest in global reach, our willingness to invest in technologies that allow for a real time metric around the world, this power, if you will, or more importantly, negotiating stance, it gets bigger. There's no question. I'm not going to extract it just with pure price. I'm going to build longer-term relationships, which we are. Our contract terms continue to expand, not shrink. And we continue to try to deliver more value to that client. So I'm not trying to be mealy-mouthed about it. It's just that's our policy, that's what we do. And so far so good.

Ashwin Shirvaikar
Analyst, Citigroup Global Markets Inc. (Broker)

Q

No, that's quite clear. So thank you for that. The second question I have is with regards to balance sheet. With the sort of legacy debt push out sort of complete and you have other cash return initiatives and ongoing investments, does this change your inclination to continue to pay down debt at the prior rate?

Brian J. West
Chief Financial Officer, Nielsen Holdings NV

A

We have real no change in our capital allocation philosophy or target. I think we've been consistent to say that ahead of the 2016 maturities stack, we are targeting a 2.75x to 3x net debt leverage ratio. We feel comfortable running a business at those levels. We continue to make progress to that end. In the meantime, we realize that there is excess cash that appropriately will be returned to cash holders, which we've started to do. So right now we feel like we're right down the consistent approach, deliberate path of our capital allocation strategy. No change.

Ashwin Shirvaikar
Analyst, Citigroup Global Markets Inc. (Broker)

Q

Okay. Thank you.

Operator: Thanks. The next question will come from Doug Arthur with Evercore.

Douglas M. Arthur
Analyst, Evercore Partners (Securities)

Q

Yes. On the Buy segment profitability, in the Q, you call out an increase in retail measurement costs. Just wondering if you can elaborate on that? Is that partly a function of the somewhat accelerated growth in developing markets?

Brian J. West
Chief Financial Officer, Nielsen Holdings NV

A

Yeah. That will all be about our continued investment around those consumers and that retail consumption all around the world.

Douglas M. Arthur
Analyst, Evercore Partners (Securities)

Q

So that's not – it wasn't a one-time blip in the quarter. That's going to continue to ramp if the growth in developing markets continues to ramp?

Brian J. West
Chief Financial Officer, Nielsen Holdings NV

A

Exactly.

Douglas M. Arthur
Analyst, Evercore Partners (Securities)

Q

Okay.

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

And over the long term, that's a pretty consistent investment path that we've been taking.

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

Yeah. I mean it just seemed like the margin in the Buy segment was a little light in the quarter. Obviously, growth was what it was, but I don't know, you still have – the long-term plan obviously is to get the margins up in that segment?

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

Yeah, it's always been the discussion we have, which is balancing our appetite for investment for the long-term and expanding margins for the total company. It just so happens that those investments in the Buy side end up in the P&L versus somewhere else and we're very comfortable at the pace we've been marching down. So we think that that intensity isn't going to change and we're looking forward to expanding around the regions we prioritize. So I think for us, it's at expectation.

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

Okay. Thank you.

Operator: Thank you. The next question comes from Brian Wieser with Pivotal Research.

Brian W. Wieser
Analyst, Pivotal Research Group LLC
Q

Hi. Thanks for taking the question. I want to ask a couple more questions on, call it Nielsen Audio now, right, not Arbitron. Did you say revenue growth trends in the fourth quarter, from reading the rate on your guidance implicitly, it looks like about mid-single digit growth. Just wondering if you could talk around any growth trends there?

But a bigger picture question around how you're thinking Arbitron or Nielsen Audio at this point. The bulk of TV advertising in that is national for the most part and the bulk of those national TV advertisers don't buy much radio advertising. So what I'm wondering is, do you think that there's more opportunity around Nielsen audio in terms of getting deeper penetration of your Buy products to the advertisers who are radio centric, maybe more locally skewed regionally oriented advertisers? Or is it more an opportunity for upselling existing advertisers? Just curious how you're thinking about that dynamic.

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

I'll take the first part of your question. So there is – obviously, there's going to be a lot of noise in 2013 for Arbitron between quarters and in the year, but the run rate is consistent with what you just described and what we expect going forward. And I will leave the second question over to Dave.

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

Yeah. So we go into the year thinking, believing that this is that mid single-digit range. We have not built these synergies that we obviously are going to pursue on the revenue side into any of our sort of forecasting for your purposes until we see and understand exactly how real they are.

So your question on this client, first of all, there is an opportunity to build a national service. There is at least one big client who would be very interested in that. I don't think it's the first thing on their list of priorities, but it wouldn't be hard for us to solve for that one. So relative to all the things the radio industry, including the guys with national footprints, would like us to do, it won't be first. But it will be on our list.

Honestly, the big opportunity with respect to ROI is to demonstrate that radio is more effective than the world thinks it is. So it can be a bit of a forgotten medium relative to everything digital and everything TV and, of course, all the reach that those two things enjoy. We believe that radio is a more vibrant medium than the way the world perceives it. And it's mostly built around its local characteristics and its proximity to everything retail. So it actually is – it's two hours of a consumer's day, most of it's in a car and most of it's in close proximity to retail. And so of all the mediums that should benefit from that, this one should be significant. So our job is to go out and demonstrate with what kind of retailers, with what kind of consumers does it in fact have an impact. And then can we begin to educate advertisers as to what that impact is? So that they can include it in their media mix models and other forms of resource allocation models that they do.

And as you know, we're in the middle of the mix modeling world. So we understand exactly how radio gets factored into those mix models for advertisers and we would agree it's not as well represented as it should be. Our job is now to develop metrics that will shed light on that and then ultimately let it play out in all the mix modeling and resource allocation decisions that advertisers make.

We're not predicting outcomes, but we know there's a service there that Nielsen can and should provide and that the radio industry, predominantly local, will want to buy.

Brian W. Wieser
Analyst, Pivotal Research Group LLC
Q

Great. Thank you very much.

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

Yes.

Operator: The next question comes from Mark Zgutowicz from Northland Capital Markets.

Mark J. Zgutowicz
Analyst, Northland Securities, Inc.
Q

Good morning. Just a couple questions on the competitive front. I'm curious how you rank Google's Active GRP relative to your online GRP in terms of being able to provide true real-time measurement. Obviously, CPG is looking to lever real-time more and more today, and I'm just curious if you see Google as having a significant advantage here given obviously DoubleClick and its positioning. Thanks.

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

The answer is, they definitely have an advantage with DoubleClick in the sense that they control so much of the server population. In other words, serving up ads and their unique role in doing that. On the other hand, we are confident and I'm confident that advertisers will want independent measure, a robust measure, that includes registration data from other sources than just Google and ultimately a service that is tied back to the U.S. census in some way, which is where we start almost everything.

So our – the nature of our measurement, it's – the way it's grounded to U.S. census metrics and the way we apply our measurement science, in my view, is an advantaged way to measure. That is the pursuit of OCR. We love the product. The Google philosophy of wanting to do it on their own and deliver it on its own in a captive sense, it has some inherent advantages. But it is not independent or objective by any stretch. And that's what we're trying to solve for. I would love at some day to solve that with Google and we continue to sit and talk with them every chance we get. And we'll continue to do so because their philosophy around the real-time application of this measure is a good one. And so I'm – I get that, and in the end, I hope that we can figure out a way to cooperate.

Mark J. Zgutowicz
Analyst, Northland Securities, Inc.

Q

Okay, great. And then just one follow-up on NCS. I was hoping you could maybe provide an update on – just in terms of new product offerings there on the digital measurement side of things. Obviously, CPG is certainly demanding a lot more in that category. And I was just curious sort of how you see yourselves ranking against some competitive offerings there amongst companies like IRI, as well as Datalogix, just on the e-commerce measurement front? Thanks.

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

A

Okay. That's a sort of a mixed bag. So Catalina for us is still a really, really solid investment that is delivering. It's contributing to our double-digit growth in Ad Solutions. Remember, it's the marriage of 60 million plus households and the retail data that they have, or more importantly, the retail performance that they've done in the stores with our – all of our audience metrics. So we started with TV. We'd like to expand that broadly and we have a great client uptake. So that is a – sort of a fundamental product in our portfolio. It's not necessarily directed at e-commerce. That's a whole other subject. Our job in e-commerce is to continue to represent it for the strong dynamic that it really is. It continues to penetrate households. It continues to serve a real need. We have a combination of panel data that we use to develop that along with some data contributors. We don't have the big guys contributing yet, but just like we had to represent Walmart for all those years in terms of what it represented in offline retail, we're going to have to do in online retail. We like our techniques and our approach and our hope is over time that we will get more data contributors to that process. So we believe we are and we intend to be leaders on that front. But that's a long road ahead. So anyway, it's good for Nielsen that e-commerce continues to be a dynamic in the marketplace and we believe we can lead on that front.

Mark J. Zgutowicz
Analyst, Northland Securities, Inc.

Q

Okay. Just I guess one quick follow on that. Does that require a significant amount of incremental investment there in additional data partners, DMPs, et cetera? And sort of what's the timetable on making those investments?

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

A

No. It doesn't. So I think within our capital appetite today and all the things that we have to prioritize in terms of new coverage, I think we – I don't think you'd see a change or a blip in that number relative to any new big provider of data and/or any new big initiative we would have to create that coverage. So I don't think that should worry anybody. And we're going to be as aggressive as we have to be, but I think our business model will provide for everything we need as we move down that path.

Mark J. Zgutowicz
Analyst, Northland Securities, Inc.

Q

Okay. Thanks very much.

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

A

Yes.

Operator: Thank you. And as there are no more questions at the present time, I would like to turn the call back over to management for any closing comments.

Kate White Vanek
Senior Vice President-Investor Relations, Nielsen Holdings NV

Thank you so much, everybody, for joining. You know how to reach us if you have any questions or need anything in the way of follow up. Have a great day.

Operator: Thank you. The conference is now concluded. Thank you for attending today's presentation. You may now disconnect.