12-Nov-2013

Nielsen Holdings NV (NLSN)

RBC Capital Markets Technology, Media & Telecommunications Conference

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MANAGEMENT DISCUSSION SECTION

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And lots of people can measure. But the entire television ecosystem uses Nielsen as its currency. In short, without Nielsen, the television ecosystem – the television advertising ecosystem – basically ceases to exist for today. And Nielsen is the manager, measurer, designer of that currency.

Nielsen is also a critical part of virtually every major CPG company in the world, as essentially I think it's outsourced, marketing department tracking mission critical information on market share and all kinds of other information that they basically couldn't manage their businesses with out. So in other words, if something happens to Nielsen, a major chunk of the economy ceases to function. That's really how I think about it.

We're lucky today to have, to my left, Mitch Barns, who as of January 1 will become Nielsen's CEO. At present he's the President of Global Services. Mitch leads the efforts today on behalf of Nielsen's Watch and Buy client service teams across six regions worldwide. There's a tremendous amount of global experience; he was president of Greater China for Nielsen from 2008 to 2011.

We also have Steve Hasker with us. Steve is really a media analyst as well. Steve is the face of, I think, measurement in the – certainly in the TV world as well as the Buy world. He's at the center of every discussion in media measurement. In short, he's the man that manages the measurement and currencies that matter. He joined Nielsen in 2009 from McKinsey, where he was a partner in McKinsey's Global Media, [ph] Entertainment and Information practice (2:00). I think everybody here probably understands how crucial you are to the ecosystem.

So I'm going to start first with Mitch on the heels of the announcement that you're going to be taking the reins in the beginning of 2014, what is it that you're most excited about? What do you think about and what are biggest challenges as you look to January 1, 2014?

Dwight Mitchell Barns
President-Media Client Services, Nielsen Holdings NV

Well, thanks. First of all, you're all welcome to for nice weather out there. Sorry about that. The first thing I'm most excited about at Nielsen these days is our team, leadership team in particular. It's a fantastic team. They bring a great set of complementary strengths and the team works incredibly well together. So I'm blessed to have a great team to be working among and working with as I think about the future in our business.

Second thing I would point to is our global footprint. One of the key things that's happening in the world is population growth, population shifting, urbanization and the growth of the middle class, and with our presence and our footprint in 103 markets around the world, we're poised to capture all the opportunity or at least a great deal of the opportunity that that unstoppable shift in the marketplace that's occurring right now.

Third thing is I'm really very enthused by the strength of our media business right now. It's always been a great franchise for our company. I think arguably it's stronger today, in large part thanks to the great work Steve's done, putting together a very smart, very solid strategy for us. But it's arguably in better shape today than it has been in a long time and that's reflected in the client relationships that we have with the biggest media conglomerates out there that are arguably in better shape than they've been in years, and also the strength of our media team and how well they're functioning as a group.

Then lastly, I want to point to sort of the two sides and bringing them together, what we increasingly refer to as Watch/Buy, where we take the capabilities on one side of our business – the Watch side – connect them with the capability from the Buy side and really create a third source of value for our clients in the marketplace. This has always been a possibility at our company. But if I go back several years, it was really just nothing more than a source of frustration because we knew it was theoretically possible but we just weren't organized, we weren't positioned to really tap into this opportunity. And one of the great evolutions that's occurred at Nielsen over the past several years is just that. We are now in position to really make this a reality. We've really started to make some great progress on this and it's turning into this important third source of value for our business.

It's not only a source of value on its own but also which serves to amplify the core businesses on the two respective sides of our company – Watch and Buy. So these are the key things I'd point to that I think excite me the most about the future of our company.

David Bank
Analyst, RBC Capital Markets LLC

So if you think about it, you're transitioning from a role that's extremely client-centric, client service-centric, can you talk about how do you work with your clients to innovate, how do you work with your clients to evolve in, from both a Watch and a Buy perspective right now? What is it that this experience brings to the top of the leadership that you're going to [ph] imbue (5:20) in the company even further?

Dwight Mitchell Barns
President-Media Client Services, Nielsen Holdings NV

You're right. I've been in client service type roles for my entire career with Nielsen. And even before Nielsen, 12 years I was with Procter & Gamble. So I was at a client, often working with Nielsen. And so I have my heart and my soul in that part of what we do every single day.

I think the one thing that I want to continue to emphasize at our company I think is so important is, we not only serve clients, which is obvious, but we also serve markets. And when we do that well, and we look for those not common but very important non-zero sum situations in the marketplace where the whole market gets better, not just client A beating client B, but the market stays the same. But there's an opportunity for the whole market to improve, because of better allocation, better efficiency, better resources, these are the most important moments for our company. And I think we've done very well in recent years and seen those moments, seizing them and lifting the entire marketplace in the different markets that we serve around the world. So, that's one that we'll continue to be very vigilant on. I think that's important for our company and shareholder value, and obviously, very important to the market.

Second think I'll point to is, it's a focus on outcomes. Not just our services or not just the things that we do, the activities that we do, but driving outcomes for our clients in the marketplaces. This is the single most important thing that we do because that's what creates value for them; that's what, in turn, creates value for our company and our shareholders.

And then the last thing is it's important for us to just be in sync with our clients. We can't get too far out in front of them; we certainly can't afford to fall too far behind them in terms of things or changes that are happening in their business. We need to be roughly in sync – pretty close to where they are in the moment in terms of the challenges they're facing, where they want to go. And yes, this is one of the most important roles that the client service organization that our company fills, is to make sure that we're always in touch with where they're going and keeping the rest of our company in sync with that. And so, I'll continue to stay very focused on that as well.

David Bank
Analyst, RBC Capital Markets LLC

Steve, you've been quiet. I've got one for you now. So yesterday was kind of a – or really I would argue Thursday, Friday of last week – was sort of a big day as far as I was concerned, in the history of Nielsen, in that I've always believed that if online dollars want to openly attract, or online properties – [ph] public ones want to attract (7:55) additional offline intelligence [indiscernible] (7:58), they're simply going to have to use Nielsen as the currency; that that's the way transactions are conducted. It sounds like we've made some real headway at Google-YouTube, which is obviously the flagship of – [ph] to our (8:15) online video. Can you talk a little bit about your progress you've made with OCR and what could that potentially represent [indiscernible] (8:26)?

Stephen Hasker
President-Global Media Products, Nielsen Holdings NV

Yeah, sure [ph] David (8:27). So the market dynamics I think work very strongly in our favor in the following ways. Firstly, the advertiser when they're thinking about deciding where to spend tens of billions of dollars in advertising, whether it be on video or on audio [indiscernible] (8:50), want one number. [Indiscernible (8:52). So they want it no matter which screen or which device, or which operating system, which platform their money is going to be spent on. They want one number to run across [ph] which is consistent, put it in their marketing model (9:00) and to make more efficient and optimize the [ph] decisions (9:08).

And that very much plays to our favor because we are the currency for television. So as video goes into other – it goes to other platforms – it plays to our favor and as audio goes on to other platforms, to terrestrial radio, I think it plays to our favor, [ph] plus the advertising acquisition (9:26). If you go across the aisle to the television companies, as they think about capturing the digital opportunity or the terrestrial radio broadcasts that they think about [indiscernible] (9:37), what they want is the same number. They want to be able to put their audience together and show that reach, show that scale.

And then last but not least, if you think about the digital players, what are they trying to do? They're trying to get some of that TV [indiscernible] (9:53). And they're trying to get some of that terrestrial audio [indiscernible]

(9:56). And what do they want? They want the same number. They want it to be compared like-for-like with those players that [ph] attract that scale (10:04) today.

So the markets dynamics are in our favor. They have been for a period of time. They're going to continue to be [ph] going (10:12) in our favor. And I think the last – in a sense, one of the last players to come online has in fact been Google – the Google Content Network in YouTube. So we're very excited about the opportunity to work with them, to help them with that comparability and help with their growth in display [indiscernible] (10:29).

David Bank
Analyst, RBC Capital Markets LLC

How big a day was that?

Stephen Hasker
President-Global Media Products, Nielsen Holdings NV

I think for us – we've had a series of big days. There's sort of the launch of OCR back in 2011, was a big day because it was the first time that the marketplace had a currency quality product in digital, as distinct from sort of some estimates from us or from anybody else. We had a currency quality product that an advertiser could demand a guarantee and a publisher could be comfortable offering a guarantee. So that was a big day. I think the addition of program ratings to that – an announcement that we made a month ago – the addition of tablets and smartphones. So that, the growth of it internationally, the launch of the Nielsen Twitter CD ratings, all these things are big days for us, so, as is the Google-YouTube announcement.

David Bank
Analyst, RBC Capital Markets LLC

You'd be amazed at the number of investors that say to me, we're worried about TV rating trends. What if people stop watching less TV, isn't that really bad for Nielsen? Can you just sort of dispel that myth – that – dispel that myth or comment on it? I think you could dispel it.

Stephen Hasker
President-Global Media Products, Nielsen Holdings NV

Right. Well, it's something that Mitch and myself and Brian West have been talking about for years now is that segmentation is our friend. As I said, we think about video, audio, [indiscernible], we don't necessarily think about TV versus PC, versus tablets, versus smartphones. We want to make sure that no matter where video goes, we are the measurement currency, and no matter where audio goes we are the measurement currency. And if you think about it in that way, we are, I think, in a great position.

Segmentation is our friend for a couple of reasons. Firstly as the world gets more fragmented, the dynamics I talked about a second ago with the advertisers, the traditional media companies and the digital players, that gets stronger. So as segmentation gets more and complicated, the demand for a single number and a single currency gets larger, not smaller, firstly. And secondly, if segmentation continues, our size and scale and the amount of investment and the expertise we're able to put at measuring new devices, new platforms, new time shifts and so forth, the difference between what we can do and what the next best competitor can do just gets larger and larger.

Dwight Mitchell Barns
President-Media Client Services, Nielsen Holdings NV

This is something that's an important concept that applies both to the Watch and the Buy side of our business. We don't measure a channel of distribution. We measure the consumer. Wherever the consumer goes, whatever the consumer does, our goal is to measure that consumer. So we're not beholden to the distribution channel called the television. We're really going to measure video consumption by the consumer.

David Bank
Analyst, RBC Capital Markets LLC

Let me ask a follow up and make it even simpler though. If 5% of the audience – national television audience – went "poof" tomorrow, would that be impactful for Nielsen?

Stephen Hasker
President-Global Media Products, Nielsen Holdings NV

David, the question you've got to ask yourself is where does it go, right? And our – we monitor this very closely. The extent to which there is pressure on core television ratings – core to the traditional broadcast and cable networks – it's going to other forms of video. Video consumption is going up, not down. So people are consuming this content through XBoxes, through tablets, through smartphones and other occasions. And so the overall pie for us is growing, it's not shrinking, right. And the responsibility on our team is to make sure that a) we provide the best available measurement and b) we're able to monetize that as that growth occurs.

David Bank
Analyst, RBC Capital Markets LLC

Okay. Let's talk a little bit about emerging markets and probably a little bit more towards the Buy side. Can you talk about how you manage the sort of investment and harvesting process? So you're sort of chasing this emerging middle class around the globe [indiscernible] (14:39). You are establishing yourself as the dominant player and how do you sort of harvest and invest at the same time? What is that – what does it do to margin? How do you manage the process? How do you think about the process? Are you ever done?

Dwight Mitchell Barns
President-Media Client Services, Nielsen Holdings NV

The last question is – you'd answer it no, we're never done. That's the good news though for our company. The opportunities are always rolling out in front of us. One thing about the developing world though is, it's certainly very diverse. It's not one entity. For instance, in the time – just in the time that I was in China – when I first arrived there, it was still the case that most of the growth for the brands that we served in that market was driven by distribution, gains in distribution, more retail touchpoints in the marketplace. That was still by far the primary driver of growth for most of the brands that we serve.

During the course of the time I was there and increasingly now going forward, while that's still an important driver of growth, it's less and less in terms of its total contribution to growth. It's now much more about markets. So, the clients these days in the China market need to know how to move up the scale in terms of premiumization. They need to know how to do better in terms of marketing efficiently and allocating their different marketing dollars across different vehicles in the marketplace. In other words, they're starting, at least on the eastern seaboard of China, to have to play the game much like we are familiar with in the developed world.

So that's the story that's been playing out in China. If you go through Southeast Asia, that same story plays out. For instance, in Thailand or Indonesia, they're still very much about distribution driven growth. And this is the thing that we have to stay in tune with, is the developing world actually is still very, very complex and has a great deal of variety. We need to be in the right stage of development with the right portfolios serving the clients in that market, based on where that market is in its evolution. That's one.

The second point I want to make is to your point about scale. When those markets start to develop and as they are developing, it really does play to our favor. For instance, in the retail measurement side of our business, we might open up a category initially based on having only one brand, who is interested in measurement in that category. So we have cost and we have revenue. Then a second brand starts to emerge and it's of significant size that they want to buy measurement in that category. So we now have a second source of revenue and our costs really don't change much. And then the third brand and the fourth brand and this is the wave that happens in the developed – I'm sorry – in the developing world with the retail side of our business. We're still in the early days of that scale-up and that's going to play to our favor for years to come. The key there is for us, of course, to continue to make the service relevant and in a sense within the reach of the emerging players in the market.

One of the important trends in our business in the last couple of years is we've awoken to all the possibilities and the importance of the local players – not just the multinationals – but the emerging local players in the developing world. They're playing an increasingly important role in the growth in our business and we think that's important not only for the near-term but we know in the medium and longer term, some of these local companies will emerge from their domestic economies and become important regional and global players, and we are extremely well positioned to help them as they go through that growth and evolution.

David Bank
Analyst, RBC Capital Markets LLC

Okay. Steve, can you talk a little bit about Twitter, and I guess, and amplify why is this such a important work – or maybe it's not, I don't think it's important for audience measurement. How are you working with Twitter to make your product offerings [ph] more robust (18:30)?

Stephen Hasker
President-Global Media Products, Nielsen Holdings NV

Yeah. Sure. So, like many businesses, we've followed social media for a number of years. We have a very close association with Facebook and a great partnership with a number of other social media companies across the world. But something that we noticed last year through 2012, of all the different things happening in social media, there was one trend that really struck us and that was tremendous growth in the number of people tweeting about TV programs and ads within TV programs, tremendous growth throughout the year.

And with that, we went and acquired a very small business called Social Guide that we think did and does the best job of associating a tweet with a TV program. In other words, if I tweet about House – there's always a question as to whether I'm tweeting about my house, my grandmother's house, or the program House. Social Guide do the best job, we think on the planet, of making that association. We then did an exclusive deal with Twitter whereby we not only measure the number of people tweeting about a program, and measure the characteristics or the demographics of those people, we also measure the reach. More importantly, it's the only measure of the reach of the tweet. So if you think about that, this is the first real shot in the arm for live TV in a number of years. Because people tweet about programs as they're occurring. Now this is very exciting to our television clients as they think about getting that association and understand what is the engagement in program, firstly.

Secondly, from an advertising standpoint, the idea of understanding that certain programs attract certain audiences and those audiences are so engaged that they are tweeting about the program, and equally importantly, that people see those tweets and that then drives tune-in to the program and to the commercials – this is a burgeoning area of research for us and it's gathered, in a couple of weeks since we launched this product, it's gathered tremendous excitement from the networks understandably, but also, interestingly from the ad agencies that did the advertisements themselves. We have advertisers who are starting to say, you know, maybe – ask questions like – well, maybe I should be shifting my bent toward programs that have more activity on Twitter and that get more reach on Twitter. And that's a pretty interesting dynamic. So for us, what it enables us to do is add some flavor to our core television ratings. Add an engagement metric that's real time, every program, every day, that's very dynamic, that's very digital through our core TV ratings. So it's very early days, David, but it's an exciting – certainly exciting – it's been an exciting couple of weeks and I think it's an exciting future for that product in that sort of discipline.

David Bank

Analyst, RBC Capital Markets LLC

The Twitter is probably the most sexy headline out there. I'm like a geeky follower of the way the advertising system works. And I actually think you have another product, the NBI product, which gets far less headlines but it's used – listening to your last couple of earnings calls – you've called it out as sort of a driver, a real tailwind of revenue. Can you talk about – Mitch can you talk about – NBI and how it sort of is the beginning, potentially, as a holy grail for Buy and Watch measurement and what innings we are there?

Dwight Mitchell Barns

President-Media Client Services, Nielsen Holdings NV

Yeah, sure. David, the NBI product is very simple, which is one of its strengths. We take credit card information – so we know what people have purchased using their credit card. We then match that information in an anonymized way with the TV viewing data or the online data that we have. So we know what people watch and then we subsequently know what they buy. We then use that information to help media owners better sell their advertising opportunities for brands in the marketplace.

So, for instance, if you have TBS and ABC, they both have a program. Both of those programs are rated a five, so they have similar size audiences. We know that one of those programs has – attracts more people who travel a lot more – so Marriott Hotels is very interested in that particular show. The other program maybe attracts an above average number of casual diners. Maybe Outback Steakhouse is very interested in advertising there. So now you have one of these beautiful, non-zero sum situations where the two advertisers can get a better return on their respective investments, the two media owners can actually charge a little bit of a premium because they are better positioned for those respective advertisers. Everybody wins in this situation. That's the beauty of MBI. And it's simple, easy for people to understand what it is and why it's important, why it's useful and yeah, that's the reason why it's such a strong offering for us in the marketplace.

Beauty of it is that it's not the only thing we have in this space. It does have this limitation of somewhat limited to the kinds of things that are generally purchased on a credit card. Not everything's purchased on a credit card. So we have other capabilities that provide the same type of understanding of the marketplace. For instance, our joint venture called Nielsen Catalina Solutions – very much in the [ph] SMPG (23:49) space, very similar type of outcome in the market that that offers the client. So, yeah, we're excited about this capability. We'll continue to see it grow and we'll continue to add other capabilities that offer a similar answer in other markets, in other verticals where credit card purchasing isn't the dominant way that people pay.

David Bank

Analyst, RBC Capital Markets LLC

I want to make sure the audiences has a chance to ask questions as well, if there are any questions out there.

QUESTION AND ANSWER SECTION

Q

[Question indiscernible] (24:17)

Stephen Hasker
President-Global Media Products, Nielsen Holdings NV

A

Yeah. So it's a great question. So there are two decisions that advertisers – those who are leaning into this – are looking to or asking questions about. The first one is, should they spend, of that $300,000, should they spend more on programs that have more engagement on Twitter. So in other – it tends to be a younger audience and it is by definition, a very engaged audience. That's first question. Aside from whether they spend money on Twitter, should they shift money between programs that are more social and more oriented towards Twitter then not.

The second question is how can Twitter lock that up? So, if a program like Amplify – Twitter's program – I think the question is what's the role in that in terms of both driving that engagement to a particular TV program and the ads within the program, but also enabling broader reach above that. And the Twitter team I think are hard at work in articulating both of those parts and I think they'd be pretty clear to say it's early days but there's lots of upside there for them, no doubt.

David Bank
Analyst, RBC Capital Markets LLC

Q

Any other questions from the audience? [indiscernible] (26:01). Yeah.

Q

[Question indiscernible] (26:03)

Stephen Hasker
President-Global Media Products, Nielsen Holdings NV

A

You know, so far it hasn't impacted us. It's actually been a positive, because we have very good relationships with most, if not all of the holding companies. And it does in a sense simplify things in terms of getting our data into their systems. I think we're going to see more and more holding companies invest in their own platforms, right? And trying to differentiate the builds, both in their pitch and also in the basis in which they serve their clients, which is just fine by us. Just fine by us. What we're going to make sure happens is that our data is delivered in API form. And we've started this with OCR, and we've started it with XCR, and we've started it with Nielsen Twitter TV Ratings. An API form into those platforms, so that we just make it really easy for them to use the currency, right, whether that's the metrics I've mentioned or MBI. You want to make sure that those metrics get on to their platforms and then they can add their secret sauce. That's a role that we're very comfortable with and we think that is advantageous to them because it means they're playing with the currency rather than something that's not accredited, not accepted, not traded upon. And it means they can take that, they don't have to worry about it and then they can add their secret sauce on top of it.

David Bank
Analyst, RBC Capital Markets LLC

Q

I'm going to take the last question. I want to ask you – both of you. What's the one thing advertisers and media owners – or I should say Buy side clients as well as Watch side clients – what is the one thing they'd like to see coming from Nielsen that they don't get [ph] past (27:54)?

Dwight Mitchell Barns
President-Media Client Services, Nielsen Holdings NV

A

Well, if they could agree on one thing they would have it. Let me guarantee you that. Maybe the one thing they can agree on is "free" and that's not going to happen.

David Bank
Analyst, RBC Capital Markets LLC

Q

Not on your watch.

Stephen Hasker
President-Global Media Products, Nielsen Holdings NV

A

Look, I think one of the things that Nielsen had the reputation made years ago as being sort of probably less than innovative. I think we've really sort of swung the pendulum and in a lot of cases we're leading the marketplace with these metrics. I think the next point here for us is real time. And my listening to the clients is that they both want real time metrics. And they're ready to very different degrees, different clients and different players already, some are, some aren't. But I think that's the next opportunity for us which is to take a lot of our information and make it real time so that it is updated more frequently and that executives can make decisions on the fly as the Nielsen data flows in. And we're chipping away at that, and I think again, we'll be ahead of the marketplace when that demand [ph] is sent to us (29:05).

Dwight Mitchell Barns
President-Media Client Services, Nielsen Holdings NV

Yeah, and I totally agree with that. More of our output, closer to the point of action, closer to the point of decision that goes all across our portfolio – that evolution is going to happen over the next several years.

David Bank
Analyst, RBC Capital Markets LLC

Well, I want to thank you both. Also want to again congratulate Mitch, and thank you so much for being here today.