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MANAGEMENT DISCUSSION SECTION

Operator: Good morning. My name is Laurel, and I will be your conference operator today. At this time I would like to welcome everyone to the Fourth Quarter 2014 Nielsen N.V. Earnings Conference Call. All lines have been placed on mute to prevent any background noise. After the speaker's remarks, there will be a question-and-answer session. [Operator Instructions] Thank you.

I'll now turn the call over to Kate Vanek, Senior Vice President of Investor Relations at Nielsen. Please go ahead.

Kate White Vanek

Senior Vice President-Investor Relations

Good morning, everybody, and thanks so much for joining us today to discuss Nielsen's fourth quarter and full year 2014 performance. Joining me on today's call from Nielsen is Mitch Barns, CEO; and Jamere Jackson, CFO. A slide presentation that we'll use on this call is available under the Events section of our IR website at nielsen.com/investors.

Before we begin our prepared remarks, I'd like to remind you that the following discussion contains forward-looking statements within the meaning of the Safe Harbor provisions of the Private Securities Litigation Reform Act of 1995. These forward-looking statements may include comments about Nielsen's outlook, expectations and prospects and are based on Nielsen's view as of today, February 12, 2015.

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 Nielsen's 10-K and other filings and materials, which you can find also on our website.

For today's call, Mitch will start with comments on our results for the quarter and the year, and give an overview of some key highlights and a business update. Then Jamere will discuss financials for the quarter and the year and will also provide updates on our full year guidance.

We have a request here, during Q&A, in order to get to everybody, we ask that everyone limit themselves to one question only. Feel free to rejoin the queue and, if time remains, we will allow you to have a follow-up at that time. Know that as always, the IR team is here to answer any questions after the call.

And now to start the call, I'd like to turn it over to our CEO, Mitch Barns.

Dwight Mitchell Barns

Chief Executive Officer

Yeah. Thanks, Kate. Good morning, everyone. Thanks for joining the call today. Look, 2014 was a terrific year. Our steady consistent financial performance reflects solid execution by our teams against the commitments we laid out a year ago, including our commitment to delivering value for our shareholders.

But it's not just our financial performance that made 2014 great. We're also stronger than we were a year ago, thanks to the progress we made on our key initiatives. Top to bottom, all across our company, there's a high level of energy and optimism about our future and the opportunities ahead.

But before we talk about what's ahead, let's take a look at the full year numbers for 2014. First, we had solid revenue growth. On a constant currency basis, 2014 revenues grew 12.4%. Excluding the Arbitron and Harris acquisitions, our core revenue growth was 4.5%. That's more than half a point better than in 2013.

Core Watch revenues increased by nearly 6%, including a 6.3% increase in audience measurement. And our local television revenues grew at the highest rate we've seen in several years, up 4.5%. That's a fact that might be surprising to some of you. Core Buy revenues were up approximately 4%, including a 9.5% increase in emerging markets.

Next, adjusted EBITDA was up 13.6% or 16.5% constant currency, reflecting the scalability of our business model. Adjusted net income per share grew 30% constant currency to $2.52. Free cash flow was a record $681 million, up 19% over the prior year.

Our powerful business model enables us to invest in key growth initiatives, while also returning cash to our shareholders. In 2014, we returned over $800 million in cash to shareholders, and we have plans to deliver an additional $1.6 billion by mid-2016 through a growing dividend and our previously announced share repurchase program.

Acquisitions are another part of our balanced approach to capital allocation, and our team continued to prove themselves as highly effective integrators through their work on two big acquisitions in 2014: Arbitron and Harris Interactive. We delivered on our expected cost synergies and we brought new capabilities and product enhancements to clients.

While our teams continue to be fully focused on execution and innovation for 2015, as a global company, we're facing the same FX headwinds as our multinational peers. And I know that isn't a surprise to any of you. Jamere will cover how that'll impact our guidance for 2015.

Let's turn to 2015. I'll cover some of our fundamental strengths and why we're bullish on the year ahead. First, Audience Measurement. Media fragmentation continues to accelerate and consumers have more choice and more control than ever and it shows in the growing diversity of how people consume media content. Our response is to focus on the consumer. That's what we do. We follow consumers and measure them no matter how, where and when they watch. It's exactly what the market needs. Independent third-party measurement based on currency grade ratings that are comparable across all screens, platforms and ad models that roll up to represent the total audience. You'll see us continue to invest and innovate against that objective.

You'll also see us step up our communication to the market. We'll simplify the language we use to describe our measurement system making it easier for our clients and our investors to see how all of the parts fit together to represent the total audience. We'll also continue to work with the market to update the rules regarding what viewing can be included in the currency ratings in response to changing consumer viewing habits. This is important for the monetization of audiences, and the overall efficiency of the market.

So let's talk about where we are today, and what you can expect us to deliver in 2015. Today, there's no doubt in our minds that we're winning. And when you're in television measurement, we have the world's highest quality panel, the gold standard source of truth. Our panels remain essential, and they're a key differentiator for us even as our approach to measurement evolves, and it will.

As we said at our December Analyst Day, the future of measurement is not about choosing between panels and Big Data; instead, it's about combining high-quality panels with highly granular Big Data sets to have the best of both worlds. This is the direction we're taking with our entire measurement portfolio including Audience Measurement.

We also continue to add to our measurement coverage, a key area of focus for us right now is video on-demand both subscription-based and ad-supported models. Capturing these fast-growing slices of over-the-top viewing is a key next step in our effort to provide clients with the complete picture of the total audience in 2015.

We're also working to enhance our measurement system for local television markets, and our clients are responding well to our plan. Specifically, later this year, we'll bring electronic measurement to 14 additional markets, an improved demographic measurement to all 31 set meter markets. We're also taking steps to improve the stability of the ratings. These are important steps forward, and it's worth noting that in 2014, we successfully renewed every major local television contract that was up for renewal. But having said that, it remains true that local will continue to be a more challenging part of the market, more fully focused on carrying out our product improvement plans for our clients.

In digital, we of course have OCR, which built great momentum in 2014, and that's carried into early 2015. In the U.S., 19 out of the top 25 advertisers now endorse OCR. Major publishers tell us that the RFPs they're receiving from advertisers are specifically requesting or even requiring OCR. But overall, we're seeing the same high renewal rates that we see in television and, importantly, pricing remains strong.

Our relationship with Google is proceeding well. Our integration with DoubleClick is complete and a growing number of major clients are now engaging through the DoubleClick platform. For example, the media brand agencies within IPG. And of course, YouTube is offering OCR guarantees to advertisers for their media buys.

We're also making good progress on OCR's international expansion, with Japan and China next up. In Japan, we formed a joint venture with INTAGE. And in the second quarter, we'll launch OCR through that partnership. In China, we're partnering with Tencent, a leading provider of comprehensive Internet services in that market, and we're on track for an April launch in China.

On another front, we're progressing extremely well in our partnership with Adobe, working on the rollout of digital content ratings. We expect a beta rollout in mid-2015 and full production mode later in the year. As you may recall, digital content ratings measure audiences for digital content using the same measurement architecture as OCR, which measures ads. Feedback from clients has been extremely positive. They see immense value in a single source of truth that brings together Adobe's analytics with Nielsen's ratings for digital content.

So that's a high-level overview of our positioning and plans for total Audience Measurement. We're creating a measurement system where all viewing can be consistently and comparably measured with independent currency grade ratings for both content and ads. That's what total Audience Measurement is all about.

In our Buy business, our global presence is unmatched. And our growth continues to be fueled by powerful long-term tailwinds, population growth, the rise of the middle class, and urbanization. We've been investing consistently behind these trends and it's paying off, evidenced by both the revenue growth and an improving margin trend. In 2014, our emerging markets business grew 9.5%. And that's up from 7% in 2013. So growth is accelerating. We continue to be under penetrated in emerging markets, so we have plenty of runway for growth, with both the big multinationals as well as with the local and regional players.

In developed markets, conditions are a bit more challenging, but we continue to win clients, and we've recently seen some improvement in discretionary spend. For instance, in the fourth quarter in North America, we saw stronger client demand in our innovation practice. This part of our business has often been a leading indicator that clients are investing in growth.

Touching on eCommerce. The launch of our Alibaba omni-channel measurement in China has seen a nice take-up rate from manufacturers. And we continue to make similar progress in several other markets around the world. With the rapidly growing role of eCommerce and the ongoing importance of retailers to all parts of our business, we recently made the decision to organize around retailers as a vertical to increase our focus and speed of development in this area. This is an important move for us, and we'll have more to say as our plans unfold.

Finally, turning to Marketing Effectiveness, formerly called Advertiser Solutions, we continued to see strong growth, with revenue up more than 13% in 2014. Chief marketing officers turned to Nielsen to help them measure and improve the ROI of their marketing spend with a level of precision and actionability not previously available. In short, we're helping clients trim waist from their marketing programs, not just in our core verticals of consumer packaged goods and media, but also in the auto, financial, telecom, entertainment and retail verticals.

I'll close my remarks by saying we're entering 2015 in a position of strength. The energy and optimism I see from my Nielsen colleagues around the world give me a great deal of confidence that we'll continue to execute and deliver.

Jamere, over to you.

Jamere Jackson
Chief Financial Officer

Thank you, Mitch. First, let me give a few more details on our 2014 performance and how that stacked up relative to the guidance we gave in December. Revenue was $6.3 billion, up 12.4% constant currency, which is slightly above the 12% growth rate we gave.

Excluding the impact of the Arbitron and Harris acquisitions, revenue grew 4.5% constant currency. Adjusted EBITDA was $1.8 billion, up 16.5% constant currency and adjusted EBITDA margins were 29.2%, up 101 basis points on a constant currency basis, as we executed on our productivity initiatives and successfully integrated the Arbitron business.

Adjusted net income was $970 million, up 30.9% constant currency and diluted adjusted net income per share was $2.52 in the middle of the $2.50 to $2.55 range we gave and up 29.9% versus prior year on a constant currency basis.

Finally, we generated record free cash flow of $681 million, up 19% versus a year ago. There was a $15 million impact from FX, so we were actually closer to the $700 million guidance we gave when you exclude the rate impact. Once again, we had good execution around the world, and we delivered consistent, steady revenue growth, margin expansion and strong free cash flow results in 2014.

In addition, we returned over $800 million to shareholders as we increased the dividend by 25%, and executed approximately $500 million in share repurchases. Our business remains well positioned to deliver consistent growth through the cycles, and our strong balance sheet and accelerating free cash flow enable us to grow our business and return cash to shareholders in a meaningful way.

Moving to the fourth quarter, revenue was $1.6 billion, up 5.4% constant currency. Excluding the impact of the Arbitron and Harris acquisitions, revenue grew 4.4% constant currency. Adjusted EBITDA was $524 million, up

6.9% constant currency; and adjusted EBITDA margins were 32.1%, up 48 basis points as we delivered a very strong 119 basis points expansion in Watch margins and 21 basis points expansion in Buy margins both on a constant currency basis.

Adjusted net income was $309 million, up 18.8% constant currency, and diluted adjusted net income per share was $0.81, up 19.1% versus prior year on a constant currency basis. Finally, we generated $263 million in free cash flow, up 12.4% versus the year ago. As Mitch said, we finished the year on a strong note, and we have tremendous momentum heading into 2015.

Next, I'll move to segment revenue and give you a little color on the pieces. As I mentioned, revenue was up 5.4% for the quarter, and we saw strength in both Watch and Buy. This also markets the 34th consecutive quarter of revenue growth for our business, reflecting our remarkable consistency and resiliency through the cycles.

Now first, let me highlight that we're changing the way we present our Buy segment, in order to provide a better depiction of our Buy business. As we illustrated when we broke down our 2015 guidance levers, we'll be speaking about the segment in terms of developed markets and emerging markets, as opposed to a view on Information versus Insights. Now, the mix of the business remains fairly constant at roughly 75% Information, which tends to be recurring in nature; and 25% Insights, which tend to be more discretionary in nature

As we've talked in the past, we are increasingly linking our Information and Insights offerings together to help our clients both measure their performance as well as improve their performance. Secondly, this presentation mirrors how we manage the business and, importantly, we will continue to provide on the discretionary spend environment and the impact it has on our performance and growth rates.

With that, let me turn to the Buy business. Total Buy revenue was $908 million, up 6.4% in constant currency and up 3.8%, excluding the Harris acquisition. The Buy business continues to operate in a two-speed world with developed markets revenue of $611 million, up 4.8%, which grew just under 1%, excluding the Harris acquisition. While emerging markets continues to deliver broad-based growth with revenue of $297 million, up 10%. In particular, we saw strong growth in Greater China, Southeast Asia, Latin America and Africa, which were all up double-digits. Our continued commitment to investing in coverage and analytics capabilities has delivered back-to-back quarters of double-digit growth in the emerging markets.

For reference and to close out 2014 and to help you with your modeling, our Information revenue was $648 million, up almost 1%; and our Insights revenue was $260 million, up 23.8% constant currency. Excluding Harris, Insights was up 12.9%. The Insights growth ex-Harris was a result of a modest rebound in discretionary spending in areas like advanced analytics, segmentation and innovation, and as John Lewis spoke about it our Investor Day, we have added capabilities in the innovation space, which we are very excited about.

Our Watch business revenue was $725 million, up 4% constant currency or 5.5% excluding Arbitron. We saw continued strength in Audience Measurement, which, excluding audio, was up 6.5%. Our Digital business, which is included in Audience Measurement, has great momentum as revenues doubled albeit on a small base. Marketing Effectiveness grew 17.5%, which is a reflection of increased penetration with both CPG and non-CPG clients. So again, another quarter of consistent, steady revenue growth for Nielsen.

Moving to profitability, Buy EBITDA was $202 million, up 7.4% constant currency. I am happy to report that Buy margins were up 21 basis points in the quarter and moving in the right direction while we continue to invest in emerging markets. Margin expansion will continue to be a big focus area for our teams as we support our clients, gain scale and drive efficiencies.

On the Watch side, EBITDA was $329 million, up 6.8% constant currency. Watch margins were up 119 basis points, as we continue to drive productivity and operating leverage in our Audience Measurement business. Overall, profitability remains strong. Total company margins were up 48 basis points on a constant currency basis, in line with our long-term historical performance, as we continue to invest in our key growth catalysts.

Next, I'll move to foreign currency. I want to remind you that we report revenue and EBITDA on a constant currency basis to reflect our operating performance. We generally don't take on third-party transactional risks, so this slide focuses strictly on the translation impact for reporting purposes. Now, like many multinationals, we saw significant foreign currency impacts that resulted in a 400-basis-point drag on revenue and a 380 basis points drag on EBITDA during the quarter. The drag was about 110 basis points greater on revenue and about 80 basis points greater on EBITDA than what we laid out on our Q3 earnings call, which is about $0.01 a share impact on our adjusted net income.

Separately, we took a $29 million charge on 12/31 related to the revaluation impacts from the Venezuelan Bolivar to the SICAD II rates. If February 10 spot rates held constant in 2015, then we expect a 390 basis points drag on revenue and a 300 basis points drag on EBITDA in 2015. This movement in rates represents a $0.12 a share impact versus our December Analyst Day guidance.

Next, I'll move to the balance sheet and key metrics. On the top left are some of the key financial metrics, which were all pretty much in line with what we said previously. On the bottom left is our net debt ratio. Our gross debt is $6.9 billion, with $273 million in cash to get to $6.6 billion of net debt and a 3.59 times net ratio.

On the capital table on the right, our debt ticked slightly higher since 3Q as we executed on our capital allocation strategy and our weighted average interest rate is down slightly at 3.79%.

Next, I'll flip to 2015 guidance. We are updating our 2015 guidance to reflect the impact of foreign exchange rates. As a result, we announced the adjusted net income per share in the $2.68 to $2.74 range, which is $0.12 lower on the top and bottom end of the range. This is a combination of the impact due to the stronger dollar and the Venezuela revaluation that I mentioned earlier.

Also, based on foreign exchange rates, we have updated our 2015 cash flow to a range of $850 million to $900 million. We also plan to hold leverage roughly where we ended 2014 in the 3.6 times area, and we're reaffirming all of the other metrics on the page.

So, let me wrap up. We are pleased with our execution in 4Q in 2014, where we've delivered steady, consistent revenue growth, margin expansion and strong free cash flow. We are delivering on our commitment to grow our business with investments, and acquisitions, and key growth initiatives. And executing on these initiatives, combined with our plans to return roughly $1.6 billion in cash back to shareholders over the next year-and-a-half, gives us confidence we have the elements in place to continue to drive long-term shareholder value.

And with that, I'll turn it back to Kate.

Kate White Vanek

Senior Vice President-Investor Relations

Laurel, we'd love to start Q&A now, if you could turn to the first person in the queue?

QUESTION AND ANSWER SECTION

Operator: Yes, of course. [Operator Instructions] Your first question comes from the line of Sara Gubins with BoA Merrill Lynch. Your line is open.

Sara Gubins
Bank of America Merrill Lynch
Q

Hi. Thank you. Could you talk about, over the long-term, margin expansion potential? And given all the investments that you're making, particularly on the Watch side, but also continued on the Buy side, does that hamper margin expansion going forward?

Dwight Mitchell Barns
Chief Executive Officer
A

Well, thanks, Sara, for the question. Look, our business model has this scalable nature to it. So much of our revenues are subscription-based and long-term contracts. And we've consistently been able to expand margins across our entire business both Watch and Buy in the range of 40 to 60 basis points a year. And that allows us to – more than enough flexibility to continue to invest back in our business, which we've done, including those investments in emerging markets that we've been very consistent about now for several years in a row and you see that pay off as our emerging markets growth rate has accelerated from 7% in 2013, 9.5% in 2014. The second half of 2014 was even a little better than the first half. So we're able to do both. That's the beauty of our business model. Jamere, anything to add to that?

Jamere Jackson
Chief Financial Officer
A

Yeah. So as you saw in the quarter, we were up 21 basis points on a constant currency basis and our Buy margins in the fourth quarter, after being flat in the third quarter. And so for the total year, 2014, we were down 30 basis points. And if you recall, in 2013, we were down 66 basis points. So Buy margins are definitely moving in the right direction. And what we said is that some of the emerging market investments are starting to scale and, margins as a result of that, are starting to move in the right direction.

As Mitch said, we're going to continue to invest in a disciplined way. We'll give you more color as the year goes on. But we're still committing total company in the 50 to 70 basis points margin expansion for the year.

Operator: Your next question comes from the line of Anjaneya Singh. Your line is open.

Anjaneya K. Singh
Credit Suisse Securities (USA) LLC (Broker)
Q

Hi. Thanks for taking my question. So you guys have been an early mover internationally, particularly in the emerging markets, and you're seeing really nice growth there. I'm wondering if you can speak to how the competitive landscape might be changing and how that's trending outside of the U.S., especially in light of the recently announced alliance of some of your competitors.

Dwight Mitchell Barns
Chief Executive Officer
A

Yeah. Thanks for the question, Anj. First on the Buy side of our business, it's one of the beauties of the Buy side of our business is we are the one who is willing to go into many of these markets that are incredibly difficult to measure, where the retail environment is dominated by the traditional trade. And it takes an incredible amount of execution ability and discipline to measure these markets. It's exactly what consumer packaged goods companies need. And we've done a very good at job that. And we still have a lot more work to do, a lot more runway for growth on that side of our business.

On the Watch side of our business, look, we love our position. We have our Audience Measurement capabilities on the linear television side now in more than 30 markets around the world, which is a fantastic footprint. On the Digital side, we've been making great progress in expanding OCR to new markets. We're already in eight of the most important markets outside the U.S. And then, we have plans in 2015 to roll to an additional seven markets above and beyond those eight; five in Southeast Asia plus Japan and China, which I mentioned in my remarks at the outset of the call.

So look, we love where we are, we love our plan, and we're going to execute against it, and we think in many respects, what you're seeing from competition is that they're playing catch-up. We're already in a lot of these markets, the most important ones, with both measurement capabilities on the television and the digital side. And they see the need to – you can't play in just one part of the market any more. It's really about measuring the total audience, and you got to have the full set of assets and capabilities. I think some of the other players have realized that they're missing important parts of the total picture.

Operator: Your next question comes from the line of David Bank with RBC Capital Markets. Please go ahead.

David Bank
RBC Capital Markets LLC

Q

Okay. Thanks. I guess this one's really for Mitch. It seems to us that there's always kind of an awful lot of chatter in the marketplace right now around competitors offering potential alternatives for measurement, suggesting that there should potentially be pricing pressure or share loss for you. And what's really remarkable about either this quarter and the year that's just finished I think is basically how little they seem to suggest any of this controversy as playing out in the marketplace. So how do you reconcile the noise with the consistency of the results? Looks like a kind of consistent 5% constant currency growth through the year and it sounds like you're seeing more of the same. What is the noise versus what's really going on?

Dwight Mitchell Barns
Chief Executive Officer

A

Yeah. Thanks for the question, David. Yeah, you're right. I mean, even our local business, as we mentioned, had very solid growth in 2014, a lot of noise in that part of the market, but really all across-the-board. I think the difference is a lot of the other players are looking at just a slice of the market. They're measuring a piece of it. And while that's interesting, what the major players need is they need the complete picture, the total audience, as we describe it.

And so you have to have comparable metrics across each of these individual slices. You have to deliver those metrics at currency grade. And you have to be able to put them all together to represent the total picture. And we're working against that objective. We have that plan laid out. We know it's perfectly aligned with where our clients go because they've told us as much, and we're executing against it. So other players who might be looking at a particular piece of the market, that's not perfectly aligned with where the market knows it's going longer-term.

A second thing that I'll mention here though is sometimes there's a difference between what is about measurement and what is about analytics. And in some cases, you'll find other services that are out there, other datasets that will be available to clients that they're using not to measure their performance, but to add additional diagnostic metrics and additional characteristics about the audiences. And in those instances, what you'll find is those things are very complementary to the core of our business. And so that's one reason why you don't see that competitive impact on our financial performance.

Operator: Your next question comes from the line of Bill Warmington with Wells Fargo. Your line is open.

William Arthur Warmington
Wells Fargo Securities LLC
Q

Good morning, everyone. So I had a question on the Watch business, the constant currency reported growth of 4%. But then excluding Arbitron, the constant currency reported growth was 5.5%. And so, I just wanted to double check on what was going on with Arbitron and whether I had those numbers right?

Jamere Jackson
Chief Financial Officer
A

Yeah. So on audio, it was 150 basis points drag on the overall growth rate. The revenue was down 1% in the quarter, which is only about $2 million, and it was mainly due to timing. Overall, for the year, the business finished where we thought it would, and so that was the only impact that you saw on the quarter is the timing difference between the third and the fourth quarter.

Operator: Your next question comes from the line of Andrew Steinerman with JPMorgan. Your line is open.

Andrew Charles Steinerman
JPMorgan Securities LLC
Q

Hi. It's Andrew. Jamere, I wanted to ask you about Arbitron. I remember it closed in September 2013, so that would be included in an organic number in the fourth quarter. And so my question also is what would be a pure organic revenue growth, pure organic constant currency revenue growth in the fourth quarter if we included Arbitron, but excluded some of the small acquisitions of 2014?

Jamere Jackson
Chief Financial Officer
A

So what we said is our Watch revenue, excluding audio, was about 5.5% in the quarter. The audio revenue was about 150 basis points drag. So if you included both, you'd be at the number that we actually reported there.

Dwight Mitchell Barns
Chief Executive Officer
A

But 150 basis points drag at least in part due to the timing issue you mentioned before.

Jamere Jackson
Chief Financial Officer
A

Exactly. And so on an ongoing basis, you would expect that our Audience Measurement business growing at 6%. We talked about Marketing Effectiveness growing at double-digits, a little bit of drag in the other Watch business. So for the total year, our Watch business, ex-audio, was about 5.8% or almost 6%.

Operator: Your next question comes from the line of Phil Stiller with Citi. Please go ahead.

Philip Edward Stiller
Citigroup Global Markets, Inc. (Broker)

Q

Hi. This is Phil calling in for Ashwin. I guess I just wanted to follow up on the organic growth rate, I guess, from an overall perspective. So you came in about 4.5% for the year and the quarter. You're guiding to 4% to 6%. Just wondering if you ended up coming in at the high end of the range for 2015, what do you think the drivers might be to get you to that 6% range?

Jamere Jackson
Chief Financial Officer

A

So we talked about it when we laid out our 2015 guidance, where we broke down the elements. And what we said there is that our Watch business would grow somewhere in the neighborhood of 4.5% to 6.5%. And it's driven based on three factors. One is the ongoing success with our Total Audience Measurement business. As Mitch talked about, we're making great progress there. We have continued traction with our digital ratings. And then the momentum that we're seeing in Marketing Effectiveness, those things going very, very well, gets us to 4.5% to 6.5% range there.

And then on the Buy side of the business, we said, look, we have a two-speed world here. In the developed world, we see 1.5% to 3.5%. And in emerging markets 8% to 10%, which gets you somewhere in the 3.5% to 5.5% range on the Buy side of the business. And the catalyst there will be continued progress with new client wins, some moderate recovery in the global discretionary spend environment, which we've talked a little bit about here in the quarter. And then, continuing progress with the emerging markets, fueled by our local clients, which has been a great story for us this year. So that gives you a little bit of the pieces on how we see next year. And again, how these range drivers go will determine where we ultimately end up in the 4% to 6% range.

Operator: Your next question comes from the line of Dan Salmon with BMO Capital Markets. Your line is open.

Dan Salmon
BMO Capital Markets (United States)

Q

Hey. Good morning, everyone. I'm going to stick with a question around Arbitron too, but not so much impact in the quarter or the year, but just maybe an update on the innovation there. I remember when the acquisition closed, you talked a lot about taking some steps to integrate it with the Marketing Effectiveness products, eventually to roll out maybe some streaming products. I'm just interested in an update there on where on the product innovation is headed these days?

Dwight Mitchell Barns
Chief Executive Officer

A

Yeah. Thanks, Dan. We're making great progress on that front. There are three components in particular that we talk a lot about internally. One of them international expansion, which, of course, we have the global footprint and the relationships in a lot of these key parts of the world and we've made some progress there. We, I think, on the previous earnings call, mentioned Turkey as one of our new market expansions. We've been successful also in extending some of our radio audience measurement contracts in some other key markets, in particular, in Southeast Asia. So we feel good about the progress we're making there. As we always said, that'll be a slow win because a lot of those are multi-year contracts and you have to wait for them to come available.

On Marketing Effectiveness, it's bringing together the listening data. With the purchasing data, we've run a number of studies on that front, which we've shared with the market and it's generated a tremendous amount of interest and excitement because it's shown that there's a very good return on investment in radio advertising for the right brand, done in the right way. And we've seen a nice uptake in additional studies of our – leveraging our analytics capability in that area.

And then finally, on digital streaming, this is one that we've made some good progress in terms of aligning the industry, but we're not quite across the finish line yet. Just to say another word about that, we have the technical measurement capability. We already have that. That's not the issue. It leverages our OCR architecture. So we're able to measure digital stream.

It's more about how it gets reported, and getting the different players in the marketplace to align and agree on how it will be reported in the marketplace. And we've made progress on that conversation with the market over the last few months, but we're not quite all the way there yet and so we have more work to do. And we're hopeful, optimistic that we'll bring that one across the finish line sometime later this year.

Operator: Your next question comes from the line of Tim Nollen with Macquarie. Your line is open.

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

Hi. Thanks. My question was actually exactly on what you were just saying, Mitch, which is about the steps to adoption of a broader rating system. At least two of your major TV companies when they reported said some very positive things about the progress that you have been making in incorporating digital measurement. I wonder if you could just maybe explain what the steps are left to do? I guess the technology is there. You're getting your SDK embedded on some of the pay-TV platforms. Is it really just about kind of getting the industry to discuss what a new rating standard means? And if that's the case, you mentioned later this year, I mean, does that mean by maybe the upfront market in 2016 that we'll be talking about a broader Nielsen rating standard? If you could just walk us through the timeline there and what finally really actually does get us over the hump?

Dwight Mitchell Barns
Chief Executive Officer
A

Yeah. Sure. There's a lot of activity here. It all fits under the banner of our total audience framework, which continues to serve us incredibly well. One of the pieces that we have on our product roadmap for 2015 is bringing enhanced video on-demand measurement capabilities to the market. I mentioned these in my prepared comments, but this is about better measurement of subscription and advertising supported video-on demand. So the subscription part of that, of course, would include Netflix. So we have our product development plans on that. We'll roll out those capabilities later this year, and we're well on track on that front.

There is then on the mobile front where clients have a number of steps they have to go through. One is to decide on their business model. Do they want to include mobile viewing in the currency TV ratings? Or do they want to measure it and monetize it as digital viewing? So they have to make that decision. Then their engineers have to embed software code into their apps. And then they have to organize their business around it. And so that dictates the timeline to some degree on that front.

And there is also the definition of the currency rating out there in the marketplace. And I mentioned that we're engaging with the market around looking at that definition, updating it, changing it so that it captures more the viewing that's happening, getting all the changes in consumer viewing habits that have unfolded in recent years. That's another really important step.

And then finally, it's also about clients organizing their teams, within their business models, around this new way of thinking about the future in the media world. All of that then plays into the upfront. And we've seen the upfronts evolve over the last few years, and you're going to see that evolution continue and probably in a big way for this next step of upfronts that will go into where I think more clients will be thinking about the total audience, both digital and linear TV. As opposed to them being two separate and distinct worlds, more of them are going to approach that as one big picture and look to monetize across these platforms. And we'll have the framework in place for them to do that with more of the pieces filled in, in that puzzle of course by the fall of 2015.

Operator: Your next question comes from the line of Manav Patnaik with Barclays. Please go ahead.

Ryan C. Leonard
Barclays Capital, Inc.

Q

Hi. This is Ryan, filling in for Manav. Just a question on the local television growth, I think it was better than some people expected. Just how does that compare to prior years? And I think you said that the market was still challenging, I think was the word you used. Is that just in terms of the local advertisers? Or is that in terms of competition?

Dwight Mitchell Barns
Chief Executive Officer

A

The local business grew with the best rate we've seen in the past several years in 2014. There were a number of factors there. We had some new capabilities we brought to the market. Our contract renewals were very solid, as I mentioned. It was also an election year, which was a little bit of a tailwind in 2014 that, of course, won't occur as early as 2015, come back in 2016 again, of course. But it was those three factors together that drove back that solid 4.5% growth rate on our local television business in 2014.

Yeah. Our product improvement needs, we've been very clear about those. Our clients have been very clear about their need to see us improve the product to keep up with the impact of media fragmentation that's occurred in the market.

The second thing that we know a lot of our local clients are looking for is help as they seek to monetize viewing that's happening on digital and mobile platforms. By the way, we're very well positioned to help them on those fronts. It's an area that will probably create some new growth opportunities as we move through 2015 and beyond.

So more work to do there, but bringing that electronic measurement to 14 new markets, better demographics to the 31 set meter markets, and then increased rating stability by increasing the sample sizes and bringing some very sophisticated statistical modeling to the picture. These are going to be some really important product improvements in 2015. And we like our position.

Operator: Your next question comes from the line of Todd Juenger with Sanford Bernstein. Please go ahead.

Todd Juenger
Sanford C. Bernstein & Co. LLC

Q

Great. Hi. Good morning. Sticking on a longer-term theme here. There are all sorts of theories about how advertising mix and spend by marketers will evolve in the states over time. But one theory that seems to be becoming increasingly popular is a scenario where television advertising revenue maybe slows down in its growth rate or maybe even starts to decline in an absolute sense, but probably be picked up in that scenario with some expected growth on the digital side.

If that were a scenario that played out, what does that mean to Nielsen over the long-term, especially as you think of your mix of your products and your customers in terms of your revenue growth rate, and impact on margins? Thanks.

Dwight Mitchell Barns
Chief Executive Officer

A

Yeah. Thanks for the question, Todd. It's a great one. Look, what that one means is that we made exactly the right move with respect to this total audience framework because that framework is, in fact, designed to capture all that viewing, no matter where that consumer goes. It starts with the consumer, follows the consumer, no matter where, how and when, the consumer views the video content.

The idea about television versus a lot of these new areas where consumers can go, the attraction of the digital side of the world is precision. You can more precisely find the specific consumer that your brand really wants to focus on, and that precision is appealing and it's important, and there's a lot of value in that precision.

But here's the other thing, there's another side to this equation, which is reach. And one of the things that the digital world doesn't yet deliver as well as the traditional television world is those big reach numbers. And reach is still really important to brand marketers. There's a reach premium that gets paid in the television world. I don't think that's ever going to change. I think that there will always be a reach premium. Television will always be in a good position to deliver that reach.

Digital world will eventually figure out how to deliver big reach numbers, too. But TV has got a big leg up on that front. So it'll be that push and pull between the desire for precision, which digital delivers really well, and the need for reach. And that's really what's going to dictate just how this one unfolds. Either way, our total audience framework positions us to capture it, to measure it and help our clients monetize it.

Operator: Your next question comes from the line of Brian Wieser with Pivotal. Your line is open.

Brian W. Wieser
Pivotal Research Group LLC

Q

Hi. Thanks for taking the questions. I just want to revisit the topic of the noise around the marketplace that's been going on, in particular, this morning's news. And I guess I just wanted to get your current thoughts on the idea that it's not just your competitors, it's particularly your customers that are driving a lot of the noise. And at the same time, they're not using your products any less. They continue to depend on them more than ever in many cases. And yet, they're noisier than ever. I just want to hear your thoughts on why you think that noise is in the marketplace. Is it just an attempt to get better leverage in negotiations, or something else?

Dwight Mitchell Barns
Chief Executive Officer

A

Yeah, thanks for the question, Brian. Well, certainly one of the issues here is one that we're very well aligned with our clients. And it's what I mentioned before about the definition of what gets included in the Nielsen ratings. And sometimes when our clients refer to Nielsen, they're referring to that rating, that traditional television rating. And they're frustrated with that because it's not as broadly defined as they know it needs to be, given the changes in consumer viewing habits that have unfolded in recent years. But they still use the single word Nielsen to refer to their frustration with that. And sometimes people like actually cure that and get confused. They think they're talking about the company.

But we join them in that concern. We join them in the idea that that definition needs to reevaluated. It needs to be expanded to include more of the viewing that's happening out there, much of the viewing by the way that we're already capturing and reporting to our clients. But the more of that viewing that gets included in the currency TV rating, the more certainty they have about their business, and many respects, the easier it is for them to monetize that viewing.

So we understand why they want that to be relooked. And that's a big objective of ours to lead that conversation in the industry. It's not a decision we can make on our own unilaterally. It's one that the industry really has to come together on and decide, and we can play a role on that. But we need everybody to come together, both sides of the table. So that's a big one.

On the competitive side, look, I mentioned before about some of the announcements that you saw this morning. A lot of that is I think companies playing catch-up with where we already are, realizing that you can't have just a piece of the puzzle. And also the increasing interest that clients have in looking at these key markets around the world. And we like our digital position, our television audience measurement position across the most important media markets around the world. And we're going to continue to expand that footprint, as I mentioned, on the digital front, adding seven additional markets during the year.

And China is really a big one, by the way. Of course, world's largest population of Internet users, world's most important growth market, and we're allied with the best possible partner in that market in Tencent. So, yeah, those are my thoughts back to you, Brian, on your question.

Operator: Your next question comes from the line of Andre Benjamin with Goldman Sachs. Please go ahead.

Andre Benjamin
Goldman Sachs & Co.
Q

Thank you. Good morning. My question is also on the local TV market. I know we've talked in the past about bringing some of the set-top box data products that can run alongside your core Nielsen rating. I was wondering where you stand on the launch of some of those products? And just any update on where you stand on the timing and whether or not the scale of those products in terms of the, I guess, the number of boxes measured or partnerships should be comparable to your competitors?

Dwight Mitchell Barns
Chief Executive Officer
A

Yeah, good one, Andre. Thanks for the question. We mentioned this concept of how we view the future of measurement before. And it's really very closely aligned with your question. The future of measurement for us is about taking our high-quality panels, which we have both on the Watch and on the Buy side of our business, and combining them with these big data sets, these highly granular big data sets that are increasingly available across different parts of the market. That's the direction we see our entire measurement portfolio going, not just local television, not just Audience Measurement but across both Watch and Buy.

And we're already moving in that direction in certain parts of our portfolio, for example, OCR. That's exactly the way OCR works. It leverages a high-quality panel and a very big data set known as the Facebook user registration database as well as other data sets from Experian and others, brings the strengths, the respective strengths of those two sources of information together to have the best of both worlds.

We're looking to bring that same idea, that same concept to local television Audience Measurement and every other part of our measurement portfolio in our company. That is the future of measurement.

Operator: Your next question comes from the line of Paul Ginocchio with Deutsche Bank. Your line is open.

Paul L. Ginocchio
Deutsche Bank Securities, Inc.
Q

Thanks. A question for Jamere. Hey, Jamere, with the additional FX headwinds, have you – and to keep margins expanding 50 to 70 basis points, have you had to be a little – sort of tighten up the belt on internal spend? Or has there been no change to plans? Thanks.

Jamere Jackson
Chief Financial Officer
A

Yeah. First, let me say that fundamentally, we run the business the same way that we always have, so nothing's changed there. We underwrite new business to include the appropriate pricing mechanisms to protect us against hyperinflation or devaluation in certain markets. So in some cases, that means either bigger priced escalators or more frequent pricing changes. And so we haven't changed the way that we run the business. We're not going to constrain our growth. We're going to continue to invest in a disciplined way and continue to run the plays that we've been running.

Operator: Your next question comes from the line of Jeff Meuler with Baird. Please go ahead.

Jeff P. Meuler
Robert W. Baird & Co., Inc. (Broker)
Q

I think you guys are hard at work innovating on the audio side, digital audio, international. But if I'm hearing you right, some of that probably isn't a big 2015 revenue opportunity. So Jamere, question is for you. What are you guys assuming in your guidance in terms of audio growth? Or what type of headwind to your organic growth audio is going to be?

Jamere Jackson
Chief Financial Officer
A

So what we've said in total was that Audience Measurement is going to be in the 5% to 6% growth rate range. That includes audio. So if you think about where we've exited 2014, our Watch business ex-audio is growing in the 6% zip code. When you combine audio with that, that gets you in the 5% to 6% zip code. So audio is growing low-single digits in the framework that we've given you.

Jeff P. Meuler
Robert W. Baird & Co., Inc. (Broker)
Q

Thank you.

Operator: Your next question comes from the line of Laura Martin with Needham. Your line is open.

Laura A. Martin
Needham & Co. LLC
Q

Yeah. I'd be really interested in you guys talking about Europe and what you're seeing in the various countries in Europe in terms of softness in those markets, more generally than just your products and whether you think 2015, towards the end of the year, will see some robustness in Europe. You guys have such a unique seat.

And then, going back to a prior question on the set-top box data, I know that your philosophy, you've sort of articulated twice is to integrate big data sets into the core products. But could you talk about are you buying set-top box data? And at the end of the day, do you have to buy all 26 million set-top box households that are now available for purchase? And should we expect to see that sort of cost step-up in your income statement as you integrate more set-top box data into the big data attributes of these products?

Dwight Mitchell Barns
Chief Executive Officer
A

Yeah. Thanks, Laura. First, on Europe. We're not expecting a big change in Europe relative to what we've seen over the last couple of years. That's the way we've built it into our plans. And if so that picture does improve, that'll be good news to us, but we're not expecting it. Our teams continue to work incredibly hard. They execute in a tough growth environment. They're finding some new pockets of growth. They continue to operate with a very high level of discipline from cost perspective, which is exactly what you need in that market.

I was just in Europe a few weeks ago, spent some time with our Nielsen teams in both Germany and in France. And both of those markets, in fact, have some very good things going on. They continue to innovate, especially around the new issues that have risen to the top of the agenda for clients in that market: how to compete more effectively and manage price more efficiently, for example, is one; and also, how to be more efficient with the assortment of products that they bring to the shelf. And so we have some fantastic capabilities in those areas, and we're elevating those capabilities to try to be right on top of the agenda of what's most important to our clients.

Turning to your set-top box question for a moment. Look, we already have access to quite a bit of set-top box data, and we use it quite productively in our Nielsen Catalina Solutions business, which falls into our Marketing Effectiveness practice. That's been a very strong performing part of our business. It leverages the set-top box data in a analytical product that looks at what consumers view on television and then looks at those same consumers to see what they have purchased in a store, connecting Watch and Buy, answering that marketing ROI question that's high on the agenda nearly every CMO at the big CPG companies we worked with. So we're already well familiar with set-top box data and we'll look to acquire more of it, of course, because it fits perfectly with our concept of what the future of measurement is all about.

Operator: Your next question comes from the line of Brian Wieser with Pivotal. Your line is open.

Brian W. Wieser
Pivotal Research Group LLC
Q

Oh, hi. Thanks for taking the extra question. I actually just want to ask another question around OCR and vCE and current market traction. I know you've mentioned 19 of the 25 largest advertisers are using it. But I assume a lot of those brands would've adopted OCR earlier – early on in its availability. I'm curious, bake-offs are going on all the time, I was just curious how you feel you're doing currently? How you monitor it? How your current market share trends are in terms of ongoing licensing to clients?

Dwight Mitchell Barns
Chief Executive Officer
A

Yeah. We feel great about it, Brian. Thanks for the question. It was 18 when we had our Analyst Day in December, so we've moved up one notch to 19. We're going to continue to move up. We feel good, six on that list that we don't have, by the way, have not – not all of them have made up their mind yet, so it's not like we have 19 and somebody else has 6. We have 19 and there's a few who may be in the other guy's camp and a few that are still working on it.

So we're going to keep working very hard on this front. And one of the other things that we feel really good about is when you talk to the power users, in particular, at the big agency holding companies. You talk to the power users, the people who are really in the weeds in terms of understanding these products, understanding the underlying quality of them, the utility of them, power users almost to a person, they prefer OCR. They understand the strength of OCR, the quality of it. We feel good about that. That in the long-term will be a really good support of our continued progress in this particular part of the market.

But ultimately, again, this is an important component, OCR. And OCR has also a set of capabilities that inform a lot of other things we do both in digital. It's part of the architecture for digital content ratings. It's a key part of our overall total audience framework. In the longer-term, as you go out more in time, total audience is really what the game is going to be.

Jamere Jackson
Chief Financial Officer

A

Yeah. And I would add to that, Brian, the one thing that is a good sign for us, and we saw this as we had our operating reviews with the teams is that many of the original deals that you refer to were all pretty short-term deals. And the renewals have been incredibly strong. And so that is a very encouraging sign that Mitch talked about is the adoption and the renewals combined said that we're doing very well in the marketplace today.

Operator: There are no further questions. I'll now turn the call back to CEO, Mitch Barns, for closing remarks.

Dwight Mitchell Barns
Chief Executive Officer

Yes. Thanks, Laurel. Look, before we close, what I'd like to do is just briefly summarize, very briefly the key points we hope you all take away from the morning's call. I hope you find this to be helpful.

So let me just walk through them. I'll do it very quickly. First, I want you to hear it again. Our business has fundamental strength. We're seeing broad-based, double-digit growth in emerging markets, continued double-digit growth in our Marketing Effectiveness practice. Our eCommerce development is progressing well, and it's proving a great fit for our product portfolio.

We're succeeding through strategic value-added partnerships. It's a core part of our operating philosophy, to partner with other world-class firms, firms like Alibaba, Adobe, Facebook, INTAGE, Tencent and more. And you're going to see more to come.

We're positioned incredibly well to leverage Big Data. The future of measurement is about combining our high-quality panels with highly granular big data sets to get the best of both worlds. And we're uniquely positioned to do this. We're already doing it with OCR, and we're extending that concept to the rest of our portfolio.

We've seen continued strong growth in our Audience Measurement business. It's broad-based. It's led by OCR, but also with our local business showing solid growth as we mentioned. And speaking of OCR, strong momentum, 19 of the top 25 advertisers; we are pleased that the major digital publishers are receiving or requesting or even in some cases requiring it. And our international expansion will add to seven new markets this year, including China.

We're on track with our development of digital content ratings via our Adobe relationship. And this one's going to be a game-changer.

And our total audience framework, it's perfectly aligned with what the market needs. Independent, third-party measurement following consumers no matter how, when or where they watch, bringing comparable currency grade ratings to both content and ads across all screens, platforms and ad models. That's what total audience measurement is about.

And even as we invest in growth, our strong business model enables us to return cash back to shareholders. It'll be about $1.6 billion in cash back to shareholders over the next year-and-a-half. And finally, we have a strong team. The team is full of energy, optimism. They're focused on executing and delivering in 2015. We're bullish on the year ahead.

So with that, I'll say thanks again for joining us this morning, and we look forward to talking more with you soon.

Kate White Vanek

Senior Vice President-Investor Relations

Thanks, everybody. And thanks, Laurel, for your help today...

Operator: Thank you.

Kate White Vanek

Senior Vice President-Investor Relations

You know where to find us if you have questions.

Operator: This concludes today's conference call. You may now disconnect.