Corrected Transcript

28-May-2014

Nielsen Holdings NV (NLSN)

Sanford C. Bernstein Strategic Decisions Conference

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MANAGEMENT DISCUSSION SECTION

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

Good morning. I just got the high sign from the back, which means we'll get started because time is precious. So thanks to all of you for coming again. I'm Todd Juenger. I'm the media analyst here at Sanford Bernstein.

I am so pleased to have Mitch Barns with us, the CEO of Nielsen. Welcome, Mitch. Thank you for coming today.

Dwight Mitchell Barns
Chief Executive Officer, Nielsen Holdings NV

Thank you. Great to be here.

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

Just a procedural thing – I'm sure you've all figured this out by now, but I'll say it anyway. There's index cards – or I hope there are – on the chairs. So those are for you. Write down any questions you have for Mitch, and those will get funneled up to me. And we'll make sure we ask as many of those as we can.

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QUESTION AND ANSWER SECTION

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

Q

So Mitch, last year, at this conference, Mr. Calhoun was here. And he started off our discussion by saying that he saw mid single digit revenue growth at Nielsen. I believe his words were, as far as the eye can see. So my question is do you share Dave's view of that?

Dwight Mitchell Barns
Chief Executive Officer, Nielsen Holdings NV

A

Is that with my glasses on or off? It'll be different. No, I definitely share that same view. Our business model is such that it's very steady, consistent growth model. And yeah, we will continue to be that way for a long time into the future.

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

Q

Now I didn't actually Dave complete that thought. So I'll let you complete it, which is, so that's mid single digit revenue as far as the eye can see. How does that flow down through to EBITDA or net income or EPS, whatever measure you care to relate to that mid single growth?

Dwight Mitchell Barns
Chief Executive Officer, Nielsen Holdings NV

A

Well the ones that we've pointed to most commonly are free cash flow and earnings per share. For free cash flow, the guidance that we've given is that it should reach the range of about $1 billion in free cash flow in the 2015, 2016 timeframe and then continue to grow fairly steadily from that point on. And on earnings per share, it'll be a mid-teens grower for our business for the next several years.

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

Q

So mid single revenue, mid-teens EPS. So in between there, there's obviously some either operating leverage or margin expansion or both at work.

Dwight Mitchell Barns
Chief Executive Officer, Nielsen Holdings NV

A

Sure. Yeah.

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

Q

And maybe some cash return as well. Well I'm sure we'll get into that later. So there're a lot of companies at this conference. I'm not sure many of them are out making proclamations about as far as the eye can see, which is really something that's unique about Nielsen's role and the way you serve clients and how you can have that sort of visibility. So let's get into that.

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You have two major business units that you disclose, at least. You organize yourselves around a Buy and a Watch. And actually, we'll talk about both. Let's start with Buy. So the Buy business, this is measuring market share and product in various elements of marketing success for companies in the market. I guess mostly global CPG companies. Correct?

Dwight Mitchell Barns
Chief Executive Officer, Nielsen Holdings NV

A

Yes.

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

Q

So you could understand why Procter & Gamble would rely on Nielsen regularly for a long time. What are the ups and downs that sort of meter how fast or slow that business grows for you? And I specifically ask because it feels like at least the last couple of years, maybe a little lighter than you would maybe hope or would see at steady state. So what determines for Nielsen the core revenue pace of that business?

Dwight Mitchell Barns
Chief Executive Officer, Nielsen Holdings NV

A

Well first, our Buy business, it is primarily focused on the consumer packaged goods vertical. We operate in 104 markets around the world, so obviously, a very rich mix of developed and developing world. Our business is also pretty balanced across the big multinational companies and then the local players. In the developing world right now, the local companies, in particular, have been doing especially well. It's one of the great still maybe unknown stories within the consumer packaged goods world at the moment.

So yeah, when you mention our current growth rate for the Buy part of our business, it's a composite of all of those elements: develop, developing, local and the multinationals.

In the most recent timeframe, the growth has been a little bit softer than we've seen over the last several years. But the big explanation for that, really, is Europe. Europe still accounts for about 20% of our Buy business. It's been flat for the past three years, and we're still operating with an outlook for Europe this year to be flat again for the fourth straight year.

And so Europe's been a bit of a drag on our Buy growth. But overall, at a global level, we still feel very good about our Buy business. The fundamentals of it are quite strong. We have momentum in a lot of areas of that business, and we feel good about its future for being the part of Nielsen that it has been historically.

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

Q

So you talked about emerging markets – well I don't know if you used that phrase. But I'm sure somewhere in that – somewhere you did. I mean that surely is the faster-growing part of your business. How does your decision making work there? Because clearly, you have investments that you need to make to create a service. You then hope to make money by selling that service. So how do you meter how fast and where you make those investments? And what's your timeframe and expectations on getting return on that?

Dwight Mitchell Barns
Chief Executive Officer, Nielsen Holdings NV

A

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Well the way we think about our investments in developing world is primarily, we're focused on the topic of coverage, covering the consumer. So measuring the consumer wherever and however our clients – primarily the consumer packaged goods clients – need us to provide that measurement to support what they're trying to do with their business.

Now when we're making investments in the developing world, it's a multi-stage process. Initially, we're making investments in – to improve coverage from a geographic standpoint. Covering new markets, new countries or, for instance, in some cases, we might only cover a portion of the country right now. So we may be trying to increase the percentage of the country that we're measuring. For instance, in China, we historically measure mostly in the eastern part. More recently, we added Western China into our measurement service in that market.

So geographic coverage, just sort of the first phase. Then there's the second phase that usually comes in where the clients might ask us to start to cover some of the secondary channels of distribution: specialty stores, more narrowly defined retail outlets as opposed to the supermarket and hypermarket portions of the marketplace. And so that's a second layer of investment.

And then the third layer of investment usually comes in the form of granularity. So they'll want to break the market down into increasingly finer cuts, and they'll need us to increase the size of our overall retail panel to enable that measurement granularity in the marketplace. So there's a third wave of investment. And even in some cases, what we've seen in developed world, there can even be a fourth wave, which is adding additional characteristics to the products in the marketplace that we measure.

A lot of that is maybe in response to regulation that's been imposed on a marketplace or just extreme changes in consumer behavior. And so now we need to describe the products that we're measuring the sales of in new ways that historically weren't important to the marketplace. That one's a little bit more of niche need around the world these days. But those first three are very common waves in terms of how our investment and coverage in the developing world unfolds historically and will continue to be true going forward.

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

And probably actually even continuing here in the States, which we'll talk about in a little while, about potential – continued expansion of coverage and services here. How about the appetite for those services among especially the big global players? Because developing markets, emerging markets, one month, it's everybody's gangbusters for it – at least in the stock market world that I live in. And then another month, everybody thinks that it's all falling apart.

It's been said the global CPG companies probably don't waver or have such emotional ups and downs. But you see it better than anybody else. Do you feel any changes over time in the appetite for information in those markets, in new markets, from global companies? Is it wavering as they think about margins? Is it accelerating as they think about growth? Or is it unaffected by the moods of – the general macro expectations for emerging markets?

Dwight Mitchell Barns
Chief Executive Officer, Nielsen Holdings NV **A**

No. There definitely are cycles and swings in terms of what the clients are putting the priority on. Broadly, you could say we do two things – we do a whole bunch of things. But broadly, you can bucket them into two big buckets. One is, we measure performance for companies in the marketplace. And the second is, we help them improve their performance in the marketplace.

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So the measurement part is the one that we generally refer to as the information business. The improvement part is where we have a whole range of capabilities. And that's the part of our business, it tends to be a little choppier, a little bit more swinging according to cycles and also according to what clients are emphasizing at a given point in time. And you'll find those – for instance, there are some periods of time where clients are leaning a lot more heavily into new product innovation. And so the innovation part of our portfolio will grow more rapidly.

And then there'll be a swing where they're going to focus a lot more on marketing efficiency. And so they'll lean into our Ad Solutions capabilities, marketing effectiveness capabilities, to trim waste out of the marketing process, to make the overall efficiency of their advertising spend go up and [ph] improve (9:55) the ROI of it. And so they'll lean more heavily into that. And that probably means they're leaning away from innovation for that period of time.

And then there'll be a focus where they'll drive a lot harder on sales effectiveness at the retail level. They'll want to dive deeper into our analytic capabilities around pricing or promotion or assortment optimization. And so you'll see swings within that improvement part of our portfolio, based on what the marketplace happens to be emphasizing at a given point in time. But that's the strength of Nielsen. We have the broadest portfolio of any player out there. And it's the breadth of our portfolio which is what impact differentiates us the most from any other player.

And increasingly, what we have done is, instead of making that a collection of individual capabilities, we're increasingly stitching those capabilities together so that they operate much more like a system, an operating system for marketing, if you want to think of it that way. And making those capabilities much more interoperable and doing it on a systematic basis so it doesn't require a lot of manual effort. That's one of the great growth opportunities that our company will continue to pursue over the next decade.

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

Q

I've heard you in the past give some sort of blinded, obviously, examples or specific use cases of how you've helped specific anonymous clients identify the revenue opportunities through the tools that you bring to bear. It was very helpful to me. I don't know if you'd be willing to share a story like that now.

Dwight Mitchell Barns
Chief Executive Officer, Nielsen Holdings NV

A

We can either be really specific about the client and say nothing about what we've done, or we can say nothing about who the client is and tell you more about what we've done. I think the latter is usually what people prefer. Again, leaning into that improvement part of our portfolio, we're always operating in one of four areas.

One, we're trying to improve their ability to segment and prioritize the growth opportunities in the market. So that's number one. Number two is helping to improve the return they get from their investments in new product innovation, number two. Thirdly is helping to improve the effectiveness and the efficiency of their advertising or marketing effectiveness, marketing ROI. And then lastly sales effectiveness; pricing, promotion, analytic efficiency, focused especially on the sales force within these big companies.

So for some of these big clients that we'll work with around the world, they'll have I mean really heavy priority on one of those four areas. And then we'll focus and go very deep with them. One of the big global clients that we've worked with recently has, in fact, reported to us within the first four months of the year that we had identified $170 million of new top line growth opportunities for their business through the work that we're doing through the improvement part of our portfolio. That's what they identified – not what we identified. Because if it were up

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to us to quantify the impact of what we've done for them, it probably would've been about three times bigger than their number.

But their number still was pretty good and – yeah, and that's important. That's what it's all about ultimately is, we have to help them grow better than they would be able to grow without the benefit of our work. Or else it's hard for us to convey value to their business.

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

Q

Great. I mentioned before that I want to come back on the U.S. business just quickly and talk about the fact that you continue to expand your coverage there. A very important growing channel of trade is e-commerce. And so a question is, how do you measure sales – I believe you already do estimate sales and share in that channel but not necessarily directly with data from the merchants. So anything new to report on your plans to expand your coverage universe in that way?

Dwight Mitchell Barns
Chief Executive Officer, Nielsen Holdings NV

A

Yeah. Sure. We're very active in the area of e-commerce, but it's still very early days in terms of the role e-commerce plays for consumer packaged goods sales. Broadly, most categories still do less than 5% of their total sales though the e-commerce channel. There are some categories like disposable diapers, infant milk formula, a few others, where they're in double digits in terms of percent of their sales moving through the e-commerce channel.

We're active in a number of markets around the world in e-commerce. Six have kind of gotten the priority from us; UK, France and Spain, China and South Korea and, of course, the U.S. And in those markets, we're taking the dot-com sales from the brick-and-mortar retailers that we already work with in our retail measurement service and we capture that first.

And then for the parts of the e-commerce world that we currently don't have cooperation agreements with, we have other ways to at least get a decent basic gauge in terms of the level of sales going through those additional outlets. Either using our consumer purchase panel or other third-party data sources that we then integrate together to give an overall read as best as we can at this stage of the game.

And that's working pretty well for us right now. But in the meantime, we're continuing to develop these relationships with the big e-commerce players. Amazon's the obvious one the U.S. In China, you have actually three quite significant players. Everybody knows Alibaba, Tencent. And then Walmart has a joint venture with a firm called Yihaodian. And we're excited about the relationships we're developing with all of those players in that particular market.

E-commerce is largely, at least initially, a retail measurement play. But it actually is more than that, and they're increasingly organizing themselves to be more than just a retail outlet. They increasingly are also positioning themselves as a marketing platform. In other words, brands who have a good presence on the e-commerce platform should benefit in the form of offline sales, not just online sales. And these e-commerce platforms, they want credit for the impact they have on offline sales. And they're leaning into our product portfolio in order to quantify the benefit that they bring to these brands who invest in their presence on e-commerce platforms.

And then finally, from a consumer perspective, the smartphone apps for the e-commerce players, increasingly consumers are using these sort of location-based marketing vehicles. They're tapping into them to learn about

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pricing, learn about availability, to look at reviews of products, to inform them in terms of shopping decisions. In some cases, even to find products within stores. So this is a much broader area than just retail sales. But obviously, retail sales a very important part of it for us.

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

Q

Just wrap up the financial outcomes then of the Buy business and then move on to the Watch business. Relating back to the mid single digits as far as the eye can see. So Buy is what, a little bit less than half your review, post Arbitron? Something like that. So clearly, it can't be much different than mid singles.

I think the growth formula then, is it fair to say, is a constant increase in your core, serving your customers within growth, really coming from expansion to emerging markets in terms of additive top line growth for your business? And then also the Insights business as your swing factor. So when you throw that all together, is it meaningfully different from the holistic business of Nielsen that you describe as mid singles and double-digit EPS sort of profile for the Buy business, itself?

Dwight Mitchell Barns
Chief Executive Officer, Nielsen Holdings NV

A

Well first, the Buy business overall is actually more than half of our global revenues. And right now, I think what we reported in the first quarter, the Watch part of our business growing in the 6% range and the Buy business growing closer to 4% range. That's about where we see it right now. And those things have sort of teetered back and forth off on over the years. And that's probably the way it'll play going forward as well.

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

Q

Fair enough. So let's talk about Watch. I guess the right place to start there, instead of diving straight into some detailed ratings question, what's going on with the consumer? Right? So we've got media companies here at this conference and all over the place, and everybody is dealing with the changing way that consumers are consuming entertainment, video entertainment, all forms of entertainment. You've a holistic view of that. So how would you opine on what's going on in the world of consumer? And what does all that then mean to Nielsen?

Dwight Mitchell Barns
Chief Executive Officer, Nielsen Holdings NV

A

Well first, if we focus on video, what we see in terms of consumers' consumption of high-quality video content, it's continuing to grow. It's amazing that it continues to grow, given it already occupies a huge percentage of people's daily lives. But it is continuing to grow. One of the reasons why it's continuing to grow is because its availability is expanding. In another words, it's now available on more channels or more platforms. Consumers have more control over when and how they consume that content, and so that's opening up growth in consumption overall.

A lot of times, people refer to this trend or this phenomenon as media fragmentation. And I think you've heard us say in the past, we think media fragmentation is a positive for our business. It's a friend, not a foe, for our business because it opens up – it not only creates growth in terms of overall consumer consumption but it means there are more things to measure. And then also the need to stitch all those things together in order to give the media companies and the advertisers what they really want, which is a complete view of the consumer. Not just a view of what the consumer's doing in this particular arena or that arena but a complete view of the consumer because that's what most important for their business.

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

So some people sometimes make a statement like this. I wonder how you respond to people who say, fragmentation may create new things to measure and opportunities for Nielsen. It also potentially opens the door for somebody else to have something new to measure and give them a chance to compete or participate in the market that they otherwise wouldn't have. So it creates additional risk for Nielsen. Is that a fair observation, or how do you respond to that proposition?

Dwight Mitchell Barns
Chief Executive Officer, Nielsen Holdings NV
A

Well it depends on what you're referring to. If you're saying maybe somebody has access to this particular method of content distribution, like set-top box data or just in the digital world, then okay. Fair enough. But what the world really needs is a complete view of the consumer, going back to what I said before. That means you have to measure across all the different ways consumers consume content, and that's hard. That's really hard to do. We know. Some parts of that are easier than others; some parts are more efficient, more profitable than others. But you can't pick the ones that are easy and profitable because that's not what the market wants.

The market wants a view of the consumer, and so that means you have to do every part of it. And that's what Nielsen is doing. And if anybody else wants to sign up and take on that battle, that's fine. But they have to realize how difficult that really is and what a broad range of capabilities that it really requires.

So for instance, if we're measuring the consumer and the consumers' consumption of video content, that means you got to have TV. And we feel very good about the rock solid position we have in terms of television audience measurement. But you also have to have the digital measurement. And we're in a very good position in terms of our existing and soon-to-come capabilities to measure consumers' consumption of video content as well.

With mobile OCR rolling out in July and mobile television content starting to be incorporated into the C3 metric this fall and also our digital program ratings metric that's focused on the content, not the adds, rolling out at the end of this second quarter right now. So all the capabilities that the market is really clamoring for right now either already exist in our current offering in the marketplace, or we have specific dates on the calendar, even in this calendar year, when those things are going to be available to the market. And we're well on track in all of those areas.

And so put those all together on the digital part with the television world, that's what gives the complete view of the consumer. And I think Nielsen is incredibly well positioned with regard to providing that view for the world.

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

On the Buy side of the business, you talked about two general ways you could describe the services, the offer. One is sort of measurement – and I forgot what word you used...

Dwight Mitchell Barns
Chief Executive Officer, Nielsen Holdings NV
A

Improvement.

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

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It was improvement.

Dwight Mitchell Barns
Chief Executive Officer, Nielsen Holdings NV
A

Yeah.

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

So on the Watch side, we've been talking a lot about measurement. I think you have some tools for improvement there, too. I mean one that sticks out to me is Ad Solutions, which you mentioned before.

Dwight Mitchell Barns
Chief Executive Officer, Nielsen Holdings NV
A

Yeah.

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

Does that seem to be growing really fast? You've given specific sort of – I don't know if you would call it guidance, but indications of sort of double-digit growth there. I think it's a lot of things, but what kind of is it? And how do clients use it? And why is it growing so fast?

Dwight Mitchell Barns
Chief Executive Officer, Nielsen Holdings NV
A

Well it started off saying, we have all of these great media measurement and analytics capabilities. They're mostly being purchased by the media companies and the agencies right now, but the advertisers probably also would benefit from these things. So several years ago, we started to explore the market's interest in these capabilities. And we found that there was a significant amount of interest. Then over time, what we've evolved is presenting those capabilities to the market along the lines of this thing we call the three Rs model, the three Rs being Reach, Resonance and Reaction.

So Reach is about audience measurement, primarily. Resonance is about understanding how people respond to advertising. How does it change the way they think? And then Resonance is about, how does their behavior change in response to advertising? How does it change the way they purchase, primarily?

And now we have these Ad Solutions or analytics capabilities, focused on that second and third R. And that is the primary driver of the growth that we have in this area. It's a combination of better data sets. It's a combination of better analytics capabilities and better technology tools and ultimately, us, also just finding what the market needs and packaging it and using it to solve the clients' problems and helping them find growth opportunities.

Once the advertisers started to really buy into those capabilities in a big way, then the media companies said, all right. They're coming in. They're trying to buy based on these analytics capabilities that you're providing to them. I need to understand how to sell to what they're asking for to buy. And so now we're providing these capabilities to both sides of the table; the media companies to aid their ad sales process and to the advertisers to help them buy more efficiently and improve the ROI of their ad dollars.

So it's really been a great part of our business, now in excess of a couple hundred million dollars a year and continuing to grow at a very healthy pace.

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

Q

You talked before about stitching everything together. One of the products that specifically has the name around that is something I think you call XCR, a Cross-Platform Campaign Ratings...

Dwight Mitchell Barns
Chief Executive Officer, Nielsen Holdings NV

A

Yes.

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

Q

Which is one flagship way, I think, that you're specifically try to tie together different silos of consumption, if you will. So to me, that's very interesting because that is something that you could argue is hard for anybody else to do, other than Nielsen. What's a realistic timeframe for that product becoming meaningfully adopted and paid for and used in the ecosystem?

Dwight Mitchell Barns
Chief Executive Officer, Nielsen Holdings NV

A

Well I would love it if we decided that, right? And that would be great. We're obviously happy to have it happen sooner rather than later but, ultimately, that'll get decided by the marketplace. And I think it'll get decided based on how people want to buy their advertising time, how they want to sell their advertising time. And also the way they organize themselves from an organizational structure and business process standpoint. And there's a lot of inertia in the marketplace that probably will cause that to happen more slowly than almost anybody would really like to see happen.

So we're not going to be all the way there during this calendar year. Next year, we'll see good progress on this front. Part of it because the measurements that the marketplace really requires will be more fully embedded in the marketplace. But even after the measurement is all out there and covering everything that everybody says is important, you'll still have [ph] word (26:16) structures and politics around them. And you'll still have business processes with histories behind them. That will still need to change and evolve, and so it's probably not all going happen in 2015, either. This will continue to unfold over the next several years. But the governor on the pace of it will be clients as opposed to any capabilities or limitations from the provider side.

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

Q

Speaking of other evolutions in services, it wasn't that long ago when, in your local television measurement business, we heard a lot about set-top box data and your hybrid solution, which includes your panel and set-up box data. There hasn't been a news flow on that lately. What's going on there? What's going on in the local markets for Nielsen, generally, and your hybrid solution specifically?

Dwight Mitchell Barns
Chief Executive Officer, Nielsen Holdings NV

A

Well we're still very active in terms of the development of our hybrid solution – I'll come back to that in just a second. But with regards specifically to set-top box data, all of the challenges related to set-top box data that have been pointed out historically, they're all still there. They're all still there. There're a lot of set-top boxes in

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existence. Only some of them – less than half of them; in fact, closer to 20% of them are capable of sending data back.

So existence with set-top box data doesn't mean existence of a return path for the data. It's only about 20%. Secondly, even for the ones that can send data back, there's some issues: set on versus set off, if you're familiar with that issue, is one very important issue. Second is having demographic data for the individual-level viewing that occurs, as reflected by a set-top box data. It's not a capability that exists yet. So you have to infer or model those individual-level demographics. That's a big issue. Some people in the market are not comfortable with that level of modeling; other people are. But that further narrows the opportunity.

Another issue is the demographic representivity of set-top box data. It has very pronounced demographic SKUs. And some parts of the market are okay with that, and other parts of the market say, not acceptable. Not acceptable. And so you add up all these issues, and the real utility of set-top box data for high-quality, gold-standard audience measurement that the market really expects of Nielsen becomes pretty small pretty fast. That's why it always has been thought of as part of a hybrid solution. And even within our hybrid solution, the potential of it still is not that big.

And so while it's still part of our plan going forward, it's not the biggest part of our plan going forward. And those are some of the key reasons why. But hybrid plan, we're still very committed to in terms of increasing the size of the sample in each of the local markets to improve the stability of the metric, which we know is very important to the clients out there. But we're relying on some things different than set-top box data in order to accomplish that goal.

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

So a question that came in from the audience, I think, fits well in this general discussion we're having. I've heard this before, so I just want to hear your thoughts about it. There are some people who point to new forms of Internet advertising and say, wow, advertisers can directly see consumer responses to those ads, sometimes through purchase or other feedback you get from the Internet. And an example might be search advertising for – just as an example. If that type of feedback mechanism directly starts to grow and be a bigger part of advertising generally, does that reduce Nielsen's role in any way in terms of measuring audiences or effectiveness of adverting?

Dwight Mitchell Barns
Chief Executive Officer, Nielsen Holdings NV
A

Well it is fair to say that our business is not as useful, not as valuable to search or to direct response advertising in the marketplace. So to the extent that those things grow or the value that we bring to both providers and advertisers in that particular part of the market, is going to be limited. However, there will always, we believe, be a big need for branded advertising. The kind of advertising that builds the perception of brands, the awareness of brands, the image of brands, creates those salient images in consumers' minds that have long been part of marketing activity. Very successfully, might I had add, for decades, we see that also – there being a need for that continuing for decades into the future.

That's the part of the market that Nielsen's audience measurement services have always been most relevant to, most valuable for. And don't see that going away. In fact, if anything, I think what you see is that also continuing to grow.

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

Q

Where does audio fit into all this? So you made a substantial acquisition of Arbitron [ph] a year or so again (31:00). So how does that relate to either your mission to have a global view of the consumer? How does that map to your clients and your services and, ultimately, to your business?

Dwight Mitchell Barns
Chief Executive Officer, Nielsen Holdings NV

A

Well the thing that motivated us to acquire Arbitron was that it gave us coverage of another almost two hours of the average American consumer's day. That's, believe it or not, the average amount of time the American consumer spends listening to radio – maybe not here in New York City. But in middle of the country where I'm from, that's pretty common.

So it gives us that coverage of their day and a measurement of the advertising messages that they're exposed to. This is especially important for the multi-cultural segments of the U.S. population, who index above average in terms of radio consumption. And as I think you all know, these are the growing segments of the U.S. population. The U.S. population will grow by roughly 100 million people over the next three decades. And almost 100% of that growth will come from the African-American, Hispanic-American and Asian-American segments.

And in particular, those first two segments, these are the segments that consume above-average amounts of audio. So we will now be able to represent those segments to advertisers in the market even better than we already were able to prior to the acquisition of Arbitron. So that was one of the key reasons why we were so attracted to this acquisition. It also gives us international growth opportunity and lots of other positives associated with it.

We're thrilled with how the acquisition has gone so far and, in particular, the integration. We're perfectly on track in terms of the cost synergies that were the one of the basis for the deal. And we feel very good, too, about some of our revenue growth opportunities that are in front of us, some of the product development activities that have to happen to enable those.

Talking about measuring digital audio. Also talking about connecting advertising messages on radio to subsequent sales for those brands in the marketplace. We've done lots of analytics work to demonstrate the ROI of radio advertising, and the radio advertisers have been thrilled with the messages that we've been able to share with the marketplace to prove the ROI of radio advertising.

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

Q

Looking at questions that are starting to file in. The most popular question I'm getting fits right in now, too. You talk about all these products and the fragmentation is our friend and digital program ratings and mobile ratings and OCR and XCR.

The question is, how does that all translate back to revenue, right? So you just mentioned Watch is growing recently at 6%-ish. How much of what we're talking about here is embedded into contributing and helping you achieve that 6% growth? And how much of this, if any, is incremental to that, is where I'll start, right? Is everything we talk about sort of on top of the 6% growth, or is most of it already what it takes to get that 6%?

Dwight Mitchell Barns
Chief Executive Officer, Nielsen Holdings NV

A

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Well I think the 6% is already helped a little bit by some of the things that we have been discussing. And as those things continue to develop, it'll continue to boost that revenue growth rate in the Watch part of our business, hopefully, into the upper part of the range that we've communicated as opposed to the lower part of the range. And if the marketplace evolves in ways that we have not yet anticipated, who knows – there could be more upside there.

But right now, we see the digital measurement capabilities, the Ad Solutions capabilities that we talked about. Those are the ingredients that help us keep this very solid, single-digit growth rate for the Watch part of our business continuing for years into the future.

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

Q

In terms of specific customers for these products. To the extent that you're serving your traditional large network conglomerates sort of big media companies. Would it be fair to say most of these services are contemplated in the forms of the Master Agreements you have and already paid – or not paid for – already included in your long-term agreements with them as opposed to going back and having new line items on top of...

Dwight Mitchell Barns
Chief Executive Officer, Nielsen Holdings NV

A

Yeah. It's a great question. And it's a mixture. OCR is a great example. OCR conveys value back to our business really on two paths. One is, let's think about the digital players. They'll subscribe to OCR. The advertisers, they're subscribe to OCR. And we get paid revenue for the service that they're buying there, and that's growing very healthy and we're very happy with the development of that revenue stream from OCR.

Then there's a second role that OCR and, in fact, our broader array of digital capabilities plays in driving growth for our business, and that's the way plays out in the renewals of our contracts with the big media companies. So when those renewals come up – and every year there's one or two that comes up – sometimes even three, they will look at our audience measurement capabilities. That's in both television and everything that we have planned and already existing on the digital side.

They'll assess how well that fits with what their business needs to continue to grow. They'll assess also how confident they are in our ability to execute on that successfully. And then all of that will factor into that contract renewal. And it'll play out in terms of the length of that contract renewal, the breadth of that relationship that's encompassed by that contract and also the annual price increases built into it.

All the individual components are not line itemed. It's all more of gestalt approach, generally speaking, in these. But one of the reasons why those contract renewals with the big media companies have been going so well is they stare into the programs that we have on digital measurement and they like them, generally speaking. They believe in them. They say, yeah, that is aligned with what's important for my business to grow in the future. And we do have confidence that Nielsen will, in fact, execute on what you say your plans are. And that's one of the reasons why these contract renewals have tended to go pretty well; our terms being as good or better than the contract that they'd replacing. Both in terms of length and breadth and annual price increases.

If they didn't believe in our digital strategy and if they didn't have confidence in our ability to execute it, I guarantee you that those renewals would not be going as well as they have. And so OCR conveys a lot of value back to our business in that way as well. And in fact, so far, I would say that's the bigger source of value of our digital program than the first one that I mentioned before, the individual purchases of the capability.

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

Q

Interesting. A question here actually, I get pretty frequently. How can it be possible over the long-term that your Watch business – and this could also be said to you Buy business – could grow at 6%, plus or minus, if total advertising revenue is growing slower than that? It doesn't seem like that could persist indefinitely. Is that a poorly word and comparison? Is that not an applicable way to think about the pie and your size of it? Or how is that possible?

Dwight Mitchell Barns
Chief Executive Officer, Nielsen Holdings NV

A

Well I think that's fair. If we were fully penetrated and all the market's needs were already satisfied, then we're going to converge to the market's rate of growth over the long run. Fair enough. But what's happening is, there's the measurement part of our business and the improvement part of our business. And the improvement part of our business is still relatively new in terms of its development. And so we're still relatively underpenetrated in that area of the business, and so that supports the growth rate. And there's a long runway still on that part of the business.

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

Q

The other most popular question in here – so we're going to jump to this and then we'll come back, maybe to more of this – is around cash deployment, right? I want to make sure we don't ignore that because it's a rather popular question. So along with your stable growth and your profitable businesses, you generate a lot of cash. So historically, you were going through a de-levering process. I think that is starting to see near the end of the completion. So what the audience seems to be very curious about is, what happens now with all this cash that you're going to have at your disposal?

Dwight Mitchell Barns
Chief Executive Officer, Nielsen Holdings NV

A

It's a good problem. We like it. We're going to continue to follow what we've referred to as a very balanced framework. Starts with the dividend. And our plan is for the dividend to occupy about 45% of that free cash flow, and we'll grow that dividend in line with earnings growth going forward.

Then the next big chunk is combination of M&A activity and share repurchase. And I think the guidance we've given there is around 35% of our free cash flow will be used by the flexibility that we'll have between M&A activity and share repurchase. And so that'll be that piece. And then most of the remainder is about servicing the existing debt that we have in our business.

So that framework, we think, provides us with lots of flexibility. And we're still looking for the M&A activity, the bolt-on, tuck-in acquisition activity to be in the $100 million, $150 million range, similar to how it's been in the past. And then flexing that, as that goes up and down a little bit, with the share repurchase.

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

Q

As well, I'd be remiss if I didn't sort of just get this point for clarification. You have an authorization for a buyback now. I don't think you've started buying back a lot of shares yet. I know there's some [ph] arching (40:49) Dutch tax purposes that influence the timing of that, which we don't need to get into. But just to make sure we have it, I mean you'll have more freedom to efficiently repurchase shares starting, I think, in sort of 2015-ish?

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Dwight Mitchell Barns
Chief Executive Officer, Nielsen Holdings NV

A

Yes. Yeah. Fair point.

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

Q

Great. I just want to make sure we didn't...

Dwight Mitchell Barns
Chief Executive Officer, Nielsen Holdings NV

A

Yeah. Don't venture too deeply into Dutch tax law with me, if you wouldn't mind.

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

Q

No. Trust me, we're not going there.

Dwight Mitchell Barns
Chief Executive Officer, Nielsen Holdings NV

A

Some questions here which make sense, giving the fact that this conference happens in May. So the upfront negotiations are ongoing right now between the broadcast and cable networks and their advertising partners. There's all sorts of chatter around changes in measurement and counting more audiences and all that. We've talked about that some.

I think the audience is somewhat interested in your perspective on how you think that will evolve this year and next, more for the purposes of how it affects those guys but obviously, how it affects Nielsen, too. For instance, if we move from C3 to C7, do you get paid more? I think the answer's no, but that sort of thing. As people adopt digital program ratings and new, broader measurements, A), how do you see that evolving? And what is the impact on Nielsen?

Dwight Mitchell Barns
Chief Executive Officer, Nielsen Holdings NV

A

Well first, I guess I'll take them one at a time. C – 3C versus C7, we already provide both of those measures to the marketplace. The market, though, has so far stayed mostly converged on C3. But if the market wants to move to C7, that metric's already out in the marketplace and in the buying systems, and that's a decision that the marketplace will make. We just simply facilitate that opportunity for them if they so choose. What will happen if they move to C7, well you can look back at history when they moved to C3. There's a calibration process that unfolds in the marketplace, and there's always a few winners and losers. But it's not a big impact on our business, so that's the way we view that one.

Maybe thinking about the audience measure more broadly. What we see as the real dominant trend right now in the marketplace, especially in the world of video, is an increasing acceptance of independent third-party measurement, an increasing demand on the part of advertisers in particular for independent third-party measurement in the digital world. And primarily a demand for metrics that are of comparable quality and, in fact, comparable to the television metrics that the marketplace is so familiar with over time.

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That, increasingly, is the demand of advertisers and their agencies in the marketplace when it comes to the world of video. And we think that is a very favorable trend for the kind of business that we're in – in fact a very favorable trend for Nielsen specifically because of the position that we've held historically and also because of everything that our strategies are focused on right now to deliver to the market.

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

Q

To the extent that new and then increasingly traditional forms of video advertising are delivered on more of a dynamically inserted basis, where the audience for a program is no longer the audience for the advertisement because there might've been different advertisements and – to different viewers. What does that imply for Nielsen? Because historically, you've measured program audiences or commercial audiences, at least for linear television. I'm sure you've prepared for this, but what does that mean for you?

Dwight Mitchell Barns
Chief Executive Officer, Nielsen Holdings NV

A

Our underlying measurement technology can handle that perfectly well. Dynamic or linear ad insertion, no problem. We designed it, in fact, to be able to measure those things equally well. And so we're very well positioned. The way we actually report the metric is different from the way we actually measure it. The way we report it right now, the C3 metric doesn't accommodate that situation that you just described. So that would require the marketplace to gradually start to move away from C3 as the way the metric gets reported.

But the way the measurement's collected in the first place, we can accommodate linear or dynamic ad insertion. And we know that's important to be able to handle both. You can't just have linear, and the market won't stay – not the whole market is going to stay on linear forever. No way.

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

Q

You have two rather huge – one is a partner and one is a – not a partner but a constituent on the online measurement. So Facebook, I think – I don't know if you'd call them a partner but is a – I'll call them that – of yours. And Google is an entity you also deal with, specifically with YouTube and – what is your nature of those relationships? What advantages that give you – or risk does it pose as they learn more about your business?

Dwight Mitchell Barns
Chief Executive Officer, Nielsen Holdings NV

A

Well we have great relationships with both of those companies. We have Client Service teams that are fully focused on work every single day, helping those clients grow. And also, as you said, sometimes – yeah – partnering with them to develop new capabilities that not only help their business but help the market, the overall market that they're trying to create and develop.

We work very closely with Facebook, as you alluded to, in terms of our OCR metric. Our OCR metric, in fact, is able to tap into Facebook's user registration database – 180 million people in the U.S. That's the size of our panel effectively for our OCR metric versus the other competitor's metric out there that has a panel size of roughly 2 million. 2 million sounds big, but it's small relative to 180 million, of course. So we work very closely with Facebook, both in terms of that product capability, but we also work with them across their business and on all their key business questions and try to help them grow and just run their business more effectively.

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Google's very similar. We don't have the OCR-type relationship with Google, but we still have a great relationship with Google. And we were thrilled, obviously, when they've incorporated the OCR metric on their YouTube platform. That's part of that pressure from advertisers saying, I want to commit more of my ad dollars to the YouTube platform. But in order to do it, I need independent third-party measurement and, ideally, a metric that's comparable to what I'm used to seeing on television.

And that is the primary motivation from Google to incorporate our OCR metric onto their platform because it satisfies all those requirements that advertisers have been demanding. And then implementing OCR on their DoubleClick platform as well just makes that process of an advertiser choosing OCR and measure their advertising that's passing through DoubleClick's platform, makes it easier and more efficient for them. And so that's the nature of relationship we have. That's just on measurements. But we also work with both of these companies on a broader range of their business questions, just like we do with all of our other clients.

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

Q

Another one here. When we see headlines from certain big media buyers in the market, supportive of competitors, like a comScore. What should investors take of that? What is the significance of Starcom lending their name to press releases in support of comScore? And should investors dismiss that? Is it important? I'll leave it there. What should we make of that sort of noise? Because those are important players in the marketplace who are publicly lending support to alternatives to Nielsen, in some cases.

Dwight Mitchell Barns
Chief Executive Officer, Nielsen Holdings NV

A

Well it's healthy for the market. We welcome competition. Creates more activity, more experiments going on in the marketplace, gives points of contrast as opposed to things being compared to some perfection that actually never exists. So we welcome it. We think it's healthy overall. I think it can also, though, be helpful to look at those press releases and break them down for what they really are. Is it about video? Is it about the display advertising world? Or is it about the audio world? Because those are three separate realms, and I think it's important to evaluate them separately, not to confuse them.

Also, if you're thinking about cross-platform, that tends to be much more relevant for the video world than it is for those other two worlds. And then just dig into some of the details of what is exactly being said. Sometimes, there are announcements that are made and the implication is, this is an exclusive arrangement. But most of the time, once you dig into some of the details, you find, no, it's not exclusive at all. That it's a matter of this particular provider saying, we will accept this measurement but we'll accept the other one, too.

But the press release never features that second statement. It just says the first one. So to get into some of the background and understand the context for some of these things, sift through some of the marketing hype and make sure that the substance is well understood, I think, is helpful. And our teams are always, of course, willing to answer any questions that you all might have on that front.

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

So I see the clock is blinking, which means it's time for us to wrap this up. Mitch, you are a walking book of knowledge about not just your company but the world that all of us invest in. So thank you for sharing all your insights. Thank you for being here with us today.

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Dwight Mitchell Barns
Chief Executive Officer, Nielsen Holdings NV

My pleasure. Thank you. Yeah. Good. Thanks, Todd.

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

Thanks so much.

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