Company Name: Nielsen NV
Company Ticker: NLSN US
Date: 2015-05-27
Event Description: Sanford C. Bernstein Strategic Decisions Conference

Market Cap: 16,698.71
Current PX: 45.37
YTD Change($): +.64
YTD Change(%): +1.431

Bloomberg Estimates - EPS
Current Quarter: 0.643
Current Year: 2.631
Bloomberg Estimates - Sales
Current Quarter: 1554.688
Current Year: 6221.824

Sanford C. Bernstein Strategic Decisions Conference

Company Participants

- Dwight Mitchell Barns

Other Participants

- Todd Juenger

MANAGEMENT DISCUSSION SECTION

Todd Juenger

Hello. Good morning. Do we have – oh, there I am. Great. Hi. We'll go ahead and get started. I know half of you're just barely through your first cup of coffee, but we have a busy day, busy – our session here, of course. So we want to get right to it. Thank you all for coming and thank you all for showing up for the first 8 AM session. Hopefully, most of you recognize me by now. I'm Todd Juenger. I'm the media analyst for Bernstein. I'm so pleased and delighted to have Mitch, CEO of Nielsen here with us today. Hopefully, you're in the right room.

Just a couple – it feel like you're still in the airplane. If this is not where you're going, this is the time to get off the plane. But no, please stay, because it will be worth your while. Just one quick sort of procedural element before we get started, especially since this is the first one of these. For those of you, who've been here before, you remember. We go totally old-school in the Q&A session of this. So you'll little card sitting on your chair. So those are there for you to write your questions for Mitch. So, please do so and people will get by to collect those as the morning goes by. And we'll try and get those asked to Mitch as the session moves along. So, take advantage of that.

Q&A

<Q - Todd Juenger>: And with no further ado, Mitch, you're kicking off the entire conference. Why don't you get us started and tell us what's on your mind regarding your company and what's on Nielsen's plate these days?

<A - Dwight Mitchell Barns>: Sure. Thanks, Todd. Good morning, everybody. I'll start with just telling you a little story about something that happened to me a few weeks ago while I was speaking to a group of young people who had just joined Nielsen at our company. And I had a long session with them with a lot of Q&A. And we got to the end of our time. And I said, okay, you have time for just one more question. And one of the young people in the room said, yeah, so what are the things that you're most excited about regarding Nielsen's future? And then also, what are the biggest challenges that you think we face?

And I said, well – I said just one more question that was to maybe you have a future as a sell-side analyst, right. But, okay, I'll cover them both. And, in fact, it'd be easy to cover them both because it's the same answer to both of those questions. The things that I am most excited about our future are the three big forces that we see affecting our business in the world. The first one is fragmentation. Fragmentation of the media markets in particular. And if you look at it from a consumers' perspective, consumers have more choice and more control of where they go find the content that they so much enjoy these days.

And that, for us, at Nielsen, means there are more things for us to measure, more opportunities for us to find growth in the marketplace. And, importantly, the big media companies and the big advertising agencies, they want each of those environments where consumers are going to find content these days – they want each of them to be measured in a way so that they are all comparable one to the other. So they can be added all up and give one complete and total view of the consumer. And this leads to our total audience measurement strategy, which I'll find a reason to talk more about, I'm sure, as our hour progresses. So that's number one, fragmentation in the marketplace.

Number two is the rise of big data, driven by this relentless march of technology and the ubiquity of smartphones and the Internet of Things. And it's all producing all of these new data sets, big data sets in the marketplace, which many people look at and, say, maybe those big data sets will over the long run supplant the measurement capabilities that Nielsen has built up over the years. In fact, I was with Marc Andreessen last week in Silicon Valley and he raised that very question.

And I said to him and to the group of young people I spoke with a few weeks ago, no, that's not at all. It's certainly not the way we think about it. We love to rise of all these big data sets. They're incredibly powerful, incredibly granular, incredibly efficient, and so they are incredibly useful to what we do. But they're also messy and biased and incomplete. And so they need something else.

They need to be combined with something else to calibrate them and to improve them in order to unlock all the potential that these big data sets have. And guess what? We have that. We have these panels that we have so much expertise in building and running and managing over the years. When you combine these new big data sets that are emerging all over the world these days with our panels and you put them together, you truly do get the best of both worlds.

And, in fact, there are key parts of our measurement portfolio that are already working this way. Digital ad ratings, our metric for the digital world works exactly this way. And more and more of our measurement portfolio over time will gravitate to this model. It's what we call the future of measurement and it's the combination of panels where we have historical strength and these new big data sets that are emerging so quickly in the marketplace.

And the third and final thing that I mentioned is what we see happening in the world with respect to population. I am talking about growth in population, shift in population, and rise of the middle class. And this is mostly an emerging market story. The world will add another billion people to the planet over the course of the next 10 years. Most of that will be in Asia and in Africa.

And we're incredibly well-positioned to take advantage of the tailwind that this produces to those markets because we've been investing in our business year-after-year, building the solid foundation, building the right relationships with both the global clients who operate in those markets as well as the fast rising local clients in those markets. And so we're incredibly well-positioned to take advantage of this population growth that is happening disproportionately in those parts of the world.

And so, those are the big three forces that affect our company. And if we're complacent and we're not proactive, we're not forward leaning, yeah, okay. They might be, to some degree, threats to our business. But the reality is we're none of those things. We're very proactive. We're very forward leaning. We're perfectly positioned, in fact, to take advantage of these three big forces that are shaping the world and the markets that are important to our business.

And it's for that reason I look at what's happening in the world around Nielsen these days. And I said to that group of young people and I'll say it to you. The reality is there's never been a better time to do what we do than right now. And that's the way we think about our business, both today and the way we'll continue to think about it in the quarters and years ahead. So, I'll start here.

<Q - Todd Juenger>: Fantastic. Great way to start. Let me perhaps migrate into – segue into a deeper discussion on many of the forces you just talked about by maybe sort of wrapping up in a way that I try and think about how the Nielsen Company takes all those opportunities and assets that you have and then turns that into business results. I have been known to describe your business characteristic of Nielsen as a levered annuity. I mean that as a compliment by the way. I wonder if you agree with that characterization. And if you do, to some degree, what is it about your business that produces such a stable and predictable profile?

<A - Dwight Mitchell Barns>: Well, I think there is a pretty good agreement between your characterization and the way we think about ourselves. We will repeatedly describe ourselves as having a steady, consistent business model – steady, consistent business model. We've delivered 35 consecutive quarters of constant currency revenue growth. Through the global financial crisis, we continued to plough forward with that steady, consistent business model.

And what it's supported by – the reason for that steady and consistent performance is that when we start each year on January 1, we already have about 70% of our business under contract, long-term contracts with core measurement capabilities, measuring the performance of our clients business. This is a foundational need that we address for our major clients whether it's the big media companies, the big advertising agencies and media agencies or the big advertisers, especially in the consumer packaged goods vertical.

When business is good, they want the metrics that demonstrate that their business is performing well. When business is tough, they want the metrics to understand what's going on, why is it happening and how to get better. And that's why we have this steady, consistent performance in the markets. Whether the economies are strong, whether the economies are weaken, it's proven itself over years to be exactly that.

<Q - Todd Juenger>: Terrific. I always struggle and hate to sort of dissect your business and pursue it segment-by-segment. But it's -

<A - Dwight Mitchell Barns>: But you will.

<Q - Todd Juenger>: I'm going to do it anyway because it seems to be an efficient way to do it. So, you divide your business into two main elements, what you call Buy and Watch business. I'm going to talk first about the Buy business, because, sometimes, we feel it doesn't get talked about enough. So let's talk about that.

So just – when I talk to investors about your Buy business, the main controversies I hear are around – particularly growth rates by region, particularly what's going on, for instance, recently in Europe and questions about margins and margin profile over time. So why don't we hit those head-on starting with growth rates? So how is your business sort of growing these days by region, if you don't mind sharing that with us, and how does that compare to where you think they should be on a normalized basis and whether there is any gaps? How you think those will rectify?

<A - Dwight Mitchell Barns>: Well, the Buy side of our business in the first quarter, the yield grew, up 5%, 3% in the developed markets, a little better in North America than in Europe. Europe has been largely flat for us for the past few years. And we're not expecting it in terms of our outlook for the future to get better. Although we are seeing some signs of encouragement right now, more entrepreneurial spirit in the European markets, at least relative to its history. So everything is relative here. And a few pockets that are performing a little bit better, particularly in the Central and Eastern side of Europe, doing a little bit better in relation to how it had performed in the prior year. But the developed market business will still be in the low to mid single-digits as we go forward.

Emerging markets, on the other hand, we've now delivered three consecutive quarters of double-digit growth. And, importantly, it's broad-based double-digit growth. So, it's not like just one region of the world was carrying the water for the rest of the emerging markets. If you look across each of the emerging markets, China, Africa, Southeast Asia, Latin America, just virtually all of them are producing double-digit growth. And it's really driven by the investments we've been making over the last several years, which had been having a downward pressure on our Buy margins globally. But those investments are now starting to pay off and it's showing up in the top line growth rates across the emerging markets around the world.

So, turning to margins, just as our emerging markets growth rates have been improving over the recent few quarters, so have our overall Buy margins. They've been trending upward steadily and they should be – you should expect them to continue to trend upward over the long run. Perhaps not every single quarter going forward, but over the long run, our Buy margins will continue to trend up.

And the reason why we can say that with confidence is the reason why they were trending down was because that was intentional. We were managing that process. We were overinvesting in these parts of the world. We're now to a point where we're calibrating our investments in those parts of the world. We're still investing, by the way, but we're calibrating those investments to now where those markets are. And the markets are starting to grow on the base of those investments. And that is why you see our Buy margins now trending more positively. And, as I say, that will continue over the long run and we're really going to start to see the dividend from those investments from the last several years.

<Q - Todd Juenger>: It makes sense. Trying to square some of the differences in growth rates, especially among the developed part of the world, with comments you made in your opening remarks about how – when business is going well for your customers, they want the data to understand why and to prove it. When this is not going so well, they want the data to understand why and prove it. So, given that fact, what explains the difference and why – so business is going not so well in Europe, because of some macro factors, but don't people still need the data as much? And so sort of mechanically, what explains the difference in the growth rate there versus other parts, for instance, in North America?

<A - Dwight Mitchell Barns>: Yeah. We'll just square with my opening comments. Despite some incredibly tough conditions that many companies face in the Western European markets, our business is still stable. It's not in massive decline, but we're just not seeing the growth rates that we had seen in if you look back a few years. And even within these developed markets, companies do still have – if they compete in a wide range of categories, some of those are very core, very high priority categories for their companies and some of them are more on the periphery. And so, they can still make a few choices on the periphery of their business about whether they want to buy that particular category's data in every single country in which that particular category falls. So there is a little bit of choice on the margins of these businesses and that will influence the growth rates.

And then, finally, they can either lean more heavily into the analytics capabilities we have, which are more discretionary and more lumpy in terms of how they play in our revenues, or they can back off in the short run on some of those analytics capabilities. And all of those things play through into the growth rates in our business.

<Q - Todd Juenger>: So this is as good a business as you make it sound. How come not more people are doing it? Who else is doing it? Who do you face in terms and consider your competition and what sort of differentiates you from them?

<A - Dwight Mitchell Barns>: So we operate in 106 countries around the world that represents a little more than 90% of the global population. In more than 80 of those countries in the world, we're the only provider – the only national provider within those markets of these core measurement services, performance management with the core measurements of market share and sales for the consumer packaged goods industry.

In about a dozen or maybe close to 15 countries, we have a competitor, which is headquartered here in the U.S., IRI. And they made an acquisition of another firm called Aztec. And they operate mostly in the U.S. and Western Europe and one or two other markets around the world. And then you'll find a selected local company in one or two other countries here and there. But, for the most part, we are the only significant provider of retail sales measurement capability in, as I mentioned, more than 80 markets around the world.

<Q - Todd Juenger>: So moving from the abstract to the particularly concrete or so real. So there are some papers in Great Britain reporting that maybe Nielsen might be participating in some bidding for another asset, dunnhumby. I have just some reports in the press. I mean do you have any comments to share on those stories?

<A - Dwight Mitchell Barns>: Look, we're always interested in access to big data sets that can enhance our measurement and fuel our analytics to help our clients to understand their performance of their business and find new growth opportunities. So I start there. Whether it's dunnhumby or whether it's other opportunities, it's the general profile that we're interested in. dunnhumby has some of those characteristics. They have big data sets. They have analytical capability and analytical talent.

There's also a third thing they have though, which isn't so positive, which is they have relationships with clients that preclude them from offering comparable services to other clients in that same industry. And so, it's difficult to leverage the scale benefits – the scale potential of a business when you have those kinds of agreements in place. So, that makes them less interesting to us relative to some of the other characteristics of the dunnhumby.

<Q - Todd Juenger>: Makes sense. Thank you. On the margin issue, which you kindly already proactively addressed, to some extent, but let me push you on it a little further.

<A - Dwight Mitchell Barns>: We tend to be proactive about the good things.

<Q - Todd Juenger>: Well, so no good deed goes unpunished. Let me press you a little bit on the other side of that, right. So, somebody could say, my gosh, think about all the citizens of the world and all the growth in population. And I mean why should you be scaling back in and why should we be happy to see Buy margins going up? Is there any risk that your – what should get investors comfort that you're not worried a little bit about margins now instead of pursuing the long-term growth?

<A - Dwight Mitchell Barns>: No. fair question. We're not scaling back, so that our margins go up. We're scaling back, because we have now reached a point where our investment profile doesn't require us to do as much. Let me explain. If you go back the last several years, we really had two main reasons to be investing in emerging markets for our retail sales measurement capability. One was we were behind. We were behind where the market was, in terms of what it needed at that moment in time. And so we had to invest simply to catch-up to what the market needed at that moment in time.

Secondly, we also had a second driver of our investment profile, which was the markets were continuing to evolve quite rapidly. So we also had to invest not just to catch-up to where the market was today, but we also had to invest to get to where the market was going to be tomorrow. Well, the catch-up portion of our investment is largely now taken care of. For the most part, where the markets are today – our measurement is up to standard for where the markets are today. But we still need to continuously invest because these markets are all changing fast and evolving. And so we're doing exactly that. We continue to invest. But now instead of two drivers of the investment, there is just the one, for the most part.

<Q - Todd Juenger>: Yeah. Speaking of where the markets will be in the future, one final question on my list for Buy before we move to Watch. The audience may have some more. The ecommerce question, right, so you think about the channel of trade that is obviously growing in different places in the world. And, in some cases, Nielsen is getting direct sales information from, I think, some of the big Chinese merchants, for instance, and then, in other places, as far as we know not yet, for instance, Amazon. So people are always interested with me where do you stand on that. How important is that you actually have access and direct participation from those vendors? What's going on with all that?

<A - Dwight Mitchell Barns>: Well, this is the fragmentation story on the Buy side of our business. And like it does on the Watch side of business, it creates opportunities for us on the Buy side. And we're playing very effectively in the ecommerce area in China, in Thailand, in India, a number of other markets, South Korea, around the world. In China, we have a strong relationship with Alibaba, of course, the big player in that market. But not just Alibaba, also Yihaodian, a joint venture with Walmart, JD.com, Suning, a number of the other dot.com retailers in the China market. We have relationships with all of the major players, representing now more than 70% of the sales that go online in the China market. So we're incredibly well-positioned there. But the key to that has been those dot.com retailers want to be a part of the cooperation model that Nielsen offers to the marketplace.

In some other markets and it includes here in the U.S., the major players haven't yet made that decision. They haven't yet made that commitment. And here, in the U.S., Amazon is the primary example of that. We still believe that someday, they'll see it as having more benefit to them to be a part of the cooperation model, but they're just not there yet. So in the meantime, what we're doing here in the U.S. is refining a way to measure online sales without requiring Amazon's cooperation.

Now if the Amazon were to cooperate, clearly, we would like that. That would be a better approach for a variety of reasons. But we actually don't need their cooperation. We have an approach that we're developing now quite actively. And we're fairly close to bringing it to the marketplace. That does offer a good view of consumers online purchasing in a way that makes it comparable to their offline or brick-and-mortar purchasing, so that we can give a total share view of the consumer in the marketplace. And so that's the approach we're taking.

Very similar to how we want to measure subscription video-on-demand on the Watch side of the business, where Netflix who is the big player. And they don't want to be measured. So they don't cooperate with us to make it easier for us to measure them. Well, okay, we wish they would. But since they won't, we still find a way. And we have a methodology now that is out there in the marketplace, where we measure subscription video-on-demand viewing by consumers, using audio signature capability, that now more and more studios and networks are signing up for and it's growing quite rapidly.

<Q - Todd Juenger>: And you just made my awkward job of trying to transition from Buy to Watch that much easier.

<A - Dwight Mitchell Barns>: You're welcome.

<Q - Todd Juenger>: Since you opened the door, let me go.

<A - Dwight Mitchell Barns>: All right.

<Q - Todd Juenger>: So on the Watch segment, similar to my comments made on Buy, what I hear from most investors in terms of controversies are worries about increasing competitive threats are sort of your mote, if you will, and then talks about a potential TV advertising decline. And if that's true, what does that mean for Nielsen? So, I hope to talk to you about those head-on.

But just sort of to tee it up, for the rest of – so the other part of my day job, when I'm not talking about Nielsen, I'm talking about the big media companies. And it's no secret that they're under a lot of pressure for various reasons and audiences are changing very fast, as you know. Man, there seems to be this big dichotomy though between one of the explanations the media companies continually give as well measurement is just not catching up. Someday when measurement gets there, it will be – you'll see we're in a better place.

And then when I talk to you guys and look at what you're doing, it seems to me that you have a lot of capabilities already that media companies are saying don't exist or so. How do you reconcile that? How do you reconcile media companies' commentary around need for better measurement versus the capabilities that you have ready to deploy as soon as they ask you to do it?

<A - Dwight Mitchell Barns>: Yeah. It's a great question. Here is the way I would say to think about it. Think of three concentric circles. The circle in the middle, the smallest of the three, is what is currently called the Nielsen ratings – the so-called famous Nielsen ratings that measures at least today just traditional television. So, live viewing of television, plus time-shifted viewing of television up to three days or seven days. That's what Nielsen ratings currently reflects in terms of viewing of content in the marketplace.

That's not enough. The consumer has moved outside of that environment. More and more viewing is happening outside of that environment. And so, we agree with the marketplace. And many of our clients when they criticize Nielsen measurement, this is what they're criticizing. Some of them are also criticizing Nielsen, the company. But I would contend most of the time what they're doing is saying that definition of the currency is no longer sufficient. It was put in place in 2006. The consumer has changed dramatically over the last nine years. That definition needs to be updated. It needs to be expanded to capture more of the viewing that's actually happening out there in the marketplace. And we agree. We totally agree. So, if you go outside of that circle, there is a lot more viewing going on.

The second concentric circle includes all of the viewing that Nielsen is measuring. And we're measuring almost, not all of it, but almost all of it today. And by the end of this year, we will, in fact, be measuring virtually all of the viewing that's happening out there. So the definition of the Nielsen rating will eventually get expanded. We're sure of it. And whether it will get expanded to capture all of the viewing in the market or just a greater percentage of it, that remains to be seen. And it's a discussion that's already underway in the marketplace with the big media companies. And everybody is weighing in, trying to figure out where they want to see the definition of the currency go. And it's not a decision that we can make on our own. It's one that has to be reached by consensus with all of the major players in the industry. The media companies, the agencies, and, increasingly, the digital players have a voice in this discussion as well. So that's that second concentric circle.

And then that third concentric circle is all viewing, whether it's measured by Nielsen or not. And, again, the difference between the second and the third circle, today, there is a difference, but it's relatively small and it's getting smaller with each passing month, as we roll out the next capability and the next capability and the next capability. In the middle part of this year, we'll begin the rollout in beta form of digital content ratings, which will be in full commercial mode by the end of September. We'll continue to expand on our ability to measure viewing over the top with either advertising supported or subscription supported video-on-demand. That will fill in more and make that second and third circle closer to one another. So that's where we are in the marketplace. The definition of the Nielsen rating, too small, needs to be updated and expanded, that discussion is underway, but we're already measuring a lot of the viewing that's happening outside of the traditional TV environment.

<Q - Todd Juenger>: Yeah. Yeah. So – and then so expanding on that probably the single most frequent question I field from investors that I talk to is, well, okay. But as you move outside of that C3 circle and get to this – now this viewing is taking place on different platforms and digital platforms. And, wow, in that world, doesn't the panel become less important, less valuable because can't you just collect all this digital data from the devices themselves or other means? And doesn't that mean that the value of the panel becomes less and the certainty that Nielsen will be the entity who has the authoritative view on this becomes weaker? I suspect you have a different view on that, but how do you respond to that point of view?

<A - Dwight Mitchell Barns>: Three questions there. So my answers are no and no and no. But the reason why I say that is, it's not that the panel becomes less valuable or certainly not. They won't become irrelevant. It's that its role in measuring audiences will somewhat change. In other words, right now or at least looking backward in time, the panel was the one and only way that viewing was measured. Going forward, it will increasingly be the panel in combination with big data sets, whether it's set-top box data, whether it's data from the digital world, and putting these two things together, so that you get the best of both worlds, the best strengths of both of those capabilities. This is the way measurement will work going forward.

So the panels will still be incredibly valuable. It's just that their role will change somewhat. And this is where our gold standard television audience measurement panel will prove itself yet again to be a source of great value to our company and to the market that we serve because it is the calibration tool that allows you to fill in the gaps and correct the biases of these big data, so that you can take full advantage of them.

We already do this by the way with the way we measure digital audiences with our digital advertising ratings metric, DAR. We used to call it OCR in our digital ad ratings. DAR leverages the Facebook user registration database, so more than 180 million people in the United States. We have their demographic information through that relationship with Facebook. But we calibrate that data set because, by the way, it has its own biases and its own incompleteness. We calibrate that with our television panel, so that it's as representative and reflective and as accurate picture of the U.S. marketplace as it can possibly be. Without the combination of those two, you just wouldn't be where you need to be.

<Q - Todd Juenger>: Yeah. Yeah. You just mentioned the partnership with Facebook. I'd love to explore that a little bit more and some of your other partnerships and just sort of maybe talk for a little bit about the digitally specific part of your Watch universe and then ultimately bring that back into the whole cross-platform universe. But speaking on the digital side, so not only do you have a partnership with Facebook, you have just in terms of recent announcements – relatively recent, I think, you have a relatively new partnership with Adobe. You have a relatively new partnership with Roku. And there's probably some others that either I'm forgetting or haven't been announced yet or something.

Talk to why are those – why are companies like that, big digital companies, choosing to align themselves with you guys. You could argue they certainly don't need help in manipulating data, right, but they clearly see value in partnering for some reasons with Nielsen. So, if you wouldn't mind just rallying through the significance of some of those partnerships and what your partners – why they're choosing to do that?

<A - Dwight Mitchell Barns>: Sure. Well, I think, what it does is it among other things highlights the importance and the value of independence in the marketplace. In other words, if you're Google or you're Facebook, you can know more about what's happening on your environment than Nielsen can ever tell you. So, you don't really need Nielsen to tell you what's happening on your platform.

However, you do need Nielsen to tell you how activity on your platform compares to what the consumer is doing on other platforms. We can provide that value to them. And if you're trying to sell advertising on your platform, you can't be a player and a referee in the same game. The advertisers don't like that. So, they want an independent party to describe the size and nature of the audiences that they're paying for in order to gain access to advertise their brand on those platforms. That's the main value that we bring to these big digital players. And it's one of the reasons why they embrace our metrics.

Now, they'll also partner with us though, because, well, we're seeking to partner with them, they're seeking the partner with us, because I think the world is just changing so fast, growing in complexity. And there is a growing sense among many players in the marketplace that you can't really do everything that you need to do by going it alone. The value of a proprietary approach, which may have been successful in the past, is getting harder and harder to succeed that way going forward. And so, I think, you're going to continue to see more and more examples of collaboration in the marketplace.

Nielsen is, I think, a leader on that front, but we're not the only one who's seeing that as the better way to proceed with your business in the world. So independence is one of the key drivers and then just a growing sense of, hey, the better model going forward is the collaborative model rather than solely taking a proprietary approach to everything that you do.

<Q - Todd Juenger>: Yeah. So I really want to avoid and I'm not going to get into sort of a roadmap discussion of different product launches and things like that, because there is a lot of them and it can make your head hurt, but there is some big ones coming up later this year on the digital side. We probably should mention a little bit between Digital Content Ratings and your newly named digital advertising ratings. Just walk us through what's rolling out later this year and why it's important.

<A - Dwight Mitchell Barns>: Sure. Digital Content Ratings will roll out in beta form in the summer of this year. We're bringing that to the marketplace in partnership with Adobe. And it's a perfectly complementary relationship we have with Adobe. In other words, we're both serving many of the same clients, addressing much of the same parts of the market, but in different ways. And the overlap between our two companies is very small. And so it's just one of those perfect collaborations.

By partnering with Adobe to bring Digital Content Ratings out to the marketplace, it allows us to do it quicker and more efficiently and at scale versus if we were trying to do it by ourself. And the reason why Digital Content Ratings is so important to the marketplace, it is a complementary metric to our Digital Ad Ratings metric. Digital Ad Ratings measures the size and nature of audiences who see ads in the digital world. Digital Content Ratings will measure the size and nature of audiences who view content in the digital world.

You'll use Digital Content Ratings as a metric to plan your advertising; in other words, you'll say, if I go to this site or this site or this ad platform, I'll be able to find these kinds of people. And so, you'll plan your advertising spending, if you're an advertiser, using Digital Content Ratings as a metric. Then you'll execute that advertising program and you'll use Digital Ad Ratings to see if what happened is what you had intended to happen. And you'll actually transact with the publisher on the basis of what Digital Ad Ratings is measured.

So Digital Content Ratings is a planning tool. Digital Ad Ratings is a transaction tool. And the ideal system in the marketplace is when you'll have two metrics, Digital Content Ratings, digital ad ratings, that are designed to be perfectly compatible, perfectly complementary of one another. So that's what we'll bring to the marketplace with Digital Content Ratings a little bit later this year. Meanwhile, our digital add ratings metric is out there all by itself, with no complementary partner supporting its growth and development in the marketplace.

And here is the cool thing, from my perspective. Despite that, it's still doing really, really well. So, the data Digital Content Ratings shows up – and it will make our Digital Ad Ratings metric that much stronger, that much more valuable and I think we'll really see it continue to take off and continue to grow at a very strong clip. But it's already performing incredibly well and has very strong adoption and is highly preferred by the vast majority of the top advertisers in the U.S.

<Q - Todd Juenger>: Yeah. One other product line I'd just be remiss if I didn't at least comment on, because it's important in growing really fast, I think, is I think what you now call your marketing effectiveness line of products or businesses – services. And actually just having just concluded the broadcast upfront, so there's a lot of talk about better planning and targeting and I think that product is actually mentioned by a few of the big companies. So, remind us what that's all about. What is this marketing effectiveness business of yours, which, I think, you've said is growing at double-digits? What role does that play in this whole mix?

<A - Dwight Mitchell Barns>: Yeah. It was up more than 20% in the first quarter of the year, in fact, but growing double-digits fairly consistently over the last several quarters. This is the area where we combine both our Watch assets and our Buy assets. So, we know what consumers are watching in the marketplace. We know what sites they're going to in the digital world. And so, therefore, we have an idea of what ads they've been exposed to. And then, we look at what they're purchasing in the marketplace to see if those ads are not only reaching the right people, but delivering the right business outcome. Are they driving increases in sales?

And so in our marketing effectiveness practice, we combine these two assets. And we provide that view of performance, return on advertising investment through the marketplace. And that's what these clients are tapping into. On the analytics side, whether it's in the Upfronts with a lot of the big media companies, for instance, ABC featured a product in our marketing effectiveness, we called Nielsen Buyer Insights. They have an interactive dashboard that they make available to their customers, advertisers and agencies, so they can see how their ads are likely to drive increases in sales for their brands.

CBS took a number of capabilities in our marketing effectiveness practice. And they put them together in a system. They called it Campaign Performance Audit. And they offer that entire system to their big advertiser clients, so that the advertisers again can see the business impact of their ads on CBS's properties. And then, finally, NBC also tapped into our Nielsen Buyer Insights and some of our other analytics capabilities that fall within this area.

And it's all a consistent drive by media networks to show the ROI of advertising on their properties, which appeals to the desire of CMOs across almost every company out there in the marketplace to drive more efficiency, trim more waste out of their advertising budget, so that they get a higher return themselves. And so we're just a perfect company that has assets on both the Watch and the Buy sides, the core measurement assets, the strong analytics capabilities that enable people to bring these together and it drive that ROI. And, yeah, it played very, very well at the Upfronts.

<Q - Todd Juenger>: Okay. So you can see – thanks to all of you who are taking us up on the offer for questions. I've got a huge and growing stack here, so – which is great. So I want to get to these quick. I have like two more of my own and then I'm going to take the liberty of forcing in here. And then I'm going to turn to what our audiences may have.

The last one on Watch is we can't have a discussion – a year or two ago, I think, you remember now. I guess a year ago, you closed it. You bought a pretty big new addition to your Watch business, which was Arbitron, right. So, we should probably at least ask you how's that going? How does that fit into all this, measurement of audio? And is that asset performing as well as you had hoped when you acquired it and how does that fit in?

<A - Dwight Mitchell Barns>: We're very happy with it. It's right where we expected it would be on a number of fronts. First, it's just a core business. It's solid, growing, performing well. Second, we saw opportunity for international growth. We said it was going to take several years, because of the way these contracts for radio audience measurement tend to come up every few years in the key markets around the world. But we're already starting to see some progress in our ability to leverage assets that came to us through the Arbitron acquisition. So, we had a recent win of radio audience measurement in Turkey. We've had success in renewing our radio audience measurement businesses in Malaysia and the Philippines. And you'll continue to see others as time goes on.

And then, thirdly, we also wanted to bring to the radio business here in the U.S. better analytics, so, they can start to show the value of advertising on radio. It's something they've long wanted, but didn't really ever get enough of those kinds of analytics capabilities. And so, we've run a wide range of analyses. Many of them are projects, R&D projects that we've been made available to the market to show the return on investment of radio advertising. The most recent one showed us 6 to 1 return on investment and showed that radio advertising, used in the right way, compares very favorably to advertising on other media and other platforms. And so, yeah, we're making great progress in this area.

The one area that still requires some additional work before we crack it fully is digital measurement. Now, we have an SDK, the same one that we use for digital video. We made it available to the audio world. More than 30 stations have now incorporated that SDK in their mobile apps. And so, we're now starting to measure digital streaming through apps on mobile devices for some of these radio broadcasters. And so, they are at least getting the data, but it's not yet offered in a fully syndicated format. It's not included in the buying systems. And so it still hasn't seen its full potential. And, ultimately, the issue there is the key players in the industry have to agree on how it will be reported and, therefore, included in the buying system and that debate continued, right.

<Q - Todd Juenger>: All right. And this is a investor conference, so we can't move off my page of questions without having at least one sort of CFO type question for you. So, put on your CFO hat please.

<A - Dwight Mitchell Barns>: Got it.

<Q - Todd Juenger>: I had this question that actually has come in through a couple times already. So, back to your business and your financial performance [ph] and your front of statements (40:18), people would love to know and I'd love to know what work you're doing on sort of free cash flow conversion, right. So, it's something I've heard before, right. The company – you just go down through the P&L and then you have the cash flow and there is GAAP. The GAAP is accordion up and down. I know people would love to know, are you making any progress to try and improve the conversion of free cash flow? And how should we think about that?

<A - Dwight Mitchell Barns>: Definitely, we are. We know we need to do better on free cash flow conversion, no ambiguity about that whatsoever. In fact, if you were to come to my office, a big white board in my office and I have a lot of the most important things. I always want to keep front and center for myself on the white board, including free cash flow conversion and all of its component parts with a circle around the ones that need the most attention, in order for us to show the improvement that we want to show to the marketplace. And the two key areas where we need to improve in order to drive better free cash flow conversion, first of all, restructuring.

We need to reduce the restructuring that shows up in that number. And Jamere Jackson, our CFO, and I are fully focused on this and driving steady progress, driving down the restructuring component of our free cash flow conversion number. And then the other is working capital. We know we can do better. We need to do better on working capital. A lot of it is traceable to our business profile right now, the way the business is shifted and grown and developed in recent years. But nonetheless, hey, that's just a diagnosis. That's not an excuse. We know we can do better. We're driving progress on it. And you're going to see that component contribute to improvement in our free cash flow conversion as we go forward.

<Q - Todd Juenger>: All right. Now on to the – both most fun and hardest part of the job of the moderator here, which is I have an embarrassment of riches in terms of questions from the audience. And I wish I could just ask every one of them one-by-one. Obviously, I can't do that. So what I'm trying to do is find the most popular topics here. So let me – so I found a very big popular topic here. So let me tee that up while I keep looking through.

Not surprising here, when you think about how your stock is valued and the future risk. A lot of people wanted to hear more about competitive threats and hear more and more from this, on both sides of your business. So we talked about a little bit on Buy. I think there's couple questions here. People would like to hear a little bit more about it. Somebody specifically is asking about Euromonitor, which you didn't mention and IRI, a little more on that. What are the specific barriers to entry to keep these guys from becoming bigger competitors to you? And, well, I'll pause at that, because then I have the same set of questions on the Watch side, so first start with Buy.

<A - Dwight Mitchell Barns>: Sure.

<Q - Todd Juenger>: Say a few more.

<A - Dwight Mitchell Barns>: Well, Euromonitor is a good company. But they're not really a direct competitor of ours. They're more complementary than they are competitive. And we often will see our clients take information from both of them and put them together and get a more complete picture. And a lot of what they do is outside of the verticals in which our business is focused. And so, that's what I would say about Euromonitor, but they do great work.

IRI is a more direct competitor for our Buy side of the business. And they have measurement capability – retail sales measurement capability. But here is the way I would think about it. If you look at the Buy side of our business, there is a lot of competitors who provide analytics. And there is just so many different flavors, whether it's a guy with a laptop or whether it's a boutique company that's developed over the years or whether it's a bigger player like an IRI or other. So, analytics is very competitive, very crowded space. Then there is measurement, analytics separate from measurement. Measurement, there are only a few companies that operate in that space. We're the biggest by far. IRI is the second biggest. But measurement is relatively smaller group of competitive set.

And then there is a third layer, which is companies who can combine analytics capabilities and the core measurement capabilities and do it systematically and have those analytics flow directly into our client systems and do with the breadth of portfolio that compares to Nielsen. And in that category, there is really one company and that's us. So our opportunity is to deliver on that promise – that last component of that promise. Leverage the breadth of our analytics capabilities, systematically link it to our core measurement service, and have it flow directly into our client systems, so that the information arrives exactly at the right time, in the right form, ready to take immediate action on by our clients. We're already delivering on this potential in some parts of our portfolio. But as we press further and further in that direction, and we will, then we'll further distinguish ourselves, differentiate ourselves and really put ourselves in a class all by ourselves on the Buy side of our business.

<Q - Todd Juenger>: Excellent. On the Watch side, I'll try and do a better job of actually asking a question here. Part of my problem is there's so many of them. I'm trying to consolidate. But rather than just have you comment, I think, on specific company competitors, I think, actually there is more questions better asked. The potential changing nature of measurement away from age/sex demos to more targeted impressions-based video advertising and first-party data, third-party data from clients themselves, networks acquiring their own data or cable companies providing their own data to networks is – if I could capture a couple of these questions, you're basically saying now that companies have more data of their own and more data from some of these places, doesn't that at least mean maybe they need you less. How do you respond to that?

<A - Dwight Mitchell Barns>: No, I don't think it means they need us less; it just means we're not the only thing that they need. And, by the way, we support it. We think it's great. It will be great for the market that we operate in. The better the market we operate in, the better are the opportunity for our business.

Here's what I mean: if you use Nielsen's measurement capabilities and you combine it with other third-party data sets or first-party data sets, your own CRM data set if you're an advertiser or a publisher, you're going to have more granularity, more precision about the audiences either that you're trying to reach or that you're trying to sell access to. Greater precision will drive up higher relevance, greater value, and that will increase the value of advertising. Every time the value of advertising goes up, our business gets better. And so we fully support the direction. We're, in fact, making moves strategically and through M&A to fuel this opportunity that we see in the marketplace.

One of the acquisitions we made recently was an acquisition of a firm called eXelate. eXelate operates exactly in this space. The way their business works is they kind of sit at a big intersection. And through that intersection, hundreds of data streams flow. And they sit atop of all of those data streams as they come through that intersection and they integrate and connect all of those data streams, and then they feed them back out to all of the interested parties in the marketplace in the form of audience, segments, so that people can find the desired audience that they want to reach with their brand with greater precision and less waste than ever before. And you can even add your own data set into that eXelate environment.

So we acquired eXelate in order to enable this trend we see in the market. Now, key set of data that flows through that intersection as well are many Nielsen data sets. And so, we love this trend. Again, it increases the value of advertising, because it increases the precision and drives up the return on advertising in the market. And the more that happens, the better off we are.

<Q - Todd Juenger>: Yeah. It's a perfect launch pad for this next cluster of questions which have to deal about – in a world where consumers are also using more non-advertising support sources of videos, such as subscription video-on-demand, and whatever that might mean for ad revenues, in a world where there are some scenarios that people believe where maybe ad revenues will actually start to decline, at least for the television side, maybe they grow up at digital, so there could be a change in mix of ad revenue.

<A - Dwight Mitchell Barns>: Yeah.

<Q - Todd Juenger>: Perhaps even a – perhaps, in some scenarios, even more efficiency leading to a decline or at least a decline in the growth rate of ad revenue and more consumption taking place in non-advertising environments, which is a question, there's a lots of questions in there, but so, let me try and ask some directly. So, if ad revenues fall, what does that mean for you? And what are the economics of you measuring non-ad supported consumption?

<A - Dwight Mitchell Barns>: Well, if ad revenues fall, that's not good for our business, be very upfront about that. But, I think, in the long run, that's not likely to happen. And if you look at the dynamics that are in play out there in the marketplace right now, the mix is shifting. And in the short run, that might put some downward pressure on specific components of the advertising marketplace.

But if you looked over time, again, because of big data sets and because of better tools than have ever been available to the market out there, the precision, the granularity of advertising, the value of advertising is going to continue to get better. And as the value of advertising increases, the logical thing to expect is that more money than currently is being spent on other things will find its way to the activity of advertising. More money on advertising, less money on price promotion. More money on advertising, less money on something else. So, I think the long-term trend is still very positive for the value of advertising.

If you look at a lot of what's happening in the media world right now, I'd say a lot of that is about actually downward pressure on the subscription side of the model. If it's Netflix, it's putting downward pressure on the monthly cost of a cable bundle. If it's skinny bundles, if it's over-the-top, putting downward pressure on the ability of the MVPDs that continue to raise the monthly subscription rates on that side of the business. So that's the way I view it. I think the value of advertising will continue to grow. I think the medium to long-term expectation that we should have is that advertising is going to continue to be very healthy.

<Q - Todd Juenger>: Yeah. Just looking at the clock. We can try and pick one more question here and then save some time for some closing remarks for you. Couple questions, back to sort of the CFO, for this investing crowd, couple questions here. Just given the nature of your business model, the price of where your stock is today, which I suspect you think is rather low, and the leverage that your business could take, how do you think about the proposition of borrowing a bunch of free money, buying back a bunch of stock and sort of recapitalizing the company? One part of this is watching you just do another LBO, given your business and where it stands.

<A - Dwight Mitchell Barns>: What we think about is do we have the resources and the flexibility to pursue the growth opportunities we see in the marketplace? That's where we start in terms of thinking about our capital allocation policy. So when we look that, we think we have all the flexibility that we need right now where we are. Now we evaluate it repeatedly and we're always updating our thinking on this front. In fact, it was about a year ago, a little more than a year ago, where we did make a change in the way we think. We had been, as a company, heading toward investment grade in terms of our long-term net debt leverage.

We had a goal to get to an investment grade. We came off of that. And we said no, we're going to – our long-term net debt leverage ratio, we're going to target the three times area, because, in that range, we still have all the flexibility that we think we need as a business. And we already get pretty good covenants on our debt at that level. And that was the level that we saw is giving us the flexibility we need to pursue all the growth opportunities in the market. As long as we continue to think about it that way, that's where we'll stay, but it's something that we revisit. I think all good, smart, healthy companies revisit that repeatedly. And they're always revaluating whether they should make a change.

Todd Juenger

Yeah. Great. Let me say this because this was a fantastic list of questions. Thank you all for participating. So if you didn't get your question asked or if you feel like I didn't ask it well, please just follow-up with me or the Nielsen IR team. They will be happy to answer your questions, I can assure you that. But, Mitch, we have like a couple minutes left. I'm sure you'd like to wrap this all up with some parting thought.

Dwight Mitchell Barns

Sure. Thanks for the opportunity. And, again, thanks everybody for your interest and for joining us this morning. The most important thing happening in our company right now is total audience measurement, measuring that consumer of video content primarily across every screen device and platform, not just traditional television, but wherever they are going to consume that content. We have the measurement framework in place and we're increasingly building out that framework. And by the end of this year, we'll be measuring all significant forms of viewing of video content for the big media companies and the big advertisers out there in the marketplace. That's the path that the Nielsen Company is on.

The Nielsen rating itself needs to be redefined. We agree. A lot of the noise in the marketplace is agreeing with us. We're agreeing with each other on that point. But the broader framework is where the focus should be and that is our top priority. Meanwhile, on the Buy side of our business, we continue to enjoy the payoff from these investments we've been making in emerging markets over the last several years. And it's supporting the strong double-digit growth in our business. And that's going to continue for as long as we can see into the future.

These are just two things, but two of a number of things that I see as I look across our company and our business that just keeps me incredibly fired up about the future of our business. I can add to it the talent, the leadership team, and just the overall energy level and environment within our company. In fact, I was interviewing somebody yesterday, who came in to interview with us for a senior position at our company. And his comment at the end of the day after he met with many of us was this is a totally different company than what I perceived to be the case looking at you from the outside.

The optimism, the energy level, the amount of innovation happening inside your company, how fired up you guys all seem to be about what your company is doing today, where it's going down the road in the long-term future and potential for a business like yours. And it was the best thing I could have heard, because it's exactly the way I think about it as well. So, I hope we've been able to share a few of those items and give you a little bit of a sense for the way we view the future of our company. And I look forward to talking with more of you as we go forward in the weeks ahead. So, thanks again.

Todd Juenger

Thank you, everybody.

Dwight Mitchell Barns

Thanks a lot.