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MANAGEMENT DISCUSSION SECTION

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

Hi. Good morning. I hear the hush coming over the room as my mic turns on. So, we're going to get it started. Good morning. Kicking things off here. For those of you who are confused, looking at the stage, wondering where's the Media Analyst Todd Juenger is? And instead, who is that guy wearing a tie? It is me, Todd. This is your one-week a year – you have a chance to see me with one of these things around my neck. So, there'll be photo ops later. We can do all that.

The man next to me needs no introduction, of course, so Mitch from Nielsen. Thank you so much for being here, again.

Dwight Mitchell Barns
Chief Executive Officer & Director, Nielsen Holdings Plc

Thanks for having me. Good morning, everybody.

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

It's always a pleasure. One just quick procedural point before we dig right into it, which is sort of our old school Q&A method here. There's no cards on the table. I'm sure you figured this out, but since it's early in the conference, I'll just remind you. Please, whatever you want to ask Mitch, write it down on the note cards. We'll have people circulate around. They'll hand those up to me. And we'll try our best to get through what everybody wants to talk about.

QUESTION AND ANSWER SECTION

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

Q

I have a few things I'd like to talk about. Let's start off as we usually do, just at the top. So, what's going on at Nielsen these days? And what are your sort of key strategic priorities that you're wrestling with for now and the future?

Dwight Mitchell Barns
Chief Executive Officer & Director, Nielsen Holdings Plc

A

Well, the long-term strategic priorities for us at Nielsen remain the same, which is our business is measurement business. We've been in the measurement business almost since our founding back in 1923. And we remain very focused on measuring the consumer, focusing on the consumer, what they buy, and then what they watch. And so, that's still what our long-term focus is.

And our strategies are all built around doing that in a world that continues to fragment. Audiences fragmenting in the world of media, and the retail environments, and consumer behavior fragmenting on the fast-moving consumer goods side of our business. And so, our focus is on following that consumer, as their worlds fragment. That creates more things to measure for us and has been a source of growth throughout our entire company history and will continue to be going forward.

More nearer term, our two main strategic priorities. First, on the Watch side of the business. It continues to be our Total Audience Measurement system, driving adoption of that system all across the media ecosystem from the media owners, the media agencies, and the advertisers, and supporting the uptake, the adoption of Total Audience Measurement, which covers all screens and platforms as content is consumed across a growing number of platforms by people in those audiences. So, Total Audience is still the top priority on the Watch side.

On the Buy side, our priorities are the continued development and then subsequent rollout of our Connected System initiative, which takes our core measurement business, and attaches to it in a highly-integrated, highly-automated manner, the point solution analytics that answer the pricing questions, the assortment optimization questions, and other associated questions that our marketing clients and sales clients at the fast-moving consumer goods companies tend to have.

In the past, those were all offered as separate solutions. Connected System brings them together into one overall system and offers a lot more speed and efficiency. That's number one. And the second thing on the Buy side of our business is all about coverage. As the consumer continues to fragment, more and more of their purchasing is going to specialty retail outlets, and in particular, e-commerce platforms. We have to expand our measurement coverage to incorporate the sales that are occurring on those platforms and in those specialty outlets, so that we can give complete coverage to the consumer. And so, we're investing a lot of our time and resource against those priorities.

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

Q

Yeah. Let's just stick right up on that. And certainly, in a financial analytic audience, the Buy segment, in particular, has been a subject of focus and discussion lately. So, just carrying on with that. So, as what you do relates to your own Nielsen financials and growth rates, the business has been growing for you as it has historically. I think that's fair to say. And so, what's underlying that? So, what has caused the slowdown for now in sort of your top line in Buy, I think, particularly in the U.S.? And how do you see that returning to growth? I'm sure you do. And what sort of timeframe?

Dwight Mitchell Barns
Chief Executive Officer & Director, Nielsen Holdings Plc

A

Sure. Well, our Buy business, if you break it down into its various parts around the world, U.S., Europe, other developed markets and emerging markets, our business is growing on plan in every part of the world except for one, the one you called outside quite rightly, and that's the U.S. And the softness – more than softness, the decline, a significant decline in our revenues of late in the U.S. is really largely a reflection of what's happening in the end markets. And I'm sure many of you who follow the consumer packaged goods industry in the U.S. hear it from those companies as well.

What we've seen happen in the United States consumer packaged goods market, over the past, call it, two years is eight or nine quarters of growth decline. If you just graph the growth trends, they've been declining every quarter. And even in the most recent couple of quarters, you've seen even negative growth rates. And that's on a volume basis, not on a stale dollar revenue basis, on a volume basis. So it's really a very tough situation out there in the end markets. And you see that reflected in the way our clients are responding and the way they're spending back on services, like the ones we provide. Zero-based budgeting sweeping its way through a lot of the big companies that we serve. And in fact, that's a double whammy that we suffer in the marketplace.

The strength of our client base is the largest consumer packaged goods companies. We have a very high market share with the big global companies. And that happens to be the part of the market that is having the most difficult time right now in the U.S. consumer packaged goods marketplace. The, smaller, more local brands and local companies, they're doing relatively well. But the biggest brands and the biggest companies, those are the ones that are struggling the most. And the bad news for us right now is that, that is the strength of our client base. Almost every single one of those big consumer packaged goods companies works with Nielsen. So, you see that also reflected.

And the third dynamic out there, in addition to the volume growth decline, there's a lot of pricing pressure. And I'm talking pricing pressure in the marketplace for the brands that these companies are selling. You see it reflected in the retail environment, particular as more and more consumer purchasing goes to e-commerce. That's creating some pricing pressure. You see, the growth in the retail footprint from discount retailers like Aldi and Lidl, who really compete primarily on price, and in fact, have a very high percentage of the products in their stores that are private label, so positions primarily on price. So, you see that threat coming into the market. Clients responding to that, and that also flows back into our business. So, that's what's driving the decline primarily in the short run.

What we're doing to work our way through it is, firstly, we're making sure we reset our cost base. Second, we're doing everything we can to help our clients, as they're trying to reduce costs in their business. And in some cases, importantly, this causes us to help them with lower cost of our services in the short run in exchange for benefits in those contractual relationships longer term. We see our contracts extending, as we give them some price relief in the short run. And we also see our cost to serve, in terms of the requirements those clients are asking for in our contracts, our cost to serve is going down. So, short run, it's a lot of pressure; long term, we see some benefits in terms of the way we're responding and working with these clients and responding to it.

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

Q

Yeah. Just to sort of tie this off, if you don't mind. The question I get almost on a daily basis is what will bring an end to this decline? And is there some sort of bedrock level? Is it a matter of like cycling through all your contracts with all your clients until sort of they reset at a base that works for them? And if that's what it is how much longer will that be? Are we already there; or is it a matter of you need the end markets turning around; or is it the Connected System needs to kick in? Is it some element of all of that? Any sort of way that we can help investors think about finding a bottom and then...

Dwight Mitchell Barns
Chief Executive Officer & Director, Nielsen Holdings Plc

A

Where does it turn back?

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

Q

Yeah.

Dwight Mitchell Barns
Chief Executive Officer & Director, Nielsen Holdings Plc

A

Yeah. We don't need all three of those things to happen, but we do need at least one or two of those three things to happen. The Connected System is the one where we have the most control over our destiny in that, look, even if the growth rates don't return in the U.S. market, the Connected System will offer a lot of important financial benefits. It offers a lot more speed and efficiency to our clients. It's just a lot less people-intensive to take advantage of the data and the analytics that flow off of our Connected System platform. So, their costs to use our data go down, our costs to provide that data also go down. Because the Connected System, as compared to the way we've done business historically, it's been a professional services model for Nielsen. Very people intensive to help the clients extract the full value from our measurement data and from our analytics product. The Connected System removes a lot of that manual requirement to realize the value from our services, and so, our costs go down, at the same time our clients do. So, that brings some relief.

The second thing that would be positive, which we don't control, is for clients to start to invest a lot more in their new product innovation. And this is one that's a little bit at odds with their short-term zero-based budgeting pressures. When you're going through lots of zero-based budgeting, what doesn't survive so well in most companies is the investment in new product innovation programs.

Well, new product innovation, as I'm sure all of you know, is the key driver over the medium and long-term of top line growth. And so, if you're pulling back on new product investments in the short run to meet your short-term budget pressures, that'll show up in the medium to long-term. We need them to get back to new product innovation. By the way, that'll help us in the long term and in the short term. In the short term, it'll help us, because we have the world's leading new product testing service called, BASES, both in the U.S. and also all around the world. And so, we want them to be investing more in new product testing and new product innovation, because it's going to be good for their business, and we know it'll be good for our business.

And then, I think, Todd, yeah, as far the contract cycling through, we're about midway through that right now. And we still have a little bit more ways to go. And you're right, as those contracts reset, that gives us a better base from which to grow going forward. I think, look, we headed into 2017. We said it's going to be a challenging environment. We called it a transition year. We're continuing to plan for a challenging environment, as we head through the rest of this year. And as we start our planning for 2018, we're going continue to view it as a challenging environment in 2018 as well.

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

Makes sense. You might have seen a smile clipped to my face when you mentioned BASES. So, 20 years ago, when I worked at P&G, and I think you were working at P&G...

Dwight Mitchell Barns
Chief Executive Officer & Director, Nielsen Holdings Plc
A

Yeah.

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

... I was a customer of BASES. So, somewhere in your database is some history from some initiatives I worked on a long time ago. Glad to see that...

Dwight Mitchell Barns
Chief Executive Officer & Director, Nielsen Holdings Plc
A

250,000 new products in that database. It's a big one, yeah.

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

You mentioned Connected System a few times. So, thank you for proactively sort of taking this through a little bit of what it is and what the benefits are. Can I just round it off a little bit if you could talk through, like what is its development process and timeline? Do you got a bunch of customers you're working with right now to develop this? What are the milestones, if there are any, like when is it done?

Dwight Mitchell Barns
Chief Executive Officer & Director, Nielsen Holdings Plc
A

Well, we are working actively with what we call our charter clients. Right now, there are five charter clients, a couple in the U.S., a couple in Europe. And they are working with us very closely in the initial design of this system. These are clients in, call it, the midmarket range. So, we're not starting with the big clients, and then have to figure out how to downscale it. We're starting with the center of the market. And we know how to scale up and scale down from there much more easily. These charter clients now have their own data that they are seeing through the Connected System and using the apps that give them access to the measurement data and the analytics. And their feedback's been tremendous, really, just absolutely tremendous.

In fact, there was a presentation given to one of the charter clients in Europe last week. And this is typical of the kind of response we're seeing so far it's where a couple of the key individuals from the client are in the room. They're seeing the latest version of the Connected System. We're demoing that for them, giving them a chance to put their hands on it themselves.

And this is what happened in this most recent example. They're testing out some of the new features and functionality, and they basically stopped the meeting and said, it's incredible. We got to bring more people in. People are not going to believe this, like what this can do. Because what they're seeing is, it's click, click, click, boom. And what appears on the screen is what would have taken weeks, possibly months in the past in terms of understanding what's happening with their business, why it's happening, and some initial indication of what they should do next. And it's almost instantaneous to them.

And its perfectly designed for each of the functions or roles that key leaders at the client serve. So, the sales person has a set of apps specifically designed for the questions that are important to a sales person. The marketing person, a different set of applications. If you're in the finance function, or if you're in the market research function, we've designed apps specifically for each of those key user groups, so it's a very personally adapted and personally based system. And that's why it generates the kind of response that it does, because the speed and the specificity is very much on mark. So, we're thrilled with this response.

What we'll do now, we'll have those clients go to live data, and they'll start running their businesses off of it. And as we get through the rest of the year, we're going to start bringing more clients onto the platform. We set a goal at the end of last year to have an additional 20 to 30 clients engaged with the systems by the end of this year. And we're still well on track to do that.

Just note though, that this is a big change management process for the clients. This is not an incremental change. It's a very big change, both for us in terms of its development, and for them, in terms of how they use it. And so, the analogy maybe that would work is think about when somebody's learning to ride a bike. At first, they totter a little bit. Maybe they need training wheels, maybe they need mom or dad to run alongside the bike. And it looks like it's very fragile encounter.

And then fast forward, just a little bit of time, and next thing, the kid's riding all over the neighborhood. But that initial encounter with the bike is one that can be a little bit delicate, and so that's the process we're in right now with a lot of these clients. And there's tons of enthusiasm for which clients will be in that next wave of 20 to 30. We have far more demand than we have the ability to supply them.

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

You mentioned among strategic priorities, coverage. And e-commerce has been one that's been particularly in some conversations. What are the multiple paths that you could pursue to get better coverage, particularly in the U.S., of e-commerce. So, I think, put in other places, like in the world, like China, as an example. I think the situation of the data inputs you get is very different. The leading e-commerce platform here, Amazon, doesn't yet cooperate in terms of sharing data with you, I don't think. And so, in absence of that, what do you do?

Dwight Mitchell Barns A
Chief Executive Officer & Director, Nielsen Holdings Plc

So, what we're doing with respect to e-commerce, and what we're starting to gravitate to, in fact, across all channels, even offline is sourcing our data directly from consumers. Right now, for the core part of our measurement business, the offline measurement that we provide to the consumer packaged goods industry, we source data at the store level. So, the stores share their retail sales for the day, for the week, for the month, we aggregate that across all stores, and we create our measurement products, which provide market share, and pricing, and sales information to all the clients in the industry. But it's all at the store level.

E-commerce is different, because everything is measured at the individual consumer level. And as we source e-commerce data from e-commerce platforms, that's the way we prefer it. And as we see that data, and as we realize the analytical power of that data, and where the market's going forward, we want to source all of our data ideally at the individual consumer level. Not instead of the store level data, but certainly, for a long time, alongside that data. Bring the two data sets together to kind of leverage the strength of each of those sources and have the best of both worlds. So, that's where we see things going, driven by the shift to e-commerce.

And then our ability to cover e-commerce, we feel pretty good about where we are in the United States and in several other key markets around the world. We're in 11 key markets, where e-commerce plays a significant role in fast-moving consumer goods right now. In U.S., we launched our e-commerce measurement capability broadly on April 4, so fairly recently. But we cover about 90% of sales on e-commerce platforms in the consumer packaged goods industry right now. We're doing it at a fairly high level, and so the next step is to add more granularity. So, you can break it down into individual SKUs and individual parts of the country at a specific channel of trade, if you will. Adding that granularity will be the next step, but we already give the broad level of coverage with a high-degree of quality and accuracy.

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

Q

Yeah. Moving from sort of channel to geography, let's talk about the fastest-growing part of your Buy business. So, what's going on in Emerging Markets, right? We've seen high-single, sometimes double top line growth there. What's the appetite from your costumers there? What's the development – what's the situation going on there?

Dwight Mitchell Barns
Chief Executive Officer & Director, Nielsen Holdings Plc

A

First quarter this year, our Emerging Markets business got off to a great start. Growth was about 10%. That's a step up from where we were in the last couple of quarters of 2016. And it's not because the end markets have necessarily gotten better. If anything, maybe the end markets are about the same, or maybe growth from a GDP perspective has even tailed off a little bit in some of the key emerging markets where we do business.

But our business is really performing extraordinarily well. And it really is a reflection of the fact that while we're present in these markets now for a number of years, we're still relatively underpenetrated. We still have so much white space to fill in, and in particular, where we see really strong growth opportunity continuing is with the local companies in these markets. So, China, India, Turkey, Indonesia, Brazil. We, of course, are working with the big global companies in these markets. We grew 8.6% in the first quarter with the global companies. But we grew 13.3% with the local firms in these same markets in the first quarter of year. And [ph] that's the work (19:59) where we're really under penetrated.

And so, as our leadership in these markets has shifted from foreigners – like I used to be in China, I was a foreigner – to local leadership, we've been able to leverage that to drive a lot more growth and strengthen our business with the local companies, and you see that lifting our Emerging Markets business. It's just one of the strengths of our Buy business at a global level. I know our U.S. business doesn't look pretty right now. I'm forced to say it. I'm not going to sugarcoat it at all.

But at a global level our Buy business is loaded with strengths. We have the highest market share by far at a global level. We're in 106 markets. That's five times more than our next nearest competitor. That means we're in 80 markets, where we're really the only full-scale provider of sales measurement services. We have tons of intellectual properties. It's only going to grow in value going forward. We have a very diversified client base and extremely high market share with the global companies. You just go down the list. This is a business that is stacked with strengths, and that's despite what we see in terms of the softness right now in the revenue growth in the short run. But I don't want anybody to lose sight of the strong fundamentals in this part of our business. And sometimes that's easy to do, because when we're talking with many of you, we spend so much time talking about the Watch business, historically, not so much time, historically, talking about the Buy business. So, I just think it's important for us to call out the fundamental strengths that this business has had in the 84 years we've been in this business and continues to have. We have tremendous advantages.

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

That seems like a perfect transition point to sort of move on to the bigger part from a profit-generating spend of your business, the other segment, the Watch segment. I'll remind – I see some people writing questions. So, we're moving onto Watch, but if – for those of you wanting to ask, obviously, write it down and get it up to me.

So, on sort of the media measurement, Watch side of the business. So, you mentioned Total Audience as a strategic priority in driving adoption of that. So, let me ask you. How's adoption of Total Audience progressing?

Dwight Mitchell Barns
Chief Executive Officer & Director, Nielsen Holdings Plc
A

It's going exceptionally well. I was here two years ago with you at a different location, and you probably recall what happened.

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

Yeah. It is the Waldorf, but yeah...

Dwight Mitchell Barns
Chief Executive Officer & Director, Nielsen Holdings Plc
A

Yeah, it was at the Wakldorf. And at that time, we were just beginning the rollout, and I was giving my optimistic view of where we would be. And then I was followed in the next session by one of the CEOs of one of the major media companies, who had listened in on the prior session. He then followed me by expressing, in contrast to my optimism, he's pessimist, for how we would do in terms of executing on our plans. And then when I was with you again a year later, I said, we did everything I said we were going to do. Even I'm surprised. The market also was surprised. And then here we are now, another 12 months later, and we've just continued to execute extraordinarily well.

The C3/C7 currency metric that the television industry has historically traded on has been expanded now three times the definition of that metric to incorporate more and more the viewing: out-of-home viewing; viewing on-demand, when the ad load is the same as the linear broadcast. And then also viewing on digital platforms when the ad load is the same as the linear broadcast. So, we've expanded the definition of the historical currency, just like we intended to do.

We haven't expanded it to include everything yet though, because, still, a lot of the market trades on what we call dynamically inserted advertising, which is different than traditional television. And so, for that part of the market, we have our Digital Ad Ratings metric, launched back in 2011, which has grown in adoption steadily now over the past six years. And we cover that part of the market with Digital Ad Ratings, and so that has emerged as the standard for video on digital platforms in the U.S. So, our expanded C3/C7 currency metric, the Nielsen ratings, if you will, continues to shine in market. And then Digital Ad Ratings has emerged as standard. We feel great about the adaption of those two, which are about measuring the advertising side of the marketplace. And both of those are key components of our Total Audience system.

On the content side, that's where we still have more progress to be made. Digital Content Ratings, we syndicated in the September timeframe of last year, and it's still growing. And then Total Content Ratings that Digital Rontent Ratings rolled up to, we syndicated the publishers also last year. We had the commercial release earlier this year. There's been some fits and starts associated with that. And as we work our way through the Upfronts and get on the other side of the Upfronts, we'll make some decisions at that point in time in terms of where do we go next with syndicating that particular component to the entire marketplace. But overall, I'm thrilled with where we are. And it shows through in our financial results in the Watch business as well.

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

Q

Yeah. Which is just how I was going to follow that on. So, certainly, in an investment community audience, a lot of – the natural next question is, okay, as that adoption progresses, how does it influence how you get paid? Is there incremental opportunity from existing customers, from new customers? Is it more about making sure you continue to get renewals from your big customers that keep the business growing? How does this affect your revenue function as adoption progresses?

Dwight Mitchell Barns
Chief Executive Officer & Director, Nielsen Holdings Plc

A

Positive. With the big media conglomerates that we've traditionally built our business around this Total Audience system, where we're now covering not just traditional television, but all the digital platforms as well, with measurement that is comparable across all those platforms, so they can roll it all upand get a total view of the audience.

That's what give us permission to continue to renew these contracts with annual price increases similar to what we've seen traditionally in this business. If we didn't have these digital measurements, we wouldn't have that permission to continue to expect growth in the size of those contracts in the form of those annual price escalators. So, that is a huge contribution from these digital components of our Total Audience Measurement system. We feel great about that.

And then the second thing, the second area where it has been generating incremental growth – look, we used to be fairly weak player with the digital publishers in the marketplace, the Google, Facebook, Yahoos of the world. And now, that is a very strong and growing part of our business. Most of what Total Audience brings is just almost entirely incremental to our business. Google has emerged now as one of the larger clients for our Watch business in the U.S., and in fact, globally. And we continue to see really good growth really across the board with the digital firms.

You also saw it reflected in the Newfronts and Upfronts, that are still going on. And then not only do we see ESPN, and Turner, and CBS in the traditional media company feature, what Nielsen is doing and how that shows up in their business, but you also saw it featured in the presentations from Snap, and from Hulu, and Facebook, and Google and the like as well. And so, we're proud of that. Our teams are certainly proud of that. They play an important role for both the emerging digital firms and the traditional media conglomerates.

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

Q

Great. And actually speaking of sort of we are in the Upfronts season, so there's lots of conversation going on. I've got a tick list of various measurement or analytic offerings that also exist in the marketplace or topics. And I'm just going to rifle through them. So, in no particular order, I guess, I heard a lot of talk at the Upfronts about Moat and a bunch of networks saying, hey, we're going to verify or whatever, give you the [ph] assurety (27:54) of Moat, an Oracle-acquired Moat. Does that mean anything for you? How does that affect your role?

Dwight Mitchell Barns
Chief Executive Officer & Director, Nielsen Holdings Plc

A

Well, Moat's a partner of ours. They do a bunch of things, but the primary thing they're known for is measuring viewability of ads on digital platforms. Viewability, difference in audience measurement that we traditionally focused on. We're measuring who saw the ads, and where it appeared. Viewability is when the ad appeared, was they viewable? That's it. And that's what that metric is about. It's a hygiene metric is the way I think of it. So, it's important, but only up to a point. Once you get past that point, then that's where the field opens up quite a bit.

So, Moat's good provider. We partner with them. We provide our Digital Ad Ratings metric. We also provide metrics from Moat, or Integral Ad Science, or DoubleVerify. These are the three largest providers of viewability metrics in the market.So, that our clients know not only the age, demo, and location of the person who saw their ad, but also whether the ad was viewable when it appeared on their screen. And partnering with a firm like Moat or the other two that I mentioned is the way that we provide that rather than us trying to do everything by ourselves.

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

Q

Perfect. So, another name of a service, so this thing, OpenAP, got a lot of conversations, some of your customers actually investing in whatever that is. So, what does OpenAP mean to you? What does that mean, and Nielsen have a role in that?

Dwight Mitchell Barns
Chief Executive Officer & Director, Nielsen Holdings Plc

A

Yeah. We do. OpenAP will be a source of growth for us, once it's up and running. It's about audience-based buying. And what that means is – the traditional way of buying is demographics, age and gender. So, that was just about defining audiences based on age and gender.

OpenAP is intended to allow people to define audiences in other ways, not just based on age and gender, but maybe based on their purchase behavior. In other words, if I'm an advertiser, I might say, I don't want just women age 25 to 45. I want people who are heavy buyers of cereal, because I'm from General Mills. And so, OpenAP enables me to buy those segments of consumers in the marketplace. So, that's the way it works.

We already provide audience-based buying capabilities to our clients directly, ourselves through our Nielsen Catalina Solutions joint venture with Catalina, which is a great and fast-growing part of our business and Nielsen Buyer Insights. OpenAP is a consortium formed by Fox, Viacom, and Turner, where they're trying to say, all right, instead of us each defining our segments different ways, let's all agree, the three of us, to define these audience segments the exact same way to make it easier for advertisers to buy. So, it's a collaboration on the media company side. They still need data from a company like us to fuel that system, and so, that's why it'll be a growth opportunity for us.

We'll be a very credible provider of the data into the OpenAP platform, because not only do we have data, and other people have data, too, but we also have the ability to calibrate that data, project it accurately to represent the entire marketplace, because we have our high-quality panels. And a lot of the other suppliers of data of the OpenAP platform, they have a lot of good raw data, but they don't have the ability to project it with accuracy and with quality to the marketplace. And quality will win out in the long run on these kinds of platforms. And so, yeah, we feel great about this. It'll be a growth driver for us.

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

Q

So, another magic word that's floated around for five years and will float around for another 50 years is programmatic. So, I don't even know what you think programmatic means. I'm not sure, I know what it means. But whatever it means, what does that mean to Nielsen?

Dwight Mitchell Barns
Chief Executive Officer & Director, Nielsen Holdings Plc

A

I think of it – you're right. It has many different definitions. I'll just give you mine. I think, programmatic is automatic. It's an automated process for serving an ad; automated process for serving an ad. So, if I go to a website, that website knows in the background something about me, and it'll serve an ad to me personally, automatically, programmatically, based on what it knows about me. In that way, that ad can be served with more precision. And assumption is, more precision means better return on investments in that particular ad that somebody paid for.

Our Digital Ad Ratings metric has been much liked by the programmatic systems and platforms out there in the marketplace. In fact, one of the earliest parts of the market to strongly adopt our Digital Ad Ratings metric were the programmatic systems, the AdTech and MarTech platforms that emerged in the marketplace early on, just simply because the granularity and the quality that our Digital Ad Ratings metric brought relative to the alternatives that were available at that time, frankly, the alternatives are still available now, it really shined through in those kinds of systems. And so, yeah we feel really comfortable with the programmatic world.

We acquired eXelate in early 2015. That only served to bolster our ability to serve programmatic systems in the marketplace. So, yeah that's a good part of the business for us, too. Yeah. Find a bad one for me, Todd.

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

Q

Well, I'm actually going to – what I really would like to do is to sort of go and bang, bang, bang on these things. I'm going to do what I probably should've done, take it up a level. I mean, so I think the spirit of the investment controversy around this stuff is – I mean the conversation I have very frequently, which is, hey, come on Todd, like in a world where a server can programmatically deliver an impression to somebody based on an algorithm, and that can buy audience segments that are heavy serial buyers. And Google and Facebook can tell me everything I need.

Like doesn't that kind of you usurp the need for this sort of reach frequency, mass audience delivery metric? And like do advertisers even need that anymore? The supposition to that is questioning, so the overall arching, I guess, rolling contribution in value of this more holistic sort of audience paradigm that you've historically measured. I don't know, if I played that very well, but I guess, what I'm getting at is the investment controversy, I'm sure you understand it is, are all of these new developments and data that exists making the Nielsen data less valuable, or you might say more valuable? I want to hear your thoughts on that?

Dwight Mitchell Barns
Chief Executive Officer & Director, Nielsen Holdings Plc

A

Well, a couple of things. First of all, the time of year is important to note, just the context of us being together right now, it's the Upfront every year. At this time of year, you see lots of new metrics emerge and it's the media companies seeking to differentiate themselves versus their competitors as they make their Upfront pitches. And so, you'll hear lots of new metrics, analytics capabilities, alternative to Nielsen, often which, by the way, in the background are fueled by Nielsen. So, that's some of the chatter you hear in the marketplace.

It's a smart thing for these companies to do. We don't take offense, but it does sometimes get misunderstood or seen as a dire threat to our business. But I just want you to know, it happens the year, and we're still here. So, we don't worry too much about that. We worry more about the perception of it than the reality of it.

The second thing is, yeah, of course, some of the digital platforms, they have tremendous ability to report what's happening on their platform. They, in fact, don't need us to measure what's happening on their platform, let's be clear. But there are two reasons why we still exist anyway despite that. One is while they can measure what's happening on their platform , they still have to sell through an advertiser. And the advertisers that continue to demand, in fact, more vocally than ever in the past year independent third-party measurement of what's happening on those platforms, and that's where we come into play. Yeah, of course, Facebook can measure what happens on their platform better than we can measure what happens on their platform, but they're not independent. And we've seen some of the things that have happened in the marketplace, where this independence is especially important.

Then the last piece of this is while Facebook can measure what happens on their platform and maybe Comcast XFINITY can measure what happens on its platform, what you won't have from an advertiser's perspective is comparability across that entire marketplace. I'm looking to take my advertising budget and allocate it across all the different places I can put it. I need to be able to see the world in a comparable manner. And it's not in their best interests to align all of their metrics. They're all seeking to differentiate themselves, the advertiser wants them all to be comparable. So, that's where we come in to play as well. So, those are the reasons why we have hung around in the audience measurement business now for 75 years. This is our 75th year. And that's why we're going to be there for another 75 years.

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

Moving to just a couple of the specific other sort of aspects of your measurement [ph] today (36:38). Let's talk a little bit about local television and audio. So, in no particular order, and I know those all exist in a broader view of the consumer, but those all have their individual marketplaces as well. So...

Dwight Mitchell Barns — A
Chief Executive Officer & Director, Nielsen Holdings Plc

Yeah.

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

...what's going on in local and in audio?

Dwight Mitchell Barns — A
Chief Executive Officer & Director, Nielsen Holdings Plc

Both of these are businesses that really aren't seeing much growth right now. And it's a reflection of their end market. The advertising revenues in local television, advertising revenues in radio are low growth and/or no growth depending on what periods you're looking at. And you see that pressure reflected back in our business, in our revenues as well. It's built into our plans. These are both still outstanding businesses in terms of their cash flow generation. They give us scale. And they're important to our clients.

So, in local television for example, while that part of the market isn't growing, a lot of the same companies who owned and operated stations in this market are national clients on national television, and we're working with those same companies in digital. So, our objective is to serve them across their entire business. And local's still an important part of their entire business. So, that's what happening there. We are making investments in our local television business right now in that the U.S. is divided up into 210, what's called, DMAs. It's just different ways to divide up the country in the local areas.

And there are 140 of these local markets right now that are still measured the old-fashioned way, that is to say paper diaries, to only 1% of our revenue, but it's 140 small markets. We're taking all 140 of these small markets to electronic measurement as we progress through the second half of this year and will into 2018. That'll be an important step forward for the overall marketplace, bringing a lot more quality and a lot more frequency of reporting to that part of the market.

On the audio side, or it's primarily terrestrial radio, it's a similar story. The advertising revenue growth story there is tough one. Although radio, I think, has done a great job in the last couple of years telling their story to advertisers about the return on investment radio, how it is an important part of the overall advertising mix, and just being a lot more data-based about the value proposition as they offers to the clients in the marketplace. We've been working with those radio clients to help them tell that story, and so we're proud to be a part of that marketplace. But both of these are our low growth parts of our business in the overall Watch portfolio.

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

[indiscernible] (39:19) dynamics in those end markets leads to a bigger question back to TV, which actually also came from the audience, so I'll give them credit, but I probably would have asked it anyway, which is some people, including the Bernstein media analysts, think that TV advertising revenues are going to become increasingly under pressure for national TV.

Dwight Mitchell Barns A
Chief Executive Officer & Director, Nielsen Holdings Plc

I've read that.

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

And it begs the question, if that happens how do you keep growing in a world that the end market is under such pressure? And we just heard that in audio and in local TV, those end markets are under pressure, and those business aren't growing so much? So, why would national TV be different, and if it plays out that way?

Dwight Mitchell Barns A
Chief Executive Officer & Director, Nielsen Holdings Plc

Well, I still sometimes slip and refer to it as national TV, but when we're on our mark at Nielsen, we think this is a video business. This is really the important pivot we made several years ago. We used to organize our business internally. TV was over here; the digital team was over there. They'd talk to each other maybe in the lunch room. And then at some point we said, no, this isn't right. Even though the world isn't there yet, it's going there. Let's just start to organize around video period.

And Total Audience was born out of that, new way of thinking about the world going forward. And our business is now structured exactly that same way. We don't have a separate digital team from our TV team. We have a team focused on the measurement of video. And so, as television ratings are under pressure – by the way, advertising revenues are still holding up okay right now, but let's assume, at some point, down the road, that it's possible that advertising revenues could decline. Well, those advertising dollars are going to go somewhere. And they're going to go to digital platforms.

In fact, you're seeing strong growth on digital platforms, and our measurement is there. We're serving a lot of the same companies. Time spent viewing video is still holding up pretty well in the marketplace even while traditional TV ratings declined a little bit. So, again, wrap our business around video, as opposed to tying yourself exclusively to TV. That's how we continue to grow and prosper in the market ahead.

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

Q

I'll try and not make that slip-up myself and refer to national TV. But I'm going to keep it going though, because if you imagine a world where video and the mix of the way that consumer and advertisers flow, maybe moves more to what we used to call digital versus [indiscernible] (41:48) I think it's fair to question what that means and implies for you in terms of your sort of growth rates and margin profile of your services you deliver, because it's hard to tell as outsiders, but it looks to us like there is less remuneration on the digital side to the measurement complex than there is on TV.

Certainly, if you take the money spent on measurement relative to the size of the video and technology, the advertising budgets, which may not be the perfect way to look at it. In other words, it seems like the digital guys are paying less for measurements relative to their size and TV. I don't know if you agree with that, or if that's – please correct me if it's a better way to think about that?

Dwight Mitchell Barns
Chief Executive Officer & Director, Nielsen Holdings Plc

A

No, I agree with that.

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

Q

And then, so, that's seems like if the mix shifts in that direction, that's not necessarily good for revenues. And we don't know – and any idea what it means for your margin profile? Because it's hard to really distinguish or even think about your margin, your cost to serve these businesses. If it plays out that way, and video moves more to digital, and advertising move more to digital, and your revenue base sort of follows, what would that mean for you guys?

Dwight Mitchell Barns
Chief Executive Officer & Director, Nielsen Holdings Plc

A

I'll flip back into TV measurement again. Our TV measurement business wasn't always what it is today. It evolved and developed over time. And we see digital moving through that same progression, where the measurement revenues we get as a percent of advertising dollars spent in the marketplace, it grows over time as a standard emerges around the metric that we provide and our right to charge for that metric develops and grows. And so that's the progression we see ourselves on in the digital side of the equation.

So yeah, I feel positive about that progression. Even though right now when you look at it, if you were to assume it's static, which it's not, that doesn't look like a good shift happening in the marketplace. But it's not a static, it's a dynamic evolution. As the shift happens, you'll also see our ability to be paid for our digital measurement develop and grow over time.

Second thing is, digital strangely enough, happen to be a lower cost business from a measurement perspective. Measuring television with our television panels, we have 100,000 people, 40,000 to 50,000 households in the U.S., it's an extremely expensive way to measure a marketplace, extremely expensive. Measuring a similar number, in fact, a much bigger number of people on digital platform is a way more efficient measurement process. And so, digital measurement scales way better than the linear TV measurement, if you put it that way.

So, as we see these trends playing out, we feel good about the margin profile of the business. In fact, we see it coming our direction. The one thing that wouldn't be so favorable to that margin development is the analytics side of our business, measurement here, analytics there. Analytics, historically, was a small part of our Watch business. It's a growing part of our Watch business. And, historically, analytics hasn't been as high margin as measurement has.

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

Makes sense.

Dwight Mitchell Barns — A
Chief Executive Officer & Director, Nielsen Holdings Plc

So, you got to look it that way.

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

Yeah. One more sort of logical follow-up on the end market situation of what I'll refer to again as TV. If some of those historically large customers for Nielsen, some of the big network group companies, if it were to play out that some of those guys were either to merge or maybe prune down, in a large way, the number of linear networks that they support and that exists, what would that mean in terms of the way that you get paid?

Dwight Mitchell Barns — A
Chief Executive Officer & Director, Nielsen Holdings Plc

Not positive. The analogy I would point to is several years ago, when cable was developing and the long tail of the cable networks was growing, that was a revenue driver for us. A lot of that revenue came from local television, so advertising dollars that went into local television started to find its way to the long tail of the cable networks. And so, our local TV revenues went down, our growth from cable measurement went up. Now, if you see consolidation or a long-tailed cable get trimmed a little bit, well, what'll happen there is you're going to see that shift over to the digital platforms. In fact, it's the growth on the digital platforms and digital video that I think is putting a lot of that pressure on the long tail.

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

Got it. Got it. I have a couple of more. So, the capstone...

Dwight Mitchell Barns
Chief Executive Officer & Director, Nielsen Holdings Plc

A

Again, it all goes back to the consumer. It all goes back to the consumer, if I can just say, add this one point. What is the consumer doing? Is the consumer watching less video or more video? Well, they're watching the same or slightly more video. And then what is Nielsen doing? Are we measuring the consumer in as comprehensive a manner even though where they're going for that video is different tomorrow versus what it is today? And that's where you look at our Total Audience Measurement system. And you see, it was designed in anticipation of this changing consumer from the start.

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

Q

I want to get to as many as of these as I can, but I'd be remiss I didn't ask just a couple of more things. And just a quickie here. Given the opportunities and challenges in your business and the short-term pressures you've talked about, what is your latest thinking on, basically, balance sheet? And, I don't know if you saw that one coming, and sort of a leverage philosophy? It's a levered business, which makes sense, given the historic consistency in growth. Is there any change to your thinking about the amount of leverage, you think, this business should carry?

Dwight Mitchell Barns
Chief Executive Officer & Director, Nielsen Holdings Plc

A

We shifted our net debt leverage ratio target back in 2014, where we said the 3 times area is our long-term target, and we're still there. Right now, we're in the higher end of the 3 times, and that's largely a result of our acquisition of Gracenote, which we closed on February 1. By the way, that business is off to a great start this year. I was just out to see the Gracenote team on Friday in the Bay Area, and just tremendous. But yeah, we took some debt on to finance that acquisition. That pushes up a little bit on the net debt leverage ratio. But we're still in the 3 times area, just at the higher end of that range right now. So, 3 times area means, not a 2 times handle, not a 4 times handle, and that's generally where we've been over the last few years.

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

Q

Okay. I think speaking of risks and leverage, a question I think a lot about, and I think I actually asked you this once in a conference call, and so I'll ask you it again, we could compare the response. Going back to the last financial crisis, the last recession, Nielsen was private at that time, so we couldn't see it. How did the business perform?

Dwight Mitchell Barns
Chief Executive Officer & Director, Nielsen Holdings Plc

A

Performed well. We often help the fact that we have, I think, it's now 42 consecutive quarters of constant currency revenue growth. So, do math, that takes us through the global financial crisis. We grew right through that period at a little bit lower rate than we had generally on either side of the global financial crisis, but we continued to grow on a constant currency basis. And we're still continuing to grow right now, even though we're seeing this pressure in the end markets, in particular, in our U.S. business.

I think, there is a difference between the two though. In the global financial crisis, at least from a consumer products perspective, I think, most people viewed that as we're going to move through this cycle. We're going to move through this cycle and come back out, and the consumer will still need to eat, and shop, and clean their house, things like that. And so, people hunkered down for that period, but didn't expect it to be a structural change in the marketplace. I'm not going to use the S word, it's a different S word.

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

Q

Yeah.

Dwight Mitchell Barns
Chief Executive Officer & Director, Nielsen Holdings Plc

A

But this time, I think, more of the leaders of your consumer packaged goods companies in the U.S. see this trend that we're going through right now as more of a structural change in terms of how the consumer is behaving. And they're not anticipating the consumer to shift back and their purchasing behavior to look like it did a few years ago. In other words, as consumer purchasing behavior has shifted to more local and specialty products moving away from big brands a little bit, nobody right now is expecting that to flip back anytime soon. And so, yeah, I think, that's the difference in these two periods.

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

Q

Got it. I'm going to try my best to consolidate the most frequent and related questions here. And so, a bunch of stuff on Buy. And some of this is just quick, sort of fact check sort of question. So, I'm going to...

Dwight Mitchell Barns
Chief Executive Officer & Director, Nielsen Holdings Plc

A

Lighting round.

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

Q

... sort of go – yeah. And it's kind of all together. So, given the weakness in Buy that you're seeing right now in the U.S., what is the likelihood of that spreading in the future to Europe? I'm going to keep this going. Is any of that is result of losing renewals on contracts? Have you lost any big contracts, actually is one of them, or is it just all less spending on renewals? If it's less spending on renewals, is competition playing a role? And is consolidation playing a role like [indiscernible] (51:07) and some of those other consolidations. So, if you want, I can break this up into four, but I thought I'd just give them all four to you at once.

Dwight Mitchell Barns
Chief Executive Officer & Director, Nielsen Holdings Plc

A

Right. The first part of that is about will it spread? I think it's actually already spread. I mean, Europe used to look like this. We had a very tough environment in Europe for a number of years. Europe has now started to turning consistent low-single digit growth in some markets, mid-single digit growth in the European marketplace. I think, now, the U.S. is going through slightly different but similar period that Europe has already gone through. So, no, I don't think it now spreads to Europe. I think it, in essence, came from Europe.

On renewals, our renewals remain strong overall. Yeah, you win some, you lose some. It happens in every year. And we have lost a couple. I mentioned one on our recent earnings call, where we had a bigger relationship with Kroger in the past. We still get data from Kroger, but we don't have as big a relationship with them right now as we have had in the past, so that one hurt. But on the other side of that equation, we've had some very important wins for us, hopefully, which is really noteworthy, one where Whole Foods began sharing their data and only with Nielsen in 2016. And so, that's been a big positive for our business.

So, yeah, we're not getting as many net wins, maybe over to our business. And so, you see that price pressure in the contract renewals flow through into the business. And in part, don't forget again, we're working with these big companies to help them with their short-term cost pressures in exchange for longer-term benefits in our business, which you'll see emerge down the road.

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

So, I gave a lot at you at once. And so, the two follow-ons were, how much is competition playing a role in any of that? And you sort of just mentioned that now with Kroger, as an example...

Dwight Mitchell Barns
Chief Executive Officer & Director, Nielsen Holdings Plc
A

Yeah.

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

...is that any different or more intense now than it has been? And has consolidation in the consumer package world specifically driven any dynamics in your business?

Dwight Mitchell Barns
Chief Executive Officer & Director, Nielsen Holdings Plc
A

Every year, we've been competing with our main U.S. competitor for 30 years now. And every year somebody is going to say it's more intense than it ever has been. So, I doubt it's more intense than it ever has been. It's just that it's in the here and now. So, yeah, I don't know that, that's really driving a big change in the dynamics. I think, it's much more a reflection of the end market.

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

Got it. The clock's about to hit zero. Mitch, you usually have something like parting wisdom to share with us. I don't know if you have any sort of closing thoughts that you want to impart as we wrap up today?

Dwight Mitchell Barns
Chief Executive Officer & Director, Nielsen Holdings Plc
A

Internally, we break our business down into eight different operating units. Seven of our eight operating units are performing right on plan, in many cases, better than plan. One of them is not and significantly not, and that's our U.S. Buy business. I just don't want anybody to lose that context that the softness in our U.S. Buy business is not softness generally throughout our business.

Our Buy business has incredible fundamental strengths, and know those aren't necessarily showing up right now in the short-term financial results at a global, and certainly, not in the U.S. level, but those strengths are undeniable. And they'll continue to be a source of value and strength in our business for long into the future.

And then the other thing to emphasize is the Watch business. See, every year, it's the same around this time of the year with the Upfronts and the chatter in the marketplace. And the perception is easy to adapt that Nielsen is under threat, but I just want to remind you that, that perception emerges every year, and we're still here. And our business is continuing to grow at as good, if not a better pace than it has going back 3, 5, 10 years. And our business is as strong as ever. And our measurement now is across every single digital platform in a comparable manner giving the market exactly what it needs. And yeah, we look forward to the rest of the year ahead.

Thanks very much.

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

To the audience, thank you. If I didn't get your question, I apologize. But [ph] Sara (55:01) and her team, I'm sure will be happy to field your questions directly.

Mitch, thank you so much for sharing your time and thoughts with us today. It's always a true pleasure.

Dwight Mitchell Barns
Chief Executive Officer & Director, Nielsen Holdings Plc

Thank you. All right.

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

Thank you.