PARTICIPANTS

Corporate Participants

Jamere Jackson – Chief Financial Officer, Nielsen Holdings Plc

Other Participants

Patrick T. Halfmann – Analyst, Morgan Stanley & Co. LLC

MANAGEMENT DISCUSSION SECTION

Patrick T. Halfmann, Analyst, Morgan Stanley & Co. LLC

All right. Seems like people are still funneling in, but why don't we go ahead and get started real quick. Thank you for being here, everyone. I know it's the last spot of the day, so we do appreciate your presence here at 5:10. My name is Patrick Halfmann. I work with Toni Kaplan and the business services team in New York. And I'm delighted to welcome Jamere Jackson, CFO of Nielsen.

Before we begin I do want to bring your attention to some important research disclosures, including my personal holdings disclosures and Morgan Stanley specific disclosures that appear in Morgan Stanley public website, www.morganstanley.com/researchdisclosures, or at the registration desk.

QUESTION AND ANSWER SECTION

<Q – Patrick Halfmann – Morgan Stanley & Co. LLC>: So I want to kick it off and just ask, it's been almost three years since you joined Nielsen. I'd like to know what sort of changed over the last three years? And what you're really excited about now?

<A – Jamere Jackson – Nielsen Holdings Plc>: Yeah, yeah. Three years has gone by really, really quickly. I did start in March of 2014. And we've seen almost unprecedented change in our business. So if I think about the impact of things like media fragmentation when I started in March of 2014 we were talking about fragmentation being our friend. We knew that there would be a lot more things for us to measure as a company.

But we also knew that there was going to be a number of challenges that lie ahead as well. And our team has done a fantastic job of rising to those challenges and putting a lot of things into place that our clients want us to do to help them monetize their inventories or understand the value of advertising.

So it's been a tremendous journey on our Watch side of the business. And at the same time our Buy side of the business has been exciting as well. The expansion that we've seen in the emerging markets behind population growth, rising incomes, urbanization. Those things have been tremendous business builders for us at Nielsen. And we've certainly enjoyed the benefit of that from a growth standpoint.

And then from a challenge standpoint, I would say on the media side, as much work as we've done in terms of innovation, there's always more work to do. And on the Buy side of our business we've seen pressure in the developed markets in terms of the growth of some of our clients. And we certainly haven't been immune to those dynamics. And so the environment has been dynamic. But I would say that Nielsen is very well positioned to operate in this environment and still grow our business in the future.

<Q – Patrick Halfmann – Morgan Stanley & Co. LLC>: Yeah. And sort of following on, I wanted to start off on the Watch. You recently agreed to acquire Gracenote from Tribune. So what do you like about that business?

<A – Jamere Jackson – Nielsen Holdings Plc>: Gracenote has been a supplier for us for a long time. We've acquired their data to help us in our TV ratings business for a number of years. And so we're very familiar with the data and the dataset and how important it is to our business. We like the metadata business. It's a business that we're comfortable operating in. And there are a number of things that we can do with those assets to actually improve the capabilities inside our own business. So that was pretty exciting.

There were a couple of adjacent product lines, particularly around audio, sports, and music that are going to be good for some of the assets that we have inside the company. And then probably the one thing that is really, really exciting from an asset standpoint is the ACR technology that Gracenote has. It's actually embedded inside a smart TV. This has the potential to really help us from a measurement standpoint, as we think about having basically a meter inside of a smart TV, giving us Return Path Data versus relying on set-top box data for example.

So we have a lot of optionality around that data set. And it's pretty exciting. I would say that the ACR technology presents a tremendous amount of upside to us. And we're very happy to have the company and have those associates a part of the Nielsen team.

<Q – Patrick Halfmann – Morgan Stanley & Co. LLC>: Yeah. Sounds like a very exciting deal. I wanted to ask about the broader Total Audience [Measurement] initiative. I know that you recently sort of hit a soft delay, if you will, to Total Content Ratings. Obviously up-front season will be here before we know it. Can you just talk about how that delay might impact? And what it may not impact in the – at least pertaining to the up-fronts?

<A – Jamere Jackson – Nielsen Holdings Plc>: Yeah. Well, there certainly will be a financial impact on us this year. The one thing that I think the market is really excited about is having more measurement capability to help publishers sort of amplify the value of their inventories and to help advertisers have an independent third-party measurement that's sort of measuring all of these things.

The reality is, is that the measurement capability is actually there. We did a limited commercial release for those clients that actually want to use those elements as part of their up-front negotiations. They have the ability to do that. We've seen some big media companies say that they're going to do exactly that. So we're excited about that. And we think they'll be fast followers of others.

The other reality is, is that whenever there is additional measurement capability available in the marketplace, nobody waits around for a new currency standard or nobody waits around for everybody to be fast followers. If you have a data set that is going to help you monetize your inventories better, then you're going to use that data set. And so you're going to see clients use many elements of our Total Audience Measurement system in this year's up-fronts. Just like we saw last year, clients actually using certain elements.

So sometimes there's a little bit of a misunderstanding that people inside the industry wait for their – wait for a new currency definition. And that's just not the case. When the capabilities become available, clients actually use it, because it's pretty important to them to use every tool that they have available to help them monetize those inventories.

<Q – Patrick Halfmann – Morgan Stanley & Co. LLC>: Yeah. That makes perfect sense. So if we fast forward a couple of months. You're syndicating Total Content Ratings. Clients are maybe making sort of guarantees around Total Ad Ratings. What's next for the Watch business? And how can you continue to sort of outperform growth in linear TV advertising?

<A – Jamere Jackson – Nielsen Holdings Plc>: Well, I think the thing that really stands out to me is that we think fragmentation is going to be with us for a while. And we've seen it accelerate in the last four years or five years or so. Our clients are all looking for, what are the right devices? What are the right platforms to basically push out content to be able to monetize these inventories?

And so we're going to continue to stay focused on innovating for the next new device, the next new platform. And that ensures that we'll be in the game and relevant as we move forward.

The other thing that we've been also hard at work on is improving sort of our existing capability. So you've seen us in the last few years add set-top box data to the mix to help us get more granularity on tuning data. That'll be a big help for local markets for example.

You've seen us expand panel sizes to be able to help with the stability of ratings. We've added out of home measurement capabilities with the Personal People Meter. We've expanded our sample sizes or our panel sizes in our Audio business.

So we have a lot of things to go do to make sure that we're serving the market in a way that is going to not only help us grow but help our clients grow as well.

<Q – Patrick Halfmann – Morgan Stanley & Co. LLC>: Plus the new capability has been great in that as well.

<A – Jamere Jackson – Nielsen Holdings Plc>: In addition to all of that, you're exactly right.

<Q – Patrick Halfmann – Morgan Stanley & Co. LLC>: Yeah. I think we have a lot of sort of media investors here obviously throughout the week. Wondering if you could just give us an update on what you're seeing in the TV ad market?

<A – Jamere Jackson – Nielsen Holdings Plc>: Yeah, a couple things stand out to me. One is that if I look at what publishers are doing, they're all sort of back to basics. And those basics are producing great content, which our large media clients are the best in the world at doing. So they're all focused on producing great content. And then finding as many ways as they can to sort of monetize that. And so obviously linear television place a big role in that. It's still the lion's share of the viewing. But you've seen – we gave our clients instrument. There are video players and applications to be able to take advantage of the opportunities in digital.

We've seen a number of things happen in terms of over-the-top offerings. And I think you're going to see more of that in the future. And all of this bodes well for the clients that we serve every day. I think the advertising market is going to be healthy, and it's going to be extremely healthy for those clients that are really focused on building great content. And our role in the process is to make sure that we have built the capability to measure all of that great content, no matter what screen or device or platform that content is served on. And I think it is going to be a great business building opportunity not only for our clients but for Nielsen as well.

<Q – Patrick Halfmann – Morgan Stanley & Co. LLC>: Yeah. And as we think about Watch margins, even while you're investing in these new products over the last couple years, Watch margins actually expanded very nicely. How should investors think about those going forward? Are there efficiencies from maybe using things like Mobile Panels or Mobile App measurement? How should investors think about that?

<A – Jamere Jackson – Nielsen Holdings Plc>: Well, it's a great business and it's a business where as we innovated over time, we found ways to be more productive than delivering the kinds of products and services that we deliver to the marketplace.

So we do enjoy the benefits of long-term contracts that have disciplined pricing escalators in those contracts. And we get a lot of operating leverage out of that.

But we continue to focus on productivity at the same time. So not only are we focused on our own operating productivity, but we've been looking at different things from a technology standpoint to help us be more productive in the future. Things like investigating the use of nanometers that will give us efficiencies in terms of metering homes in the future. We've looked at moving more services to the cloud versus having a very heavy infrastructure footprint inside the company.

And so even though we have this great business model with long term contracts, we are always running a productivity play and running a productivity play with intensity. And that gives us the bill payer to basically go fund the things that we've done from an innovation standpoint. That gives us a bill payer to fund expanding panels, adding more digital capability, and expanding our market footprint.

<Q – Patrick Halfmann – Morgan Stanley & Co. LLC>: Yeah. Makes a lot of sense. I want to turn to the Buy side of the business, which has obviously been pretty controversial over the last sort of two quarters. Can you give us an update on where you are with the Connected Buy System? And the type of feedback you've heard from the couple of clients that are in the test right now?

<A – Jamere Jackson – Nielsen Holdings Plc>: Yeah. We're really excited about the progress that we're making. We have a handful of clients that are our pilot clients. Those clients are giving us great feedback on the features and functionality of the system. They were given an opportunity to kick the tires on some of the early iterations of that system. And so we're really pleased where we are in the cycle.

The three or four things that really stand out to me about our Connected Buy System efforts. Number one, it will give us the opportunity to take our retail measurement data and link that more closely with our analytics. So that in this environment where clients are looking for productivity and efficiency, having the ability to look at your retail market share data and then taking a look at those analytics to help you understand what the business drivers are. And probably more importantly, what do I do next? How do activate against that? Is a business builder for us and for our clients.

The second thing that's exciting about it is it will give us an opportunity to have much more of a Data-as-a-Service or Software-as-a-Service business model. Today we have a little bit of a hybrid, that is People-as-a-Service and Data-as-a-Service. And so improving our capabilities as a Data-as-a-Service or Software-as-a-Service provider is a business builder for us and has much more attractive margins over the long term.

I think the third thing for me is that by having this open platform, where we enable third party applications to be on that platform, this makes an already very sticky dataset much stickier in the future. Because these are application service providers that our clients are using today. Our clients are steering us in the direction of which applications need to be on the platform. We'll get a rev share from that, from those applications on the platform, which will have an attractive margin profile for us. And quite frankly, reduces the intensity of us having go to build some of those things or buy some of those things in the future.

And then probably the most exciting feature about the Connected [Buy] System is the fact that we're going to bring our media assets into this platform. So if you think about our clients on the fast moving consumer goods side or the consumer packaged goods clients, they're all big advertisers. And they're all looking at when they're thinking about their retail measurement data, when they're thinking about their market shares, when they're thinking about the business drivers, they're also trying to figure out, how do I tweak my marketing mix models for example? Or how do I understand the return on the investments that I'm making on the media side of the business?

And these are assets that we have in the franchise today that nobody else in this space has. We're going to put those assets into our Connected [Buy] System. And it will be a great opportunity for us to sort of expand our footprint with those clients. And it'll be a great opportunity for us to create an even stickier set of datasets into those clients.

<Q – Patrick Halfmann – Morgan Stanley & Co. LLC>: Makes perfect sense. And I think you've even talked about the system allowing you to go after smaller and midsize clients that are going a little more quickly as well. Right?

<A – Jamere Jackson – Nielsen Holdings Plc>: Yeah. The reality is, is that for our largest clients, they not only buy data from us, but they also contract pretty sophisticated client services teams that help them run their business and interpret the data and help them figure out where to activate against that data.

And that is something that clients in sort of the mid-tier or some of the smaller clients simply can't afford. And so by moving to more of a Data-as-a-Service or Software-as-a-Service model, we basically will have a product that will help us cater to that marketplace as well.

We think there's a revenue upside opportunity for us longer term there. So we're excited about not just what the system will do in terms of productivity, what it will do in terms of efficiency, but we also think there's a business building opportunity for us in terms of bringing connected partners to the program. And then having a business model that enables us to go after that long tail of clients that in some instances can't afford the Nielsen service today.

<Q – Patrick Halfmann – Morgan Stanley & Co. LLC>: Yeah. And I did want to dive into that sort of evolution of the business into a SaaS or DaaS type model. Do you think you could eventually get Buy margins up into the call it 20%, 21%, 22% after the system is fully built out? Or do you think that mix shift in sort of the lower margin emerging markets businesses is sort of going to create a structural headwind there?

<A – Jamere Jackson – Nielsen Holdings Plc>: No. I think longer term we'll absolutely move margins in that direction and beyond. Quite frankly if you look at Data-as-a-Service or Software-as-a-Service models and you look at our footprint today, which is largely People-as-a-Service, there is very clearly a margin expansion opportunity for us.

Now the reality is, is you'll see some of those large clients that today actually contract with us for a certain number of head count. They'll actually reduce that. But the value of the data will actually go up. And the margins that we'll accrete from going to more Data-as-a-Service or Software-as-a-Service will more than make up for the decrement in revenue that we see associated with it. And it'll be a much stronger profile for our business.

So in addition to this being a stronger business with measurement analytics linked, our media assets connect with partners, it'll also have an opportunity for us to have a higher margin business. And we're pretty excited about that footprint in the future.

<Q – Patrick Halfmann – Morgan Stanley & Co. LLC>: Yeah, I imagine. I did want to ask about the guidance you provided at the December Investor Day, which contemplated sort of flat CPG volumes and pricing. As we look out to 2018, do you think we could start to see that market sort of improve? Is there a light at the end of the tunnel in CPG cost cutting?

<A – Jamere Jackson – Nielsen Holdings Plc>: I believe so. I think as you talk to our clients, who have all been focused on efficiency and productivity for the better part of three years. And they've all announced their own zero-based budgeting plans. Or in the case of [ph] 3G (17:39), they're sort of renowned for basically taken a lot of cost out of the P&L.

But when you have the conversations with those clients, they're all looking at a way to pivot to growth, whether that is through acquisitions or through innovation. They're all looking for opportunities to pivot to growth. And Mitch [Barns] and I have actually had conversations with those clients. And they're saying, listen, if you can help us understand business drivers and help us find new growth opportunities, then those are things that we're willing to go to spend more money on in the future.

So we're pretty excited about that as a future for our business. But for certain industries and certain categories of things that we measure, it's been tough sledding in terms of those clients finding volume growth. It's been tough sledding in terms of those clients being able to have price increases stick.

But I think every one of them is committed to innovation that will generate top-line growth. Or they're committed to finding those fast growing start-ups or fast growing niche brands that they could add to the portfolio to sort of reignite growth as well. And those things all bode well for the future of the industry.

<Q – Patrick Halfmann – Morgan Stanley & Co. LLC>: Hey, that makes sense. In the last couple of weeks in particular there's been a lot of discussion around further sort of M&A in the CBG (sic) [CPG] (19:02) space. Can you talk about what consolidation among some of your customers might mean to the Buy business?

<A – Jamere Jackson – Nielsen Holdings Plc>: We've been in this environment for a while, where many of our clients are looking for ways to become more efficient, become more productive. And sometimes bringing two big players together gives you an opportunity to do just that.

And I don't see that abating any time in the future. For us if it's two large clients that have different sets of products if you will, it usually doesn't have a lot of impact on our business. You still need measurement and analytics in each of those categories. In some cases when you have brands that are shared or brands that are acquired, we actually see a little bit of a lift in our business, because you'll sell a number of historical datasets. And you'll try to help the new owners understand the history of the business and how to think about growing the business going forward. So in some entities it's actually a little bit of a lift for us in the near term.

And then you always have the downside case, where sometimes there are redundancies and rationalizations that happen. But we typically have fared very well in those instances, because of the critical nature of the data that we're providing.

<Q – Patrick Halfmann – Morgan Stanley & Co. LLC>: Yeah. We couldn't come to Silicon Valley and not talk about e-commerce. So I wanted to sort of ask how you're currently capturing retail sales, CBG (sic) [CPG] (20:34) sales through channels like Amazon? And whether or not that approach is really scalable over time?

<A – Jamere Jackson – Nielsen Holdings Plc>: Yeah. So e-commerce is probably the fastest growing channel if you will for many of our clients. And as they think about growth going forward, they all know that they need the capability not only to distribute products through those channels but also to have measurement that helps them understand how they're doing relative to their competition. And so we've been hard at work trying to provide that capability.

And we do that through what we call a hybrid method. So it's a combination of having electronic point of sale data if you will from participating e-commerce providers. And then we also have a panel that enables us to get data from those e-commerce providers that don't participate in a cooperation model.

And that approach is actually working well for us in – around the world we're in a handful of markets today, including some of the most important markets like China, where e-commerce in certain categories is growing really rapidly. And if you think about cosmetics, diapers, baby formula, in certain categories it could be as much as in 25% or 30% of the volume in a place like China.

So we've been building this hybrid capability really around the world, a combination of panels and e-commerce providers. And we're going to continue to add to that over time.

It's much more efficient obviously when you have all of the big players including Amazon participating in a co-op model. But we do a pretty good job of providing the measurement using a hybrid approach. And eventually just like we've done on the consumer packaged goods side, eventually we get to a point where we have a critical mass of electronic POS data. And it's a much more efficient way for us to go do it.

<Q – Patrick Halfmann – Morgan Stanley & Co. LLC>: That makes sense. I want to open it up to the audience for any questions. But I'll ask sort of one follow-up as we wait for people to raise hands. We've received a couple of questions over the last couple of weeks about the free cash flow guidance for this year. I know some working capital has moved into the fourth quarter. But it also looks like CapEx is going to be a little bit elevated in 2017. Can you help investors sort of think about what normalized free cash flow might look like with those two items sort of more normalized?

<A – Jamere Jackson – Nielsen Holdings Plc>: Yeah. Well, longer term I mean we talked about our long term framework where we said free cash flow is going to be 45% to 50% of our adjusted EBITDA. And so that's the way to think about it. And we're going to – trying to grow that free cash flow obviously in line with that adjusted EBITDA.

Now but in the near term, we've been hard at work on driving efficiencies in working capital to give us a little bit of juice above and beyond the growth rate in our adjusted EBITDA numbers. And so you saw us do a little bit of that this year. There's still some opportunity to do that in 2017.

2017 is also a big investment year for us. So we have a number of initiatives on the Watch side of the business as I talked about where we're doing out-of-home measurement. We're integrating set-top box data. We've had some panel expansions that we've worked our way through. We'll continue to invest in the Nielsen Marketing Cloud. And then obviously on the Buy side of the business, we have the Connected System that we've sort of accelerated our development on.

So you're going to see us over time have a CapEx profile of somewhere in the 6% to 6.5% of revenue. It's kind of a long term fencepost if you will. And given the growth of the business on the top line, the ability to expand our margins, we'll have a healthy free cash flow profile. And we've said that we're going to allocate that free cash flow profile such that roughly 45% of that will be allocated to the dividend. We're going to grow that in line with earnings. We're going to toggle roughly 40% between tuck-in M&A opportunities and buybacks and the remainder to service the debt. That gives us tremendous flexibility to grow our business and return meaningful amounts of cash back to investors.

<Q – Patrick Halfmann – Morgan Stanley & Co. LLC>: Great. So are there any questions from the audience? I think we have one over here.

<Q>: For the Connected Buy – the Connected [Buy] System you need some development of sophistication in the end market among CPG companies to be able to migrate their processes from their current mode of interaction with your business to the future state, where you're just a data feed and they have a much more automated tactical brand management process.

Could you just talk about in the developed market by segment what – I don't know if like percent of revenue is the right metric. But what percent of that business do you think is seasoned and ready to – if you have to flip a switch and transition everyone to Connected Buy [System] from your current method of delivery, would be ready and capable to actually implement it?

<A – Jamere Jackson – Nielsen Holdings Plc>: Yeah. I would say that that number is probably a half to two-thirds. And think about our client base today, our largest CPG clients are some of the most sophisticated in the world in terms of their capabilities.

And they're the clients quite frankly that will see a tremendous amount of benefit from going to this model. I've had the opportunity to actually to work at one of our largest clients earlier in my career. And I could tell you that there are literally hundreds of people inside the company that actually handle the Nielsen data in their everyday work that's embedded in their systems.

You have certain groups that are measured on their performance from a market share standpoint. You have sales, marketing, finance, market research, product supply, all using the data on a day-to-day basis. And in some cases we've had clients who have tried to build a similar sort of platform on their own and realize that it's pretty daunting task to go do that. So the fact that we've stepped in, said that we're going to do it in an open platform, enable third party applications to be in the system, put our media data in, enable our client's data to be in their system is a pretty exciting journey for those clients. So I feel pretty good about half to two-thirds of those clients being able to go do that. And having the wherewithal to do it and the financial chops and the stomach to deal with an integration of that size.

<Q – Patrick Halfmann – Morgan Stanley & Co. LLC>: Okay. We have time for maybe one more quick one.

<Q>: I'll be quick. Thanks for the time. And I'm just curious over the last like three years to five years, approximately how much of your organic growth has come from pricing increases? And then similarly for the next three years to five years, approximately how much of your organic growth do you think would come from pricing increases? Thank you.

<A – Jamere Jackson – Nielsen Holdings Plc>: Yeah. So on a year-to-year basis, we usually get about 2 points of price and that comes from long term contracts that have pricing escalators in it. And the remainder comes from sort of volume in selling new services if you will. And then we typically have gotten anywhere from 0.5 point to 1 point in any given year on tuck-in acquisitions. All right?

Patrick T. Halfmann, Analyst, Morgan Stanley & Co. LLC

So we want to thank everyone for joining this afternoon. And have fun at the rest of the conference.

Jamere Jackson, Chief Financial Officer

Okay. Thanks.

Patrick T. Halfmann, Analyst, Morgan Stanley & Co. LLC

Thanks, Jamere.