Corrected Transcript

22-Apr-2015

Nielsen Holdings NV (NLSN)

Q1 2015 Earnings Call

CORPORATE PARTICIPANTS

Kate White Vanek
Senior Vice President-Investor Relations

Dwight Mitchell Barns
Chief Executive Officer

Jamere Jackson
Chief Financial Officer

OTHER PARTICIPANTS

David Bank
RBC Capital Markets LLC

Toni M. Kaplan
Morgan Stanley & Co. LLC

Todd Juenger
Sanford C. Bernstein & Co. LLC

Andrew Charles Steinerman
JPMorgan Securities LLC

Sara Rebecca Gubins
Bank of America Merrill Lynch

Ryan C. Leonard
Barclays Capital, Inc.

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

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

Bill G. Bird
FBR Capital Markets & Co.

Brian W. Wieser
Pivotal Research Group LLC

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

William Arthur Warmington
Wells Fargo Securities LLC

Andre Benjamin
Goldman Sachs & Co.

Douglas M. Arthur
Huber Research Partners

Thomas William Eagan
Telsey Advisory Group LLC

Dan Salmon
BMO Capital Markets (United States)

Paul L. Ginocchio
Deutsche Bank Securities, Inc.

Ashwin Shirvaikar
Citigroup Global Markets, Inc. (Broker)

MANAGEMENT DISCUSSION SECTION

Operator: Good morning. My name is Jonathan and I will be your conference operator today. At this time I would like to welcome everyone to the Q1 2015 Nielsen N.V. Earnings Conference Call. All lines have been placed on mute to prevent any background noise. After the speakers' remarks, there will be a question-and-answer session. [Operator Instructions]

Thank you and Ms. Kate Vanek, SVP of Investor Relations you may begin your conference.

Kate White Vanek
Senior Vice President-Investor Relations

Hey, good morning everybody and thank you for joining us to discuss Nielsen's first quarter 2015 financial performance. Joining me on today's call from Nielsen is Mitch Barns, CEO and Jamere Jackson, our CFO. A slide presentation that we'll use on this call is available under the Events section of our Investor Relations website at nielsen.com/investors.

Before we began our prepared remarks, I'd like to remind all of you that the following discussion contains forward-looking statements within the meaning of the Safe Harbor provisions of the Private Securities Litigation Reform Act of 1995. These forward-looking statements may include comments about Nielsen's outlook, expectations and prospects and are based on Nielsen's view as of today, April 22, 2015.

Our actual results in future periods may differ materially from those currently expected because of a number of risks and uncertainties. These risks and uncertainties that we believe are material are outlined in our 10-K and other filings and materials, which you can find on our website.

For Q&A as we did last quarter, we ask everyone to limit themselves to one question only so that we can accommodate everybody in the queue. I want to thank you in advance for that. Feel free to join the queue again and if time remains, we will certainly call on you.

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

Dwight Mitchell Barns
Chief Executive Officer

Yeah. Thanks, Kate. Good morning, everyone. Thanks for joining us on the call. Look, it's an incredibly exciting time, both for Nielsen and our clients. Pace of change is faster than ever. It starts with the relentless march of technology which is then driving this accelerating fragmentation in both the media and retail world, and that contributes to the growing abundance of data which all of the players are racing to put to use.

Our mission through it all is to provide a clear and complete understanding of consumers and markets. Given the pace of change, our clients need that clarity more than ever. That's why when we look at everything happening around us, we say there's never been a better time to do what we do.

Let's take a look at the first quarter. It was a great quarter, reflecting our solid business results and the progress we made in executing our strategy. First quarter revenues grew 4.4% on a constant currency basis.

Watch revenues increased nearly 4%, driven by strength in audience measurement and Marketing Effectiveness, partially offset by actions we took to prune our portfolio of some non-core products as well as the expected ongoing runoff in our legacy online rankings product that will be replaced by Digital Content Ratings in the fall.

Excluding these, our Watch segment, underpinned by our Total Audience Measurement strategy, grew 5.8% on a constant currency basis. Buy revenues were up 5% constant currency, and this includes 3% growth in developed markets and another quarter of double-digit growth in emerging markets where the investments we've made in expanding our coverage continue to pay off.

Next, adjusted EBITDA was up approximately 7% constant currency, reflecting the scalability of our business model and the tremendous work by our teams around the globe who executed with discipline and delivered on productivity. Adjusted net income per share grew 18% constant currency to $0.46. During the quarter, we also continued to execute on our balanced capital allocation framework. Today, we announced that our board has approved a dividend increase of 12%, increasing our quarterly dividend to $0.28 per share.

We also continued to buyback our stock under our existing $1 billion share repurchase authorization, which we're on track to exhaust by mid-2016. Both of these actions demonstrate our ongoing commitment to delivering shareholder value.

Our resilient business model and strong free cash flow also enable us to pursue strategic acquisitions as we add to our capabilities in step with the evolving needs of our clients. In March, we completed the acquisition of eXelate. This acquisition adds tremendous value to Nielsen in terms of capability.

eXelate's thousands of behavioral and intent-based audience segments, many of which were built from Nielsen's data, helped to improve the precision of buying-and-selling decisions in the digital marketing and programmatic ecosystems.

Finally, solely due to changes in FX since we last reported, we will be updating our 2015 guidance, and Jamere will talk more about this in a moment.

Next, I'll turn to our key strategic initiatives. I'll start with Watch. You've heard us talk about our Total Audience Measurement, and that remains our number one priority. We're sharply focused on first providing our clients with the solutions they need for Total Audience Measurement.

And, second, guiding the industry towards redefining the currency to capture more of the time consumers spend with video content across the growing variety of screens, devices, and platforms they're using. I want to spend a few minutes on those two topics.

First, what is Total Audience Measurement? Total Audience Measurement is our framework for comprehensive measurement for our clients following consumers wherever they go and however they view.

Total Audience Measurement is itself not a product. Think of it as a framework that integrates our measurement capabilities, both existing and the new capabilities that we continue to bring to the market as follow the consumer. For instance, for video, measuring the total audience means measuring live TV, time-shifted TV, over-the-top video on the TV screen, as well as video on a computer, tablet or smartphone.

And here's another important point, each of those measures needs to be comparable to the others so they can be combined to represent the total audience. This is what the market needs. And Nielsen is uniquely positioned to deliver it.

On the second point, redefining the currency. Let's revisit 2006, when C3 was adopted by the industry as the currency. That process took about 12 months of negotiation and collaboration between the agencies and the media companies before they reached agreement. The industry is going through a similar process now except there's a new voice at the table, the digital voice, which adds another dimension to the discussion.

We're in the early innings and we're doing all we can to help move this process along, but ultimately, it's the players in the market who determine the currency. What we can control is our own execution and we're moving rapidly to provide our clients with the solutions they need to see the total audience.

Meanwhile, we continue to renew all of our major television audience measurement contracts. This business is rock solid which is important because despite everything you may hear about the rising use of mobile devices, over 90% of the time spent watching premium video content is still on the TV glass. That includes live viewing, time-shifted viewing, and viewing of content delivered through connected devices like Roku, Apple TV, Chromecast, game consoles and so on.

That said, we follow the consumer. So when they use a computer or a mobile device to watch video, we'll also be there to measure it. Next, our video on demand measurement capabilities are progressing nicely.

In March, we launched our newest measurement product which uses the audio signature of the program to measure the audience. Any client who would like us to measure the VOD viewing of their content on their television screen should simply provide us with the audio signature for the program and then we can measure it.

So far, we have 14 networks and studios signed up and we expect those numbers to steadily increase. And in 2016, we'll add additional capability in this area. On mobile measurement, we're now working with 49 broadcasting cable networks and 15 distributors including several MVPDs.

These numbers are up sharply from just a few weeks ago when we were at 34 networks and eight distributors. In short, we're gaining critical mass. We also made good progress on digital audio where we're working with more than 30 players across the industry to implement our SDK in their apps and players.

We continue to see impressive growth in digital ad ratings, formerly called OCR. 20 of the top 25 advertisers have chosen Nielsen's measurement. And that's up from 18 of the top 25 that we cited in December.

Renewals are strong, impressions are up, revenue nearly doubled in the quarter and we're on track to expand into seven new international markets including China by the end of this year. This is a great product on its own.

It will be even more valuable to our clients once our new Digital Content Ratings product rolls out. Together, these two measurement capabilities are important parts of the foundation of Total Audience Measurement.

Speaking of Digital Content Ratings, our partnership with Adobe is progressing very well. We're on schedule to launch our beta version this summer with the production launch targeted for September 30. In the meantime, we are already working with clients like Hulu and Sony Crackle to measure the audiences for their content.

The players in the market see a lot of growth opportunity here. In fact, an industry report published last week predicted that Web TV advertising revenue could quadruple over the next five years. Thanks to the arrival of Digital Content Ratings from Nielsen working with Adobe.

The bet is that independent measurement along with the precision and the accountability that come with it will boost this market as it has for so many other markets, and this is great for Nielsen. Our Marketing Effectiveness practice, it continued to see strong double-digit growth in the quarter. In fact, it was north of 20%.

In both the Watch and Buy segments, we expect measurement and analytics to continue to converge and that drives big improvements in the precision and optimization. And that leads to better return on investment in advertising. As the ROI of advertising increases, we expect that investment in advertising will also grow and this, too, is great for Nielsen.

Let's now turn to the Buy business. Globally our Buy margins were up for the third straight quarter on a constant currency basis. This is as planned and the longer-term trend line should continue to be positive. In developed markets our Buy business had a solid quarter with revenue growth of 3% driven by our investments in our analytics products, as well as new client wins especially in the relatively faster-growing mid-tier and small client segments.

Our Buy segments innovation practice had a strong quarter. This part of our business is focused on helping our FMCG clients with their new product launches. We forecast the sales potential and then we help them to optimize the launch, and we've been the global leader in this area for many years.

New products are vital to the top-line growth of our FMCG clients, and you've likely heard some of them talk more about this part of their business lately. This is encouraging for both our clients and for Nielsen.

In emerging markets, our business grew just about 10% for the third consecutive quarter. This was driven by growth with both the local clients and the multinationals. The growth was broad-based, including Latin America with strong growth in our core measurement business, Southeast Asia with several new wins, the Middle East with outstanding execution by our team there in a challenging environment, and Greater China where we continue to make incredible progress.

In fact, let me say just a little bit more about China. You all probably read that China's GDP growth in the first quarter was around 7%, which it's been since 2009, yet our growth in Mainland China was over 14%. We continue to make good progress with our e-commerce measurement where we now cover over 70% of online FMCG sales in that market.

We also expanded our relationship with Alibaba by launching an automated new product testing capability called New Offer Advisor on Alibaba's platform. And lastly, we're on track to launch digital ad ratings in China in partnership with Tencent in early May. All in all, another great quarter of progress for Nielsen in China.

So as you can see, 2015 shaping up to be an extremely active and highly productive year for us. We still have a lot of work to do, but we feel great about the path we're on.

Over to you, Jamere.

Jamere Jackson
Chief Financial Officer

Thank you, Mitch, and good morning, everyone. The year is off to a good start. We had good execution around the world with steady revenue growth and margin expansion in the quarter. We are delivering on our capital allocation strategy by investing in assets to grow our business, executing on our share repurchase plan. And as Mitch said, our Board of Directors approved the 12% quarterly dividend increase.

Our business remains well positioned to deliver consistent growth through the cycles, and our strong balance sheet and free cash flow generation capabilities enable us to grow our business and return cash to shareholders in a meaningful way. Again, a great start to the year.

First, I'll hit the total company results for the quarter. Revenue was just under $1.5 billion, up 4.4% constant currency with solid growth across both Watch and Buy. I'll highlight again that this marks the 35th consecutive quarter of constant currency revenue growth, reflecting our remarkable consistency through the cycles.

Adjusted EBITDA was $380 million, up 7.3% constant currency, and adjusted EBITDA margins were 26.1%, up 70 basis points on a constant currency basis, as we delivered strong productivity while we continue to invest for long-term growth. Importantly, we saw strong margin expansion in both our Watch and Buy segments.

Adjusted net income was $173 million, up 14.6% constant currency and diluted adjusted net income per share was $0.46, up 17.9% versus the prior year on a constant currency basis. Our earnings growth was fueled by solid top-line growth, strong operating leverage and our share repurchase plan, which I'll remind you is to execute $1 billion of share repurchases by mid-2016. In the first quarter, we repurchased 3.2 million shares.

Finally, we had a $1 million free cash flow usage in the quarter, down $14 million versus prior year due to timing on CapEx related to ratings enhancements, which benefit both our local and national TV clients in the U.S. These are important commitments that we have made to our clients, and we are executing.

Next, I will move to the segments. First is our Watch segment. In the first quarter, our Watch business revenue was $660 million, up 3.6% constant currency. Now, our revenue was dampened by a 220 basis points drag from actions we took to shed some non-core products, as well as the expected run off of legacy online rankings products, which will be replaced by Digital Content Ratings in the fall. Excluding this impact, the Watch segment grew 5.8% constant currency. Audience Measurement, excluding audio, grew 5.5%; audio grew right around 2%; and Marketing Effectiveness grew 22.7%, building on the strong momentum we saw in the fourth quarter on increased demand for our marketing ROI products.

So, these three product lines which represent 93% of our business grew just shy of 6%. We also added the eXelate business in March. And while the revenue contribution was small in 1Q, we are excited about the capabilities that we have to offer new and existing clients in this fast-growing area of the industry.

Watch adjusted EBITDA was $278 million, up 6.1% on a constant-currency basis. Watch margins expanded nearly a full percentage point as we continue to drive productivity and operating leverage in the business. Our Watch segment has never been stronger. Over the past 18 months, every one of our national clients that has come up for renewal has renewed their agreement with Nielsen, and every major local client that has come up for renewal has also done so with Nielsen including most recently Meredith. This is a great business and we had another strong quarter.

Turning now to our Buy business. First quarter total Buy revenue was $798 million, up 5.1% on a constant-currency basis. Our business in the developed markets was $549 million, up 3% on a constant-currency basis; and our business in the emerging markets continues to deliver broad-based growth with revenue of $249 million, up 10.2% on a constant-currency basis.

In the developed markets, we continue to invest resulting in growth in our subscription-based business as well as good growth from client discretionary spending in areas like advanced analytics, segmentation and innovation. Emerging markets continue to remain strong. In particular, we saw a double-digit growth in Greater China, Southeast Asia and Latin America. Additionally, Africa, the Middle East and Eastern Europe were all up mid single-digits. Our continued commitment to investing in coverage and analytics capability has delivered three straight quarters of double-digit growth in the emerging markets.

Buy EBITDA was $110 million, up 8.9% constant currency. Our adjusted EBITDA margins were up 47 basis points in the quarter as we improved profitability while we continue to invest in emerging markets. Margin expansion in Buy has been a big focus area for our team and we have started to see the benefits over the last three quarters.

Overall, we had a great quarter in Buy with solid revenue growth on a constant currency basis and strong margin expansion.

Next, I'll move to foreign currency impacts. I want to remind you that we report revenue in EBITDA on a constant currency basis to reflect our operating performance. We generally don't take on transactional risk, so this slide focuses strictly on the translation impact for reporting purposes. And like many multinationals, we saw a significant foreign currency impact that resulted in a 650 basis points drag on revenue and a 620 basis points drag on EBITDA during the quarter. The drag was about 170 basis points greater on revenue and about 230 basis points greater on EBITDA than what we laid on our 4Q earnings call which is almost an incremental $0.02 impact on our earnings per share results in the first quarter.

If yesterday's spot rates held constant through 2015, then we expect a 630 basis points drag on revenue and a 530 basis points drag on EBITDA for the full year in 2015. The currency impact represents an $0.08 of share impact versus our February 12 update.

Turning now to 2015 guidance. We are updating our 2015 guidance to reflect the impact of foreign exchange rates. As a result we now see adjusted net income per share in the $2.60 to $2.66 range, down from our previous range of $2.68 to $2.74 a share. This is an $0.08 a share lower on the top and bottom end of the range, and it's solely due to the impact of currency.

On an operational basis, we remain confident on our plans to execute and deliver. All of the other metrics on the page remain unchanged versus our previous update, including our free cash flow guidance of $850 million to $900 million.

So to wrap up, we are pleased with our execution in the first quarter where we delivered steady consistent revenue growth and margin expansion. We are delivering on our commitment to grow our business with investments in the key growth initiatives in both of our segments, as well as coverage expansion in the emerging markets.

Continued execution along with our plans to return over $1 billion in cash back to shareholders in 2015 in the form of dividends and buybacks gives us continued confidence that we have the elements in place to drive long-term shareholder value.

And with that, I will turn it back to Kate.

Kate White Vanek
Senior Vice President-Investor Relations

Operator, we'd love the first question.

QUESTION AND ANSWER SECTION

Operator: [Operator Instructions] Your first question comes from David Bank with RBC. Please go ahead.

David Bank
RBC Capital Markets LLC

Q

Let's start with – I'm going to go up to 30,000 feet, if that's okay. As we kind of head into the up-fronts here, we find ourselves in the middle of these debates about the future of video measurement and Nielsen's role and whether it should sort of center around a census-based set-top box data or panel-based data. And when we look at it, it seems like you solved that problem online by creating OCR hybrid using Facebook data that kind of gross up the panel, right. So you use almost a census basis to gross up the online panel.

So, where are we with that on the traditional TV side? Why don't we have a version of OCR using set-top box data? Is that the right answer? What would it cost? Would it be a big incremental? Is it already sort of embedded in guidance that you'll do something like that and the way we think about long-term margin progression? And is the data actually for sale? Thank you.

Dwight Mitchell Barns
Chief Executive Officer

A

Yeah. Thanks for the question, David. We said back at our Analyst Day in December that the way we think about the future of measurement and this applies to both the Watch and the Buy side of our portfolio, the way we think about the future of measurement – and this applies to both the Watch and the Buy side of our portfolio, the way we think about the future of measurement is that we will continue to draw on our high-quality panels, which provide incredibly high level of quality and descriptiveness around consumers. And also tap into these growing numbers of big datasets available to us in the world, which provide the granularity and they do it economically.

We already do that in some parts of our portfolio, as you mentioned, in the digital audience measurement. But the way we see the future of measurement across all parts of our portfolio is that this is the direction it will go. It'll leverage our high-quality panels and these big datasets in order to get the best of both worlds. And, yes, we do see that applying to television audience measurement in the future as well. We've been clear on that now for quite some time. And we're going to continue to head in that direction. The key, obviously, is to do it in a way that gives full visibility and comfort to the industry as well.

You can use set-top-box data for analytics. That's easier. In fact, we already do that. We do it quite productively in our portfolio and Nielsen Catalina Solutions, which is performing very well, growing very well. It's a much more difficult proposition when it comes to measurement. But difficult doesn't scare us away at all. We're still moving in that direction. We're looking to incorporate those powerful big data sets into our measurement portfolio including television. And, yeah, you'll see us continue to move that direction for the market. But we'll do it with the market with full visibility to them and with their full input as well.

Again, we have access to a lot of this data already. We're always looking to increase our access to it and we'll do that within the normal operating numbers that keeps you within our business. Jamere, anything to add?

Jamere Jackson
Chief Financial Officer

A

Yeah. You mentioned the up-fronts and one of the things that we've seen as it relates to other data sets associated with the up-fronts is the notion of marketing ROI products playing a more prominent role in the up-front. We have a couple of products there and our business in the first quarter was up 30% to 40% in areas like NCS and NBI. So right in line with what David is suggesting and right in line with what we would expect to see at this time of the year.

David Bank
RBC Capital Markets LLC

Q

Great.

Operator: Your next question comes from Toni Kaplan with Morgan Stanley. Please go ahead.

Toni M. Kaplan
Morgan Stanley & Co. LLC

Q

Thank you. So I'm just wondering about the quarter, were the product discontinuations and the declines in the legacy online rankings product included in the original guidance? It just seemed like the other component of Watch was a little bit more negative than you had anticipated at the Analyst Day. So just wondering if that implies that Watch might be a little bit weaker than the original 4.5% to 6.5% constant currency range? Thank you.

Jamere Jackson
Chief Financial Officer

A

So our Watch business is in great shape. And this is the way that we plan the year and we expect the total year to be 4.5% to 6% just as we laid out in December.

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

Todd Juenger
Sanford C. Bernstein & Co. LLC

Q

Oh, hi. I'd like to take my one question and, Jamere, talk a little bit about capital structure, if you would. Given the visibility and confidence you have in your continued revenue growth, the access to continued relatively low cost borrowing and what I think you view as the low price of your stock, is there any reason you had – are you considering maybe upping your leverage, borrowing some more money, and buying back some more shares quicker given all those elements coming together? Thank you.

Jamere Jackson
Chief Financial Officer

A

So, we do operate with a balanced capital allocation approach and if you recall last year we updated our leverage target to the three times area. We're comfortable running the business in this area. We think this gives us tremendous flexibility to both grow our business and return cash to shareholders in a meaningful way. When we talked about our free cash flow allocation we said that we would allocate roughly 45% to the dividend which we intend to grow in line with earnings. We said we toggled somewhere between roughly 40% between buybacks and tuck-in M&A opportunities and the remainder to service a bit. And so we're comfortable running in that area, and we're executing a balanced capital allocation approach that way, and we expect to continue to run the business in the three times area going forward.

Dwight Mitchell Barns
Chief Executive Officer

A

Yeah. It's a great question, Todd. We like the question. We talked about it ourselves on a regular basis, but we like where we are.

Operator: Your next question comes from Andrew Steinerman with JPMorgan. Please go ahead.

Andrew Charles Steinerman
JPMorgan Securities LLC

Q

Good morning. Jamere I want to ask about how much was the Buy discretionary revenue up year-over-year on an organic constant currency basis meaning taking out acquisitions from Harris and Affinnova.

Jamere Jackson
Chief Financial Officer

A

Yeah. So, if you look at Harris, we did have a little bit of Harris stub period there, it was about $8 million in revenue. And then we have the Affinnova business which, if you'll remember, is part of our innovation practice and will actually cannibalize some of our legacy basis business. So, on an organic basis, the Affinnova business probably gave us about 1 point of lift and then Harris, $8 million on our Buy business is probably also another point.

Andrew Charles Steinerman
JPMorgan Securities LLC

Q

Right. So, how much was discretionary Buy organic up?

Jamere Jackson
Chief Financial Officer

A

So, our total Buy business was up $5 million in the quarter – or 5% in the quarter. We had about 2 points from the acquisitions that we just talked about. And I would say our discretionary business was up in line with what we've seen historically if you take those two things out.

Dwight Mitchell Barns
Chief Executive Officer

A

I do want to reiterate, Andrew, we do continue to get new client wins. We mentioned a relatively faster growing mid-Tier and smaller client segments. We've also continued to make some progress even with some of the bigger clients in some of the larger developed markets outside of Europe and the United States, most recently, example of that was Unilever in Australia and New Zealand who had been working with the other provider in those markets in fact for quite some time recently decided to move their business back to Nielsen, we couldn't be happier about that.

Operator: Your next question comes from Sara Gubins with Bank of America Merrill Lynch. Please go ahead.

Sara Rebecca Gubins
Bank of America Merrill Lynch

Q

Thank you. Continuing on Buy. Could you talk to us a bit about how Europe versus North America performed? And to the extent that you can break it out between the more stable formerly called information business and the more discretionary spend, that would be helpful. Thanks.

Dwight Mitchell Barns
Chief Executive Officer

A

Yeah. Sure. Thanks, Sara. So, it's still relatively slower growth environment both in North America in our Buy business as well as in Europe. One thing we did point to on the discretionary side is a little bit more sign of life within the new product innovation area, both within our portfolio, and we see that picking up both at our clients as well.

One reason why we pointed that and it's noteworthy is at least historically, that's been kind of a lead indicator of a little bit more discretionary spend across our portfolio for our clients. I worked in this area of our business in the new product testing area, innovation practice as we call it, for more than half of my time at Nielsen, so I know it well. I love it. And I recall that history when you start to see it pick up, how that often is the lead indicator for some of the other areas of discretionary spend.

Let me just add one other thing. Back to Europe, again, we're not changing our outlook for Europe, but there are, in fact, a few encouraging signs of life in terms of slightly better consumer confidence. So consumers are feeling a little bit better about their personal income, their job security, maybe showing a little bit more willingness to spend off a relatively low base. But we've all been looking for some early signs of life there in Europe, and we're starting to see a few in pockets. It hasn't yet translated into the numbers, though for our business and until that happens, then we're not really going to change our outlook for that particular region of the world.

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

Ryan C. Leonard
Barclays Capital, Inc.

Q

Hi. This is Ryan filling in for Manav. Can you just talk about kind of Nielsen's role in those industry discussions around measurement that you talked about? I mean, obviously, Megan has kind of pitched the idea of total audience in the public, but just kind of where does Nielsen sit in the negotiations between the advertisers and kind of the video providers. And have those talks started yet or are they just beginning or just a little bit of the timing around where we are with that?

Dwight Mitchell Barns
Chief Executive Officer

A

Yeah. Hey, Ryan. Thanks. Look, our first rule obviously is to execute on our strategy, to deliver these capabilities that bring to life all of the elements of the total audience. And as I mentioned earlier, we've been making great progress on every single front. Digital Ad Ratings continuing to make progress, on track with Digital Content Ratings.

Our VOD measurement. We upgraded with our launch of that new capability last month. And we have enhancements to our television audience measurement ratings, both benefiting our local and our national TV clients as the year progresses. So, executing is job number one for us.

Second, though, is, of course, having that data start to flow. In particular for the mobile viewing for our clients, having it start to flow through their systems, having them start to see some incremental rating points find their way into the currency. That's crucial.

And then, the other big thing has to happen is the redefining of the currency. And that's where some of the discussions are still in their early stages, but already underway. Where we're talking about the need for that to happen. There seems to be growing agreement that it certainly does. And then, what are some of the options for what it might be redefined to.

And that'll continue to progress and build consensus as the year progresses. And, again, our role is to foster that conversation, to lay some real options out there, but, ultimately, any redefinition of the currency has to be made. That decision has to be made by the players in the industry themselves.

So, yeah. We'll continue to update everybody on this as it progresses, but those are the key signs to look for. We'll continue to execute, data will increasingly start to flow for some of these new areas that consumers are moving to as they're finding their highly-desired video content, and then this discussion about redefining the currency. Those are the key signs that I would suggest that you look to.

Operator: Your next question comes from Tim Nollen with Macquarie. Please go ahead.

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

Hi. Thanks for taking the question. I'd like to follow up on the mention you made of retiring some of your legacy systems and some of the non-core products. I guess I don't really understand fully what that means. It feels like you've done this before, so if you could explain a bit better what those things are that you are retiring and the difference in Watch growth of 3.6% or 5.8% excluding those. I mean should we expect this to be a recurring theme the next few quarters or is this kind of a one-off shut down and we'll have a cleaner number going forward. Thanks.

Jamere Jackson
Chief Financial Officer
A

Thanks. So, let me add a little bit more clarity there. So, first as I said this is the way that we plan the year and we expect the total year to be at 4.5% to 6.5%. Now, entering the year, the other Watch bucket was around $240 million. Roughly half of that is either non-core businesses which we're pruning and replacing with growth assets like eXelate or the legacy online net rankings product which is being replace by DCR when it launches in the fall.

So, this pruning or sun setting of products is normal course of business for us inside Nielsen and all in all we feel great about our total Watch growth for the fiscal year of 4.5% to 6.5% which we provided in December.

Dwight Mitchell Barns
Chief Executive Officer
A

And again, total Watch has audience measurement which is growing very well. Marketing Effectiveness which has a great quarter and then other and there is a reason why it's called other. So, it's from that other bucket that we pruned and that we have these legacy products that continue to run down. The pruning, I'll only give you one example of the pruning there. We had a product that years ago came into our portfolio through an acquisition that looked good to us back then but no longer really fits with where we're going as a company, product called

Flowshare and what it did was it looked at the sort of market share and switching behavior of consumers in the telecom world.

So, when you would have your monthly mobile phone subscription, maybe it's with one company. You decide to switch to another company. Flowshare was a service that looked at that market share and switching activity. And well, it's just not aligned with where we're going from a strategy standpoint. So that was an example of a small part of our portfolio that we've decided to prove.

This is what good companies do. You don't just live with the portfolio you have. You're always looking to bring great, new capabilities in that are aligned with where you and your clients want to go. And you're always reevaluating what's already there and asking yourself does that still make sense, does that still fit, or is that more valuable at some other company. So that's what this one's about.

Operator: Your next question comes from Anjaneya Singh with Credit Suisse. Please go ahead.

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

Q

Hi. Thanks for taking my question. I was wondering if you could give us a bit more insight or talk a bit more about Nielsen Audio. It seems to be two quarters of less than anticipated growth. Wondering if the Q1 performance is in line with your expectations? If there are any one-off factors there that you can call out? And do you anticipate the progress in digital audio that you spoke to earlier provide any lift to the rest of fiscal 2015? Thanks.

Dwight Mitchell Barns
Chief Executive Officer

A

Yeah. Thanks. Look, it is. It's right in line with where we thought we would be on this. Low-single-digit growth. We still have these other growth drivers that are going to be a little bit slower to build. Let me remind you what those other growth drivers are.

First, it's about international expansion. And we said from the very start in this acquisition that the contracts for audio audience measurement around the world only tend to come up every few years. And so that's going to be a slower ramp. But we're already making progress on that front. We mentioned a couple of quarters ago about winning the audience measurement business in Turkey as one example. And we're always looking for more on the international front.

Second is bringing our analytics capabilities to the audio industry. In fact, Bob Pittman from iHeartMedia was on, I believe, it was CNBC just yesterday talking about exactly this question where the radio industry has always had an opportunity to tell a story more effectively about the return on investment in advertising on the radio platform. And he cited Nielsen as helping in this issue to bring our analytics capabilities and showing what that return is and, in fact, cited that it's better than many people would expect it. So, we will continue to see a gradual build in our business with audio clients in our analytics capabilities.

And then lastly on digital, we mentioned that we now are working with more than 30 of the players in the marketplace with their apps and with their audio players that work through browsers. We implement our SDK so that we can measure the audiences for their digital streaming service. So, that's a great sign of progress.

But what still needs to happen in the audio world is very similar to what we referenced in the video world, which is the digital players and the terrestrial players as well as the media agencies that sit between them need to come together and agree on how those audience metrics will be reported as we bring together the terrestrial and digital parts of that market.

And that's still a work in progress. It is, in fact, progressing but it's not across the line yet. So, that's the summary of where we are on audio. We're right where we thought we would be. And we feel very good about the progress. And we look forward to seeing it continue to unfold.

Operator: Your next question comes from Bill Bird with FBR. Please go ahead.

Bill G. Bird
FBR Capital Markets & Co.

Q

Good morning. I was wondering if you could talk about pricing. For 2015, what does your pricing growth look like for each of Buy and Watch? And do you think you can sustain Watch pricing power given some of the headwinds that TV is experiencing? Thank you.

Jamere Jackson
Chief Financial Officer

A

Yeah. So, we said, total company that we'll get about 1.5 points to 2 points with price, and that's been consistent for the last several years. When we look at where we are competitively at this point and when we look at where we are with our client base, we feel good about sustaining that pricing power now and into the future.

Operator: Your next question comes from the line of Brian Wieser with Pivotal Research. Please go ahead.

Brian W. Wieser
Pivotal Research Group LLC

Q

Hi, thanks for taking the question. Another question on the pricing theme. I was wondering if you could talk about how you're thinking conceptually about pricing with Digital Content Ratings product or alternately how you're thinking about its revenue-generating potential.

Dwight Mitchell Barns
Chief Executive Officer

A

Yeah. Thanks, Brian. Well, it's going to probably play out somewhat differently depending on the client segment. For instance, if you're one of the big media conglomerates and we already have a measurement contract relationship with you, then this product is going to be part of that portfolio where you're paying us to measure your audience no matter where or how or when they are consuming your content. And so, it'll be folded into that arrangement and then they pay us a fee for that measurement. And we love that model, that model has worked great for us historically.

If you're, on the other hand, a digital first player, then our relationship with you might be at a different stage of development. It might be more volume-based. And now we're adding a new metric into that relationship where you might already be using Digital Ad Ratings, where we're describing the size of the audiences who were seeing ads that you're selling around your content, if you're an advertiser, the people who are seeing ads for your brand. But if you're a digital first publisher now, you want to know – you want to have us measure the size of audiences that see the content, not just the ad but the content. That's an additional metric. And it'll probably follow the same path that Digital Ad Ratings did once it was first launched into the marketplace for those kinds of client, the digital first players.

There are other segments as well, but I think those are the two key segments, the media conglomerates and the digital first players.

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

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

Q

Yeah. Thank you. Mitch, what's your view on how the importance or the value of currency rating for video advertising changes in – and increasing with programmatic world relative to the status quo?

Dwight Mitchell Barns
Chief Executive Officer

A

Yeah. Thanks for the question. Well, it's interesting that when we launched digital ad ratings back at the autumn of 2011, if I have it right, one of the segments in the marketplace is one of the earliest and strongest adopters of digital ad ratings was the ad-tech world including the programmatic players. And I think a key reason for that is just because of the fundamental design of that product, it was really very well suited to that part of the market. And we've continued to grow with them as they've continued to grow as a segment. So, we feel really well positioned.

What is programmatic? It's, at its essence automating a part of the process using an algorithm and people want that algorithm to be evaluated. In fact, they want it to be evaluated more than a person. Sometimes, it's really important to have that discipline, and that's what digital ad ratings bring to that part of the market and our metric works exceptionally well for those players.

Operator: Your next question comes from Bill Warmington with Wells Fargo. Please go ahead.

William Arthur Warmington
Wells Fargo Securities LLC

Q

Good morning, everyone. So, a question for you on the competitive landscape. You've had WPP Group make investments in Rentrak and comScore recently, and I just wanted to ask your thoughts on what that means for Nielsen in the measurement space and also in the analytic space.

Dwight Mitchell Barns
Chief Executive Officer

A

Yeah. Thanks, Bill. First, WPP is a big client of ours all around the world and we appreciate them. It's a client we're going to continue work with in that way. What we see them doing as the world's largest media agency is increasing their access to data and technology. So, that they can win more business and also run the business that they already have responsibility for better than ever and we totally get that, understand it and we help them do that every single day.

But it's important to see the distinction between what they're interested in versus the core of our business. They are mostly about analytics, right? They want to use the data to drive the advertising services that they provide to their clients and that's mostly an analytics application. That's separate from what measurement is all about. Core measurement, where it's really fundamental to have independence. So, that's what the clients in the marketplace really require is independence when it comes to the measurement that's used that the marketplace operates on.

So, that's Nielsen's role in the marketplace, is to provide that independent third-party measurement, which is then also used not just as measurement but also as fuel to drive a lot of those analytics that WPP and all the other big media agencies are increasingly relying on to run their businesses effectively.

That's the way we evaluate that, Bill. And again, they're a big important client for us around the world. We look forward to continuing to work with them.

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

Andre Benjamin
Goldman Sachs & Co.

Q

Thank you. Good morning.

Dwight Mitchell Barns
Chief Executive Officer

A

Good morning, Andre.

Andre Benjamin
Goldman Sachs & Co.

Q

I was wondering if you could provide an update on how the partnership with Google is going with regard to the digital ad ratings product? How much of the growth you cited as coming from that partnership versus the other ways that people can use the product? Do you have a sense of how many people are using you versus VCE and any other update on whether users are opting in versus out when they sign up?

Dwight Mitchell Barns
Chief Executive Officer

A

Thanks, Andre. It's going great. Google continues to be a very important growing client for us. As I think you might recall a few months ago, we completed the integration of digital ad ratings into the double click platform. That's working very well.

We continue to work with Google in the direction of expanding the integration of digital ad ratings into the double click platform to other markets around the world too and so we're looking forward to making that happen and we expect that it will.

The double click platform largely focused on the display world which is still very important. And so we're going to continue to stay focused on that. But yeah, as you mentioned or as you referenced, that is the more competitive part of the market.

You think of video and then audio and then display advertising. We feel great about our position in video and our total audience measurement strategy there. Audio, we're seeing great progress with the clients in that part of the market incorporating digital measurement.

And then the tech part if the world, we're better in display advertising, we're more prevalent. That's more of a dog fight. And we're going to continue to work as hard as we can to play as big a role as we can there and the double click platform obviously with the role it plays for the for the industry is an important area for us to do well. So we love the position we have on double click and with Google more generally.

Operator: Your next question comes from Doug Arthur with Huber Research.

Douglas M. Arthur
Huber Research Partners
Q

Yeah. Thanks. Good morning. Jamere, you talked about the progress you're making on margins in the Buy segment. And I guess the question is it a function of getting more operating leverage now that your emerging market revenue growth at constant currency is accelerating. Are you scaling back some of the investment? And so how do you see that playing out, say, in 2016 in a constant currency basis? Thanks.

Jamere Jackson
Chief Financial Officer
A

So, we continue to invest in a disciplined way and expanding our coverage in the emerging markets. What you're starting to see, as we said last year, is that some of those early investments are starting to scale. And as a result of that, you're starting to see some margin expansion, and this is a big focus area of our team.

As those businesses scale and we continue to drive cost out and productivity, then you're going to see Buy margins moving in the right direction. We've made tremendous progress over the last three quarters. And as we look forward to 2016, we'll continue to invest but we expect the margin progress that we've made, particularly in the emerging markets, to continue.

Operator: Your next question comes from Tom Eagan with Telsey Advisors. Please go ahead.

Thomas William Eagan
Telsey Advisory Group LLC
Q

Thank you very much. I was hoping you could give us more detail about the Adobe partnership rollout. Specifically, what do you hope to accomplish by mid-2015, end of year 2015? And then secondly, what metrics will you use to gauge the success of that partnership? Thank you.

Dwight Mitchell Barns
Chief Executive Officer
A

Thanks, Tom. Well, in the middle part of the year is when we're projecting to launch the beta version of this capability for Digital Content Ratings. That'll give clients a first look at it, and we'll start to see some of the data, start to see how it would fit into the system that they use to run their business. And then what we're targeting for the full-scale commercial launch is September 30, and that's when we'll sort of turn the lights on and it'll be operational, if you will. And then we will continue to see the business for that metric grow over time.

Remember that we really aren't active in this particular space right now. You have digital ad ratings out there that measures audiences per ad. And this metric, Digital Content Ratings, is about measuring audiences for content in the digital world and the way clients like to use these two metrics is together. So, the fact that we haven't yet launched Digital Content Ratings in the market really makes it that much more remarkable how well our Digital Ad Ratings product has done with clients. 20 of the top 25 advertisers, impressions are growing rapidly, our revenue nearly doubled in the quarter. And we feel so good about it. We're really accelerating this international expansion as well.

But once Digital Content Ratings comes out there, it kind of completes this system. Digital Ad Ratings will get that much stronger and more valuable because of the complementary nature of it with Digital Content Ratings. And it should really accelerate, where we're going in this part of our portfolio.

Operator: Your next question comes from Dan Salmon with BMO. Please go ahead.

Dan Salmon
BMO Capital Markets (United States)

Q

Hi. Good morning, everyone. Mitch, you talked a little bit about the eXelate acquisition in your prepared remarks and focused on their sort of original business around customer data segments into the programmatic ecosystem and a lot of Nielsen data already being incorporated into that. But more of their recent product launch would be the sort of ubiquitous term data management platform that we hear a lot in that ecosystem, which can mean a lot of different things. But, to me, really always includes the ability to mix in first-party data from clients.

And so, what I'm curious is just hearing a little bit more about how you see the role of that product for Nielsen. We certainly don't think of the company as one that manages the first-party data on a regular basis for advertisers, but it would seem that your clients are likely asking for the ability to bring that in and mix it a little bit better with Nielsen products. And I'd just like to hear from a high level how that product within eXelate will help you with your clients going forward.

Dwight Mitchell Barns
Chief Executive Officer

A

Great question, Dan. You're spot on. We see two really great sources of value, at least, two, from this acquisition. One is the business itself that we acquired in its current form. But then, the second big source of value are the capabilities that reside inside of eXelate and then how we line those up to what we see happening at our clients. And what that is, is our clients – we see marketing. The activity of marketing and our clients wanting to move to what we call the enterprise level where it's much more system-based, where the processes are much more connected, automated, and the capabilities of eXelate feed that desire really, really well.

And then as you pointed out, a lot of these clients have a lot of their own first-party data. But a big challenge for them has been to connect it usefully with data outside of their company. And, again, that data management platform, DMP, capability that eXelate has is the perfect environment in which to do that.

So, these set of capabilities that eXelate has aligns perfectly with a lot of these changes we see happening in the marketing world where it's wanting to move to the enterprise level, and we're going to be able to help our clients do that better than ever, thanks to the capabilities that have come into the Nielsen portfolio through our acquisition of eXelate. So, yeah, we're really excited about that.

Operator: Your next question comes from Paul Ginocchio with Deutsche Bank. Please go ahead.

Paul L. Ginocchio
Deutsche Bank Securities, Inc.

Q

Yeah. I want to go back to the Audience Measurement pricing question. I think you said 1.5% to 2%. I would assume it would have been a little bit higher because of the digital ad ratings capabilities you're pushing through? Are you not getting any additional from those media conglomerates? And can you remind us of the split between how you're going to recoup the investment or capture the opportunity in digital ad ratings between the media conglomerates and the digital first? Is it a 70/30 split, respectively? Thanks.

Jamere Jackson
Chief Financial Officer

A

So, the 1.5 points to 2 points that I talked about was the pricing that we did inside the total company and that mixes differently between Watch and Buy. What I'll say about pricing for digital ad ratings in particularly is this is incremental pricing for us. So, as Mitch talked about the discussions and the negotiations that we have with our existing clients, while it is included as part of our negotiation, this is how we justify the price increases that we have with those media clients.

For the native digital clients, it's all incremental for us. Now, the good news is that as we look at media fragmentation and the difficulty associated with finding those audiences, all of our clients know the technology that we built. They know the capabilities that we've had and these quite frankly have been pretty good pricing discussions for us. We've been able to get pricing. We've also been able to get term associated with it as well.

Operator: Your next question comes from the Ashwin Shirvaikar with Citi. Please go ahead.

Ashwin Shirvaikar
Citigroup Global Markets, Inc. (Broker)

Q

Thank you. So my question is when Digital Content Ratings rolls in, what level of growth rate acceleration should we expect to see in 4Q? Presumably by then the drag from legacy drawdown is gone and replaced by growth. And broadly speaking of remaining a measurement standard, what is the alternative to your push towards total audience measurement? How are the different parts of the ecosystem thinking about this?

Jamere Jackson
Chief Financial Officer

A

Okay. I'll take the first part of that. So, just to clarify, the 3.6% that we had in the first quarter is comparable to the 4.5% to 6.5% guidance that we gave for the full year. This is the way that we plan the year. And if you remember, we said Digital Content Ratings will show up in the back half of the year and that will begin to replace some of our legacy online rankings products. So, you would expect us, as that ramps up, the digital – the legacy products will ramp down and you'll start to see some of that drag from the legacy products start to normalize.

The second piece of that is, again, we've invested in eXelate which is a faster-growing business and that will also start the ramp up through the back half of the year. So, that gives us confidence that we're at 3.6% in the first quarter. Overall, for the year, we're going to be at 4.5% to 6.5% just as we laid out and we're affirming that guidance.

Operator: There are no further questions at this time. I will now turn the call back over to the presenters.

Kate White Vanek
Senior Vice President-Investor Relations

Sorry, about that Ashwin. That was a little bit awkward. But you know where to find us after the call to ask anything else that you need to. I just want to turn it back to our CEO, Mitch Barns, for a few closing remarks. And thank you all for tuning in today. Mitch?

Dwight Mitchell Barns
Chief Executive Officer

Yeah. Thanks. Just a few closing comments. Again, a great quarter for us. Solid financial performance. We're executing on all parts of our strategy, most notably our Total Audience Measurement strategy that all the feedback we get from the market says it's perfectly aligned with what our clients need. Independent third-party measurement that brings comparable currency grade ratings to both content and ads across all these screens, devices and platforms that consumers are using today.

We're making progress on everyone of those fronts, Digital Ad Ratings, Digital Content Ratings, mobile measurement. We talked about the growth and the number of networks and distributors gain critical mass there. Our new VOD measurement capability that we launched last month and then still executing on good old television audience measurement with our rating enhancements plans there as well.

Our Marketing Effectiveness business had a great quarter, double-digit growth, in fact, north of 20%. And again, third straight quarter of double-digit growth in emerging markets for the Buy side of our business. All that coupled with solid margin expansion in both Watch and Buy segments. And then, of course, executing on our balanced approach to capital allocation, increasing our dividend that we announced this morning and continuing on our share buyback program, both of which deliver value back to our shareholders.

So, with that, I'll just say it once again. Thanks for joining us and we look forward to talking with you again in a few months when we report on the second quarter.

Operator: Ladies and gentlemen, this concludes today's conference call. You may now disconnect.