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MANAGEMENT DISCUSSION SECTION

Operator: Good morning. My name is Ian and I will be your conference operator today. At this time, I'd like to welcome everyone to the Q2 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.

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

Kate White Vanek

Senior Vice President-Investor Relations

Thanks so much, Ian. Good morning, everybody. Thanks for joining us this morning to discuss Nielsen's second quarter 2015 performance. Joining me on today's call from Nielsen is Mitch Barns, CEO and Jamere Jackson, CFO. A slide presentation that we use on the call is available under the Events section of the IR portion of our website at nielsen.com/investors.

Before we begin 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 views as of today, July 28, 2015.

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

For the Q&A as we've come to do the past two quarters and we'll continue it here, we ask everyone to limit themselves to one question only so that we can accommodate everybody in the queue. Feel free to join the queue again and if time remains, we will call you. And as always, you know where to find us after the call ends, if you have need for any sort of follow-up.

And 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 today. We had a great quarter. We had important accomplishments across both our Watch and Buy segments. Strong financial results in the quarter reflect the consistency of our business model and once again the outstanding execution by our teams.

The results also reflect a persistent value with Nielsen to independent third-party measurement in a rapidly changing complex marketplace. It's core of what we do and its value continues to grow as we create stronger system level integration between our measurement services and the analytics that help drive improvement for our clients.

Let's walk through a high level look at our second quarter results. First revenues. Constant currency revenues increased 4.8% in the quarter. Watch revenues grew 4.7%, driven by strength in Audience Measurement, which was up more than 5% and Marketing Effectiveness, which grew more than 20%.

Buy revenues grew 4.8% constant currency, fueled by client wins in every region of the world. Developed market revenue grew nearly 3% and emerging markets grew more than 9%.

Next, adjusted EBITDA growth was north of 7% constant currency due to the accretive impact of our investments in measurement coverage, as well as our continuous focus on productivity. Adjusted net income per share grew 14% constant currency to $0.66. Free cash flow was a $154 million in the quarter, up 33%. Our progress on the working capital component was one of the key drivers here. Our strong operating performance enables us to invest in future growth for our business and deliver value to our shareholders through dividends and stock buybacks.

During the quarter, we continued to buyback our stock under our existing $1 billion share repurchase authorization, which we're on track to fully execute by mid 2016. Acquisitions are another key part of our balanced approach to capital allocation, we're extremely pleased with our acquisition of eXelate, which we closed in March.

eXelate is an incredibly powerful digital platform that means multiple data sets, proprietary data from our clients, Nielsen's industry standard data sets and other data sources that form one of the world's largest consumer data bases. It's truly an amazing capability designed for today's increasingly programmatic world and it enables dynamic management of Marketing Effectiveness with the level of precision and efficiency not previously available, appealing to our clients in both our Watch and Buy segments. Last point on this slide, we are reiterating our guidance for 2015.

Next, I'll provide an update on our key strategic initiatives and comment on some of the specific highlights in the quarter. Let's begin with Watch. We continue to make steady progress towards our goal to provide our clients with total audience measurement. It's clearly what the market needs, and it remains our number one priority. As a reminder, total audience measurement is our framework for comprehensive measurement following consumers wherever they go and however they view across all screens, devices and platforms. Nielsen is uniquely positioned to deliver this complete view.

In television audience measurement, contract renewals remain rock solid and we also continue to sign new entrants. A growing number of our media clients are also now supplementing their C3 and C7 ratings with our reaction-based analytics of the sales lift of their television campaigns.

These analytics are complementary to our ratings. Our ratings provide the reach metrics of age, gender and geography and service the underlying calibration and verification for the reaction-based metrics to scale.

We continue to see strong interest from clients for measurement of video on demand using our new signature based method that we launched in March. We already have a wide range of clients using this new service including some studios who like these contents directly to subscription video on demand providers. We're now measuring viewing of nearly 1,000 shows covering nearly 3,000 episodes. So, as you can see, there's a lot of interest here, and this is rapidly emerged as an important component in our total audience measurement framework.

Next, we'll talk about Digital Ad Ratings. We have five important updates here. First, we continue to see impressive growth with the number of campaigns measured tripling year-over-year. We're now measuring well over 1 billion impressions per day. Second, we continue win new clients. I won't list them all, but the two that I will are Anheuser-Busch and MillerCoors, might be a little early in the day to talk about beer, but we're a global company it's 5 o'clock somewhere.

Third, we're also seeing strong growth with existing clients, evidence that our measurement is becoming part of their ongoing business process. Fourth, we're expanding globally. By year-end, Digital Ad Ratings will be available in 60 markets, which together cover 95% of global digital advertising spending.

And number five, our Google DoubleClick partnership continues to progress well. Based on the strength of our work here in the U.S., we've recently reached agreement with Google to expand our DoubleClick integration internationally beginning with Australia, Brazil, Canada, and UK as the first four markets. So, lots of progress on Digital Ad Ratings.

Next, turning to Digital Content Ratings. We remain on track to the fall launch. The level of interest from clients has been incredible. Dozens of clients are actively participating in our client advisory board ahead of the launch, and eight of those clients are already implementing our measurement technology as part of the beta rollout.

In April, we announced a deal with Roku. It's a groundbreaking deal for two reasons. First, it's an important step forward in our coverage of over-the-top viewing using connected devices. Nielsen is the first measurement service offered on Roku's platform which covers more than 25% of the over-the-top market in terms of devices sold. It's a very positive step forward for both Nielsen and Roku. Second, this deal is also groundbreaking, because we're now using our Digital Ad Ratings metric to measure ads dynamically served to a TV screen. This shows the strength of our measurement architecture and its ability to scale to measure any ad digitally served to any device.

In Marketing Effectiveness it was another great quarter with revenues up more than 20%. Our momentum in this area continues to be strong as we integrate our Watch and Buy asset to drive better marketing ROI. As mentioned earlier, this is another area where our eXelate acquisition is proving its value. The client interest is broad based.

We see strong demand from our media clients of course, but we also have major engagements with clients like Walmart who has recently adopted our full suite of Marketing Effectiveness capabilities. We're also working with LinkedIn to develop a global brand effectiveness program for their advertisers. And let's not forget we're also leveraging the same capabilities with our audio clients. Because of the strong broad based growth in this area, we'll continue to invest and the role of eXelate's platform and capabilities will continue to grow here.

Let's now turn to the Buy business. Revenues in developed markets were up nearly 3%. In the first quarter, we saw a modest pickup in discretionary spend and that held fairly steady in the second quarter. I'd like to highlight the stronger growth that we've seen with our small and mid-tier clients particularly with our analytics products. We have a ton of opportunity with these clients. We're performing relatively well as a group and we continue to fine tune our service model for their particular needs.

Earlier I mentioned that we had client wins in every region of the world. I won't highlight all of them, but one notable win I'd like to mention is Coty, the global beauty products company with a strong portfolio across fragrances, cosmetics and skin and body care products. This is a great win for our U.S. business and we're excited to be working with them. In early July, Coty announced their intent to acquire 43 additional brands from Procter & Gamble, making this win even more important for us.

In emerging markets, our business grew over 9% with double digit growth in Greater China, Latin America, Eastern Europe, Africa and the Middle East. Our investments in coverage and analytics in these markets continue to drive consistent sustainable growth.

Globally, Buy margins were up for the fourth straight quarter on a constant currency basis. As you said before, the investments we've made in these regions over the past several years are paying off. In the long-term trajectories for Buy margins will continue to be positive.

Changing topics, I want to recognize all of my Nielsen colleagues who participated in our fourth annual day of service; we call it Nielsen Global Impact Day. More than 22,000 Nielsen employees gave over 100,000 hours of service to 1,400 volunteer activities across 92 countries. This is just one example of how the people at Nielsen act on our belief that our company needs to care for the markets and communities we rely on for our business.

Before I turn it over to Jamere, I want to touch on one more point, Innovation. In our 92-year history, a key to our ongoing success has been our commitment to innovation in all of its many forms. It might be our investments in R&D which among other things, result in our strong patent portfolio. For instance, our Digital Ad Ratings product already had eight patents granted with another 26 patents pending. In other cases, our innovation might involve partnering with other companies to do something more or better than we could do on our own.

For example, we partner with Alibaba to leverage their e-commerce big data platform to help marketers create more successful new products in the highly competitive Chinese market. Earlier this month, I visited our operations in Israel, which markets itself these days as start-up nation. In Israel, Nielsen was the first multinational company granted a government license for its technology incubator. Located just outside of Tel Aviv, our incubator houses 12 startups, all at the cutting edge of innovation and analytics, mobile marketing and consumer information, a very impressive group of entrepreneurs. We're learning from all of them.

Israel is also where the R&D and the technology teams for our eXelate business are based. They are an incredibly talented group who are creating the future for our eXelate business as well as now contributing to technology innovation, all across Nielsen's portfolio. Innovation and technology have been a big part of our past and they will be an even bigger part of our future growth. I've seen it up close most recently in Israel, but it happens all over the world for us at Nielsen. Over to you Jamere.

Jamere Jackson

Chief Financial Officer

Thank you, Mitch, and good morning, everyone. We had a great quarter with steady revenue growth, margin expansion, outstanding free cash flow and solid execution by our teams around the world. Our business remains well positioned to deliver consistent growth through the cycles and our strong balance sheet and free cash flow generation capability enable us to grow our business and return cash to shareholders in a meaningful way. We're very pleased with our progress and execution through the first half of the year.

First, I'll hit the total company results for the second quarter. Revenue was just under $1.6 billion up 4.8% constant currency with solid growth across both Watch and Buy. I'll highlight again that this marks the 36th consecutive quarter of constant currency revenue growth, reflecting our remarkable consistency through the cycles.

Adjusted EBITDA was $468 million, up 7.3% constant currency and adjusted EBITDA margins were 30%, up 72 basis points on a constant currency basis. As we continue to deliver strong productivity and margin expansion in both our Watch and Buy segments.

Adjusted net income was $246 million, up 10.3% constant currency and diluted adjusted net income per share was $0.66, up 13.8% 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.

Finally, free cash flow was $154 million in the quarter, up 33% versus prior year. Our teams are really focused on our cash flow performance and this gives us tremendous flexibility to grow and return cash to our shareholders. Again, a strong quarter for the total business and solid execution through the first half of the year.

Next, I'll move to the segments. First is our Watch segment. Our Watch segment had another great quarter. Revenue was $707 million, up 4.7% constant currency, accelerating growth in Audience Measurement and Marketing Effectiveness, more than offset a 220 basis points drag from non-core other Watch products, which we walked you through in the first quarter.

Our growth initiatives performed well as Audience Measurement was up 5.1% and excluding audio, was up 6.8%. Digital Ad Ratings continued this momentum as the number of campaigns more than tripled versus a year ago, reflecting strong demand from advertisers and agencies, the eXelate integration is progressing well and opening up some exciting growth opportunities with new and existing clients. Marketing Effectiveness was up 21.7% behind strong demand for our reaction products like Nielsen Catalina Solutions and Nielsen Buyer Insights. And we remained confident in our Watch 2015 revenue guidance of 4.5% to 6.5% on a constant currency basis.

Watch adjusted EBITDA was $314 million up 6.1% on a constant currency basis. Watch margins expanded 56 basis points as we continue to drive productivity and operating leverage in the business. Our Watch segment is strong and gaining momentum and as we execute on our total audience strategy and deliver on our growth initiatives.

Turning to Buy, our business had a great quarter with wins in every region around the world and strong margin expansion. Second quarter total Buy revenue was $852 million up 4.8% on a constant currency basis. Our business in the developed markets was $582 million up 2.8% on a constant currency basis, and our business in the emerging markets was $270 million up 9.3% on a constant currency basis.

In the developed markets, we continue to invest resulting in growth in our subscription based business. Discretionary spending has remained steady particularly in areas like advanced analytics and innovation. Emerging markets continue to remain strong. And in particular we saw double-digit growth in Greater China, Latin America, Eastern Europe, Africa and the Middle East. Our continued commitment to investing in coverage gives us a strong tailwind and emerging markets were up nearly 10% through the first half of the year.

Buy EBITDA was $162 million up 9.5% constant currency. Our adjusted EBITDA margins were up 81 basis points in the quarter as we improve profitability and deliver margin expansion while we continue to invest in emerging markets. Overall, we had a great quarter on Buy with solid revenue growth and strong margin expansion on a constant currency basis.

Moving now to foreign currency impacts, I want to remind you that we report revenue and EBITDA on a constant currency basis to reflect our operating performance. We generally don't take on transactional risks, so this slide focuses strictly on the translational impact for reporting purposes. In the quarter, foreign currency resulted in a 700 basis points drag on revenue and a 560 basis points drag on EBITDA, which result in the ballpark of what we laid out on our first quarter call. If yesterday's spot rates held constant in 2015, then we expect a 640 basis points drag on revenue and a 550 basis points drag on EBITDA for the full year in 2015, which is also in the ballpark of our previous estimate.

Moving now to 2015 guidance. Our 2015 guidance remains unchanged, highlighted by adjusted net income per share of $2.60 per share to $2.66 per share and free cash flow of $850 million to $900 million. We remain confident in our plan to execute and deliver.

So to wrap up, we're very pleased with our execution in the second quarter and through the first half of the year 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.

Our 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 confidence that we will continue to drive long-term shareholder value.

With that, I'll turn it back to Kate.

Kate White Vanek
Senior Vice President-Investor Relations

Thanks so much Jamere. Operator, we're ready for the first question.

QUESTION AND ANSWER SECTION

Operator: Your first question comes from Brian Wieser with Pivotal Research. Your line is open.

Brian W. Wieser
Pivotal Research Group LLC

Q

Thanks for taking the question. I was wondering if you could talk about the impact that Marketing Effectiveness growth has on profitability. Just given the other partners that are involved, I was wondering how the profile varies from the rest of the Watch segment? And similarly, do you expect that DCR, once it launches, will have a different profitability at all?

Dwight Mitchell Barns
Chief Executive Officer

A

Well, first Marketing Effectiveness, as we mentioned, second straight quarter of north of 20% growth and it's adding value also to our core measurement products because it enhances or it brings to life, just how important that core measurement is. Core measurement ratings in this case are some of the Buy data from that side of our business underpins a lot of the analytics products they're playing so successfully with clients in our Marketing Effectiveness practice.

So, a lot of that data already is in hand because it's our data. In some cases, it's data that we do acquire from other parties, but the fast growth here makes it very positive from a profitability perspective, Brian.

In terms of Digital Content Ratings, we mentioned that we're on track. It's on track for the beta launch with the A clients that we're already implementing the technology and on track with a more full-scale launch in the fall. It will start to contribute to 2015 revenue, but it's not going to be a big factor this year. You're going to see it start to play a more important role next year.

The other thing I want to remind you about with respect to digital content ratings is – our Digital Ad Ratings product is out there kind of by itself right now, doing great by the way. But once Digital Content Ratings is alongside it in the marketplace with these two metrics designed to be complementary to one and another, that competitive strength of our Digital Ad Ratings product only gets better and so our already strong competitive position with Digital Ad Ratings is only going to be enhanced by that. So, we're looking forward to it. We just can't wait. We feel we're in a great position with this one.

Operator: So, our next question come from Sara Gubins with BAML. Your line is open.

Sara R. Gubins
Bank of America Merrill Lynch
Q

Hi. Thanks. Good morning. Maybe just following up on that. Recognizing that growth from the Digital Content Ratings will be fairly small upfront. Could you just talk about the discussions that you're having with clients and how they're thinking about how – whether or not, they're starting to build it into their budgets yet. Any kind of indications that they're giving about how they might think about the spending over time and how you would expect it sell through – to flow through, is it a new sales process or are they already saying that they'll sign up for it?

Dwight Mitchell Barns
Chief Executive Officer
A

Yeah. Thanks, Sarah. It's, first of all, important to note that there is a wide range of clients out there. In some cases, it's our big media conglomerate clients, in other cases, it's the digital first players, in other cases, we're talking about the agencies. So there is quite a diversity of clients, and some of whom already employ a metric like Digital Content Ratings for planning purposes and others that aren't currently using a metric like that maybe they're using captive metrics that we're planning in some other way.

So that diversity makes it difficult to give you one answer to your question. It really depends on what the client history is. But be sure about it, no matter how the clients work with metrics like this in the past, we're ready to work with them. And we have different business models already in place even with our Digital Ad Ratings product and I think you will see Digital Content Ratings generally fall in line with how those business relationships work.

Jamere Jackson
Chief Financial Officer
A

The other thing I'll add to that is recall also that we have our legacy digital rankings products and we will begin the transition of those clients from that product to Digital Content Ratings and that process is already underway.

Operator: Your next question comes from Dan Salmon with BMO Capital Markets. Your line is open.

Dan Salmon
BMO Capital Markets (United States)
Q

Hi, guys. Good morning. Mitch, could you maybe just spend a little time on Arbitron. It looks like it weighed down what was otherwise some really strong audience measurement growth? Thanks.

Dwight Mitchell Barns
Chief Executive Officer
A

Hi. Thanks. We're still thrilled with our acquisition of Arbitron. We call it Nielsen Audio now. It's on track for low single digit growth which is exactly where we expected to it be this year and we continue to pursue of course the international opportunity that was present, but we always said that, that's going to be slow to develop just given the way those contracts tend to rollover around the world. We continue to give focus through to the analytics opportunity. I mentioned that is part of our Marketing Effectiveness area where our clients in that segment are leveraging the analytics products we have to drive the marketing ROI story around radio advertising, it's also very positive.

And then digital streaming is the other area of opportunities here and we've seen our audio clients respond actually very aggressively to incorporate our mobile measurement technology, essentially the same technology we have for our video clients into their mobile apps and in many respects in fact, they've leaped ahead of our video clients in terms of incorporating that technology.

So, we feel great about where that part is. The other piece though is to get the industry – the major industry players to agree on how we'll report listening of digital streaming and we've been working to build consensus on that. What I'll say to you on that front is, we are very close now, almost there. We expect to be able to push that one across the line in the very near future. Do you have anything to add?

Jamere Jackson
Chief Financial Officer

A

Yeah. The linearity in this business isn't perfect, the timing of deliveries can be little lumpy from quarter-to-quarter, a few hundred thousand dollars considering the growth rate on the quarter. But we will deliver low single digit rate growth in audio as expected in 2015 and the back half of the year will be up around 3% and that's just based on timing of the normal contract growth.

Operator: Your next question comes from Toni Kaplan with Morgan Stanley. Your line is open.

Toni M. Kaplan
Morgan Stanley & Co. LLC

Q

Hi, thanks. Developed market was very strong again at about 3% growth. Can you talk about – you mentioned the advanced analytics and the subscription based products as driving that in the queue. So, could you just give a little bit more color on those products? Thank you.

Dwight Mitchell Barns
Chief Executive Officer

A

Yeah, sure. Thanks, Toni. The key for us in developed markets is, as I mentioned earlier, the small and mid tier segment of clients. We've always been strong with the big global multinationals because of our global footprint, 106 markets around the world, covering more than 90% of population, so really the obvious choice for the big global firms. But that's small-tier and mid-tier client segment is still a great growth opportunity for us and we've been giving that more focus and as I mentioned, fine tuning our service model, to better fit their particular need, and in particular yes the analytics products that have kind of led the front force on that. So, we feel great about the path we're on there. The trajectory we have with those important client segments who generally performed a little bit better in the marketplace than some of their global counterparts.

We see that being true not only here in the U.S., but also in Europe and frankly that same dynamic applies even to the emerging markets where the local companies and rising regional players are generally outperforming the global companies in terms of winning market share, being more nimble with their innovation, just moving a little bit more quickly. So, very important segment of our client base.

Operator: Your next question comes from Andrew Steinerman with JPMorgan. Your line is open.

Andrew C. Steinerman
JPMorgan Securities LLC

Q

Hi. I wanted to jump into the other sub-segment of Watch, which drag constant currency Watch revenue by 220 basis points in the second, which was kind of the same as the first and I have been taking that might be somewhat less. I was wondering if the run-off of legacy net ratings was happening quicker than expected, was that on purpose or natural evolution? And how should we think about this other sub-segment impact in the second half of the year?

Jamere Jackson
Chief Financial Officer

A

Thank you for the question, Andrew. So, we expect the drag to be similar in the back half of the year, recall we walked you through the piece of this in the first quarter. So, the drag of two points was about the same as the first quarter. The reshaping of the portfolio was progressing well and while I won't comment on specific transactions, we feel confident that we'll be largely complete by the end of the year.

We remain confident in our Watch guidance of 4.5% to 6.5% because, the core of our business remains strong and the growth initiatives that we've talked about in Audience Measurement and Marking Effectiveness have great momentum.

Operator: Your next question comes from Bill Warmington with Wells Fargo. Your line is open.

William A. Warmington
Wells Fargo Securities LLC

Q

Good morning everyone. So, a question for you on eXelate. You've had the acquisition now for almost five months. And I wanted to ask if the audience segmentation and real-time analytics were as strong as you hoped and then also when we can expect the division start to have meaningful financial contribution for you?

Dwight Mitchell Barns
Chief Executive Officer

A

It's, Bill. Better than we expected, is really the short answer to your question. Look, we just couldn't be more pleased with the acquisition of eXelate. So far, the business is tracking ahead of plan, the integration is going exceptionally well. The eXelate business itself performing well, but as I mentioned earlier, eXelate team also contributing to other parts of Nielsen's business. And to give you an example, really we recently won the U.S. measurement business on the Buy side of our business with a big global consumer package goods firm who had been working with our competitor here in U.S.

And the key part of our proposal that caused them to switch their business to us, was our digital capabilities. And in particular, the digital capabilities that eXelate allows us to bring to the table. In fact, when I had a call with the CEO of this company after they made their decision, he singled this out as really the driving factor for why they were really excited about switching their business to Nielsen.

So it's great story, it's a story we've been building our company around telling for a long time, it's really starting to find traction in the marketplace and actually it's only added to the strength of that story. So again, you just couldn't be happier with how this one's going and I think you'll see eXelate continue to contribute outside of its historical confines all across our portfolio.

Operator: Your next question comes from Paul Ginocchio with Deutsche Bank. Your line is open.

Paul L. Ginocchio
Deutsche Bank Securities, Inc.

Q

Thanks. Just going back to an earlier question about the small and mid tier in Buy versus the more global CPGs, can you just talk about the difference in growth rates, how are the global CPGs growing? Thanks.

Dwight Mitchell Barns
Chief Executive Officer

A

I think you're asking the difference in growth rates for global CPGs relative to the small mid-tier clients, I'm not sure if you're referring to their growth rates or our growth rates with them, but in either case I think you're going to see a fairly similar picture.

If you look around the world, as I mentioned earlier, the small and mid tier companies, local giants as we sometimes refer to them in the emerging markets, they win market share from the global companies, not in every case, but just in general as a group and largely because I think they've been more focused on top line growth on innovation in particular, they've just been willing to move faster, take more risks and our business profile lines up very well against those clients because of the breadth of our portfolio.

When you're focusing more on growth initiatives, innovation, hey, we're the world leader in those areas, in particular on new product innovation, and so that plays well with that segment of the market. And then as that feeds into those products entering into the marketplace, the core measurement services that we have are incredibly important as they then want to make sure that their Marketing Effectiveness gets optimized. They want to improve their marketing mix, they want to drive increased precision behind those new product launches.

The other thing that happens with the small and mid-tier clients as they often don't have as much staff in-house and so they can tend to be a little bit more reliant on Nielsen to help them through this process and so as I mention that's where we are continuing to work to fine tune our service model to make sure, we're well positioned as we possibly can be in that particular segment of the market.

Operator: Next question comes from David Bank with RBC Capital Markets. Your line is open.

David Bank
RBC Capital Markets LLC

Q

Okay. Thanks. So I think if I triangulate a couple of data points here, you kind of feel solidly like you're executing in the middle of your target range for Watch revenue, but you talked about the building of traction for a bunch of new products: OCR, DCR clients' platforms, Nielsen Audio International as well as the digital platform and the timing issues of contracts and what impacts the growth of that business and you contrast that with the headwinds from net ratings which you have a pretty clear path to kind of comping themselves.

So, if you triangulate this, you really should be able to see a pretty clear path to, consistent performance at the upper end of the range, and probably a breakthrough beyond that into kind of a step function up. And again, if you're looking all the environment you're talking about, one would see that we are – I think we're kind of on the cost of that step function up. Would you agree with that, like could you put any timing around it if you do? Thanks very much.

Dwight Mitchell Barns
Chief Executive Officer

A

Yeah, David, thanks for the question. First, I love your view of the future.

David Bank
RBC Capital Markets LLC

Q

Thanks, great.

Dwight Mitchell Barns
Chief Executive Officer

A

But on the other hand, it does assume that everything goes perfectly, and that's exactly the way we plan, but we also plan for some things to change in the market which has been history, especially the recent history in digital and media all across our watch business. The pace of change right now is fast as anybody can recall in this industry's history. And so, if everything stays in place right now, we're perfectly positioned, we love our competitive position, but things do continue to move around and that's why I think we're not going to give you the answer, and the final answer to your question. But I like the way that scenario can unfold.

Now we have all the places that we can see that our clients need right now in place or in progress, building towards this total audience framework, again measuring that dealing across all of these screen devices and platforms, doing it in a way that's comparable across all those environments, so we can put them all together to give a comprehensive view of the consumer. We're in great position, as far as that critical need that our clients have.

Jamere Jackson
Chief Financial Officer

A

Yeah, David, just a follow-on to that. As I said, look we remain confident in our Watch guidance of 4.5% to 6.5%, because the core of our business remains strong, based on our progress with the growth initiatives that we've talked about and you've talked about here on the call.

If you look at the back half of the year, if you just look at audience measurement being 6% plus, I'd say audio will be up about 3% and Marketing Effectiveness and other Watch does what if did in the first half of the year then, we are solidly in the middle of the guidance range that we gave which gives us a lot of confidence. So the initiatives that you've talked about have great momentum and what gives us confidence to hit the guidance range for the year.

Operator: Your next question comes from the Jeff Meuler with Baird. Your line is open.

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

Q

Yeah. Thank you. I was wondering if you could give an update on from your perspective. Are the industry conservations of creating a new currency metric for video advancing at all meaningfully? And as part of those discussions, is there any meaningful discussion about potentially fragmenting to a multi-currency world or is that not even being discussed. Thank you.

Dwight Mitchell Barns
Chief Executive Officer

A

Yeah. Thanks for the question. We are making progress on that front. First, it starts with our strategy, our focus on this total audience measurement framework. And we're making great progress. Our clients have given us very positive feedback on that strategy, exactly what they need. So, the first thing we have to do is simply to execute on that strategy, which we've been doing, whether it's on digital content ratings coming out to the market, which is on track, whether it's our video on demand coverage, which has grown rapidly over the last few months, over the top through our deal with Roku panel expansion of our television audience measurement panels, a lots of funds where we simply need to continue to execute. By the end of this year, we feel we will be in very good shape in terms of bringing that full total audience measurement framework to reality.

Then the second thing as you've pointed out is fostering this conversation that is necessary for the industry to have, around redefining the currencies. So, what we've been doing on that front in the last few months is meeting with as many of the senior leaders from the major media companies as possible. We have met with the vast majority of them already and we will eventually get to all of them. To get their input and their thoughts on how the currency should be redefined, and don't forget the current definition of the currency C3 or C7 was put in place by the industry back in 2006 and consumers changed a lot since then.

So, the need is for the definition of the currency to be broadened to incorporate more of the ways that consumers are watching television content across all these different environments today. And so we've been fostering that conversation. Eventually, the key opportunity is to bring these industry leaders together having them sit around the same table at the same time and drive towards consensus on this redefinition. And that will be at the front of this as the year progresses.

We're already though seeing signs of encouragement here in the form of our contract renewals with our big media clients. And what I mean here is those contract renewal discussions now are starting to shape themselves around the spring work of total audience measurement. And that's as sign to us that our clients already see where this one is going, and they're already trying to prepare for the future in terms of way their contracts are structured with this. And so for us, that's a real positive sign of validation of their confidence in our strategy and our ability to execute and where they see the future of the industry going.

Operator: Your next question comes from Todd Juenger with Sanford Bernstein. Your line is open.

Todd Juenger
Sanford C. Bernstein & Co. LLC

Q

Oh, hi. Thanks. I'd like to talk on the theme of free cash flow, and free cash flow conversion if I might. Jamere, I know Mitch has talked about this as a big priority, in fact, I think, he said he has it written in big bold letters on the whiteboard across from his desk. I think...

Dwight Mitchell Barns
Chief Executive Officer

A

Yes, I do.

Todd Juenger
Sanford C. Bernstein & Co. LLC

Q

And I know you called out some progress on that in the quarter. So, some of the types of things I'd hope you can comment on is just. Can you talk about some of the specific initiatives that you're using to execute on the goal, the improving free cash flow conversion? What lines on the cash flow and balance sheet will we see that progress on. What does success look like, and if I might just tangle this out there, if you look at the 2016, man, that $1 billion sort of free cash flow target looks like an awfully tempting aspiration. I know you won't give us guidance like that, but maybe do you agree that that's a nice aspiration to shoot for? Thank you.

Jamere Jackson
Chief Financial Officer

A

Well certainly it's a nice aspiration to shoot for Todd, and thank you for the question. Listen, around free cash flow, we're just running the place with intensity. And, you're going to see us execute on the things that Mitch just talked about around working capital. We are working with all of our teams around the world on really the blocking and tackling associated with that.

Because it's an important driver for us, as we look to grow our business and return cash to shareholders. A couple of things that you will also start to see from a free cash-flow standpoint is that, the restructuring rate has gone down as we've gotten through the lion share of the major productivity initiatives and transformation activities inside the company. So running the place with intensity, being really focused on the key working capital metrics will pay huge dividends for us and we're going to put the capital to work.

Dwight Mitchell Barns
Chief Executive Officer

A

And I can't [indiscernible] (40:18) weigh in on this one. We don't have inventory, as you know, Todd, this is largely about payables and receivables and there is no silver bullet. We talked about it with our teams all the time. No silver bullet. This is good old grind it out execution by our teams and whenever it comes down to that, I love the way the Nielsen teams respond.

I know many of my Nielsen colleagues are listening over the phone. So, I just got to give them credit and thank them for their efforts on this front. I know it's important for our investors and we'll continue to progress.

Operator: Your next question comes from Tom (sic) [Tim] (40:54) Nollen with Macquarie. Your line is open.

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

Q

Hi, it's Tim Nollen here, thanks. Most of my questions have been taken care. But, I wanted to ask about media measurement progress, both inside and outside the U.S. in terms of total audience. I certainly heard, what you've said thus far. But ITV in the UK reported this morning, and they said, and I know you're not the provider of measurement services in the UK, but they said they think it will be a good three years before they can get something like a total audience measurement system there. I just wonder if you have any comments on that or any other markets outside of the U.S. and if you could compare that with how progress is in the U.S.? Thanks.

Dwight Mitchell Barns
Chief Executive Officer

A

Our position in the U.S. is unique in many respect size being of course, the most notable win. The consumer – the same thing happening with the consumer almost all – every place in the world. And so, there is the same need of media clients in agencies and advertisers also in all of these other markets around the world. It's one of the reasons why we put such emphasis on our global expansion of Digital Ad Ratings.

As I mentioned by the end of this year, we will be in 60 markets around the world and while there is more than a 100 important markets around the world, the 60 markets that we'll be in, it actually represents 95% of global digital advertising spend. So, we've choosing those markets very carefully and those are the markets where this – yeah, this total audience measurement framework has the most importance to the way advertising dollars are spent in these parts of the world.

So, we're incredibly well positioned there, but it will develop more slowly I think or on a schedule that it will be prolonged than what you're seeing develop here in the U.S. and in the world that we might play market-to-market might be a little bit different as well, in some cases collaborating with other players in the market. I'll give you an example of that – in Germany, the television audience measurement in Germany is provided by another company called GfK, and we're the digital provider. And so it's incumbent upon the two of us to work together in that market in order to meet the needs that the market has and so you will see some of that unfold in certain markets around the world as well.

Operator: Question comes from Andre Benjamin of Goldman Sachs. Your line is open.

Andre Benjamin
Goldman Sachs & Co.

Q

Thanks. Good morning. This is probably for Jamere, I was wondering if you could just talk a little bit more detail about what you're seeing with respect to the discretionary spend in the Buy segment? Should we be interpreting the comments around 2Q being steady as flat versus the first quarter, any color on how you expecting the second half to play out given the conversations you're having? Any particular products that are most in demand or regions you [indiscernible] (43:40)?

Jamere Jackson
Chief Financial Officer

A

Yeah. As Mitch highlighted in his comments, we did see some moderate improvements in the first quarter, actually some of it started in the fourth quarter of last year. And it's remained steady through the first half of the year. Some of our key clients are starting to see an uptick in volume and pricing and that points to a fairly positive outlook for the back half of the year, but I would say steady being what we're focused on for the back half of the year and what we expect to deliver and I would say it's about in line with what we saw in the first quarter.

Operator: Your next question comes from Anj Singh with Credit Suisse. Your line is open.

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

Q

Hi. Thanks for taking my question. Mitch I'm hoping to dig in on some of your comments on Digital Ad Ratings. Could you talk a bit about those in your expansion internationally, it seems you accelerated the pace of rollout a little bit. Could you touch on the drivers there, are you seeing better uptake than you originally envisioned or is there something else? And perhaps one for Jamere, how should we be thinking about ongoing investments in ad ratings in light of you soon being able to cover most of the important geographies?

Dwight Mitchell Barns
Chief Executive Officer

A

First for Digital Ad Ratings. This is largely our plan all along that you see playing out probably the one piece of it, very important piece by the way that jump to queue and happen a little bit faster than what we might have thought a year ago is our rollout of Digital Ad Ratings to China, obviously a very important market.

The way we deliver the Digital Ad Ratings product in most markets around the world obviously is leveraging our relationship with Facebook and their user registration database which of course doesn't serve the same purpose in China. But the good news is there we made a partnership with Tencent, a huge digital player headquartered in that market, and so their user registration database serves the same purpose that Facebook does otherwise in most of the other markets around the world, and that allowed us to accelerate that particular component which obviously is a really big very, very important one.

But otherwise, what you see playing out with Digital Ad Ratings in terms of our global expansion is, yeah, just our plan playing out. There's an important component to it which I did mention earlier, I just want to highlight again and that is our global expansion to our partnership with Google on their DoubleClick platform. And, we continue to work with Google in a very big and broad way. YouTube, lots of Google properties with DoubleClick integration here in the U.S. has progressed very well. And as I mentioned earlier, that led to this expansion into these other markets. We're starting with the first four that I mentioned, Australia, Brazil, Canada and the United Kingdom with more to follow, but that's another piece that is really important part of our Digital Ad Ratings expansion around the world. Jamere?

Jamere Jackson
Chief Financial Officer
A

Yeah, in terms of the investment profile, the platform is already built. So, it will be very efficient rollout for us around the world both from a capital and from an operating expense standpoint. The platform is built, it's scaled very nicely, and so the margins associated with our rollout around the world will be accretive.

Operator: Your next question comes from the Laura Martin with Needham. Your line is open.

Laura A. Martin
Needham & Co. LLC
Q

Thanks for taking the question. This one is for you Jamere. So, your margin expansion was really nice in both segments, especially in Buy, the 81 basis points is above your full year guidance. Could you just remind us what the cost out initiatives are in the Buy segment that you guys are taking and also the productivity focus that's helping the margins in the Watch segment? Can you just remind us what those are?

Jamere Jackson
Chief Financial Officer
A

Yeah. So, on the Buy side of the business, we have four straight quarters of Buy margin expansion. The second quarter was up 81 basis points. The first half was up 64 basis points and we're confident in our ability to deliver the margin expansion necessary in the back half of the year that gets us 50 basis points to 70 basis points of margin expansion for the total company.

I would say there are two key drivers, one is the scale in the emerging markets has given us a lift. So, some of those early investments are starting to scale and we're starting to see nice margin expansion associated with it. And then the second one is really around running a place with intensity around costs and productivity and I give a lot of credit to John Lewis and the commercial teams; and Brian West and the operations teams in terms of making sure that we've got a full plate of productivity initiatives that are continuing to drive margin expansion for us.

And then on the Watch side of the business, from a margin standpoint, we've had great margin expansion in our Watch business historically. It is a business where we get incremental pricing and we get great leverage on that incremental pricing as we continue to deliver to our clients. And so, running a place with intensity around productivity, making sure that we get good leverage on price increases that we get, is what we're doing inside the company.

Dwight Mitchell Barns
Chief Executive Officer

A

Yeah, Laura, for us productivity is a continual process. We don't wait until we have a hole to fill or a problem to cover. I think they are trying to find some cost savings. We're doing it every day on a continuous basis. In fact, when our teams want to come to us to ask us for investment growth, we're always pointing right back to them and say, first thing you do, is you go and find some of the money for growth through your own productivity efforts and start there. So this is just a way the company has built itself and it's a continuous process for us.

Operator: Your next question comes from Bill Bird with FBR. Your line is open.

Bill G. Bird
FBR Capital Markets & Co.

Q

Good morning. In the U.S. what sort of realistic timeframe to get to a redefinition of the TV currency? And then separately how did your local ratings business perform in the quarter? Thank you.

Dwight Mitchell Barns
Chief Executive Officer

A

Thanks for the question. On redefining the currency, we've seen this movie before back in 2006 when current definition of the currency was put in place, C3, that process took about a year and involved a lot of back and forth, a lot of debate and ultimately reaching consensus, and the way, you were to grab it, it probably is something that moves very slowly, very gradually and then suddenly it comes to consensus and my best guess is that's the way it's going to happen this time as well.

What we've done to foster the progress on that front is, I've mentioned earlier is have these discussions engaging all of the senior execs from as many of the big media companies as we can sit down with and working our way through that process.

So, we're listening to all of them making sure that it's right on their radar as well, and then ultimately driving everybody to come together around the same table to push to closure. So again it will probably move gradually and then suddenly like a lot of things happen in the world these days.

Jamere Jackson
Chief Financial Officer

A

And you saw our audience measurement business was up 6.8% excluding audio and local was the key contributor of that.

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

Douglas M. Arthur
Huber Research Partners

Q

Yeah. Just switching back to Buy for a second, the 9.3% growth in emerging markets. I mean obviously that's a lot faster than the sort of big CPGs are growing. If you sort of break that down, how much of it is sort of additional territories covered. And how much of it is actually bringing on local clients. And is there anything at this point sort of holding back the upside in the growth rate there? Thanks.

Dwight Mitchell Barns
Chief Executive Officer

A

Thanks for the question, Doug. Look, we say all time, we're – we continued to be underpenetrated in these markets. We still have a lots of development opportunity in these markets. And so, we should have the ability to grow at a rate that it isn't perfectly tied to what you see happening with GDP. And the second thing to your point, our client portfolio in these parts of the world is diverse, we've worked not only with the big global companies where you see the growth rates that they report, but also these faster growing local firms and rising regional players and our business position with them is very strong.

And key to that for us is, a leadership for our business in these parts of the world. And generally are people who are from those parts of the world. And it's a little bit different than what you'll find from – find in a lot of the other companies. So our leader in China is from China, our leader in Southeast Asia, she's from Southeast Asia. And so they understand how these markets work, how relationships play and your business progress, incredibly well positioned. And that's why we feel confident in our ability to continue the growth rate in the guidance range that we've quoted before for emerging markets which is the 8% to 10% range.

Operator: Your next question comes from Tom Eagan with Telsey Advisory Group. Your line is open.

Thomas W. Eagan
Telsey Advisory Group LLC

Q

Great. Thank you very much. A follow-up on the discussion of video currency. Mitch, last quarter and talking about this you mentioned the need for the data to start slowing, especially the mobile viewing data. So, where are we today in that data flow? And our clients, do they seem to be content with the data itself? Thanks.

Dwight Mitchell Barns
Chief Executive Officer

A

Yeah, thanks. Mobile's a another critical part of our total audience measurement framework in – we are up to more than 120 different networks and distributors now that we're working with our mobile measurement capability. That's up quite a bit from where we were a quarter ago. And data is starting to flow to a lot of those players, lot of those players, just starting to see it. And let me first state, look, mobile continues to be very important and it continues to grow rapidly.

But as companies see more of this mobile viewing data, I think one thing is they realize is it still relatively small, for instance, in relation through video on demand viewing. Video on demand is probably two times to three times bigger in terms of time spent viewing video content than mobile, at-least where we stand today. So, you see more emphasis, more focus being put on video on demand right now, because it's a much bigger part of that viewing, it's currently falling outside the traditional TV environment.

Nonetheless, we're going to continue forward making progress with not only the mobile measurement portion of our total audience measurement framework but every other important part of that framework and by the end of this year, data will be flowing through as many parts of that as possible. We think, we're going to have incredibly complete coverage. And again measuring the consumer comparably across all these environments, so that can be put together to give that complete and total view.

Operator: Your next question comes from Tracy Young with Evercore ISI. Your line is open.

Tracy Beth Young
Evercore ISI

Q

Yes. One question on the tax rate. Should we just be using the tax rate that you had for Q2 for the remainder of the year? And then, just a clarification on margins, should we assume as you improve the margins on the Buy side, if that is coming from the emerging markets? Thanks.

Jamere Jackson
Chief Financial Officer

A

On the tax rate, you saw our guidance for the year, was unchanged on a cash tax number. So, I would use that as you're sort of building your models for the year. We're probably a little bit light in the front half, but we expect to be in that guidance range for the total year.

And then in terms of margins for the year, again we had great progress through the first half of the year. We're up over 70 basis points and we're pretty confident that we're going to deliver that in the back half of the year, based on all the things that we have going.

Operator: Your next question comes from Manav Patnaik with Barclays. Your line is open.

Manav Shiv Patnaik
Barclays Capital, Inc.

Q

Yeah. Good morning. Thanks for squeezing me here. So, correct me if I'm wrong. But I think earlier in the call, for the first time you mentioned sort of being able to measure the dynamic ad measurements, I think that referred to. If you could just elaborate on that and also just some color on sort of your digital strategy in the context of now who will try to move more to subscription, which is ad supported, do you see any trends there that could force you to sort of change that strategy?

Dwight Mitchell Barns
Chief Executive Officer

A

Thanks, Manav. Good to hear you on the call. What we mentioned earlier in terms of dynamic ad insertion that had to do with our partnership, our new partnership with Roku. And the idea that we're already measuring obviously, dynamically inserted ads across the digital landscape, but here now we're able to measure it also on a TV screen. When an ad gets dynamically served to a TV screen, that was one of the groundbreaking components of this deal with Roku.

So, again, highlighting the strength of our measurement architecture, being able to measure an ad that's digitally served to any device, any device, and that's what we think is so important. On our digital strategy, and your point about what you see with Hulu now offering a subscription-only model. The way I think about this funding model question for the industry, consumers love this great content that's out there. And that content has to get paid for, obviously, or else it doesn't get produced, and there are two main ways to get paid for. One is, the monthly cable bill, the subscriptions; and the other is the advertising that funds it. I think a lot of what you see in the industry right now with the growth of subscription video-on-demand Hulu now offering something in that area, skinny bundles all this stuff. There's no downward pressure on the subscription side of the funding model in the ecosystem.

On the other hand, there is the advertising side of the funding model, which I think has a very great future ahead of it. The reason why I say that is, look there is more data coming to the marketplace, there is better technology than there's ever been before. Advertising is able to be delivered with more precision and more relevance than ever has been possible before. And that's only going to drive up the value of advertising. And as the value of advertising increases, I think you're going to see more investment in advertising. It just makes sense, money that would otherwise be spent somewhere else in the marketing budget, we'll find more of that money will find its way to advertising.

So, if you look at that funding model over time, we think the futures bright for the advertising side of the funding model. But yeah right now the dynamics are for continued downward pressure on the other side of the funding model.

Kate White Vanek

Senior Vice President-Investor Relations

Operator, I think that concludes the Q&A portion of our call. With that, I will turn it back to Mitch for some closing comments.

Dwight Mitchell Barns

Chief Executive Officer

Yeah. Thanks again everybody for joining the call. Just a few closing comments before we wrap up. We had a great quarter, solid financial performance. It was our 36th consecutive quarter of constant currency revenue growth, growing margins in both our Watch and Buy segments and of course strong free cash flow growth.

We had great execution on all parts of our strategy beginning with total audience measurement, it remains our number one priority. It's perfectly aligned with what the markets needs. Any independent third-party measurement, bringing comparable currency grade ratings of both content and ads across all these screens and devices and platforms that consumers are going to these days. And it's innovation that's driving our progress on our total audience measurement framework, innovation on Digital Ad Ratings, Digital Content Ratings, VOD over the top, and even our TV measurement through our ratings enhancement plan, innovation there too.

Our Marketing Effectiveness practice another quarter of 20% plus growth and also another area where our eXelate acquisition is helping us to attract new clients and just adding value to our company. The strong quarter for our Buy business, client wins in every region of the world and continued strong growth in emerging markets. And lastly capital allocation, we continue with this balanced approach, we remain focused on delivering incremental shareholder value.

So thanks again for joining the call and thanks for your interest in Nielsen.

Operator: This concludes today's conference call. You may now disconnect.