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Q1 2016 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Operator: Good morning. My name is Carol, and I will be your conference operator today. At this time, I would like to welcome everyone to the Q1 2016 Nielsen Holdings Plc 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.

I would now like to turn the call over to Kate Vanek, Senior Vice President, Investor Relations.

Kate White Vanek
Senior Vice President-Investor Relations

Thanks so much, Carol. Good morning, everybody. Thanks so much for joining us today to discuss Nielsen's first quarter 2016 financial performance. Joining me on today's call is – from Nielsen is Mitch Barns, CEO; and Jamere Jackson, CFO. A slide presentation that we'll use on this call is available under the Events section of our IR website at nielsen.com\investors.

Before we begin our prepared remarks, I'd like to remind you all 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 20, 2016.

We will be discussing non-GAAP measures during this call, for which we have provided reconciliations in the appendices of today's presentation and will be posted on our web site. Our actual results in future periods may differ materially from those currently expected because of a number of risks and uncertainties. The risks and uncertainties that we believe are material are outlined in our 10-K and other filings and materials, which you can also find on our IR site or sec.gov.

And for Q&A, as always, we ask everyone to limit themselves to one question only, so that we can accommodate everybody. Feel free to join the queue again, and if time remains, we will call you. And we all look forward to speaking to you after the call in.

And now, to kick it off, I'd like to turn it over to our CEO, Mitch Barns.

Dwight Mitchell Barns
Chief Executive Officer & Director

Thanks, Kate. Good morning, everyone. 2016 is off to a good start for Nielsen, underpinned by our consistent resilient business model. Our strong financial results in the first quarter were fueled by our Watch segment's progress, with Total Audience Measurement; and our Buy segment's continued strength in emerging markets and growing momentum with retailers. In both Watch and Buy, our teams are executing well, and there's a lot to look forward to for the rest of the year and beyond.

What I'd like you to take away from this quarter's call is that we continue to deliver consistent growth and profitability, all while managing through the ongoing changes occurring in the markets we serve. Our teams do a great job of leveraging change as a means for progress, as they continuously renew and improve the services we provide.

We're continuing to gain client and industry adoption of our Total Audience Measurement framework; our complementary analytics business continues its strong growth; and our global footprint remains a key competitive advantage. It's these factors in particular that give us continued confidence in our business and our strategy going forward.

Looking at the first quarter financials, we had revenue growth of 5.2% on a constant currency basis. Adjusted EBITDA grew 7.2% constant currency, reflecting our scalable business model and our continuous focus on productivity improvement. Adjusted net income per share grew nearly 11% constant currency to $0.51.

Our strong business model enables us to consistently invest in our future growth, while also returning cash to our shareholders. Today, we're announcing that our board has approved a dividend increase of 11%, increasing our quarterly dividend to $0.31 per share.

During the quarter, we also continued to buy back our stock. And at the end of the first quarter, we had almost $800 million remaining under the existing authorization. We remain committed to drive shareholder value through our balanced capital allocation strategy. Lastly, we're reiterating our guidance for 2016.

At a high level, across both of our businesses, Watch and Buy, we do two things: we measure performance for our clients; and we help them improve their performance. Measurement is the core of our business. It tells our clients what happened. Our analytics help them understand why it happened, and what they should do next to improve.

Measurement and analytics are two separate things, and each is important and valuable on its own. But the connection of measurement with analytics makes them both even more useful and valuable. And our efforts to increase this connection are helping to fuel our growth, and they'll continue to do so, long into the future.

In our Watch business, first quarter revenues increased more than 6% on a constant currency basis, including a 7.5% increase in the measurement of video and text. We're seeing significant momentum with our Total Audience Measurement system, where our focus is on driving client adoption. We also continue to expand and enhance our offerings to meet the full range of our clients' needs.

A great example of this is our recently announced agreement with DISH Networks to include their set-top box data as part of our industry-standard TV-rating service. Integrating DISH's data with our panel data fits perfectly with our hybrid approach, panels plus Big Data, providing both the quality and granularity our clients need. This will both bolster our core measurement service and help fuel our analytics capabilities. And initial feedback from our clients has, of course, been positive.

Looking at Digital Ad Ratings, some of you have asked for an update on client adoption. We continue to make progress with publishers and advertisers alike. In March, we added Snapchat to our growing roster of leading digital publishers that already includes Google, Facebook, Twitter, and Pandora. On the advertisers' side, we recently were selected by Unilever in China. And in July, Procter & Gamble will be coming onboard in the United States.

We also are continuing to expand Digital Ad Ratings internationally. In 2016, we're adding eight new markets, many of which are mobile first markets, and that will bring the country total to 25. In China, Sina Weibo, a widely used social media site, has come onboard as a data partner, joining [ph] Tencent (06:39), who we began working with last year. Also, in March, we acquired Informate, a leading mobile measurement provider in emerging markets that support our ongoing international expansion efforts.

On Digital Content Ratings, we have a wide range of clients, spanning big media and digital [ph] natives (06:56), evaluating their audiences for video and text-based content, as well as a robust pipeline of clients, who are actively integrating the SDK. For participating clients, we remain on track for syndication later this quarter. Syndicated reporting will continue to roll out for additional clients, as they go through the onboarding process throughout the year. Meanwhile, we'll also be sharing data with our agency clients, so they can increase their familiarity with the data. So, very good progress overall.

Last week, Facebook announced at their F8 Conference that they're opening up their Instant Articles program to all publishers around the world. Program's been a tremendous success for them, as they seek to provide a better reading experience for their users and help publishers reach their audiences. We're mentioning this, because those audiences will be measured by Nielsen's Digital Content Ratings. So, this is a great example of the growing client adoption that we're seeing.

Next, let's move to Total Content Ratings. We now have about 140 networks, for whom we're reporting time-shifted viewing through day 35, enabling these clients to see the incremental contribution to their total audience. Additionally, we have 55 networks enabled for our measurement of video-on-demand, including subscription video-on-demand through our Total Content Ratings reporting. Overall, we're now covering over 8,000 different program episodes, up from about 6,000 last quarter.

We also enhanced our coverage of TV-connected devices such as Apple TV, Roku, Chromecast, and Amazon Fire. This data is growing through our reporting of Total Content Ratings today, helping our clients to understand how viewing compares across the different brands of connected devices.

Regarding the effort to update the definition of the currency, in March, we had another productive meeting with key industry stakeholders, as we continue to move towards the new, expanded definition of currency for the marketplace. These discussions continue to progress well and are getting much more specific about how the elements of our Total Audience Measurement system will be used in the new definition of the currency.

In advance of this year's Upfronts and NewFronts, our clients, they'are actively engaging and evaluating our data from Digital Content Ratings and Total Content Ratings. We're helping them understand the comparable metrics and the impact to their business. It's crucial for us to work with our clients through this process, and we'll continue to support them, both in their broad client forms, as well as in individual meetings.

It's exciting really to see how these new metrics help our clients understand and leverage the changing ways that audiences are consuming content. Their use of these new metrics will continue to grow throughout the year, leading to a more central role and even greater impact in next year's NewFronts and Upfronts.

One final component of Total Audience Measurement, we also recently announced Nielsen Digital Audio Ratings, which measures radio listening via mobile apps and web players. Our rating has now captured broadcast radio's total reach. This also lays the groundwork for us to measure other audio platforms, where people listen to music, news, talk, sports, and syndicated programs. Radio continues to have incredible reach, with 93% of all adults listening to the radio each week, making it an important productive part of a brand's multimedia plan.

Let's turn to marketing effectiveness. We had revenue growth of nearly 30% in the quarter, and this is largely where our Watch-related analytics fall. And over the past several years, we made significant investments in this space. As result, we now produce the industry's most comprehensive suite of analytics solutions across the broadest set of categories.

In addition, Nielsen data also helps power many of our clients' own in-house selling and buying tools that you tend to hear more about around the time of the Upfronts. The role of analytics for assessing audience segmentation and advertising ROI, as well as fueling activation will only continue to grow. We feel great about our position in this part of the market.

Recently, we strengthened that position through acquisitions like eXelate in 2015 and Pointlogic in March of this year. Even prior to our acquisition of Pointlogic, we worked with them to develop our Nielsen Media Impact service, which is a software solution for cross-media planning. And it's connected to our Total Audience Measurement system. Media Impact, along with our – along with other products in Pointlogic, enables agencies, media owners and advertisers to better plan, activate and optimize the value of their media investments. So, you can see how this Pointlogic acquisition supports both our core measurement and our analytics services for our clients.

Now, a moment ago, I mentioned our eXelate acquisition. And just last week, we announced the official launch of the Nielsen Marketing Cloud, formerly known as the Enterprise Marketing Platform. Look, we know how much you guys love it when we change the name of one our services. So, there you go. That's this quarter.

Well, this Nielsen Marketing Cloud, it impact – heavily leverages our eXelate acquisition. It integrates Nielsen's data management, analytics, media planning and activation applications, all on a single platform to help brands reach consumers more efficiently and precisely and help media companies sell more effectively. We recognize we're not the only out there with the Marketing Cloud capability, but what sets ours apart is our access to the essential core data. That's the key reason why we're seeing strong initial momentum, having already signed deals with over a dozen top fast-moving consumer goods, pharma, spirits and media companies in Q1.

Separately, we also recently announced a partnership with Time Warner, leveraging Nielsen's neuroscience and biometrics tools in their Medialab to help them understand and leverage the changing ways audiences engage with content and advertising. We have a similar long-running partnership with CBS and their Television City facility.

So, again, while measurement has always been and will continue to be the core of our business, we're also a significant player in the analytics space. And our ability to connect measurement with analytics increases the value of each and will continue to drive growth for our business.

Let's turn to Buy. In Buy segment, revenues increased 4.3% on a constant-currency basis. And emerging markets were, again, the significant growth driver in the quarter, with revenues up 10%. These markets experienced volatility from time to time, but with it also comes tremendous growth opportunity. And with our unmatched global footprint, supported by the investments we made in coverage for these markets over the past several years, we love our position. This quarter, our teams once again executed well, and we saw solid growth with multinational and local clients, as they invested in both measurement and analytics.

In developed markets, revenues grew 2%, with our core measurement business remaining rock solid. We saw growth shoots in Europe for the second quarter in a row, which is encouraging and also a huge testament to the efforts of our teams and their solid execution. One of the keys in Europe, in fact, one of the keys to our growth globally, is our progress with our retailer clients. We've had good traction tapping into this opportunity and with our growth driven by our analytics capabilities, as well as core measurement wins and renewals.

And on that front, last week, we reached a new agreement with Walmart. It's a multiyear renewal of our relationship, and it elevates Nielsen to the status of preferred provider for Walmart's data. It also expands the range of our analytics work with Walmart, and it includes the deployment of our latest technology solutions.

Finally, the new agreement also grants Nielsen the ability to provide Walmart's store-level market share to manufacturers beginning in July of 2016.

Moving on to coverage. In parallel with our Watch business that's focused on Total Audience Measurement, our Buy business is focused on total consumer measurement across all channels, including e-commerce. In February, we announced some significant enhancements to our e-commerce measurement capability in the U.S., following the proven formula that combines our high-quality panels with Big Data. This combination enables us to provide our manufacturer clients with both broad and granular coverage of their e-commerce sales, including on the largest platforms. Client reaction has been very positive. Also, a recently announced partnership with Profitero further expands on our e-commerce capabilities.

Lastly, we're making excellent progress in our effort to build a platform-based system that aligns and connects our Buy business' wide variety of measurement and analytics data to drive increased value for our clients. We're thrilled to announce that Kellogg's has signed up to be one of the early adopters, partnering with us, as we build out this connected system for our fast-moving consumer goods clients.

So, as you can see, our teams have been busy, embracing the market's changes and leveraging them as a means for progress, as they execute on our strategy. That's the key to our ability to deliver consistent revenue and profit growth, driving returns for our shareholders.

We feel great about the quarter, and we feel great about the year ahead. We look forward to updating you on our continued progress on our next call.

Over to you, Jamere.

Jamere Jackson
Chief Financial Officer

Thank you, Mitch. We had another great quarter, and I am pleased with the execution and efforts of our teams around the world. The year is off to a strong start and our results are indicative of the consistency and resiliency of the Nielsen model which continues to deliver solid results through the cycles.

First, let me cover our total company results for the first quarter. Revenue was just under $1.5 billion, up 5.2% constant currency. We have delivered 39 consecutive quarters of constant currency revenue growth, driven by strength in our core business and solid execution on our growth initiatives.

Our Watch business grew 6.3% on a constant currency basis, with great momentum in our Total Audience execution, and impressive growth in Marketing Effectiveness. Our Buy business grew 4.3% constant currency, led by continued strength in the emerging markets and new client wins.

Adjusted EBITDA was $402 million, up 7.2% constant currency, and adjusted EBITDA margins were 27%, up 49 basis points on a constant currency basis, with margin expansion in both our Watch and Buy segments. We continue to run the productivity play with intensity and our operations teams led by John Tavolieri is executing against a strong pipeline of projects across the company.

Adjusted net income was $187 million, up 9.4% constant currency, and diluted adjusted net income per share was $0.51, up 10.9% versus prior year on a constant currency basis. Our adjusted net income per share growth was driven by solid operating earnings and execution of our share buyback program. We generated free cash flow of $14 million, up from a $1 million [ph] usage (17:53) a year ago, and we're driving working capital efficiencies within our business. As a reminder, the majority of our free cash flow is generated in the second, third and fourth quarters, and we remain on track to deliver our 2016 guidance of approximately $950 million.

And finally, we continue to deliver on our commitment to drive incremental shareholder value through capital allocation by increasing the quarterly dividend by 11% to $0.31 a share. It's worth noting that our dividend has nearly doubled since its inception in 2013. Again, a great quarter with solid execution and a strong start to 2016.

Next, I will move to the segments. First is our Watch segment. Our Watch segment had another great quarter. Revenue was $694 million, up 6.3% constant currency. Our growth initiatives performed well as Audience Measurement of Video and Text was up 7.5%. Audio was up nearly 1%, and the business continues to deliver outstanding margins and strong free cash flow.

Marketing Effectiveness was up 28.8% behind strong results in the eXelate and Nielsen Catalina Solutions product offerings. Marketing Effectiveness continues to deliver impressive growth as publishers and content owners seek to amplify the value of their ad inventories, and advertisers seek to better identify audiences across all streams and platforms to improve the return on their investment.

Other Watch is about a 2 points drag on Watch revenue, reflecting the impact of our divestiture of the NRG business late in the fourth quarter.

Let me say a few words about our key initiatives. Our Total Audience growth initiative is off to a great start. Digital Ad Ratings campaigns were up 58% behind strong demand from advertisers, agencies, platforms and content owners. We continue to see strong renewals and new wins with clients such as Videology, our demand-side video ad platform; Crackle, a streaming TV network; and Snapchat, along with continued strength with top advertisers.

Digital Content Ratings which provides daily measurement of audiences across all digital content types and platforms with metrics comparable to TV is also off to a great start in 2016. In addition to clients, we're evaluating video measurement data. We're making solid progress with text measurement with the most recent addition being Facebook for their Instant Articles content.

And finally, our subscription Video On Demand product continues to gain traction as the number of episodes we are now measuring for our clients increased by nearly a third versus the prior quarter.

Watch adjusted EBITDA was $297 million, up 7.2% on a constant currency basis. Watch margins expanded 38 basis points on a constant currency basis as we continue to drive operating leverage in the business. In the quarter, we signed a deal with DISH to integrate set-top-box data into our ratings. The acquisition of this rich data set is included in our annual guidance and our teams are executing on our product plan. In addition to helping us strengthen our product over time, set-top-box data will give us significant productivity benefits in operating and capital expense by enabling us to reduce the size and frequency of future panel expansions. Our Watch segment remains strong. We are executing on our Total Audience Measurement growth strategy and Marketing Effectiveness continues to deliver impressive growth.

Turning to Buy, our business had a solid first quarter. First quarter total Buy revenue was $793 million, up 4.3% on a constant currency basis. Our business in the developed markets was $550 million, up 2% on a constant currency basis and our business in the emerging markets was $243 million, up 10% on a constant currency basis. Our teams are continuing to execute in line with the guidance framework we gave for 2016.

In the developed markets, our core measurement business was solid in our two largest markets, the U.S. and Western Europe. We also saw broad-based growth in the emerging markets with double-digit growth in Latin

America, China, and Southeast Asia along with mid to high single-digits in Eastern Europe and Africa. Overall, discretionary spend remained stable with relative strength in areas like innovation.

Buy EBITDA was $114 million, up 7.5% constant currency. Our Buy adjusted EBITDA margins were up 43 basis points in the quarter. This is the seventh straight quarter of Buy margin expansion and we expect Buy to be a strong contributor to our margins in 2016, as emerging markets continue to scale and we execute on the productivity pipeline that I referenced earlier. Overall, we had a good quarter in Buy with solid revenue growth and margin expansion on a constant currency basis.

Moving to foreign currency impact. 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 risk, so this slide focuses strictly on the translation impact for reporting purpose. In the quarter, foreign currency resulted in a 320-basis-point drag on revenue and a 140-basis-point drag on EBITDA, which were both in the ballpark of what we laid out on our last earnings call.

If yesterday's spot rates hold constant through 2016 then we expect a 120-basis-point drag on revenue and a 50-basis-point drag on EBITDA for the full year in 2016, which is slightly better than the forecast we gave last quarter.

Moving to 2016 guidance, we are maintaining our annual guidance. We remain confident in our plan to deliver on all of the operational elements that we laid out on our fourth quarter call, highlighted by revenue growth of 4% to 6% on a constant currency basis, adjusted net income per share of $2.83 to $2.93 per share, and free cash flow of roughly $950 million.

So, to wrap up, the year is off to a great start. And coming out of the first quarter, we have a lot of confidence and momentum in both of our segments. In addition, we are committed to an efficient and balanced capital structure, and we remain on track to return over $800 million in cash back to shareholders in 2016 in the form of dividends and buybacks.

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

Kate White Vanek
Senior Vice President-Investor Relations

Thanks so much. Carol, we'd love to start Q&A.

QUESTION AND ANSWER SECTION

Operator: Absolutely. [Operator Instructions] And your first question this morning comes from the line of Todd Juenger from Sanford Bernstein. Your line is open.

Kate White Vanek
Senior Vice President-Investor Relations

A

Todd, are you there?

Todd Juenger
Sanford C. Bernstein & Co. LLC

Q

I'm here. You hear me now? I'm sorry.

Jamere Jackson
Chief Financial Officer

A

Yes.

Kate White Vanek
Senior Vice President-Investor Relations

A

We hear you.

Jamere Jackson
Chief Financial Officer

A

Good morning, Todd.

Todd Juenger
Sanford C. Bernstein & Co. LLC

Q

Hi. Hello, world. Sorry for that snafu on the mute button. Listen, I'm just saying, I'm sure you get along with your questions on the Watch segment. So, I'd actually like to start on the Buy segment, if I'd may. Now, I remember as Watch was developing toward Total Audience, Mitch, you gave us a really nice outline of sort of milestones over time that were necessary for that rollout and a rough timeframe of how that would progress.

I wonder if you could do something similar for the Buy segment when you think about the sort of move to the platform-based system that you referenced to a few initial clients for how that will be rolling out. Just would love to get a sense of the timing on how that service will evolve, what we could be looking for in terms of milestones in thinking about the growth potential over time. Thanks.

Dwight Mitchell Barns
Chief Executive Officer & Director

A

Hi. Just to clarify, are you referring to e-commerce in particular or more generally?

Todd Juenger
Sanford C. Bernstein & Co. LLC

Q

Well, I think there's a bunch of elements, right? So, I guess, more generally, I think in that sort of – the platform-based – cloud-based architecture around delivering the Buy set of products, as I understand it, more as a new suite of service offerings that I think you hold some pretty exciting potential for as I understand what you're pursuing. So, more holistically I think is the answer.

Dwight Mitchell Barns
Chief Executive Officer & Director

A

Okay. Yeah. I got you. I'm glad I asked because I was assuming it was something else. We do have maybe two different dimensions to coverage. One is measurement coverage, so in the developed markets, that is not exclusively, but it is largely about e-commerce, adding e-commerce into the sales that we cover in our core measurement service right now. And in other markets around the world, it might be more about geographic coverage or covering the marketplace with increasing granularity, giving regional or even city-level views in some of the faster-growing emerging markets around the world.

And this is what we've been investing in as a company for a number of years in emerging markets and then more recently, our focus has now turned to e-commerce coverage for our retail sales measurement service in the developed markets around the world. That's one dimension.

The second dimension that I think you're also touching on is the – how our range of services, both measurement and our analytics capabilities cover the range of business questions that our clients have. And that's where we're really putting together – focused on putting together this system-based platform-oriented approach that we talked about most recently in a very in-depth way at our Analyst Day this past December. I mentioned it briefly at the end of my prepared comments and that's why I referenced that Kellogg's has signed on to be one of our early adoptors to partner with us as we build out this system.

What this is about is taking our core measurement service and our key analytics capabilities, the ones that are focused on the most common and most important business questions our clients have. Each of these are valuable on individual basis right now, but they'll be even more valuable as we connect them together so that they function as an operating system, if you will, to support our clients' marketing and sales and innovation processes in their business. When our services connect together on the technology platform and support one another, and then that system connects directly with our clients' system, then that's going to be very powerful.

Now, to your question about where we are, milestones and timing, we're still in the earlier stages of putting that system together. And that work will continue throughout this year and will be supported by the partnership with Kellogg's and other clients, who I'm sure will want to get on board as well as we build that out. Milestones that you're going to see are just that – it will be very similar to what we've talked about on the Watch side of the business with Total Audience Measurement. It will be a steady growth in client adoption, clients adopting the key individual parts and then gradually, over time, you'll see them adopt the comprehensive system as well. And we'll be sure to update you on future earnings calls about how that's progressing. We don't have a whole lot more to say about it at this stage because we're still in the relatively early stages of that.

As far as growth potential or where really it's going to come down to is, what I commented on in my prepared comments. Measurement's important on its own, analytics are incredibly important and valuable on their own. Connecting these two things together is where the incremental value delivery, opportunity and growth opportunity comes for our business. And that's what we're focused on and pursuing.

Operator: Your next question comes from the line of Tim Nollen from Macquarie. Your line is open.

Tim Nollen
Macquarie Capital (USA), Inc.

Q

Thanks very much. One question on Total Audience Measurement, which is, you're talking now again about syndicating the information later this quarter. I understand what that means, but do you think this could lead to the entire industry talking more about Total Audience viewership of programming rather than the term ratings which we're always using, which is usually live plus same day or C3 and as we all know is limited in terms of total viewership. So, will we, as an industry, be talking more about total viewership of TV programming starting in the next few months?

Dwight Mitchell Barns
Chief Executive Officer & Director

A

Yeah. Thanks, Tim. Great question. I think that's exactly where we would expect the industry to go. Right now, when you hear people refer to Nielsen or ratings, they are generally in most cases referring to the current definition of the currency, so, C3 or C7, which is capturing an important part of total viewing, but of course, many parts are left out of the current definition of the currency. The Total Audience system is all designed to capture all of that viewing, all important viewing across all screens and platforms that are out there.

Right now, there's a disconnect between what Total Audience measures and what the current definition of the currency that the market trades on captures. And so, yeah, either you're going to see people start to talk about Total Audience exactly as you say, or I think just as likely, more likely, perhaps, is that definition of the currency will be revised and expanded to include more of the viewing that's happening on these other platforms, in these other viewing environments that our Total Audience Measurement system was designed to capture.

And so, that's the tension, the very positive and productive tension I think that is now growing and emerging in the marketplace. That's why we've convened these discussions with a broad range of industry players to talk about redefining and updating the definition of the currency, and we're happy to say that those conversations have progressed well and gotten a lot more specific about what the options are for the new definition of the currency.

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

Toni M. Kaplan
Morgan Stanley & Co. LLC

Q

Hi. Good morning. You mentioned that the set-top-box data that you'll integrate from DISH could lead to needing less investment in panels in the future. So, should we expect that Watch margins expand at a faster pace in future years or would you expect that you would use some of that benefit to invest more in other areas and also just how soon could we expect the DISH data to be incorporated in the local ratings? Thanks.

Jamere Jackson
Chief Financial Officer

A

Yes. So, a couple of things, as I said, the set-top-box data integration is actually included in our guidance for earnings and free cash flow. And over time, we're confident that we're able to acquire the data and build the products within our existing long-term financial framework because we have a ton of experience already working with set-top-box data. And as I mentioned, on the plus side, set-top-box integration is going to enable us to gain OpEx and CapEx efficiencies by reducing the size and frequencies of panel expansions over time. You got to remember that panels are very expensive, and so, we expect those productivity benefits to be plowed back into our business to either help us improve the profitability of our business and/or reinvest that into new products over time.

In terms of the timeframe of DISH being integrated, the teams are already working on the product plan. We won't be [indiscernible] (33:14) certain about that integration but the good news is that we have a lot of experience there, and I would expect that by the end of the year, we will have sort of the first generation of that in the marketplace for our clients to start to take a look at.

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

Manav Patnaik
Barclays Capital, Inc.
Q

Yeah. Hi. Good morning. I just wanted to try and get a little bit more color on your industry discussions that you talked about in terms of setting the new currency and sort of in the context of, I guess, when you said they're getting more specific, what are the, I guess, the critiques of what's out there, what needs to be done, and maybe in the context of also – the competition, obviously, has been putting out a lot more of their own press releases around getting that Total Audience figured out. So, does that come up in discussions? Are they part of it, or is it just you guys talking to the industry?

Dwight Mitchell Barns
Chief Executive Officer & Director
A

Hi, Manav. Yeah. Thanks for the question. As far as getting more specific, we've just seen a very clear progression at these various broad meetings of all the industry players that have occurred over the past several months. You see the conversation evolve, and then now we're looking at some very specific options, actually what that reference is about. It wouldn't be appropriate for me to go further than that, and share the specific details. I want to get out in front of our clients on that. So, I'm going to stop there as far as that goes.

Your point about critiques in the marketplace is a good one. And interesting is, look, everybody, Nielsen included, wishes all of these were in the marketplace a year ago, if not even sooner than that. So, that's one critique. And another critique is that as some of these elements of the Total Audience Measurement system have rolled out, we also get the opposite, which is too fast, we need more time to understand the data and the impact on my business. And so, we work closely with our clients on that to support them as they grow in their familiarity, understand the impact to their business. And as we've done throughout this process, we calibrate the timing of the next step of the rollout based on that client feedback. So, the good news is the product is in great shape. We are continuing in our confidence that this system fits perfectly with what the market needs. And so, we're going to continue to execute on our plan and build client adoption and work closely with the industry as each of these steps unfolds in the marketplace.

Operator: Your next question comes from the line of Sara Gubins from Bank of America Merrill Lynch. Your line is open.

Sara Rebecca Gubins
Bank of America Merrill Lynch
Q

Hi. Thanks. Good morning. A margin question. You've talked about the margin contribution as you're being more heavily weighted towards Buy than we've seen in the past. But for the first quarter on a constant currency basis, Watch and Buy margin expansion was pretty similar. Should we expect that gap to widen over the course of the year?

And along with that, if you could help us think about the investments in Watch to support Total Audience Measurement. I know that it's already in the guidance, but in particular, I'm thinking about areas like commercial investments to drive Digital Ad Ratings growth. Thanks.

Jamere Jackson
Chief Financial Officer

A

[ph] Great (36:38). Thanks, Sara. As we said earlier in the year, we expect Buy to be a larger contributor to margins in 2016 as we invest in Total Audience and Watch. In terms of those investments, those investments will include driving penetration of DTR and DAR. The effects of the panel expansion effort from 2015 will roll [ph] through (36:58) the numbers this year, and then the set-top-box integration that we talked about.

So, we do expect over the course of the year, those investments will ramp up on the Watch side. And you'll see more of a gap between sort of the Watch margin expansion and the Buy margin expansion. But over time, we'll get to the 50 basis points to 70 basis points guidance for the total company for the total year.

Operator: Your next question comes from the line of Ryan Cary from Jefferies. Your line is open.

Ryan Allen Cary
Jefferies LLC

Q

Good morning. And thanks for taking my question. We've seen some reports – some recent reports that a number of networks were providing ad guarantees outside of Nielsen, instead piecing together both internal and third-party data. And while it is clearly still very early and probably a relatively small slice, do you see this potentially becoming a larger concern going forward or is there something more that you believe will be addressed with the broader use of Total Audience?

Dwight Mitchell Barns
Chief Executive Officer & Director

A

Yeah. Thanks, Ryan. Look, it's that time of year around the Upfronts, this happens every year where a lot of the big media companies will come out with some of their own in-house selling tools, some of their own in-house analytics, and it's smart. They are looking to differentiate themselves from the pack and that's what good sellers do. So, that's really what we're seeing right now.

And one thing that's important to know is what's powering many of those in-house selling tools and a lot of those proprietary analytics that you're hearing about is Nielsen data and Nielsen analytics. And, in fact, it's one of the reasons why our Marketing Effectiveness business saw such good growth in the first quarter of this year, up almost 30%. So, look, this is just the time of year.

I think the important thing to think about when we see these metrics coming from the big media companies is to also think about it from the buyer's side. So, a buyer sees those proprietary metrics and, of course, they're interested in them. But they also want a broad view of the market. They want comparable metrics that enable them to compare across all of the places where they can invest their money. And those captive metrics from the individual media companies don't satisfy that need that the buyers have on their side of the table.

And Nielsen obviously supports that, and it's in the central role that we play in the marketplace, that broad view, independence, in the picture. Meanwhile, a lot of these other analytics still can be very helpful as additional views of the marketplace to provide supplementary guarantees, supplementary understanding of how to find value as you seek audiences if you're an advertiser.

Jamere Jackson
Chief Financial Officer

A

Yeah. And this has been good for our business. I mean, if you look at Marketing Effectiveness growing 28.8% in the first quarter and you look at some of the analytics that many of the media companies are using to differentiate themselves and amplify the value of their inventories, it's been good for our business as well. I mean, our eXelate business is up 24% in the quarter, Nielsen Buyer Insights is up 15%, Nielsen Catalina Solutions is up 42% in the quarter. So, this explosion of analytics being powered by Nielsen data set is really good for our business as well.

Dwight Mitchell Barns
Chief Executive Officer & Director

A

And the way that we orient those analytics is, of course, closely connected with our core measurement service and the two both amplify the value of each other.

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

Andrew Charles Steinerman
JPMorgan Securities LLC

Q

Hi, Jamere, could you go over organic growth in the Watch segment and just remind us what you're adjusting for to make those organics?

Jamere Jackson
Chief Financial Officer

A

Yup. So, for the Total company, we had about 70 basis points of inorganic contribution. It was a combination of eXelate and NCS. It gave us about 130 basis points up. Energy was about a 60-basis-points drag. If you were to take that down to the Watch segment, the Watch segment was about 5% inorganic – or, 5% organic and that was the combination of eXelate being about a point up, NCS giving you about two points up and then Energy being about a 170-basis-points drag. So, 5% organic in Watch and the Buy number up 4.3% was pretty much all organic.

Operator: Your next question comes from the line of Thomas Eagan from Telsey Advisory Group. Your line is open.

Thomas William Eagan
Telsey Advisory Group LLC

Q

Great. Thank you. There's been a lot of question about deduplication and whether Nielsen or their competitors are better at deduplicating the audience. As campaigns become increasingly hybrid by design with linear and digital components, would you talk about that? Thank you.

Dwight Mitchell Barns
Chief Executive Officer & Director

A

Thanks, Thomas. Incredibly important is this idea of deduplicating the reach of ads and of campaigns in the marketplace. As an advertiser, reach is – it's got to be your first priority. It's incredibly important. So, if you're going to have a measurement system that covers all these different environments where consumers are consuming content and then you're going to put them together to represent the total audience, being able to deduplicate that reach is really important to the buyers of that advertising inventory.

We have the best deduplication methodology out there in the market. And the reason for that is our access to persons-level data. That's really the key. It's not about IP addresses or about devices. It's not about the size of your data set. It's really quality and it's access to persons-level data. And that really plays to the historical strengths of our measurement system and also the strengths of how our Total Audience Measurement system was designed.

And so, we can always continue to advance our capabilities on things like this, and we will. But we have the best one out there now and we know how important it is for the marketplace, if you're going to deliver a total audience view to the world.

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

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

Q

Yeah. Thank you. Any additional perspective on the Buy developed markets growth and I ask from the perspective I know that Q4 was strong from a discretionary spend perspective, but I think you called out the discretionary spend is stable and you're still calling out Europe as a positive. So, just – any additional perspective would be helpful.

Jamere Jackson
Chief Financial Officer

A

Yeah. So, our developed markets were 2% growth in the quarter. And we guided 1.5% to 3.5% for the year, so the performance is in line with the guidance. I think we saw a couple of things. One, the U.S. and Europe which represents roughly 85% of our developed market had a very good quarter in terms of our core measurement business, both in the low single-digits. Western Europe is actually strengthening. We saw strong results behind new clients and innovation. So, core measurement up low singles, and the discretionary environment in Europe has actually improved and the discretionary environment was actually in the mid singles.

From a U.S. standpoint, the core measurement is strong and that's where we saw some of the increase in discretionary spend in the fourth quarter behind some historical data sets that we sold. So, that cooled down a little bit. And remember, discretionary spending can be a little lumpy after a big quarter. So, overall, 2% growth, that's in line with our guidance, and we feel pretty good about our two largest markets performing very well through the balance of the year.

Operator: Your next question comes from the line of Brian Wieser from Pivotal Research. Your line is open.

Brian W. Wieser
Pivotal Research Group LLC

Q

Hi. Thanks for taking the question. As you know, there's many other companies out there with marketing technology suites and they all have different offerings. They often don't overlap. And with acquisitions and investments, they – maintaining capacities are running into each other and potentially including yourselves and vice-versa. So, I'm wondering, with your Marketing Cloud product, do you have a framework for thinking about what you want Nielsen to do in the space, where you want to support [ph] or (45:01) versus where you want to support marketers' use of complementary software?

Dwight Mitchell Barns
Chief Executive Officer & Director

A

Yeah. Great. Thanks, Brian. Look, this is largely about activation for our clients. We have lots of great data. We have lots of great analytics. Sometimes analytics are about helping our clients to learn to plan, to think about strategy, but in many cases, the analytics are really about action, activation. They want to use it to more precisely target the audiences in the marketplace that they are aiming at for their brands' growth, whether that's through advertising or through other elements of the marketing mix.

That's what our Cloud is designed to do. And what differentiates our Cloud from some of the other cloud capabilities out there in the marketplace is our access to the essential core data. We start with the core data, whereas other cloud providers maybe have great technology but they have to go find the data. So, that's our point of differentiation.

The way our commercial teams are approaching this, going forward, is we're not going to take proprietary approach, where everything has to go through our cloud. We're going to have our cloud out there. It'll have its strengths. And the clients who want to work with us on our cloud-based capabilities for activation, we're going to work with them, and we'll be very happy to do it.

But in other cases, the client might choose to use some other providers' cloud, and we're going to collaborate very productively with those other cloud-based providers, because we know the value of our data. And it'll be very important to those other cloud-based providers to have access to the essential core data that Nielsen brings to the table. So, we're going to work through both models. All the value ultimately comes back to our data, which is our historical strength and our most important point of leverage in the marketplace.

Operator: Your next question comes from the line of Andre Benjamin from Goldman Sachs. Your line is open.

Andre Benjamin
Goldman Sachs & Co.

Q

Hi. Good morning. I really just want to know how we should think about monetization of Total Audience Measurement as you approach syndication, and how we should think about the impact on the credit revenue growth, both in the second half of this year and 2017 versus recent – I think you've put a constant currency growth on Watch above your 6%, kind of the upper end of the range for the last two to three – two of the last three quarters.

Dwight Mitchell Barns
Chief Executive Officer & Director

A

Thanks, Andre. Well, I think the way to think about Total Audience, at least right now, is that it's one of the reasons why our business had continued its solid mid-single-digit growth in a what is a very dynamic and changing marketplace. With our audience measurement of video and text up 7.5% in the quarter, one of the reasons is our clients continue to invest in our capabilities, because they see what Total Audience is able to do. And they see how it fits with where their business needs to go.

That's why our contract renewals with our big media clients are good. That's why our analytics capabilities and our Marketing Effectiveness business – why that business continues to grow so well. And so, for our big media clients, that's the way we monetize this capability.

We also have though the digital first clients out there. More of that revenue, that Total Audience attracts – more of that's incremental to our business. But it's a smaller component of our total revenue picture. And while it certainly contributes to our growth and will continue to do so, it's not the more important of the two. The more important of the two is the core business that we have with our big media clients.

Operator: Your next question comes from the line of Anjaneya Singh from Credit Suisse. Your line is open.

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

Q

Hi. Good morning. Thanks for taking my question. I was hoping you could offer some more color on the Marketing Cloud. Hoping you can perhaps explain what you've added, improved or augmented, since you bought eXelate, or when it was just EMP. And then finally, any thoughts on how you expect the product offering and opportunity to evolve over time? Thanks.

Dwight Mitchell Barns
Chief Executive Officer & Director

A

Yeah. Great question. We just rolled it out. You're exactly right that eXelate is at the center of this Marketing Cloud capability. But other than that, what we're doing is taking already existing components, which were valuable on a stand-alone basis, and we're bringing them together and connecting them in a system in this Marketing Cloud capability.

So, we didn't have to go invent new capabilities, or at the moment, not important new components for this Marketing Cloud. What's new is the connectedness of all of these already proven capabilities and then delivering that system of capabilities to our clients, so they can activate with even more precision, more efficiency and more speed. But, yeah, clearly, powered by the capabilities that came to Nielsen through our acquisition of eXelate in 2015.

But, otherwise, not requiring any new invention or any new components, at least not at the initial launch. But even having said that, as we mentioned, very strong initial interest from clients across a pretty broad range of industries already here in the first quarter. And you're going to continue to see the clients who are signing on to our Marketing Cloud capability growth throughout the year.

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

Douglas Middleton Arthur
Huber Research Partners LLC

Q

Yeah. Thanks. Jamere, just on the 10% growth at Buy's emerging markets, you may have touched on this before, but how do you see that playing out for the rest of the year? Any wobbles that you're expecting in subsequent quarters, or you see that kind of trendlining?

Jamere Jackson
Chief Financial Officer

A

Yeah. We guided 8% to 10% for the year. We still feel pretty good about that guidance range. Certainly, I'm encouraged by the performance in the first quarter, where we saw a broad-based growth, but there are no indicators today that would suggest that we need to change what we put out in terms of guidance.

Douglas Middleton Arthur
Huber Research Partners LLC

Q

Okay. Thanks.

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

Daniel Salmon
BMO Capital Markets (United States)

Q

Hey. Good morning, everyone. I'll return to the Buy segment with maybe a question for Mitch on the expanded Walmart deal. Maybe two parts. Could you – you mentioned the preferred provider designation. Could you tell us a little bit about how exclusive that is versus some of your competitors for certain products?

And then maybe more importantly, what you think it may be able to do to generate interest from other clients? Is there a bit of a flywheel effect to it? Thanks.

Dwight Mitchell Barns
Chief Executive Officer & Director

A

Thanks, Dan. Yeah. Happy to talk a little bit more about this. The preferred provider designation is Walmart elevating us from what we – they refer to as primary provider in the past to status preferred provider. And what it is, it's a signal to the marketplace that if you're going to come and – if you're a supplier to Walmart, and you're going to come to Walmart, and you want to make your pitch, they want you to use Nielsen's data, Nielsen's hierarchy. They want a common hierarchy, a common view of the world for the providers, the suppliers, as they come to Walmart. That helps Walmart, obviously, operate more efficiently, less variation in all the different views that they have to interpret as they're pitched by their suppliers.

And so, that's what that means? It doesn't mean that a supplier can't use data from another measurement provider, but Walmart's signaled their clear preference for how a supplier should pitch to them.

The other things that this deal expands on, it increases the analytics work that we do for Walmart. We already were doing some analytics with them. They've liked that, they've seen it as being valuable. And so, basically, what this contract renewal does is it makes that work continuous with them as opposed to more project-oriented. And it's a real strong validation of the value that they've seen from the – whether it's the pricing analytics or the assortment optimization analytics, all the different things, including our marketing mix capabilities. Because, of course, Walmart is a big advertiser, and so our marketing mix capabilities help them to get more ROI out of the money that they spend to promote their brand.

This other element that I mentioned, too, which is we're now, for the first time, enabled to provide Walmart's suppliers with store-level market share. That's a key thing, too. So, if you go around into your town, if you have a Walmart where you live, there's a Walmart there, there's a trading area that's defined around that individual store. So, suppliers always knew what their sales were in that store, but they didn't necessarily know what their market share was in that trading area around that Walmart store. So, we're now able to provide that kind of perspective. And that is really important to both Walmart and to Walmart's suppliers, the manufacturers that we're also working with. Those are the key components.

And then as far as how it'll play beyond Walmart, well, it's a signal to the other retailers in the industry that the biggest retailer in the industry has designated Nielsen as its preferred provider. We're certainly very happy about that. We think that's quite meaningful. And then in the other markets around the world where we already work with Walmart, we look to leverage some of the components of this relationship with Walmart U.S. in many of those other markets where we're already actively engaged with this – the biggest retailer in the world.

Operator: Your next question comes from the line of Hamzah Mazari from Sterne Agee. Your line is open.

Hamzah Mazari
CRT Capital Group LLC

Q

Hey. Good morning. Thank you. Just a question on the Buy segment. Mitch, could you give us a sense of what percent of the emerging markets within Buy are still underpenetrated or lack scale? A couple of years ago, you guys had highlighted the margin gap between early-stage versus late-stage emerging markets, so just trying to get a sense of the opportunity there. Thank you.

Dwight Mitchell Barns
Chief Executive Officer & Director

A

At some level, I would say, all of them, because I know some of our Nielsen teams are listening on the call, and we want them [ph] all to see the (55:22) – there's truth to it that emerging markets, there's always been two opportunities for us. One is to sort of catch up to the rapid pace of change in these markets, which we've done very successfully in the last several years. And then, the other opportunity is created around keeping up with that ongoing pace of change. And that's going to continue in a lot of these markets.

So, as that happens, there's also another dimension, which is the maturity of marketing in those markets. So, if you look backwards, a lot of the growth for our clients is about gaining distribution as the retail environment starts to develop. And as it develops, and especially in the larger cities, then it starts to become more about a market share gain. And that's where a lot of our analytics capabilities start to become more important.

So, we're still underpenetrated on that front in almost all of the most important emerging markets around the world. And so, we still – when we look out into the future, we still see very good growth opportunity, and we continue with this, yeah, 8% to 10% range, not only for this year, but as far as we can see into the future.

Operator: Your next question comes from the line of Tim McHugh from William Blair. Your line is open.

Tim J. McHugh
William Blair & Co. LLC

Q

Hi. Yes. Thanks. Just wanted to ask on the set-top box data. You talked about savings there, but how much more investment is necessary? Do you want more data sets, or is the DISH relationship enough for you to build, I guess, what you envisioned using that for in terms of your measurement approach?

Dwight Mitchell Barns
Chief Executive Officer & Director

A

Yeah. Thanks, Tim. First, we're happy with the DISH deal, very happy with the DISH deal. But we are looking to add to it. And the good news is we've got a lot of options out there. But also the good news is we don't need them all. The key is coverage. So, it's not about quantity as much as it is about coverage. And each of them has a slightly different footprint or skew to it. It's putting together the right combination that then gets put together with our high-quality measurement service that's already out there, the panel-based approach. Putting those two data sets together, you get the best of both worlds.

So, again, we have a lot of options out there. We're looking to have more, but we don't need them all. Jamere, anything to add to that?

Jamere Jackson
Chief Financial Officer

A

No. I think you covered it. The key is coverage. You don't need every provider. And you can build products within the existing financial framework, because we've got a ton of experience working with the data already.

Dwight Mitchell Barns
Chief Executive Officer & Director
A

Yeah. And I think Jamere mentioned it before, which is when you start to add set-top box's data into the mix, it will leave some of the pressure on our high-quality panels, so the need to increase the size of those panels to deliver against what our clients need, some of that pressure gets backed off, because you did some of the needs delivered by the set-top box data.

Operator: Our final question this morning comes from the line of Gary Bisbee from RBC Capital Markets. Your line is open.

Gary Bisbee
RBC Capital Markets LLC
Q

Yeah. Hi. Good morning. I guess, I wanted to ask about the retailer opportunity in Buy, and last year you've talked a lot about that. But could you give us some historical context, what has been the revenue contribution from retailers? How big do you see that opportunity, and how much do you have to develop your offerings more to really go after that versus what you've already got in place for that? Thank you.

Dwight Mitchell Barns
Chief Executive Officer & Director
A

Thanks, Gary. Look, we – we've been very focused on retailers for a little bit more than the past year, because not only they're important data providers that help fuel our retail measurement service, which they have been for a long time, but we also see a growing opportunity for our business to support them in their marketing and merchandising efforts, just how they run their business overall. And we do a lot of that to the analytics capabilities that we have. And also, we know that a lot of our Watch data assets could be very valuable and important to the retailers.

And so, we've been more focused on that in the past year or so, and we've been seeing very good growth with our retailer clients all around the world. Big retailer in Europe called Casino, we've done some very large projects and doing a lot of work with them. Giant Eagle, Dollar General, we mentioned Walmart, Target, Meijer, lots of major retailers that we really stepped up our level of engagement and the breadth of our activity with. And a lot of that additional activity has been around the analytics capabilities that we bring to the picture.

We said on the last earnings call that we still are underpenetrated in this area. And that we see half a point of global growth from retailers over the next three years to five years.

Kate White Vanek
Senior Vice President-Investor Relations

Carol, I think that wraps us up.

Operator: Absolutely. I'll just turn the call back over to the presenters for any concluding remarks.

Kate White Vanek
Senior Vice President-Investor Relations

Wonderful. Well, thank you, all, for your great questions. We look forward to talking to you after the call, and have a great day.

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