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MANAGEMENT DISCUSSION SECTION

Operator: Good morning. My name is Christa, and I will be your conference operator today. At this time I would like to welcome everyone to the Q4 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. Mrs. Sara Gubins, Senior Vice President of Investor Relations, you may begin.

Sara Rebecca Gubins

Senior Vice President, Investor Relations, Nielsen Holdings Plc

Thanks, Christa. Good morning, everyone, and thank you for joining us to discuss Nielsen's fourth quarter and full year 2016 financial performance. Joining me on today's call is Mitch Barns, Chief Executive Officer, and Jamere Jackson, Chief Financial Officer. A slide presentation that we'll use on this call is available under the Events section of our Investor Relations website.

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 view as of today, February 9, 2017.

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 website. 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 Nielsen's 10-K and other filings and materials, which you can find on our IR site or at sec.gov.

For Q&A as always, we ask you to limit yourself to one question, only so we can accommodate everyone. Feel free to join the queue again and if time remains, we will call on you.

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

Dwight Mitchell Barns

Chief Executive Officer & Director, Nielsen Holdings Plc

Yeah. Thanks, Sara. Good morning, everyone. Overall, at a total company level 2016 was a challenging year. We've responded by sharpening our focus on the key strategic initiatives that will drive us forward. And we continue to drive productivity and efficiency in our operations.

At the segment level it was a mix of significant progress and challenges. In our Watch segment, in response to ongoing fragmentation in the market, our teams have executed extraordinarily well on our Total Audience Measurement initiatives. The Total Audience System is perfectly aligned with what the market needs, independent, comparable, and de-duplicated measurement across all platforms. And only Nielsen can do this.

In the Buy segment we're also seeing fragmentation. New channels of distribution are growing fast. Consumers are allocating purchases across a wider variety of choices with the growing portion going to local and specialty products. For our largest clients, primarily in the U.S., these marketplace trends are especially challenging. And while that creates near-term pressure on the business, it also creates opportunity as we respond to meet our clients' changing needs.

Our investment in the Connected System does exactly that. Connecting measurement with analytics in one integrated system that brings speed and efficiency for our clients, while converting more of our business to the subscription model we favor. The Connected System is our number one priority in 2017. We know what our clients need, and we're focused on delivering it, just as we've done in Watch with Total Audience Measurement.

Let's take a quick look at the full year financials for 2016. Total company revenue grew 4.1% on a constant currency basis. Adjusted EBITDA grew 5.2% constant currency, due to ongoing productivity initiatives and operating leverage, offset in part by our accelerated investments in key initiatives.

GAAP earnings per share were $1.39, compared with $1.54 in the prior year. Free cash flow was a record $941 million, exceeding our guidance. Jamere will provide more color on the drivers behind this. Our strong cash flow gives us flexibility to both invest in our growth initiatives and return cash to our shareholders. And we'll continue with our balanced capital allocation strategy to drive shareholder value in 2017.

Acquisitions remain an integral part of our balanced capital allocation strategy. And you've seen us make a number of tuck-in acquisitions over the past few years, including eXelate, Pointlogic, Repucom, and most recently, Gracenote. Each one of these bolsters some key part of our strategy. Collectively, they accelerate our progress and make us a stronger, faster growing company, better positioned for the future. Lastly, we're updating our guidance for 2017. And Jamere will provide additional details in a few minutes.

Before we talk about the segments, let me say a few words about Gracenote, which we closed last week. Gracenote's business, which is based on its vast library of metadata related to video, audio, and sports, is a great business on a standalone basis. But on top of that it's also highly complementary to our existing audience measurement products. Its Gracenote ID will help us link content across platforms, reducing the complexity of connecting datasets at scale across TV and digital. This will only grow in importance over time as viewing fragmentation continues.

We'll also look to leverage Gracenote's footprint in over 75 million car infotainment systems, along with its automatic content recognition, or ACR, technology to help expand our measurement of in car listening, including digital. A version of this same ACR technology is also embedded in over 20 million smart TVs. And this creates a potential alternative to set-top box data for our TV measurement in the future.

So again it's a great business on a standalone basis. But when connected with our existing measurement products, multiple opportunities for upside. We look forward to updating you on future calls.

So let's take a look at the segments. First, Watch, quick look at the numbers. Segment revenues for the fourth quarter increased by 6.2%, including a 9% increase in audience measurement of video and text.

As you know our number one priority in this segment has been Total Audience Measurement. Given the ongoing public discussions, I want to spend a few minutes to remind everyone what Total Audience Measurement is, how our clients use the various components, and what to expect as we head into the 2017 upfront season.

To take a step back Total Audience [Measurement] is a system with several components, which work together and on a standalone basis. It provides comparable measurement of audiences for both content and ads across platforms, traditional and digital, for both linear and dynamic ad models.

For ads the components of Total Audience are the C3/C7 TV ratings, digital ad ratings, and total ad ratings, as well as the newly MRC accredited Digital in TV ratings, which expands the current C3/C7 ratings to include the eligible exposures on all digital devices.

For content the Total Audience components include TV program ratings, digital content ratings, video-on-demand measurement, connected device measurement, and Total Content Ratings. We've seen broad adoption and use of all of our offerings.

Next I'll run through our progress on each of the key components. And let me start with Total Content Ratings. As you may have seen, we've shifted our plan to a limited commercial release starting March 1. Media clients that are ready to use their own Total Content Ratings data externally to help them tell their own Total Audience stories in the upfront process – they'll be able to do so. For example, CBS, one of our lead clients, has confirmed that they'll be using Total Content Ratings beginning March 1 to quantify total viewing of CBS programs as well as to highlight the strength of the television medium.

Our goal has always been to find a solution that works for all of our media clients. And we've done that. Today, client enablement of Content Ratings spans more than 100 media brands across TV, digital video, and text.

Next is Digital Content Ratings. This feeds into Total Content Ratings, but it's also an important product on a standalone basis, measuring the complete digital landscape, including static or text content.

Digital Content Ratings were syndicated in September 2016. And adoption continues to grow among both media owners and agencies. We're also working with Facebook to use Digital Content Ratings to measure partner content distributed on their platform. And we're on track for a production launch later this quarter.

We also see – we also continue to advance our measurement capabilities for subscription video on demand. We currently have more than 20,000 episodes in our reference library. Upcoming improvements include more automation, improved data capture, and expanded reporting.

On the ad side, Digital Ad Ratings, another key component of our Total Audience system, continues to grow as the standard for digital video ad guarantees. We see solid growth in the number of mobile impressions and campaigns we measure. Last month, Snapchat announced that they will offer guarantees to advertisers based on Digital Ad Ratings. Advertisers have had the option of buying Facebook ads like this since 2015.

This is important because advertisers are becoming more demanding. If you heard or read the remarks from Procter & Gamble CMO, Marc Pritchard, at the Interactive Advertising Bureau last week, his remarks leave no room for doubt that third-party independent comparable cross platform measurement is critical for advertisers.

For Total Ad Ratings, adoption continues to grow with key advertisers using the measurement across their campaigns to understand the incremental reach of television and digital. And I can't leave this section without adding that our flagship national TV measurement remains as strong as ever in the marketplace, bolstered by the expansion of capabilities from our Total Audience Measurement system.

We're excited about the April launch of our National [TV] Out-of-Home Measurement Service, which adds coverage of viewing in bars, airports, hotels, and beyond. With the 2017 up-fronts rapidly approaching, our Total Audience system and its many components will play a big role, helping our clients to prepare for and negotiate deals.

And while there's always more to do, we feel great about where we are today. Nielsen C3 and C7 measurement remains the primary basis on which advertising in TV content trades. At the same time our clients continue to debate how best to make the definition of the currency broader and more flexible with respect to ad loads.

Today, we're already delivering on the need to extend the C3/C7 currency to digital platforms through our newly MRC-accredited Digital in TV Ratings service. We will continue to work closely with the industry. And we stand ready to deliver on any new requirements on which they agree to credit additional ad exposures to the currency. We remain confident that only Nielsen is positioned to do this. And our Total Audience Measurement system will underpin the currency as it continues to evolve.

Let's turn to local TV. We're making good progress on our plan to incorporate out-of-home viewing in the ratings later this year. Similarly, we're making good progress on our work to incorporate set-top-box data from DISH and Charter into our measurement. And also last month we announced the multi-year agreement with AT&T to incorporate their anonymized set-top-box data into Nielsen's national in-TV ratings.

In Audio, we announced a 10% increase in the Portable People Meter sample size across 48 markets starting in mid-2017. Larger sample sizes are important due to the continuing fragmentation of audiences and the need for more granular analysis of the data. This expansion will ultimately contribute to a stronger radio advertising market.

In Marketing Effectiveness, constant currency revenues grew just over 9% in the fourth quarter and 16% for the full year. We expect solid double-digit growth to continue in 2017 on what has grown to be a sizable part of our business.

As a reminder, this is where we bring together our Watch and Buy assets, helping advertisers improve their return on investment. The Nielsen Marketing Cloud serves as the backbone, providing clients with faster, more efficient access to data and analytics.

Let's turn to Buy. Segment revenues grew nearly 1% in the fourth quarter on a constant currency basis, led by 7% growth in emerging markets. In developed markets, revenues increased modestly. Earlier, I mentioned the pressure we're seeing in our U.S. Buy business. But I think it's worth spending a few more minutes on the environment in which we're operating. As we've discussed, our fast-moving consumer goods clients are under pressure in their developed markets. And this is most acute in the U.S. market, where our large global clients are reining in costs in the face of challenging top-line growth.

While our data remains as mission critical as ever and is embedded in our clients' workflows, our business isn't immune. Our contract renewal rates remain high. In fact they're 100% with our largest global clients. But we're feeling pressure from reduced client spend. And this was reflected in our 2016 results. And as we discussed at our Analyst Day in December, we're planning for a continuation of this tougher environment in 2017.

Our response to this is to, first, drive productivity and efficiency in our operations. Second, focus on executing on our Connected System initiative. And third, broaden our coverage in a fragmenting market. In a minute I'll go into more details on each of these initiatives.

But first, emerging markets. We have a compelling story in emerging markets. As a global company with a footprint in over 100 markets, we have a strong position in the markets that are growing the fastest. This is a significant competitive advantage. Our balanced portfolio of global and local clients, ongoing investments in better coverage and granularity for our measurement products, and the healthy demand for our broad range of analytics offerings will continue to drive growth in this part of our business, which accounts for nearly one-third of our total Buy revenues.

Okay. So how do we navigate through what we often describe as a two-speed world? Let's take a look at our strategic initiatives.

First, Connected System. And I think it's worth repeating that the Connected System is our number one priority for 2017. While we still expect this to be a transition year, the Connected System will ultimately lead to a stronger, higher margin business.

Our clients' two main needs are speed and efficiency. Connected System will deliver on both fronts by systematically connecting our measurement data with the everyday analytics our clients use to run their business. By providing them as one integrated platform based system, we'll deliver more value to our clients and in the process convert more of our revenues to a subscription model.

We continue to work closely with our Connected System's charter clients, who played an integral role in helping us design the system. We have an aggressive plan to push new capabilities and modules to our charter clients throughout the year, while also expanding to an additional 20 clients to 30 clients as the year unfolds, preparing for a broader rollout as we head into 2018.

One key aspect of our Connected System is our Connected Partner Program. As a reminder, connected partners are third-party analytics companies who build apps to run on our Connected System's open platform, helping to address a wider range of use cases and thereby helping our clients realize more value from our measurement data.

From the initial launch last October, the number of connected partners has grown to 18, with recent growth driven by analytics firms focused on the needs of retailers. The apps in this open ecosystem help to connect data, internal teams, and outside vendors for our clients, many of whom are already using these apps to help them in various parts of their operations. We're excited about the value this program brings to our Connected System initiative.

Next, we continue to make good progress on our coverage of e-commerce, both in developed and emerging markets. In the U.S. we built a cross-platform solution to connect, harmonize, project, and calibrate several different sources of data. It's complex process. But with our data science and data integration capabilities, it's the kind of thing at which Nielsen excels.

Today we cover about 90% of U.S. e-commerce sales for fast-moving consumer goods. Our next step will be to add more granularity to the data. As we exited the year, we delivered e-commerce measurement to pilot clients, both manufacturers and retailers. And we're on track to push out more functionality in April and again later in the year.

In January we entered into a strategic agreement with JD.com, one of China's largest and fastest growing e-commerce retailers. Our partnership with JD.com creates a powerful resource for brands and marketers in China, giving them an accurate read of the market, including a more detailed picture of sales volume, pricing, merchandizing, and promotion.

E-commerce sales are growing globally, but China is ahead of the curve. So it's crucial that we keep pace in that important market.

Including China and the U.S., our e-commerce measurement is up and running in 11 markets with plans to expand to six more in 2017. This investment is the most visible expression of our commitment to total consumer coverage, which is as important as ever, given the fragmentation occurring in the fast-moving consumer goods market.

Finally, as we discussed at our Analyst Day in December, we're taking action to realign our product portfolio. At the end of 2016 we exited a consumer segmentation business and some of our custom survey research services, both in the U.S. These moves enable us to shift more focus and resources to our core business priorities. Beyond these moves, our teams are driving productivity initiatives and fighting the ongoing fight to align costs with revenues, especially in our U.S. Buy business.

I'll wrap up my prepared remarks by reiterating three points I shared at our December Analyst Day. Number one, the fundamentals of our business remain strong. Independent third-party measurement remains as essential as ever for clients in both Watch and Buy. Number two, we're crystal clear about where our clients want us to go next in our business. And for that reason we're highly confident in our strategy. Number three, we're proven executers. You've seen this on the Watch side of our business with Total Audience. And we're now focused on delivering a similar outcome with the Connected System in Buy.

Great strategies are only as valuable as our ability to deliver them to the marketplace. And to do that well it takes talent, team work, grit, and a leadership culture to deliver. That's what we have.

Over to you, Jamere.

Jamere Jackson
Chief Financial Officer, Nielsen Holdings Plc

Thank you, Mitch. Despite a more challenging backdrop in our markets, our teams have been laser focused on execution. And those efforts are reflected in our fourth quarter results. Our full year results are also indicative of the consistency and resiliency of the Nielsen model.

First, let me give a few more details on our full year 2016 performance. On the left side of the page are our results on a U.S. GAAP basis. Total revenue was just over $6.3 billion, up 2.2% on a reported basis, driven by solid growth in our Watch segment and the emerging markets in our Buy segment. This was partially offset by 190 basis points of currency exchange headwind.

Net income was $502 million, and net income per share was $1.39, which was down $0.15 a share versus 2015. Our net income per share results were driven by revenue growth, margin expansion, and our share buyback program, offset by higher restructuring charges primarily in our Buy segment and lower gains. 2015 included a $0.51 net benefit related to gains on the disposition of certain assets and the step-up of NCS.

Moving to the right side of the page. On a non-GAAP basis total revenue was up 4.1% constant currency, which is slightly above the high end of the revenue range we provided on our third quarter earnings call.

We also highlighted core revenue at our Analyst Day. And let me just remind you of what this means. This is revenue that excludes products and services that we are seeking to exit or are deemed non-strategic. In 2016 our core revenue grew 5.2% on an constant currency basis.

Despite a challenging environment, both our Watch and Buy segments grew in 2016. And we continue to execute on our growth initiatives.

Our Watch business grew 6.3% on a constant currency basis, driven by continued momentum in Audience Measurement of video and text and strong contributions from the Repucom acquisition, the Nielsen Catalina Solutions JV, and the Nielsen Marketing Cloud.

Our Buy business grew 2.3% constant currency, driven by volume and pricing gains in the emerging markets, offset by softness in developed markets, specifically the U.S.

Adjusted EBITDA was just over $1.9 billion, up 5.2% constant currency. And adjusted EBITDA margins were 30.7% up 31 basis points on a constant currency basis, reflecting our ability to deliver operating leverage as we invest in growth initiatives.

We've moved to full GAAP metrics one quarter earlier than originally planned. However, we have provided all of the pieces in our release to reconcile through our historic adjusted net income per share metric.

We generated record free cash flow of $941 million, up 16.5% versus a year ago behind our record fourth quarter performance. Our free cash flow conversion of adjusted EBITDA was 49%, up 6 points versus a year ago. Our results were better than expected, driven by improved working capital management and CapEx timing on our growth initiatives. And as I said in December free cash flow conversion is a key operating metric for us. And we're driving it with intensity.

And finally, this record free cash flow performance enabled us to deliver of over $850 million back to shareholders in the form of dividends and buybacks in 2016. We remain committed to a free cash flow profile that enables us to grow our business and drive incremental shareholder value through our balanced capital allocation strategies.

Moving to the fourth quarter. On the left side of the page our results on an U.S. GAAP basis. Revenue was just under $1.7 billion, up 2% on a reported basis, driven by solid growth in our Watch segment and the emerging markets in Buy, partially offset by 140 basis points of currency headwind.

Net income was $159 million. And net income per share was $0.44. Our net income per share results were driven by revenue growth, margin expansion, and our share buyback program, offset by higher restructuring charges related to our Buy segment and lower gains versus the fourth quarter of 2015.

Moving to the right side of the page. On a non-GAAP basis total revenue was up 3.4% constant currency. Our core revenue grew 4.7% constant currency in the fourth quarter. And I'll provide a little bit more color on the segments in just a few moments.

Adjusted EBITDA was $548 million, up 3.8% constant currency. And adjusted EBITDA margins were 33.1%, up 13 basis points on a constant currency basis. In the quarter we continued to drive price and productivity to fund investments that will deliver top-line growth in 2017 and beyond.

Finally, we generated record free cash flow of $476 million, which was up 55.6% versus 2015. Our incredibly strong free cash flow performance is indicative of the continued commitment we have to drive cash, fuel growth, and return cash to our shareholders.

Next I'll move to the segments. First on our Watch segment. Our Watch segment had another great quarter. Revenue was $788 million, up 6.2% constant currency. Audience Measurement of video and text was up 9% in the quarter, helped by the Repucom acquisition and continued momentum in our Total Audience initiatives. Excluding the Repucom acquisition, Audience Measurement of video and text grew 6.5% constant currency, led by strength in national TV and digitals.

Digital Ad Ratings continued its momentum with a 31% increase in campaigns in the fourth quarter. And Digital Content Ratings is gaining traction, as we had a number of Q4 wins, including with some of our largest media clients.

Audio was down 1.6% in the quarter. However, the business was nearly flat in 2016, while generating outstanding margins and strong free cash flow.

Marketing Effectiveness was up 9.2%. And I want to point out that we lapped the NCS step-up in 4Q, hence the growth rate is sequentially lower. In 2016 Marketing Effectiveness was up 16.2%, as we made key investments in the Nielsen Marketing Cloud and Nielsen Catalina Solutions. The Nielsen Marketing Cloud volume grew double digits in 2016, which has played a key role in helping advertisers measure their return on investments.

As expected, we had nearly a 1 point drag on Watch revenue from the products in our Other Watch bucket, due to the divestiture of the NRG business in 4Q 2015.

Watch adjusted EBITDA was $363 million, up 6.8% on a constant currency basis. Watch margins expanded 25 basis points on a constant currency basis, as we continue to drive operating leverage while we invest in the business. Our Watch business has tremendous momentum heading into 2017. And importantly the investments that we made to add capability to the portfolio are delivering growth.

Turning to Buy. We certainly guided for a tough environment in the fourth quarter, and indeed it was. However, our results were better than expected. Fourth quarter total Buy revenue was $868 million, up just under 1% on a constant currency basis. Core Buy revenue grew 2.6% constant currency.

Our business in the developed markets was $545 million, up 40 basis points on a constant currency basis behind relative strength in Europe and continued softness in the U.S.

Our business in the emerging markets was $283 million, up 7.2% on a constant currency basis. Our teams are executing against a tough backdrop of challenging macroeconomic conditions and still delivering growth. We saw broad-based growth in the emerging markets with solid growth in Latin America, Southeast Asia, Eastern Europe, and Greater China. Emerging market revenue grew 8.6% in 2016, in line with our expectations.

Our efforts to prune the Buy portfolio are well underway, as we announced the disposition of our U.S. consumer segmentation business. And we exited a portion of our U.S. custom survey research services at the end of the fourth quarter. And we'll continue to pursue actions on this front in 2017.

Buy EBITDA was $193 million, down 1% constant currency in the fourth quarter. We are continuing to invest in our Connected System, reshaping the portfolio and restructuring the segment to improve growth and profitability.

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 simply on the translation impact for reporting purposes.

In the quarter foreign currency resulted in a 140 basis points drag on revenue and a 60 basis points drag on EBITDA, which represented about $0.01 a share earnings headwind versus our December Analyst Day. If yesterday's spot rates held constant in 2017, we expect a 70 basis points drag on revenue and a 10 basis points drag on EBITDA for the full year in 2017.

Moving to guidance. We are updating our full year guidance to reflect the Gracenote acquisition in our Watch segment and the exit from some custom survey research services in Buy. We now expect total company revenue growth to be 5% to 6%. And we are maintaining our 2017 EPS guidance. There is no change to our original underlying core growth forecast. However, Gracenote helped boost core revenue growth to 6.5% to 7.5%.

Given the mix impact of Gracenote on total company margins, we're now guiding to flat margins for 2017. We're also raising our free cash flow guidance to approximately $900 million. And we're updating our interest expense, D&A, and share count guidance on the right side of the page.

So to wrap up. Our execution in the fourth quarter was better than planned. Our Watch business continued to have great momentum. And we are aggressively taking steps to improve top line results and margins in Buy. In addition, we are committed to an efficient and balanced capital structure that enabled us to grow and return over $850 million in cash back to shareholders in 2016 in the form of dividends and buybacks.

And with that I'll turn it back to Sara.

Sara Rebecca Gubins

Senior Vice President, Investor Relations, Nielsen Holdings Plc

Great. Thank you. Christa, we're ready to take the first question.

QUESTION AND ANSWER SECTION

Operator: Certainly. Your first question comes from the line of Todd Juenger with Sanford Bernstein. Your line is open.

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

Q

Oh, hi. Good morning, everybody. I hope you're surviving the snowstorm here in the Northeast.

Jamere Jackson
Chief Financial Officer, Nielsen Holdings Plc

A

Hey, Todd.

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

Q

I'd like to direct my one – hi. I'm going to try and follow the rules here with one question, I guess in a couple dimensions, all reference free cash flow. So I guess for Jamere, so just in the quarter, or the close out of fiscal 2016, clearly the free cash flow you delivered was a lot higher than where you had taken the guidance down to, so as the year was closing out. So just wondered what happened and changed to the better in between the time you lowered your guidance and delivered the cash flow?

And then the second part would be just sort of saying on the same thing, looking at 2017 and just comparing your guidance to sort of the long-term framework. I think your long-term framework talks about sort of mid-single revenue growth that flows through to I think it's double-digit free cash flow growth. In 2017 guidance we have the high end of high single revenue growth, but we actually have I guess a free cash flow slight decline compared to where we ended this year. So if you could just walk us through the different buckets of 2017? And why the free cash flow conversion relative to the framework is lower than your normal framework? And maybe help have some confidence for us of why those sort of one timers and exceptions to the normal framework? Thanks.

Jamere Jackson
Chief Financial Officer, Nielsen Holdings Plc

A

Great. Thanks, Todd. So in terms of our guidance, we guided to $850 million for the year. And we actually came in a lot stronger than that. There were two buckets of that. First was working capital was actually better by about $60 million. And I'll give all the credits to our team there. They did a tremendous job of sort of managing working capital and collections in the back half of the year.

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

A

Let me just add, our teams in both Watch and the Buy side of our business, a tremendous effort in the fourth quarter.

Jamere Jackson
Chief Financial Officer, Nielsen Holdings Plc

A

Yeah. And the key here is again, we don't have inventory. So the working capital game for us is really about making sure that we manage the collections process, which our teams did a tremendous job in the fourth quarter. So we're very pleased with the performance there.

And then the remainder of that is just timing of CapEx. And if you look in our release, you'll see that our CapEx for next year is actually a lot higher than what we've run historically. So you've got a little bit of timing over the two fiscal years.

In terms of our long-term framework, what we said at Analyst Day is that our free cash flow conversion is going to be 45% to 50% of our adjusted EBITDA. And barring anything in terms of spikes in investments and those sorts of things, we're going to be in that ZIP Code. As you saw this year, we finished at about 49%. And the $900 million gets us in that ZIP Code for next year. And that's the way you ought to be thinking about our free cash flow conversion going forward.

Sara Rebecca Gubins
Senior Vice President, Investor Relations, Nielsen Holdings Plc

A

Christa, we're ready for the next question.

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

Anjaneya K. Singh
Analyst, Credit Suisse Securities (USA) LLC

Q

Hi, thanks for taking my question. I wanted to touch on your Connected System and some thoughts there. What do you think is the biggest hurdle to faster client adoption there? Is it more predicated on having your capabilities and modules gain some more scale or maturity? Is it somewhat predicated on your push efforts and client awareness? Or is something like the increasing participation of the Connected Partners you called out something that you need to drive better adoption? Thanks.

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

A

Hey, thanks for the question, Anj. I think adoption of the Connected System will hinge primarily on our clients' ability to implement it. Just don't forget, what we're doing here with the Connected System is we're taking existing solutions, our measurement product and our everyday analytics products that most of our clients are already using in their business, and we're connecting them in one integrated system.

And then they're deploying that differently inside their business. And it's that different type of deployment inside of their business that will drive speed and efficiency for our clients as well as more efficiency for Nielsen. So it's that change process from our clients side that will be the biggest governor on the speed at which they'll be able to deploy and that we'll be able to continue to roll it out.

We're onboard with our charter clients now. We have no shortage of demand from clients who want to be in that next wave. So we're very pleased about the broad and strong enthusiasm we're seeing from our manufacturer clients in the U.S. And it's really about managing that demand. And it's a great problem to have, really to have such strong demand and having to manage that and make sure that we can deliver on what the expectations of those clients are.

As far as the role that Connected Partner program and the apps they provide, in terms of that governing the speed of the rollout, no, not really so much. And also the – I think the reason for that is primarily just the design of the system, designed to be scalable. And so we'll be able to deploy those apps as quickly as they become available from our partners. And our clients in fact – well, let me just add. Our clients are already taking advantage of some of those apps even before Connected System in a full form is deployed for them.

But ultimately the demand is going to be strong from our clients, because of the speed and efficiency that the Connected System is designed to deliver. And as we said in our opening comments about the tougher environment many of our largest clients are operating in, especially in developed markets, in particular the U.S., everybody is looking for more efficiency right now. And so we're certainly on point with regard to that need from our clients.

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

Toni M. Kaplan
Analyst, Morgan Stanley & Co. LLC
Q

Hi. Good morning.

Jamere Jackson
Chief Financial Officer, Nielsen Holdings Plc
A

Hi, Toni.

Toni M. Kaplan
Analyst, Morgan Stanley & Co. LLC
Q

You recently delayed the large scale rollout of Total Content Ratings. So just wondering how you're thinking about the financial impact of the delay, if any?

And also you previously mentioned you expected clients would be using your digital metrics in the upfronts this spring. And so just given the delay, would you expect that guarantees based off of your metrics would be less likely in this season? And basically when do you – if so, when do you think that your metrics will be used for guarantees in digital on more of a widespread basis? Thanks.

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

Thanks, Toni. Yeah. Oh yeah. We did adjust the rollout schedule for Total Content Ratings. And we did that based on the feedback from our clients, which we always appreciate. One thing that was abundantly clear from the feedback from our clients is just how important they see Total Audience and how important they see this latest component of Total Audience – Total Content Ratings to be for them.

They also were very clear about wanting us to move forward. They see this as an important addition and something that's going to help them in their business. However, some of them asked us to go slower. We were going fast. They asked us to go a little slower.

The measurement itself though is solid. It's working as intended. But the reason why some of those clients wanted us to go a little slower is because to take advantage of it, they need to be ready. That means they need to implement the SDK in their apps. They need to make sure they understand what the data means for their business. And so some clients just needed more time. And we respect that.

So the clients who are ready to move forward, they're going to be able to do so. The clients who need more time, we found a solution in our approach that will give them more time. And that's where we are in terms of the timeline.

With respect to financial impact, we don't really expect there to be any significant financial impact at all.

And then you also asked, Toni, about the effect on the upfront, in terms of the ability to offer guarantees and how Total Audience will play in the upfront. We're confident that the various components of our Total Audience system will play very important roles for our clients across the board in terms of how they prepare for and proceed through the upfront process.

And with regard to guarantees specifically, let's remember that Total Content Ratings is a content metric. Guarantees are all about advertising metrics. So the C3/C7 currency metric is a measure of audiences for advertising. Digital Ad Ratings is a measure of audiences for advertising. Total Ad Ratings the same way.

Whereas Total Content Ratings is not involved in the currency. It's more involved in how people plan and more involved in the analytics that help our clients think about the marketplace. So you won't really see any impact with respect to Total Content Ratings on use of the currency in the upfronts. And currency discussion as I mentioned in my opening comments, C3/C7 will continue to underpin advertising in TV content. With the addition of this Digital in TV Ratings that we've just made available in a newly MRC accredited form for the market, allowing us to expand that definition of the currency. So I think we're in very good shape on that front. Thanks, Toni.

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

Ryan Allen Cary
Analyst, Jefferies LLC

Q

Good morning, and thanks for taking my question. Jamere, I believe at the Analyst Day you called out expectations that growth in Audience Measurement on an organic basis would be pretty similar year over year. So first, is that still generally the case? And as we look at the 8.3% constant currency growth in 2016, can you call out what of that was organic? And what your assumptions are for inorganic contribution in Audience Measurement in 2017?

Jamere Jackson
Chief Financial Officer, Nielsen Holdings Plc

A

Yeah. Thanks. So the expectations in terms of the organic growth have not changed. The only thing that you will see is that we will include Gracenote in the Watch segment. And the lion's share of that revenue will probably fall in the Audience Measurement, once we break down the pieces.

In terms of this year, if you look at our Watch business overall, our Watch business grew about 6.3% year-to-date for 2016. We had about 2 points of inorganic included in that. So that was the difference in the numbers if you look at where we grew in total and where we are next year.

We also didn't include any additional tuck-ins into next year. So when we gave guidance at Analyst Day, the only acquisitions that we had rolling through numbers were Repucom. So pretty clean from an organic standpoint when you look at what we gave at December Analyst Day and what we're expecting now.

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

Andrew Charles Steinerman
Analyst, JPMorgan Securities LLC

Q

Hi. Jamere, just on the margins being flat for 2017. Is that all just the mix in of Gracenote? And are you able to quantify at all the strategic investment you're making in Buy, developed this year?

Jamere Jackson
Chief Financial Officer, Nielsen Holdings Plc

A

Yeah. So the mix impact, Andrew, is all Gracenote. So if you look at the margin rates of Gracenote and you mix that into our revenue, you mix down from a margin rate standpoint. So that's the driver behind going to flat margins for 2017.

In terms of the strategic impact of Gracenote, I'll start and then I'll talk a little – I'll turn it to Mitch to talk a little bit more of it. There are a couple things that we're thinking about as it relates to Gracenote. Number one, we're going to go aggressive on the integration in the business. We're going to move this into our Watch segment.

Obviously today, we use some of those Gracenote services as part of what we do in Audience Measurement. So there'll be some synergies there that we'll start to realize late in the year. And most of that will show up in 2018.

And we actually like adding that to the portfolio for a number of reasons, many of which Mitch highlighted earlier. And I think the big piece of it for us, as we think about it going forward, is the upside associated with the ACR technology that has the potential to provide some pretty significant efficiencies in Gracenote.

In terms of the Buy, developed investments, those investments are primarily around the Connected Buy System. And if you look at our spending on that from a margin standpoint, obviously we manage margins on a total company basis. We're going to invest with discipline in the Connected System going into next year. But we expect to deliver flat margins on a total company basis, just based on the productivity initiatives that we're working inside the company.

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

Brian W. Wieser
Analyst, Pivotal Research Group LLC

Q

Thanks for taking the question. Marc Pritchard from Procter & Gamble made some comments that I'm sure you all heard a couple weeks ago, which specifically – specific for you guys, made call for always using third-party MRC accredited measurement tools. And while he was talking in one context probably about Facebook and some of the metrics they're providing, I think the broader point that was made I think – I get the impression it resonated with a lot of people in the industry, who maybe weren't using a lot of your MRC accredited tools for – with other media owners. So I was curious. Have you seen any uptick in conversations or calls from marketers looking at using your tools in places with digital media owners, where maybe they weren't using DAR or anything, that followed from that presentation?

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

A

Yeah, thanks, Brian. It's just been about a week and a half I guess since Marc gave that talk at the Interactive Advertising Bureau. And there's been a lot of discussion. I've seen a lot of coverage of it in the industry press. And it continues to reverberate around the industry.

I think what he said was what everybody at some level already knew to be true. But maybe just weren't fully stepping out and acting on it yet. And still probably a little too early for us to say we're seeing a meaningful and significant uptick in demand. But I fully expect it with a strong and credible voice from one of the U.S. – in fact one of the world's largest advertisers stepping out, making those kinds of statements. We're going to see a lot of other people follow that lead.

And I already have heard from a few other clients, who said that they're really grateful and appreciative of the fact that he did show that leadership. They just couldn't agree more. So that's what we're seeing and hearing right now in terms of it showing up in our business. Yeah, it's just a week and a half, a little too early to say.

But I think it'll be a healthy thing for the industry. I think it's also just to be expected. With digital advertising, before it was whitespaced. And a lot of people were just going out there and putting their money into that whitespace. And now it's reflective of the maturing market that digital advertising is, where people are going to look for more accountability. And advertisers are going to be more demanding about that accountability.

And the kind of tools that we offer with Digital Ad Ratings, third-party independent measurement, and the kind of tools that some of our partners offer with verification with – on things like viewability with the three partners we work with. I think those kinds of products in the marketplace are well positioned, given the trend.

Operator: And your next question comes from the line of Matthew Thornton with SunTrust. Your line is open.

Matthew C. Thornton
Analyst, SunTrust Robinson Humphrey, Inc.

Q

Yeah. Hey. Good morning, guys. Thanks for taking the question. I wanted to come back to Connected System and a couple part question here if I could. First, I just want to confirm that again we're kind of tracking towards I think what you guys have characterized as a full agile launch in 2018. I just want to make sure that still is the timeframe.

Also as we've gotten a little bit further into this, I wanted to maybe pick your brain a little bit on how you were thinking about revenue versus margin impact as we get into the out years here? I think the obvious thought is, we should see some margin expansion. But the revenue impact, maybe muted, maybe even down a little bit. So I guess any incremental color on that would be helpful as well.

And then finally, with the app partner program. Just curious if you are already kind of taking a commission or a take rate on those third-party app sales? Any color there would be very helpful. Thank you.

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

A

Yeah. Thanks, Matthew. We are on track with our development as we've most recently communicated before this call at our December Analyst Day with the charter clients on track to bring on board the 20 to 30 additional clients as the year progresses. And then leading to a broad – I won't call it a full rollout, but I'd call it a broader rollout as we head in to 2018, because there will always be more work to do on a system, a platform-based system like this. And that's a good thing, by the way. Opportunity abounds with the way this system is designed.

In terms of revenue versus margin impact. Margin has always been the first thing that we've mentioned in terms of the financial impact of Connected System, as it sees a more full and broader rollout, because of the efficiency that it really delivers both to Nielsen and to our clients.

There will also be revenue impact. And we think that the positive revenue impact as it develops and grows over time will largely be in the smaller client segment, the long tail of the marketplace if you will. Where right now the way our services are currently delivered, the minimum access cost if you will to come into our services, it's just still a little too high from many of those smaller companies that are out in the market. By the way, many of these smaller companies who are performing relatively well right now. So the Connected System lowers that access cost. And that offers us an important growth opportunity with the long-tailed, smaller clients.

In terms of the app partners and the way we're monetizing that relationship. Yeah. Think of it as rev share. I think that's the right way to think about it. And that will be good, meaningful over time.

But for me the bigger contribution from those apps isn't the revenue share that we'll get from the apps themselves. It's much more about the role those apps will play amplifying the underlying value of our core measurement data, which is where most of the value in our business resides. So the more we can help our clients extract that value out of our core measurement data, realize that value – and the apps will do exactly that – that's where you're going to see the bigger impact on our business from those apps.

Operator: And your next question comes from the line of Manav Penday (sic) [Patnaik], with Barclays. Your line is open please.

Manav Patnaik
Analyst, Barclays Capital, Inc.

Q

Thank you. Good morning. Jamere, I was hoping you could just walk us through the true organic growth number by each division, Buy and Watch? And then maybe on marketing effectiveness too? And the only question I had really was on the emerging market Buy business, the 7% growth. That's their third quarter of deceleration. So just curious what's going on there? Is that just timing? That's just how things work, in terms of your 8% to 10% targets next year?

Jamere Jackson
Chief Financial Officer, Nielsen Holdings Plc

A

Thanks. So on a total company basis, if you look at the net of acquisitions and dispositions, we're at about 2.5% organic, so 3.4% constant currency, 2.5% organic. That is all in Watch. So if we look at the Watch business, we see 6.2%. That translated to about 4.4% organic and that's the net impact of Repucom and NRG.

In terms of the emerging markets and the deceleration. Listen, a couple million dollars in a quarter can swing the emerging markets by a point or two. We feel pretty good about where we exited the year at 8.6% growth for the total year, which is right in line with our forecast. And we have good momentum going into next year, based on the broad-based growth that we see in the markets that we talked about.

So no concerns there in terms of a deceleration. Right in line with where we expect to finish for the year. And good momentum heading into next year.

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

A

And you've seen that over time, Manav, in our business with emerging markets. They don't necessarily move in lock step with GDP growth rates in those markets, simply because we still have a lot more opportunity to increase our penetration of our various services in those markets. So that's why I think we've generally been able to outperform the growth rates at a GDP level in our business in most of those markets.

We did see a little bit of an impact in the fourth quarter in India. You probably heard about it from some other clients too with cash, not a big one, but instead of India being the double-digit grower that we've started to see more recently, it was more in the mid-singles. But look, we're still – we still feel great about emerging markets part of our business heading into 2017.

Operator: And your next question comes from the line of Kip Paulson with Cantor Fitzgerald. Your line is open.

Kip Paulson
Analyst, Cantor Fitzgerald Securities

Q

Hi, great. Thanks for taking my question. Audience Measurement of video and text has been slowly accelerating year on year in constant currency terms throughout 2016 and helped by Repucom in the fourth quarter. Given this backdrop, how should we think about the cadence of growth in the 2017 quarters? And does your 4% to 5% growth outlook for the sub-segment in 2017 have a fair amount of conservatism baked in? Thanks.

Jamere Jackson
Chief Financial Officer, Nielsen Holdings Plc

A

Well, we have guided – originally we guided 4%, 5% for Audience Measurement. And obviously we have a lot of momentum heading into next year. And so we feel pretty good about that guidance range at this point. I wouldn't be certain about where we are in terms of the top end or the bottom end of the range at this point. But we have a lot of momentum in the – going into next year. We feel good about it.

The other thing that I'll also point out is that next year, again you're going to see Gracenote rolling through the numbers. And so you'll actually see the numbers spike up. And we'll be pretty clear about what the – sort of the underlying Audience Measurement growth is, so that you can see how the acquisitions are performing relative to our base businesses.

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

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

Q

Well, thanks. I'd like to come back to the issue of e-commerce please. You gave an interesting number, which is that you measure 90% of some CPG sales in the U.S. I think I heard that right. Wonder if you could comment a little bit more on that? Where are you getting that from? Is this directly via those companies' websites? Or I assume it's more via online delivery services? Just curious where that comes from. And if you can give any indication of what percent of their total sales that may be?

And then similarly, I wonder if you can comment on your e-commerce efforts in places like India and China? You mentioned JD.com. I know you do a lot in India. I imagine those are just massive growth opportunities. I think you have a deal with Alibaba as well in China. So any bit more you could mention on that would be great. Thanks.

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

A

Thanks, Tim. You did hear correctly that our current e-commerce measurement solution for our U.S. clients covers about 90% of fast moving consumer goods sales on e-commerce platforms. The opportunity we have now is to add a lot more depth to that data, so that it can be sliced and diced and analyzed in a greater number of ways. But our coverage is 90%.

Where that data is coming from is not just one data source. It actually comes from multiple data sources. So in some cases it is the dot com arms of brick and mortar retailers, sharing their data with us. In other cases we get it directly from consumers. And in other cases we get it from other partners.

So we're taking these multiple datasets, each of which has its own strengths and weaknesses. And then we apply Nielsen's core competency of data science and data integration capabilities to stitch together all these different data sources. And then project them out to represent e-commerce sales for the entire marketplace.

Now this is a hot area for our clients. It's still a relatively small percent of most of their sales, let's be clear about that. But it is one of the faster growing new channels that are emerging. And so you can imagine if you're a general manager inside one of these fast moving consumer goods companies, you want to make sure that where you're seeing growth in your business – because growth's difficult right now – you want to make sure that wherever you're seeing growth in your business is captured and represented in the measurement data that you're buying from Nielsen. And so, look, we get that 100%. And that's why we're so focused on e-commerce. That sets where we're going with this right now.

In terms of what we're doing in other parts of the world. You're right. In China we've been working with Alibaba in the past. JD.com is the latest step forward in terms of being able to cover e-commerce in that particular market. And we feel great about this relationship with JD.com. It's very comprehensive. We have very high coverage in that market as well. And in China there's a higher percentage of fast moving consumer goods sales that are moving through e-commerce platforms. And it's especially high in certain product categories that just so happen to be high margin. Things like cosmetic products, things like infant formula and baby diapers, and things like that.

In India we are also active. But we're not as far down the path there. That's a market, it has a lot more fragmentation. Still a huge percentage of fast-moving consumer goods volume moving through the traditional trade. Even the modern trade brick-and-mortar isn't that big in that particular market. Nonetheless, there are one or two important players in that market. Amazon's starting to become a lot more active in that market. And so it will heat up. And we're focused on it.

There are couple other markets that are really important for our clients. Korea is probably one that shows up more than some people might expect, not because it's necessarily big, but because it's so advanced. And so you can bet that we're active with e-commerce measurement in that market. And in many cases we're learning things in that market that we know will become important in other markets down the road, as they continue to evolve. And so we use our footprint in the Korea market with respect to e-com in that manner.

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

William A. Warmington
Analyst, Wells Fargo Securities LLC

Q

Good morning, everyone. So a...

Jamere Jackson
Chief Financial Officer, Nielsen Holdings Plc

A

Bill. Hey, Bill.

William A. Warmington
Analyst, Wells Fargo Securities LLC

Q

I'd like to return to the emerging markets growth duration question. So it seems like phase one was global players moving into the emerging markets. And phase two has been the rise of the local players in the emerging markets. And so I wanted to ask about phase three, if – that we're either in or approaching, what that's going to be? And your confidence on the ability to continue to do the upper single digit revenue growth?

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

A

We still see phase two, as you described it, Bill, having a lot of legs, frankly. Don't think that one...

William A. Warmington
Analyst, Wells Fargo Securities LLC

Q

Okay.

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

A

... has run its course at all. So there's good news there. And then if there – if you'd like me to try to describe a phase three, I think the way I would characterize that is, as some of those local players start to really gain scale in their home market, many of them are already starting to look to extend themselves on a regional basis or a global basis. And given the strong roles we play with them in their local markets, for example in a market like China, we're the logical partner to help them if they want to then broaden their business to other markets around the world.

And we've already seen a little bit of incremental growth in our business from that. And we positioned ourselves in terms of how we've structured our teams and our organization to capture more of that growth, as we see it continue to emerge over the next couple years.

We're not quite there yet. And we're still pretty focused on phase two, as you described it and the growth opportunity there. But that phase three, I have no doubt that that's going to eventually emerge and be fairly meaningful.

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

Trevor Romeo
Analyst, William Blair & Co. LLC

Q

Hi, good morning. This is actually Trevor Romeo in for Tim today. Just a quick one for you on leverage. So ticking up a little bit closer to 4 times on a net basis. Could you guys just give us an update on kind of where you see that – where you're comfortable with that going? And how you think about capital deployment going forward. Thanks?

Jamere Jackson
Chief Financial Officer, Nielsen Holdings Plc

A

Yeah. So no change to our long-term framework. We've said that we're going to hold leverage in the 3 times area. So the translation on that as I've often said is, you probably won't see us a with a 2 [times] handle. And you probably won't see us with a 4 [times] handle on leverage. So no change there.

And then no change in terms of how we think about our balanced capital allocation approach. So our long-term free cash flow allocation is 45% to the dividend, which we intend to grow in line with earnings. We've said we're going to toggle 40%-ish between M&A and buyback opportunities and the remainder to service the debt. And this gives us tremendous flexibility to, number one, grow our business, but also to return meaningful amounts of cash to shareholders in the form of dividends and buybacks. And we're going to stay with that long-term framework going forward.

Operator: And there are no further questions at this time.

Sara Rebecca Gubins
Senior Vice President, Investor Relations, Nielsen Holdings Plc

Great. With that we'll turn it back to Mitch.

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

Folks, I want to say thanks to everybody for joining the call this morning. For those of you in the Northeast for braving the snowstorm, we say travel safely to all of you. And yeah, thanks for your interest in your company – in our company and thanks for your questions. We look forward to talking with you in the days and weeks ahead.

Sara Rebecca Gubins
Senior Vice President, Investor Relations, Nielsen Holdings Plc

Great. Thank you.

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