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MANAGEMENT DISCUSSION SECTION

Operator: Good morning, ladies and gentlemen, and welcome to the Q2 2017 Nielsen Holdings Plc Earnings Conference Call. All lines have been placed on mute to prevent any background noise. After the speaker's remarks, there will be a question-and-answer session. [Operator Instructions]

I would now like to turn the call over to Ms. Sara Gubins, Senior Vice President-Investor Relations. Please go ahead.

Sara Gubins

Senior Vice President-Investor Relations, Nielsen Holdings Plc

Thanks, Dan. Good morning, everyone, and thank you for joining us to discuss Nielsen's second quarter 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, July 27, 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 that 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, Mitchell Barns.

Dwight Mitchell Barns

Chief Executive Officer & Director, Nielsen Holdings Plc

Thanks, Sara. Good morning, everyone. I'd like to start today with some comments on the ongoing change in our business in the markets we serve. We see change as a source of opportunity, even if it comes with challenges. In fact, all throughout our history, we've captured new growth opportunities by responding to market changes with resolve and innovation. Based with an unprecedented pace of change of both Watch and Buy, we're following that same traditional today. Leveraging change as a means for progress, by innovating the services we provide to our clients and driving value for our shareholders.

Our mission is to provide a clear and complete understanding of consumers and markets. That has not changed. But the way we do it is changing rapidly in an exciting ways and that will continue in the years ahead.

With that said, Jamere will now review the financials, which include an update to our revenue guidance for 2017. I'll then come back with some specific business highlights and a look into our future. Jamere?

Jamere Jackson

Chief Financial Officer, Nielsen Holdings Plc

Thank you, Mitch. Overall, our business continues to deliver growth and margin expansion in a challenging environment. In our Buy segment, revenue remains weak, as a result of a challenging fast-moving consumer goods environment in the U.S. However, we continue to drive growth across the rest of the business in both Watch and Buy, while also delivering margin expansion. This is indicative of the strength of the portfolio and the resiliency of this business.

Let me give a few more details on our total company performance in the second quarter. On the left side of the page are our results on a U.S. GAAP basis. Revenue was just over $1.64 billion, up 3% on a reported basis, driven by solid growth in our Watch segment in the emerging markets and Buy, partially offset by a 110 basis points of currency headwind and continued softness in our U.S. Buy market.

Net income was $131 million and net income and net income per share was $0.37. Our net income per share results were driven by revenue growth, margin expansion and lower restructuring charges.

Moving to the right side of the page, on a non-GAAP basis, total revenue was up 4.1% constant currency. The net of acquisitions and dispositions contributed approximately 2 points to our revenue growth. Our core revenue which we define as total revenue less non-core or non-strategic assets grew 7.6% constant currency in the quarter and just under 4% excluding the Gracenote acquisition. I'll provide more color on the segments in just a few moments.

Adjusted EBITDA was $512 million up 4.9% constant currency and adjusted EBITDA margins were 31.1%, up 25 basis points on a constant currency basis. As I've mentioned in the past, we are running the productivity play with intensity and delivering cost efficiencies which help us expand margins and fund growth initiatives like electronic measurement and diary markets, expanding coverage of Buy, and funding the Connected System.

Free cash flow was $162 million which was a record second quarter and was up 65.3% versus a year ago. We remain on track for our full year plan of approximately $900 million to fuel growth and return cash to our shareholders.

Next I'll move to the segments starting with Watch. And the key takeaway is that our Watch segment continues to perform well and is delivering solid revenue and EBITDA growth. Revenue was $821 million up 10.9% constant currency. Excluding Gracenote, Watch revenue grew 3.5% constant currency. Audience Measurement of Video and Text was up 16% and excluding Gracenote grew 4.7% constant currency lead by strength in Total Audience Measurement. In addition to strength in National TV we continue to see momentum in Digital Ad Ratings and Digital Content Ratings. Digital Ad Ratings campaigns grew 33% in the quarter and we now have over 400 advertisers using the product including all of the top 25 in the U.S.

Digital Content Ratings also continue to see strong momentum as we increase penetration among top digital publishers including Facebook. As expected, audio was flat in the quarter. Marketing Effectiveness was up 18.6% constant currency as we leverage our Watch and Buy assets to help advertisers and publishers measure the return on investment in media spend.

Other Watch was down 17.2% due to exiting part of the telecom product offerings in the U.S. and the exit of our legacy net ratings product in the U.S. which is being replaced by Digital Content Ratings. We also exited a

Content Testing asset in the quarter as we continue to execute on our plan to prune non-core assets from the portfolio.

Watch adjusted EBITDA was $357 million, up 8.2% constant currency. Watch margins were 43.5%, down 1.1 points. Excluding 145 basis points drag from Gracenote, Watch margins were up more than 30 basis points constant currency driven by productivity improvements. Our Watch business continues to perform well and is delivering solid revenue and EBITDA growth.

Turning to Buy, the key takeaway here is that revenue declines in margins are slightly better than 1Q as we navigate a tough U.S. market. The rest of the developed markets remain resilient and we see ongoing strength in emerging markets. Second quarter total Buy revenue was $823 million, down 2% constant currency. Core Buy revenue was up 2.7% constant currency. Our revenue in the developed markets was $510 million, down 1.2% constant currency behind continued weakness in the U.S., partially offset by mixing of digit growth in the remaining developed markets. The U.S. business which is under half of the developed market revenue, improved sequentially.

Now, let me provide some additional color on what we're seeing in the U.S. We continue to benefit from strong, long-term contract renewals with our largest clients. However, as we have discussed, some of these clients are seeing challenging market conditions and cycling through significant cost cuts, and as a result, they make near-term decisions about some of our products and services as they lower overall spend. We know that our measurement and analytics are critical and that, over time, clients must invest in the data they need to run their businesses. And in the second quarter, we saw this dynamic play out to some extent, as clients spent a bit more behind some of their data and analytics needs.

Our business in the emerging markets remains robust. Revenue was $296 million, up 10% constant currency. The bets we have made to expand coverage and services are delivering broad-based growth with both multinationals and locals. Once again, we saw strong growth in Latin America, Southeast Asia, Eastern Europe, and Greater China. In addition, margins in our emerging markets are expanding as we gain scale in key markets. Our corporate Buy revenue was down 69%, reflecting our pruning of noncore Buy assets. Buy EBITDA was $163 million, down 1.8% constant currency in the second quarter. Our disciplined cost and commercial actions, along with improving operating leverage in the emerging markets, drove a slight increase in EBITDA margins despite a decline in total revenue.

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 purposes.

In the quarter, foreign currency resulted in 110-basis-point drag on revenue and a 40-basis-point drag on EBITDA. If yesterday's spot rates held constant through 2017, then we expect a 40-basis-points benefit on revenue and a 70-basis-points benefit on EBITDA for the full year.

Moving to 2017 guidance, we are maintaining our full-year EPS guidance of $1.40 to $1.46 and free cash flow guidance of approximately $900 million. We are raising our adjusted EBITDA margin outlook to plus 20 basis points of constant currency expansion as a result of our cost out actions. We're lowering our total revenue guidance to approximately 4% to reflect our first-half results, our outlook in developed Buy, and some updated timing on noncore product exits.

This includes approximately 6% core revenue growth and approximately 3% core revenue growth excluding Gracenote. There are no changes to our expectations for other financial metrics provided on the right-hand side of the page.

And as we look at 2017 revenue growth, a few dynamics are playing out. One, our Watch business remained solid. Two, we continue to see robust growth in the emerging markets. And three, we continue to plan for a tough U.S. market. We now expect developed Buy revenue to be down 3% to 5% on a constant currency basis for 2017.

In the U.S., we expect the second half to continue to improve versus the first half, though not enough to land us at our prior guidance. We're not forecasting an improvement in the market environment for the back half of 2017. However, a review of our revenue pipeline for 2018, which includes renewals and new business, suggests an improvement in our business in 2018. This, along with an improving market environment, suggests a return to flat revenue in developed Buy for the full year for 2018 versus 2017.

And lastly, we remain committed to our balanced capital structure that is funding growth while enabling us to return cash to shareholders in the form of a growing dividend and share buybacks.

And with that, I'll turn it back to Mitch to provide more color on the quarter.

Dwight Mitchell Barns

Chief Executive Officer & Director, Nielsen Holdings Plc

Yeah. Thanks, Jamere. Well, as you can see, we executed well in a challenging market. And I'd first like to thank our teams for the rigorous cost discipline they demonstrated in the quarter. It's enabled us to expand margins while continuing to invest in our key growth initiatives.

Let's look at the segments. First, Watch. Throughout our history, we've adapted to, and benefited from, media fragmentation and advances in technology. We've seen this over the years as cable came along, and then satellite, later followed by time-shifted viewing, and digital, and mobile, and subscription video on demand. In response to all these, we innovated and introduced new offerings and so today, we measure all of those viewing options. We are the currency measurement standard, and we fuel our clients' trading across all screens and platforms in this fragmenting market. This is due to successful execution of Total Audience Measurement.

Through all of those changes, one thing that's held true is this: the market needs high quality, independent third party measurement. In fact, today, it's more critical than ever for all types of media engagement: mass reach-based advertising, targeted segment-based advertising, and subscription services. The representative person-based measurement that underpins our total audience system will remain the foundation for the future, whether media buyers and sellers want to transact on age and gender or on more targeted buys. At the end of the day, advertisers want to know who they reached, and Nielsen is the only one who can answer that question comprehensively and with the quality and independence the market requires.

I want to highlight three key points that underscore the endurance of our strong position in measurement and our ability to create new opportunities. First, we're well positioned for the future with Total Audience Measurement, our system that provides independent, comparable, and de-duplicated measurement of both content and ads across all platforms.

Second, we made great progress towards establishing our position as the digital standard, and we see significant growth opportunities ahead. Third, we're investing in new data sets, audience-based buying, ROI metrics, and sports, all of which represent attractive incremental growth opportunities for our Watch segment.

Let me address these points in a little more detail. First, Total Audience Measurement. We've successfully delivered all of the components of Total Audience Measurement to the market. We've significantly expanded the range of viewing captured by the C3/C7 currency metric for linear ad models. And for dynamic ad models, our Digital Ad Ratings metric has emerged as the market standard. We're now leveraging the flexibility of our Total Audience system to drive increased usage.

Today, clients are buying and transacting on all elements of the system. Here are a few recent highlights. Within linear television, out-of-home has had a stellar reception since its April launch. Out-of-home is important for sports, and both ESPN and FOX Sports have signed on. Most recently, they were joined by Turner Sports and CNN, with CNN already having closed deals that include out-of-home.

Another highlight is our Digital in TV Ratings product. This expands the C3/C7 currency to capture linear viewing of ads seen on PCs and mobile devices, whether it's live viewing, DVR, or video-on-demand. Just this week, we announced that viewing on YouTube TV and Hulu's Live TV service is now being credited to DTVR. This brings us to eight digital distributors, including several of the so-called skinny bundles contributing directly to our National TV Ratings.

This is really big news because a large portion of cord cutters are switching to these skinny bundles, and when they do, we're measuring them. It's an undeniable fact that currency quality cross-platform measurement is here and in the market today, and only Nielsen can deliver it.

We've also seen further adoption of Digital Ad Ratings, the emerging industry standard for dynamic ad models. We recently expanded our coverage to include mobile apps from YouTube and Pinterest. For Digital Content Ratings, the latest news involved secondary crediting for participating publishers for all of their video content, both live and on-demand distributed through the Facebook platform, providing them with a comprehensive picture of their audience no matter where people interact with their content.

For subscription video on demand, the number of episodes measured continue to grow. It's now at 31,000, up 6,000 from last quarter. It's important for content owners to understand their viewership on these platforms, which is why we're seeing the growing demand here.

On Total Content Ratings, nearly every network is receiving and using their data. We recently added additional flexibility in the Total Content Ratings user interface to make it easier for media owners when they want to share their viewership data with agencies. Clients really like the flexibility of the system.

We're also pushing more data from our Total Audience Measurement system into Nielsen Media Impact. This is our planning solution that came to us through our acquisition of Pointlogic in early 2016. The reason why this matters is because it helps our clients plan and monetize inventory more effectively in a cross-platform world. Just last week, we began including VOD Content Ratings for nine networks, showcasing their high-quality ad inventory to advertisers and agencies.

The second key point I want to make is around the progress and opportunities we see in digital. We get a lot of questions about our digital opportunity and how we're monetizing it as digital share of ad spending grows. One question we often get is, will we get paid as much for measurement of digital as we do for TV? The answer is a function of two things. First, value, meaning how much clients are willing to pay for digital measurement; and second, volume for the percent of digital video advertising the trades based on independent third-party measurement. The data show that value is already strong. The bigger growth opportunity will come from increasing volume. We're already getting a boost from the growing call by advertisers for independent third-party measurement on digital platforms.

As more premium video is viewed in a digital format and as the market matures, we expect more of the market to be measured. This is why we're relentless in our focus on driving adoption of our Total Audience components, expanding the range of use cases, adding flexibility and improving the user interface of our tools. It's all aimed at driving increased usage or volume. We see lots of opportunity here. And working to our advantage is the fact that only Nielsen has the currency quality measurement and a comprehensive coverage of the consumer that the market requires.

That said, our opportunity is broader than just monetizing advertising spend. As the industry has evolved, we're delivering products that help our clients realize more value from their media and advertising in a variety of ways including cross media planning, digital targeting, activation and sales lift analytics.

And this brings me to my third point. We're investing proactively to keep pace with the ongoing change in the market, constantly innovating to create incremental growth opportunities for our business. One recent example is our Gracenote acquisition. This is a great stand-alone business, but it's even better as a part of Nielsen.

Gracenote's metadata, which covers videos, sports and music is driving growth opportunities with pay-TV operators and streaming media services through leveraging Gracenote's data to deliver powerful new user features like voice search and discovery. And Gracenote's automatic content recognition technology opens up new datasets for Nielsen's measurement and analytics products, lots of opportunity ahead this year.

A hot topic in the market today is the shift in ad spend towards audience-based buying, and some of you have asked how our portfolio will fit in this more targeted environment. In fact, we're a leader in this area, innovating with our investments in Nielsen Catalina Solutions and Nielsen Buyer Insights. Today, audience segments from these products are the standard for CPG and retail advertising planning.

Combine that with our 2015 acquisition of eXelate, now a key part of the Nielsen Marketing Cloud, and you see that we operate from a strong position. Our persons-based measurement is the key to this. Targeting involves people and that's what we measure, and yet this is another area full of opportunity for us.

Most of what we're doing here falls into Marketing Effectiveness, which grew 19% constant currency in the quarter. The latest news here is our collaboration with JD.com, the giant online retailer in China for a new multi-touch attribution product to support targeted advertising. This will be the first time that Nielsen will leverage JD's big data to connect both Watch and Buy at the shopper level.

To sum up the overall picture for our Watch business, Total Audience is gaining adoption, digital remains a growth engine, and Marketing Effectiveness is an area of strength. And finally, we'll keep investing for the future, so as the market continues to evolve, we'll continue to capture the emerging growth opportunities.

In our Buy business, it's still a two-speed world. Our business in the emerging markets again excelled with constant currency revenue growth of 10%, and our investments in coverage and granularity drove double-digit growth in Latin America and Eastern Europe, along with high-single-digit growth in Southeast Asia and China.

In developed markets, late last year, we began planning for the tougher environment in 2017, particularly in the U.S., and we continue to see that play out, as our fast-moving consumer goods clients are faced with unprecedented change in their business. They're dealing with both price and volume pressure. And as a result, they're managing their spend very carefully. And as we've discussed, our business is not immune to the spending pressure. But just like in Watch, we're adapting to this changing market with innovation, strengthening our leadership position in measurement and analytics for the long term.

Last quarter, I talked about three efforts we're focused on as we manage through this challenging environment. The first is productivity. It's evidenced by our financial results this quarter, enabling us to expand margins while continuing to invest in our key growth initiatives. We remain laser-focused.

Second is coverage. Here we've added and expanded our relationships with a number of key retailers, and we continue to make progress on our e-commerce measurement capabilities in the most important global markets.

And third, the Connected System, our top strategic priority. As a reminder, the Connected System is an open platform-based system that integrates Nielsen's data and other data sources, and then seamlessly connects measurement and the everyday analytics our clients rely on to run their business. The system delivers two important client needs – speed and efficiency – helping them to answer what happened, why it happened, and then, most importantly, what should I do next.

Last month, we officially unveiled the Connected System at our client conference in Los Angeles. The collective response from the hundreds of clients in attendance was overwhelmingly positive. Manufacturers and retailers of all sizes recognize the value they can unlock through the speed and efficiency gains delivered by the Connected System.

It does it by keeping our clients' sales, marketing, finance, and operations functions all aligned under key metrics, operating with one source of truth that's continuously updated and synchronized as they take action on their business.

In my 20 years at Nielsen, I've never seen a more positive response to a new Nielsen product. As we said last quarter, the rollout of the Connected System will be similar to Total Audience Measurement where some clients will want the end-to-end system right away, while others will begin by using selective components. We're making progress on both fronts.

First, let's talk about the components. Our portfolio of apps within the Connected Partner Program has grown to 30 partners with Periscope By McKinsey being the most recent addition. 17 of these partners had a demo booth at our recent client conference.

We're also seeing strong demand for our in-house every day analytics apps. In total, we now have 106 clients using at least one component of the Connected System, up from 49 at the time of our last earnings call.

With regards to the end-to-end system, as I mentioned, the feedback we received at our client conference was overwhelming positive, and we're full speed ahead. We're starting to rollout the Connected System to 100 clients by the end of 2018.

We've spoken with you before about driving toward a stronger, higher margin business. The Connected System is a key part of this plan, but the vision we're building is much broader. It includes innovation throughout our business including our operations and technology units.

For example, we'll consolidate operation centers into super hubs to drive scale benefits. We'll take much greater advantage of automation and machine learning to drive big gains in speed, efficiency, and quality. In emerging markets, where our measurement of retail sales remains a very manually intensive process, we'll aggressively digitize the data collection process, again producing big gains in speed, efficiency, and quality.

These are big moves, designed to shrink our operational footprint, reduce manual processes, and increase head count productivity, all by big amounts. The net result will be a significant expansion in Buy margins by 2020. I'm talking about a step change. A step change of at least several percentage points. We're excited by how this plan is coming together, and we'll share more with you later this year. Now as we execute on this plan, we'll be building on the fundamental strengths of our Buy business, and these are undeniable. They'll be a source of value and strength for long into the future.

They include an incredibly high market share with the largest multinationals, supported by our unmatched global footprint. Our presence in 106 markets is more than five times the next biggest player. That global footprint includes a strong leadership position in all of the faster growing emerging markets, where our business enjoys a balance of strength with both local and global clients.

In the intellectual property that underpins this business, our reference data is unmatched. Reference data is valuable for several reasons, one is that it's the key to linking data from multiple sources, which means it's the key to unlocking value in a big data world.

In closing, we touched on several of our innovations and initiatives today, and at the forefront of those is our clients. Our mission is to measure our client's performance and then help them improve performance. And today, that's as critical as ever. We're sharply focused on creating value for our clients and as we do, we create greater value for our shareholders.

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

Sara Gubins

Senior Vice President-Investor Relations, Nielsen Holdings Plc

Thanks, Mitch. Dan, we're now ready to take our first question.

QUESTION AND ANSWER SECTION

Operator: [Operator Instructions] Your first question comes from the line of Toni Kaplan with Morgan Stanley. Please go ahead.

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

Q

Hey. Good morning.

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

A

Morning, Toni.

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

Q

For developed Buy, what gives you the confidence in being able to forecast the business to be flat in 2018? And basically, it sounds like for 2017, you're lowering the revenue guidance because Buy will continue to be challenging in the back half of the year. Are you seeing worsening trends in the business from here, or is it just that the business will continue to be challenging for longer than you previously expected? And is basically the delta, in terms of being flat next year, the easier comps or is it the Connected Buy system being rolled out, or what gives you the confidence that 2018 will be flat? Thank you.

Jamere Jackson
Chief Financial Officer, Nielsen Holdings Plc

A

Thank you, Toni. We're still working through our operating plan for 2018. However, as I said in my opening comments, our current revenue pipeline, which includes renewals and new business wins, suggests that developed Buy should be flat for 2018. I'd point more to the back half of 2018 than the front half. We'll obviously share more details when we give the 2018 outlook later in the year.

But, from our client's perspective, again, we know that our data and analytics are critical to help them understand their performance and business drivers. And while they've had to make some tough cost trade-outs quite frankly, ultimately they'll need to invest in those data and analytics to help them grow their business.

And what we see as we look into 2018 are a few dynamics. One is, we're continuing to win with both retailers and manufacturers. We're renewing 100% of our long-term contracts with our large global manufacturers. Those contracts are staggered, so even the ones that renewed with a lower base spending have price escalators through the contracts. And we're comping against a pretty tough 2017 environment.

The last thing I'll add is that, and our Connected System has actually given us incremental capabilities to sell-in during renewals. And this is a pretty positive impact on the value of those agreements.

On developed Buy. I'd look at the first half for trending purposes. And in the first half, our U.S. business is down double digits. The back half comps get a little easier, but as I said, we're not forecasting a change in the environment. So the guidance framework that we gave of down 3% to 5% for developed Buy represents relatively easier comps in the U.S. in the back half, and tougher comps in Western Europe which, quite frankly, was up high single digits in the back half of 2016.

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

A

One thing I'll add Toni is, in my conversations with a number of our client CEOs over the past couple of months, there's a growing recognition among our clients that the zero-based budgeting activities, the cost-cutting activities, are going to get them only so far. And they're all now focused on, hey, we got to get the top line moving. And they're working to figure that out. But as they do, and I'm confident that they will, we expect some of that benefit also to flow into the results that we're going to see in our business in 2018.

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

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

Q

Hi. Good morning guys. I'll follow the rules and keep it to one, maybe fairly simple question. I'd just love to hear a little more about what's going on in the core Video Text business at Watch. If you take out Gracenote, I think in Q1, your year-over-year growth rate was something like 6.1%. In Q2, it seemed to slow down a bit, like 4.7%, I think, per the press release. So, I'm just wondering, is there anything significant about that? Is that just some lumpiness and even if that could you just talk a little bit about what's going on there and should we be paying attention to that or is that just noise? Thanks.

Jamere Jackson
Chief Financial Officer, Nielsen Holdings Plc

A

Thanks, Todd. You know it's in line with the framework to grow roughly 5% in the first half ex-Gracenote. So if you look at the trends for the first half, we're right on the framework. I'd say a couple of things. One is, national and digital are both solid in terms of what we're seeing in the marketplace. Where there's been some pressure is local but quite frankly, there, we're excited about the prospects that we have in local with the new initiatives that we're going to roll out, the expansion of electronic measurement, the diary market, the integration of set top box data and the panel expansion benefits to our clients. So, we feel good about the framework overall. And, again, if you're looking at the first half, we're in line with that framework.

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

Q

Okay. Thanks.

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

Andrew Charles Steinerman
Analyst, JPMorgan Securities LLC

Q

Hi. Jamere, I just want the organic currency revenue growth for the overall company and the two divisions.

Jamere Jackson
Chief Financial Officer, Nielsen Holdings Plc

A

Okay. As I mentioned in my opening comments, we had about 2 points of inorganic revenue in the quarter, approximately 4 points were added from Gracenote and Repucom, and was offset by approximately 2 points from exits of segmentation and some telecom and survey research assets. In Watch we had approximately 9 points added from Gracenote and Repucom, offset by approximately 1 point drag from the other Watch assets exits in telecom . And in Buy we had approximately 4 points drag from the exit of the assets and segmentation in customer research. So that should give you the pieces of organic.

Andrew Charles Steinerman
Analyst, JPMorgan Securities LLC

Q

Perfect. Thank you.

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

Manav Patnaik
Analyst, Barclays Capital, Inc.

Q

Hey. How are you doing? Just on the Watch side again, I mean it sounds like you have lot of good commentary in terms of updates and innovation and so forth, but I think the organic growth this quarter was up 3.5% on the Watch I believe. So, is that just timing, seasonality, like, what's the disconnect? And maybe if we look a little forward, like, do you expect all these new products and innovation to help accelerate that growth or is it just to maintain your sort of contract status?

Jamere Jackson
Chief Financial Officer, Nielsen Holdings Plc

A

Yeah. You have a little bit of timing there obviously. If I look at Marketing Effectiveness, for example, organically we grew close to double-digits in the first half. We're going to see strong demand and higher growth in the second half from our key products. And so, we feel good about the 15% to 20% range for the year.

If I look at Audience Measurement of Video and Texts, as I said, it's in line with our framework. If you look at roughly 5% in the first half, I feel good about national and digital. Local is where the pressure is and we talked about the initiatives there. And then if I look at the corporate bucket, we have a few things rolling through there. One is we actually sunset the Digital Rankings product in the quarter. We have also exited some assets in Content Testing. So, overall, I feel good about the guidance framework.

Let me just walk through that, just to give you the pieces. So, if I look at – let me just start with Buy. If I look at our Buy business, we're going to be down roughly 2.5% to 3% on a constant currency basis for the year. That suggests that developed is down minus 3% to minus 5%, emerging plus 8% to 10%, and then corporate bucket is down 60%.

And if I move to Watch, no change to the framework there, up 11% to 13% in total for Watch. We see Audio as being flat; Audience Measurement of Video and Text up 14% to 16%. Marketing Effectiveness up 15% to 20%. And then the other Watch bucket down 10%. So, that gives you the framework that we have for the total company.

Again, you always have a little bit of timing and lumpiness quarter-over-quarter. But we feel pretty good about the framework that we have on from a guidance standpoint.

Manav Patnaik
Analyst, Barclays Capital, Inc.

Q

All right. Thanks, guys.

Operator: Your next question comes from the line of Anj Singh with Credit Suisse. Please go ahead.

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

Q

Hi. Thanks for taking my question. I just wanted to get some more thoughts on the back half assumptions for developed Buy. It seems like despite the easier comps that you have for the back half of 2017, the growth outlook's worse than what 2Q has. So, perhaps some thoughts on what changed during the quarter for you to revise guidance lower? Was it more on the transactional discretionary parts of the business or is it just broad-based pressure in general? Any thoughts there? Thanks.

Jamere Jackson
Chief Financial Officer, Nielsen Holdings Plc

A

Yeah. So, if I look at developed Buy, let me take it in a couple of pieces. I'll talk about the U.S. and then I'll talk about Europe. I'd look at the first half again for trending purposes. In the first half, the U.S. business is down double digits. The comps do get a little easier in the back half of the year, but we're not forecasting a change in the environment.

So, that guidance framework of being down 3% to 5% actually represents slightly easier comps in the U.S. in the back half, but the comps actually for Western Europe are a little bit tougher because in the back half of 2016, Western Europe was up mid-single digits. What I'll say about Western Europe is that we continue to be pleased with the recovery that we see in Western Europe that, again, began in the back half of 2016. So, while the second half comps were a little tougher, I would say that the environment there is as good as it's been in three to four years in those markets.

So, again, that framework that we suggest says U.S. is a little bit better against a different set of comps, and Western Europe has a tougher set of comps in the back half of the year. And net-net, you're about where you are in the first half of the year for our Buy business.

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

Brian W. Wieser
Analyst, Pivotal Research Group LLC

Q

Hi. Thanks for taking the question. I'm curious how you think Buy-related products are doing in terms of market share versus competitors. Are there some sub product categories where you think you're up versus others where you're down or are the trends that you've been talking about really broad based?

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

A

Thanks, Brian. Good to hear your voice. The trends are pretty constant, I would say. What you see rolling through our business is more of a reflection of the marketplace environment than it is anything to do with market share. Probably one positive thing to point to though with regard to market share is what we're starting to see flow through our Connected System, in particular the apps from the Connected Partners.

What I mean is we're starting to see these 106 clients who are now using some component connected system, one of these apps. We're seeing a lot of this being new business to us. In other words, clients are using these apps in cases where they weren't buying our analytics products before. Part of it is the, sort of the price point and the value, but also the speed and the usefulness that these apps bring to their business.

So, that's probably an area where I [indiscernible] (38:27) gains in market share but that's not really at the center of the business and the biggest part of the revenue. The bigger issue that we're battling against in the developed Buy markets right now really is the environment more than it is the competitive environment.

Operator: Your next question comes from the line of Kip Paulson with Cantor Fitzgerald. Please go ahead.

Kip Paulson
Analyst, Cantor Fitzgerald Securities

Q

Hi. Thanks for taking my question. For the Watch business, can you expand on the new datasets you've added which the release mentions. And how is Nielsen positioned with mobile panels specifically in terms of geographies, panel sizes et cetera? Thanks.

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

A

Yeah. Thanks for the question. New datasets, a couple of examples here. Some of which are already a part of the products that we're rolling out and some are more part of the future. Set-top box data is the best example on the Watch side of the business. We've used it for our analytics products historically and now what we're doing is expanding the role that it plays in our business by bringing the set-top-box data into our Audience Measurement products. And importantly, we're doing this not by getting rid of our panels. What we're doing is we're combining our panels which still have incredible strengths, unique strengths in the marketplace. We're combining those with the set-top-box data, putting those two data sets together and leveraging the strengths of each of them to provide a measurement product that would be better than anybody else can provide. So, that's the best use of it there.

The second area where we're growing in new data sets is, as you look at our Gracenote business, as we've mentioned, they have their automatic content recognition technology. And that enables them to do a lot of powerful things for the client base that they work on, but it also opens up smart TV data for our business, which we've always known is out there, but we haven't really had an efficient way to tap into. And so, that's another new dataset that will really be powerful for our Watch business, both from a video-audience-measurement perspective, we also see opportunity there with respect to audio. Those are two examples.

With respect to mobile panels in different parts of the world, what we're really focused on as far as digital measurement as we expand our footprint around the world is rolling out the Digital Ad Ratings metric. And while that has a panel component, it is not a panel-reliant measurement approach. It leverages big data. And then it in many markets leverages a small panel that's used for projection and calibration, because big data always has skews and issues that need to be corrected. So, that's what we're focused on in terms of the use of panels in many of these markets, but it's much more of a big-data approach led by our Digital Ad Ratings metric and then typically followed by Digital Content Ratings and a more full version of our Total Audience Measurement system, as we expand to additional markets around the world. And if I have the number right, Digital Ad Ratings is now in around 25 markets around the world, and those markets account for about 85% of global digital advertising spend.

Operator: Your next question comes from the line of Dan Salmon with BMO Capital Markets. Please go ahead.

Daniel Salmon
Analyst, BMO Capital Markets (United States)

Q

Hey. Good morning, everyone. Maybe, Jamere, could we return to viewpoint, early guidance, whatever we want to call it about a more of a flat view for Buy in 2018, and just add a little bit of color around the components of that? What I'm trying to get at it is, how much discretionary spend are you thinking in that number? And, it's a question not just about mix but also, how the business is evolving as you move to the Connected System and just understand what underlies that view a bit more? Thanks.

Jamere Jackson
Chief Financial Officer, Nielsen Holdings Plc

A

Sure. So, I'll hit a couple things, and I'll ask Mitch to chime in on the remaining pieces of it. As I said, there are really three things, Dan, that sort of drive our outlook. One is what we are seeing in terms of wins with both retailers and manufacturers in this environment that we're operating in. That's been pretty important for us, to continue to go after new business. And our teams are doing a pretty good job from a business development standpoint, based on what we see in our early read.

The second thing I would say is that we're continuing to renew all of our long-term contracts with our global manufacturers. And while we've had some of those contracts that renewed at a lower base. Obviously, those contracts are staggered, and even the ones that renewed at a lower base have price escalators that move through the contracts as you go forward. And then the third piece, as I said, is sort of comping against a tough 2017 environment. We expect to see some improvement there, based on our most recent discussions with our clients.

As I think about the impact of the Connected System, I would say two things. One is that, we do expect some revenue from the Connected System. Some of which will be incremental, specifically revenue from the Connected Partner Program.

But really, the second dimension is the one where we see the Connected System has actually given us incremental things for our commercial teams to go sell and do renewals. And that's actually given us a positive impact on some of those agreements.

Our primary focus next year is going to be on conversions. And, we expect that to wrap through the back half of the year. But the incremental revenue and the promise that we see from the Connected Partner Program is actually a positive as we look into 2018.

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

A

Yeah. Just want to emphasize the point Jamere made about Connected System. Being part of the story that our commercial teams are talking about with our clients, even right now as we're renewing current contract renewals, that will of course begin to roll through our financials next year.

The fact that it is part of the story, and that clients are responding in such an overwhelmingly positive manner to it, that's already having a positive impact in our business. Even separate from the issue of whether or not a client will engage with Connected System immediately in 2018 on an end-to-end basis or not. It's more about how they view the idea of signing up for a multi-year contract with Nielsen being their partner, and then having an understanding of what's in our product pipeline. And when they see what's in our product pipeline, they like it. And so, that's already been helping us as we approach these contract renewals and new client wins.

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

William A. Warmington
Analyst, Wells Fargo Securities LLC

Q

Good morning, everyone. Sorry, I just wanted to ask a follow-up on the Buy developed side. Last quarter, you had mentioned that the non-U.S. developed grew low-single-digits and the U.S. developed was down mid-teens. There was improvement sequentially. I just wanted to ask if we could get the growth rates for each of those pieces. I know, Jamere, you mentioned double-digits, but I'm looking for a little more granularity there.

Jamere Jackson
Chief Financial Officer, Nielsen Holdings Plc

A

Yeah. So if I look at the U.S. business, down mid-teens in the first quarter. Second quarter, it was down again high singles. And then we saw sort of mid-singles across the rest of the developed world. So those are sort of the pieces that are there. And again, environment's still tough in the U.S. And we feel pretty good about the recovery that we're seeing, particularly in Western Europe, that really began in the back half of last year. And I can't reiterate enough how pleased we are with that recovery, and the fact that that environment is as good as it's been in the last three or four years.

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

A

One thing our teams in Western Europe have done well over the past couple of years in particular is their focus on retailers, and some of our wins in Europe have been with important retailers. We've taken that playbook, brought it to the U.S., even brought people from our European business to our U.S. business, and we're starting to run that play now, too. And we're going to make progress on that front. And that's really important, given the role the retailers are playing in the overall fast-moving consumer goods ecosystem these days, which only grows in importance.

Operator: Your next question comes from the line of Matthew Thornton with SunTrust. Please go ahead.

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

Q

Hey. Good morning, guys. Thanks for taking the question. Just to clarify, for the 2017 guidance on a core organic constant currency growth, I think the only delta from prior guidance to current guidance is developed Buys. Want to make sure that's correct, number one. On Gracenote, it looks like, if I did the math right, it looks like the implied number is actually down a little bit, just if you could provide any color around that?

And then just finally, a lot of announcements and momentum around digital. I'm wondering if there's any way to tease apart, or if you'd be willing to provide, what digital first clients are these days as a percentage of Watch revenue? Any color there would be great. Thanks, guys.

Jamere Jackson
Chief Financial Officer, Nielsen Holdings Plc

A

Just, so from a guidance standpoint, you're right, the key pressure from a core standpoint is actually in developed, where we're now guiding being down minus 3% to minus 5%. That is the key driver to what you see in the core revenue number coming down. From a Gracenote standpoint, no changes in terms of our expectations there. The business is off to a great start. The integration is on track. The teams are excited about some of the commercial opportunities that Mitch mentioned. So, no change to our Gracenote outlook there. The business is off to a really good start.

Operator: Your next question comes from the line of Kevin McVeigh with Deutsche Bank. Please go ahead.

Kevin McVeigh
Analyst, Deutsche Bank Securities, Inc.

Q

Great. Thanks. Hey, I wonder, can you give us a sense the margins in the developed Buy – or is the Western European business similar to the U.S. or how do we think about the margin profile just as we model out the back half of the year.

Jamere Jackson
Chief Financial Officer, Nielsen Holdings Plc

A

I would say the margin profile is similar, but what I would say on Buy as you're thinking about margin profile is really more around our cost actions. And the cost actions that we took there were really aimed at rightsizing our business for the current market realities. We took restructuring charges over the past three quarters to fund these actions. These actions were in addition to our normal productivity plays, and they're helping us mute the impact of a softer revenue environment. And quite frankly the other thing is none of these actions impact our ability to invest in our key initiatives. So, and as you're thinking about margin profile just know that we've got a number of cost actions that began in the back half of last year that are going to roll all the way through 2017. And that is the reason why we've raised the EBITDA margin guidance and the big contributor to us, maintaining our EPS guidance for the year.

Operator: Your next question comes from the line of Tom Eagan with Telsey Advisory Group. Please go ahead.

Thomas William Eagan
Analyst, Telsey Advisory Group

Q

Great. Thank you very much. I was looking for your comments on the local TV station customers. Sinclair indicated their intention to move exclusively over to comScore. So, I guess, how have those conversations gone and also what are the other TV station groups saying and what contracts are renewed in 2018. Thanks.

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

A

Yeah. Thanks for the question, Tom. Yeah. On your question, look, I'm sorry I'm not going to comment on a topic that is part of an active contract negotiation with an important client. But here is what I can say, I can say that the improvements that we're making in our local audience measurement product are being very well received by our client base.

As a reminder, we're bringing electronic measurement now to all of the local markets as opposed to just the first 70 where it is right now. We're incorporating set-top box data for more granularity and stability in the ratings. We're bringing new analytics offerings which help people advertise with more precision, drive more value for that advertising inventory.

And yeah, across our client base these moves are resonating very well. And you see it reflected in the contract renewals we've had already this year with CBS local, with FOX local, with [indiscernible] (51:08). One thing I will say about Sinclair, we just recently expanded our relationship with the Tennis Channel. And the Tennis Channel is owned by Sinclair.

Operator: And your next question comes from the line of Doug Arthur with Huber Research.

Douglas Middleton Arthur
Analyst, Huber Research Partners LLC
Q

Jamere, just on – you talked quite a bit about the strength in Western Europe and the Buy developed markets. Can you just sort of update us on what percent of developed market revenues Western Europe represents right now?

Jamere Jackson
Chief Financial Officer, Nielsen Holdings Plc
A

Yeah. Western Europe is probably 35% to 40% of the developed market business.

Douglas Middleton Arthur
Analyst, Huber Research Partners LLC
Q

So, U.S. is still 50-ish?

Jamere Jackson
Chief Financial Officer, Nielsen Holdings Plc
A

Yes, just a little bit under 50% this quarter.

Douglas Middleton Arthur
Analyst, Huber Research Partners LLC
Q

Okay. Thank you.

Operator: And we have no further questions in the queue at this time. I would now like to turn the call back over to Mitch Barns for closing remarks.

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

Thank you. Yeah, just a few closing comments to sum up. In Watch, we're seeing solid growth with Audience Measurement of Video and Text. And as we've highlighted, we see multiple areas of opportunity across our business. And we're going to continue to respond to the changes in the market with innovation in order to capture that growth.

Our Buy emerging business continues to show strength, up 10% in the quarter. Our Buy developed business, we're focused on productivity. And we're continuing to expand coverage, especially with the value retailers, the specialty outlets. And, of course, we'll stay focused on continuing to develop our e-commerce measurement capabilities.

Most important priority for us, though, in our Buy developed business is the execution on our development of Connected Systems, and that includes our in-house apps, and the Connected Partner Program.

All of these things that we're doing in our business, they're all anchored to the objective of driving value, value for our clients and value for our shareholders. And so, with that, let me just say thank you once again for joining us on the call this morning. And we look forward to talking with many more of you in the days and weeks ahead.

Operator: Thank you, everyone, for attending today. This will conclude today's conference call, and you may now disconnect.