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Nielsen Holdings Plc (NLSN)

Q1 2018 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Operator: Good morning. My name is Carol and I will be your operator today. At this time, I would like to welcome everyone to the Q1 2018 Nielsen Holdings 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. We ask that you limit yourself to one question and re-queue for any additional questions.

[Operator Instructions] At this time, I would like to turn the call over to Sara Gubins, Senior Vice President, Investor Relations.

Sara Gubins

Senior Vice President-Investor Relations, Nielsen Holdings Plc

Thanks, Carol. Good morning, everyone, and thank you for joining us to discuss Nielsen's first 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 discussions contain forward-looking statements within the meaning of the Safe Harbor provisions of the Private Securities Litigation Reform Act of 1995. These forward-looking statements may include comments about Nielsen's outlook, expectations and prospects and are based on Nielsen's view as of today, April 26, 2018.

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, Mitch Barns.

Dwight Mitchell Barns

Chief Executive Officer & Director, Nielsen Holdings Plc

Thanks, Sara. Good morning, everyone. Thanks for joining us on the call. In the first quarter, we continued to execute on our key initiatives while focusing on our Path to 2020 objectives through continuous innovation. We're transforming our business in three major areas, Watch, Buy and Operations, to drive a faster growing, higher margin business and create incremental value for our shareholders.

I'll turn it over to Jamere to review the financials and then, I'll come back to cover five important topics.

Jamere?

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Jamere Jackson

Chief Financial Officer, Nielsen Holdings Plc

Thank you, Mitch. Overall, we continue to deliver positive top line growth due to the strength of our portfolio across Watch and Buy, while our Buy business continues to operate in a challenging set of market conditions. Our teams are focused on execution, which means driving growth in Watch and the emerging markets in Buy, investing in key initiatives and driving efficiency and productivity across our entire business. Our results in the first quarter reflect these dynamics.

First, let me give a few more details on our total company performance in the first quarter. On the left side of the page are our results on a U.S. GAAP basis. Revenue was just over $1.6 billion, up 5.5% on a reported basis, driven by solid growth in our Watch segment and the emerging markets in Buy. In addition, revenues were impacted by 310 basis points benefit in foreign exchange rates.

Net income was $72 million and net income per share was $0.20, flat with last year. Our net income per share results were driven by revenue growth in our Watch segment, offset by planned investments in our Buy segment growth initiatives, which will taper down throughout the year.

Moving to the right side of the page, on a non-GAAP basis, total revenue was up 2.4% on a constant currency basis. Revenue was also up 2.4% on an organic basis. Watch revenue grew 7.1%, partially offset by a 2.1% decline in Buy revenue. I will provide more color on the segments in just a few moments.

Adjusted EBITDA was $423 million, down 0.7% constant currency, and adjusted EBITDA margins were 26.3%, down 83 basis points on a constant currency basis. In the quarter, we continued to fund investments that will improve growth and profitability in our business, consistent with the Path to 2020 that we laid out at Investor Day last November.

We remain on track for 60 basis points of margin compression in 2018 on a constant currency basis with improving trends in the second half as our Buy growth initiatives ramp. Finally, we had a free cash flow usage of $245 million. As a reminder, we typically deliver nearly all of our annual free cash flow in the second, third and fourth quarters. In this year's first quarter, we were impacted by typical seasonality as well as planned investments in retailer and other growth initiatives. We remain on track for our full-year free cash flow plan of approximately $800 million to fuel growth and return cash to our shareholders.

Our board of directors recently approved a quarterly dividend increase of nearly 3% to $0.35 a share. I also want to highlight that we have $278 million remaining in our existing share repurchase authorization, which we plan to exhaust over the next 12 months. This provides an additional lever to return meaningful amounts of cash to shareholders. This reflects our continued commitment to drive long-term incremental shareholder value and is consistent with the long-term free cash flow allocation framework that we laid out at our Investor Day last November.

Next, I'll move to the segments, starting with Watch. Our Watch segment, which is our largest by both revenue and EBITDA, had another great quarter. Revenue was $834 million, up 7.1% constant currency. On an organic basis, Watch revenue grew 6.2%.

Audience Measurement of Video and Text was up 10.5% constant currency, helped by one month of the Gracenote acquisition and continued momentum in our Total Audience initiatives. On an organic basis, Audience Measurement of Video and Text grew 7%, led by strength in National TV and Digital. We continued to see

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momentum in Digital Ad Ratings with a 55% lift in campaigns in the quarter. Digital Content Ratings continued this momentum with a number of new wins with digital publishers and we're also measuring digital content on Amazon Prime Video channels.

Audio was up just under 1% in the quarter. Marketing Effectiveness was up 22.7% constant currency on continued strength in ROI solutions. On an organic basis, Marketing Effectiveness grew 17.3%. This adjusts for the Visual IQ acquisition and the exit of TV Brand Effect. Advertisers are intensely focused on measuring return on their investment and media spend and this is an important source of growth for our company.

Other Watch was down $16 million or 35.3% due to previously announced product exits. Watch adjusted EBITDA was $350 million, up 7.4% constant currency. Watch margins were 42%, up 12 basis points constant currency. Excluding the drag from unfavorable mix from Gracenote, Watch margins were up 85 basis points constant currency, driven by a strong top line and productivity improvements. Our Watch business is off to a great start to the year. Importantly, we continue to invest in our Watch business to drive solid revenue and EBITDA growth.

Turning to Buy, first quarter total Buy revenue was $776 million, down 2.1% constant currency. On an organic basis, Buy revenue declined 1.3%. Our revenue in the developed markets was $471 million, down 5.2% constant currency, driven by continued weakness in the U.S.

Emerging markets revenue was $294 million, up 6.1% constant currency. As expected, we saw improvement in the growth rate from 4Q, but we still have more to go here. Growth was broad-based across several markets, including Latin America, Eastern Europe, Africa and China. Last quarter, we highlighted some challenges in China. However, as expected, we saw improvement here in the first quarter and we expect more to come during the year.

Our Corporate Buy revenue was down $8 million or 42.1% behind previously announced pruning actions. Buy adjusted EBITDA was $84 million, down 24.3% constant currency in the first quarter. The quarterly results were driven by the launch of new retailer programs, most notably Walmart.

In addition, we continue to invest in our Connected System initiative to support the rollout this year. We expect these programs to positively impact revenue and margins in the second half of 2018. We also continue to restructure and rightsize our Buy business in response to topline challenges in the developed markets. These efforts will improve margins and fund growth initiatives in the portfolio.

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 a 310 basis point lift on revenue and 140 basis points pickup on EBITDA. If yesterday's spot rates held constant through 2018, then we expect 140 basis points pickup on revenue and a 50 basis points benefit on EBITDA for the full year.

Moving to 2018 guidance, we are increasing full-year EPS guidance to reflect the impact of U.S. tax reform. We now expect GAAP EPS to be $1.50 to $1.56 [ph] per share (09:24). This is a $0.10 increase versus our prior guidance and reflects our updated 34% GAAP tax forecast. We are maintaining the remaining elements of guidance, highlighted by revenue growth of approximately 3% constant currency and free cash flow guidance of approximately $800 million.

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We also now expect cash taxes to be neutral to slightly positive to free cash flow in 2018 versus our prior expectations. We feel great about our Path to 2020 program as many of the initiatives are already ahead of schedule without a significant increase in investment.

To wrap up, our Watch business has great momentum and we continue to invest. We also saw improving results in emerging Buy markets. We are making solid progress on our growth initiatives with the Connected System and retailer program, however, continue to operate in a challenging U.S. Buy market.

We are laser focused on the Buy transformation by executing on our growth initiatives, reducing our costs and driving efficiency in the business, all in line with our Path to 2020. In addition, we remain committed to a capital structure that will enable us to grow and return cash to shareholders in 2018 in the form of dividends and buybacks.

Before I turn it back to Mitch, one housekeeping item, on January 1, we adopted ASU 2017-07, which requires that we reclassify a portion of our pension and post-employment expense, primarily the interest-related component, from SG&A expenses to below operating income as part of other income and expense. The new accounting presentation requires us to restate the prior periods, so they are comparable. The new standard had a small impact on historical adjusted EBITDA, but does not have an impact on net income or earnings per share and there's a reconciliation in our press release.

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

Dwight Mitchell Barns

Chief Executive Officer & Director, Nielsen Holdings Plc

Thanks, Jamere. This quarter, I'll focus my comments on five important topics. The first three are our multiyear transformations underway in Watch, Buy and our Operations function. The remaining two are the 2018 Upfronts and consumer data privacy.

Let's start with the transformations, beginning with Watch. This one is the furthest along of the three. As audiences have continued to fragment over the past several years, we've been investing and innovating to move beyond our historical focus on traditional TV to provide high-quality measurement across all viewing platforms and distribution channels in order to secure Nielsen's position as the currency that underpins a very large and growing advertising market now and in the future.

The primary focus of our effort is our Total Audience Measurement system, which has widened our competitive moat and further strengthened our leadership position. While our work is ongoing, we've been very successful so far with this transformation as reflected in our strong financial results. Our ability to provide independent, comparable and de-duplicated measurement is pivotal to understanding the fragmenting media landscape. This is exactly what our clients need and we're the only company that can do it.

In 2017, our Digital in TV Ratings metric was accredited and it expanded the definition of the C3/C7 currency by incorporating viewing of linear content on digital platforms. Adoption continues to grow. Amazon Prime Video channels, Verizon Fios and Philo were some of the latest clients added.

I often get asked when Nielsen will become the digital currency. We're well on our way, evidenced by the widespread adoption of Digital Ad Ratings across leading advertisers, publishers and agencies and it continues to grow. With the recent addition of Publicis Media, Digital Ad Ratings is now being used by the top seven agency holding companies around the world, representing close to 100 individual agencies.

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At our Investor Day in November, we talked about the next step in expanding the currency, which we'll do by enabling crediting of both linear and dynamic ads in the same program via a combination of our C3/C7 and Digital Ad Ratings metrics. We'll be incorporating viewability, fraud direction and duration weighting of video impressions into Digital Ad Ratings this summer. Our ability to do so has played a significant role in aligning the industry on how to move forward.

Combined with the broad client adoption of Digital Ad Ratings, these capabilities put digital on a level playing field with TV, enabling buyers and sellers to transact with the same level of confidence as they have with TV for many decades. The key takeaway here is that Nielsen measurement will be used as the currency for both linear and dynamic ads. This is true currency grade cross-platform measurement and we're the only company that can do this.

Next week at our [ph] Ad Ratings Summit (14:05), we're bringing together 50 clients, media publishers, platforms and agencies. Among other things, we'll share the results of a pilot test of the expanded currency that we did in partnership with the key client, A+E Networks. This is an important milestone. There is a tremendous amount of interest in this topic as our clients seek flexible solutions to support their ever-evolving business models.

While audience measurement is our first priority, we also continue to invest in audience analytics. In April, we began integrating Gracenote's Smart TV data with Nielsen's TV ratings data to provide deeper viewing analytics. This gives programmers and advertisers the ability to make real-time data-driven decisions to grow their audiences.

Turning to the second key topic, transforming our Buy segment, the focus of this transformation is to return our developed markets to growth by differentiating our services in the market while maintaining our strong position in emerging markets. Our strategy has three components, each of which builds on the other. They are the rollout of a Connected System, driving growth through retailer initiatives and Total Consumer Measurement.

Let me review these in a little more detail, starting with the Connected System, which integrates our core measurement data with the everyday analytics our clients need to make data-driven decisions with more speed and efficiency than ever before. Our rollout is progressing well. We remain on track to have 100 clients engaged with the end-to-end system by year-end 2018.

Our Connected Partner Program is up to 45 partners and our focus is now on driving increased usage of the partners' apps as well is our own apps that run on the same open platform. We're seeing good traction. We now have 219 clients using at least one component of the Connected System, up from 170 just two months ago.

The next key component focuses on driving growth through our partnerships with retailers, particularly Walmart. Since our February 1 launch of the Walmart One Version of Truth supplier collaboration program, we signed up more than 50 manufacturers, including Reckitt Benckiser, Ainsworth Pet Nutrition and Del Monte Foods. This program is off to a great start.

In March, we expanded our relationship with Sam's Club. This relationship is also anchored by a new supplier collaboration program that simplifies the way Sam's Club shares its first-party sales and inventory data with suppliers, aligning all of them around the same performance metrics and analytics for the first time. This expanded agreement further differentiates Nielsen and demonstrates our growing strength with retailers.

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Finally, Total Consumer Measurement, this is a global coverage play, as we aim to comprehensively cover all the channels that matter to our clients. One example is our new total food offering, which provides a holistic view of the total store. This is extremely valuable to retailers because the perimeter of the store is an important area of growth and profit for them.

E-commerce is another key area for our clients and we continue to build out our coverage globally. We know it's not enough to only cover e-commerce. What's important is to align measurement of online sales with offline sales to provide a total view of the consumer and that is our objective. We're investing in solutions that will deliver deep granularity comparable to what we have in the offline world.

In emerging markets, our global footprint serves as a significant competitive advantage where, in many of our markets, we are the sole measurement provider. Our ongoing investments in coverage and penetration, combined with positive demographic trends in these markets, position us well for the long term. We continue to see faster growth with local clients in these markets, highlighting the importance of our balanced client portfolio.

To support our global Buy transformation, we have realigned our organization to simplify the structure and enable faster decision-making. John Tavolieri, who many of you met at our November Investor Day, now oversees our U.S. Buy business. John will also continue to lead operations and technology globally for us, just as he did before. Pat Dodd, who has been leading our business in 19 key growth markets around the world, now oversees our Buy business in all markets outside the U.S. This simplified structure aligns with the roadmap and goals we laid out in our Path to 2020.

And this dives to my third topic, the transformation of our Operations function. This is the newest of our three transformations. It's fueled by digitization, automation and consolidation, all supported by a growing use of artificial intelligence and machine learning. We're focused on driving increased efficiency all throughout our operations, contributing to four points of margin expansion by 2020.

In Watch operations, we're making great progress with the rollout of our new metering technology, the nano meter, which is already live in Sweden and in the testing phase in the U.S. We've put vBrand's video image recognition technology into production, helping us automate operations in our sports business and we'll apply this technology more broadly in our business over time.

In Buy operations, we're consolidating our local market operations into three global super hubs in Poland, Mexico and Malaysia. All three hubs are up and running and throughput is steadily growing. As we continue to push more deliverables through the super hubs, efficiency gains will grow. The most significant opportunity is the automation of our Buy data collection processes. We're making excellent progress and we're on track or ahead of plan with all of our initiatives in this area.

Let me highlight one market, Mexico. This market is an early mover in this program and their success serves as a great proof point for our strategy. They've seen revenue increase, data collection cost decrease and EBITDA growth accelerate and that's what this program is all about. We'll see these benefits accrue as our global rollout progresses.

To summarize the picture for our Buy segment, while the operating environment remains challenging in developed Buy, especially in the U.S., we're making real progress towards returning to growth and improving profitability despite the environment, in line with our Path to 2020 plan. Additionally, our Operations transformation for Buy is heavily focused on emerging markets.

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Growth this quarter was below our plan for the year and we're focused on driving further improvement from first quarter levels. Over the long term, automations will drive not only significant margin improvement, but also revenue growth due to greater speed and quality as well as new capabilities.

Switching gears, let's turn to my fourth topic, the Upfronts and Newfronts. Around this time every year, there's a lot of activity in the marketplace as media companies look to differentiate themselves versus their competitors as they make their Upfront or Newfront pitches. And with that activity comes the discussion of new metrics or analytics capabilities that at first glance might seem to be a threat to Nielsen.

The reality is these are incremental growth opportunities for Nielsen. Clients are using our data to showcase the value of their audiences across platforms and business models. It demonstrates the great progress we've made with our Total Audience Measurement system and its key components, including Digital Ad Ratings, Digital Content Ratings, Digital in TV Ratings, out-of-home and subscription video-on-demand measurement.

A lot of the activity during the Upfronts and Newfronts draws from our Marketing Effectiveness capabilities. On track to be north of $400 million in revenue in 2018, this is where Watch and Buy come together, to deliver metrics that address advertising ROI and attribution. These are some of the most important topics for our clients these days, both buyers and sellers of media. This part of our business has consistently been growing double digits for quite some time.

With a small but growing portion of the market, focusing on advanced audience segments, we're also at the forefront of enabling audience-based buying. In March, we launched Advanced Audience Forecasting, a new tool that enables advertisers and media companies to better forecast inventory for audience segments across national TV networks. For example, an advertiser might use it to target pet owners or cereal buyers or people who shop at a particular type of store. And with our new Enterprise Audience API, media buyers and sellers can plug their systems directly into Nielsen to request data for specific audience segments on an on-demand basis. This includes transactions on the OpenAP platform for which we originally built the API.

Here's a recent comment from one of our clients, Simulmedia who said, with Nielsen's Enterprise Audience API, we'll be able to convert their gold standard data into targetable audience segments across all national TV networks in a matter of seconds. That sums it up well. We feel great about our position in this year's Upfronts.

My fifth and final topic is privacy and data protection. Consumer data privacy and data protection are at the cornerstone of all of Nielsen's solutions and this has been the case throughout our 95-year history. We embed privacy protections into the design of our products from the very start and our relationships with data providers, they're no exception.

In March, Facebook announced policy changes limiting the availability of third-party datasets for audience targeting on their platform. While access for some firms was curtailed, our relationship with Facebook remains strong. We still have access to the data that the industry needs for independent third-party measurement. We've always taken a conservative approach around consumer data privacy and this has proven to serve us well in the long term. Another key focus of the industry has been the General Data Protection Regulation or GDPR, a new EU data protection law going into effect on May 25.

We're ready for this. Because we've been at the forefront of privacy compliance for years, many of the steps required by GDPR were already in place. Overall, we see the greater focus on privacy, including GDPR, as a net positive for our position in the marketplace. Privacy is an important topic and the changes underway play to our strengths, ensuring compliance [ph] as regulation of all (24:58) will remain a high priority for us.

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I hope I've addressed many of your questions head on, but I am sure you'll have more. So with that, I'll turn it back to Sara.

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

Thanks, Mitch. Carol, we're ready to open it up for Q&A.

QUESTION AND ANSWER SECTION

Operator: Thank you. [Operator Instructions] Our first question comes from Andrew Steinerman from JPMorgan. Please go ahead.

Andrew Charles Steinerman
Analyst, JPMorgan Securities LLC

Q

Good morning, Mitch. I appreciate slide number 14 that gives the status of the Nielsen transformation of Operations. I want to kind of ask you to look forward with us this year, what milestones and quantitative items should we be looking for during 2018 to judge if Nielsen is on track for the big margin unlock in 2019 and 2020? And what should be the timing of when EBITDA margins inflect upwards within the three-year plan?

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

A

Yeah. Thanks, Andrew. Yeah and, first, in terms of milestones, it depends on which part of the business we're looking at. So, within Buy, we're mostly focused there on consolidation of our operation centers into those super hubs and we'll keep you apprised in terms of the growth in the deliverables that are flowing through those super hubs.

Right now, the key thing is to note that they're all up and running and the throughput is growing. And by the end of the year, we have a target and we'll keep everybody updated on how we're progressing against that target in terms of percent of deliverables, but what we're happy to say right now is that we're ahead of schedule on that front.

On Buy data collection, John Tavolieri outlined five different initiatives at out Investor Day. We're expanding those capabilities to more markets around the world and we've provided those numbers in terms of what those targets are. And again, in these areas, we're either on track or ahead of schedule.

In Watch, it's mostly about the rollout of the nano meter, which, I mentioned in my prepared comments, has already live in Sweden. And we're in the testing phase in the U.S. There, the gating factor will be much more dependent on the MRC review of the nano meter and that's really the vehicle through which our clients have access to what those data look like and get a chance to weigh in. So, that one will be one that will probably take a little bit more time.

In terms of when you'll see the financial results start to flow through, we're going to have a little bit of that starting to show up in the second half of this year, but as we said at our Investor Day back in November, this will be back-

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half loaded more towards the second and the third year of our three-year plan and it will ramp up, I think, very handsomely as we progress into 2019, 2020.

Operator: Our next question is from Toni Kaplan from Morgan Stanley. Please go ahead.

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

Q

Hi. Good morning. Jamere, I was hoping you could talk about what happened with working capital this quarter. I think you mentioned seasonality, but looking at it year-over-year, it was still a little bit more use of cash from working capital. And so, what are you doing in the next quarters to just make sure that, that gets better and that you could hit your $800 million of free cash flow?

And just I wanted to sneak this in, Mitch, I hope you could talk about the Esports opportunity and just it's very new, but what's the business model there and how do you view the TAM? Thanks.

Jamere Jackson
Chief Financial Officer, Nielsen Holdings Plc

A

Thanks, Toni. So, there's no change to our free cash flow guidance. I'll remind you that Q1 is always our lowest quarter for cash and I'll remind you that we generate all of our free cash really in the second, third and fourth quarters.

In the first quarter, as I talked about, we had our typical seasonality, but the first quarter was also heavily weighted towards the investments that we're making with retailers and some of the growth initiatives that we talked about where the revenue and the EBITDA are going to ramp up in the back half of the year.

In terms of working capital, we're on track. We did see some catch-up early on in the quarter and we'll continue to progress towards the $800 million target for the year.

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

A

Toni, on Esports, you sound like a fan, which is great. We first launched our Esports measurement capabilities last year and it got incredible coverage in the trade publications. It's a small portion of our sports business, but, yeah, there's a lot of interest in it and it's growing fast.

I think what it really is a testimony to is how important independent measurement is to development of different parts of the media marketplace. Esports [ph] do emerging and do (29:36) see the players in that part of the market welcome the entrance of Nielsen bringing our measurement into that market. They know what kind of positive impact that's likely to have on the economics of that marketplace as it continues to develop over time. So, to us, that's really the key takeaway with respect to the way the market reacted to our entrance into measurement for Esports.

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

Jeff P. Meuler
Analyst, Robert W. Baird & Co., Inc.

Q

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Yes. Thank you. Jamere, can you just kind of walk through the full-year guidance update again? And I guess what I'm wondering is, is this just – I guess I'm wondering is there a reinvestment of the tax reform savings as you seem to be hinting at last quarter? It was, I guess, the pension accounting previously contemplated in the guidance. I think that's a $10 million or $12 million headwind to EBITDA and then it [ph] washes (30:35) at the EPS line. So, just if you could kind of walk through some of the underlying factors to know if there's anything beyond, I guess, the lessening FX headwind and the incorporation of the tax reform.

Jamere Jackson
Chief Financial Officer, Nielsen Holdings Plc

A

So, just a couple things. From a guidance standpoint, what we highlighted this quarter is that we updated our tax forecast to be 34% versus our previous guidance of 38% to 38.5%. That drove a $0.10 increase in EPS on a GAAP basis and that's what we've actually reflected in our guidance there.

In terms of what we talked about on reinvestment, so we did talk about that in the last quarter. As we've completed our analysis and updated our GAAP tax guidance to 34% versus our previous estimate, the cash tax impact is actually neutral to slightly positive versus our previous expectations. And what you actually have there is the U.S. corporate headline tax rate of 21% is actually partially offset by the loss of some deductions.

So, with limited cash tax benefits in 2018, we've maintained our original investment pace, but we feel great about our Path to 2020 program as Mitch talked about and many of the initiatives are already ahead of schedule without a significant increase in investment.

And then, on your last point around pension, the new rules require that we actually restate last year and we've also updated our EBITDA forecast for this year. So, you actually see that being reflected in our guide and you can see the reconciliations of that in our press release.

Operator: Our next question comes from Dan Salmon from BMO Capital Markets. Please go ahead.

Daniel Salmon
Analyst, BMO Capital Markets (United States)

Q

Hi. Good morning, everyone. Mitch, you talked a little bit about measurement of Amazon channel a couple times during your prepared remarks. Could you just explain that a little bit more? Is that an expansion of your relationship with Amazon on the Watch side? Is it a change in the methodology of measuring, so that your media clients that are on that platform can take advantage of it? Said another way, is this a revenue opportunity, is it a methodology change or is it both?

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

A

Thanks, Dan. It's not a methodology change. No, this is about taking our existing metrics, in this case, Digital in TV ratings, and also by the way Digital Content Ratings and applying them to Amazon's business interests. So, it's part of what we're doing with Amazon in our overall relationship with them. So, in video, it's about, yeah, our Digital in TV Ratings and Digital Content Ratings metrics.

In fast-moving consumer goods, we continue our work with Amazon as well primarily through Whole Foods, with that relationship continuing to develop very well and growing. And going forward, we see a lot of opportunities to continue to build on our very dynamic relationship with Amazon. So – yeah, but in terms of what we're doing with them on video, that's our existing capabilities applied to their business needs.

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Operator: Our next question comes from Matthew Thornton from SunTrust. Please go ahead.

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

Q

Hey. Good morning. Thanks for taking the question. Guys, I guess, maybe one for Jamere and then one for Mitch, if I could. I guess, Jamere, just kind of thinking about how we've started the year, obviously you guys gave guidance for the full year in terms of where you thought Watch would shake out, where you thought Buy would shake out. We started the year, it seems a little light on the Buy, a little strong on the Watch, which has obviously been a bit of a theme. Is the shape of the year kind of starting out the way you would have thought? Any color just about how you are thinking about the shape of the year relative to what you would have thought three months ago? A little more meat on that bone would be helpful.

And then for Mitch, obviously, OpenAP obviously just brought on another important network partner to that initiative. And I apologize if I missed this, but can you talk a little bit about how you're thinking about the targeted audience, the OpenAP initiative as an incremental driver or not in 2018 and kind of what's contemplated in guidance there? Thanks, guys.

Jamere Jackson
Chief Financial Officer, Nielsen Holdings Plc

A

Great. I'll talk to the revenue. So, we believe the guidance of approximately 3% is achievable and our expectations haven't changed based on the first quarter. As we've talked about on the call, our Watch revenue growth is in line with our expectations and we've got great momentum heading into the year.

It is fair to say that the Buy segment remains challenging, but our expectations haven't changed based on the first quarter results. We're making real progress. We remain optimistic that our growth initiatives, some of which have just recently launched, will actually build momentum in the second half of the year.

If I were to give a little bit more color on some of the sub-segments, our developed markets' revenue is actually in line with our expectations. The U.S. is a bit lighter than what we saw in the back half of last year, but it's in line with our expectations. And, again, it's fair to say that the environment is challenging, but the rest of the developed world continued to perform better than the U.S. We actually saw some growth shoots in Canada, the Pacific and some the important markets in Western Europe. We continue to expect Europe to perform better than the U.S. due to the favorable product mix and the market dynamics.

And probably, most importantly, as it relates to the developed markets is I remind you that our key growth initiatives will deliver revenue in the back half of the year. So, we have more than 50 clients in the pipeline for the Walmart program, for example, that just recently launched and we'll build momentum there and we'll also continuing to make progress on incremental revenue opportunities in the Connected System and the Total Consumer Measurement initiatives.

As it relates to the emerging markets in Buy, the revenue improved from the fourth quarter, but, quite frankly, we still have some work to grow there. The emerging markets remain healthy. We have multinationals and locals that are continuing to invest the captured growth that's available in these markets and that's going to be a dynamic that remains a tailwind for our business in 2018 and beyond.

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We're continuing to drive coverage in earned price. We saw growth that was broad-based across several markets, including China. The results in China improved, as expected, versus what we saw last year in the fourth quarter. And again, multinationals and locals are investing in the emerging markets. And as you look at things like favorable demographics, rising incomes and urbanization, that's driving [ph] FMC (36:58) consumption and growth for our clients and they are investing.

And the last thing I'll say about the emerging markets is that we like the fact that local clients are continuing to grow at a very fast rate, similar to what we saw in 2017. So, from a revenue standpoint, we believe the guidance of approximately 3% is achievable and our expectations haven't changed based on what we've seen coming out of the first quarter.

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

A

And then, Matt, to your question about OpenAP, this is one of a number of different capabilities out there to support audience-based buying in the marketplace. Audience-based buying is still a relatively small part of the market, but it's growing fast and it's all about selecting target audiences based on criteria that include age and gender, but usually go beyond age and gender.

Yeah, to your question about is this incremental for Nielsen, very much so, incremental growth opportunity for us. With regard to OpenAP, our data is being used in the vast majority of deals that are moving to a OpenAP so far. We're really well positioned with respect to audience-based buying in general. We've been a leader in this area for past few years with our Nielsen Catalina Solutions, Nielsen Buyer Insights, our Nielsen Marketing Cloud capabilities and we're continuing to invest in this area.

Two other things I mentioned in my prepared comments are Advanced Audience Forecasting tool and our Enterprise Audience API. These are very much focused on audience-based buying. We timed the launches of those new capabilities to coincide with the Upfronts season when these are of heightened interest to our clients. So, that's the way we're thinking about this. Yeah, very much a growth opportunity. Thanks for the question.

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

Ryan Leonard
Analyst, Barclays Capital, Inc.

Q

Hi. This is Ryan Leonard filling in for Manav. Just want to revisit free cash flow if I can. I guess the implied ramp throughout the rest of the year is more than $1 billion, which would be a pretty impressive feat. And I guess, considering your comments that margin expansion won't really be outsized in the second half, can you maybe walk us through some the puts and takes that get you to the $800 million guidance?

And I guess on that note, accounts receivable factoring has become a bigger part of that number over the last couple years. I mean is there a way we should think about that for the rest of the year, so we can assess at the end of 2018 the true cash flow generation of the business?

Jamere Jackson
Chief Financial Officer, Nielsen Holdings Plc

A

Yes. So, as I said a little bit earlier, there is no change to the free cash flow guidance for the year. Q1 is always our lowest quarter. We generate most of our cash flow or all of our cash flow really in the second, third and fourth

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quarters. And the big thing that's different this year versus some of the previous years is the retailer investments and the growth initiatives that we were contemplating in our forecast are all sort of front-half weighted.

So, that was part of our plan when we laid out sort of where the year was going to shake out and we're executing according to that plan and we're still on track for the $800 million. So, there is a big ramp that happens in the back half of the year, but that is the way that we had laid out the plan.

You mentioned a little bit around receivables. We, from time to time, do sell receivables in a quarter. It's part of our normal working capital management. You've seen us do that from time to time in different quarters. The plan there around that is really around making sure that we have the cash in the right places, given the global nature of our business and the fact that we have cash sweeps that we have to do at different places around the world.

So, it's not necessarily done as a boost to free cash flow. It's just part of our normal working capital management and it is contemplated in the $800 million of free cash flow guidance that we have for the year.

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

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

Q

Hi. Thanks. I have another use of cash question actually. You've been a steady dividend payer and the purchaser of shares. Your leverage ratio is about 4 times and you have a rising rate environment now. I wonder if you have any updated thoughts on perhaps paying down debt, given some of the floating rates that you've got. Thanks.

Jamere Jackson
Chief Financial Officer, Nielsen Holdings Plc

A

Yeah. So, broadly in terms of capital allocation, we've maintained a balanced capital allocation approach that really starts with our leverage target. So, what we've said as part of our leverage target is that we're going to maintain our leverage in the 3 times area. Right now, we're at the high-end of that just based on some of the actions that we took last year to do a big tuck-in acquisition.

Naturally, based on the plan that we have laid out this year and as part of our three-year plan, we have the ability to de-lever somewhat over that time period. And given the strength of our balance sheet, given the fact that we're comfortable running the business in the 3 times area, this gives us plenty of financial firepower to grow our business and return cash to investors in a meaningful way.

So, we've said as part of our long-term free cash flow allocation policy that we would grow the dividend in line with earnings, that we would use roughly 40% of our free cash flow over the long term to flex between tuck-in M&A opportunities and share buybacks and the remainder to service the mandatory debt. So, if you combine what we're saying about leverage with sort of that free cash flow allocation framework, again we have all the flexibility that we need to return cash to investors in a meaningful way and grow our business and continue to keep leverage in that 3 times area.

Operator: Our next question comes from George Tong from Goldman Sachs. Please go ahead.

Q

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Hi. This is [ph] Jean (42:55) on for George. Given that Buy revenue growth came in on the lighter side this quarter, what provides the visibility that we'll see the sharp positive inflection in Buy margins over 2019, 2020? And especially on the execution hiccups in China, what steps have been taken to address those and how far through 2018 do you expect the impact to last?

Jamere Jackson
Chief Financial Officer, Nielsen Holdings Plc

A

Yeah. So, on Buy margins, again, I'll remind you that a big piece of the drag on the Buy margins in the front half of the year are the investments that we're making in the retailer programs and some of the growth initiatives. And so, those are front-half weighted and as those programs ramp up and drive revenue growth and margin in the back half, you'll see the margins start to improve.

We also expect, as Mitch mentioned a bit earlier, some of our Path to 2020 productivity initiatives to drive improved margins in the back half of the year. So, given the revenue framework that we've laid out, which is more back-half weighted, associated with some of the growth initiatives and the productivity initiatives, you should expect Buy margins to continue to improve in the back half of the year.

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

A

Yeah and what I'll add is we thought about the 2020 plan. We really put a lot of focus on having a significant number of elements in that plan that enable us to make progress, gross margin progress despite the environment. And in fact, our Operations transformation really has – it doesn't rely on revenue improvement at all, it drives a lot of the margin expansion simply based on increased efficiency in our business, largely through automation and consolidation.

Super hubs play a big role in that, our automation initiatives and our data collection processes in both Watch and Buy play a big role in that. So, a lot of this – the vast majority of this is in fact within our control.

Jamere Jackson
Chief Financial Officer, Nielsen Holdings Plc

A

Yeah. You asked a question on China as well. I'll let Mitch talk a little bit about some of the operating things that we talked about. We highlighted in the fourth quarter that we expected China to actually improve. We're actually seeing that in the business in the first quarter and we have a little bit more room to go there. We've made some changes in terms of leadership. We've made some changes in terms of our focus areas there and the business is on track and we're driving coverage opportunities and pricing opportunities there.

Mitch, I don't know if you have anything else to add.

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

A

The team is refocused on the core business. They're executing well. As Jamere mentioned, we've made some leadership changes and this is still the most important growth market in the world. We have not lost sight of that, I want to assure you, and it'll continue to be a really important growth contributor to our emerging markets and, in fact, our global Buy business for long into the future.

Operator: Our next question comes from Brian Wieser from Pivotal Research. Please go ahead.

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Brian W. Wieser
Analyst, Pivotal Research Group LLC
Q

Thanks for taking the question. I was curious about the pressures that your Buy segment clients are facing and maybe this ties a bit into working capital. Are you seeing any pressure in terms of payment terms as we see certainly in the agency space? And more generally, do you see efforts to renegotiate contracts from those clients at the present time?

Jamere Jackson
Chief Financial Officer, Nielsen Holdings Plc
A

Yeah, Brian, I think it's fair to say that every company that we're dealing with, either on the client side or on the supply chain side, is trying to figure out a way to better manage working capital and, in fact, they're trying to push for extended terms. It's certainly been the case with all of our global clients, but that's not a new phenomenon. I mean, that's something that we've always dealt with as part of contract renegotiations and we find the right place to land those contracts and land those negotiations. So, it is a play that is being pushed, but we've done a pretty good job just given the nature of our business.

The reality of our business as it relates to receivables and payables functions, if you will, is that the lion's share of our cost structure is actually in our people cost. So, we just don't have the same levers as some of the other elements of a manufacture, supply chain. And they understand that. It doesn't stop them from pushing on it, but we usually get to the right place in the discussions as it relates to payment terms.

Brian W. Wieser
Analyst, Pivotal Research Group LLC
Q

Got it. So, no change there. And what about pricing pressure or attempts to renegotiate existing contracts?

Jamere Jackson
Chief Financial Officer, Nielsen Holdings Plc
A

Yeah, what I would say on that is from a pricing pressure standpoint, there's really no change in terms of the environment. I mean you've had clients continuing to look for opportunities to be more efficient in their contracts. I would say overall that the renewal dynamics are actually improving and one of the reasons we're seeing that at least in our business is that the capabilities that we're bringing to the marketplace and the capabilities that we're discussing in these renewals around the Connected System and some the retailer programs are actually positive developments that are helping us strengthen our product offering as we negotiate with both new and existing clients.

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

In Connected System, Brian, also, as we said before, we'll keep saying, it is a big efficiency driver, not only for Nielsen, but probably even more importantly for our clients, because it automates so much of the activity for how the data that we deliver to our clients has been deployed and used within their organization both from the standpoint of measurement and the everyday analytics they use to make decisions in their business.

We are driving big-step changes in the efficiency for how data gets used inside of our clients and that is right on target in terms of what they're looking for right now, efficiency gains as opposed to just cutting budgets. This is a much more positive way for them to get to where they need to get to.

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

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

Q

Hi. Good morning. Mitch, I'd love to get your thoughts, if I could, on a more structural question around Buy. Beyond what you can do on your own with the transformation that you've talked about, if you think about where you sit in a broader industry itself as a major player in the big business of supplying data analytics to the consumer goods and retail industry, I think it's fair to say that competitive situation ranges from highly fragmented to somewhat fragmented, depending on the product line.

So, I wonder if there's anything you can do, bigger picture, to perhaps either get much bigger through acquisition or partnership to perhaps bring some more capabilities to you, rationalize the industry a bit, make it healthier or go the other way, perhaps spin off some or all of your Buy segment into a place where it would exist in a healthier competitive situation for itself and for the good of Nielsen itself? Would love whatever thoughts you have on that. Thanks.

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

A

Yeah. Thanks for the question, Todd. We talk about questions like this with our senior leadership team and our board regularly and I guess one thing I want to make sure everybody hears is we have very open mind as we think through these kinds of questions. And we're always focused on the object of creating value, value for our shareholders, value for all of our stakeholders out there.

In terms of Buy, getting better and having more scale leverage, we're very actively engaged in partnerships to be able to take advantage of scale opportunities. One of the things we talked about in fact, Todd, on last earnings call was what we're doing in the area of consumer-level data and that's a partnership we have with another firm with similar business needs as we do where we are partnering with them on building this [ph] receipt-capture (50:50) capability. It makes the economics of it a lot easier to justify when you can apply it across far more than just the fast-moving consumer goods industry. So, we are doing some things like that.

On the other side of the equation, when we think about Watch, Buy and the value that they bring to one another, I guess probably helpful if I remind you some the benefits of connecting Watch data with Buy data. It addresses one of the biggest questions that advertisers have these days, which is basically what is the ROI of my advertising? They have been asking that question for decades, but the reality is we're now able to answer that question in real-time, at scale and in a way that's incredibly useful to our clients as they look to optimize their advertising campaigns, their advertising allocations on the fly, to trim waste out of their budget, to drive up that ROI.

Because we have access to both the Buy data and the Watch data, we're in a terrific position to be able to help the marketplace with that long-term very important question. It's one of the reasons why you see our Marketing Effectiveness revenues growing consistently double-digits over these past few years. And as I mentioned earlier, it will be north of $400 million in 2018.

So, one other example of this is the Connected System. One of the key modules in the Connected System brings together the sales data with our media data and provides that on that platform to our clients and it's one of the particular applications that's generated the most enthusiasm from our clients. So, there're a lot of reasons to have these things connected and a lot of value that gets generated as a result. And yet, at the same time, there are

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opportunities for us to pursue more scale and more efficiency by having our Buy business partner with other firms that have similar business interests.

Operator: Our next question comes from Jason Bazinet from Citi. Please go ahead.

Jason Boisvert Bazinet
Analyst, Citigroup Global Markets, Inc.

Q

I have just a question for Mr. Jackson on Watch. Given the sort of imminent wave of media consolidation that seems to be going on with, I guess you were successful with Sinclair, but Discovery-Scripps, Disney-Fox, CBS-Viacom, how, if at all, do you anticipate that impact being the Watch revenue trajectory over the next few years?

Jamere Jackson
Chief Financial Officer, Nielsen Holdings Plc

A

Yeah. We've seen a very little impact associated with that. And to the extent that there is consolidation in the industry, if the footprint in terms of the number of networks remains about the same, then we would not expect to have a material impact on our business.

And what I'll also submit to you sort of in this environment is that if you look at our Audience Measurement of Video and Text on an organic basis, our National TV and our Digital business are solid. The growth initiatives that we have in the marketplace are delivering and these are the things that are actually driving our Watch business to perform very well on an organic basis.

Jason Boisvert Bazinet
Analyst, Citigroup Global Markets, Inc.

Q

Okay. So, [indiscernible] (53:53) number of networks is more salient than number of companies?

Jamere Jackson
Chief Financial Officer, Nielsen Holdings Plc

A

That's exactly right.

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

A

Yeah. I would agree with that, because our contracts with the big media companies generally are – there's a master service agreement across the entire relationship, but then, the value of that contract is usually on a network-by-network basis. So, if a company owns 5 networks or 10 networks, each of those has a fee related to the data and the services, the Total Audience Measurement services that we're providing to each of those individual networks inside of that overall media holding company.

Operator: Our next question comes from Surinder Thind from Jefferies. Please go ahead.

Surinder Singh Thind
Analyst, Jefferies LLC

Q

Hi, Mitch. I just wanted to follow up on the Facebook commentary and see if there was any additional color that you could provide. It sounded like the relationship is obviously very strong and still intact, but has there been any change in perhaps the level of data that you're able to get at this point in terms of segmentation that you have

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access to or alternatively, is there an opportunity to perhaps lock out competitors in the sense that you can establish a more exclusive, trusted relationship?

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

A

Yeah. Thanks for the question. As you mentioned, it is a very long-running and very strong relationship that we have with Facebook. We still had access to the data we need for our measurement products. For some of our products, the analytics products, we've had to make some process changes. We are in the process of making some process changes in order to accommodate some of their policy changes, but we're still able to deliver all those products to our clients in the marketplace and we don't see any change in that going forward.

I think one of the reasons why we've weathered this period, especially well, relatively well, better than, I think, a lot of the other data partners with Facebook is because we've always taken a more conservative approach with regard to consumer data protection, consumer data privacy. One thing we've said in the past in terms of how we use the data that we access from Facebook is that it's anonymized and aggregated before it's actually used in our services. And so, there's a certain extra level of protection in terms of the data access we use and how it's deployed in our products.

So, yeah, again, we're in a very good position. I think as we think about the implications of the Facebook situation and the implications of GDPR, we really think all of this plays as a net positive for our business and our position in the marketplace as it unfolds.

Operator: I'll turn the call back to Mitch Barns for closing remarks.

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

Thank you, Carol. And thanks, everybody, for joining us on the call. Let me just sum it up by saying we have these three really big and important transformations underway in our business. Watch is furthest along, obviously centered on Total Audience. The focus is on measuring it all, TV and digital, content and ads, linear and dynamic and then providing the currency for all of it to both buyers and sellers in media.

We're investing to maintain and build on what is already a strong position and you see it in our results, especially the revenue growth for our Audience Measurement of Video and Text. In Buy, transformation there is progressing well and we have these three components to our strategy, each of which builds on the other. We're transforming our core products with the Connected System, we're investing in growth through our retailer initiatives, including Walmart and Sam's Club and others and we're continuing to expand our coverage of sales in a fragmenting retail environment through Total Consumer Measurement.

And our Operations transformation, this is the newest of three. Here, it's about driving increased efficiency and accelerated margin expansion through automation and consolidation. All of the components of our program are either on track or ahead of schedule.

Regarding the 2018 Upfronts, we're well positioned for incremental growth with a strong portfolio of both existing and new capabilities. And, finally, consumer data privacy, it's always been a high priority for us, both in the way we design our products and the way we run our operations. We're well prepared for GDPR and we're well positioned in the market.

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So, thank you once again for joining us on the call this morning and we look forward to speaking with many of you in the coming days and weeks.

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

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