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Nielsen Holdings Plc (NLSN)

Q3 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 Q3 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 third quarter financial performance. A slide presentation that we'll use on this call is available under the Events section of our Investor Relations website. Before we begin, I'd like to remind all of you that our remarks and responses to your questions today may contain forward-looking statements, including those about Nielsen's outlook and prospects that are based on Nielsen's current expectations.

Our actual results in future periods may differ materially from those currently expected because of a number of risks and uncertainties, including those identified in the Risk Factors section of our most recent Annual Report on Form 10-K and a subsequent report filed with the SEC, which are available on our website. We assume no obligation to update any forward-looking statements except as required by law.

On today's call, we with also refer to certain non-GAAP financial measures. Reconciliations of these non-GAAP financial measures to the most comparable of GAAP measures are available in the earnings press release which is available at the Investor Relations section of our website at nielsen.com.

For Q&A, as always, we ask you to limit yourself to one question, only so we can accommodate everyone. Feel free to join the queue again, and if time remains, we will call on you. And now to start the call, I'd like to turn it over to our Executive Chairman, Jim Attwood.

James A. Attwood
Executive Chairman, Nielsen Holdings Plc

Thank you, Sara. Good morning and thank you all for joining the call today. I'm here with Dave Anderson, our newly appointed CFO; Megan Clarken, President of Watch; Pat Dodd, who oversees Buy and all international markets; and John Tavolieri, who oversees U.S. Buy and Technology and Operations. Megan, Pat, and John are all long-time veterans of Nielsen, and we thought it would be helpful for them to share their perspectives on this call. I'll make some brief opening remarks and then turn the call over to Dave for a review of the third quarter financials and to share his perspectives on the company.

First, the strategic review. As we announced in September, the board of directors expanded the scope of our previously announced strategic review of the company's Buy segment to include a broad review of strategic alternatives for the entire company and its businesses. As we've stated, the strategic review could result in a broad range of alternatives, including continuing to operate as a public, independent company; a separation of either Nielsen's Watch or Buy segments; or a sale of the entire company.

We are working with a great deal of focus and urgency on this review and have engaged a team of expert outside advisors, including JPMorgan, Guggenheim, [ph] DCG (00:03:29) and Wachtell Lipton, to assist us in a fulsome analysis of our historical and forward-looking financials as well as our strategy, markets and strategic alternatives. Our board, with the assistance of our advisors and management, is engaged in directly overseeing the strategic review, and we've also designated a group of independent directors to meet regularly with our advisors and members of management to help drive the process. We do not have any additional details to share at this point, but we are working expeditiously and will provide further updates as appropriate.

Second, the CEO search. This is a parallel process to the strategic review, and the search is well under way. I must say I've been very impressed with the quality of the candidates we've seen to date. The recent hire of Dave is a testament to our ability to attract top talent, despite some obvious challenges in the business.

As you know, Mitch Barns will remain as CEO through the end of the year or until a new CEO is appointed. Mitch continues to be actively engaged in driving the business forward on a day-to-day basis. We thank Mitch for his dedication and continued commitment to Nielsen and all of our stakeholders, including our shareholders.

Third, we made a fantastic hire with Dave Anderson, who joined us in September. Dave is well-known to the investment community from his 11-year tenure at Honeywell, one of the world's largest industrial companies. Throughout his career, he has helped develop and successfully implement strategies for growth and operational improvements in extremely complex environments. Dave is a tremendous addition to our team and has hit the ground running.

Before I turn the call over, I want to also thank the teams at Nielsen for their focus and dedication. It has been a challenging year, and there has been a lot of change in the organization. Despite this, the teams have demonstrated a remarkable ability to keep their heads down and focus on executing our strategic priorities. My sincerest thanks to everyone on the Nielsen team.

Now I'll hand it off to Dave, someone who's been pretty busy these last few weeks. Dave?

David J. Anderson

Chief Financial Officer, Nielsen Holdings Plc

Jim, thanks very much. Good morning, everyone. Jim, appreciate your kind words. Thank you for that. I'm impressed by the level of engagement and commitment that's being shown across Nielsen, and you're going to hear that come through particularly when Megan, Pat, and John speak later this morning. So I've had the opportunity over the last seven weeks to dig a little deeper into the business. I've spent time with a number of leaders across the company, and before I get into the financial review, I'd like to just share some high-level thoughts with you on that.

So, if you go to slide 7, again, at a high level, what I've provided here is just a view of headwinds and tailwinds for the company as I see them today. First, clearly, the end markets are changing with media fragmentation in Watch, changing consumer behavior, the growth of channels such as e-commerce, and increased competition in Buy, our clients' needs are ever-changing and at a rapid pace. We all understand that. We all get it. And it's critical that we evolve our business along with the ecosystems we serve in order to maintain our competitive positioning [ph] in our innovative offerings. (00:06:56)

With that backdrop, one of the things in the center of the financial plate that we have to address is planning and forecasting. Our business has a lot of moving pieces. We're examining all of that as part of our review of planning and forecasting systems and processes. Our goal is to provide you with clarity on the range of outcomes that represent our guidance are in our best judgment, and then to deliver against that.

Lastly, with the CEO search and the strategic review under way, there are a lot of demands on the time in the organization that aren't tied to day-to-day operations. However, our business leaders remain focused on execution and active engagement with our clients as we also deliver on all fronts.

Turning to the right-hand side of that slide, talk a little bit about some of the tailwinds. We'd all agree that Nielsen has a terrific global franchise providing mission-critical data. I don't need to remind all of you that the major global enterprises as well as local businesses that we serve put their trust and confidence in Nielsen's data, analysis, insights and people every day. You're going to hear a lot more evidence of that today in the updates from the business leaders.

The strength of the company's operating leaders and their broader teams is impressive. I can assure you that this team gets up every day focused on the very best for our clients, working to make us stronger, faster, more agile, and more aggressive. To sum up the page, we know that credibility is built with time. It's built with consistent execution and also consistent and clear communication. That's our goal. Again, we have a strong commitment to deliver on all fronts.

With that, I'd like to turn to slide 8 and just take you through, before going into the financials this morning, take you through a set of CFO priorities. Obviously, first and foremost, the focus of the organization is executing on 2018. We're engaging the global management team in an operational review to examine all of our processes, working to ensure that we have the right cadence, rigor, and line of sight to deliver results. And, obviously, we're pleased with the start to that with the third quarter numbers that we're going to review with you today. I see the finance function as a strategic lever for helping drive operational excellence and also ensure accountability across the organization.

Next, obviously, we're working on developing an aggressive yet achievable 2019 operating plan. This will serve as the foundation for our future outlook. This involves a comprehensive bottom-up approach to planning, along with a fresh look at resource allocation, both CapEx and OpEx, and a review of our capital allocation strategy at the board level. Our goal is be as transparent as possible. We're early in the planning process, so we'll be limited in our comments today about 2019 at this time.

And third, as Jim mentioned in his opening remarks, is the strategic review. This goes hand in hand with the 2019 operating plan. It'll serve as the foundation for our long-term forecasting. Leveraging the work that we do here will provide the board with an informed point of view as they explore a broad range of alternatives. We're working with urgency, which includes a dedicated internal Nielsen team as well as outside experts.

And finally, strengthened communications with investors, I've had the opportunity to speak with a number of you already and the themes have been consistent in terms of feedback that you've provided to me. I know and we know how important transparency and clarity are to you. You have our commitment that this is going to be a top priority. We're going to seek your inputs on the redesign of our financial reporting framework, and I'm going to talk more about that a little bit in a few minutes at the end of my remarks.

So, with that introduction, let's dive into the results on slide 9. And importantly, obviously, the takeaway is we're very pleased with revenue, EBITDA, and EPS being on track. We're also very focused, as I'll talk in my remarks, on cash flow. On the left side of the page are the results on a U.S. GAAP basis, as you can see, revenue at $1.6

billion was down 2.5% on a reported basis. This was driven by growth in the Watch segment, offset by continued softness in Buy and 190 basis point of foreign currency drag in the quarter.

Net income on a GAAP basis, $96 million; net income per share, $0.27, down from $0.41 last year. Net income per share results were driven by softer revenues, prior restructuring charges, retailer investments, and other growth initiatives, again, consistent with that guidance that we provided you in July.

Looking at the right-hand side of the page, total revenue was down 0.6% year-over-year on a constant currency basis. Adjusted EBITDA of $471 million was down 7.5% constant currency, and adjusted EBITDA margins were 29.4%. Margins, of course, were impacted by revenue softness as well as the investments in our growth initiatives. This was partially offset by our productivity initiatives and John's going to take you through that in a few minutes.

Free cash flow was $266 million for the quarter, down from $425 million a year ago. It was driven by lower net income and working capital changes, including a drag due to receivable sales and higher cash restructuring. So, again, pleased that we're on with the revenue and EBITDA and EPS, and obviously focused on cash flow.

Turning to Watch, let me give you a few highlights there. We're obviously seeing some continued underlying strength, very pleased by that, and this is being partially offset by continued privacy and GDPR headwinds. Revenue for Watch in the quarter was $845 million, up 1.4% on a constant currency basis. Audience Measurement of Video and Text was up 5.2% constant currency. Revenue from National TV clients continues to grow at a mid-single-digit run rate. We also saw strength in the quarter in digital and low double-digit growth in Gracenote. In the fourth quarter, importantly, we expect our revenue trend in this space to slow, given by pressure on digital client spend, on products related to targeting. It will also be impacted by a slowdown in Gracenote's growth and some pressure in local.

Marketing Effectiveness was down 10% constant currency, 10.1%, or down roughly 12% from third quarter last year when netting the Visual IQ acquisition, but also the exit of TV Brand Effect. The results were disappointing and primarily reflect the impact of changes in the consumer data privacy landscape as we called out last quarter.

Now, we expect Marketing Effectiveness in the fourth quarter to be down more than the third quarter, given continued pressure from changes in privacy as well as the fact that we had a tough comparison from historical data sales last year. I'd also note that we don't get the lift in the fourth quarter from the acquisition of the Visual IQ business, which was acquired in October of 2017.

Looking next at Audio, it was down 1.6% in the quarter, as expected. Watch adjusted EBITDA was $377 million, down 2.8% constant currency. Adjusted margins were down 44.6% or 196 basis points. A number of moving pieces contributed to the decline with revenue softness and product mix both being important factors.

Now, given those highlights on Watch, let's turn to the Buy segment, and the theme here is obviously the continued pressure on our end markets. The teams are obviously working on growth initiatives to mitigate these pressures. Third quarter Buy revenue was $755 million, down 2.7% constant currency, no impact from acquisitions. Revenue in the Developed Markets, $481 million, down 0.8% constant currency. Now, we continue to see weakness from global multinationals. While we were pleased with the third quarter performance in Developed Buy, we expect to see greater decline in this space in the fourth quarter as the fourth quarter last year was also helped by the timing of some historical data sales. So that represents a tougher comp for us.

Revenue in Emerging Markets for Buy was $269 million, down 2.5% constant currency. We continue to see pressure on multinational client spend and also some additional softness in China. Pat's going to go into this in more detail when he discusses Emerging Markets and also our work to restore growth in China. Now, Buy adjusted EBITDA was $109 million, down 19.9% constant currency, and adjusted EBITDA margins were 14.4%. This was driven by revenue declines and also by continued investments in our growth initiatives.

Let's go now to slide 12 and talk about overall guidance for 2018 and I'll take you through some of the line items. We've shown our previous guidance on the left-hand side of the page and the updated guidance on the right side. Again, we're reiterating revenue, adjusted EBITDA, and GAAP EPS. And as you can see, we've lowered the free cash flow guidance and again, I'll give you a few details on that in just a moment.

On revenue, I want to point out that while we continue to expect full-year company revenue to decline roughly 1% constant currency, we expect Buy revenue to be slightly better and Watch revenue to be slightly below our prior expectations due to some of the factors I described earlier. We're still guiding to a 34% tax rate, but we could see some variation in the fourth quarter due to true-ups to the adjustment made as a result of the 2017 corporate tax reform.

Moving to free cash flow, when we look at the major elements of free cash flow, including adjusted EBITDA, CapEx, and restructuring, they're all within the range of the July guidance. The exception really is working capital. And as a result of that, we're looking deeper to understand both third quarter and the outlook for the fourth quarter that has led us to lower our full-year free cash flow guidance to $450 million to $500 million. Obviously, it's a key element of forecasting and planning that I mentioned earlier.

And by the way, you should know that the assumption that we're using for accounts receivable sales is no increase on a year-over-year basis – a very small increase on a year-over-year basis, so FY 2018 compared to 2017, there's no significant driver benefit there. For your reference, we've included additional 2018 financial metrics and a currency adjustment map in the appendix. You also see in our reconciliation that changes in foreign exchange assumptions impact the expectations for reported revenue as well as EBITDA.

So, with that discussion of the results and the guidance, let's go to slide 13. There's just one final page that I'd like to just share with you. So, as part of the reporting process, we're considering enhancements to how we report and what metrics we use. It's still a work in process, but you can see some preliminary thoughts that include: number one, adding non-GAAP EPS metric; two, ensuring that we have consistency and alignment on organic revenue, so going to a transparent, understandable and consistent organic revenue measure; making sure we have relevant segment reporting – I think it's an opportunity to stand back, look freshly at that; and adding some color around quarterly expectations to supplement our annual guidance. We look forward to getting your input on these items and other items as we more fully implement them as we provide 2019 guidance with our fourth quarter results.

So, with that financial summary, let me turn it over to the business leaders, starting with Megan. Megan, do you want to take us through the highlights?

Megan Clarken

President-Watch, Nielsen Holdings Plc

Yeah, thanks, Dave, and good morning to everybody. On slide 15, we'll lay out our third quarter highlights and strategic priorities for 2019 for you. Let me summarize the highlights here. Firstly, Total Audience. Our National TV clients are growing at a mid-single-digit run rate due to our investment in Total Audience, which help them navigate and monetize the increasing complexity of the media landscape. We recently signed up new contracts with two of our largest, most strategic national media clients, securing our position as their trusted partner in the marketplace for years to come. And that's my second bullet point there. I'll spend some time on privacy and its impact on Marketing Effectiveness. That's my third bullet.

The consumer data privacy landscape has been a big area of focus for both Nielsen and the industry. So, let me unpack the dynamics for you. As consumer data privacy changes went into effect in late May, our publisher and platform data partners changed their requirements for how data is sent and received. This resulted in third-party data being switched off until both we and our data partners retooled capabilities.

With the bulk of the work to meet the new policies now behind us, we're shifting our focus back to our sales pipeline and new product offerings. In addition, many advertisers stopped targeting ads and sharing data until they felt that they were privacy compliant. This is an external factor that's impacted us. Longer term, we see strong client demand for a Multi-Touch Attribution, outcomes-based measurement and targeting. And recent multiyear renewals of large enterprise clients for Multi-Touch Attribution deals underscore our optimism here.

So let's go to the right-hand side of the page, where I'll talk about strategic priorities. I'll spend more time on this first point. Our clients have a range of strategies from brand awareness to audience-based buying, to direct targeting of individuals on personal devices, which require a range of metrics and measures. Through our Total Audience framework, we've built a solid foundation of exactly who saw and how many times they saw using standard comparable de-duplicated cross-platform measurements. These are the foundational currency metrics of C3/C7 and Digital Ad Ratings, and they allow our clients to build additional metrics on top of these currencies.

We've recently branded this as Metrics to Monetize. For example, in audience-based buying in linear TV, Nielsen data is critical to clients whether they're targeting age and gender demos or, say, new moms. Nielsen's currency metrics provide the base to size the audience and provide the understanding of how many times that audience has actually seen the advertising. And without that, there is no ability to truly measure ROI. Nielsen is the only one who measures people, so we're the only ones who know exactly how many new moms there are. So bottom line here is that without Nielsen's base metrics of who saw and how many times they saw, it's impossible to fully measure targeted audience outcomes or any other metric used to monetize.

Next, we're doing well on the evolution of Digital. We're proud to announce we've signed a new agreement with Comcast to measure its users, digital viewing across the Xfinity Stream mobile apps and websites. This aggregated viewership data will contribute to Nielsen's Digital Content Ratings and Digital in TV Ratings.

And then, finally, across our portfolio, we'll continue to invest in innovation and client delivery. These are the cornerstones of our strategy in the Watch business. And with that, I'll turn it over to Pat.

Patrick Dodd

President-Global Markets Group, Nielsen Holdings Plc

Thanks, Megan. I lead our international markets. This includes the entirety of Emerging Markets as well as Developed Markets, excluding the U.S., which John will talk about in just a few moments. Turning to slide 17, on our highlights, let's first talk about Developed Markets outside the U.S. Revenue trends have been relatively stable, including Europe, which represents nearly 40% of our Developed Market revenue. Here, we've been successful in adding new retail cooperators in all channels of trade as we continually build out the most comprehensive and complete measurement available for our clients. A recent notable win is Aldi in five European markets. We're focused on further expanding our relationship with this key fast-growing discount retailer.

Second of all, Emerging Markets, our clients continue to prioritize their investments in emerging markets, giving strong tailwinds such as population growth, rising middle class, and urbanization. However, a theme we talked about last quarter is large multinational spending pressure in Emerging Markets, and that did persist in Q3. The pressure was more pronounced in short-cycle revenue, such as consumer survey research and innovation. We continue to be focused on enhancing our measurement and analytic offerings, including greater coverage of the important traditional trade channel, which will continue to shift our portfolio mix in Emerging Markets towards long-cycle, highly-differentiated revenue streams. In China, we're focusing on the core, which includes a significant panel expansion, which I'll talk more about when I address strategic priorities for Emerging Markets.

As we move to the right-hand side of the page, expanding measurement and e-commerce are two top priorities for us internationally. Retailers are key to our continued success across both Developed and Emerging Markets as we drive to offer wider coverage and deeper granularity for our clients. This year, in 2018, we will add 200 more retailers into our measurement services across our international markets. Forty of these are e-commerce players. We now have e-commerce measurement in over 20 markets internationally, giving us the largest global footprint for e-commerce measurement and analytics.

Now, let me talk a little bit more about our Emerging Markets growth plan and China is a key component. As we've said before, China is approximately $200 million in revenue and a critical piece of our emerging market story. We now have a new management team firmly in place and they're focused on a few things: first, expanding our e-commerce measurement and analytics solutions with relationships with JD.com, Tencent, and we've most recently signed a new deal with Suning, the third largest FMCG online retailer in China.

Second, enhancing and expanding our core retail measurement to include now over 6 million retail stores which will measure the consumption of 1.3 billion Chinese consumers. This significant coverage enhancement will be available mid-next year to all of our clients. Finally, we are rebuilding and strengthening our commercial teams across China, and the China growth plan remains an important priority for us, and I look forward to updating you on this and our progress moving forward.

With that, let me close on this point. We are the undisputed leader in international markets. With these initiatives under way, we have the confidence that will sustain and strengthen our leadership position over the long term.

With that, let me turn it over to John.

Giovanni Tavolieri

Chief Technology & Operations Officer; President-U.S. FMCG & Retail, Nielsen Holdings Plc

Thanks, Pat. Turning to slide 19, as you know, there are a number of external pressures in the U.S. Buy business, and what I'm going to talk about this morning is what we're doing about it. First, the Connected System. Over the last few years, we've engaged with clients who've provided critical feedback and really strengthened our development efforts. We are happy to report that we continue to grow the number of clients using at least one component of this system.

We're up to 272 clients compared to 232 as of last quarter. This includes clients who are using applications through our Connected Partner Program, which also continues to grow. One large client recently became the first client to switch to the Connected System as their system of record and are now moving more rapidly from data to insights, which will provide increased value to this important client.

Second, retailer initiatives. In addition to the direct growth we are seeing across our retailer analytics solution such as pricing, assortment, and path to purchase, we've made extraordinary progress with our Walmart and Sam

Club's supplier collaboration programs. We signed up more than 750 manufacturing clients, 500 of these are new first-time-ever clients to Nielsen, many of which are small and mid-tier.

In addition, I'm extremely proud to share that we've also been selected as the sole provider of digital content enrichment for Walmart's Food and Beverage business in the United States. I spent the early part of this week in Bentonville, and there's a definite buzz on the ground, both at the Nielsen office and in the engagement we're seeing with Walmart.

Thirdly, we remain focused on the Total Consumer, ensuring relevance of our core measurement services, regardless of where they shop. Most notably this quarter, I'm very pleased that we've expanded our e-commerce offering through an exclusive agreement with Rakuten, previously named Slice. We now have the most comprehensive, multisource e-commerce measurement solution for the fast-growing channel in the U.S. marketplace.

On the right side of the page, the strategic priorities for 2019. First, we'll continue to drive progress on the three key growth initiatives I just highlighted, which will help drive penetration and growth with small and mid-tier clients as well. All of these efforts come together as part of our go-forward strategy to help clients drive growth by leveraging data as an enterprise asset. And this is most evident where we are leveraging our 1,100 data scientists working in tandem with our client teams, technologists and engineers to unlock value for our clients across their entire data ecosystem.

Let's move on now to Technology and Operations on slide 20. We continue to make good progress in our efficiency initiatives, and our focus is now on increased net productivity. In Buy automation, we're on track in our work to automate data collection across our Global Markets, driving productivity, speed, quality, and enhanced capabilities for our clients. On the Watch automation front, we're working on the rollout of new metering technology in the United States. We're focused on this multiyear project as we work closely alongside the Media Ratings (sic) [Rating] (00:32:09) Council and our clients to ensure currency quality measurement.

Finally, consolidation of platforms and super hubs. Our three super hubs are all open and fully functional in Poland, Mexico, and Malaysia. They give us scale and speed to market as new capabilities are deployed to multiple countries simultaneously. In addition, we now have converged 34 countries fully onto our Buy data production platform, which, over time, will seamlessly allow these countries to plug into the Connected System.

Looking at our priorities, one, drive increased net productivity through these initiatives. Two, prioritize our investments in terms of sustaining the business, driving productivity, and enabling growth. It's through this lens that we'll balance our investments across the global business. And thirdly, continue to move work more aggressively to the super hubs to drive benefits through scale and agility. We'll see this contribution ramp up over the next several years.

With that, let me turn it back to Jim.

James A. Attwood
Executive Chairman, Nielsen Holdings Plc

Thank you, John. In closing, as you all know, organizations are only as good as their people. We at Nielsen are very fortunate to have the leaders we have sitting in the room here today. So I want to thank Megan, Pat, and John, as well as all of your teams for all of your hard work. Now, back to Sara.

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

Great. Thank you, Jim. Carol, we're ready to open it up for Q&A.

QUESTION AND ANSWER SECTION

Operator: Certainly. [Operator Instructions] Our first question comes from Toni Kaplan from Morgan Stanley. Please go ahead.

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

Q

Hi. Good morning. I'll let someone else ask the free cash flow question. So I wanted to ask about Marketing Effectiveness. I know you mentioned, Dave, in the remarks that you're expecting Marketing Effectiveness to be down more in 4Q than 3Q. I just wanted to sort of see if you could reconcile that with – I think Megan mentioned that a lot of the work for getting data to be compliant is almost done. So just wanted to understand a little bit better about the trajectory of that and why the lower expectation. And over time, I guess – are the products that were impacted by GDPR impaired indefinitely? Or are they sort of once the compliance issues get reconciled, are these going to return to strong growth like they had been? Thank you.

David J. Anderson
Chief Financial Officer, Nielsen Holdings Plc

A

Sure, Toni. Thank you. Good morning. Why don't I take the first part of that and then let Megan respond to the second part? So let me just give you a little bit of color. And it might be helpful for me to first set the stage. While you were focusing on the fourth quarter, let me just set the stage by making a couple of additional comments on the third quarter [indiscernible] (00:35:13). So, again, as I said in the third quarter, just to refresh, ME was down 10% constant currency year-over-year and the weakness was driven largely by changes to the consumer privacy landscape, which included Nielsen Marketing Cloud, a portion of our custom analytics business related to targeting, and also Multi-Touch Attribution. Again, I'll let Megan talk a little bit more about that.

Now, in the fourth quarter of 2017, and this actually influences the comp quite a bit, we saw a benefit to revenue from the sale of historical data sets, and that was the TVBE data. If you go back in some of our earlier commentary, you'd come across this. Now, we decided to exit TVBE as a product category, so we sold data related to it so we're no longer in it. And so, in the absence of this drag, Marketing Effectiveness would actually be up in the fourth quarter of 2018. I think that's an important perspective when you think about this business.

Megan, you can maybe talk a little bit more about some of the fundamentals and the things that sort of you see and the implications of that.

Megan Clarken
President-Watch, Nielsen Holdings Plc

A

Yeah. Thanks, Dave. And thank you, Toni, for the question. In terms of timing, it's hard to predict, but what we do see is that the volumes are starting to come back in and we're seeing recent renewals in quarter three of multiyear deals, and in addition to that, clients signing up to restart the services, which is a really good indicator of what's to come.

The retooling, as I said before, is well and truly under way, and it's very complex. It means that we have to do deeper integration with our digital partners and we aim to have that fully done by the end of this year. In light of that, some of the capabilities within our Multi-Touch Attribution product and our targeting capabilities are lighting up over time, so that's a very good sign as well. So, look, with the recent renewals and the sign certainly of the businesses coming back to life in Europe, it's a good sign, it's a good indicator for us.

What I will add to this, because it's really important to note, is that this does not affect Digital Ad Ratings. So Digital Ad Ratings is not a targeting platform. It's a measuring platform, of which we aggregate third-party data. So it's really important that you note that Digital Ad Ratings has not been affected by the privacy constraints that have been put on the marketplace.

David J. Anderson
Chief Financial Officer, Nielsen Holdings Plc

A

Thanks, Megan. That's great.

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

A

Carol, we're ready for the next question.

Operator: Our next question comes from Andrew Steinerman from JPMorgan. Please go ahead.

Andrew Charles Steinerman
Analyst, JPMorgan Securities LLC

Q

Hi. Just wanted to get a sense of U.S. CPG client base. Surely, they've been talking about raising their [ph] prices (00:38:24) with inflation, so my question just is, is this tension that they've had for a long time as a customer of Nielsen maybe be less stressed for Nielsen recently? Just how do they look as a customer right now?

David J. Anderson
Chief Financial Officer, Nielsen Holdings Plc

A

John, do you want to take that?

Giovanni Tavolieri
Chief Technology & Operations Officer; President-U.S. FMCG & Retail, Nielsen Holdings Plc

A

Yeah, I'll take it. Thanks very much for the question. Look, in general, we do continue to see within the marketplace ZBB, or zero-based budgeting-related pressure, both in terms of investing in ad hoc projects, but also through the important contract renewal process that we go through. We do still see that clients are being diligent with their overall spend. They're increasing their spend in some specific areas. We're seeing a lift in terms of the analytics that they're doing in pricing, which does link to the inflation that we're seeing and some also increased spend in analytics for assortment.

But we see this being a big function of the disruption that's still happening within FMCG. They continue to face the changing consumer landscape with e-commerce and omni-channel. We combined that with the growth in hard discounters, also looking at that placing a squeeze. And for the big multinationals, with private label continuing to grow, I don't think that we're going to see a marketplace that's going to start to become more buoyant. Inflation will give them the near-term benefit, but I do think that clients are going to continue to be careful and thoughtful of their spend.

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 on for Manav. Just a question on the China e-commerce strategy. When you were talking about some of the partners there, I didn't hear Alibaba, and I know that had been a win a few years back. So, maybe could you just comment on the status of the relationship and just in terms of since that deal was announced in, I think, 2014, how has the e-commerce measurement landscape changed?

David J. Anderson
Chief Financial Officer, Nielsen Holdings Plc

A

Pat, do you want to take that one?

Patrick Dodd
President-Global Markets Group, Nielsen Holdings Plc

A

Yeah. Happy to. Thank you for the question. As you said, we started our relationship with Alibaba back in 2014, where we were working together to codevelop some products. We actually launched two products back then, and we were innovating together with Alibaba. Both of those products, while they had a lot of excitement around them, they didn't get as much traction in the marketplace as we had hoped. So, together, both Alibaba and ourselves, we did sunset those. And so, it's fair to say that over the last couple years there, it had some ups and downs as it relates to our joint product development with Alibaba.

But I am happy to report, and I will come back to measurement in just a moment, on November 10, Alibaba and Nielsen will be launching a new capability in the marketplace, because we're keeping that relationship alive, around the new product testing area, where we will be using all of the Tmall online data and combining that with our offline data to help marketers in all verticals understand new product success all across China. And we want to launch that with Alibaba the day before Singles' Day, which is November 11. And that's a big day for China retail. So we're very excited about that.

As it relates to measurement, as I've mentioned earlier, we have a lot of partners in measurement across China. We've been working on those, and today we actually cover 90% of all e-commerce sales in China. And we have a lot of partners where we get their information directly. And in the case of Alibaba, they have yet to give us their data to go into our syndicated product, but we work on consumer source measures and data science techniques to make sure that we include all the Alibaba sales in our overall measurement. And that allows us to cover 90% of the e-commerce market in China today, along with 90% of the offline that we cover today as well.

David J. Anderson
Chief Financial Officer, Nielsen Holdings Plc

A

Thanks, Pat.

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

George Tong
Analyst, Goldman Sachs & Co. LLC

Q

Hi. Thanks. Good morning. In your Buy business, you've seen a bit of spreading of CPG weakness to the large multinationals in your Emerging Markets. Can you discuss whether that's starting to stabilize or whether the trajectory in Emerging Markets is still negative?

David J. Anderson
Chief Financial Officer, Nielsen Holdings Plc

A

Yeah. Pat, do you want to take that one as well and I can fill in with a few numbers, too, after your [ph] five-year (00:42:49) overview, if it makes sense?

Patrick Dodd
President-Global Markets Group, Nielsen Holdings Plc

A

Great. Thank you for the question. As John mentioned earlier, a lot of our large global clients are going through ZBB programs, and when they say global, that is going to carry on a little bit to markets outside the U.S. and Europe to hit some of our Emerging Markets as we move forward. And that's really where we're seeing it.

And what we're seeing in Emerging Markets right now, which we talked about in Q2, is measurement remains mission critical for our FMCG clients, particularly on their priority brands and their priority markets. What we have been seeing over this year for some of our larger clients is pulling back on some of their lower-priority brands. You could call them their tertiary brands or some of their non-priority markets where they don't see as much growth short term as they're trying to work through constraints, budgets. And we're seeing that in a few areas of our business.

For shorter cycle revenue, analytics, as John talked about pricing, trade promotion, in-store activation, these are actually doing quite well because we're helping our clients really activate in the market. But there has been some pressure in consumer research and innovation research, and that's facing some headwinds for us right now as our clients are looking for simpler, faster solutions in the ad hoc world. So, Dave, anything else from you?

David J. Anderson
Chief Financial Officer, Nielsen Holdings Plc

A

The only thing that I would add – and, Pat, you may want to add color to this as well. But we saw good growth in Latin America as well as Eastern Europe. We had pressure across Asia. You mentioned earlier China, but you also talked about the go-forward plan there, new team, and the traction you're seeing already from that. And then, of course, Mid East/Africa. And, again, largely attributable to short-cycle revenue.

Patrick Dodd
President-Global Markets Group, Nielsen Holdings Plc

A

Yeah. And our portfolio in that part of the world is slightly more tilted towards short-cycle revenue than we would see in the strong growth we're seeing in Latin America and Eastern Europe. We're obviously working on our product portfolio to bring out more measurement and analytics services over there, out to Asia. But that's where the pressure's been felt this quarter in particular, through Asia and Middle East and Africa.

David J. Anderson
Chief Financial Officer, Nielsen Holdings Plc

A

Yeah. Thank you.

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

Next question?

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

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

Hi, Todd. We can't hear you. If you're on mute, could you take it off?

Todd Juenger
Q

Can you hear me? Hello?

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

Oh, now we can. Hi, Todd.

David J. Anderson
Chief Financial Officer, Nielsen Holdings Plc
A

Now we can hear you.

Todd Juenger
Q

I am so sorry. I can't work my cell phone. Apologies. Can I – I'll just quickly get back. So can we get back to the Watch segment, if you don't mind? And just I'd love to hear your thoughts on the consolidation that's going on among some of your larger customers. That has moved from a theoretical topic to an actuality. And I won't name them all, but there's a bunch of this stuff going on, both in your national networks and your local stations customers.

Obviously, we're most interested in how that's affecting your commercial relationships with those partners. But any other comments on your overall working relationships and the work you do for them but especially the commercial aspect of it would be appreciated. Thank you.

Megan Clarken
President-Watch, Nielsen Holdings Plc
A

Hi, Todd. Nice to hear from you. It's Megan here. We've experienced consolidation of our end market clients for some time, and as you know, we've continued to have long-term multiservice agreements from them, which, as they consolidate, and if they consolidate, we roll forward. And they're held intact. As I said before, where we see impact is if, in that consolidation, they shut down networks, and where we see them shut down networks it's at the very long tail. It's their much smaller networks that they shut down, which has very little impact on our contracts with them.

The renewal of two of our biggest clients in the last 30 days has been a really positive sign for us in terms of the end markets requiring our measurement more. The performance of our TV National (sic) [National TV] (00:47:08) business sitting in the mid-single-digits is testament to the fact that even in a world of consolidation and a world of fragmentation and difficulty, our clients require our data more than ever. So, an expectation might be that in a declining end market, we would see the decline as well.

But certainly in the National TV business, we see the opposite. We see a need more and more for our date to help them strategize and help them understand what to do next through our consolidation process. So we remain intact through our consolidation, through that process. And we don't expect that we'll see anything different in terms of behavior.

David J. Anderson
Chief Financial Officer, Nielsen Holdings Plc

A

Thanks, Megan.

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, everybody. Thanks for taking the question. I've got a two-parter here. I guess it's probably for David. David, can you talk a little more about just the free cash flow and particularly the working capital headwind you're seeing here? If you could put a little more meat on the bone there.

Relatedly, you guys last quarter had outlined an incremental $150 million addition to the cost rationalization program. I think that brings it to $650 million over the next several years. Just wanted to see if we're on pace there. And then also, last quarter, the comment was made that free cash flow next year should see some recovery, given [ph] while (00:48:39) the extraneous factors this year. Just wondering if you'd be willing to talk to that as well there. Thanks, everyone.

David J. Anderson
Chief Financial Officer, Nielsen Holdings Plc

A

Sure. Well, why don't I take the cash, introduce the cost, John, and then you provide some color and some commentary on that one as well. So, as I said, we're obviously disappointed in the update in terms of the cash guidance. But it's the right thing to do, given the finish to the third quarter and then the deeper review, which is just under way relative to cash flow and the cash flow outlook.

When we look at the major elements, including adjusted EBITDA, CapEx, cash restructuring, as I mentioned earlier, they're all reasonably within the range. And here's what I'm – here I'm talking about the second half of 2008 (sic) [2018] (00:49:33). They're all reasonably within the range of the July guidance. Again, the big exception was working capital. And as we are looking at that, we're going to look at every element of the cash cycle and understand the practices, payment terms. We'll also be looking more strategically at longer-cycle cash items. And that's a key component of the operational review that I mentioned earlier.

With respect to the forward look, we are really just, call it, unpacking and repacking all elements right now. I'm not going to comment on the forward view because, frankly, I'm just not sufficiently informed at this point. And if I made a statement today, it would be really without a basis of fact or sufficient information to provide you with solid judgment. Just to say again and emphasize, it's a matter of critical importance to us and priority.

With respect to cost, we've obviously been very focused on that. There's a lot of my reaction to you, just summary reaction before turning it over to John to fill in on some additional detail to your question. There's a lot of substance in the programs we have. And there's a lot of evidence and a lot of examples of what we're doing and doing well. As John said, what we're working on together and as part of this operational review is to make sure that all of that action translates into measurable net productivity that will support the company going forward.

John, do you want to comment on some of the specifics?

Giovanni Tavolieri
Chief Technology & Operations Officer; President-U.S. FMCG & Retail, Nielsen Holdings Plc

A

Yeah, sure. Thanks, Dave. Thanks for the question, Matt. Yeah, we're on track with respect to the specific programs that we would have laid out back in November of last year at the Investor Day. You'll recall the three buckets of activity were to automate Buy, automate Watch, and consolidate our platforms and super hubs. And those cost-saving initiatives, which will also improve quality and speed and give us new capabilities to bring new products to market, they're all on track. The deployment of the automation of Buy capabilities across many of Pat's Global Markets are, if not on track, ahead of schedule. The work that we've done to go and work with Megan and her team to deploy the nanometer, that meter is now live within Sweden.

And in currency, we've got test markets set up in the U.S. In the U.S., the savings will accrue later. It's a multiyear program and we need to work very closely with the MRC and our clients to ensure a smooth transition because it is currency-grade ratings. And you heard earlier, the super hubs that we've opened up, we've got over 21 countries of work now coming through the super hubs, our platform consolidation. So I'm very pleased with where we are in terms of the deployment of those productivity initiatives, and big kudos to the operations and technology teams around the world. They've done great work.

David J. Anderson
Chief Financial Officer, Nielsen Holdings Plc

A

Maybe just one last thing. Thanks, John. One last thing back on the cash, just to round out the discussion, is importantly on the accounts receivable sales, I've mentioned in my comments, as I went through the financial review, you'll see in the numbers, assuming everything plays out as we currently expect it to, there'll be a slight increase in the financing of accounts receivable on a year-over-year basis.

But when you look at it on a fourth quarter basis, full-year basis in terms of sources of cash, there'll actually be a slight decline from that source on a year-over-year basis. So we're not going to that well as a way to make up for this. We're really going into the operational elements and really focusing on that and, again, that's our priority.

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

Tim Nollen

Q

Oh, thanks. I'd just like to track back on the comment made about pressure on digital client spending coming in Q4. I don't think this has been addressed in the Q&A yet, but could you please speak a bit more to that, why that is taking place and where specifically that is?

Megan Clarken
President-Watch, Nielsen Holdings Plc

A

Hi, Tim. This is Megan. Thanks for the question. The pressure that we see on digital clients is coming through from the targeting piece. So it's part of Marketing Effectiveness. As digital clients are the main platform – or digital platforms, I should say, are the main place in which targeting happens and digital clients are offering targeting or have to offer targeting as part of their platform, their use of data is slowing down while they make sure that that data is privacy compliant. So this is related to the privacy issues that we see appearing inside of Marketing Effectiveness.

Our digital clients are still leaning in very heavily on the requirements that we offer around Audience Measurement of Video and Text, but where it's affecting us is the use of data, data like our TV data, to use for targeting. Again, as I said before, while they become compliant themselves, while they get comfortable with the use of that data around the privacy constraints, and while they have to work with their end clients, the end market to make sure that their third-party data is privacy compliant.

Now, know that we've been in this game for a long time, that privacy is at the cornerstone of our business, and so, our confidence in the quality of our data, the privacy that underpins it, the security that we have around it, means that we're very confident in the data that we offer to our digital clients. We feel confident that as they retool and as they restart their capability around targeting is that the use of our data will come back.

David J. Anderson
Chief Financial Officer, Nielsen Holdings Plc
A

And, Megan, if I could and, Tim, just to piggyback a little bit on that, Megan, and just talk a little bit and make sure that we've got the right set in terms of kind of expectations for the fourth quarter, there is an implied slowdown, obviously, in the Audience Measurement of Video and Text in the fourth quarter. And one of those key components, as you just mentioned, is the headwind that we expect in terms of digital spend on analytics, which will drive some pressures, all of this coming from the privacy phenomena that you mentioned. So just make sure that we level set with you in terms of that expectation.

Megan Clarken
President-Watch, Nielsen Holdings Plc
A

Perfect, Dave.

David J. Anderson
Chief Financial Officer, Nielsen Holdings Plc
A

That's good.

Megan Clarken
President-Watch, Nielsen Holdings Plc
A

That's great.

David J. Anderson
Chief Financial Officer, Nielsen Holdings Plc
A

Thank you.

Operator: Our next question comes from Nick Nikitas from Baird. Please go ahead.

Nick J. Nikitas
Analyst, Robert W. Baird & Co., Inc.

Q

Yeah, good morning. Nice to see the at least relative improvement in Buy Developed on a sequential basis. Was there any timing in your project-related revenue that kind of materially impacted that? And then I guess looking at Q4, Dave, I think you mentioned that there is some timing in the Q4 2017 quarter, but I guess on an underlying basis, are you guys starting to see some stability in that business line?

David J. Anderson
Chief Financial Officer, Nielsen Holdings Plc

A

We saw some, obviously, improvement and we're talking about now Developed Buy, right? So we saw some improvement in the third quarter, as you know. But it declined – the decline moderated sequentially, but we wouldn't read too much into that. It's really a little – we think a little early to call. We still expect Developed Markets to be down mid-single digits for the year. And as also mentioned in my prepared remarks, fourth quarter of 2017 was helped by some timing of historical data sales. So, as a result, we've got another one where we've got a tough comp in this business when you look at our guide for the fourth quarter.

John, anything you would add to that?

Giovanni Tavolieri
Chief Technology & Operations Officer; President-U.S. FMCG & Retail, Nielsen Holdings Plc

A

Yeah, I think the only thing I would add is our teams continue to be focused on the fundamentals, being with our clients day in and day out. We spent some time this week with the folks at P&G. We'll be at Nestlé later today. We're working with our clients to help them deal with their biggest issues, and as they get a little bit more bullish in terms of making additional investment, we'll be there to go and help them.

Patrick Dodd
President-Global Markets Group, Nielsen Holdings Plc

A

Yeah. And I would just say in the markets outside the U.S., I use the word stable for Q3. I think that's going to be a pretty good word to use for Q4 as well as we head into 2019.

David J. Anderson
Chief Financial Officer, Nielsen Holdings Plc

A

Thank you.

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

A

Carol, next question?

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

Brian W. Wieser
Analyst, Pivotal Research Group LLC

Q

Well, thanks for taking the question. You know, I was wondering, as we start to see the gestation of more privacy-related policies in the U.S., maybe not exactly in line with, say, Europe. I'm curious what your thoughts are in terms of how are you anticipating that those laws might evolve here and how is it impacting your road map for your products here?

Megan Clarken
President-Watch, Nielsen Holdings Plc

A

Thanks, Brian. Look, it's hard for us to speculate how those laws were evolve – will evolve, I should say. What's important for us is the focus on making sure that we're providing the service, we're able to provide the service, we're in the right place at the right time, and that we're responding to our clients' needs in terms of having compliant software that sits directly on their server or integrating much closer to them than what we had before. And as I said before, that work is going ahead and it's coming out now and will continue to move ahead towards the – as we go into the end of the year. And it's important to note also that this affects the end markets in terms of the marketers. [ph] Well, (01:00:09) they have to go through a process of making sure that they get consent from the consumers to use that data.

All of those things start to tick the boxes of what's required in terms of privacy and the use of personalized data. So again, it's hard to speculate how this will unfold over time, but what I will say is that the attention is on that space and rightfully so. The marketplace has got to get this right. The work that's going on at the moment to get this right is significant. We're right in the middle of it. We're in a good place. We've got great relationships with our clients. And so, we'll weather the storm and we're certainly working through this at the moment.

Operator: We'll now turn the call back to Sara Gubins for closing remarks.

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

Thanks, Carol, and thank you all for joining us on today's call. As always, we're available today and in the days to come to address your follow-up questions. Thank you.

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