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Nielsen Holdings Plc (NLSN)

Q1 2019 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 2019 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. [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, and good morning, everyone. Thank you for joining us to discuss Nielsen's first quarter financial performance. I'm here with our CEO, David Kenny; and our CFO, Dave Anderson. 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 the subsequent reports 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 will also refer to certain non-GAAP financial measures. Reconciliations of these non-GAAP financial measures to the most comparable 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, 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, David Kenny.

David W. Kenny

Chief Executive Officer, Chief Diversity Officer & Director, Nielsen Holdings Plc

Good morning. Thank you, Sara. Let me start with a brief high-level comment and then turn it over to Dave who can review first quarter results, provide some color on our expectations for the second quarter and the remainder of 2019. Then I'll come back and give you an update on our strategy and progress, particularly around our products in both Nielsen Media and Nielsen Connect.

But first of all, let me start with the strategic review which is taking a lot of my time and most of the senior management's time. This is an ongoing and active process, and as we've said before, it could lead to one of three potential outcomes. We could continue to operate as a public independent company, we could separate the Global Connect segment from the Global Media segment or we could sell the entire company.

We have made significant progress over the last eight weeks since we were last with you. I want to assure you that the board and the management are working as quickly as we can to complete the strategic review in as timely a manner as possible. That said, in parallel, we're also focusing on improving our operations. I am pleased with our first quarter results, which did come in better than our expectations. This means we're on track to deliver on our 2019 guidance, which is an important step in building our credibility.

At the same time, I have to say that I'm dissatisfied with Nielsen's growth rate relative to our potential. We have a critical role in the industries we serve. We have unparalleled assets. We have strong client relationships, industry-leading talent and a global footprint. That creates the foundation for stronger product and better growth over this time.

Let me now turn the call back to Dave to review the quarter and then I'll return at the end with an update on the tangible steps we are taking to accelerate our velocity. Dave?

David J. Anderson

Chief Financial Officer & Chief Operating Officer, Nielsen Holdings Plc

Thanks, David, and good morning, everyone, and thank you for participating in this morning's call. I'm going to walk you through starting with slide number 5. I'm going to walk you briefly through the key topics that I'd like to cover this morning and some of the key takeaways. First as David said, we're obviously pleased with the results for Nielsen for the first quarter. Both revenue and adjusted EBITDA were ahead of our expectations.

The year-over-year margin rate improvement is a product of both better revenue as well as our productivity initiatives. And adjusted EPS for the quarter was $0.35 despite a higher effective tax rate compared to the same period last year. And free cash flow came in within our expected range and represented an improvement on a year-over-year basis. I'll talk more about that in a little bit.

Overall, the results reflect the commitment of our business leaders and our associates worldwide, our hats off to them and our appreciation to them and also the increase in operational financial rigor that we're seeing across the organization. And as we've said before, we're focused on delivering on all fronts. And finally, as David mentioned, we're reiterating our guidance for 2019. I'm going to provide you some more color on our expectations for the second quarter as well as the second half after I briefly go through the results for the quarter.

So with that, let's go to slide 6 and take a look at the highlights. The company revenue increased 0.4% for the first quarter on a constant currency basis. This compares to our expectations of roughly flat. We saw some additional strength in both Media and Connect in the first quarter.

Revenue decreased 0.2% on an organic basis constant currency, but if we exclude the impact of onetime items in the year ago quarter, organic revenue actually grew 1.1%. For the first quarter, adjusted EBITDA was $415 million up 0.5% constant currency. Adjusted EBITDA margins were 26.6%, up 2 basis points on a constant-currency basis and again ahead of expectations. Margins reflect the positive performance on productivity, partially offset by investments that we're making in both our people and in our businesses.

The first quarter tax rate of 41% was well above the 33% to 35% forecast for the full year. It's a fairly simple explanation. We had several discrete items in the quarter related to tax contingencies and audit. I'm going to talk about tax a little bit more, as I talk about the outlook for the rest of the year.

Adjusted EPS was $0.35. That compared to $0.40 in the first quarter of 2018. And as we explained, when we provided the original guide for the full year, this difference is expected driven by higher depreciation and amortization, higher effective tax rate and also lower EBITDA. The effective tax rate in the quarter was [ph] 36%

so the 41% (00:07:19) in the first quarter of 2018 was 36%. So the 41% rate in 2019 impacted the quarter by about $0.01.

Free cash flow was a use of $165 million in the quarter compared to a use of $245 million in the first quarter of 2018. And relative to last year, free cash flow benefited from lower retailer payments and also lower incentive payouts. Overall, looking at the first quarter, while it's still early in the year, these results certainly strengthen our confidence in the 2019 outlook.

We're going to now – I'd like to just spend a couple of minutes going through each of the segments, and as you know, we've organized and are now managing fully around the two segments, Media and Connect. The segment categories are based around our core measurement platforms in both Media and Connect with Plan/Optimize and Predict/Activate designed to build on measurement, and also to add value to our clients by enhancing their decision-making.

So let's start with Media on slide number 7. Revenue for the first quarter was $826 million, up 1.3% year-over-year on a constant-currency basis. If we adjust for M&A and also the impact of the prior year TV brand effect, Media revenue would have been up 1.4% year-over-year.

Audience Measurement was up 2.2% constant currency. This reflected underlying strength in national TV, double-digit growth in digital, but as expected local TV was down year-over-year. [ph] Audio (00:09:03) was up slightly year-over-year. For Plan and Optimize within Media, it's down 0.9% constant currency, but again if you adjust for M&A and other items, Plan/Optimize was about flat year-over-year.

We saw solid growth in Gracenote, in ROI and also in attribution capabilities but these were offset by a drag in our telecommunications practice related to timing of a contract. Media's adjusted EBITDA was $347 million, up 0.6% constant currency. Adjusted EBITDA margins were 42%, down 32 basis points constant currency. The decline was mostly driven by investments in strategic initiatives and partially offset by productivity.

In Connect on slide 8, the first quarter revenue, which you can see, was $737 million, down 0.7% constant currency. The impact from M&A was negligible in the quarter. The onetime items from a year ago were a drag to revenue growth by 150 basis points. Revenue in Measure was $539 million, up 1.7% constant currency, reflecting strong performance in our core retail measurement service and also improved U.S. trends.

Revenue in Predict and Activate was $198 million, down 6.6% constant currency. The most important factor influencing Predict and Activate revenue was the continued pressure in our innovation and our customer insights businesses. Developed markets revenue was down 0.8% constant currency. Just FYI, while revenue declined in the U.S., we saw an improvement in the rate of decline in the U.S. in the first quarter and we also saw continued stability in Europe.

Emerging markets revenue was down 0.7% in the first quarter. Regarding China, we had soft performance in the quarter, partly as a result of a tough comp against the first quarter of last year, but we expect improvement during the course of the year. Connect adjusted EBITDA was $79 million, flat year-over-year at constant currency. And adjusted EBITDA margins for the segment were 10.7%, up 7 basis points constant currency, as revenue declines were offset by productivity initiatives.

Let's go now look at the outlook for 2019. You can see here summary takeaway. And not to go through any of the details here, the slide is consistent with what we've covered with you before. And so it's probably good just to go through then the key metrics, which you can reference on slide 9. This includes total company constant currency revenue to be approximately flat to 1.5%, an improved trajectory from 2018.

We continue to expect adjusted EBITDA margin of 28% to 29% or roughly flat year-over-year at the midpoint. Adjusted EBITDA margin will be driven by significant productivity, partially offset by reinvestment in the business. Adjusted earnings per share are expected to be in the range of $1.63 to $1.77, reflecting higher depreciation and amortization expense compared to 2018, as well as higher interest expense.

Lastly, we continue to expect free cash flow to be in the range of $525 million to $575 million and at the midpoint to be roughly flat with 2018. And as we discussed last quarter, key drivers include lower incentive compensation payouts in 2019, and also lower retailer payments offset in part by higher cash interests and cash taxes. Now we provided commentary on additional inputs through our key 2019 financial metrics in the appendix of the slides.

Turning to slide 10, I won't spend time on this, but here we've laid out the revenue outlook by segment for 2019. This is consistent with what we've shared with you last quarter.

So with that, let's go to slide 11. Let me talk about what we anticipate in terms of the timing of the outlook for the remainder of 2019. We expect second quarter revenue to be flat to up slightly year-over-year in constant currency. Again, we continue to expect the second half to be stronger than the first half. And revenue, we had some onetime items in the first half of 2018 that make for a more difficult comparison in the first half of 2019.

For the second quarter, we expect margins to be roughly flat year-over-year. We'll also see the benefit of the productivity initiatives that will be phased through quarters two through four, which will provide support for reinvestment as well as growth initiatives.

I'd also note that we anticipate the conclusion of tax audits in various countries during the second and third quarters. If this occurs, it will translate to an effective book tax rate below our 33% to 35% guidance, but we'll continue to provide you with the normalized tax rate, which we anticipate to continue to be in the range of the original 33% to 35% for 2019.

And finally, we expect second quarter free cash flow to be slightly down to flat. As we've discussed with you, we have an aggressive improvement plan under way for cash flow, a lot of organizational focus around it. In summary, we're confident in our plan. We have a strong commitment to deliver on all fronts and we look forward to updating you on our continued progress.

And with that, I'm going to turn it back over to David for some of his comments on the company and our outlook.

David W. Kenny

Chief Executive Officer, Chief Diversity Officer & Director, Nielsen Holdings Plc

Thank you, Dave. As I said before, I'm pleased with our progress, but I also believe we have the opportunity to improve our growth trajectory over time. Toward that end, we're working hard to transform Nielsen into a truly product-driven, technology-enabled organization.

I would also say that our first quarter gave us increased confidence in our 2019 guidance, as well as some early validation of our product direction. So today what I want to do is give you some specific examples of how our products are being received in the market.

Let me start with Nielsen Global Media. Our mission there is to be the one media truth across the entire media ecosystem, which creates metrics that monetize for our clients. And then we leverage those metrics to provide the tools our clients need to plan and optimize their media spend or their media offering.

First, let me talk about market adoption of Audience Measurement and how Nielsen continues to broaden our measurement across both linear and digital video, to give a total audience view. This is being demanded by and it's paying off with our clients.

As I said, let me give some specific examples. One, we continue to work closely with NBCU on the evolution and industry adoption of CFlight, which is underpinned by Nielsen currency data. This offers an advanced way to buy and sell advertising across platforms. We're working to expand the CFlight concept across the industry with Viacom also planning to use the same metrics during their 2019 upfront negotiations.

We're also continuing to work on enhancements in local TV measurement and we're testing and validating additional data. This is great news for our local clients and we are getting positive feedback from them on our progress. Toward that end, we also announced a long-term agreement with Univision for national and local TV ratings measurement, which included for the first time some of our newer Total Audience Measurement solutions, such as Out-of-Home and Subscription Video on-Demand.

I would also say that Media is becoming increasingly digital and that means that we have the opportunity to deliver innovative new solutions that help clients monetize their digital audiences. Again, let me give you some specific examples. We're working with all the major players on connected TV. This includes Hulu, Roku, NBCUniversal and many others. On the new front, YouTube is offering Nielsen-backed audience delivery guarantees which enable advertisers to better use YouTube TV to fill in the gaps of their traditional TV campaigns.

And lastly, we continue to measure Netflix. That data shows that 72% of the minutes spent on Netflix are on non-original programming or reruns. This is a critical input to our media clients that are now investing in their own streaming services, which we also measure through our total audience framework.

In Media, we also have a terrific global opportunity. Over the first quarter, I had a chance to visit some of our international markets and heard that first hand. Our mission is to be the one media truth worldwide. Today, international or non-U.S. is approximately 15% of Nielsen Global Media revenues.

That said, we are already in more than 50 markets around the world and we're reallocating key talent and resources to our commercial efforts and product efforts outside the United States, which leverage our global presence and continue to consolidate platforms and create globally communicative solutions to drive efficiency and growth.

We had a really notable achievement in the last few weeks in Mexico. There, our Television Audience Measurement was accredited by the Media Rating Council. This is the first and only service outside the U.S. to receive the MRC's accreditation. This provides the media industry in Mexico with an additional level of confidence. They leverage Nielsen measurement to account for television audiences and transact in a reliable and effective way.

Let me now talk about the Plan and Optimize part of Nielsen Global Media. Remember that many of these capabilities are part of our overall digital portfolio, which provides the market with extensive offerings to help manage the demand of the complex digital landscape and we have a tremendous opportunity to drive growth. Our digital business will be a mix of Plan/Optimize and Measurement.

Again, let me give you some specific examples. One we're working with a large brand marketer to bring together Nielsen's digital attribution capability with Nielsen's cloud-based identity platform. This enables the marketer to better target addressable consumers and importantly close the loop on sales, which creates transparency and accountability for the return on investment for each of their ad dollars. This client's CMO is incredibly proud of their approach to people-based marketing and the quantifiable benefits and we're getting really positive feedback from them about how the Nielsen platform works.

In another example, one of the large agency holding companies just expanded their use of Nielsen's planning tools to help them enhance their overall ad buys with a much deeper understanding of the unduplicated reach of the digital audience, which leads to a more efficient media plan.

And finally, we also just renewed the Nielsen Audio contract with Entercom. This includes several new Plan and Optimize services which help the Entercom sales teams demonstrate the value of radio advertising to their advertisers. This is part of our continued investment to make the audio platform deliver both measurement and analytic benefits for our clients.

To sum up on Nielsen Global Media, we continue to see market validation of our Total Audience Measurement offerings. We also have the opportunity to drive accelerated growth outside of the United States and accelerated growth in the Plan and Optimize services. We are focused on a product road map that will bring more solutions to clients to help accelerate growth both for our clients and for Nielsen.

Let me turn now to Nielsen Global Connect, where we connect to retailers and manufacturers within the fast-moving consumer goods ecosystem. Here we have a clear opportunity to strengthen our competitive position, restore our revenue growth and improve profit and the U.S. turnaround that Dave talked about is a big part of that story.

Again, I'm pleased with our progress in Q1, but I'm again not at all happy with our growth status. We're making progress on the Nielsen Connect platform and its ability to drive growth. It's a key differentiator in terms of what that platform can do. We have another large deployment of the end-to-end system which is driving faster decision-making, and we're also working well with a list of 400 and growing clients who are already using components of this system. We've a strong pipeline of committed end-to-end client deployment for Nielsen Connect in the U.S. and there's been a broad range of FMCG manufacturers and retailers.

Again, let me give you some specific examples in the Connect segment. First of all, in Measurement, which is the bedrock of our connect business, we saw relative global strength in the first quarter with both retailers and manufacturers.

Let me talk about the retailers which remain a key focus and we are driving increased collaboration between the retailers and the manufacturers. Some examples in the United States, our Walmart and Sam's collaboration program continue to open us up to work with a whole new roster of small and mid-tier clients. We have more than 900 clients signed up for those collaboration programs and more than 75% of those are new to Nielsen.

China is also a big focus. We do expect China's trajectory to improve during the year as we launch our retail measurement coverage enhancements. In China, we also have a renewed agreement with JD.com, which gives us more access to content and expands our codeveloped analytic suite online price and promotion services.

In Europe, we expanded our relationship with ALDI most recently adding Italy and Netherlands to the roster and we just inked a multiyear loyalty analytics deal in Thailand with Big C, which is a major retailer in Southeast Asia. On the manufacturer side of Nielsen Global Connect, we also had some recent client renewals that provide market validation for our product road map. For example, we renewed [ph] Buyers Store (00:24:21), a global skincare brand, and this was underpinned largely by their confidence in the direction of the Nielsen Connect platform.

We also renewed our global multiyear contract with Johnson & Johnson Consumer. [ph] Also note (00:24:32) here in New York all week we've got our data science team and their data science team doing a hackathon, so that together with J&J we can uncover new insights for their business and it's just an example of the way we're working more closely and more technically with our clients. Our ability to offer both measurement and analytics in all the major markets around the world remains a key differentiator.

Let me go to the Predict and Activate side. My comments here will largely echo what I said about Plan and Optimize. This should be a real growth driver over time. We have an opportunity to leverage our management data to drive faster growth as we move from point solutions to a modern machine learning-based analytics platform aligned on a single open architecture. We're driving greater analytic solutions to optimize decision-making in several key areas including category management, assortment, supply chain and promotion and we're seeing good demands for these services from our clients.

Toward that end, we recently signed two global Assortment and Space Optimization deals with Mars and a global tobacco giant, and our price and promotion analytics are helping to drive additional traffic at Smart & Final, a regional value retailer, and at Fred's Inc., a regional discount retailer. We're also making notable progress in pricing and assortment helped by our analytics partnership with them. Our work with Fred's is also helping them to collaborate more closely with their vendors through a focused data strategy.

So let me sum up on Nielsen Global Connect. We have strengthened our value proposition for both the retailer and the manufacturer. We're getting positive reactions to our road map and to the early functionality of the Connect platform. We're continuing to grow our global relationships and we're also adding more local relationships. Our U.S. business, which is about 30% of total Connect, is stabilizing.

Moving beyond our client operations, let me talk about the way we look internally and productivity. We did commit to 370 basis points of gross productivity in 2019 to free up investment capital, so this is largely going to be offset by investments in the growth initiatives. We're on track to deliver this gross productivity.

Again, let me give you some tangible examples from Q1. We made a huge acceleration in our journey to align on a single cloud-based architecture in both Media and Connect. And on the Connect side, our three super hubs are now fully operational delivering data to 25 major countries with over 500,000 unique deliverables shipped.

We're also driving a lot of efficiency and quality through the automation of our field data collection. Over 65 markets are now live with our digital data collection platform and our quality control towers, which represents a significant acceleration from the original timeline. These are live in over 10 markets with the added benefit of machine learning and image recognition deploying our e-collection methodology.

So let me close and get to your questions. Across the board, our Nielsen teams are working hard to execute our growth strategy and deliver on our 2019 plan. These efforts are in parallel through a lot of hard work also being done on the strategic review. No matter the outcome of the strategic review, we are taking the right steps to best position your company for the long term and maximize value for our shareholders. I look forward to updating you on our progress.

Let me know turn it back to Sara to manage Q&A. Sara?

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

Thanks, David. Carol, we're ready to open the line up for questions.

QUESTION AND ANSWER SECTION

Operator: Wonderful. [Operator Instructions] Our first question this morning comes from Andrew Steinerman from JPMorgan. Please go ahead.

Andrew Charles Steinerman
Analyst, JPMorgan Securities LLC

Q

Good morning, Dave. When discussing slide 8, which is Nielsen Connect, you cited continued CPG end market pressures but the U.S. improving. So I want to get a sense of two things. One, quantitatively, how did Nielsen Connect U.S. revenues do in the first quarter when you say improving? And when you said improving, did you mean the end market U.S. CPG is improving or did you mean Nielsen Connect U.S. revenues were improving?

David J. Anderson
Chief Financial Officer & Chief Operating Officer, Nielsen Holdings Plc

A

So, Andrew, good morning. Thank you. So specifically what I meant is that Nielsen revenues are improving. So we had – as I think I may have mentioned we had declined. I may have mentioned it total developed, but the decline in the U.S. was less than we experienced last year. We're obviously very, very pleased with that performance. We're also very pleased with the performance that we had in our measurement business there, which is a bright spot for us.

And as we guided at the beginning of the year, we expect that we'll see for total developed in Connect, we'll see continued relatively good performance over the rest of this year, and the team is executing very well on that. So very pleased by what we did in the U.S. Very pleased by the focus that we have, and a number of the accounts that we're seeing where we're seeing very positive response to our offer, both on the measurement side but also increasingly on the Predict and Activate side.

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

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

Q

Yeah. Thank you. In terms of the win or the progress on the full end-to-end Connect system, I guess it sounds like you signed clients there. There's more in the pipeline. But could you just give us some more detail how many clients are live on the end-to-end system today? Roughly what was the size of the pipeline – just any targets, any road maps there? And then, how long does it typically take to do the implementation for a end-to-end client on the Connect system? Thank you.

David W. Kenny
Chief Executive Officer, Chief Diversity Officer & Director, Nielsen Holdings Plc
A

Yeah. So, as I've said before, we've got hundreds, close to 400 that are using at least one component as they migrate to the end-to-end system. We've only got a couple that are using the full end-to-end system. We've got dozens in the pipeline that roll out this year. I would say that we're making progress on the – and so, it can take a couple of months to get it up and running.

And I would say it really comes down to how much the clients are willing to use a standard Connect report versus customizing to what they've known before. And this takes a little bit of management to make sure people use the system as designed, as opposed to retrofitting it back to where they were before. So, every time we do this, we're making progress. We're working with folks and getting ready for their installations this year. We're making a lot of progress in the adoption of those standard systems.

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

Then I think one thing maybe to add and I think you may have referenced it in your summary comments, but feedback from those that are really increasing the penetration usage of Nielsen Connect has been very positive. We've got some tremendous testimonials from our clients with respect to the adoption of the system. So in addition to what we're seeing and what David said in terms of the numbers, there's also the qualitative side of this, which has been very positive.

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

Toni Kaplan
Analyst, Morgan Stanley & Co. LLC
Q

Thank you. Good morning. I was hoping you could talk about the pricing environment in both segments really, but specifically also within Media for national as well as for local? Thank you.

David W. Kenny
Chief Executive Officer, Chief Diversity Officer & Director, Nielsen Holdings Plc
A

Yeah. Listen, I think that there certainly are changes going on in Media. And I think all the media owners focused on their [indiscernible] (00:33:14), of course, we're having price discussions. I mentioned a couple of renewals which were right where we expected them to be. So in the end, these are closings in the right place. I would say that the discussion's turning to value and also making sure that we're adjusting the mix of services so that they're using more of the digital and analytic services in the renewals, which reflect the strategies of our clients.

And I think on the Connect side, again, of course, you've always going to have negotiations, but I think as we've increased the value and being able to show how we make our clients more efficient and more effective, it's becoming, I think, relatively more straightforward to get those deals closed.

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

Manav Patnaik
Analyst, Barclays Capital, Inc.
Q

Yeah. Hi. Good morning, guys. I just wanted to get your latest on the GDPR impact the business had seen, where you see the – I guess remaining impact today and how we should think of that going forward?

David W. Kenny
Chief Executive Officer, Chief Diversity Officer & Director, Nielsen Holdings Plc

A

Yeah. So listen, on GDPR, certainly there was some slowdown there and we retooled our capabilities to be fully compliant. We're very respectful and encouraged by privacy. So I think we got through those product changes. And we're seeing what we expected, which is an improvement in the pipeline for our attribution product. I think clients are going to continue to test that and make sure that privacy works for them as well, which we're happy with.

I would also say GDPR is just a first aspect of privacy. We're also watching closely things like the California Consumer Privacy Act which will become effective in January 2020 and other things happening in the U.S. on federal bills and things happening around the world there. I think we're getting in front of this. We're understanding not only the regulation, but the way to be compliant with it, to make sure we continue to become a gold standard in the way privacy is managed. And we do think it'll continue to affect our business but in a way that can actually be quite positive and differentiated for Nielsen's approach over time.

David J. Anderson
Chief Financial Officer & Chief Operating Officer, Nielsen Holdings Plc

A

David, I might just add very quickly, as I think most folks are clearly aware that we've built in in our guidance some continued pressures related to privacy in terms of Media, Plan and Optimize. So that's reflected in the numbers that we've provided to you. And as David said, this is something that's going to be with us for a while. We've made tremendous, we think, responses and positive adjustments, but it's going to be something that's going to be with us. So that's part of the reason we've got Plan/Optimize as [ph] muted (00:36:02) as it is in terms of our guide for the full year for Media.

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

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

Q

Thank you and good morning. David, if I could, I'd love to return a bit to the discussion which you sort of started on the mix shift and increasing role of digital within the Media business. If I could, I'd love to take that a step further and get a chance to get your thoughts, especially given all the places you've been in your career, on a concern that many people have about what the long-term implications are of the increased mix shift toward digital and away from linear consumption in advertising. And there is a concern that investors have that maybe Nielsen gets monetized less in the digital side proportionate to the size of that market than linear. I don't know if you agree with that concern or what you think. I'd love to hear your thoughts on how we should think about the impact of that mix shift over time. Appreciate it. Thanks.

David W. Kenny
Chief Executive Officer, Chief Diversity Officer & Director, Nielsen Holdings Plc

A

Yeah. Well, thank you, Todd. And of course, my decision to join Nielsen at the end of last year was because I believe Nielsen has exactly the right portfolio to grow as our clients move into digital. There are a lot more needs in digital. And a lot of work was done before I got here, and we're picking up the pace in the past few months since I arrived. It's somewhat different.

So first of all, measurement continues to be important, and I would say we've got a growing demand for independent holistic measurement. I think having the platform to create their own homework is of concern to the advertisers, and they're being more vocal about it. So when we've got measurement assets like Digital Ad Ratings, Digital Content Ratings, Subscription VOD Content Ratings, et cetera, these all help us serve the measurement side in a really important way.

But I would also say that that data is increasingly feeding the analytics platform, and we should continue to also see growth in planning and optimization with tools like Digital Brand Effect, we've got with Gracenote with the ACR, what we do with Multi-Touch Attribution, et cetera. So we're seeing an increased growth on the analytics side from digital.

When we look at digital, I do look at both the analytic side and the measurement side, and I would [indiscernible] (00:38:34) it's becoming a meaningful and growing part of the portfolio. This is the transition, but it's a transition our clients are going through. It's a transition the market's going through. And I do believe only Nielsen can do this. I think our installed base, what we already do with our panels gives us – and our role and currency gives us a chance to – and actually a responsibility to lead the industry. So it's a transition, but I think it's a good, healthy transition that opens more doors for us over time in terms of growth.

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

Matthew Thornton
Analyst, SunTrust Robinson Humphrey, Inc.

Q

Yeah. Hey. Good morning, everybody. Maybe the first one, and I apologize if I missed this. Can you talk a little bit about local and rolling in some of the big census-level data sets that you guys have, when we might see that and whether you expect that to kind of to turn the tide there? And then just secondly, you talk a little bit about China, the headwind kind of reverse in course here in the back half of the year. Can you just put a little meat on that just to understand again what gives you confidence in that turn, that'd be helpful? Thanks, everyone.

David W. Kenny
Chief Executive Officer, Chief Diversity Officer & Director, Nielsen Holdings Plc

A

Yeah, so first of all, on local as I said in my remarks, we're adding more data sets both proprietary Nielsen data sets and acquired data sets. And we're testing out and improving those. So we're beginning to share the results not yet in a currency way. This is an industry move. We're working closely with the MRC. We do want to retain quality standards and independent accreditation on that. So we're working through that process. Certainly, in this year, we expect to make real progress and evolve what we're doing in local.

I would also say as we're showing that to clients, they are signing on. So in recent months, we renewed a number of big local clients including Raycom, Cox, Hearst, and as I said, Univision and I would say that the pipeline's real strong. There is a lot of energy around where we're going in local and I do believe we're cracking the code there.

In terms of China and I spent some time and I hope – I'm planning to go there in a few weeks. Again, that's more of a Connect business. And I would say it's going to improve because we're expanding coverage that we're measuring more places both geographically and we've made real strides in e-commerce which help revenue grow there. One of those opportunities, as I said, was the renewal with JD.com and that renewal gives us access now to much more timely data, allows us to move to weekly reporting and to also launch analytic services including a online to offline price and promotion model.

So I feel like we've got the right partners. I feel like we've got the right clients and a lot of the product opportunities [ph] we've been head down on (00:41:27) and made a lot of progress. And just judging from the number of client meetings getting set up in the pipeline there, I think the local team is executing quite well.

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 Connect business, your revenue declines are continuing to moderate. Can you just elaborate on the overall health of the CPG end market, both in developed and emerging markets? And what you would say the top one or two initiatives are internally to drive a return to positive overall constant currency growth here?

David W. Kenny
Chief Executive Officer, Chief Diversity Officer & Director, Nielsen Holdings Plc

A

Yeah, so first of all, listen, I think the – it hasn't changed in the end markets but I think both the retailers and the manufacturers continue to focus on the value for consumer. And so that means that they're watching pricing and they're watching their offerings, but they are making progress. I think in terms of our Connect, what we are also seeing is a number of smaller players emerging, what you might call the long tail. And I would say they're the sort of long tail sort of small and midsized clients are the ones that are growing the fastest. In fact, they grew 65% in the U.S. alone during the first quarter.

Secondly, in terms of the fact that they're focused on value means that they need to be more precise so that's where we're seeing more focused on analytics. And our analytics business within existing clients did grow 55% off a small base in Q1. And then lastly, I would say the end markets are also integrating and collaborating much more. So as retailers are collaborating with their manufacturers, there's a need for them to do that in a common way with a common set of data. And again, the Nielsen data is the only data that can really do that at scale. So we are seeing real growth there as well.

So those are the operational things that are driving, as Dave said, the sort of improved performance in the U.S. and the growth around the world. I would say that should pick up as the Connect system grows as well.

Operator: Our next question comes from Bill Warmington from Wells Fargo. Please go ahead.

William A. Warmington
Analyst, Wells Fargo Securities LLC

Q

Good morning, everyone. So at the November 2017 Investor Day, the previous management team laid out a plan for $500 million in cost savings, about $400 million from automation and consolidation and another $100 million from SG&A. Now that you've both spent some time at the company, how are you feeling about the potential for cost savings at the business? Is $500 million still a reasonable goal? And if it's a reasonable goal, is it likely to be reinvested or does it have a chance to fall to the bottom line?

David J. Anderson
Chief Financial Officer & Chief Operating Officer, Nielsen Holdings Plc

A

So, Bill, let me start, just give you some perspective there, add a little bit to David's comments on productivity. First of all, as I mentioned in the first quarter results, we're very pleased about the fall through, if you will, of some of the favorability we had relative to our expectations on revenue to EBITDA and EBITDA margin and that reflects the focus on productivity and the delivery of productivity that we have.

The second thing is that we really haven't provided an update to that prior number from prior leadership. And I will tell you we're really confident based on what we've seen, what we're doing that we've got a real strong line of sight to deliver what we shared with you in our original 2019 guide in the EBITDA walk that we provided to you in terms of the gross productivity that we can deliver this year. We've got strong line of sight and actual in-line programs that are going to deliver against those numbers.

I think relative to the broader, longer term kind of potential, it's something that we look forward to updating you on at the right time. But right now, our real focus is just on executing and delivering against these 2019 numbers.

David W. Kenny
Chief Executive Officer, Chief Diversity Officer & Director, Nielsen Holdings Plc

A

Let me just add to remind you that 370 basis points of gross productivity and we're very confident in that and are executing. What I would say is the best productivity is always going to come from improving the top line. I will not hesitate to invest in growth opportunities. At the same time, if we invest, we're going to invest with clear business cases and with accountability for that growth.

So I would say it's not automatically just being reinvested. We're creating the opportunities to invest, but we're being pretty rigorous about really understanding what those investments are, whether they be client coverage or product, making sure that [indiscernible] (00:46:43) as we do that. So I think it'll be far more transparent as opposed to just a sort of loose view on reinvestment. And I'm really happy with the productivity that's giving us the chance to look at some of these, I think, really terrific opportunities to improve our growth rates.

Operator: Our next question comes from Ashish Sabadra from Deutsche Bank. Please go ahead.

Ashish Sabadra
Analyst, Deutsche Bank Securities, Inc.

Q

Good morning. Thanks for taking my question. So my question was about retirement of legacy systems. David, if you can provide any feedback or if you've received any client pushback on retiring the legacy system? And then you also talked about acceleration and your need to single cloud-based architecture. Now that you've been there for a few months, do you have a feel for how long will the transition take in terms of timing? Thanks.

David W. Kenny
Chief Executive Officer, Chief Diversity Officer & Director, Nielsen Holdings Plc

A

Yeah. So on the last part, I'd say I'm not yet ready to give you a final data on it, but with my prior experience and certainly the folks who are helping us, you've got a couple of years to get a full transition completed. So we're certainly working on that. I'd like to make it a little sooner, certainly working on velocity, but some of these things just take cycles and certainly some recoding to be able to work in the right way. And we want to do it right, not just fast.

Secondly though, on the retirement of legacy systems, I think we're working really hard for clients to understand the benefit of having Nielsen on a single architecture and the benefit of doing things in a more common and therefore scalable way. One of those benefits is on the Connect side that you can bring in as our partners. So there's over 60 partners that have now signed up to be part of the Connected system, which gives our clients a lot of opportunity beyond just the services from Nielsen to use that data.

And similarly in Media, as our clients get more robust and as they become digital first, being able to bring all those tools is one of the benefits from this change. And lastly, I'd say in some of the legacy systems, clients just are thrilled to see us move to more modern systems and the benefit's immediate. The things that are at the frontline that affect the way they operate, we have to work with them on that transition and we're doing that aggressively now.

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

Surinder Thind
Analyst, Jefferies LLC

Q

Good morning. David, I just wanted to touch base on one of the first comments that you made to start the call. I think you indicated that you were pleased with the 1Q results, but dissatisfied with the growth rate. Can you provide some additional color on the growth rate comment, maybe perhaps what you see as the long-term potential of the business or what might be a number that you guys are thinking about or that you would be satisfied with?

David W. Kenny
Chief Executive Officer, Chief Diversity Officer & Director, Nielsen Holdings Plc

A

So all I'm going to say is that the number is faster than right now, but I think to get to specifics that is part of the work we're doing within the strategic review. Actually, it's helping us to sort out really where are the opportunities and what does the growth look like as we get more focused on fewer, bigger, bolder initiatives versus a lot of small ones.

What I would say is we also look at the market growth rate in our end markets and we should at least be growing at those growth rates in order to maintain our relevance. So we're making sure that we are deeply embedded in the way metrics are monetized and we're deeply embedded in the analytics that help people get more efficient. So I think we're certainly looking at it from a market share and market growth perspective as well as organically what we believe our products can deliver. And at the right time, we'll come back with a specific number that's certainly part of the strategic review process to get that right.

Operator: [Operator Instructions] And I'll turn our call back to Sara Gubins for closing remarks.

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

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

Operator: This does conclude today's conference, and you may now disconnect.