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MANAGEMENT DISCUSSION SECTION

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Good afternoon, everyone, and welcome to the Nielsen presentation here at the Wells Fargo TMT Conference. My name is Bill Warmington. I'm the Information Services Analyst here at Wells Fargo. With us today from management, we have CFO Brian West; and Head of Investor Relations, Kate Vanek. Today's format is a 20-to-25-minute presentation, followed by Q&A from the audience. Now to tell you more about the story, here's Brian West.

Brian J. West
Chief Financial Officer, Nielsen Holdings NV

Thanks, Bill. I'm excited to be here today to share a little bit about the Nielsen story.

For us, we think this is a very special property. It's because we're pretty unique in what we do, and what we do is all about the consumer, right? And the fact of the matter is we've been doing it for 90 years. So knowing everything about what the consumer buys and what the consumer watches is very unique. No one else does that, and we do it all around the globe – 100 countries, another unique differentiator for us. And our information that is embedded with our clients is viewed as mission-critical. That's how they run their businesses. There's a lot of the information that we provide.

And we like syndicated products, things that are contracted over the long term, multiyear contracts, and things that are scalable because we spent a lot of time and energy creating this great platform that scales and continued to scale.

We think that this model has held up over decades but more near to our tenure has been the last seven years where it's been very consistent. On the top line, we've never had a down quarter, right? Think about the world that has been experienced in the last several years. This thing is very consistent, very steady, very sticky. And it's got great earnings power, and ultimately this business model underwrites this great cash flow story that I'm going to tell you more about in a minute.

At a glance, so we've got two businesses: What Consumers Buy, Buy side, two-thirds of our revenue; and Watch, which is the other third. For us, on the Buy side, the vast majority of the Buy revenues are collected as we do retail measurement – telling Nestlé what their market share is every week all around the globe. And it's Nestlé and it's all the big consumer product, good companies, right?

We do it over long-term contracts that range anywhere from three to 10 years. So these clients pay us every year, three- to 10-year contracts, and I tell them the market share for all their categories, all their brands, all their SKUs, all over the world. And we've been doing it for a long time, and no one's footprint can match what we do. We also in our buy business not just provide the information, but also the insights on top of it.

Now that's not under contract; that is a bit more discretionary. But that's where we get closer to our clients and we help them look around the next corner, whether it's how do you price differently, how do you promote differently, how do you change your assortment, how do you think about consumers who might be trading down, and everything in between. The retail expertise we have in-house is profound. It's something we offer to clients everyday trying to help them grow their businesses.

On the Watch side, that is primarily our TV ratings business in the U.S. We also do TV ratings in 30-plus other countries outside the U.S. Now that business, vast majority is under long-term contracts, I think three to seven years in tenure. It's the business where every morning we report the TV rating, right – how'd you do – for the media companies, the advertisers, the agencies.

That part of the business also houses another area, digital, which we'll talk more about, as well as how we bring that watch and that buy data together because the marketer ultimately is trying to figure out: if I exposed these consumers or these audiences to my brand, did they buy anything, right? Did it get any retail lift? And we have these unique data assets that we actually can start to put that together to answer some of the most important questions in order to help them drive more precision, as well as get higher return on investment.

So that's the two big segments. As I mentioned, cash flow generative. We'll talk about capital allocation, and the margins are info services like.

We've got values that got created about seven years ago, ones that we believe from the start differentiated us in a complex role of marketing, right? In a world where everyone tries to be a little different, a little custom, a little complex, we like to be a little more simple, definitely open, and integrate – not just integrate the company, but integrate our assets on behalf of clients.

And we've been – this brand, as I mentioned, has been around for 90 years. Our founder, Art Nielsen, Sr. literally developed the term market share and built these business models a long time, and we've got this fortune of being able to go expand and extend them. But they've been around for a long time, and the brand's all about neutrality, third-party objectivity.

The business model itself, the financial expression in the way an investor would think about it would be: I mentioned a consistent growth, never a down quarter, right, year-in/year-out gross. The revenue, as I mentioned, a vast majority is under long-term contracts So when I start the beginning of any given year, 70% of my revenue I have a line of sight to.

We've got operating leverage. We've built a platform. We've integrated it. We've built it for scale so that we do get leverage, which gives us the opportunity to reinvest part of that margin expansion back into the business in the name of long-term growth. And we're not shy about doing it. We do it for a three-year outlook, and we do it in the areas of where the world is moving, particularly around emerging markets. Places like Africa, India, China, Mexico are areas where we reinvest for those consumers that ultimately are going to show up to buy our clients' goods and services. So it's an easy one for us. We're going to continue to do it, while at the same time delivering that operating leverage. And then capital efficiency, I think we'll talk more about that. But as I said before, the cash flow characteristics are compelling.

This is the favorite chart in the whole deck, right, because every blue dot represents where Nielsen is. If you were to look at my next biggest competitor, you'd see eight dots in eight countries, right? So you'd love to think that we planted all these flags in the last several years, but we didn't. These flags got planted a long time ago by the second generation of the Nielsen family, as they went with their clients from the West to the East.

So this platform's been built. It's robust. It's been out there for a very long time. I cover consumption, and as long as I continue to keep our foot on the gas pedal for expanding coverage, this holds up beautifully. And the competitive moats are wide and deep. But this is unique, and that we continue to – our responsibility is to never take our eye off this ball because it's a big deal.

And developing markets, for us, it's a business that measures over $1 billion of revenue, and it's been growing over the last several years double-digit CAGR. And for us, it's all about finding and helping understand those consumers who are this burgeoning middle class because over the next two decades there'll be more middle class consumers created than ever before in the history of time or ever will be. So this next couple decades is a big deal. Our clients know it. We can help them grow in that area.

We think a little bit about innovation – actually a lot about innovation. And I'll just give you some examples of recent things that we've been working on. So in our Watch business, an important principle is: we cover consumption, right? So it doesn't matter how video got to you. As long as you consume it, we measure it. So in other words, as TV has gone from three broadcast networks over the air to cable to set-top box to satellite box to time-shifted viewing, from analog to over the top, right, to now online digital, we keep up with every move. We have to. We've been doing it for decades because I have to perfectly represent how you consume video.

And we're pretty good at it. We have a responsibility to keep it going. And the fragmentation that exists is actually our friend, right? Had we been wrapped around broadcast television, I wouldn't have a business model. The fact of the matter is I've had to move as you've consumed your viewing differently. And that fragmentation is our friend and, as it fragments more, the model gets stronger.

As we have had audiences fragment to the online world, the story plays out perfectly because now what we work on is making sure we have the same robust metrics for digital audiences that are just as robust as television and can be compared across a campaign because, at the end of the day, video is video. It doesn't matter if you saw it on your television screen, on your tablet, or on your PC. As long as I can measure that video and report back to our constituents, this holds up beautifully.

So a product called Online Campaign Ratings has been out there for two years. It was the first metric accredited by my regulatory body – basically proved that it works. Two advertisers out there buying it, and they've been working on it to create metrics that they can rely on as they move more money into the digital world, either display or video because we believe that it's been held back because there hasn't been good enough measurements because our clients who are trying to build their brands want accountability. They want to know: did you, publisher, deliver the audiences you promised? And now OCR two years ago was a product that came out that did just that. It could compare – it could basically attest the next day: did you deliver the audience you promised?

And now you're at a point where you've got advertisers and publishers talking about make-goods. It's the way TV works. In the television world, if a media company does not fulfill its audience promise, as a shortfall, they make it up. It's called a make-good. They got to give more to the advertiser. We're now starting to see that discussion happen in the digital space informed by our OCR metric. OCR will tell you whether or not you delivered, and if you didn't, you got to make it up. It's a good thing.

The other thing that we've done with this product over time is we have added to it – so not only measuring campaigns, but now we measure programs. And it's not just measuring things like age and gender, which TV was built on, but also new characteristics. Recently we announced a data relationship with Experian where we're going to get other data characteristics – things like income, lifestyle. And that's going to make the product more robust.

My point is that in this space this product has completely differentiated, and we like the prospects of it. And recently it's been in the press about how Google is going to allow our tag or certain tests to allow the tag to come into their space. And that's a good thing; it just is broader acceptance. So the product is strong, it's differentiated, and we feel like it's another angle on fragmentation that we get to represent.

Mobile measurement, another area that we've been investing in and making good progress on, is being able to represent back to media companies and agencies audiences that are viewing content on a tablet or a smartphone. So up until now, the TV currency gets traded on television viewing plus three days of time-shifted DVR playback. What now we'll be able to do next fall is add, in a currency-like fashion, your viewing on tablets and smartphones, which is important to the media companies because they want credit for their eyeballs. But it's also important to the advertisers who want to find out where those consumers are moving towards. So that's an important extension of our product.

And then social – we've got innovation around the social conversation. A while ago, a couple of years ago, we realized that there was this connection between Twitter and television. And Twitter found this out themselves – that about a third of everything that gets tweeted about in the U.S. has to do with television – the content, the character, the episode, etc. And they realized that there was a way to work with television so they could basically represent the extended reach of that programming.

So we've launched the Nielsen Twitter TV ratings, in which we don't measure the number of people who offered a tweet about a particular television program or character, but actually who it reached, right? So we get measurement science that allows you to take the Twitter feed, put it through algorithms for us to represent back who was reached. Now that's important because now you have a metric where a planner, a media agency, a planner can go and think about how can I allocate dollars into social. Before they didn't have the robust metrics to do that.

We also can think about the program – the media companies themselves. How do you think about engagement of a program? Did they like this particular character? Did they like this particular episode? How do I think about programming now that I have a very quick almost real-time view of engagement with my audience? And then finally, how a media company can start to understand: did Twitter drive tune-in? Did they see you tweet? Were they exposed to a tweet and then did they go and tune in, and do all of that in what we call an unduplicated reach, right – making sure with measurement science that [indiscernible] (15:25) you could sort out that it was independent separate eyeballs not counting the same eyeballs twice.

So all that is just a reinforcement that (1) we work a lot of innovation, (2) fragmentation's our friend – digital, social, those are things that we can help inform and help create elements in the industry, (3) all of these are in the early days, right – all of these in the early days.

The last one is audio. We've recently closed a deal to buy Arbitron. We love this one because today I represent six hours of the average U.S. time spent – person's time spent with media. Most is television. This allows me to get two more hours, right – two more hours. And that two hours of radio exposure – you're usually captive in your car, and you're close to retail, right, which is really important. Six to eight hours I know, half of the consumers media time, which is why we did this, and now we're in there in the middle integration, and the things we were uncovering is great because we've realized that we can grow this audio business in ways that otherwise weren't thought of. So lot of innovation going on in the company.

Financial – so here's the revenue and the EBITDA for our two side segments. The green is the Buy; the orange is the Watch. As you can see, Buy is the bigger part of the company. In fact, another way to think about it is that a lot of those Buy clients also are the ones who are advertising in the Watch world, so they reinforce one another in many ways. And then you could see the EBITDA margins. The Watch is roughly half-ish, a little more than half of the EBITDA than the Buy – both very info services like margin profiles.

And I'll just make – the last point is on that revenue. It's been 28, 29 quarters – haven't had a down one yet, right? It's just sticky. When you've got data sets that are under long-term contracts, that are with big important clients and in those big important clients you've got thousands of people who touch your data every single day, it's sticky. It's embedded. It's been there for a long, long time.

Here's another look at the revenue growth. Buy is the green; Watch is the orange – again steady. Cash flow has been getting better and better every year, up 16%-plus. Last year we ended over $400 million. The cash flow conversion of this business is very high, right? And I think that is what for an investor is what is very attractive, particularly as you go forward over the long term.

Cap allocation, our first priority is to fund organic growth. So we very deliberately reinvest a portion of our margin expansion back into the business. And where we do that is we invest in increasing our developing market coverage. We've been doing it, and we'll continue to do it because the returns are ones that you'd love.

We also do some tuck-in acquisitions. We've been running two to three deals a year at $150 million-ish. And then we also have a responsibility to have a debt profile that is consistent with our business profile, and we view that our debt leverage should be about three times – they're just below three times, at 2.75 – by 2016. And in the meantime, because the business will throw up excess cash, we have announced a dividend. It was in February of this year we announced our dividend. We've actually announced a growth of our dividend in the summer. So this one for us is a natural.

Our underlying business model is strong, and it provides this cash flow visibility, and it screams dividend in our mind. So we're committed to the dividend, it's the centerpiece of capital allocation strategy. And that commitment to grow it is a promise we take very seriously. And then in the meantime we also have room for a buyback. It's small. It's modest. It's deliberate. All-in-all, this is supposed to a balanced approach such that we have our eye on where leverage needs to get to. We have a dividend in terms of when we intend to grow it and then a share buyback program that's modest and important to balance everything out.

The thing for us is that we started 9 times leverage, we're down to 3.5, right, on our way to three years growth rate. This financial flexibility gives us enormous confidence, but it also gives us the ability to keep investing fo r the future, and we've got lots of programs and products to go do that. But ultimately this is all about creating the long-term shareholder value that we think is attractive for many shareholders.

That's about it. So with about nine or so minutes left, I'd be happy to take any of your questions. Yeah?

QUESTION AND ANSWER SECTION

Q

Depending on your market, how is the pricing power compared to [indiscernible] (20:46-20:51)

Brian J. West
Chief Financial Officer, Nielsen Holdings NV

A

Yeah, so on the Buy side, the question is: how do you think about margin differentiation, pricing differentiation between developed and developing world? Did I get that? So for us, when you've got big contractual relationships with multinationals, you think about helping them where they're growing, right? And you make all sorts of trades. And, yes, you do have things like protection for hyperinflationary markets. But most importantly the discussion's around how do you help them expand fast in developing worlds. And that's where most of the discussion is around creating real growth drivers.

So that is a pretty straightforward conversation because, when you get done with these renewals, you're growing faster when you come out because of those developing markets, or what we call areas where they're expanding their coverage. That's pretty consistent. And what happens is, in these developing markets, the power of our model is that – so when we're out there lighting up parts of China, usually it's those big long-term contracts that give you the confidence to go invest ahead, and ultimately they underwrite it at the end of the day.

Here's what's unique about our business – is that that same data I start to sell to a local client, right, because there's local manufacturers that are trying to compete with the big multinational. What happens is I charge them the exact same price point, right – exact same price point. So you've got that ability to expand margins because, as you expand your client to local – and there is lots of them out there – it's very accretive. And then over time you'll have less investment [indiscernible] (22:36) the margins will go up.

For us, the developing market investment is very clear, it's right in front of us, the turns are attractive, and it will generate long-term growth over a very long period of time.

Q

I mean, I was at conference yesterday, and comScore was there. And I was surprised to find that – my idea was that they were more into digital kind of a space, but they seem to have a decent presence on the TV side as well. So where exactly you compete with comScore, if you compete with them? And how do you think about where they are going versus where you are present today in digital space?

Brian J. West
Chief Financial Officer, Nielsen Holdings NV

A

Sure. So TV ratings, there's one currency; there's one provider. So I guess that answers the first part of your question. That's what we do. And as that video goes different places, we capture it; we represent that. And there's – we have a very unique position in the market place, right?

As it pertains to digital, digital has been something that there's effect...

Q

[indiscernible] (23:57)

Brian J. West
Chief Financial Officer, Nielsen Holdings NV

A

...space for 10-plus years, right? There's been third-party independent management companies, like comScore and Nielsen. And there's also been captives because every publisher can go out and put out their [indiscernible] (24:05) data, right? So all of those were estimates, every one of them including ours had limitations.

What we saw and what we invested in heavily, like tens of millions of dollars, was to create a product that was completely differentiated so that I could, say, provide accountability metrics to buyers and sellers, right, so they could talk about trading, right, advertising in time just like they do in television. So it was our OCR product that talked a lot about the genesis of that, why we think it's completely differentiated.

I've got a relationship with a massive publisher called Facebook of – how I get a massive set of data. I spent a lot on technology infrastructure looking to increase the characteristics of that product so I could get better fidelity around audiences and then report back the next day, and, oh, by the way, compare it to television, right, because video is video in many ways, right? People will want to know one or the other. They want to know video, and they want one measurement.

So the industry dynamics in this space strongly favor Nielsen, right, because when you have advertisers who want one number so they can go by their audiences, media companies who want one number so they can show the scale of their program platform. And now you have digital players who want a bigger share of the ad pie. They want the same number, and they want to compare themselves favorably to the same number.

So we think one number is important, and we provide that one number. And I love our prospects in the digital space – love them. And then you add things like social on top of that – the Twitter relationship. I'm bullish. And as I mentioned recently, our OCR product is a tag that is now going to be tested. And we hope and expect views to the Google universe. So we think our prospects are very strong and completely differentiated competitively.

Q

Hi. When the distribution companies, the cable companies know exactly how many television shows were watched, downloads, the whole – I mean, they have not sample, they have that specific information, that would seem to be pretty hard to compete against. I think they said they use it in their content negotiations, so presumably with advertisers as well. How do you compete against that kind of information?

Brian J. West
Chief Financial Officer, Nielsen Holdings NV

A

Yeah, sure. So you're referring to the set-top box data, right, because every cable company has a set-top box, which is one distribution type, right? And it's biased from the start, right? There's no national cable company; it's local. There is a socioeconomic bias because not everybody can afford cable. And by the way, it only tells you what was sent to the house. It doesn't tell you who was on the other side of the screen. It doesn't tell you whether it was the dog, the teenager, or your spouse. It doesn't.

So comfortable with set-top box data because we've been playing around with it as long as anybody, and we know what it can do and what it can't do. What it can do is be a terrific complement. If you want to know all about this one specific audience and get very rich specific data, great. But trading off of it, it's the TV – it's the Nielsen TV rating currency that's traded, right, because it is the best metric to basically answer the question: did you reach the intended audience? Did you reach the intended audience? There could be lots of different data sets that might complement that, that might tell something about a different pipe. But because we manage – measured consumption, our model holds up.

There's been attempts in the last several years to try to create set-top box organizations. There's a company called Canoe. It was a joint venture of all the big MSOs, six big ones. And they closed down because it's hard to do for all the reasons I mentioned. And we feel really good about what our position is. We'll work with anybody around trying to extend our reach metrics in ways that help build businesses, build models, and throw my hook in anybody else. But that particular one doesn't keep me up at night.

Okay, one more minute. Another? Yeah?

Q

[inaudible question] (29:00-29:23).

Brian J. West
Chief Financial Officer, Nielsen Holdings NV

A

Technically, I don't know. What I do know is that somebody in our company does, just not me. What I will tell you is that we have this product, right? So we take – we get the entire Twitter feed, right? We run it through an algorithm. And we didn't create the algorithm; we actually bought a company called SocialGuide, right? And here's where we get the pipe in, the entire Twitter feed, we run the algorithm, and it's got this ability to look at – if there was a tweet about Homeland, they know that it was a tweet about the show and not Homeland Security, right? It knows this, right? It's very sophisticated. And then it reports back: here's the reach of that measurement – not just who altered, but who saw it.

And it's been battle-tested by lots of measurement scientists, and now we're out there selling it. Three four weeks in, like from zero to 60, we've gone to 70 networks, eight ad agencies because they're trying to under stand the social conversation, and now they got a way to do it with a measurement that they're confident in, that looks a lot like television, and that will allow them to go make a lot of different decisions around where they place advertisements, how they develop shows, how they drive a tune-in.

The most important thing for us around measurement science is around making sure that you can differentiate the interaction with multimedia because know – if you stood there with your tablet or your phone and you're tweeting, they want to make sure that you're not also watching TV and you're not being countered twice. That's the most important thing you got to get around. We have no problem doing it.

But when you can show unduplicated reach for all these audiences and not just showing advertisers what they paid for on television program, but what they earned in social media, it's a big deal. It's really a big deal. What we're finding is there's like for – on average, it's 50 times more reach in the social world than on the TV world – not every program, but that tells you there's something there. And we're excited about helping the industry understand that better.

Brian J. West
Chief Financial Officer, Nielsen Holdings NV

Anyway, it's been great. Thanks, everybody.