12-Nov-2014

Nielsen Holdings NV (NLSN)

J.P. Morgan Ultimate Services Investor Conference

CORPORATE PARTICIPANTS

Dwight Mitchell Barns
Chief Executive Officer

OTHER PARTICIPANTS

Andrew C. Steinerman
J.P. Morgan Securities LLC

Kelly A. Flynn
Winslow Capital Management LLC

MANAGEMENT DISCUSSION SECTION

Andrew C. Steinerman
J.P. Morgan Securities LLC

Hi. I'm Andrew Steinerman, your Business and Information Services Analyst. This is the Nielsen presentation on the Info Services track. Next to us is the Business Services track. Also, after this will be the lunch presentation, which is Dan Doctoroff, the CEO of Bloomberg LP. I'll be interviewing him. Please join us.

In many ways, when you look at each end market, they are like the Bloomberg of the industry, and I really much think of Nielsen like that. They're the Bloomberg of consumer packaged goods and media industry. And with us today is Mitch Barns to my left. He's the CEO. And Kate Vanek right in front of me, who heads up IR very incredibly.

And when I think about Mitch, it's been a long time coming. In some ways, he's an industry guy. He worked at P&G, so he was in consumer packaged goods. He was a customer of the industry, and he's also a career Nielsen guy. It's like he's had two careers all in one, and so we're very happy to have this dialogue with you today.

Dwight Mitchell Barns
Chief Executive Officer

It's great to be here.

Andrew C. Steinerman
J.P. Morgan Securities LLC

You might know the format is a quick presentation; then mostly Q&A, first with me and then you. And so get your questions ready. Go ahead.

Dwight Mitchell Barns
Chief Executive Officer

First, good afternoon, everybody, great to be with you.

Look, let me start with ratings because that seems to be what most people want to talk about when I meet with all of you, so let's begin there. And there's a lot to talk about these days, in particular because of all of the discussion in the marketplace around traditional TV ratings, traditional TV ratings right now. We've seen some declines in traditional TV ratings in recent weeks. And so, a lot of people are wondering what's going on. We obviously have a very clear and fact-based view on what's going on. We understand that decline. We have a very clear idea of where that viewing has gone. And guess what, we're there too, so let me just walk you through it.

First, what we've seen for our traditional TV ratings is that they are down about 4.75% in 2014 year to date versus the prior year. Now, a big part of that decline in TV ratings is actually because we've changed the denominator. You can think of ratings as, in a sense, a percentage, and we changed the denominator. We made it bigger. And we made it bigger at the request of our media clients in the industry by adding in the homes in the U.S. that only have broadband connections. In other words, they don't have an antenna connected to their TV. They don't have cable TV or satellite reception, only broadband connected to their TV. And our clients asked us to include those households in the sample, which we did a little bit more than a year ago. That increased the denominator, but it didn't add as much viewing into the numerator.

And so ratings, calculated on that new basis, went down a little bit even though total viewing actually went up. And so impressions or total viewing in the market didn't go down, just the percentage or the ratings that we calculate did. And that accounts for 2.75 points of the 4.75% decline that I mentioned a while. So, if you net that out because that was really just a calculation change, you really see a decline so far year to date of two percentage points, which is still quite meaningful to the marketplace.

Now, where are those consumers going? Primarily they're moving to view video content in the digital world. And where we're seeing them go is – you see growth in digital video viewing that is at a very healthy rate, off a smaller base, of around 50% year to date. And if you break down that digital video viewing, what you see is about 33% of it is subscription video on demand, dominated of course by Netflix. Around 57% of it is what I would call digital-first. These are sites or video content providers like YouTube or Vevo or a number of others. Five percent of it is advertising supported video on demand like Hulu Plus. And another 5% of it is what we'll call TV-originated content viewed through a variety of different means through digital devices, screens, or platforms. So that's how that all breaks down, and that's where that viewing is going.

Now our job for our clients is, of course, we continue to measure their traditional television and continue to provide those ratings, but we are just as focused, in fact, even more focused these days given what the consumer is doing on being able to measure all of those other places that the consumer is going. And we have measurement solutions in place, in fact, across almost every one of those locations. We're measuring that viewing and we're providing ratings there as well.

So again, the consumer is shifting. They're moving away. And almost no matter where they go, we're there too, providing Nielsen ratings for each of those devices, screens, and platforms that our clients can use to monetize that viewing of their content, whether it's linear ad delivery, dynamic ad delivery, whatever form it takes.

And the key point here is we're working very closely in partnership with our clients as we make priorities and choices about what to do next. We have a big grid in fact that we've developed in concert with our clients that describe all the boxes that need to be filled in, exactly where those stand, and exactly what's next. And that grid is getting greener and greener as time goes on, as we filled in mobile measurement back in the summer, as we are bringing additional capabilities to our overall set of solutions against digital ratings through this relationship with Adobe that we announced a few weeks ago for digital content ratings. And then next year, the big introduction or set of boxes we'll fill in on that grid is measuring video viewing through connected devices, connected to TVs. I'm talking about Apple TVs, Roku boxes, things like that.

So again, it's a very deliberate scheduled plan, developed in concert with our clients, and we've moved forward at a very good pace and for the most part, very much on schedule.

So that's the ratings part. I would like to just touch on two others very briefly and we'll go to the questions.

QUESTION AND ANSWER SECTION

Andrew C. Steinerman
J.P. Morgan Securities LLC

Q

Sure, go ahead.

Dwight Mitchell Barns
Chief Executive Officer

A

On the buy side of our business, look, we continue to be focused on this whole idea of coverage. And what it's in response to is the continuing growth and movement and rise of the middle class, growth in populations, movement of populations, and the rise of the middle class. And our role in the marketplace that we serve, consumer packaged goods clients in particular, is to provide coverage, to measure those consumers wherever they happen to be, wherever they happen to be shopping. And so we've continued to invest in that in a very consistent and disciplined manner across the key emerging markets around the world.

And if you look at our results over the past several quarters, those investments clearly are paying off. As our growth rates have stepped up each of the past three quarters, and in fact in this most recent third quarter our growth rate in emerging markets, which is primarily focused on our Buy business, was broad-based and solid double-digit growth across almost each of the key emerging markets as well as in total. And that's a large result of these investments we've been making. And to some degree, that growth rate in emerging markets is even a little bit contrary to the marketplace trend in those markets right now.

Andrew C. Steinerman
J.P. Morgan Securities LLC

Q

Why is that?

Dwight Mitchell Barns
Chief Executive Officer

A

The growth rates in general are coming down broadly, not in what we do but broadly, and yet our growth rates are stepping up.

Andrew C. Steinerman
J.P. Morgan Securities LLC

Q

Right.

Dwight Mitchell Barns
Chief Executive Officer

A

So we feel good about the growth, the fact-based evidence that our investments are really paying off in those parts of the world.

And the last thing I wanted to briefly touch on is just this whole idea of cooperation, which has really become – has been a big theme for Nielsen and is continuing to be a big theme for us. Look, we see the world as growing in complexity, the pace of change only accelerating. And we see the role of cooperating with complementary players and even in some cases competitors becoming more and more important going forward. And if you look at what we've been doing and what we're going to continue to do, cooperating with some of these other players is a big part of our business strategy, strategic value-added relationships. I'm talking about Adobe and what we're doing with Alibaba in China with our omni-channel service; how we work with Facebook, not just as a client but as a data provider to support our OCR metric to measure the digital ads in the digital world.

We have a very promising developing relationship with SAP on the Buy side of our business, connecting our systems directly into their enterprise systems for more efficient delivery and better usage of our systems at the consumer packaged goods clients, Pointlogic, Experian, Simulmedia, Catalina. Even IRI, who we've competed with very aggressively for a long time in the U.S., we have a very productive relationship with, where we cooperate with them on a specific part of the business, trimming waste out of the system, delivering that back as a benefit to the clients that we both serve in the marketplace. This has just become an increasing part of our DNA and our culture at Nielsen.

We even have an incubator set up in Israel where we partner with small tech startup firms. And we have an innovation lab set up in the USA here in Silicon Valley, which gives us access to potential future cooperators who can work with us to keep us on the cutting edge. So I wanted to touch on that piece as well, which we normally don't get much airtime for.

Andrew C. Steinerman Q
J.P. Morgan Securities LLC

Great. And also, if people in the back want to fill in the middle seats, you're definitely welcome to. I'd still like to frame our conversation and just tell everyone mix of business, the Buy business, the CPG business is 56% of revenues. It has two pieces: Information which is 43%; and Insights which is 13% of total revenues. And then the balance is Watch. That's 44% of revenues. Most of Watch is U.S. television. Most of CPG is very global. So anyhow, with the frame of that, you've spent lot of time speaking about Watch. I want to start with Buy, if that's okay.

Dwight Mitchell Barns A
Chief Executive Officer

Of course.

Andrew C. Steinerman Q
J.P. Morgan Securities LLC

Okay. You come out of the CPG industry. It just seems like it's a tough time for the CPG industry, not just Procter & Gamble. But when you look at Coke and General Mills, it just seems like we're in a tough spot. And it might be chronic, it might not be cyclical. It might be hey, we're just going to consume less Coke and eat more fresh foods. Do you think that there's any chronic problems with the U.S. consumer packaged goods companies only in the sense of can they spend more money with Nielsen? And could we – even if they are troubled, can we spark that growth even if they are troubled?

Dwight Mitchell Barns
Chief Executive Officer

A

CPG in general I think is what I would call in a state of transition right now and maybe at the low part of the cycle in terms of it translates into their growth rate. And I think it's even more pronounced for the biggest – the bigger you are and the more global you are, the tougher it is generally right now. For instance in the U.S., the mid-tier and the smaller clients, they're actually doing okay. And if you go outside the U.S. into the emerging markets, it's the global multinationals; their growth rates are not that exciting. But the big local players in these markets have really impressive growth rates.

And I think if you put a common thread through all this, it is that the big global players have leaned into the scale play a little too long. And so they're in some sense getting out-innovated. They're getting out-moved, out-innovated. There are more agile players in the marketplace right now that are finding growth opportunities faster, and so you see that show up in the results.

So does that affect us? Yes, of course, it does because look, if you're a global multinational player and you're evaluating and you're based in the U.S. and you're evaluating Nielsen and IRI and you want somebody who can help you all around the world, we're it. And that's why we've won almost all of those clients now. So that's the good news. The bad news is right now...

Andrew C. Steinerman
J.P. Morgan Securities LLC

Q

You have all those clients.

Dwight Mitchell Barns
Chief Executive Officer

A

Right now we have all those clients. But look, they're going to come out of it. They're in a state of transition. I'm impressed actually with how thoroughly they're rethinking some of their business processes, their approach to marketing, their approach to sales. But they have a lot of inertia to overcome too, so it's not going to change overnight.

We find some growth opportunities because we have a way to help them through this transition period. But it also shows up as I think still a net overall depressor on their ability to grow with us. We'll live through it. The consumer is not going anywhere. The consumer has still got to eat. They still have to wash their clothes and wash their hair. And that's the beauty of the consumer packaged goods business, never a really exciting growth business but stable, even in the toughest of times. And I think that's what it will prove itself through this period as well.

Andrew C. Steinerman
J.P. Morgan Securities LLC

Q

Maybe a little inflation in the economy might help them.

Dwight Mitchell Barns
Chief Executive Officer

A

You know it does.

Andrew C. Steinerman
J.P. Morgan Securities LLC

Q

If you call it stable, I think of hey, how about some inflation?

Dwight Mitchell Barns
Chief Executive Officer

A

It really does help in terms of giving a little bit of degree – more degrees of freedom when people want to move consumers up the premium tiers, into the premium tiers, and also to take prince increases. It just loosens up the market a little bit. And the fact that inflation rates have been at such a low level has made that a little bit more, call it, transparent. The consumer is so tougher to execute.

The other thing is – look, reality is average household incomes both in the U.S. and in Western Europe have been stagnant for around 10 – 15 years, and that's what the consumer relies on. They don't rely on more upwardly mobile affluent people like you see sitting to your right and your left here in this room. It's more middle America and the disposable income situation for the vast majority of consumers and households in the U.S. marketplace, European marketplace, has not gotten better.

Andrew C. Steinerman
J.P. Morgan Securities LLC

Q

So I'm going to ask you about the 4% to 6% long-term growth, not just ambition. It's really where we've been in the past and in the future. But the past quarter was 3.4%, which I don't round up that 3.4%. And so my question is when do we fully get back to a 4% to 6% growth trajectory?

Dwight Mitchell Barns
Chief Executive Officer

A

You didn't round up your GPA from 3.4 to something bigger?

Andrew C. Steinerman
J.P. Morgan Securities LLC

Q

No, it worked for me.

Dwight Mitchell Barns
Chief Executive Officer

A

I bet you had better than a 3.4. So maybe – look, we have given guidance for the full year on our core revenue growth to be in the 4% to 4.5% range. And that's at the lower end of the 4% to 6% that we talked about at our Investor Day last year. But here's what I want to make sure everybody registers. So we made it into the low end of the range. That's despite the fact that we had no improvement in Europe. It's despite the fact that Insights has been a tough slog, especially in the U.S. market this year. It's despite a number of headwinds really, and that we're still at that low end of the range. If any one of those things would have done better, we would have moved up in the range. If two of them would have done better, we might have even gotten to the upper half of the range.

So we still feel that the range was the right range when we communicated a year ago based on what we even know here still today. So that's the way we evaluate it. We feel good about our core revenue growth rate in that it's a little bit better than it was a year ago, a little bit better than it was two years ago. It's moving in the right direction, in part because of how well we're doing in these emerging markets that I mentioned before.

Andrew C. Steinerman
J.P. Morgan Securities LLC

Q

But is it mostly talking about getting Insights back growing? Is that what gets us back into the solid 4.0% range?

Dwight Mitchell Barns
Chief Executive Officer

A

Yes, but that's the nature of Insights. When it's a tough business, we're going to be at the low end of this range. If it finds itself at the other end – and by the way, it will. And when it does, you all should remind me, don't get too excited about that. It's a lumpy business. That's fine. Then we'll be at the upper end.

Andrew C. Steinerman
J.P. Morgan Securities LLC

Q

I want to talk about the Watch business. My friend, Alexia Quadrani, a media analyst, and I have spent some time at Adweek. I just think in the end market, when you speak to the head of research at the major broadcasters, they just are confused quite frankly. They always say Nielsen doesn't measure this. And when they say Nielsen doesn't measure this, they mean the currency. And of course, you're going to say, wait, wait, wait, Nielsen has the currency plus all these analytics that are out there. If you want set-top box data, if you want digital data, we have all that. We measure it. Of course, we measure it. But why don't they speak your language yet of, you have both the currency and the analytics, but when they say Nielsen, they primarily mean the currency.

Dwight Mitchell Barns
Chief Executive Officer

A

Yes.

Andrew C. Steinerman
J.P. Morgan Securities LLC

Q

And it's weird.

Dwight Mitchell Barns
Chief Executive Officer

A

It's good news/bad news, isn't it? When they say Nielsen, they mean Nielsen ratings.

Andrew C. Steinerman
J.P. Morgan Securities LLC

Q

Right.

Dwight Mitchell Barns
Chief Executive Officer

A

It's like Kleenex.

Andrew C. Steinerman
J.P. Morgan Securities LLC

Q

Right.

Dwight Mitchell Barns
Chief Executive Officer

A

We've risen to that level, and that's a great thing. We're grateful for it, but it also can sometimes inhibit clarity and understanding in the marketplace.

Andrew C. Steinerman
J.P. Morgan Securities LLC
Q

Communication.

Dwight Mitchell Barns
Chief Executive Officer
A

And communication, clearly. So the Nielsen ratings, when people say that, they almost always are referring to measurement of audiences on traditional television, and those ratings have in fact gone down a little bit. We'll talk about in a moment.

Andrew C. Steinerman
J.P. Morgan Securities LLC
Q

Right. Yes, I got it.

Dwight Mitchell Barns
Chief Executive Officer
A

And then as that viewer goes to these other environments, we're providing ratings of audiences on those environments too, but that's not what people think of as Nielsen ratings. They'll think of that as OCR, mobile OCR, whatever other version of it, and that's because that is the world that we're in these days, which is a highly fragmented and increasingly fragmenting world. And it's one that we're still filling in gaps and ultimately still have work to do to piece it together so that our clients see a view of their total audience.

This is a theme that we're going to increasingly focus on is talk about total audience measurement, total audience for ads, total audience for content. Comprising a total audience metric will be traditional TV ratings, but also the ratings that we produce and provide to our clients for all of these other screens, devices, and platforms. That will I think help clean it up. And we know that we've contributed to the problem and the confusion. We'll take some of the responsibility there. But that's good news because we know we can also therefore help with the solution.

Andrew C. Steinerman
J.P. Morgan Securities LLC
Q

I've heard the term being developed, panel-plus. What does Nielsen mean when they discuss panel-plus? Obviously, a key part of your currency is the panel.

Dwight Mitchell Barns
Chief Executive Officer
A

Yes, this is about big data. So we already are in a panel-plus mode in many parts of our measurement portfolio. For instance, the way we measure online campaign ratings or OCR, measurement of ads in the digital world, is a big data panel-plus type approach.

Andrew C. Steinerman
J.P. Morgan Securities LLC
Q

Right.

Dwight Mitchell Barns
Chief Executive Officer
A

We have a big data set called the Facebook User Registration database, 100 million maybe people in the United States where we get age and gender. We also get data from Experian that gives other characteristics for those same people. We then combine that and calibrate it, improve it, if you will, by using panel-based metrics, so that it can be as projectable and as representative of all parts of the U.S. market as it possibly can be. So that's a panel-plus approach.

Andrew C. Steinerman Q
J.P. Morgan Securities LLC

I understand.

Dwight Mitchell Barns A
Chief Executive Officer

Big data set on the one side, a smaller but high-quality, and by the way, higher-cost data set on the other side...

Andrew C. Steinerman Q
J.P. Morgan Securities LLC

Calibrate the...

Dwight Mitchell Barns A
Chief Executive Officer

...bringing the best of those – best capabilities of those two things together. That's what a panel-plus or a hybrid type system is all about. I think you're going to see almost every form of audience measurement move that direction. And even on the Buy side, we're starting to do some of that with retail measurement.

Andrew C. Steinerman Q
J.P. Morgan Securities LLC

Right. But no other vendor could do that as well as Nielsen?

Dwight Mitchell Barns A
Chief Executive Officer

We're extremely well positioned to do it, first of all because -everybody focuses on the big data set. But the panel is really important because a lot of these big data sets are big and granular, but they have a lot of problems that need to be compensated for in some way, and that's where the panel comes into play. And it's putting these two things together. We have very high-quality panels across a number of these environments, and we've done a really good job on the cooperation front with a lot of these other big data providers, which allows us to go down this path with a great deal of confidence and experience.

Andrew C. Steinerman Q
J.P. Morgan Securities LLC

Another thing that I felt I heard multiple times at Adweek, again, from these heads of research at broadcasters is two statements that sound conflicting to me. I want to know, Mitch, if you think they're conflicting as well. They say we want one media measurement across all the platforms. Okay, that's great ambition. But they also want to encourage competition amongst the measurement companies.

And so if they want to pick and choose and say hey, I'd like a little set-top box data from Rentrak. I'd like a little comScore digital measurement. But of course, we need the traditional TV from Nielsen, I just don't see how they could – and they say it in one breath. We want to encourage competition of media measurement, but we want one metric across all media platforms. I just don't see how you could possibly, as an end user, get both.

Dwight Mitchell Barns
Chief Executive Officer A

I get it though. Look, it's actually rational, I think, in that one is an expression of short-term interest and the other is an expression of long-term interest. The short-term interest is they want these gaps filled in and they want this thing to be made simple and seamless as fast as possible. And they think that the best way to get it done fast as possible is to encourage competition. I've heard it come right out of the mouth of the head of one of the best agencies, and she was very transparent, very clear. This is why we're encouraging the other guy on this front, not because we like him better, but we just think things will happen faster.

Andrew C. Steinerman
J.P. Morgan Securities LLC Q

I'm going to bet that's Starcom.

Dwight Mitchell Barns
Chief Executive Officer A

It's a good bet, but that's okay. I appreciate her honesty, her logic.

Andrew C. Steinerman
J.P. Morgan Securities LLC Q

She's great, yes.

Dwight Mitchell Barns
Chief Executive Officer A

She's fantastic. It makes all the sense in the world. But they also want simplicity, seamlessness, comparability. And by the way, they've already cast this vote over decades and across almost every country in the world. If you look at TV audience measurement, for example, there are only two countries in the world that have more than one television audience measurement provider, South Korea and the Philippines. And the second player there actually is quite small, insignificant.

So the market just repeatedly over and over again, once a marketplace has a solution they're comfortable with, they go to one provider because that's better for them. Even though they might lose a little bit on price negotiation, they gain so much more on clarity, simplicity, comparability, which serves the business side, not the buying research data cost side of their business, way more than anything it might cost them on the measurement cost perspective.

Andrew C. Steinerman
J.P. Morgan Securities LLC Q

I'm going to ask one more question, but get your questions ready. It's about your Adobe relationship, which is brand new. It's new, but you really changed your format of go-to-market. You long had positioned yourself or Nielsen positioned themselves for digital program ratings, and now you've re-termed it digital content rating. Why the product change, and is this really a watershed event?

Dwight Mitchell Barns
Chief Executive Officer

A

We're thrilled with this relationship with Adobe. We have a great relationship with them, and I think it's a very exciting future. The relationship is very complementary. What we're doing with digital content ratings, let me first talk about that and then why Adobe is so important. Digital content ratings, we have OCR already in the marketplace, but OCR measures audiences for advertising.

What we're doing now is bringing a metric, a complementary metric to the market that measures the audiences for content; in other words, websites or video content. This is really important in the digital world because the audience for content, a website, isn't necessarily the same people who will see the ad. For instance, if you and I go to the same website, you'll see a different ad probably than I will even though we're at the same site. Versus in the traditional TV world, if we watch the same program, we see the same ad. So in digital, you need to have distinct and separate measurement of content and ads.

So OCR we've already launched a couple years ago on ads. Now we're bringing content measurement to the market. And it's a really big deal because it will be on the same underlying architecture as OCR, meaning it will be as comparable as possible to OCR, meaning that if I use digital content ratings to predict my OCR outcomes, I'll be able to do that better than I ever could before, improving my performance, trimming waste out f the system, improving my on-target rate, and that's what clients want. In fact, it's amazing to us at some level that OCR has done as well as it has without having this content measurement metric, complementary content measurement metric available up to this point in time. And so we think that digital content ratings will only serve to super-charge the growth of OCR in the marketplace, and there's all the evidence in the world based on our client feedback to support that. So it's a really big deal.

Andrew C. Steinerman
J.P. Morgan Securities LLC

Q

And DCR replaces DPR, so it's really ready to go, right?

Dwight Mitchell Barns
Chief Executive Officer

A

DPR was just about video.

Andrew C. Steinerman
J.P. Morgan Securities LLC

Q

Right.

Dwight Mitchell Barns
Chief Executive Officer

A

And so what DCR is, it still includes video and then everything else. So static websites, it will include everything.

Andrew C. Steinerman
J.P. Morgan Securities LLC

Q

Right. More banner ad measurements and stuff like that. Is this a nice-to-have addition because you just said, hey, it's not just video now, everything, text-based stuff. Is that a nice-to-have addition, or is this a huge expansion of opportunity when you think about non-video?

Dwight Mitchell Barns
Chief Executive Officer

A

It's a big opportunity for us because we've always had a very strong proposition and I think a very strong position when it comes to video in the world. But when it comes to text or static web-based content, that's been a much tougher fight for us up until this moment, and I think the dynamics of that, yes, fundamentally changed.

The reason why Adobe is so important to this picture is we could go out and tag websites and implement our SDK and video players one by one and code video content one by one, client by client. That will take a long time and it will build very slowly. By partnering with Adobe, what we'll do is we'll take our tag for content and just piggyback right on top of their Adobe Analytics tag, which is already covering about 75% of all web content. So it is a much faster, much more efficient way for us to get our tag across all web content, almost all web content very quickly.

Then all the client has to do is say I want to be measured, and we can turn it on for them. And then the measurement of what we'll provide to them, audience measurement for that content will appear right alongside there, Adobe Analytics site measurement. And that's what clients of Adobe have always wanted, and this is why Adobe is interested. They say you tell me about the volume of traffic and what people do and where they came from as they come to my site. But you've never been able to tell me who they are.

Andrew C. Steinerman
J.P. Morgan Securities LLC

Q

Right, you tell the who.

Dwight Mitchell Barns
Chief Executive Officer

A

And so now that who they are, our Asian gender demographics will appear right in Adobe software right next to their site analytics, taking off the table the key issue their clients have had for a long time, big deal for them too.

Andrew C. Steinerman
J.P. Morgan Securities LLC

Q

So, Mitch, now it's time for our big data to power the crowd, so ask your questions. Go ahead, Kelly.

Kelly A. Flynn
Winslow Capital Management LLC

Q

Okay, my question is about margins. Mitch, prior to the Arbitron synergies, I think you guys were talking about expanding margins something like 40 to 60 basis points per year. But now I'm thinking about two tailwinds to margin. One is you've said that Buy has moved out of the margin decline stage to flat to up, and plus you're mix shifting towards the higher margin Watch business. Do those two factors change the margin algorithm, so to speak, over time? Thanks.

Dwight Mitchell Barns
Chief Executive Officer

A

You're right in that our Buy margin situation, we've reached a point where our investment profile will start to look a little bit different. We're still just as focused on investing for growth in the emerging markets by covering that population as it grows and moves and the middle class rises, so that won't change. But we had a second component on our Buy business looking back over the last several years that wasn't just about keeping up with the changes in the emerging markets, but it was also about catching up to where the market already was in certain situations, in certain markets. And so we had almost two investment components in some of these big emerging markets.

That catch-up piece, that catch-up component is now, not totally, but largely we've largely worked our way through that. And so now the investment driver in emerging markets for the Buy business will largely be focused on keeping up with the ongoing, by the way, still very rapid changes. And so we'll still see the same growth rates and we're just as focused on that as ever. So that will help on that side.

On the Watch side, there are a number of dynamics there. And you always have – you have panel expansions that you have to do. You have more environments that you have to measure because of media fragmentation. All the dust hasn't settled on that. We'll be updating our guidance when we have our Analyst Day in early December. So I guess, Kelly, that's what I'd ask you to wait for us to have a little bit more to say about that topic then.

Andrew C. Steinerman
J.P. Morgan Securities LLC **Q**

Okay, other questions? Go ahead.

Q

Hi. Could you give us a little update about local TV measurement and the use of set-top box data? Previously, you said the issue of not being able to report overnight has been an issue for advertisers. And then we've just heard recently Rentrak saying that they might actually have that functionality soon. So could you maybe just update us on what the bottlenecks are and where you are at the moment?

Dwight Mitchell Barns
Chief Executive Officer **A**

Sure, of course. Local TV is a very important business to us. We're committed to make all the investments that we need to make for this business for the long term to continue to be the currency metric provider to the marketplace. And in fact, we've talked about our next two investments that we're going to make in this business. One is to increase our existing panel sizes in a number of the key markets around the country. And then the second thing is we're going to launch this second data stream, this complementary data stream that leverages data from our panels but also other big data sets like set-top box data and other data sets, as well as adding in some modeling and analytics to provide that second data stream our clients can look at right alongside the traditional TV ratings.

The second data stream will give them a lot more granularity. It will be a more stable data stream. And as they see it and start to develop some comfort with it, I assume they'll want to use it. And maybe in some cases, people might even want to use it in complement or maybe even instead of what they have right now. So that's what we're focused on delivering to the market right now. We've gotten good feedback from the marketplace about that plan.

Now on the topic of set-top box data, that will be one of the components in that second data stream, and Rentrak obviously uses set-top box data. There are a number of problems with set-top box data. One of them was overnight delivery. It is within reach to probably do it. Even we saw it as probably something that can happen pretty soon. But back when we were starting to talk with our clients about a solution that involves set-top box data, we said we can't guarantee it right now. They said if you can't guarantee it, then no thanks.

Now eventually, it will probably get there, but it's difficult. To be able to say I can do it with 99.9% reliability, we'll see if Rentrak can get over that hurdle because that's a very tough hurdle. But even if they do, there are a number of other issues, and one of the biggest ones is person-level demographics. The market trades on person-level ratings. In other words, they know the age and the gender of the individual viewer watching. And set-top box data doesn't tell you anything about that. it doesn't even tell you how many people live in the home, let alone who they are, let alone whether or not that person happened to be watching the TV at the time the set-top box was recorded in the database as being on.

So there are a number of steps that you have to go through, and they I assume have to model that. And we actually have actual demographics. So there's a big difference there, and that's another one that the marketplace has to tackle and challenge. When we offer that second data stream, we'll have some modeling of person-level demographics, but we'll also have an underpinning of actual person-level demographics on which to rely, and I think that will be a differentiator.

Andrew C. Steinerman
J.P. Morgan Securities LLC
Q

Another question, go ahead.

Q

[Inaudible] (31:24 – 31:27)

Dwight Mitchell Barns
Chief Executive Officer
A

We already started – we've already – the work is already well underway for increasing the panel size, that first component. And then the second, what we call Track 2 or that complementary data stream, we don't have anything to offer to the marketplace yet. But we're starting to pull together that product, and we're going to roll it out on a DMA or a market-by-market basis, starting with the big priority markets that our clients point us to.

Andrew C. Steinerman
J.P. Morgan Securities LLC
Q

And do you think that...

Dwight Mitchell Barns
Chief Executive Officer
A

2015.

Andrew C. Steinerman
J.P. Morgan Securities LLC
Q

Do you think that's additional revenue?

Dwight Mitchell Barns
Chief Executive Officer
A

Yes.

Andrew C. Steinerman
J.P. Morgan Securities LLC
Q

Okay.

Dwight Mitchell Barns
Chief Executive Officer

A

But it will be a choice that they'll make. So in other words, we're not going to say you have to buy this instead of the traditional TV ratings. You can just buy it alongside. And they can choose to buy it or not, and that will be up to them. And then if they buy it then they can use it or not, that will be up to them. We think that they're going to see that it has a lot of merit.

Andrew C. Steinerman
J.P. Morgan Securities LLC

Q

Okay, other questions?

Q

Back to margins, if we can, the amount of information that you accumulate on both the Buy and Watch sides are fractionating now. The digital space is accelerating. The informational flow that you normally aggregated in a relatively simplistic manner – I hate to use that word, but I think you know where I'm going – has now become much more complicated and complex. This is putting pressure on you to build out more infrastructure to assimilate and analyze this data. How easy is it going to be going forward as this only accelerates? How easy is this going to be to be able to pass on these costs and sustain improved profit margins over the next three to five years?

Dwight Mitchell Barns
Chief Executive Officer

A

Yes, it's an interesting one. It will change the profile of our cost and investment base, but I'm not so sure that it will actually increase it. In fact, in some ways, it's cheaper. The data that comes from the digital world is a more efficient way to measure, even though it often has a lot of shortcomings that have to be compensated. For instance, we have a lot of – what did you call it before – panel-plus approaches.

Andrew C. Steinerman
J.P. Morgan Securities LLC

Q

Panel-plus, yes.

Dwight Mitchell Barns
Chief Executive Officer

A

When you look at a panel-plus approach, there's a panel component and then there's a big data component. Guess which one of those two is more expensive? The panel, it's the panel part. One of the problems with the way we might have thought about the world in past was when the market needed more granularity, that meant we needed to make our panel bigger. And the economics just never worked because while it was better for our clients if we made the panel bigger, it was never worth enough for them to pay for it. And so there's always this tension in the marketplace.

Panel-plus allows us to bring data granularity into the picture for a much lower incremental cost as opposed to the old approach we used to take of just making our panels bigger. So it will change the composition but it won't necessarily change the cost. And to the extent that it does increase the cost, guess what? It comes with so much more capability because now, the reason why people want granularity is not just so we can measure better. You can measure a little better with more granularity. But the really important value contributor here is the analytics you can do based on having that extra granularity. In other words, once I know what the performance measurement is, now I can dig into it, understand it, figure out what I should do differently in the future in order to do better. And that's what the panel-plus approach really fuels is that analytics side of the picture as opposed to just getting paid more because we're measuring better.

Andrew C. Steinerman
J.P. Morgan Securities LLC

Q

Thanks, [ph] Jack (34:55). Other questions, go ahead.

Q

Hi, just a real quick question on mobile adoption. I realize it's early, but maybe you could extrapolate and think about what full adoption of your mobile product might mean to Nielsen at some point in the future. And currently, is it margin dilutive as you're investing in that product and maybe ultimately where that product may stack up in the range of offerings that you have?

Dwight Mitchell Barns
Chief Executive Officer

A

Yes, thanks. Mobile uses – what underlies mobile measurement for us is the same OCR architecture that we've already invested in and developed and built, now just applying it to the mobile world. And the key to applying it to the mobile world is the tagging activity that has to happen for that content or the implementation of the software development kit, or the SDK, inside of apps, if it's going to be tracked and measured that way. And there's not a whole lot of incremental cost associated with that. It's more of a process issue. In other words, that SDK forces the client to open up the app to rewrite lines of code and do it without the app crashing, and these are always tricky processes to go through, and they don't ever happen as fast as you want. But it's not so much about cost as much as it is about process and time, and that's really what the key governor is on this.

So I wouldn't call it margin dilutive. I would call the mobile business to the extent that we are getting mobile measurement business from our big media conglomerate companies, that's just going to be part of their fee for total audience measurement that we otherwise would provide to them. So it might be a little bit incremental, but it will be hard to find inside of the big number. And then for mobile first players or digital first players, that's where you'll probably going to see more upside. But when you take that incremental revenue and put it against the overall big Watch number that we have, it will be some time before it really moves the needle.

Andrew C. Steinerman
J.P. Morgan Securities LLC

Q

Go ahead.

Q

[Inaudible] (36:57 – 37:08)

Dwight Mitchell Barns
Chief Executive Officer

A

With content, it will be happening through the Adobe Analytics tag. And for ads, we need cooperation from our customers. That's right. And then they have to decide. For instance, if I'm a TV company, do I want my content viewed through a mobile device delivered and reported in the Nielsen traditional TV ratings? That means I have to do it in a certain way. Or do I want it measured as mobile OCR, meaning I do it a second way. And they have to make that choice. And some of them are still evaluating that choice before they commit themselves.

Andrew C. Steinerman
J.P. Morgan Securities LLC

Q

You said – I want to go to back to emerging markets. I'm changing channels on you; that your business continues to be strong even though you know there's economic slowdown in emerging markets. Why do you feel like now is a good time for your emerging markets business?

Dwight Mitchell Barns
Chief Executive Officer

A

We have always said we're underpenetrated in emerging markets. And so we're not tightly correlated to the growth in the overall market in these parts of the world because there's always white space for us to go fill in, new areas to cover, these kinds of things. And so we've continued against that philosophy.

The second thing is we've become much stronger with the local companies in recent years, and they're outperforming the global multinationals. And so we still have lots of room to run with these big local giants in China and India and Southeast Asia; in Latin America, starting to emerge from that part of the world too.

And then the third thing that I would say is a more recent phenomenon in our company is I have this phrase where I say I want to make sure that we shift the balance of power in our company, power and decision-making away from the center where I sit and closer to the edge where people are working with the clients, on the ground, closer to the action because that allows us to be more innovative, more entrepreneurial, energizes our teams a lot more. And power always wants to gravitate and accumulate at the center. That's not good when you're a big giant company...

Andrew C. Steinerman
J.P. Morgan Securities LLC

Q

Got it.

Dwight Mitchell Barns
Chief Executive Officer

A

...working all around the world. So we've done a good job at that. And I think it's one of the reasons why our growth rates have picked up throughout this year.

Andrew C. Steinerman
J.P. Morgan Securities LLC

Q

So, we only have a little bit of time left. You've closed out your first year of CEO, so I thought it's the CEO's honor to make any closing comments if you feel like we haven't covered the ground that you wanted to cover.

Dwight Mitchell Barns
Chief Executive Officer

A

No, I've had a ball in my first year, and I'm as bullish on the Nielsen Company and our business as I have ever been. Our business really has a lot of sources of fundamental strength right now, and we've touched on them: Buy side; this improving growth profile in emerging markets, our investments in coverage paying off there; ad solutions, bringing together Watch and Buy, which we are uniquely positioned to do. Nobody can do it like we can, double-digit growth in the third quarter, most of that North America. There's a lot of headwind against those kinds of services. We're growing at that pace against those headwinds; our audience measurement business, strong as ever.

I know all the talk, all the noise in the marketplace. We hear it. We respect it. But the facts say our audience measurement business support the fact that our audience measurement business is rock solid, and we feel great about where we're going and the investment program we have behind it and how aligned we are in terms of what the priorities that our clients perceive to be.

And so lastly, we just feel really great about our leadership team and the energy level within our company. We're in the process of planning for 2015 right now, so I'm seeing each of our operating leaders parade through, present their plans for next year. I listen to all the plans and all the facts, but I'm also really paying a lot of attention to the body language, sense of energy and optimism. And I feel great about that as well. So there you go.

Andrew C. Steinerman
J.P. Morgan Securities LLC

Thank you very much.

Dwight Mitchell Barns
Chief Executive Officer

My pleasure.

Andrew C. Steinerman
J.P. Morgan Securities LLC

We appreciate it; thank you, everybody. Our Info Services data book is up here. We have a stack here. We have them in the hall. Please read our Info Services data book. We published it for the conference.

Next is our keynote speaker. I'm interviewing Dan Doctoroff. He's the CEO of Bloomberg LP. He's also a totally real New Yorker. It's across the hall in Grand Central B-C-D. Please join us.