Corrected Transcript

10-Nov-2014

Nielsen Holdings NV (NLSN)

RBC Capital Markets Technology, Internet, Media and Telecommunications Conference

CORPORATE PARTICIPANTS

Stephen Hasker
President-Global Product Leadership

OTHER PARTICIPANTS

David Bank
RBC Capital Markets LLC

MANAGEMENT DISCUSSION SECTION

David Bank
RBC Capital Markets LLC

Okay. Well, there's so many good things to talk about, I think we need to get started. Thanks, everybody, for joining us and a special thank you to Steve Hasker, Global President of Nielsen, for joining us today.

Steve is sort of a legend in the media measurement industry, and I guess the global consumer market share measurement industry, but honestly more from my media experience, the world sort of doesn't function very well without Steve's presence. So we're really happy to have his participation here today. Steve kind of built the factory for all these amazing measurement tools, and I think it's the job of the rest of Nielsen to go out and figure out how to monetize them now. Although given that he has a pretty captive audience, that should be easy.

QUESTION AND ANSWER SECTION

David Bank
RBC Capital Markets LLC
Q

So with that introduction, I guess Steve has some opening remarks. But I'm going to ask you to put them in the context of – we get questions all the time of there's a changing landscape in the consumption of media. And Nielsen's measurements just – like they aren't relevant. They measure television viewership like when you're watching television and they're not relevant. Our perspective is that Nielsen can kind of measure whatever it wants and make that data available to whoever wants it. Can you talk a little bit about why you think there's a misperception and what it is that you can do and how you can actually measure media consumption?

Stephen Hasker
President-Global Product Leadership
A

Yeah. Well, thanks, David. Thanks very much for having us here this morning. It's a great privilege. So to your question, there is a – Nielsen has a marketing challenge, in a sense, insofar as there is a big difference between what we measure and what's in the TV ratings. You'll often read a headline or a byline which says, well, the TV ratings are going down and Nielsen doesn't measure this or doesn't measure that. It's wrong. We measure video, no matter where it goes. We measure all ad-supported video, no matter where it goes. So as long as it's being played on a TV or PC, over the top device, a tablet or a smartphone, we can and do measure it.

Now, the industry are in the process of rolling those measures out and adopting those, but our capability is to be able to measure video and other forms of content be it program or an ad, no matter where it runs. Now that is very different than what's in the national TV ratings or the local TV ratings. The national ratings being C3 and C7, which measures live and time-shifted TV content which has the same ads in it, no matter when it is played or replayed. And I think the challenge for us is to make sure that everyone understands that we have put in place the capabilities to measure everything, firstly.

And secondly, to make sure that, for example, advertisers are asking the right questions of their agencies and the right questions of the media companies to ensure that they get the ratings that they need, and that the media companies are asking the right questions. Or for example, their SVOD partners, so that they get the right metrics as well. And I think we're going to see a process undertaken over the next number of months and quarters to, in a sense, supplement and reinvigorate some of those metrics.

But the key message from us, David, is we can and do measure all of that content, and it's relatively new, so people are still coming to terms with it. But the capability is there for those who want the numbers – the numbers are there.

David Bank
RBC Capital Markets LLC
Q

So I guess in that context, if you can do everything, you can measure anything, anywhere, anytime, anyplace. Why has there been competitive chatter you think that's so loud about alternative platforms? And realistically, like can you talk to us about the difference between a currency and a measurement, and where Nielsen kind of plays in the watch ecosystem.

Stephen Hasker
President-Global Product Leadership
A

So currency is not a term that we – it's not a term that we define nor a term that we use all that much. But I think the definition or at least the industry understanding of that term is that it's the basis on which the majority of the advertising is traded – the TV advertising is traded. So in other words, it's the numbers that people use to post on, would be to use the industry terminology, so in other words how many people actually saw a program or an ad, and therefore, how much should an advertiser pay, and is there's a make-good from a media company back to the advertiser or not. I mean that's the definition of the currency.

And because television has a particular advantage over many other types of media which is, it's very easy to scale. All right. There is an easily understood definition of a 30-second spot. There is an entire infrastructure around the creative – the creation of those 30-second spots, and the buying and selling, and the pricing of those whether it be in the upfront or the scatter market or the spot market.

And one of the things that has helped fuel that is a common currency, a common set of numbers that everyone understands, which drives efficiency. But it doesn't necessarily drive the flexibility that the advertisers, the agencies or the media companies want. And so we produce lots and lots of numbers, but in the end, some of it boils down to, for better or worse 18 to 49, C3 or C7 and live plus three days, and live plus seven days. And the reason it does is to help the efficiency of the marketplace. So I think that, I hope, addresses some of your question.

As to why do we face competition, why do we face calls for alternative metrics. I think that some of it's human nature. We happen to believe that the market is best served by one single set of numbers. In other words, a single referee on the field. If you have multiple referees on the field all making calls, the market is not as efficient as if you have a single referee.

And we've done some work to look at that. When I was at McKinsey well before Nielsen, I led some work that looked at that, looked at different markets that had multiple independent currencies or multiple captive currencies. And it is a fact that media markets grow faster when there's a single referee on the field.

However, the clients, when they look to renegotiate contracts with us, always want an alternative. And there always will be an alternative. There's always going to be players doing different things and clients always going to sponsor them to help in that negotiation process and also to provide different insights in and around the currency and in and around the mainline metrics for want of a better term.

David Bank
RBC Capital Markets LLC
Q

So investors have asked me why don't you use – why is census based set-top box data that measurement better than what Nielsen does? And why don't we ultimately move to that kind of paradigm? What's your take?

Stephen Hasker
President-Global Product Leadership
A

Yeah. So, David, we think that the future of measurement on both the Watch and the Buy side of our business will be using a very, very high quality representative panels to calibrate or correct big datasets. So it's not panels alone, and it's not big data alone. And so let's talk about the big data or set-top box example for a second.

When you go to bed at night, you turn the TV set off, you leave the set-top box on. That is still providing data back to the head end and back to the cable plant. An advertiser needs to know when you have gone to bed. An advertiser does not want to pay for viewing that is not occuring. That's one challenge.

A second challenge is that there are no demographics, no accurate demographics that come back with that data, so in other words cable companies do not have great insight as to the composition of a family within their footprint nor do they have great insight as to which member of the family actually watching that television at the time. And the ratings or the trading occurs on a person's level, so there's a big gap there.

Thirdly, despite the fact that we have very high cable and satellite penetration in the U.S., we still have over the air pure broadcast households and that number's ticked up a little bit in recent times. So if you rely purely on cable data, you don't get that data.

And then last but not least, the cable and satellite plants were built and the telco plants were built to provide high quality video or in many cases high speed data. They were not built for measurement. And therefore, it is still a relatively modest number of households that actually provide data on a frequent enough basis to produce overnight ratings. Now that can and will change.

But my point is, there are a number of things that when you look at set top box data, you realize that it needs to be corrected or calibrated and that's what we're working on. We're working on using our panels to correct, to calibrate those data sets. And when we get comfortable that we can do that, and we can do that at sufficient quality and timeliness to meet the industry's needs whether that be local video, whether that TV and whether that be national, we'll roll that out. And I personally am looking forward to doing that sooner rather than later, but we're not going to do it before the quality is there.

David Bank
RBC Capital Markets LLC

Q

So there's a lot of chatter around this competitive issue, and I'll move on from Watch in a minute, but one of the things we love about the Nielsen business model is the industry kind of needs you to conduct business and you generally don't like have explosive growth on the Watch side, but you have kind of consistent growth with every year that clients seems to pay a little more and maybe you're giving a little more utility. But you're really not talking about much more than kind of inflation-adjusted increases.

Is there anything like – is there any realistic way that the trajectory of your kind of business model with the networks and with the stations would change? Is there, I mean realistically, despite all the hype in the press, is there anything that would point to, if you're an investor, how I really need to worry that what I sort of have been counting on every night when I go to bed is going to be there tomorrow would change?

Stephen Hasker
President-Global Product Leadership

A

Well, look, the first thing I'd say is – for those of you who have met members of the Nielsen team, I hope one thing comes across which is we're not arrogant about what we do for the industry, and we're not arrogant about the role that it plays nor our position in the industry. And we're working very, very hard to introduce a set of innovations that ensure that there's greater value tomorrow from the data than there is today. And that's the mindset that we bring.

In terms of the growth of our business, we tend to be very conservative in terms of the price escalators in our contracts in a way we price our services because we want to make sure that we grow with our clients and with the industry, not well beyond it. And so you might even see us be more conservative in some of the growth rates that our clients have enjoyed over the years. And we do that quite purposefully.

Going forward, where will our growth come from? Well, we have developed the set of measures and they are, we believe, the only industrial strength measures. That measure content no matter where it goes. So the TV, over the top PC, tablets, smartphones, we have single system that measures across all of those. And it does it in a very, very robust way. The large part of that is accredited by the MRC from end-to-end, not just one part of it but from end-to-end. So that's one source of growth for us.

The second source of growth for us is to extend that measurement into digital audio, and we're currently working back and forth with those who have businesses that are majority terrestrial audio and those that are pure-play audio. And that will take some time, I don't know how long, to get those to – as to what the right metrics are.

A third [ph] part (12:49) is we have extended beyond reach. So in other words, how many people saw a program or an ad across the different platforms, so that's the writings and all the measurements around eyeballs into what we call resonance and reactions, so the effectiveness of those programs and those ads. When someone saw our program or an ad did it resonate, did it change their view of that brand, of that product, of that franchise, of that character, whatever it was.

And then last but not least, reaction. Did a consumer react differently as a result of seeing an ad or a program? Did they go and buy more of a product? Did they tweet about the particular program? Those are areas where we've been on a journey the last couple of years to expand that.

And then last but not least, international expansion, and we're pretty modest about this because the media business is not a truly global industry. It is country-by-country, by and large. There are some exceptions to that, but by and large, it's country-by-country. Ads are bought and sold on a local basis. The media properties themselves tend to be government-owned or family-owned in different countries. But the Buy side of our business is in the 110 markets, and the Watch side of our business is in, give or take, 30 markets to 35 markets. And we do believe that there are opportunities for us to expand internationally.

So as we look forward, we're not arrogant about this. We're not arrogant about the position we have here in the U.S. or any other market where we provide the currency data. But we think the product investments that we have made across screens and across reach, residence, and reaction, enable us to have healthy growth rates for as far as the eye can see. And the challenge for us is to make sure that we get the messaging right and that all of the players in the various markets that we serve understand exactly what we have and are able to make the right set of decisions. Because I think one of the things we suffer from sometimes is a perception that we don't measure a particular form of media or we don't have a product or an innovation around that, and it's more often than not, not true.

David Bank
RBC Capital Markets LLC
Q

So let's just segue into – you measure other things besides media viewership. You measure market share largely for the consumer packaged goods. And you were, I think, forward thinking in knowing you had to get into the tablet for media and getting to frankly whatever platforms people are watching for media. There's a pretty big shift going on in the consumption of consumer packaged goods from people going into big box retailers into buying stuff online. Walmart – getting into Walmart was a really important event, but even that was fairly recent. How do you tackle the global issue of Amazon or Alibaba or whatever these e-commerce platforms are, how do you stay relevant and get into their platforms?

Stephen Hasker
President-Global Product Leadership

A

Well, the most important sort of principle for us is to measure the consumer. So whether that's the consumer's consumption of video or the consumer's consumption of toothpaste, it doesn't matter. We've got to measure the consumer. And so if that consumer is consuming content over the top in their video consumption or they're buying products using e-commerce, we've got to be able to measure that. And we will be able to measure that.

And so e-commerce specifically, we're very focused on this. We're very focused on looking at the best ways to measure it. And for that reason, I think, we've put in place some interesting innovations. We have a deal that we announced earlier this year with Alibaba to be able to measure a series of consumer packaged goods categories, seamlessly offline and online and put those numbers together to be distributed both through the Alibaba platform and outside the Alibaba platform.

And so what we'll look to do, David, is just more and more of those kinds of arrangement across the world to ensure that when we produce market share data, it includes every single distribution channel out there. And that's always going to be a race for us. There's going to be a new channel developed, and there's always going to be a new frontier for us to meet. And we're comfortable with that as long as we get there in time for our largest clients, be they retailers or manufacturers as they understand, as their products and services achieves scale through those channels. That's really the challenge we're after.

And so we're excited about the Alibaba arrangement. We have similar arrangements with e-commerce players [indiscernible] (17:05) parts of Southeast Asia. We've got to bring that back to the U.S. and we will do that over time.

David Bank
RBC Capital Markets LLC

Q

The flipside of that opportunity is got to be nothing's free. You guys want to be forward thinking in every device, everywhere the consumer is. How does – have you guys been planning that all along for the past decade? What has to be paid for and what does that do to the financial characteristics of the skeptics could say, well sure you could do it because you're so good, but it's going to hit my margins?

Stephen Hasker
President-Global Product Leadership

A

Let's take a look at that from a video perspective. So we monitor very closely the amount of time and attention that consumers in many, many markets spend on video every day. And here's what we noticed. We noticed that consumption of video is going up and continues to go up. And if you think about why would that be the case, it's because we all now consume video at work, whereas we never used to, and we consumer video maybe more importantly in very, very different times and occasions, so on tablets and smartphones when we're on the move and potentially, within our family unit, in bedrooms that didn't have TV sets before but now have tablets. And so the time and attention has gone up. That's the first thing.

The second thing is by and large, consumers prefer professionally-produced content. So they prefer the good stuff. And the good stuff is hard to produce, and it is valuable. So what our clients are asking for and starting to see is if the consumer is consuming more content, and [ph] Lesley (18:46) made this comment earlier this morning.

They're consuming more of his content, but they're consuming it at different times and occasions and different screens and he wants to get paid for that. And so he is looking for growth from those consumption occasions. And as long as he sees that growth, then he is prepared to share some of that with whomever's providing the measurement.

So if it is purely cannibalistic and the consumer suddenly said, you know what, I'm sick of watching video, I'm going to take an hour or two to do something else. Then I think that asking for more money for these more diversified and more complicated measures would be difficult to do. But as long as the consumer consumption is going up, then the industry in its various forms, whether it be broadcast or cable, whether it be pure play digital, whether it be some of the other top players will benefit from that growth, and the player who's providing the seamless measurement across all of those, also to benefit from that growth.

David Bank
RBC Capital Markets LLC
Q

And so can you – I'm going to ask this one last question and then I'll open it up to the audience, but we all know the promise of OCR revenue and the thesis behind Nielsen kind of owning the net, I think a year ago, you're at your company, the Investor Meeting, you laid out a timetable, kind of a illustrative timetable for OCR, and the key to OCR revenue kicking in, I'll let you talk about the revenue opportunities. But I thought the key was that you needed to something like a third of online video transactions occurring with the Nielsen OCR platform for the revenue floodgates to start to open. My first question is, do you think that means a third of premium or a third of like just videos? And where do you think we are with that today?

Stephen Hasker
President-Global Product Leadership
A

Yeah. So yeah, last year at Investor Day and we'll give an update to this at this coming Investor Day in December, but last year, we said look we think there's a $500 million opportunity for the industry in and around measurement, sort of digital measurement broadly defined. And we think that more than half of that is in the video space because that's where the pricing is, the premium and to a large extent the scarcity, and the rest is in display. And there is a couple of reasons why – there are couple of things to look at.

One is what is the portion of content that requires independent third-party measurement. There's a lot of stuff on the Internet that's just traded through [ph] server log (21:27) data. So there's no independent measurement. We see that changing pretty significantly. So we see more and more advertisers saying, I used to spend 2%, 3%, 4%, 5%, my marketing spend in digital, I'm now spending 20% or 30% or more. And so it's now in the main game, and I want independent third-party measurement. I want to hold publishers accountable.

And so that was one of the great breakthroughs with those. Yeah, a series of advertisers said I'll spend more money with you as long as you offer me a guarantee and if you don't hit that guarantee, I want to make good. And so let's talk about that. Right. And a number of publishers stepped forward, really led by Tim Armstrong at AOL, stepped forward and said I'm going to do that. I'm going to offer guarantees based on Nielsen OCR.

So we're seeing a nice sort of, I think, gradual growth and an acceleration of advertisers demanding guarantees around OCR and publishers hitting that. And we're seeing that both in video and display. When is the sort of tipping point that we're going to be – we're talking about sort of the revenue from that? I wouldn't predict, but I would say, just offer one last comment.

And that is since – particularly since Labor Day so the sort of fall TV season has kicked in and beyond, we have seen tremendous growth in the number of advertisers demanding a measurement through OCR, and that's the vital sign we look for. Are the advertisers seeing the benefit from independent third-party measurement? And are they demanding Nielsen? And we feel optimistic about that.

The other point that I'll sort of finish on is we announced a couple of weeks ago content measurement. So when we invented OCR, we came out and we said here's a measure of a campaign or an ad, and advertisers said fantastic. We're going to demand guarantees. We're going to make publishers accountable.

The publishers turned around and said, well, great, thanks, Nielsen. You've given the advertiser a stick to beat us up with but you haven't necessarily given us a planning or selling tool. So what we've done is we've extended OCR back into content. Right. So in other words, every single piece of content, video or display, static content can and will be measured by the same machinery as OCR, and it will match up with the campaign ratings, firstly.

And secondly, as we looked at how do we get not only get this product out the door but how do we make sure it lights up fast, and it's very easy for media companies and publishers to use. We found that Adobe had 70% penetration of tags across the web. And so we did a deal with Adobe to, in a sense, access those tags, the Adobe [indiscernible] (24:12) to be able to light that product up seamlessly. So what you're going to see is publishers having a selling or a planning tool that goes with OCR and, in effect, closes the loop between planning and buying, and we think that that will be a big bonus for OCR.

And we also think it gets us back into a business that we had – that we're in many years ago with a product called NetRatings. But we saw decline over time in its value to media companies because it was monthly audience estimates. This is daily ratings with the same accuracy as OCR, and we think that that's going to be a big one for us as well.

David Bank
RBC Capital Markets LLC
Q

I think we have time for a question from the audience, if anybody wants to ask one. I'll take the last one if there isn't one. Okay. Probably a question I would imagine you deal with all the time. You guys have really stepped up your plans for capital returns. And what seems to be a pretty big change in view of the company in terms of leverage and return of capital to shareholders. Can you just give us a brief kind of thought on what's on going on [indiscernible] (25:23)?

Stephen Hasker
President-Global Product Leadership
A

Well, we actually – we don't view it as a big change. We've always had a – we think a balanced approach to sort of capital allocation and capital returns, between investing in organic growth, between tuck-in acquisitions and things like share buybacks. And so this is really a – we think it's a continuation of that and we just saw it as a good time to get that done. So what we're not doing is signaling any big sort of sea change or dramatic shift in that space.

David Bank
RBC Capital Markets LLC
Q

[Inaudible] (25:51) is so cheap.

Stephen Hasker
President-Global Product Leadership

A

I do believe that.

David Bank
RBC Capital Markets LLC

All right. Well, unless there's not one more quick one from audience I think we've got 27 seconds left. So I think I want to thank you very much for coming today. We really appreciate it.

Stephen Hasker
President-Global Product Leadership

Thanks, David. Cheers.