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Different ratings agency

Open *The Wall Street Journal* and you read, in an aside about "Lover," Taylor Swift's new No. 1 album, that streaming delivers 80% of overall American music sales. Nielsen is the source of this remarkable fact. It likewise furnishes the statistical anchor for news reports about the boom in canned wine and the craze for fake meat.

The firm that Arthur C. Nielsen founded in 1923 is still profitable and still omnipresent, but tell that to Mr. Market. After peaking at $55.81 in July 2016, shares of Nielsen Holdings plc (NLSN on the Big Board) change hands at $20.51. To anticipate the conclusion of the analysis now unfolding, *Grant's* is bullish.

A different kind of ratings agency, Nielsen ranks television shows and advises consumer-product companies. It operates in more than 100 countries and employs 46,000 people. The TV portion of the business, called Global Media, earns a 40-odd percent margin of earnings before interest, taxes, depreciation and amortization and grows by 2%-plus a year. The consumer side, called Global Connect, which tells its clients what they are selling, to whom they are selling and how they could sell more, earns a 14% Ebitda margin on currently dwindling revenues. In the second quarter, the overall business had a 28.9% Ebitda margin and showed 1.2% revenue growth in constant currency.

The old news from Nielsen is that it's actively working to effect a sale, either of the whole business or a spinout of Connect. Management says it will have an announcement on or about Oct. 9. Still and all, investors seem to want no part of NLSN, even with a 6.9% dividend yield.

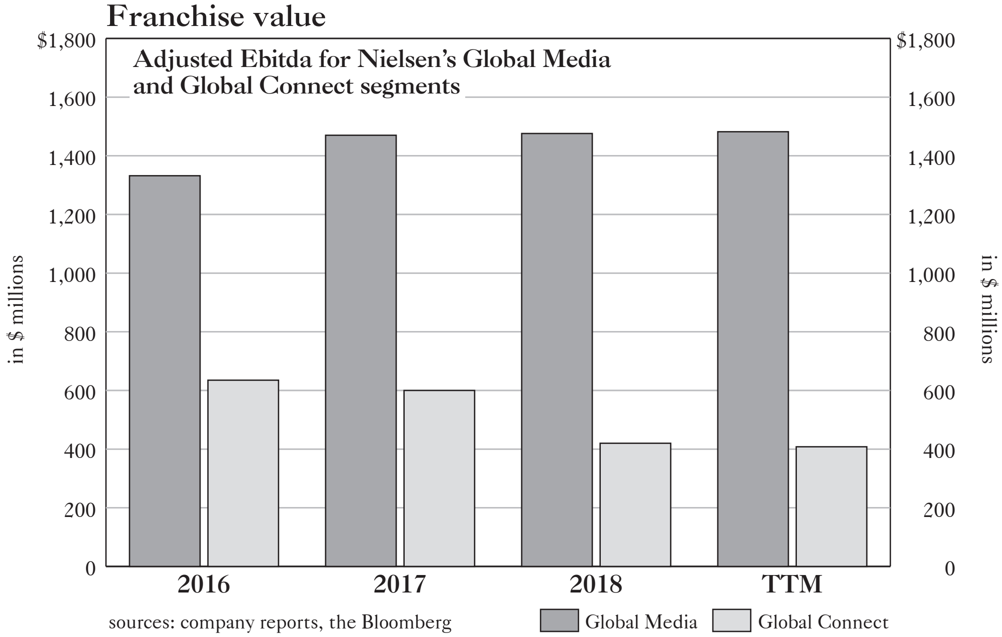
The currently droopy state of TV broadcasters and TV advertisers, Nielsen Media's major customers, constitutes one known risk; this year marks the first in which more advertising dollars will be apportioned to digital media than to TV and print, according to eMarketer. Much of the $129.3 billion in projected 2019 ad outlays will fall into the already bulging pockets of Google and Facebook. Then, again, Nielsen rates those giants, too.

Leverage presents another risk, with the balance sheet showing $8.2 billion of net debt representing 4½ times trailing Ebitda. In mitigation, a post-leveraged-buyout Nielsen survived the 2007–09 unpleasantness leveraged 9:1. And the current year expected adjusted Ebitda minus capex, in excess of $1.3 billion, covers interest expense by 3.3 times, compared with 1.9 times for the run-of-the-mill junk-bond issuers, according to Moody's Investors Service.

The Connect unit casts a third shadow. As far back as the administration of Calvin Coolidge, Nielsen was measuring consumer purchases at the cash register (A.C. Nielsen took credit for coining the phrase "market share").The problem today lies not in the quality of the sometimes highly technical product that Connect delivers but in the decline in the number of cash registers, in the weakness of the consumer-packaged-goods industry and in the consolidation of the surviving CPG competitors.

"[Customers] need this data, but at

Franchise value



sources: company reports, the Bloomberg

the same time they are under pressure," a bull on the stock tells colleague Fabiano Santin about the state of things at Connect. "It is not a great end-market dynamic. It is good in one way because they can never do without it, so you have no risk, but on the flip side you don't have huge upside because your customers are under pressure."

A Nielsen alumnus who today works at one of the world's largest CPG firms, our source marvels at the changes wrought at Connect in only the past nine months: "What they have done in terms of advertising testing and utilizing artificial intelligence, what they've done with virtual shopping—that product is the best that I've seen in the market—they've presented a new product-tracking service that combines a lot of different sets of data. It is not easy to bring these sets together, and it has harmonized it across countries," our informant tells Santin. "That stuff has never happened before."

Consolidated revenues for the six months ended June 30 dropped to $3.19 billion, from $3.25 billion in the first half of last year. Adjusted Ebitda dipped to $885 million, from $891 million a year ago, but lower taxes lifted net income to $166 million, from $144 million. For 2019, the front office projects constant-currency revenue growth of between nil and 1.5% and a stable Ebitda margin of 28.5%.

Given the subscription nature of many of its services, Nielsen's overall revenues exhibit an enviable degree of predictability; more than 70% are typically committed at the start of the year. Top clients include NBCUniversal/Comcast Corp., Twenty-First Century Fox, Inc., The Coca-Cola Co., Nestle S.A., The Procter & Gamble Co. and The Unilever Group, whose average relationship with the company spans more than 30 years. In 2018, the top five clients delivered 18% of the consumer segment's revenues and 21% of the media unit's.

The market's complaint is that growth in Ebitda has become predictably lackluster—the media segment was up just 0.5% in 2018, compared with 10% in 2017 and 6.3% in 2016. Critics wonder just how deep is Nielsen's famous media moat. Deep enough, we judge.

"You can't operate in the United States without paying Nielsen," says an industry source who wishes to go nameless. He tells Santin about the many unsuccessful attempts to crack Nielsen's stronghold on the business of measuring and analyzing audiences:

Nielsen Holdings plc
in $ millions*

	2014	2015	2016	2017	2018**	TTM
revenue	$6,288	$6,172	$6,309	$6,572	$6,515	$6,449
adjusted Ebitda	1,837	1,858	1,925	2,024	1,850	1,845
adjusted Ebitda margin	29%	30%	31%	31%	28%	29%
operating income	1,089	1,093	1,130	1,214	-475	-487
net interest expense	297	307	329	370	386	390
net income	384	570	507	440	-700	-690
cash from operations	1,093	1,209	1,296	1,310	1,058	1,116
capital expenditures	-412	-408	-433	-489	-520	-504
free cash flow	681	801	863	821	538	612
shares repurchased	-466	-667	-418	-140	-70	-13
dividends	-356	-408	-434	-474	-494	-497
net acquisitions	-320	-216	-251	-776	8	-22
total debt	6,812	7,338	7,926	8,441	8,387	8,645
cash and cash equivalents	273	357	754	656	524	393

*Except adjusted Ebitda margin.
**Includes a $1.4 billion non-cash goodwill impairment charge.

sources: company reports, the Bloomberg

"Everyone in the industry wants to see that kind of competition, but the problem is that, for a company to build up market share, it needs to invest heavily to have a perfect product. Then you need to persuade every [advertising] agency and every media owner who are on staggered seven- or multi-year contracts with Nielsen. The clients can't get out of that contract, so they need to pay extra, or the newcomer then has to give the service away. So, no revenue for seven years and ongoing investments. So let's just say you sign up half the agencies and then half the media owners. All Nielsen needs to do is say, 'Oh well, we'll do exactly what this is,' and that just kills the competition."

Then there's the competition from the new breed of direct-to-consumer vendors. Legacy big brands have felt it keenly, and Nielsen has shared their pain, as the likes of Casper Sleep, Inc. seek customers on social-media platforms, rather than from the viewing pool of the CBS Evening News.

But maturing direct-to-consumer firms are encountering diminishing returns on their digital outlays. On June 17, the *Journal* reported a 60% jump in TV ad spending by DTC companies last year, to $3.8 billion. Though still a minor portion of the $70 billion market, it's nonetheless an encouraging omen.

"Yes, Netflix, Inc. and other new platforms do pose a competitive threat to traditional TV," Santin observes, "but more than 300 million people aged two and older can walk by the tube and turn it on. And while they may watch less of it, Nielsen's recently stable media results suggest that the company's pricing power can generate adequate cash flow for years to come."

It's a testament to Nielsen's adaptability that it crunches streaming data on behalf of Netflix, Amazon Prime Video and Hulu. Competitors may easily and cheaply measure digital viewing, and Netflix et al. can self-report. But for unbiased information on ad-viewing habits, complete with demographic detail, Nielsen's home-installed monitoring devices and conscientiously helpful consumer panelists remain state-of-the-art. And while Netflix may carry no ads, content suppliers like NBCUniversal and Walt Disney's ABC want to know who's watching.

Disney and AT&T's HBO are expected to launch brand-new streaming platforms this year. The fragmentation of this market may offer Nielsen another opportunity to shine.

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On Sept. 12, 2018, Nielsen disclosed that it was exploring the possibilities of "continuing to operate as a public, independent company; a separation of either Nielsen's [media or consumer-products] segment; or a sale of the company." The market barely shrugged, with the shares closing at $26.72. If the announcement were a gift horse, investors demanded to look inside its mouth.

On July 31, in connection with disclosure of second-quarter results, CEO David Kenny said the board would reveal details of the "outcome and the go-forward" plan on the day it divulged third-quarter earnings. Again, there was scarcely a speculative twitch, with the stock closing at $23.16.

Proponents of the strong-form efficient-market hypothesis may stop and stare at these facts. They would probably say that a fully aired catalyst loses its power as soon as it hits the airways. Not so in the case of Nielsen. Unless we bulls are wrong (it's happened before), the efficient-market devotees will soon have a nonconforming case study to try to explain.

Businesses evolve, especially when investment-banking fees help to drive that evolution. Nielsen, as mentioned, went private in a 2006 leveraged buyout. Having survived the financial crisis carrying nine turns of leverage on its back, the company went public again, in 2011, delivering a three-fold return to its half-dozen LBO promoters. "Of course," Santin adds, "unlike wine, mature businesses typically do not age well, but perhaps this recent experience provides some comfort for those wary of the macroeconomic outlook."

Nielsen's price-to-earnings valuation—a relatively low 11½ times the 2019 estimate—is less informative than its enterprise value. EV, you'll recall, is defined as equity market cap plus debt minus cash. It's a better measure for leveraged companies like Nielsen, in which debt constitutes 56% of the sum of those three magnitudes. At 8.8 times adjusted Ebitda, the company is valued at only slightly more than half the 14.2 times average at which it traded after its 2011 re-entry into the public stock market.

We say "only." Businesses not dissimilar to Nielsen, albeit with lower margins and revenues, have changed hands at lower multiples. Information Resources, Inc., for instance, a U.S. competitor to Nielsen focused on consumer-products data, was dealt in November to p.e. firms for a consideration in excess of 13½ times adjusted Ebitda, according to our estimates; IRI's Ebitda margin is a slim 12%. In July, Bain Capital L.P. announced that it was buying a 60% stake in London-based Kantar Group, another Nielsen competitor, for $4 billion, or 8.2 times 2018 Ebitda; Kantar showed an Ebitda margin of 24%.

Compare and contrast such subscription-based publicly trading firms as Moody's Corp., FactSet Research Systems, Inc. and Equifax, Inc., which are quoted at 20, 21.2 and 17 times enterprise value to adjusted Ebitda, respectively. These three do, indeed, deserve some premium to Nielsen as they post better Ebitda margins than Nielsen's: 48%, 35% and 34%, compared with the aforementioned 29%.

Thomson Reuters's Refinitiv, in which a consortium led by Blackstone Group L.P. bought a majority interest in October 2018, paying 16 times Ebitda, provides another comp. On July 29, the London Stock Exchange Group put its own stamp on the Refinitiv transaction with a bid to acquire the whole shooting match for $27 billion, representing about 12 times 2019 adjusted Ebitda after claimed synergies. Refinitiv's Ebitda margin of 30% tops Nielsen's by 100 basis points.

And—finally—Dun & Bradstreet Corp., another business-data firm with similar margins (and which happened to own Nielsen until the 1990s), was taken private in February at a 12.3 times multiple; a private-equity group including Thomas H. Lee Partners, L.P. did the honors.

"One possibility is that the ongoing 'strategic review' will result in the sale of the CPG-oriented business while current Nielsen shareholders maintain ownership of the remaining media company," Santin speculates. "If so, and assuming that the CPG business fetches an 8.2 times Ebitda valuation, in line with Paris, France-based competitor Ipsos Group S.A., Nielsen would be left with the 43% Ebitda-margin media business. If that stub were to eventually re-rate to a 15 times multiple, more in line with its higher-valued data peers, Nielsen's stock would be worth $46.79, or 128% above the current price for the entire company."

The past 12 months saw one insider transaction, a sale in the sum of $174,000 by Comptroller Jeffrey R. Charlton on Dec. 3, at a price of $27.46. The ongoing sale process is likely to have made insiders ineligible to trade—and less willing to come to the phone to speak with *Grant's*. In any case, the sell-side crowd is mostly bullish with 11 saying buy, six hold and one sell.

Activist investment manager Elliott Management Corp. effectively owns 18.1 million Nielsen shares, or 5.1% of the float. It bought its initial stake in July 2018 at roughly the current price. Elliott, which signed a confidentiality agreement with Nielsen on account of its being made privy to nonpublic details of the grand strategic review, is naturally restricted from trading the shares of the company it knows better than anyone outside the inner Nielsen circle. According to a 13D form filed with the Securities and Exchange Commission on Aug. 16, Elliott deems the stock to be "substantially undervalued."

Grant's, unrestricted, is of the same mind.

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