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Nielsen Holdings PLC's (NLSN) CEO David Kenny on Q3 2019 Results - Earnings Call Transcript

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Q3: 11-07-19 Earnings Summary

Press Release *Slides*

EPS of $0.51 beats by $0.09 | Revenue of $1.62B (1.00% Y/Y) beats by $10.15M

Earning Call Audio

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Nielsen Holdings plc (NYSE:NLSN) Q3 2019 Results Earnings Conference Call November 7, 2019 8:00 AM ET

Company Participants

Sara Gubins - SVP, Investor Relations

Jim Attwood - Executive Chairman

David Kenny - Chief Executive Officer & Chief Diversity Officer

David Anderson - Chief Financial Officer & Chief Operating Officer

Conference Call Participants

Andrew Steinerman - JPMorgan

William Warmington - Wells Fargo

Toni Kaplan - Morgan Stanley

Todd Juenger - Sanford Bernstein

Tim Nollen - Macquarie

Manav Patnaik - Barclays

George Tong - Goldman Sachs

Dan Salmon - BMO Capital Markets

Matthew Thornton - SunTrust

Ashish Sabadra - Deutsche Bank

Operator

Ladies and gentlemen, thank you for standing by and welcome to the Third Quarter 2019 Nielsen Holdings PLC Earnings Conference Call. At this time, all participants are in a listen-only mode. After the speakers' presentation, there will be a question-and-answer session. [Operator Instructions] Please be advised that today's conference is being recorded. [Operator Instructions]

I would now like to hand the conference over to Sara Gubins, Senior Vice President of Investor Relations. Please go ahead.

Sara Gubins

Thanks, Denise, and good morning, everyone. Thank you for joining us to discuss Nielsen's third quarter financial performance and the outcome of our strategic review. I'm joined by Chairman Jim Attwood; our CEO, David Kenny; and our CFO and COO, Dave Anderson. A slide presentation that we'll use on this call is available under the Events section of our Investor Relations website.

Before we begin, I'd like to remind all of you that our remarks and responses to your questions today may contain forward-looking statements, including those about Nielsen's outlook and prospects that are based on Nielsen's current expectations. Our actual results in future periods may differ materially from those currently expected because of a number of risks and uncertainties, including those identified in the Risk Factors section of our most recent annual report on Form 10-K and in subsequent reports filed with the SEC, which are available on our website. We assume no obligation to update any forward-looking statements, except as required by law.

On today's call, we will also refer to certain non-GAAP financial measures. Reconciliations of these non-GAAP financial measures to the most comparable GAAP measures are available in the earnings press release, which is available at the Investor Relations section of our website at Nielsen.com. [Operator Instructions]

And now to start the call, I'd like to turn it over to our CEO, David Kenny.

David Kenny

Thanks, Sara. Good morning and thank you all for joining the call today. Let me run through the key agenda items. First, as we've all been waiting the outcome of our strategic review, following an extensive review process. The Board of Nielsen concluded that separating our businesses, Nielsen Global Media and Nielsen Global Connect into two independent publicly traded companies is the best path to position each of our businesses for long term success and to maximize more value.

Since we began that review over a year ago, both businesses have improved their products and their operating discipline. We are confident that by creating two independent companies, the separation will accelerate our improvement and allow each of these businesses to pursue their unique operational and strategic priorities.

In conjunction with the strategic review we also reviewed our capital allocations framework and both Jim and Dave will talk more about this. And then I'll come back to talk about the path forward for Nielsen Global Media and Nielsen Global Connect. After that, Dave is going to review our financial opportunity for each business and then review our third quarter results, which once again reflects strong execution by our associates around the world.

I am happy to say that both Media and Connect revenue were ahead of our expectations and adjusted EBITDA is on track. We are reiterating revenue, margin and free cash flow guidance and we are raising our 2019 adjusted EPS guidance. This solid performance is a testament to our associates around the world who focus on execution every day. I want to thank all of them for their hard work and dedication. Given the strategic review, our remarks will be longer than normal today and we will stay on to take your questions.

We believe that both Media and Connect will be better served by operating independently. Let me explain. Media and Connect are each essential to the markets they serve, the Media and advertizing sector and the retail and FMCG economies respectively. These are fundamentally different businesses with different financial profiles, different people, different tech needs and different end markets. Each of the businesses is undergoing a transformation, but they take different forms and require unique investment and focus.

In Media, Nielsen is the leading global independent arbiter of truth and the established trading currency across the media landscape with a growing global footprint across a $600 billion advertizing market. These media markets are changing rapidly and we must continue to invest to drive our digital transformation and global adoption. Media is a scalable, largely syndicated business with a high level of recurring revenue and attractive margins.

In Connect, Nielsen provides critical market share measurement and analytics to FMCG manufacturers and their retailers. Connect is the only provider with a truly global footprint supporting $7 trillion in global grocery spend across over a 100 markets. We have been investing in initiatives such as the Nielsen Connect Platform and retailer collaboration and those investments have strengthened our competitive position. We are also investing in backend efficiencies and automation to drive productivity, speed and quality.

Operating these as two separate companies will put each team in a much stronger position to drive decision making with velocity, respond to changing market demands and push key initiatives forward to better serve our clients and accelerate their transformations. I am very excited about the opportunities in both businesses and I remain focused on both businesses. After the separation, I will remain the CEO of the Media business.

In the meantime we have begun a search for the Connect CEO and we have since some internal candidates as well as external candidates. Meanwhile Dave is going to focus his COO time as COO of Connect to ensure that it is fully prepared for a successful spin while continuing his CFO duties across the entire enterprise. We will update you on other key management and governance developments in due course.

Let me now turn the call over to Jim on behalf of the Board, so that he can provide further insight into the strategic review aspects.

Jim Attwood

Thank you, David. On behalf of the Board we've been very pleased with the Nielsen leadership team over the past year. Under David and Dave's leadership we've seen a strong track record of execution with improving fundamental and increased financial and operating discipline to drive greater accountability. With the support of the leadership team and our outside advisors we've had a very active and comprehensive strategic review process, which also included an in-depth analysis of our businesses, strategies and market opportunities.

We evaluated a broad range of alternatives, including continuing to operate as a public independent company, a separation of the businesses, and the sale of the entire company. The Board unanimously concluded that separating Nielsen's two businesses is the best path forward to enhance strategic focus, growth and long-term shareholder value.

As independent companies, both Nielsen Global Media and Nielsen Global Connect will have added flexibility and will strengthen their path forward toward the new phase of growth, productivity and industry leadership. As we work on the separation, we've been developing fit for purpose capital structure targets for both companies. The Board believes that now is the right time to adjust the dividend in order to strengthen the two prospective balance sheets ahead of the separation and provide flexibility to invest for growth.

With the strategic review now concluded, I will return to my role as Chairman of the Board. As you know, I had taken on the role of Executive Chairman in July 2018 to oversee the strategic review and the CEO search, both of which are now completed.

To close, I also want to thank Nielsen's leadership team and every associate around the world for their dedication and the remarkable ability to deliver during this process. Dave will now review the separation considerations.

David Anderson

Good morning, thanks Jim. Let's turn to Slide #7. So a couple of headlines here relative to the separation process. First of all, we expect this transaction to be tax-free to Nielsen and its shareholders for U.S. Federal Income Tax purposes and it will also meet UK legal requirements. The stock distribution ratio will be determined at a later date. Now we expect to complete the transaction within 9 to 12 months, work is well underway and we're going to be transparent as possible through this process. And during this time we will focus on positioning each business to be successful as separate companies while also working to minimize the distraction for our clients and also the Nielsen Associates.

Key next steps to completion include developing standalone financial statements for each business, separating the businesses from a legal and operational standpoint and then of course the capital structure and governance considerations. We've also looked at the historical commercial relationships that exist between both businesses. We believe we can continue those through arm's-length agreements. We believe we have the resources necessary to complete this separation successfully and stand up each company from a position of strength.

Closing conditions will include among others, favorable rulings and legal opinions on tax matters, the effectiveness of the registration statement for the shares of the new company that will be distributed to Nielsen's shareholders, and final approval by the Board of Directors and Nielsen's shareholders. And as Jim mentioned, the Board has decided to change our capital allocation policy which will enable Nielsen to strengthen its balance sheet and invest in growth. So we have adjusted our quarterly dividend to $0.06 per share effective this December. This is also a key component of achieving the desired leverage ratios for each business at the time of the spin.

Now over time, we see different target leverage ratios for each business with a median term leverage goal of roughly 3 to 3.5 for Media and approximately 2 to 2.5 for Connect. Again, those are our best views at this time. We expect to refine those in more detail as we go through the separation process. And while there are going to be some one-time costs to effect the full separation and spin, we expect the ongoing incremental standalone and public company costs to be manageable.

And with that, let me turn the call back to David.

David Kenny

Thank you. So I've been at Nielsen's for 11 months and I wanted to share some views on what I've learned in Media and what we've accomplished and where we are going. I'd say in Media trusted data has always been and remains critical. The changing dynamics including growing complexity, mistrust, data leakage, fraud, et cetera, are creating an even greater need for trusted data and Nielsen is foundational therefore to bring trust to the Media markets. One Media truth is absolutely critical to creating a fair playing field in Media and only Nielsen can provide that [indiscernible] quality.

We've made significant progress in our digital transformation over the past several years, now we need to invest further and go faster. Clients want one measurement definition across digital and TV. They want our data to feed into planning systems that can help allocate their medial spend and they are looking to understand the ROI in that spend with outcome metrics. We've accomplished a lot towards that goal in 2019.

We've met our expectations every quarter this year. We've aligned our technology and operations to drive end-to-end accountability that we're organized for speed and scale. We have detailed product roadmaps and a plan for true consistent digital and TV measurement. We are also investing in our addressable TV platform which is important to the industry long term and we've identified the opportunity for international expansion and how to go after it.

Nielsen has an essential role in the Medial ecosystem. The actions we've taken in 2019 strengthen our position. We have demonstrated our ability to respond to change along with the market which includes the tremendous progress we've made towards being the digital currency.

As the market evolves, clients are looking for pervasive digital measurement that’s aligns with linear reliable planning and optimization tools that are easy to use. That's what we're building and we're investing to move with greater velocity. That investment is in three strategic pillars. First, Nielsen measured the total audience.

Consumers have more viewing and listening options and Media in order to have more ways to monetize their assets than ever before. We're focused on the one thing that is constant, the audiences. We are pushing forward with our digital initiatives such as true cross media products brining to the industry a single comprehensive audience measure that supports multiple business models for monetization.

Our product roadmaps are focused on delivering pervasive and consistent digital measurements providing clients with greater transparency around monetization, while helping Nielsen continue to drive the industry's currency. We are leveraging our investments in great [indiscernible] and so into the Media to bring the same level of transparency and scalability to addressable television, the target ads on a segmented basis.

Second, we're investing to predict and measure outcomes. Our audience data and artificial intelligence tools are [indiscernible] planning across platforms providing transparency into our cross Media plan. We're integrating those outcomes based solutions enabling clients to make performance based decisions in a large-scale way. Our dual focus on audiences and outcomes will enable the market to transact more efficiently. Advertisers will have greater transparency about what is working, agencies can build more effective plans, and publishers can better demonstrate the value of their inventory.

And third, we are expanding our global presence in both existing and new markets. Digital is a big part of the global opportunity, but I will include TV and audio as well. We are unifying our go-to-market strategy and product offerings across our international markets. These roadmaps support the future of Media ensuring our ongoing relevance and central importance as one media truth globally.

We have a clear roadmap in place to deliver this growth and value. 2019 has been about starting to build a new foundation. We understand the clients are facing big shifts in their businesses in the move to direct-to-consumer models and addressable. I gave two examples. And Nielsen is investing where the market is headed. This creates new opportunities for faster growth over time and highlights the importance of these investments to drive one media truth across all monetization models. We expect these investments to deliver mid single digit revenue growth over the next several years as Nielsen becomes the true cost platform currency and drive faster growth in analytics.

So sum up on Media, there has never been a more important time for one media truth. Clients are looking to transact in new and different ways and we are enabling them to do this with trust which drives value for our clients and also for our shareholders.

Now let me turn to Nielsen Global Connect and that's a very exciting business. Connect is the only truly global player in a growing market with a 9-decade history serving the FMCG and retailer ecosystems. Evolving market dynamics are creating even more opportunities. We are the sole measurement provider in the majority of our emerging markets where we also benefit from macros trends. FMCG and retail clients are seeking more data driven solutions to help them compete and Nielsen has the actionable data and decision making tools to help them in a innovate and grow.

Our ability to do so increases as we further deploy the Nielsen Connect platform which is the only truly open cloud native measurement and analytics platform and this enabled clients to work with one data shoe set across their entire global organizations. The Nielsen Connect platform has opened us up to work with strategic partners across the landscape. This open platform is a key competitive differentiator.

Nielsen uniquely has data partnerships with leading retailers across brick-and-mortar and e-commerce and the Nielsen Connect platform allows us to work with more than 65 data and analytics companies in our Connect partner network. We have strong technology partners that support and provide a solid foundation for Nielsen Connects backend. All of these partnerships allow us to build, deploy and scale innovative solutions, with the velocity required to stay ahead of our client need in an open and interoperable ecosystem.

What's next for Nielsen Connect? We have four strategic pillars we're investing against. First, focusing on a broad and accelerating deployment of the Nielsen Connect platform. This includes recent launches at UNFI, the premier food wholesaler in North America and Coca-Cola. These and other clients view our data and cloud based technology as important levers that benefit their businesses. This is an important driver of renewal discussions and client wins.

For example, we recently renewed with P&G in the United States as well as a global partnership with General Mills. Second, we're broadening our coverage and granularity to measure the total consumer. This includes the fast-growing emerging markets and includes e-commerce, specialty channels such as Pets. Extending our omnichannel coverage is a key priority. Third, Nielsen is strengthening and expanding our retail partnerships.

Our retail collaboration programs enable efficiency for manufacturers and growth for retailers as well as interest in a broad range of our capabilities. Retailers are increasingly looking for real-time analytics in areas like pricing, promotions, and personalization analytics. The Connect platform enables us to deliver scale, all lean on analytics which address their needs. And finally, the transformation of our Connect business has a big operational cost reduction opportunity as we drive automation and close down legacy systems.

To sum up on Connect, we have a strong foundation, unique global reach and scale. We have initiatives in place to improve our performance and achieve greater potential for shareholders and clients.

With that, I'll turn the call back to Dave for the financial discussion.

David Anderson

So what I'd like to do is, take you through a summary financial view of each of the businesses before going into greater detail on the third quarter performance and our updated 2019 outlook. So, turning to Slide #18 let's start with Media. On the left side of the page is just a snapshot of our 2018 Medial financial profile and our 2019 forecast. The 2018 numbers are consistent with our current reporting. They don’t include any other costs of operating some standalone business. The Media has of course delivered low single digit organic growth over the last several years and it has continued its strong profit generation.

On the right side I've shown medium term targets for the business at a summary level. Through 2023 as a result of investments we're making and the key initiatives that David referenced we expect mid single digit organic compound average growth rate. This would result in a growth profile that is in line with the Media market and the Information Services peers. We're investing in product roadmaps that align where the market is headed.

Our growth investments will build over time or anticipating low single-digit revenue growth through 2021 with revenue ramping to mid single-digit growth in 2022 and beyond as the investments in digital enhancing TV measurement addressable predicting measuring outcomes and driving international growth faster. The Media business has attractive margins. We're going to invest to drive accelerated growth over time as well as continue to drive productivity.

Now over the last several years, turning now to Slide 19, the Connect business has been challenged largely in the U.S. which is roughly a quarter of the total global Connect revenues. We're intensely focused on improving the trajectory of the U.S. business and driving improved operational performance across the business globally. We've begun to make progress. It is showing up in our results. Organic revenue growth excluding one timers was negative in 2017 and 2018, that has turned around. We expect comparable revenue to grow with margin expansion in 2019.

On the right side of the page regarding medium-term targets, we expect Connect revenue growth to improve as the U.S. turns around. We also expect steady trends in other developed markets and accelerating growth in emerging markets helped by an improvement in China. This should yield a low single-digit organic CAGR through 2023. And improving topline along with productivity and operational efficiency initiatives should drive significant margin expansion.

Importantly, we are on course with a number of key initiatives including throughput at our super hubs, automating field operations and delivering scale product offerings via the Nielsen Connect platform. We're targeting adjusted EBITDA margins in the high teens over the next several years excluding any standalone cost following the separation.

So with that summary perspective, let's now go to Slide 21, talk about the third quarter and the rest of 2019. First, we're obviously pleased with results for the third quarter, which were ahead of our expectations. Total company revenue which you can see increased 2.4% on a constant currency basis, which compares to our expectation of being up slightly. We saw solid trends in Media and Connect in the third quarter with Media growing slightly. We saw solid trends in Media and Connect in the third quarter with Media growing, and Connect flat year-over-year on a constant currency basis. Revenue increased 1.9% on an organic constant currency basis and if we exclude the carryover effect of some one-time items in prior periods, organic revenue grew 2.4%.

For the third quarter adjusted EBITDA was $476 million up 1.7% constant currency and adjusted EBITDA margins were 29.5% up two basis points reported down 20 basis points on a constant currency basis. This is slightly better than our expectation of margins in the third quarter. Now these margins benefited from positive performance and productivity, partially offset by investments in new products and technology, as well as investments in our people.

The GAAP third quarter tax rate was well below our prior forecasts. Last quarter, you may recall that I mentioned we're anticipating the conclusion of several tax audits in the second half. In the third quarter we resolved a number of these audits resulting in the closure of various statutes of limitation. Consequently, we released approximately $409 million of tax contingencies and after you adjust for this our 18.6% book tax rate in the third quarter includes other discrete tax items.

Adjusted EPS was $0.51 compared to $0.45 in the third quarter of 2018 reflecting a higher EBITDA and also the tax favorability I mentioned, partially offset by higher depreciation and amortization year-over-year. Free cash flow in the quarter was $301 million, compared to $266 million in 2018 reflecting strong collections in the quarter and I have to –hats off really to the team who put a lot of focus on this in the quarter, they did a terrific job. Year-over-year we also had lower restructuring, higher taxes due to one-time payments, but also lower CapEx. So overall, the third quarter results reflect continued solid execution and tremendous work across both Media and Connect.

Now let's just go through the highlights of each segment starting with Media on Slide 22. Revenue for the third quarter for Media was $870 million up 4.6% on a constant currency basis. Media outperformed our expectations, partly driven by higher than expected growth in digital and lower than expected declines in local. Audience measurement was up 4.7% constant currency, Plan/Optimize was up 4.2% constant currency.

Media's adjusted EBITDA was $381 million, up 1.6% constant currency and the margins for the business for 43.8% down 128 basis points in constant currency and again in line with our internal expectations. We're investing in Media's core franchise and growth drivers, but also getting the benefit of productivity.

Let's go to Slide 23 with Connect, third quarter Connect revenue $746 million flat with last year on a constant currency basis. Measure was down 0.4% constant currency, Predict/Activate was up 0.9%. I'd note that the third quarter Measure revenue was impacted by timing and some revenue expected in the third quarter shifted into the fourth quarter.

Developed markets for Connect were up 3% constant currency, emerging markets revenue was up 5% in the third quarter. Connect adjusted EBITDA was $109 million up 1.9% year-over-year constant currency. And EBITDA margins were 14.6% up 27 basis points constant currency driven by productivity initiatives.

Next, let me touch on the noncash impairment charge we took in the third quarter related to Connect. As part of the strategic review during the quarter, we performed an updated assessment of Connect recording unit, which led to a noncash goodwill impairment of $1 billion in the third quarter or $2.82 a share. This has resulted in an updated carrying value for the business of $2.6 billion approximately, including cash.

Let's now turn to our outlook for 2019. On Slide 24, we're maintaining our 2019 guidance for revenue adjusted EBITDA and free cash flow and we're increasing our adjusted EPS. Our guidance includes total company constant currency revenue of approximately flat to up 1.5%. We continue to expect to be at or above the midpoint of the 28% to 29% adjusted EBITDA and margin range for the full year.

The margin is going to be driven by significant productivity, again partially offset by reinvestment in the businesses. We’re increasing our adjusted EPS guide for the year from $1.70, $1.80 range previously to $1.77 to $1.83. This includes the 4Q tax rate assumption of roughly 40% before discrete items as we expect some discrete items in the quarter. We've lowered our restructuring guidance from previously $145 million to $155 million for the year to now $80 million to $100 million.

We've achieved our productivity targets on lower restructuring this year, and we expect restructuring spend to ramp, although we expect some restructuring to ramp somewhat in the fourth quarter, the full year should be below our previous expectations. And lastly, we continue to expect free cash flow to be in the range of $525 million to $575 million. As we discussed, key drivers compared to 2018 include lower incentive compensation payouts and also lower retail payment -- retailer payments, offset in part by higher net cash interest and cash taxes.

So before going into more detail in the segment outlook, let me just make a few summary points about our fourth quarter expectations. We expect the fourth quarter constant currency year-over-year revenue growth to be lower than the third quarter. For the fourth quarter we expect margins to be flat to up slightly year-over-year, and we continue to see the benefit of productivity which provides support for investment in growth initiatives.

We expect fourth quarter cash flow to be down year-over-year against a particularly tough comp in the fourth quarter of 2018. EBITDA the cash conversion remains a focus, and obviously a significant opportunity for the company. We're going to continue to focus on improving contractual terms, collection practices as we go forward.

And then finally, let's turn to Slide 25. The segment outlook first Media, we continue to expect Audience Measurement to be at the high end of the 2% to 3% range -- growth range and Plan/Optimize to be at the low end of the 1% to 2% range. I'd note that the Telecom business that surprises to the downside this year, there could put incremental pressure on Plan/Optimize.

In Audience Measurement, our full year guide suggests slower growth in the fourth quarter versus the third quarter, due in part to greater pressure in local in audio that helped third quarter, but doesn't repeat in the fourth quarter and the anticipated slower growth in national.

In Connect, we continue to expect Measure to be at the high end of the minus 1%, to plus 1% range for the year and Predict/Activate to be in the previously provided minus 4% to minus 2% range for the year. And I mentioned some timing shifts, I mentioned that earlier from 3Q to 4Q, which will help the growth rate in Measurement in the fourth quarter.

So in summary, we're confident in our plan. We have a strong commitment to deliver on all fronts. We're obviously seeing tremendous commitment and execution by our management team and associates globally. We look forward to updating you on our continued progress as we go forward.

And with that, let me turn it back over to David.

David Kenny

Thank you, I know there are thousands of my Nielsen colleagues with me, this around the world and we really want to thank each and every one of them. The fact that the company rallied, got operating discipline, delivered its numbers, delivered clean quarters, gave us all a lot more confidence in looking at our options. And I think the Board really appreciated that because while we looked at a number of options, the Board concluded unanimously that separating Nielsen Global Media and Nielsen Global Connect into two independent, strong, publicly traded companies is the best path to enhance strategic and financial success to drive long-term value.

This separation is going to unlock value of two strong global franchises. Nielsen Connect and Nielsen Media each have a clear plan and key initiatives in place to improve revenue, profits and free cash flow, as independent companies over time. This separation is going to allow focused and faster decision making, which allows us to accelerate our transformations. We are targeting completion of the separation within nine to 12 months.

And with that I'll turn it back to Sara.

Sara Gubins

Thank you, David. Denise, we're now ready to open up the line for Q&A.

Question-and-Answer Session

Operator

[Operator Instructions] Your first question comes from Andrew Steinerman with JP Morgan. Your line is open.

Andrew Steinerman

Good morning. I wanted to first thank you for sharing all of your plans and insights on the two businesses, really great to hear your views. I wanted to get a little sense on the margin outlook from each of the Media and Connect business. Do you feel like the level of reinvestment ahead a really will need to gross margins to go lower before heading towards the longer-term margin targets that you laid out on slide 18 and 19?

David Anderson

Andrew, this is a really - this is Dave. This is a really good question. Obviously, we're working real time through all of that. We're very focused - we've been very focused obviously on the culmination, the completion of the strategic review and really setting the stage as David said for two businesses to be very successful. We are now working through our 2020 and 2021 numbers, it's very much a work in process. So we will be back to you in terms of providing more insights in terms of that question.

Andrew Steinerman

Okay, thank you.

Operator

Your next question comes from Bill Warmington with Wells Fargo, your line is open.

William Warmington

Good morning everyone. So a question for you on the Connect side. There back at the last Investor Day, there were a lot of some pretty significant cost saving opportunities that had been laid out at that point. And I was hoping that you could talk a little bit about where do you think those cost saving opportunities is still there, and how they fit into your comments about seeing potential for organic growth and margin expansion in Connect next year?

David Kenny

Yes, Dave do you want me to, you want me maybe just to start that and you can add. I think, first of all our focus you'll recall, we did a refresh as we prepared the 2019 plan very, very much focused on both, labor and non-labor productivity.

We're absolutely on track with those numbers. We've created significant process discipline in the organization. We've really benefited from that. Again it's - you'll recall the 370 basis points of gross productivity that we've targeted. So we're executing against that. We put in place activities, disciplines, tracking within the organization that really gives us confidence.

We again will update as we do the 2020 outlook in more detail at the beginning of the year. We will give you updates in terms of how that looks then on a go forward basis as well as a longer term perspective on that. But right now, the thing I would say it's just really encouraging, is the fact that we've got so much that's in flight, and is showing up in terms of our performance. David, anything you'd want to add?

David Anderson

Yes, I wasn't here for the Investor Day that you're talking about. We need a new one next year on this business. I think it's - but what I would say is impressive about Connect is that we're focused on what I would call it sustainable productivity. I think there were some blanket cost reduction actions. But what we're doing now and I've seen is when we roll out new technology, when we combine things into super hubs, when we automate the way we collect data, we're actually able to use technology to have productivity that is sustainable, as opposed to just reducing headcount and asking people to work harder. So I feel like we've got a real sustainable, renewable, subscription based approach to productivity now, more like an information services business should be, so it's much more sustainable.

William Warmington

Thank you.

Operator

Your next question comes from Toni Kaplan with Morgan Stanley, your line is open.

Toni Kaplan

Thank you. As Connect spins off, could you talk about how we should think about this synergy, so in addition to extra public company costs, I'm sure there's going to be some, I guess, shared real estate or overhead and you may not want to give a number, but could you just help us think about what the pieces of the synergies will be? Thank you.

David Anderson

Sure. Yes as I mentioned, Toni, there's going to be obviously some onetime costs. It's true we provided a specific number on that. But regarding a question on the synergies and the standalone, we worked earlier this year significantly under David's leadership and direction to align the businesses end-to-end. So the separation work now is going to be really largely focused on back office, the tech platforms and also real estate.

In addition, there'll be some incremental costs, which will include some public company costs and IT, et cetera. But we anticipate these are going to be relatively small on an ongoing basis? So I think that's part of it, it's a good question, and it's part of the math in terms of looking at this strategy, and it's supported this strategy that we think those are quite manageable on a go forward basis.

Toni Kaplan

Thank you.

Operator

Your next question comes from Todd Juenger with Sanford Bernstein. Your line is open.

Todd Juenger

Hi. Good morning, I thought one thing that stood out to me and I'd love to hear more about is, you cited several times an opportunity on the Media side, international, in terms of the growth opportunity, and I guess somewhat surprised to hear that for a couple reasons. First, I don't think you have a lot of the assets internationally, especially the panels that give you the position that you have in the states. And so I wonder if you believe you can provide a solution without those assets, or do we need to build those things?

And then secondly, as you know, the way the market works in a lot of countries is very different with these joint industry commissions and stuff. And so it's a tougher market, it seems and a lot of ways. So I'd love to hear why, if you could share a little more about how maybe specifically you see some of that opportunity and what the investment requirement is given some of the factors that I put out there, or maybe I need to be educated on the markets. Maybe they're different than what I think, thanks.

David Kenny

Yes, so it's a good question, Todd, here's what I think is happening. Total Audience is a combination of linear and digital as you know. The digital platform and we partner within digital partners our platforms are more global businesses. And that digital platform including the panel components of digital ad rating, can go first. So I think it doesn't always have to go linear digital and then total it can actually go digital partner with linear and then get to tell us so there's a different route to go on the Measurement side.

And I would say we're increasing finding ways to partner including with [indiscernible] and as you mentioned in some of the markets in order to cover that. We are the digital currency today in 39 markets that folks like YouTube use us in those markets. So we're establishing the currency digital first. I would also say if you look at the trend, digital is becoming the leading way that content is distributed. So as we bring in, I think, really superior technology on independent digital measurement, we bring in superior technology, streaming measurement, this is going to be important on a global basis.

Then the second layer I talked about was how we get to outcomes. I think having the metadata platform of [indiscernible], which is a global business, having much of our analytics business work globally, is also helping us. So we've got a good chunk of the business working globally today, we can double down it. And I would say, as we've looked at each market, we've built a path to get to that total audience vision. It's not exactly the same path we followed in the U.S. or [indiscernible] couple of markets where we've gone the sort of linear outlook, but we're getting to the same endpoint and getting that over the next few years.

Operator

Your next question comes from Tim Nollen with Macquarie. Your line is open.

Tim Nollen

Oh, hi, thanks. And I'll echo the thanks on the thorough and concise presentation. The question I have is also on the synergies, but it's not so much about real estate costs or whatever. Nielsen and what used to be AC Nielsen have been together and apart and together and now apart again, at least a couple of times over the last couple decades or whatever.

My question is, in terms of the operations, I mean, it seemed when the two companies recombined many years ago, there was an argument that they belong together because there were lots of things they could work together on and comparing media and exposure with product purchase decisions, et cetera, develop this marketing effectiveness tool, which was very successful for some time. So my question is, in terms of operations, what would the dis-synergies now be separating? I clearly think it's probably not such a bad thing, but I just wondered if you can give us a bit more color on what you could still do together even as separate companies or what you might lose being separated? Thanks.

David Kenny

Yes so thanks, Tim and yeah certainly I've watched outside the company, having worked with both sides of it, exactly you're describing. Let me just be direct on that. Starting with client value, and you mentioned marketing effectiveness. There was a great thesis that if you measured years ago, you measure what people watch and you measure what people buy, you could correlate them and donate [ph] a better model.

So that would work if we measured everything people buy, but the connectedness measured CPG. You know maybe decades ago that was the majority of advertising today the CPG industry is 9% of the ad revenue in Media. So it is equally important that we provide marketing effectiveness in the auto industry, in the pharmaceutical industry, in the insurance industry, in the credit card industry, everybody who is advertising needs to actually build out those correlations.

And so, by separating the two it allows the Media business to focus on all industries and not over index on CPG, number one. I think secondly, as we focused on a number of those other industries we're beginning to build good data partnerships with other information service firms, to make things connect in order to be able to provide those outcome measures. We will continue to have a preferred relationship between Nielsen Connect and Nielsen Media to serve those FMCG companies and we've sorted that out so that those clients who use both for this will get that.

So I would say that the product is going to continue to work fine for CPG. But more importantly, the media business is going to focus I think, much more aggressively on serving all industries, which gives it a real growth opportunity, on the outcome side of media business, so that's one. And then I think, secondly, if you talk about cost synergies and operations, I actually think there was just economies of scale when I arrived when we tried to do too much at the common back, end.

Part of what we learned in the strategic review, it's very different to run an operation that support the rating service than the operation that supports FMCG by separating the two operations, which I did when I first got here, part of the reason we've enjoyed solid performance, part of the reason we're hitting our numbers, part of the reason that we're able to raise our guidance, again this quarter is because we actually broke them apart. Having clear line of sight between the front end and product and the back end operations is more important than putting them together.

So I actually think sometimes when you combine things, you make them work, and I think that was the case here, separate operations is working much better.

Tim Nollen

Great, thanks that's right.

David Anderson

If I would just add to that – I'll just add to that quickly just also the benefit just to reinforce what we showed earlier. And what we've discussed is, you can see it showing up in the numbers. You can see it in the results, and you can see it in terms of the ownership of the

P&L by the business leaders, and increasingly, also the balance sheet and cash flow. So all of that I think is working together.

A - David Kenny

Tim Nollen

Thank you, guys.

Operator

Your next question comes from Manav Patnaik with Barclays. Your line is open.

Manav Patnaik

Thank you, good morning. So, broadly the plan that you've laid out to both Media and Connect sounds very familiar to what we've heard over the past year and even under prior management. So, I guess, I'm just curious, what is it about the spin that makes it more executable because it just feels like you're adding an extra layer of noise and work that probably makes this even harder. So I was just curious for your thoughts there?

David Kenny

Yes, thank you, Manav and listen – I do think this is largely about execution versus sort of great new strategies. Here is what I think is different, having the Connect business stand on its own, owning its entire P&L end-to-end, helps make better decisions. I think the trade-offs between what things we automate and what things we do with humans is important. I think the way we work, super hubs is right, the way we rollout technology is right. So having that all end-to-end, it got much faster iteration to move to that endpoint.

I think secondly, there is a big difference in actually having launched the connected system having an open platform that is truly differentiated. Clients who've done head to head comparisons with alternatives are 100% using the Connect system, because for many reasons, the part of it is because it's open and they can connect with their other tools. So I think there is real product differentiation that helps us as well.

So I think that Connect business is actually just going to fly at a much higher velocity of standing alone. Similarly, I think on the media business, having the ability to really focus on the investments to stay relevant is key. The changes in the dividend, the changes in our capital allocation, the willingness to invest in our future I think is a really important decision we've made with our Board. There are a few investments that are necessary to pull this off. We're going at those very deliberately, very, very disciplined way.

I think we're not throwing caution to the wind, but I think actually making sure we deliver the technology, the operational process, the end-to-end accountability, and the right talent is different. So I would say, I'm not arguing a different strategy. I'm arguing far better, far clear execution, and that will only be enhanced by being two companies.

Operator

Your next question comes from Jeff Muller with Baird. Your line is open.

Unidentified Analyst

Hi, Tim Pollock on for Jeff, thanks for taking my question. I appreciate the theory you gave around the leverage levels for media and connect the standalone businesses. But I'm wondering if you can provide some clarity on some of the cash flow profile of each and then kind of what you expect to catch those leverage targets?

David Anderson

Sure again, what we said those were medium term numbers, it kind of a rough kind of I think in terms of the cash flow profile. As we publish a report EBITDA for both and we also in our filings have CapEx for both businesses. So it's sort of simple math, but that's a way to look at it in terms of their respective cash characteristics. That said, as you've seen, we continue to get better just in executing, operationally and it's particularly evident on the Connect side of the business with the global nature of that business.

It really lends itself to focus and discipline in terms of particularly cash collections. We saw the improvement again in the quarter in terms of DSL improvement. We've seen that aggressively better over the course of the year. And so, we're going to continue to look at opportunities to just improve the cash generation for each, but particularly the upside opportunities to just improve the cash generation for each, but particularly the upside exists on a relative basis. The upside exists on the Connect side with margin expansion over time that I referenced, and also some of the working capital improvements that we're on track to deliver and we'll continue to deliver.

And then also a lower profile in terms of CapEx over time for the Connect business. So all of those are order well for getting to those leverage targets that I talked about in terms of midterm medium term targets.

Unidentified Analyst

Great, thanks.

Operator

Your next question comes from George Tong with Goldman Sachs. Your line is open.

George Tong

Hi, thanks good morning, you laid out up medium term targets for media to grow at a mid single-digit CAGR through 2023. And you had said that the path won't necessarily be linear. Can you help flush that out specifically, how do you plan to layer in your growth initiatives. And what external factors could perhaps prevent you from reaching growth that's in line with the broader media markets?

David Kenny

Yes, as think the way we're pacing it is – to make sure we have adequate strategy in the categories I talked about. So in certain investments to make sure we deliver media measurement across in OMNI channel plan and we're, we do that pretty well today. There are some places we might have some gap. I'd say on the outcome side we've got a number of pieces things we've acquired over time that will be going to invest to integrate this in your common platform.

And as I discussed earlier, those investments to make sure we're actually putting down bigger markers more aggressively on international markets. So in some cases, some of the investments a little ahead of the revenue, we're certainly making sure we've lined up the market before we do that. So it's not a huge investment waiting for them to come. But we're, pacing through that ambition. In terms of external factors and we always have the economy, which affects meeting everything.

But I think, part of what we're doing here with delevering is to make sure that we can withstand anything that goes on with the economy. I would say, on the on the client demand side, our client needs are changing. I spent a lot of time with our clients in media, but I would say our clients are leaning into us right now, because of this strategy and their belief that we're going to be really important for all the ways they make money in the future and not be completely, focused on linear.

So I would say, certainly our client business models are going to change and we're going to change with them.

George Tong

Got it, thank you.

Operator

Your next question comes from

Operator

Your next question comes from Dan Salmon with BMO capital Markets. Your line is open.

Dan Salmon

Hey, good morning, everyone. I apologize. I've been back and forth between a couple calls, but I just want to follow up the dividend, I believe would stay with Nielsen Media and that Nielsen Connect, I think would spin off without an established dividend policy. If I could just clarify that first. And then maybe the bigger picture one for David Kenny. As you look at Nielsen Media, where do you think your priorities are for your free cash flow and in particular, your appetite for M&A? No doubt, there's a lot of internal investment and development you want to do. But how much do you think the M&A market could potentially help? Thanks.

David Kenny

So Dan, I'll take that first part, this is Dave. You're correct. I mean, given the cash flow profile Connect, it's unlikely that we would pay it a dividend. So really should think in practical terms about that as being part of media going forward. And David, do you want to take that second one?

David Anderson

Yes. So listen, and the free cash flow. Certainly, I want to pay down debt. So I think deleveraging going to be important to be able to do more things, as you said, and I think we have a very clear path of what we're building organically. We will always look at alternatives. If there's something that has been built by another company, we can acquire it and it could speed things up to achieve our roadmap will certainly do that. I do think we're more deliberate than we might have been in the past to make sure anything we acquired integrates to a platform, and some of what I'm I think, 16 hours and prior smart acquisitions that weren't as integrated as they need to be.

So certainly, we have a very clear plan around being one media truth both for audience measurement and for outcome on a global basis, and we'll be acquiring everywhere to make M&A move. They will be the feeling things we were going to build, because we could do it faster. That also say, a related question is, I believe that we're increasingly easier to work with as a partner.

There are other solutions for clients that we may not need to own with a Nielsen, but we need to work more interoperably with. So that would help. That's the Media question. You didn't ask on Connect, but I would just add that, on the Connect side, there's also a very clear roadmap, and there are opportunities for them to accelerate their progress as well to selected tuck in acquisition. So both companies I think have very clear direction now. And we'll look at tuck-in acquisitions when they accelerate their roadmap.

Dan Salmon

Okay great, thank you both.

Operator

Your next question comes from Matthew Thornton with SunTrust. Your line is open.

Matthew Thornton

Hey, good morning. Thanks for taking the question. Maybe one for David and one for Dave. David, can you give us maybe the latest lay of the land on cross platform, you know when you're talking to buyers, sellers including the big digital first players, what's the feedback like right now that the buy in right now and what's the timeline to getting the right kind of approved to kind of product in market?

I'd love to hear just maybe your latest thinking there and [indiscernible] just the data sets are there any other data sets you feel like you need to acquire build to include in that measurement, obviously, you have some census level data set-top box data that hasn't been, as far as I know, integrated yet into this integrated product. But again, we just love kind of both the latest thoughts there. And then just one real quick one for Dave, Dave just curious if you'd update us on your plans, post the spin? Great, thanks.

David Kenny

Okay, so, first of all, I think the demand from cross platform is very strong on the demand or advertiser side first, so I would say the agencies and the advertisers all wanting a simpler way to buy Media and to have apples-to-apples comparisons. And they're all really wanting more than ever right now, independent verified third party data. They want to know that their people not lost and want to make sure that they're measuring things rigorously. They rely on Nielsen. And so I'd say the demand side from advertisers agencies in the association represent them have been very deep with us [indiscernible] we are certainly working with it to get things adopted as a currency.

Now, I mean, we're beginning that process now in a number of markets around the world. Because of that, and because things are expanding, I would say, on the south side, our publisher clients, the digital guys certainly believe in digital ad ratings. I think we've seen continued adoption and endorsement of what we're building. But the more that can actually be consistent with other media particularly linear media is helping so they're pushing. I think, as there's been the launch of more direct consumer businesses as there's been I think, sort of an explosion of connected TVs out there are even our historic linear customers are now believing their growth is also there.

So they're pushing for the same thing. And it's a big part of the renewal discussions we've had this year, as folks are signing on to Nielsen. So I would say it's very much in motion, I think the market would like us to move as fast as possible. This simplification of the organization will help with that. I think some of the capital allocation decisions we've made will help with that. So we're going to run hard at that. And it's, it's, I think, happening real time in a big way. And here's the data set.

I would say as I said before, on the outcome side, part of the advantage of actually being two companies that we used to use, and we still will use a lot the Nielsen Connect data set for the CPG advertiser, but in all the other categories. The work we do at JD Power around, auto, some of the work again with some of the other financial services providers around financial service advertising is getting to add more and more categories is key. I do not think we need to acquire those data sets. I think we can do that through partnership.

Lastly, I think all of this is becoming more digital needs a true set on the content itself. Great, now it was a brilliant acquisition, that core metadata is highly differentiated for the way we're measuring in the future and getting that more integrated is going to help. There is nothing else like that, great stuff, but I want to see great stuff continue to expand globally, and continue to be one metadata truth underneath all of this.

I'll let Dave talk about his plans.

David Anderson

Thank you. So you know, obviously, we're very, very focused, you could say, maybe preoccupied with ensuring the successful separation and then you know, ultimately, spin up the Connect business. And there's so many dimensions of that, that both focus on the Connect business as well as support for the media business and really standing up successfully both of those businesses as public independent entities.

So there's a tremendous amount of work that's going to be required to do that we're going to be able to leverage. I've been with the company now for about 14 months. And we're going to be able to leverage all of that learning and apply that to that successful outcome. And then, as we've said, we'll come back with more on leadership plants for the organization as a whole over time. So that will include my role in the organization as well. Right now there's a there's just a tremendous amount to be done with the job at hand.

Operator

Your next question comes from Ashish Sabadra - Deutsche Bank. Your line is open.

Ashish Sabadra

Thanks for taking the question. So there are several high profile [indiscernible] shortly. Can you just comment on your conversations with the Media company and expanding - about expanding your offering? Thanks.

David Kenny

You broke up a little bit with extending the offerings to streaming and DTC [ph].

Ashish Sabadra

Yes, I know I was just - my question was there a lot of high profile streaming services which are launching shortly? And so how your conversations with media companies are evolving off those launches?

David Anderson

Yes, listen, [Indiscernible] high profile streaming services companies have also been mentioned Nielsen lately and talking to me, I think as the DTC market become, it has more offers, they are all looking at . market share. And I think the market share is not subscriber counter market share the actual usage in viewing as we've always been in television, so, our investment in streaming meters, our ability to measure accurately how much time people are spending on these DTH services and what they're watching is really helpful.

And that becomes the basis of trading not just for advertising, which only applies to the [indiscernible] part of that, but also for the way the content makers work with companies and the way that companies measure their market share in their consumer marketing. So I think the value of one media truth is even more important in those DTC businesses. And we're certainly seeing all of them, want to use Nielsen to better understand, what consumers are preferring and how they can better serve their consumer.

Operator

Your next question comes from Kevin [indiscernible] with Credit Suisse. Your line is open.

Unidentified Analyst

Great, thanks. Hey, with the shift in the dividend, which frees up a lot of cash, just any thoughts on that incremental if we ever feels like it's about $400 million. Does that initially go towards restructuring or how should we think about the use of that cash going forward?

David Anderson

Well, I think it's - I really take the priority as David mentioned, it's really deleveraging is really get paid down. I mean what we're really all about here as we've said is to create the best possible conditions for each business. And this is a key part of that it really helps - will help us facilitate setting the stage for the launch of both as independent public companies. So that's really at the end of the day, that's where the focus is, that's what the priority was.

Operator

Your last question comes from Aaron White's with Deutsche Bank. Your line is open.

Unidentified Analyst

Hi everyone, thanks for fitting me in here at the end. Maybe just as an add-on to the last question, but you did indicate that the main driver of reducing the dividend was due to a desire to set up the balance sheet ahead of the separation. Are you able to give us any sense for where you see leverage or you'd like leverage to be 9 to 12 months from now relative the kind of 4.4 times currently? And I guess on a related note to that you spoke to the medium term leverage targets for each of the businesses, would you be able to give us a sense of what leverage you envision for the media and connect businesses out of the gates as they kind of start the march towards those targets? Thank you very much.

David Anderson

Yes, we would anticipate that for Connect. We would be in that, let's call it 2.5 times range at start. Connect will be taking a less than pro rata portion of the existing deck. So obviously, video is going to be a little higher than what the current assuming that outcome for Connect, video would be a little higher than in the current level ratio. But it's going to take a few years, and we're going to get to the target range. It's obviously going to be also dependent on as David pointed out other investment opportunities. It is obviously a very attractive business with very, very attractive cash profile. So we've got things that we can do. But I think that gives you a pretty good indication of where we start more.

Unidentified Analyst

Okay, great. Thank you.

David Kenny

Well, thanks for the question. Go ahead.

Operator

Sorry, I would now like to turn the call back over to David Kenny for closing remarks.

David Kenny

So everything's getting preemptive. Got a big day ahead, listen. Thank you for joining the call. I appreciate the questions. And I'm actually excited about this new day for Nielsen when we're going to focus entirely on building the value and the strategic review will now be closed. This is a great day for all of us, and I am so excited about our future.

We will work hard to complete this separation in the 9 to 12 month timeframe. At the same time we're going to continue to drive operational excellence and product excellence in each of our two businesses. And we're going to be as transparent as possible through this process and update you as we can. Thank you very much. Have a good day.

Operator

This concludes today's conference call. You may now disconnect.