



# Nielsen Holdings plc (NLSN)

Updated November 15<sup>th</sup>, 2018 by Jonathan Weber

## Key Metrics

<b>Current Price:</b>	\$26	<b>5 Year CAGR Estimate:</b>	6.5%	<b>Volatility Percentile:</b>	68.3%
<b>Fair Value Price:</b>	\$17	<b>5 Year Growth Estimate:</b>	9.2%	<b>Momentum Percentile:</b>	5.9%
<b>% Fair Value:</b>	153%	<b>5 Year Valuation Multiple Estimate:</b>	-8.1%	<b>Growth Percentile:</b>	87.1%
<b>Dividend Yield:</b>	5.4%	<b>5 Year Price Target</b>	\$26	<b>Valuation Percentile:</b>	3.9%
<b>Dividend Risk Score:</b>	F	<b>Retirement Suitability Score:</b>	D	<b>Total Return Percentile:</b>	31.1%

## Overview & Current Events

Nielsen Holdings plc is the global leader in market share research, data, information, and measurement. The company was originally founded by Arthur C. Nielsen, Sr., who invented the approach to measure sales performance using the concept of 'market share'. Nielsen operates in two reporting segments: Watch (which provides television ratings) and Buy (which provides research on consumer behavior). Revenue is roughly equally split between the two business units. Nielsen was taken private in May 2006 by a consortium of private equity firms, and later was listed in the public markets through an IPO in January of 2011. Today shares trade with a market capitalization of \$9.2 billion.

Nielsen reported its third quarter earnings results on October 25. The company recorded revenues of \$1.6 billion during the third quarter, which represents a small revenue decline of 2.4% compared to the prior year's quarter. Revenues were negatively impacted by currency rate headwinds. Adjusted for forex rates, Nielsen would have been able to keep its revenues relatively constant, as growth in the Watch segment would have offset declines in the Buy segment. Nielsen generated net earnings of \$96 million during Q3, a decline of 34% compared to the prior year's quarter. Earnings-per-share declined by 34% as well, to \$0.27. Results for Nielsen's top line as well as for its bottom line were better than what the analyst community had forecasted, but the market reacted negatively to Nielsen's lowered free cash flow guidance. The company now sees free cash flows of \$450 million to \$500 million versus a previous forecast of \$560 million.

Nielsen is currently searching for a new Chief Executive Officer. The company states that there is a big pool of world class talent and that Nielsen is eyeing several high caliber candidates. A new CFO (Dave Anderson) was hired on September 5<sup>th</sup>. Nielsen, which announced a strategic review in fall 2018, is a possible takeover target. According to sources such as the Financial Times a consortium of private equity firms are exploring a bid for Nielsen.

## Growth on a Per-Share Basis

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2023
<b>EPS</b>	N/A	N/A	N/A	\$1.61	\$1.87	\$2.08	\$2.52	\$2.63	\$1.39	\$1.20	<b>\$1.00</b>	<b>\$1.55</b>
<b>DPS</b>	N/A	N/A	N/A	N/A	N/A	\$0.72	\$1.00	\$1.09	\$1.21	\$1.33	<b>\$1.35</b>	<b>\$1.45</b>
<b>Shares</b>	N/A	N/A	N/A	360	363	379	371	362	358	356	<b>355</b>	<b>345</b>

Nielsen has not been a consistent performer since the company went public in 2011. Earnings-per-share during 2017 were lower than during the year of the IPO, and according to management's forecasts 2018's earnings-per-share will come in at an even lower level. During the first three to four years after the IPO Nielsen has generated strong earnings growth rates, but that has come to a halt.

Management is keen on turning the company around, which is why we believe that the declines will not be maintained over the coming years. We forecast some earnings-per-share growth through the next couple of years.

## Valuation Analysis

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	Now	2023
<b>Avg. P/E</b>	N/A	N/A	N/A	17.8	15.4	17.3	18.0	17.3	35.9	33.5	<b>26.0</b>	<b>17.0</b>
<b>Avg. Yld.</b>	N/A	N/A	N/A	N/A	N/A	2.0%	2.2%	2.4%	2.4%	3.3%	<b>5.4%</b>	<b>4.5%</b>

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Nielsen has been valued at a price-to-earnings multiple in the mid to high teens during the first couple of years after its IPO, but as earnings dropped considerably its valuation exploded upwards. The PE ratios in the 30s were not rational, though, which is why we believe that a PE ratio in the teens, where Nielsen has been valued at during 2011-2015, is where Nielsen will be reading in several years. This will result in considerable multiple compression over the coming years, which will be a relevant headwind for Nielsen's total returns.

Nielsen offers a relatively high dividend yield of 5.4%, but the payout ratio is very high both relative to earnings (135%) as well as relative to Nielsen's free cash flows (105%). A dividend cut is not overly likely, but definitely in the realm of possibilities. We believe that Nielsen's dividend will only grow marginally over the coming years.

## Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2023
<b>GP/A</b>	18.2%	19.1%	20.8%	21.6%	21.8%	21.3%	23.9%	23.7%	23.5%	22.6%	<b>22.5%</b>	<b>22.5%</b>
<b>Debt/A</b>	86.7%	80.7%	79.9%	68.0%	65.9%	62.6%	66.5%	69.8%	72.7%	73.7%	<b>72.5%</b>	<b>67.5%</b>
<b>Int. Cov.</b>	0.6	0.1	1.2	1.2	1.9	2.7	3.1	4.1	3.5	3.2	<b>3.25</b>	<b>3.75</b>
<b>Payout</b>	N/A	N/A	N/A	N/A	N/A	34.6%	39.7%	41.4%	87.1%	111%	<b>135%</b>	<b>93.5%</b>
<b>Std. Dev.</b>	N/A	N/A	N/A	22.6%	19.2%	16.0%	17.1%	11.9%	23.1%	19.6%	<b>22.0%</b>	<b>22.0%</b>

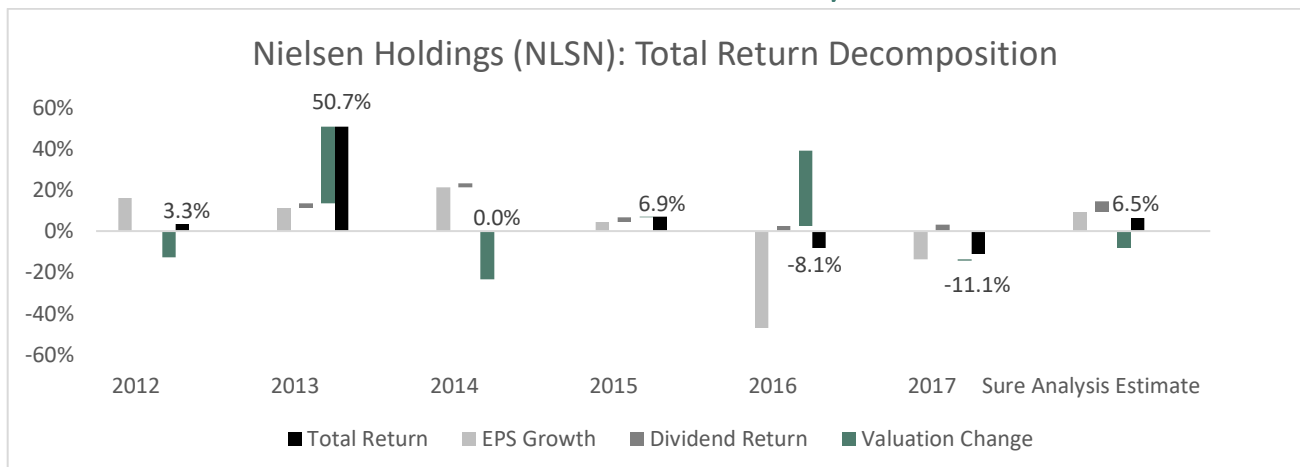
Nielsen produces a solid amount of gross profits with the asset that the company owns. Indeed, the ratio has expanded slightly since Nielsen's IPO in 2011. Nielsen is highly leveraged, but debt levels have declined from where they were ten years ago (before the IPO). Nielsen has increased its leverage over the last five years, which could be a headwind in a rising rates environment, which is why Nielsen plans to reduce its debt going forward.

Nielsen is the global leader in its industry, which makes Nielsen relatively safe versus competition. The company has advantages in terms of scale and a presence in all relevant markets.

## Final Thoughts & Recommendation

Nielsen is well-positioned in the data & information industry, but the company was not able to capitalize on its market position during the last couple of years. We believe that a turnaround is possible for Nielsen, and that its profits will rise during the next couple of years. Its high valuation is a substantial headwind for Nielsen's total returns, though, and shares trade well above fair value today. Because of this, Nielsen earns a sell recommendation from Sure Dividend at current prices.

## Total Return Breakdown by Year



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## Income Statement Metrics

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
<b>Revenue</b>	4806	4808	5126	5328	5407	5703	6288	6172	6309	6572
<b>Gross Profit</b>	2749	2785	2997	3140	3182	3305	3668	3633	3702	3807
<b>Gross Margin</b>	57.2%	57.9%	58.5%	58.9%	58.8%	58.0%	58.3%	58.9%	58.7%	57.9%
<b>SG&amp;A Exp.</b>	1616	1523	1648	1829	1724	1815	1917	1915	1851	1862
<b>D&amp;A Exp.</b>	504	562	558	529	520	521	573	574	603	640
<b>Operating Profit</b>	634	705	791	809	965	980	1178	1144	1248	1305
<b>Op. Margin</b>	13.2%	14.7%	15.4%	15.2%	17.8%	17.2%	18.7%	18.5%	19.8%	19.9%
<b>Net Profit</b>	-589	-491	130	84	273	740	384	570	502	429
<b>Net Margin</b>	-12.3%	-10.2%	2.5%	1.6%	5.0%	13.0%	6.1%	9.2%	8.0%	6.5%
<b>Free Cash Flow</b>	-53	235	209	274	426	527	681	801	863	821
<b>Income Tax</b>	36	-197	-46	6	122	91	236	383	309	388

## Balance Sheet Metrics

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
<b>Total Assets</b>	15091	14600	14429	14504	14585	15530	15326	15303	15730	16866
<b>Cash &amp; Equivalents</b>	467	514	421	319	288	564	273	357	754	656
<b>Acc. Receivable</b>	N/A	N/A	N/A	1080	1110	1196	1241	1235	1171	1280
<b>Goodwill &amp; Int.</b>	12255	11813	11703	11716	11907	12465	12386	12555	12581	13572
<b>Total Liabilities</b>	13082	11788	11533	9863	9607	9723	10193	10676	11437	12423
<b>Accounts Payable</b>	1020	1000	962	180	150	143	223	216	238	296
<b>Long-Term Debt</b>	9384	8655	8558	6763	6584	6640	6812	7338	7926	8441
<b>Total Equity</b>	1993	2798	2887	4633	4930	5729	5056	4433	4102	4245
<b>D/E Ratio</b>	4.71	3.09	2.96	1.46	1.34	1.16	1.35	1.66	1.93	1.99

## Profitability & Per Share Metrics

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
<b>Return on Assets</b>	N/A	-3.3%	0.9%	0.6%	1.9%	4.9%	2.5%	3.7%	3.2%	2.6%
<b>Return on Equity</b>	N/A	-20.5%	4.6%	2.2%	5.7%	13.9%	7.1%	12.0%	11.8%	10.3%
<b>ROIC</b>	N/A	-4.3%	1.1%	0.7%	2.4%	6.2%	3.1%	4.8%	4.2%	3.4%
<b>Shares Out.</b>	N/A	N/A	N/A	360	363	379	371	362	358	356
<b>Revenue/Share</b>	N/A	N/A	N/A	14.90	14.76	14.97	16.36	16.64	17.42	18.35
<b>FCF/Share</b>	N/A	N/A	N/A	0.77	1.16	1.38	1.77	2.16	2.38	2.29

Note: All figures in millions of U.S. Dollars unless per share or indicated otherwise.

### Disclaimer

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