



Nielsen Holdings plc (NLSN)

Updated June 17th, 2019 by Jonathan Weber

Key Metrics

Current Price:	\$23	5 Year CAGR Estimate:	12.4%	Volatility Percentile:	71.1%
Fair Value Price:	\$26	5 Year Growth Estimate:	3.5%	Momentum Percentile:	18.5%
% Fair Value:	87%	5 Year Valuation Multiple Estimate:	2.8%	Growth Percentile:	21.0%
Dividend Yield:	6.1%	5 Year Price Target	\$31	Valuation Percentile:	71.1%
Dividend Risk Score:	F	Retirement Suitability Score:	C	Total Return Percentile:	70.0%

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. Nielsen's shares trade with a market capitalization of \$8.2 billion.

Nielsen reported its first quarter earnings results on April 30. The company reported that its revenues totaled \$1.56 billion during the first quarter, which was 3.1% less than the revenues the company generated during the previous year's quarter. Nielsen missed the analyst consensus for its top marginally, falling short by less than 1%. Currency rate changes had a substantial negative impact on Nielsen; at constant currencies Nielsen's revenues would not have declined, but rather would have increased by 0.4% compared to the previous year's quarter.

Nielsen reported earnings-per-share of \$0.35 for the first quarter, which was less than the \$0.46 that Nielsen earned during the first quarter of fiscal 2018. Nielsen generated negative free cash flows of \$165 million during the first quarter, but that can be explained by seasonality, which always makes Q1 a weak quarter for cash flow. Cash flows actually improved from a cash outflow of \$245 million during the previous year's quarter. Nielsen expects revenues to grow by ~1% during fiscal 2019, and the company forecasts earnings-per-share in a range of \$1.63 to \$1.77, which would represent a substantial increase versus 2018. Free cash flows are expected at \$525 million to \$575 million for 2019.

Growth on a Per-Share Basis

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2024
EPS	---	---	\$1.61	\$1.87	\$2.08	\$2.52	\$2.63	\$1.39	\$1.20	\$0.96	\$1.70	\$2.02
DPS	---	---	---	---	\$0.72	\$1.00	\$1.09	\$1.21	\$1.33	\$1.39	\$1.40	\$1.65
Shares	---	---	360	363	379	371	362	358	356	355	353	345

Nielsen only went public in 2011 after going private in 2006. Therefore, there is no data on how Nielsen has performed in the long run, especially during the years of the financial crisis. Since its IPO, Nielsen has not been able to grow consistently. The company's earnings-per-share grew at an attractive pace between 2011 and 2016 before falling for three years in a row. Management expects earnings-per-share will rise substantially during the current year, but even if the guidance holds true, Nielsen will only be marginally more profitable than during the year of its IPO 8 years earlier.

Nielsen has been negatively impacted by adverse currency rate movements during the recent past. Once the dollar has stabilized versus other currencies and does not get stronger, the currency rate headwind will vanish, and Nielsen's reported top line growth should improve. Nielsen is not active in a high-growth business, which is why investors should not expect overly high revenue growth rates, though, even once currency rates cease to be a headwind.

Management forecasts low-single-digit revenue growth during the current year. Nielsen should be able to grow its margins slightly going forward, and Nielsen has reduced its share count relatively consistently since 2013. In total, we believe that Nielsen should be able to grow its earnings-per-share at a low to mid-single digit rate going forward.

Disclosure: This analyst has no position in the security discussed in this research report, and no plans to initiate one in the next 72 hours.



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Valuation Analysis

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	Now	2024
Avg. P/E	---	---	17.8	15.4	17.3	18.0	17.3	35.9	33.5	24.0	13.5	15.5
Avg. Yld.	---	---	---	---	2.0%	2.2%	2.4%	2.4%	3.3%	6.1%	6.2%	5.3%

Nielsen trades at less than 14 times this year's expected net earnings, using the midpoint of management's guidance. This is the lowest valuation in years, which is why shares look relatively cheap versus how Nielsen's stock was valued in the past. We believe that the 20+ price to earnings multiples from 2016-2018 were too high, and that Nielsen should trade at a mid-teens price to earnings multiple, which provides some upside potential.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2024
Payout	---	---	---	---	34.6%	39.7%	41.4%	87.1%	111%	145%	82.4%	81.6%

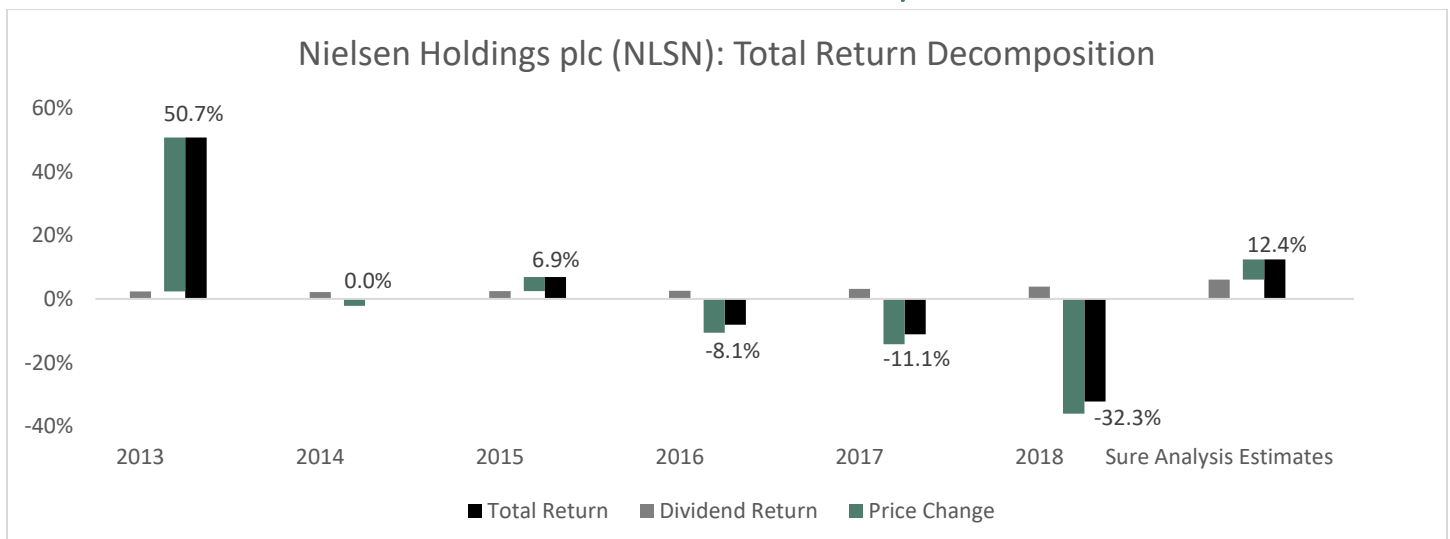
Nielsen's dividend history is not overly long, but since 2013 the company has paid dividends regularly, and has increased the payout consistently. During 2017 and 2018 Nielsen paid out more than its net earnings, but the dividend was still covered by the company's cash flows. Based on current forecasts, Nielsen will pay out ~\$500 million of its free cash flows of ~\$550 million this year. During a steep economic downturn, Nielsen's dividend could easily get cut.

Nielsen is the global leader in its industry, which makes Nielsen relatively safe versus competition from other market research companies. The company has advantages in terms of scale, and benefits from a presence in all relevant markets. Cord-cutting and the rise of TV alternatives such as Netflix is a long-term headwind for Nielsen's television rating business. Nielsen would likely see considerable declines in its profitability during a major economic downturn.

Final Thoughts & Recommendation

Nielsen is the leader in its industry, but unfortunately the company has not been able to capitalize on its scale advantage over the last couple of years, as profitability has declined for the last couple of years. 2019 looks like it will be a better year, but Nielsen will nevertheless not turn in high rates of growth in the future. Investors get a relatively high dividend yield, although we don't rate the dividend as very recession-proof. Shares promise solid total returns, but Nielsen is only a buy for those investors that do not mind the high payout ratio and vulnerability to recessions.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Revenue	4808	5126	5328	5407	5703	6288	6172	6309	6572	6515
Gross Profit	2785	2997	3140	3182	3305	3668	3633	3702	3807	3710
Gross Margin	57.9%	58.5%	58.9%	58.8%	58.0%	58.3%	58.9%	58.7%	57.9%	56.9%
SG&A Exp.	1523	1648	1829	1724	1815	1917	1915	1864	1873	1958
D&A Exp.	562	558	529	520	521	573	574	603	640	675
Operating Profit	705	791	809	965	980	1178	1144	1235	1294	1077
Op. Margin	14.7%	15.4%	15.2%	17.8%	17.2%	18.7%	18.5%	19.6%	19.7%	16.5%
Net Profit	-491	130	84	273	740	384	570	502	429	-712
Net Margin	-10.2%	2.5%	1.6%	5.0%	13.0%	6.1%	9.2%	8.0%	6.5%	-10.9%
Free Cash Flow	235	209	274	426	527	681	801	863	821	538
Income Tax	-197	-46	6	122	91	236	383	309	388	-182

Balance Sheet Metrics

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Total Assets	14600	14429	14504	14585	15530	15326	15303	15730	16866	15179
Cash & Equivalents	514	421	319	288	564	273	357	754	656	524
Acc. Receivable	---	---	1080	1110	1196	1241	1235	1171	1280	1118
Goodwill & Int.	11813	11703	11716	11907	12465	12386	12555	12581	13572	12011
Total Liabilities	11788	11533	9863	9607	9723	10193	10676	11437	12423	12136
Accounts Payable	1000	962	180	150	143	223	216	238	296	288
Long-Term Debt	8655	8558	6763	6584	6640	6812	7338	7926	8441	8387
Total Equity	2798	2887	4633	4930	5729	5056	4433	4102	4245	2847
D/E Ratio	3.09	2.96	1.46	1.34	1.16	1.35	1.66	1.93	1.99	2.95

Profitability & Per Share Metrics

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Return on Assets	-3.3%	0.9%	0.6%	1.9%	4.9%	2.5%	3.7%	3.2%	2.6%	-4.4%
Return on Equity	-20.5%	4.6%	2.2%	5.7%	13.9%	7.1%	12.0%	11.8%	10.3%	-20.1%
ROIC	-4.3%	1.1%	0.7%	2.4%	6.2%	3.1%	4.8%	4.2%	3.4%	-5.9%
Shares Out.	---	---	360	363	379	371	362	358	356	355
Revenue/Share	17.55	18.33	14.90	14.76	14.97	16.36	16.64	17.42	18.35	18.32
FCF/Share	0.86	0.75	0.77	1.16	1.38	1.77	2.16	2.38	2.29	1.51

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

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