



Nielsen Holdings plc (NLSN)

Updated March 26th, 2021 by Jonathan Weber

Key Metrics

| | | | | | |
|-----------------------------|------|--|-------|----------------------------------|----------|
| Current Price: | \$25 | 5 Year CAGR Estimate: | 0.4% | Market Cap: | \$9B |
| Fair Value Price: | \$21 | 5 Year Growth Estimate: | 3.0% | Ex-Dividend Date: | 06/03/21 |
| % Fair Value: | 120% | 5 Year Valuation Multiple Estimate: | -3.6% | Dividend Payment Date: | 06/18/21 |
| Dividend Yield: | 1.0% | 5 Year Price Target | \$24 | Years Of Dividend Growth: | 0 |
| Dividend Risk Score: | C | Retirement Suitability Score: | F | Last Dividend Increase: | - |

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. The revenues that the company generates are 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 reported its fourth quarter earnings results on February 25. The company announced that its revenues totaled \$1.7 billion during the quarter, which was down 1% from the revenues the company generated during the previous year's quarter. Revenues nevertheless were above what the analyst community had forecasted by \$40 million.

Nielsen reported earnings-per-share of \$0.53 for the fourth quarter, which was better than what the analyst community had expected. For fiscal 2021, Nielsen forecasts that its revenues will grow by roughly 2%-3% at constant currency rates. On top of that, Nielsen forecasts that its earnings-per-share should come in at a range of \$1.43 to \$1.54 during the current year, which represents a decline versus 2020. Earnings will thus most likely be down this year, following an earnings decline in 2020, with this year's earnings-per-share drop likely being more pronounced.

Growth on a Per-Share Basis

| Year | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2026 |
|---------------------------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|---------------|---------------|
| EPS | \$1.61 | \$1.87 | \$2.08 | \$2.52 | \$2.63 | \$1.39 | \$1.20 | \$0.96 | \$1.80 | \$1.67 | \$1.49 | \$1.73 |
| DPS | --- | --- | \$0.72 | \$1.00 | \$1.09 | \$1.21 | \$1.33 | \$1.39 | \$1.11 | \$0.24 | \$0.24 | \$0.30 |
| Shares¹ | 360 | 363 | 379 | 371 | 362 | 358 | 356 | 355 | 356 | 357 | 358 | 360 |

Nielsen went public in 2011, following a go-private deal in 2006. Therefore, there is no public data on how Nielsen performed during the years of the financial crisis. Since its IPO, Nielsen has not been able to grow on a consistent basis. The company's earnings-per-share grew at an attractive pace between 2011 and 2015, before falling for 3 years in a row. Management expects earnings-per-share will decline during the current year as well, even without the impact of the coronavirus crisis. In 2020, Nielsen's profits were almost flat compared to the company's profits in its IPO year 2011.

Nielsen has been negatively impacted by adverse currency rate movements during the recent past, as a lot of its revenues are generated outside of the US and suffer from a strong USD. Nielsen is not active in a high-growth business, which is why investors should not expect overly high revenue growth rates, even when currency rates cease to be a headwind. Management believes that the company's growth will improve once the company has split into two separate entities, as this should allow for more nuanced strategies in its different markets. On top of that, the dividend cut frees up cash that can be invested in growth initiatives that should be beneficial for its long-term revenue performance.

Following a year of strong growth in 2019, 2020 was a less successful year for Nielsen, but we believe that some earnings growth should be achievable in the long run thanks to growing investments and a slow pace of market growth.

¹ In Millions

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 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | Now | 2026 |
|-----------|------|------|------|------|------|------|------|------|------|------|------|------|
| Avg. P/E | 17.8 | 15.4 | 17.3 | 18.0 | 17.3 | 35.9 | 33.5 | 24.0 | 11.1 | 12.6 | 16.8 | 14.0 |
| Avg. Yld. | --- | --- | 2.0% | 2.2% | 2.4% | 2.4% | 3.3% | 6.1% | 5.6% | 1.1% | 1.0% | 1.2% |

Nielsen trades at around 17 times this year's expected net earnings, using the midpoint of management's guidance. This is a substantially higher valuation compared to how shares were valued over the last two years, although they were even more expensive in 2013-2018. We believe that the 20+ price to earnings multiples from 2016-2018 were far too high, we believe a low-teens earnings multiple would be appropriate, considering Nielsen's unconvincing track record.

Safety, Quality, Competitive Advantage, & Recession Resiliency

| Year | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2026 |
|--------|------|------|-------|-------|-------|-------|------|------|-------|-------|-------|-------|
| Payout | --- | --- | 34.6% | 39.7% | 41.4% | 87.1% | 111% | 145% | 61.7% | 14.4% | 16.1% | 17.3% |

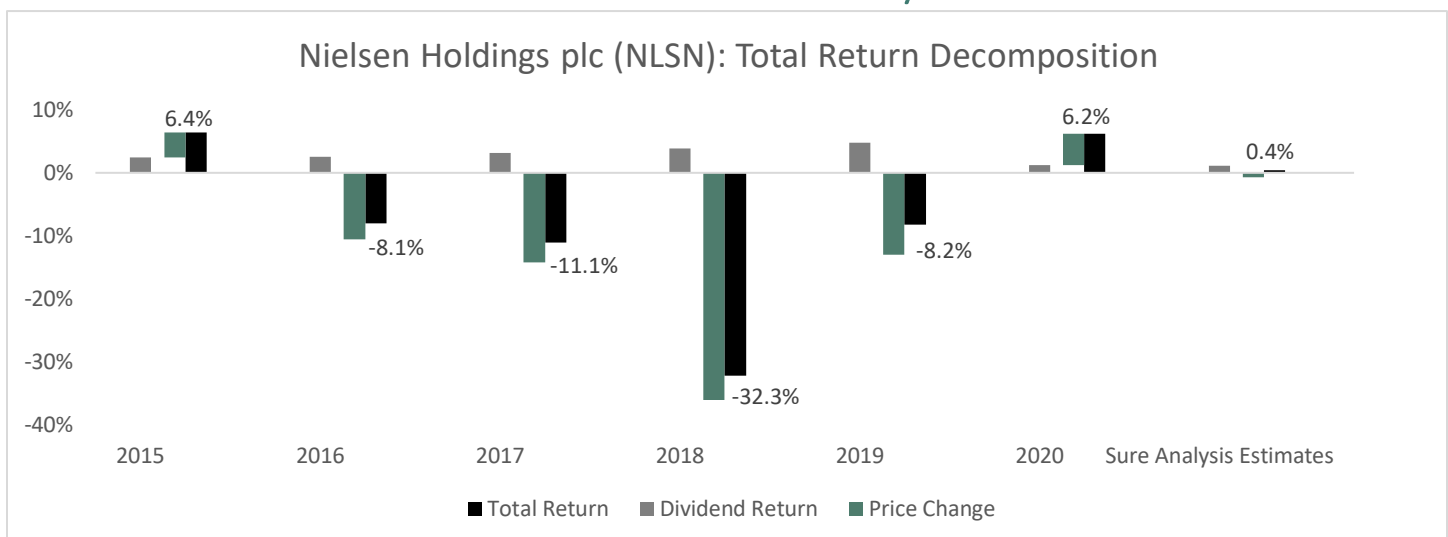
Nielsen's dividend history is not overly long, but since 2013 the company had paid dividends regularly, while also increasing its payout for several years in a row. Following the decision to cut its dividend to just \$0.06, the stock is no longer interesting for income-focused investors. Management explains that the dividend cut was based on a decision to improve Nielsen's balance sheet strength and to allow for higher growth investment spending.

Nielsen is the global leader in its industry, which makes it 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 an industry leader, but unfortunately the company has not been able to capitalize on its scale advantage over the last couple of years, as profitability remains well below peak levels that were hit a couple of years ago. 2019 was a solid year, but Nielsen's earnings declined during 2020, and the same will happen this year. Following the dividend cut, Nielsen is not attractive for income investors any longer. Shares do not promise solid total returns, which is why we rate the stock a sell at current prices, and we note that both results and its share price can be cyclical.

Total Return Breakdown by Year



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Income Statement Metrics

| Year | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 |
|------------------|-------|-------|-------|-------|-------|-------|-------|--------|-------|-------|
| Revenue | 5,328 | 5,407 | 5,703 | 6,288 | 6,172 | 6,309 | 6,572 | 6,515 | 6,498 | 6,290 |
| Gross Profit | 3,140 | 3,182 | 3,305 | 3,668 | 3,633 | 3,702 | 3,807 | 3,710 | 3,676 | 3,530 |
| Gross Margin | 58.9% | 58.8% | 58.0% | 58.3% | 58.9% | 58.7% | 57.9% | 56.9% | 56.6% | 56.1% |
| SG&A Exp. | 1,829 | 1,724 | 1,815 | 1,917 | 1,915 | 1,864 | 1,873 | 1,958 | 1,929 | 1,872 |
| D&A Exp. | 529 | 520 | 521 | 573 | 574 | 603 | 640 | 675 | 756 | 864 |
| Operating Profit | 809 | 965 | 980 | 1,178 | 1,144 | 1,235 | 1,294 | 1,077 | 991 | 794 |
| Op. Margin | 15.2% | 17.8% | 17.2% | 18.7% | 18.5% | 19.6% | 19.7% | 16.5% | 15.3% | 12.6% |
| Net Profit | 84 | 273 | 740 | 384 | 570 | 502 | 429 | (712) | (415) | (6) |
| Net Margin | 1.6% | 5.0% | 13.0% | 6.1% | 9.2% | 8.0% | 6.5% | -10.9% | -6.4% | -0.1% |
| Free Cash Flow | 274 | 426 | 527 | 681 | 801 | 863 | 821 | 538 | 547 | 480 |
| Income Tax | 6 | 122 | 91 | 236 | 383 | 309 | 388 | (182) | (260) | 67 |

Balance Sheet Metrics

| Year | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 |
|--------------------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|
| Total Assets | 14,504 | 14,585 | 15,530 | 15,326 | 15,303 | 15,730 | 16,866 | 15,179 | 14,319 | 14,135 |
| Cash & Equivalents | 319 | 288 | 564 | 273 | 357 | 754 | 656 | 524 | 454 | 610 |
| Acc. Receivable | 1,080 | 1,110 | 1,196 | 1,241 | 1,235 | 1,171 | 1,280 | 1,118 | 1,103 | 1,154 |
| Goodwill & Int. | 11,716 | 11,907 | 12,465 | 12,386 | 12,555 | 12,581 | 13,572 | 12,011 | 10,874 | 10,510 |
| Total Liabilities | 9,863 | 9,607 | 9,723 | 10,193 | 10,676 | 11,437 | 12,423 | 12,136 | 11,931 | 11,892 |
| Accounts Payable | 180 | 150 | 143 | 223 | 216 | 238 | 296 | 288 | 230 | 232 |
| Long-Term Debt | 6,763 | 6,584 | 6,640 | 6,812 | 7,338 | 7,926 | 8,441 | 8,387 | 8,309 | 8,307 |
| Total Equity | 4,633 | 4,930 | 5,729 | 5,056 | 4,433 | 4,102 | 4,245 | 2,847 | 2,195 | 2,051 |
| D/E Ratio | 1.46 | 1.34 | 1.16 | 1.35 | 1.66 | 1.93 | 1.99 | 2.95 | 3.79 | 4.05 |

Profitability & Per Share Metrics

| Year | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 |
|------------------|-------|-------|-------|-------|-------|-------|-------|--------|--------|-------|
| Return on Assets | 0.6% | 1.9% | 4.9% | 2.5% | 3.7% | 3.2% | 2.6% | -4.4% | -2.8% | 0.0% |
| Return on Equity | 2.2% | 5.7% | 13.9% | 7.1% | 12.0% | 11.8% | 10.3% | -20.1% | -16.5% | -0.3% |
| ROIC | 0.7% | 2.4% | 6.2% | 3.1% | 4.8% | 4.2% | 3.4% | -5.9% | -3.8% | -0.1% |
| Shares Out. | 360 | 363 | 379 | 371 | 362 | 358 | 356 | 355 | 356 | 357 |
| Revenue/Share | 14.90 | 14.76 | 14.97 | 16.36 | 16.64 | 17.42 | 18.35 | 18.32 | 18.27 | 17.63 |
| FCF/Share | 0.77 | 1.16 | 1.38 | 1.77 | 2.16 | 2.38 | 2.29 | 1.51 | 1.54 | 1.35 |

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

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