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Acxiom Corp. (ACXM)

Q1 2019 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Operator: Good afternoon, ladies and gentlemen, and welcome to the Acxiom Fiscal 2019 First Quarter Earnings Call. All lines have been placed on mute to prevent any background noise. After the speakers' remarks, there will be a question-and-answer session. [Operator Instructions] As a reminder, this conference call is being recorded.

I would now like to turn the call over to your host, Ms. Lauren Dillard, Head of Investors Relations.

Lauren Russi Dillard
Vice President-Investor Relations, Acxiom Corp.

Thank you, operator. Good afternoon and welcome. Thank you for joining us to discuss our fiscal 2019 first quarter results. With me today are Scott Howe, our CEO; and Warren Jenson, our CFO. Today's press release and this call may contain forward-looking statements that are subject to risks and uncertainties that could cause actual results to differ materially. For a detailed description of these risks, please read the Risk Factors section of our public filings in the press release.

Acxiom undertakes no obligation to release publicly any revisions to any of our forward-looking statements. A copy of our press release and financial schedules, including any reconciliation to non-GAAP financial measures, is available at acxiom.com. Also, during the call today, we will be referring to the slide deck posted on our website.

At this time, I'll turn the call over to Scott Howe.

Scott E. Howe
President, Chief Executive Officer & Director, Acxiom Corp.

Thanks, Lauren. Good afternoon and thanks for joining us. This is an exciting time for the company and we are very pleased to report another solid quarter highlighted by strong top line growth, expanding margins, and continued execution across all areas of the business. During my portion of today's call, I'll provide a brief update on the AMS transaction, discuss our first quarter results to the high level and update you on our various growth initiatives inside LiveRamp. Warren will then walk through our results and outlook in more detail.

Early last month, we entered into a definitive agreement to sell our Acxiom Marketing Solutions business to Interpublic Group for $2.3 billion in cash. To reiterate what I said at announcement, we believe this deal represents a big win for all constituents. The entire industry gains a new powerhouse for data-driven marketing solutions. Clients benefit from greater scale and an even broader set of solution offerings. And associates get the chance to be part of a much larger organization with ample opportunities for growth.

LiveRamp sees a massive opportunity to execute on its vision, attract top talent, and have a much bigger impact on how consumers experience the world. And finally, shareholders receive certain and immediate value. Client reaction following the announcement has been universally positive, and the market is excited by and eager for the combined solutions IPG and AMS will be able to offer. The transaction remains on track to close early in our third fiscal quarter at which point we will rebrand and emerge as LiveRamp, a best-in-class SaaS platform.

Shifting gears now to the quarter, the first quarter represented a strong start to the year. Total company revenue was up 7% as reported and up 13% adjusted for the Facebook impact. Excluding Facebook, revenue grew in each segment and in all geographies during the quarter.

Total company gross margin expanded 200 basis points and operating margin increased to 13%. AMS again posted a solid quarter with revenue, excluding Facebook, up 5% driven by our data management and digital data businesses.

On the heels of two record-bookings quarter, AMS closed yet another impressive bookings quarter in Q1 highlighted by six new logo wins and two large renewals. There is a lot of positive momentum right now inside of AMS and we are pleased to hand off a strong and healthy business to IPG.

Moving on to LiveRamp. LiveRamp also delivered a very strong quarter and the business continues to demonstrate its network effects. Revenue growth in Q1 accelerated to 34% and, excluding Facebook, was up 44%. We exited the quarter with a revenue run rate of approximately $250 million.

Beneath the top line, we again posted meaningful margin improvement. Gross margin increased 10 full points to 71% and segment margin reached a record 15%. Warren and I often talk about the different horizons of growth at LiveRamp which span both those areas that will drive growth in the next few years and also the bets we are making to sustain our growth over the course of the next decade.

I thought it might be valuable to spend more time on this topic today and walk through the three horizons which will fuel sustained future growth. The first horizon is all about continuing to execute on the initiatives that have propelled our growth to date namely adding new clients and expanding existing client relationships. This starts with winning new clients.

During the quarter, we added over 30 new subscription-paying direct clients. Today, we work with more than 625 direct clients worldwide across our three major client verticals, brands and agencies, marketing technology platforms and publishers, and data providers. Our direct client count is up 30% year-over-year and we continue to experience strong momentum inside of our brand and agency vertical.

On a direct basis, we work with roughly 270 brands. We believe our current addressable market includes the global top 2,000 advertisers signaling we still have a lot of runway in this area. An additional near term growth lever is our ability to land and expand. Our subscription pricing is tiered on data volume. So over time as clients expand their usage and leverage their data across more use cases, our relationship should expand.

Today, we work with nearly 40 clients paying us $1 million or more and as we continue to expand our coverage beyond programmatic, we should see this number grow. LiveRamp built its business pioneering a practice the industry refers to as onboarding. This practice, in its most basic form, involves allowing a marketer to use their own customer or prospect data to refer to an industry speak as first-party data from the offline world to deliver a more meaningful experience to the consumer in the digital world.

For example, Lauren Dillard just introduced me moments ago. Now, if a marketer knows its customer, Lauren, just bought a backpack, this offline purchase data can be applied in their digital advertising effort to ensure when the marketer encounters Lauren on her computer or a mobile phone, that they serve her relevant ad, say, for trekking poles as opposed to serving her just yet another ad for a backpack. Of course to do that, the marketer must be able to recognize Lauren when they encounter her in digital channels, which is very challenging given all the marketer can see is a digital identifier such as a cookie, a mobile ID or connected TV ID. The foundational technology that powers onboarding and a host of more sophisticated applications is called Identity Resolution specifically the ability to connect people data and devices at any level of granularity and across any channel.

The majority of LiveRamp's clients begin with onboarding their own data but grow into much more sophisticated Identity Resolution use cases over time such as measurement, advanced analytics, second-party data sharing and others. Average connections per client grew to approximately 13 and we continue to add new and interesting use cases and partners to our integration network. I am particularly pleased to share that we recently entered into a new partnership with a leading e-commerce platform, giving brands and their agencies the ability to onboard and distribute first and third-party data to these platforms ad marketplace for people-based targeting and measurement.

In addition, during the quarter, we expanded our ongoing partnership with Microsoft to deliver people-based search capabilities in Bing Custom Audiences. This partnership allows search marketers to leverage their CRM data to easily target or retarget ads at the individual level on Bing. We are also excited to be working with Microsoft to enable offline attribution through the Bing's store sales attribution program.

Finally, we recently entered into a new commercial partnership with ADARA, the industry's largest travel data co-op. As part of this partnership, ADARA will become a match partner and license identity data from LiveRamp, allowing travel clients to more easily leverage their data alongside data from ADARA's co-op.

Horizon 2. Horizon 2 encompasses some of the newer initiatives inside of LiveRamp that are just beginning to become more meaningful growth drivers for us, specifically international, TV, and data store. In FY 2019, we expect each of these businesses to grow strong double digits and generate at least $25 million in revenue.

Let me talk briefly about each in turn. International. Despite GDPR going into effect in May, our international business was solid in Q1 with revenue up more than 50% excluding Facebook. As we discussed on our last call, we were well-prepared for GDPR implementation, largely as a result of our extensive GDPR readiness efforts over the past two years.

In the months following GDPR, in line with our expectations, our match rates were slightly impacted in some markets as we remediated and removed noncompliant match partners from our network. We believe this is a short-term impact and expect match rates to normalize by the end of this quarter.

Brands were also cautious in Q1 as you would expect and did result in longer sales cycles for certain deals. That said, brands are not, they are not abandoning data-driven marketing across Europe when done ethically and appropriately. And in fact, our current pipeline remains very healthy.

Of the 30 new logos added in Q1, over 10 of those were in Europe, including a large platform client that will be a reseller of LiveRamp services. I am also pleased to share that we recently added the top two CPG companies across the UK and France to our client roster. Some of our most innovative solutions like second party data sharing are originating from international and we are bullish international will continue to be a growth driver for us over the near to medium term.

Next, advanced TV, we formally launched LiveRamp TV earlier this year and are excited by our continued progress in this area. TV is an $80 billion market in the U.S. alone and one of the most influential advertising channels that exist today but it is also one of the least sophisticated when it comes to data-driven targeting and measurement. With consumer behavior changing and advertisers demanding the ability to target measure their TV ad spend at the person level, the TV landscape is now evolving quickly. Addressable TV, over-the-top or connected TV and data-driven linear TV are all areas that fall under the umbrella of advanced TV.

And importantly, they are all areas that LiveRamp has the opportunity to impact and drive revenue from. In fact, we think LiveRamp is unique in its ability to work across all three areas. During the quarter, TV-related revenues doubled year-over-year and we saw addressable campaign volumes increased by more than 100%. Much of this demand is being driven by current brand clients that are leveraging our TV capabilities for the first time.

I am also pleased to share that, during the quarter, we deepened our partnership with one2one Addressable, a division of Cadent and one of the most important addressable TV agencies. We are particularly excited to be working together to bring new industries like travel to the addressable TV space.

We've also made significant investments to automate our addressable TV platform and make it easier for MVPDs or cable operators to ingest data. We expect this platform to be live at all six of the top MVPDs by end of quarter.

As a result of these efforts, we have seen a tremendous uptick in data awareness and availability. In the last two quarters, we've activated data from four of our data store suppliers including TransUnion, IRI, and Bombora that have never been activated on TV before. There's a great outcome for our data partners and a strong indicator that brands are eager to target beyond age and gender.

Finally, on the partnership front, we recently entered into several important partnerships that we believe will help fuel our TV growth in FY 2019. On the connected TV side, we expect to enable measurement services for connected TV by the end of the quarter in partnership with Innovid. We are also excited to partner with VideoAmp and Omnicom Media Group ahead of the national upfront to help power their TV and cross-screen video planning software platform.

Finally, we are pleased to announce an expanded relationship with Viacom where we will enable audience-driven TV planning activation and identity resolution for Viacom Vantage, Viacom's industry-leading, advanced television platform.

Data store. As we've scaled the LiveRamp network in technology. We have found additional ways to leverage our platform, deliver more value to clients and create incremental revenue streams. Data store is a great example of this, leveraging LiveRamp's common identity system and broad integration network, the identity-linked data store is a data marketplace that seamlessly connects high quality permission to audience data for more than 100 data providers across the marketing ecosystem.

The revenue we generate from data store is captured as marketplace and other revenue, which was up 15% during the quarter. Adjusting for Facebook, marketplace and other revenue was up well in excess of 50% in Q1, a strong signal that the market's appetite for unique and appropriately sourced data remains very healthy.

We are also seeing increased demand from new channels like AI and machine learning companies, as well as advanced TV providers as I just mentioned. And on the supply side, we continue to see strong demand from companies looking to monetize through the data store. The number of data providers plugged into our marketplace is up 60% year-over-year.

Finally, Horizon 3. Horizon 3 includes all the feeds we are planning today that we believe will drive the ubiquity of our identity solution and fuel our growth over the medium to long term. LiveRamp B2B, second-party data sharing, the people-based programmatic consortium, and potential adjacent markets all fall into this bucket. Our progress in each of these areas has remained steady and we are allocating resources against these opportunities intelligently.

To summarize, there are a lot, a lot of exciting initiatives being pursued at LiveRamp. However, our near-term focus must be on ensuring we set the business up for a strong fiscal 2020. In order to do that, we intend to continue winning meaningful new customers while further cultivating existing clients. Growth is never linear and we expect Q2 to be our most challenging growth quarter due to Facebook and the lapping of some large wins.

That said, we believe our strong pipeline sets up our exit growth trajectory nicely. In closing, we delivered another strong quarter in Q1. And I would like to thank our associates for their ongoing hard work and contributions. We enter this next chapter with a lot of optimism and look forward to sharing more over the next several months as we prepare for LiveRamp to emerge as a stand-alone public company.

Thanks again for joining us today. I will now turn the call over to Warren.

Warren C. Jenson

Chief Financial Officer, Executive Vice President & President-Acxiom International, Acxiom Corp.

Thanks, Scott, and good afternoon, everyone. As we prepared for today's call, we did so with mixed emotions. This is likely the last quarter that we will report consolidated results for both AMS and LiveRamp as we are well down the road with the sale and final separation of AMS. We have already filed our proxy and expect the definitive proxy will be released within the next few weeks. We have also received early HSR clearance. It's highly likely that the AMS transaction will be closed ahead of our next quarterly earnings call.

At the same time, we're incredibly proud of where we are today and the progress we have made over the last six-plus years. Acxiom is a transformed company and an industry leader. AMS is a healthy business with the unique set of assets, people, and skills and we believe it will be a great addition to the IPG family. LiveRamp has created and now leads an entirely new category. We are the middleware which enables powerful customer experiences by connecting data with devices and people. What we do is fundamental to the next generation of the customer experience.

Our company's performance speaks for itself. Consider that we just finished what is arguably the strongest growth quarter in a long, long time. Excluding Facebook, our revenue was up 13%, AMS up 5%, and LiveRamp up 44%. Our gross margin has now settled in a rarified zone. In each of the last seven quarters, our gross margin has been at least 50%. Our operating margin is now comfortably in double-digit. In fact, at 13%, this was a record for any first quarter.

And finally, our EBITDA margin is now comfortably in the high-teens. And for AMS, it's comfortably in the mid-30s. This strong performance has enabled us to return significant capital to our shareowners. In the quarter, we repurchased 1.9 million shares for $46 million.

Since inception of our $500 million repurchase program, we have acquired 22 million shares for $420 million. And finally, LiveRamp is fast getting ready to stand on its own. This was a record Q1 performance. LiveRamp's revenue, excluding Facebook, was up a strong 44%. We feel very comfortable with LiveRamp's full year revenue guidance of 25% to 30% growth. And most importantly, we de-risked this estimate by further strengthening our IPG relationship through our negotiated commercial agreement.

Our segment gross margin exceeded 70% and our LiveRamp segment operating margin reached a record 15%.

Please turn to slide 10. Operationally, LiveRamp continues to roll. Our revenue run rate is now approximately $250 million. Our dollar-based net retention continues to be north of 110%. We added another 30 new direct clients during the quarter and now have close to $41 million customers. In summary, both AMS and LiveRamp are strong and each poised beautifully for their next chapter.

Please we turn to slide 14. Given the AMS transaction has not closed, we felt it appropriate to confirm our existing total company guidance. We will, of course, update our outlook shortly after the AMS transaction closes.

Please turn to slide 15. As you can see, we expect a busy few months, a few callouts. Again, we have already received HSR clearance. Our preliminary proxy has been filed. And as a result, we would expect a shareholder vote in mid-September. Once the vote is held and assuming we receive approval, AMS will be reported in discontinued operations. In other words, our Q2 results will reflect LiveRamp only in continuing operations.

In September, we expect to host a couple of educational sessions focused on some of our newer growth opportunities. The objective of these sessions will be to help further educate everyone on our strategies and opportunity. We believe the AMS transaction will close in early Q3. So presuming nothing changes, we intend to hold an Analyst Day in New York City on October 29. We anticipate a 1:00 PM start time. So please save the date.

Our intention is to launch our $500 million tender within a few days of the Analyst Meeting. This tender will be opened to all shareholders, including employees, officers, and directors of the company. While circumstances could change, we wanted to make you aware that named officers may participate. Finally, let me share a few things about a stand-alone LiveRamp. In this section of my remarks, I plan to walk you through a set of financial schedules, some of which are similar to those included in our proxy. These schedules are draft and subject to change.

Slide 16. This chart summarizes our FY 2018 GAAP and non-GAAP results as stated for continuing ops. Discontinued operations accounting is pretty simple. Basically, any cost that can be directly assigned to the business that is going away is recorded in discontinued operations. Conversely, any cost that cannot be directly assigned to the business going away goes to continuing operations.

So in our case, of our $100 million corporate overhead, $42 million was directly assignable to AMS or just stops. And therefore, the remaining $58 million was assigned to LiveRamp. While a technically correct presentation, we do not believe these costs, when stated as a percentage of revenue, are indicative of our go-forward performance or long-term business model. Again, while a technically correct presentation, we do not believe these costs, when stated as a percentage of revenue, are indicative of our go-forward performance or a long-term business model.

Slide 17. This slide summarizes our Q1 FY 2019 performance as stated for continuing operations.

Slide 18 is our LiveRamp pro forma balance sheet as of March 1, 2018.

Now, please turn to slide 19, our outlook for LiveRamp. Presuming in early Q3 close, our commercial agreement with IPG should add approximately $5 million in revenue to FY 2019 and approximately $15 million in FY 2020. Despite this additional revenue, we are not changing our guidance for LiveRamp. Rather, we are appropriately de-risking our projection. We continue to expect revenue growth of between 25% and 30%. Excluding Facebook, we continue to expect growth of more than 37%, and we continue to expect subscription revenue to grow more than 30%.

On the right hand side of this chart, we provided our expected revenue phasing for LiveRamp. We asked that you pay particular attention to the math in Q2. In Q2, we expect our revenue growth to be a low watermark for the year due to Facebook and the lapping of large wins a year ago. That said, our rate of growth remains solid. For the second quarter, we expect both total revenues, excluding Facebook, and subscription revenues to increase by 27% or more.

Next, we expect our growth rate to rebound in both Q3 and Q4 as our year-over-year comps normalize, our emerging businesses such as data store and TV continue to scale, and as our strong pipeline converts.

While we appreciate the challenges others have faced with GDPR-related headwinds, keep in mind that LiveRamp's EU Q1 revenue was approximately $5 million or 8% of total revenue. Net, we just don't have the same exposure as others.

Slide 20. As you start building your models, we've included a few additional metrics which should help with your analysis. With that, let me close with a few final thoughts.

We are leaving this chapter in a great place. This transformation made history. AMS is strong and will be a terrific asset for IPG. At the same time, LiveRamp ramp is ready for prime time. We see no obstacles that should prevent an early Q3 transaction close and we look forward to the fall introduction of one the most exciting SaaS growth stories in the market today, LiveRamp.

Thank you again for joining us today. We will now open the call to your questions. Operator?

QUESTION AND ANSWER SECTION

Operator: [Operator Instructions] Your first question comes from the line of Dan Salmon from BMO Capital Markets. Your line is open.

Daniel Salmon
Analyst, BMO Capital Markets (United States)

Q

Hey. Good afternoon, guys.

Warren C. Jenson
Chief Financial Officer, Executive Vice President & President-Acxiom International, Acxiom Corp.

A

Hey, Dan.

Daniel Salmon
Analyst, BMO Capital Markets (United States)

Q

Hey. A lot of detail there on all the opportunities for LiveRamp, all the horizons and whatnot. And I think you touched on a lot of different questions that I had there. So maybe I'll switch and just say we've been focused obviously on separation of assets lately. But LiveRamp has been acquisitive in the past and maybe, Scott, would just love to hear your thoughts. I'm sure you're not going to identify the areas that you're potentially looking at, but just how you see the market in general out there and whether there may be opportunities for more acquisitions for LiveRamp.

And then just second, we've gotten through GDPR or at least or we're starting to deal with it properly as enforcement in place. But there's a lot of other pieces of legislation out there, ePrivacy in Europe, California, you guys sort of invest more time in D.C. and other regulatory jurisdictions as much as anyone else. Would love to hear if there's anything you're seeing on the horizon you think is different or unexpected in some of the pieces of legislation cover. Thanks.

Scott E. Howe
President, Chief Executive Officer & Director, Acxiom Corp.

A

Sure, Dan. It's Scott, and I'll handle both questions here. So first off, on the acquisition front, we really like what's going on at LiveRamp right now. We feel like we have an open road in front of us and we have a ton of levers to pull to fuel growth, both near term and also longer term. So first and foremost, our focus is on execution of the opportunities that we already have on our [ph] play (00:31:44) that we're so enthusiastic about. That said, as we have for the last seven years, we will always kick the tires of anything that's interesting.

I think our track record somewhat speaks for itself because in seven years, we've looked at hundreds of different things and we've really only pursued three sizable acquisitions. In every case, number one, they were incredibly strategic. We felt like when we made those acquisitions whether it's LiveRamp, Arbor, or Circulate, it added important capabilities that catalyzed things we were already doing. And second, always with an eye towards what's the best use of shareholder capital. And in hindsight, even though at the time those looked like pricey deals, very quickly, we believe the economics were borne out. So I don't think you'll see any shift in our philosophy. We intend to be efficient stewards of capital but also very, very strategic.

On the legislation front, you're right in highlighting some of the recent things. We felt like we were pretty well-prepared for GDPR. I think the one thing that we see on the horizon that might be new is kind of an explosion or potential explosion of activity at the state front. And so you highlighted what's happened in California. And I wouldn't be surprised to see, come November, a half a dozen or more additional states adopt similar legislation.

Our belief is that complexity is wind at our back. The more complexity that exists in the regulatory and privacy landscape, the more difficult it is for any company to choose to go it alone. It becomes really important for everyone in the industry to partner with companies like us that think about privacy and regulation all the time across all of our clients and partners. As that progresses, we think that's going to be an opportunity for us to build privacy into our products and commercialize privacy and regulation over time in our business.

Daniel Salmon
Analyst, BMO Capital Markets (United States)

Q

That's great. Thanks very much, Scott.

Operator: And your next question comes from the line of Brett Huff from Stephens. [Operator Instructions] Go ahead. Your line is open.

Brett Huff
Analyst, Stephens, Inc.

Q

Congrats on a nice quarter, guys, and thanks for the additional detail looking forward. We appreciate it.

Warren C. Jenson
Chief Financial Officer, Executive Vice President & President-Acxiom International, Acxiom Corp.

A

Great. Thanks, Brett.

Brett Huff
Analyst, Stephens, Inc.

Q

Question on the use cases, I think it went up to 13%. And if I recall, it was a little bit below that for several quarters. And I think one of the things you would often say is that with many new logos, those new logos come on at a lower number of use cases. So it was difficult to kind of get over the hump on that kind of low 11%, 12% range. What changed this quarter that got us up a little bit? Was it – you still won a bunch of logos, but is there a change going on? Did the existing clients do more use cases or was there something else?

Scott E. Howe
President, Chief Executive Officer & Director, Acxiom Corp.

A

Yeah. Well, I think two things. And first off, you're right. It has been increasing steadily. I think the first time we shared that statistic it was, like, literally [ph] 1.2% (00:35:26) on average and that was a couple of years ago and it kind of gone up by one or two use cases every quarter. So, kind of a slow steady march.

I think a couple of things have happened. One is we've added some pretty exciting new use cases. I will tell you I am really, really excited about what we're doing in the advanced television space. Television is still – yet most people don't buy it utilizing data. However, if you think about addressable TV, over-the-top television or linear television that's data-driven, those three segments, while small, each one of them is less than a couple of billion dollars today, represent some of the most fastest growing media segments across any tactics. And we're right in the middle of all three of those. In fact, I think we're the only player in the space who offers all three of those capabilities, all three of the ways that advertisers and agencies increasingly want to buy. So that's one.

A second thing that I mentioned, we've been talking for a while about people based search, that's continued to grow primarily through Google today. But now that we are also launching Bing which – I come from the Bing world that launched under – I was part of the team that launched that back at Microsoft. They have a 20% share now. And so for every advertiser that's buying search whether they're buying Google or want to extend that to Bing, we have the use case that satisfies their full suite of needs. So that's another really neat one. So we got a lot of those things going on.

And then the other thing that we've done is you've heard me talk about evangelization for a while. And so under the leadership of a woman named Laura Desmond. Laura used to be the CEO of Starcom and now she's working with us and really an advisory capacity. But she's built up this evangelization team under her leadership and it's still small but they're going out and they're teaching clients what to do with LiveRamp. And so marketing is nothing if not a [indiscernible] (00:38:07) industry as something works then you do more of it and other people copy. And so I think this evangelization should pay dividends for us in the quarters to come.

Brett Huff
Analyst, Stephens, Inc.

Q

Great. That's helpful. And then, Warren, can you just kind of go through again for me the point you're making about, the slide that you gave us kind of looking forward on the allocation of that overhead? Can you just go through that again for me? I think I missed some of it. Thank you.

Warren C. Jenson
Chief Financial Officer, Executive Vice President & President-Acxiom International, Acxiom Corp.

A

I'd be happy to. And just for frame of reference for everybody else on the call, what Brett's referring to is disc ops accounting. So the presentation which we shared with you is also found in our proxy. And again, I'm going to repeat a little bit of what I said in our formal remarks. When you do disc ops accounting and you have obviously any cost that is directly associated with the discontinued operations or in this case AMS, goes to AMS, if the cost has a shared benefit meaning some of the benefit in our case would flow to AMS and some of it would flow to LiveRamp, that goes to continuing ops. So the first point that we made of the $100 million of overhead, $58 million of that went to – went into continuing operations. When we think about our go-forward model, we don't think that – particularly when you look as a percentage of revenue, that those costs are representative of our long-term model or our performance as we move ahead.

Now, what we would tell you are a few things, just to add a little additional color, Brett, is when we think about FY 2019, in particular when you think about expenses for continuing ops or for LiveRamp, expect that they're going to be a little bit lumpy and a little bit messy. So for example, let me talk about G&A. Well, over the course of the coming months and quarters, we're going to be building out a new corporate for LiveRamp. We have transition agreements that are in place as between IPG and Acxiom that go back and forth. We'll be terminating some comp arrangements given the separation and some of this lumpiness, honestly, will be mostly in Q2.

The other thing that I'd mention just on the cost side is expect a little bit of pressure on gross margin as we'll now be bringing the AbiliTec cost into LiveRamp. And then obviously, starting in the third quarter presuming an early close, we'll have considerable levels of interest income. So in short, the next few quarters are going to be quarters of transition. What we are focused on doing is creating operational stability during these months and then making sure that as we move into FY 2020 that we deliver a strong performance both on the top and the bottom line.

Brett Huff
Analyst, Stephens, Inc.
Q

Great. That's helpful. Thank you. I appreciate it.

Warren C. Jenson
Chief Financial Officer, Executive Vice President & President-Acxiom International, Acxiom Corp.
A

You got it.

Operator: Your next question comes from the line of Adam Klauber from William Blair. Your line is open.

Adam Klauber
Analyst, William Blair & Co. LLC
Q

Thanks. Just following up on one or two factors. Scott, I know you've talked a lot about addressable TV and it seems like a big opportunity. Could you give us any just size of revenue over a couple of years, how big that opportunity be? Even just a band of revenue just to give us some idea.

Scott E. Howe
President, Chief Executive Officer & Director, Acxiom Corp.
A

Yeah. For us, I mean we're still growing off a fairly small base here but it's growing faster than our overall business. And while today is not the time for guidance, I mean we'll do that in the coming months at our Analyst Day, what I would tell you is that as we look at this market, what we really focus in on is the $70 billion, $80 billion overall U.S. television spend as the stake in the ground and what percentage of that can actually be data-enabled.

Today, it's 5% at most – certainly less than 10%. It's probably closer to 5%. There's no reason that that percentage in a decade's time shouldn't be well in excess of 70%, 80%. It's how clients want to buy. And there are now a whole host of clients who have cut their teeth in digital advertising. They're experienced with people-based marketing and they're saying, wait a minute, if I can capture that kind of value doing data-driven personalization on digital tactics, why can't I do that on the biggest element of my media spend in television. And so we think that there is a lot of pent up demand. Quite frankly, we think we're in a really good position to capture that, considering we play across all three of the big levers in video where data will be important and our ability to capture that is predicated only on our ability to execute over the next couple of years.

Adam Klauber
Analyst, William Blair & Co. LLC
Q

Okay. And then as far as international revenue GDPR, I think you gave a good description of what's going on. So with all that back and forth by the end of the year, and again international grew which is a good sign, but by the end of the year or is it next year, do you think that growth will maybe normalize to what we're seeing before?

Warren C. Jenson
Chief Financial Officer, Executive Vice President & President-Acxiom International, Acxiom Corp.
A

We would continue to expect strong growth internationally. So as Scott mentioned in the quarter, we were up over 50% excluding Facebook. We believe there is a lot of opportunity internationally and opportunities for every one of our growth initiatives. So we're looking for international to be accretive to our growth rate for the foreseeable future.

Adam Klauber
Analyst, William Blair & Co. LLC

Q

Okay. Thanks a lot.

Operator: And we have no further questions. So I will turn the call over to Warren Jenson for closing remarks.

Warren C. Jenson
Chief Financial Officer, Executive Vice President & President-Acxiom International, Acxiom Corp.

Terrific. Well, thank you, operator, and thanks, everyone, for joining us today. We're going to wrap up our call with just four quick thoughts that we believe really summarize our messages today in our call. First of all, the AMS transaction is on track for an early Q3 close. Secondly, we want to reiterate that our guidance is reconfirmed and, in fact, our guidance is de-risked for the year. FY 2019 will be a year of transition. So again, we would expect in the back part of this year from continuing operations expect some lumpiness. But at the bottom line, and finally, we are committed to building a strong platform for growth in FY 2020 both on the top and the bottom line.

Thanks, everyone, for joining us. We look forward to talking later on today and tomorrow.

Operator: And this today – concludes today's conference call. You may now disconnect.