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Acxiom Corp. (ACXM)

Q4 2018 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Operator: Good afternoon, ladies and gentlemen, and welcome to the Acxiom Fiscal 2018 Fourth 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] Thank you. As a reminder, this conference call is being recorded.

I'd now like to turn the call over to your host, Mrs. 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 2018 fourth quarter and full-year 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.

Thank you, Lauren. Good afternoon, and thanks for joining us. I'd like to start today by addressing a few key topics. Specifically, I'll provide a brief update on our portfolio realignment and strategic process for Acxiom Marketing Solutions, discuss our GDPR readiness efforts, and address the changes to our Facebook relationship. I'll then review the quarter and talk about where each of our businesses is focused in fiscal 2019.

First, our portfolio realignment and strategic process. On our last call, we announced plans to reconfigure our portfolio into two distinct business segments, LiveRamp and Acxiom Marketing Solutions or AMS. We believe this structure unlocks several clear benefits including a simplified go-to-market strategy, stronger organizational structure, meaningful synergies, a clear investment thesis, and strategic optionality. The new structure went into effect on April 1 with minimal disruption to the business. And we will report our results under the realigned segments beginning next quarter.

Last time we spoke, we also announced plans to evaluate strategic alternatives for AMS to further strengthen the business and deliver greater value to clients. As part of our process, we are working through a wide range of options all focused on better serving clients through expanding our product offering, maximizing our value proposition, and accelerating growth.

We are pleased with our progress. While we have not committed to a specific timeline, we are moving both expeditiously and methodically. And we are confident the process will yield a successful outcome for clients, associates, and you, our shareholders.

Next, GDPR readiness, if there is one thing Acxiom has understood over its 50 year history, it is the importance of strong data stewardship and data ethics. Our mission is then to provide value to businesses and consumers through data. Importantly, as stewards of data, it is also our responsibility to be transparent and accountable for ensuring data is used in ways that benefit consumers. Our global data ethics program goes well beyond what the law requires to ensure we operate in ways that are also just and fair to individuals. Throughout our history, we have always been a leader in ethical data practices as well as vocal advocates for individual privacy rights and protections.

GDPR is a data accountability and governance law that we believe will help deliver higher standards of transparency and value for all stakeholders, the individual, societies, economies, and businesses. GDPR for companies like Acxiom that have embraced the new law is a differentiator reinforcing our trustworthiness and durability. For the past two years, our global data ethics team has led a program of continuous improvement using GDPR as a catalyst to improve our global data governance program. Working across our business and our industry, we have worked to ensure that we are not only GDPR ready by May 25, but also well positioned to serve our clients, partners, and the consumer in the years beyond.

The program first involved an in-depth assessment of GDPR against our business, including mapping current processes against GDPR, identifying all stakeholders, identifying requirements and prioritizing business needs. We then developed and implemented a blueprint for GDPR compliance, including remediating and implementing new processes, policies, and technology.

As part of this work, we inventoried all our processing and all our data sources, and LiveRamp match partners to ensure that any data we leverage is properly sourced under GDPR. This resulted in hundreds of data source reviews, data privacy impact assessments, and thousands of contract amendments. I am pleased to share that in all material respects, all major programs initiatives are complete and we will be GDPR compliant.

Now, let me provide an update on our Facebook relationship. At the end of March, Facebook announced plans to discontinue its Partner Categories program. Partner Categories provides audience targeting tools leveraging offline demographic and behavioral data like home ownership or purchase history from data partners like Acxiom.

Let me make something very clear. Facebook's decision to discontinue Partner Categories had nothing to do with the quality or ethical nature of our data models. Facebook's challenge was not around its data sourcing. It was around its ability to secure its own data. As we always have, we go to great lengths to ensure that data we leverage is ethically sourced. We have rigorous processes in place to ensure that data we procure comes from reputable providers and has the proper permissions and rights for use.

Data-driven marketing is a secular trend that is not going away. When used ethically, data transforms consumer experiences and business ROI, and that's really good for the entire industry. In fact, publishers were then first to embrace data have gained disproportionate share and revenue. Following their original announcement, Facebook came back and clarified that while third-party data would no longer be available through Partner Categories, they do intend to continue to allow marketers to utilize their own data models, dealt with first, second and third party data, so long as marketers certify that data has been ethically sourced. This means that marketers will be able to continue to use data for marketing on Facebook and represents an opportunity for us over time to recapture some of the lost revenue from Facebook via direct relationships we have with many marketers.

This is a win for marketers. Many of whom are developing unique and proprietary data models that they want to apply across all of their use cases. On the heels of this announcement, we also reached out to over 30 of our largest publishers and platform data partners, representing the majority of our non-Facebook digital data revenue. And without exception, they all intend to continue to utilize ethically sourced data in the campaigns they support. Like The Trade Desk, we have not seen any pullback in the use of data outside Facebook. In fact, April was a record quarter for the LiveRamp Data Store.

Switching gears now to the quarter and FY 2019, we delivered a solid fourth quarter highlighted by a strong top line growth, expanding margins, and continued execution across all areas of the business. Excluding divestitures, total revenue was up 9%. In fact, revenue was up in all segments and in all geographies during the quarter. Beneath the top line, we again delivered meaningful margin improvement with total company gross margin up over 300 basis points and operating income up 60%.

Now, let me discuss both of our businesses in more detail. First, Acxiom Marketing Services or AMS. Inside of AMS, Marketing Services had a strong quarter and it feels as if this business is beginning to find its stride. Revenue grew 5%, and we delivered modest bottom line improvements.

On the heels of an impressive bookings quarter in Q3, Q4 represented the largest new bookings quarter in over five years, driven by a meaningful new logo wins with Toyota, Santander Bank and American Family Insurance. We are thrilled to add these leading organizations to our growing client roster. All three came to us looking to improve their people-based data strategies and we were able to develop flexible, next generation database solutions that are omni-channel, real-time enabled, and demonstrate real ROI.

In FY 2018, we added over 20 new database logos, representing the strongest new logo year during my time at Acxiom. I am also excited to share that Q1 is on track to be another very strong bookings quarter. In the last six weeks, we signed five more new logos, including Genesis Financial Solutions, a company that puts the consumer first, by providing quality financing solutions and direct-to-consumer credit cards. As part of this deal, we will help Genesis Financial better leverage its people-based data management capabilities to identify and effectively engage consumers and drive its acquisition marketing strategy.

In addition to our new logo success, we've also recently signed several multi-year, multi-million dollar renewals, including a key renewal with one of our largest financial services clients. I feel good about the progress our Marketing Services business is generating. It took a few quarters for momentum to build, but our current trajectory is trending positive. This shift can be attributed to several factors, specifically, tighter sales force, industry alignment, a continued focus on new logo acquisition, and finally, a better product marketing EBIT.

Our next-generation marketing database is a solution clients want to buy. It is lighter weight compared to a traditional database, and much easier and faster to implement, making it an ideal solution for organizations looking to scale quickly.

Our Audience Solutions business grew 2% during the quarter despite anticipated headwinds from Facebook. Excluding Facebook, revenue would have been up high single digits, 9% driven by growth in other digital data revenue. Digital grew 4% during the quarter, but excluding Facebook, would have been up strong double digits. As discussed earlier, third-party data remains a critical component of the people-based strategies, most publishers and platforms employ. And we expect the use of our data in digital campaigns to continue to drive growth in FY 2019 despite the impact from Facebook.

Looking ahead to FY 2019, we expect AMS to be a healthy and stable business. The strategic realignment provides the focused and independent foundation to continue to accelerate the AMS business momentum we are already experiencing. Facebook will certainly create headwinds, but the underlying trends absent this impact are positive.

Turning now to Connectivity or LiveRamp. Connectivity delivered another solid quarter and the business continues to demonstrate its strong network effects. Revenue in Q4 grew 30% and we exited the quarter with a $230 million revenue run rate. For the year, revenue grew 43%, and inside of this growth, we delivered meaningful bottom line improvement with full-year segment EBITDA in the mid-teens.

LiveRamp is the industry's leading identity and data connectivity platform. It is a best-in-class SaaS business with compelling scale, growth, and operating leverage. LiveRamp's identity graph connects all the world's data with all the world's people, for all the world's use cases. And while marketing has been our current focus, the applications for this technology are much broader.

Warren and I often talk about the multiple growth levers we have at LiveRamp, specifically adding new clients, growing the existing relationships, developing new products and capabilities like B2B or addressable TV, and finally, expanding internationally. We are pulling on each of these levers and are confident in our growth outlook for LiveRamp.

Let me talk briefly about each in turn. First, new clients, during the quarter, we added roughly 30 new clients, bringing our total direct client count to over 570, up from roughly 400 clients at the end of last year. Notably, in the U.S., our direct client list now includes five of the top seven banks, five of the top nine insurance companies, four of the top five telcos, five of the top six auto companies, six of the nine largest retailers, and all three of the top three airlines.

We've experienced a lot of momentum with brands in FY 2018, and in fact, our brand business was up nearly 50% this year. We believe we still have a lot of runway to add new brands and are finding it easier to bring on the 570-first customer as the network flywheel spins. We expect new logos to continue to be an important growth driver in FY 2019.

A second key growth lever for the business is the ability to land and expand. Most brands start using LiveRamp for basic display targeting use cases. However, as we expand our coverage beyond programmatic, we're seeing some of our more sophisticated clients begin to leverage us for things like measurement and attribution, personalization, and in some cases, using us as a system of record for their entire enterprise.

Today, the average number of connections per client is approximately 12. As we continue to introduce new use cases like TV or people-based programmatic, we expect this number to grow. In fact, it is our belief that the average Fortune 500 advertiser has well over 100 different activation points with which they should be using data. So we are really just scratching the surface here.

We have nearly 40 $1 million-plus clients, up from roughly 30 at the same time last year. And as our clients leverage their data in more places, the stickier our solution becomes. Our net retention has been consistently north of 110%, a fact that which we are proud.

Next, new products and capabilities. This is an area where we're planting several seeds today that we believe will become meaningful growth drivers for us in the future. Let me briefly provide an update on a few of these initiatives.

First, the people-based programmatic consortium; a year ago on this call, we announced an effort with AppNexus, Index Exchange, and others to embed identity in the programmatic print stream. Today, we have close to 30 platforms both from the supply and demand side participate in the Ad ID Consortium. And by the end of this year, we expect over 70% of all open web inventory to be IdentityLink-enabled. This is a huge deal it has open web to programmatic spend is estimated to grow to over $30 billion in the U.S. in 2018. Importantly, it also drives ubiquity of our identity across the ecosystem, which has a flywheel effect on the rest of the business.

Next, LiveRamp TV. In conjunction with ramp up this year, we formally launched IdentityLink for TV. This is an effort we're really excited about as it expands our TAM to include the 70 billion plus TV opportunity. When we spoke with investors in March, we talked about three key things we needed to do here. One, activate the buy side; two, automate to an easy button for addressable TV; and three, extend our IdentityLink [ph] crowd (00:19:41) to include connected and OTT television-specific identifiers.

We are starting to see a lot of momentum trends. In Q4 alone, we saw campaign volume increased by more than 50% for addressable. We are working with over 20 new advertisers on this use case, including major brands across pharma, retail, apparel, CPG and travel. We also officially launched our new TV platform, which automates what would otherwise be a highly manual process. This is a huge milestone as it increases the speed at which TV can transact and makes third party data sets from our data store readily available. We now work with every major addressable MVPD and 90% of the major television networks.

Most exciting, we recently entered into a new partnership with the Adobe Advertising Cloud wherein Adobe has become the first official reseller of LiveRamp's TV capabilities. In FY 2019, we expect TV to be a meaningful growth driver for us with TV revenues expected to grow by more than 70%.

Lastly B2B. In Q4, we announced the acquisition of Pacific Data Partners to accelerate the growth of our B2B business. Worldwide, B2B marketing is a $170 billion market. However, B2B marketers have historically been unable to take advantage of the innovations identity resolution have driven in consumer marketing [indiscernible] (00:21:34). We completed integration activities earlier this month and Pieter De Temmerman and Grant Ries Co-Founders of Pacific Data Partners and former Oracle and BlueKai veterans will lead the newly-formed LiveRamp

B2B business. Peter and Grant are proven game changers in the industry, and we are very excited to have them on our leadership bench.

A final and important lever for our LiveRamp business is growth outside of the U.S. We have a very healthy business today in the UK and France, and we plan to formally launch the LiveRamp branded APAC this year, beginning with Australia this month. Importantly, some of our most innovative use cases are originating out of international. For example, we are seeing tremendous growth with our second party data offering outside of the U.S., and in fact, are working with some of the world's largest retailers on this use case.

And in APAC, we continue to work very closely with Alibaba to onboard our clients' data into the Alibaba Databank. Since making this offering available, we've added over 10 new clients in APAC and we are exploring and expanding this value proposition to other publishers.

In closing, we delivered another solid quarter in Q4, and I would like to thank our associates for their ongoing hard work and many contributions. We entered FY 2019 with a lot of optimism, and we're excited about the prospects for both of our businesses.

Thanks, again, for joining us today. We look forward to updating you on our continued progress in the quarters ahead.

I'll 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. Well, it's been quite a year and an exciting quarter. While we, like you, are focused on all things GDPR, strategic process, industry noise and so on, we believe there are a few powerful things that should not be lost.

First, Acxiom in each of our businesses is strong and poised for expansion. We have digitally transformed this company and enter FY 2019 as a thought leader and industry innovator, while a lot of others may talk, we have done. And finally, we are well down the road of beginning the next chapter of our company's history.

While I won't talk today about each of these points specifically, you will see the proof points in our results and guidance. In my portion of the call, I will share a few highlights from the year and the quarter, walk you through a view of our new segments, LiveRamp and AMS, then I will discuss the value prop of each of these businesses, and finally, provide guidance for FY 2019. At the conclusion of my comments, Scott, Lauren, and I will again proactively address some anticipated QA.

For the full-year, while fiscal 2018 certainly had its bumps and surprises, we're very proud of our company. Over the last three years, our company has undergone a financial transformation. Adjusting for divestitures, revenue has increased by an average of 7% per year. Connectivity finished with the $230 million run rate, Marketing Services just finished two of its best new logo bookings quarters in recent history.

Our gross margin has increased by over 770 basis points, and for the first year in recent history, finished over 50%. Our operating margin improved from 9% to 14%. Our cash flow has improved from $18 million to $55 million, and our EBITDA margin was a strong 20% despite ongoing investments in LiveRamp. Equally impressive, Marketing Services finished FY 2018 with an EBITDA margin just shy of 30% and Audience Solutions was at 44%.

Strategically, our business is also in a different league. We are now a digital thought leader and industry innovator. Connectivity continues to form beautifully as our growth rate was 43% as compared to 44% in FY 2017. From a segment EBITDA margin perspective, we finished the year at 14% generating close to $30 million.

LiveRamp is now with sufficient scale and ready to stand on its own, and Marketing Services and Audience Solutions are on solid footing. Together, these businesses are incredibly strong. AMS can easily be a platform for expansion and consolidation or alternatively an important leg in a strategy which embraces the secular trend of data-driven marketing.

For the fourth quarter, total revenue grew 9% year-over-year. Q4 marks the 10th quarter in a row in which revenue growth was 5% or more. Revenue was up in each segment and in each geography during the quarter. Adjusted international revenue increased by 18%. Excluding Facebook, total revenue increased 12%, and for Connectivity, an impressive 34%.

Total gross margin reached 54%, and was up over 300 basis points. Operating income of $34 million grew 61% year-over-year. EBITDA was $50 million, up 36%. And we continued our track record of returning capital to our shareowners as we repurchased 1.7 million shares for $49 million during the quarter. It's also worth noting that since our fiscal year end, we have repurchased an additional 1.9 million shares for approximately $46 million. Net calendar year-to-date, we have repurchased 3.6 million shares for approximately $95 million. Since inception of our repurchase program, we have repurchased a total of 21. 9 million shares for approximately $420 million.

In summary, Acxiom is a financially and strategically transformed digital leader. We are an innovator and poised to step into the next chapter of our growth and innovation. Charts 5 through 12 are the same in format and content as we've included in past quarters. These charts summarize our quarterly results.

Next, our two segment structure. Before jumping into guidance, let me spend a few minutes on our segment realignment, which is now in effect. Please turn to slide 13. On this slide, we simply wanted to remind everyone how the business operations aligned by segment. On slide 14, we have prepared a reconciliation which starts with our three segments and then highlights the reclassification of a few items. Specifically, we have now aligned TV with LiveRamp, and internationally, we've made some clean perimeter breaks. France is now 100% aligned to LiveRamp, and our German business 100% aligned to AMS.

One slide 15, we have included a two-year trend line for AMS, financially, you see a very healthy business. It has scale with revenues of approximately $700 million, a gross margin in excess of 45%, and strong operating leverage with a contribution margin of roughly 30% and an EBITDA margin of 35%.

LiveRamp, slide 17 highlights the same two year trend for the LiveRamp segment, and slide 18 includes some additional SaaS metrics. A few things I would like to highlight. Overall revenue increased 43% this past year, revenue excluding Facebook was up 47% in FY 2018, subscription revenue was just under 80% of total revenue and increased 50% while transaction revenue was up 21%. It's clear why we are so pleased with this business and why we believe this is a best-in-class SaaS investment opportunity.

Now, on to guidance, please turn to slide 20. We recognize this is a unique year for at least a couple of reasons. First, we are in the middle of a strategic process, and secondly, we will be working through the Facebook impact. Therefore, we plan to give a lot more detail, most notably, our growth rates excluding Facebook. We believe this is an important metric on which to focus as it represents our normalized performance. As a final reminder, our guidance excludes items including non-cash stock comp, purchase intangible asset amortization, restructuring charges and transaction-related costs. I'll start with revenue. Please turn to slide 21.

In fiscal 2019, we expect overall revenue of between $935 million and $955 million, an increase of between 2% and 4%. Excluding Facebook, we expect revenue to increase by roughly 10%. For the LiveRamp segment, we expect revenue to increase by 25% to 30%, excluding Facebook, revenue to increase by at least 37%, and subscription revenue to increase over 30%. On the bottom line, we expect GAAP loss per share of between $0.18 and $0.23, and adjusted earnings per share of between $0.90 and $0.95.

Slide 22 includes our expected revenue phasing and slide 23, our other guidance assumptions. A few additional call outs. Q1, we would expect adjusted EPS to be in the high teens. One-time items outside of transaction related spending and potential restructuring charges, we expect no material one-time expense. Given our strategic process, transactional related spending will however be material.

Stock-based comp, please turn to slide 24. In FY 2019, we expect stock-based comp to be approximately $85 million or roughly 9% of revenue. While we recognize the significance of this expense, please remember that roughly 50% of the total is acquisition-related. In FY 2019, the increase is primarily driven by the acquisition of Pacific Data Partners. Remember, the pay-out is 100% performance based and dependent upon revenue targets.

With that, let me close with a few final thoughts. Our industry remains strong, vibrant, and smack in the middle of a secular trend, which is not stopping. Data-driven marketing is here to stay and not the proprietary asset of a select few giants.

Next, we enter FY 2019 in an exciting place. Two strong businesses, both poised for expansion and continued leadership. We expect FY 2019 to be another defining year. And finally, we remain committed to supporting our share owners through our ongoing share repurchase program.

I will now turn the call over to Lauren for some Q&A.

QUESTION AND ANSWER SECTION

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

Thanks, Warren. Let's start with a few questions on the AMS process. Scott, using the baseball analogy, can you tell us what inning you are in and when you think a transaction may close?

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

Yeah. Lauren, let me first iterate a few things. As it relates to the process, we are pleased with our progress. It's clear that both AMS and LiveRamp are unique and important assets. In terms of the inning now, I'd put us squarely in the middle innings. As to the timing, it's still too early to be specific.

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

Thanks, and then just another one for you, Scott. Have you narrowed down your list of potential strategic options? From what I've heard, you're focused primarily on a sale?

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

Lauren, I can't and won't comment on any specific option or structural alternative. It's just way too early to close any doors.

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

And have you received any interest in LiveRamp and/or the whole company?

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

Our focus is on AMS, and beyond that, we simply will not comment.

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

Great, thanks. Warren, a question for you. Now that you're further along in the process, do you have a better sense of how to allocate corporate expense between the segments?

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

Sure, Lauren. Consistent with what we said last quarter, for LiveRamp as a public company, we would expect standalone G&A to be approximately 15% to 20% of revenue. For AMS, it's all dependent on the potential partner, for some, there will be no incremental overhead and for others it could be as high as 10% of revenue.

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

A

Thanks. And Warren, what would be an appropriate tax basis to use for AMS?

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

A

We have an update to our previous comments. With some additional structuring, we now expect our basis to be approximately $350 million versus our previous guidance of $250 million.

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

A

Thanks. Switching gears now to Facebook. Scott, what is your relationship with Facebook going forward? And do you expect to generate any material revenue from Facebook in FY 2019?

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

A

Well, our relationship has changed. But Facebook remains an important destination. The good news is that we are working with Facebook to meet the needs and demands of our mutual clients. On an ongoing basis, our clients expect that we will continue to be a data safe haven and provide important matching, audience expansion, and distribution services. In FY 2019, we are expecting to generate roughly $5 million in revenue from Facebook all in the early part of the year.

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

A

Great. Thanks. Question for you Warren. By my math, it would imply Facebook represents a $55 million impact year-over-year. How can you possibly offset this impact in a single year and basically keep your EPS roughly flat?

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

A

Great question. The short answer is that we jumped right on top of the problem. Here is the math using round numbers. In AMS, the impact is roughly $35 million year-over-year. Our divisional realignment unlocked roughly $20 million in savings. In addition, we're expecting roughly $15 million in additional operating leverage throughout the year. In LiveRamp, the year-over-year impact is approximately $20 million. This is being more than offset by growth and operating leverage.

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

A

Great. And one follow-up. Can you reconcile your last press release highlighting a $25 million impact with the $55 million impact we just discussed?

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

A

Again, a great question. Remember we already took a hit from Facebook earlier in FY 2018; therefore, the majority of the impact had already been factored into our preliminary guidance.

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

A

Thanks. And then just a couple of miscellaneous questions. Warren, thanks for providing the three segment to two segment bridge, but I was surprised there was not an adjustment for AbiliTec given the IP is moving to LiveRamp. Can you help me understand how to think about that?

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

A

Sure. First, you're right to raise the question. The AbiliTec IP has now been moved into LiveRamp. However, you will not see any revenue impact inside of LiveRamp until the point of a transaction.

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

A

Great. And then another one for you, Warren. At the end of March, you've reaffirmed your guidance would be at least 30% for LiveRamp, now you're at 25% to 30%, what changed?

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

A

As we went through our final planning, we thought 25% to 30% ended up being the right answer. We are simply trying to be appropriately conservative in our guidance. Let me again reiterate, however, that absent the Facebook impact, we expect the LiveRamp segment to grow over 37%. This is a very strong performance, and more indicative of our steady state trends.

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

A

Great. And then final question for me, Warren, stock-based comp is materially increasing again this year. How should we think about stock-based comp going forward?

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

A

Lauren, I'm glad you brought this up. A few things to know. On chart 24, we have provided a breakdown of our stock-based compensation. We would again highlight that roughly half our projected FY 2019 expense is associated with acquisitions. Next, I want to reiterate something we've said in the past. Using stock-based comp as an acquisition tool is a practice we will continue to use and employ as it is worked beautifully as a retention tool. Next, when looking at our ongoing stock comp expense as a percentage of revenue, it is well in line with industry benchmarks.

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

A

Well, great. Thanks. That's it for me, guys. Operator, we will now open the call to other questions.

Operator: [Operator Instructions] Our first question comes from the line of Brett Huff of Stephens, Inc. Please go ahead. Your line is open.

Brett Huff
Analyst, Stephens, Inc.

Q

Good afternoon, everybody.

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

A

Hey, Brett.

Brett Huff
Analyst, Stephens, Inc.

Q

First question on – just a follow up on Facebook. Scott, can you go into a little more detail on kind of how the process used to work on third party data consumption by Facebook, and how it's going to happen now? Is the understanding that simply rather than going direct to Facebook, Acxiom will work with the marketers and the marketers will then ingest the data, certify it, and that's how Facebook will get it directly from the marketers or is there a new one there that I'm missing?

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

A

Yeah. So, let me let me unpack that a little bit. First off, just a little bit more broadly, the two main ways that we work with Facebook would be first feeding what they had called their Partner Categories program. And as you know, Partner Categories was an effort by them over the past few years to layer in additional ethically sourced information into their inventory, so they could sell more audience tailored ad packages. The second way that we work with them is what we'll call data onboarding, which is the process whereby which advertisers can take their own custom models, their own ethically sourced data, permission enabled data and use that [indiscernible] (00:43:02) Facebook inventory and purchase only the audiences, only that the customers with which they have existing relationships.

The Partner Categories program is what has been discontinued here. What Facebook has decided to do given the glut of information that they have on their own site is turn off any external data and instead use their data for advertisers who want to buy specific audiences using that kind of standard demographic model third-party type information. However, most of the advertisers that Acxiom works with are very large sophisticated advertisers who are already on their on-premises combining first, second and third-party information typically starting with their own CRM file and then porting that over to Facebook.

So while the impact here will be felt in kind of mid to long tail advertisers who were going into Facebook and building a custom campaign ,we believe that at least a portion of that over time will be offset because essentially what they've decided to do by allowing the data onboarding is for sophisticated advertisers, they're going to be able to plan their own segments and then traffic those segments, that blueprint across all of their other activation points including Facebook and all their other touch points. So that's a – it's a smart move by Facebook and welcome news to advertisers.

Brett Huff
Analyst, Stephens, Inc.

Q

That's helpful. And one follow up on GDPR. It sounds like you guys are ready – you've been talking about that for a while, which is great. One question we've been getting from folks is – and, Warren, I think you referred to this a little bit on the last call – a slowdown in marketing and data buying around marketing from European companies as they kind of see how the dust settles. Are you seeing that happen as you expected better or worse? And then also are we seeing that leak over into U.S. companies who may not have any operations in Europe and how their posture is on that? Thank you, and that's all I had.

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

A

What I would say, Brett, is as you would expect everybody's being very careful. And in the long-term, in particular, this works smack in our favor as clearly we are a privacy leader, we have been on top of this for the last two years, and we're working with some of the most sophisticated brands in the world. We are seeing some slowdown, which has already factored into our guidance, just as I had mentioned earlier. But, you know what, data driven marketing is alive and well globally. As an example of that 30 new logos in Q4 inside of LiveRamp, well 10 of those were in Europe. So marketers, brands everywhere are focused on, yes, being compliant, that's a very positive thing. It's exactly what we want to do and will be as well, but at the same time, they're moving forward.

Brett Huff
Analyst, Stephens, Inc.

Q

Thank you.

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

A

Thank you, Brett.

Operator: Your next question comes from the line of Bill Warmington of Wells Fargo. Please go ahead. Your line is open.

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

A

Hey, Bill.

William A. Warmington
Analyst, Wells Fargo Securities LLC

Q

Good Afternoon, everyone.

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

A

Good afternoon.

William A. Warmington
Analyst, Wells Fargo Securities LLC

Q

So, first – the first question for you is on the guidance for Connectivity. You know you're talking about it being in the 25% to 30% range with the Facebook impact, and excluding the Facebook impact being at least 37%. And so, one question is, it sounded like in other parts of your comments that you had a pretty good opportunity to hold on to a lot of that revenue especially within the LiveRamp Data Store? And then the other is you are working with sort of a range of 25% to 30%, it looks like 37% would be basically in the midpoint of the range of 35% to 40%. Is that the way to think about it?

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

A

I would say again our guidance is what it is, but the answer to your question is yes. In terms of if you were going to create a range, what we thought was important to do was to highlight everything that we're seeing today is obviously early days. Our guidance at 25% to 30% just as I said in my prepared remarks is what we thought to be appropriately conservative for where we are.

The other thing that I would point out though to everybody is that we have, as Scott highlighted, some really interesting growth initiatives underway even on top of the success we're already having with brands. TV, B2B, our second party data work and international each of those is expected for the year to be up over 50%. So we have some real strong businesses that we're working on with and some – creating some real interesting opportunities for LiveRamp.

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

A

And Bill just to jump back to answer your specific question, and as I'm sure you're familiar with I mean we're always reluctant to forecast things that we haven't yet done. And so, when we talk about the Facebook transition, we know what revenue is going away. But we have not modeled specific revenue for the migration from Facebook Partner Categories into client initiated on-premise onboarding buys.

William A. Warmington
Analyst, Wells Fargo Securities LLC

Q

Okay. I have another question for you on, the deferred revenue on the balance sheet, I notice that that was down sequentially and also down year-over-year. Is that related to reclassification or what's going on with that?

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

A

Anything there is really related to timing.

William A. Warmington
Analyst, Wells Fargo Securities LLC

Q

Okay. And then on, you'd mentioned that connections per client were running at about 12 on average. And then also that theoretically, we could be looking at 100 activation points for a typical Fortune 500 company. I wanted to ask, as you look out on the portfolio today, what's the highest number of connections being used by any one client today?

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

A

Yeah. Bill, and I think the 100 number is fairly conservative. Our high point right now is, one of our financial services clients has distributed data with 40 different activations. And I'll tell you, we're really pleased with the 12 number, because the more activations you have, the harder, the greater switching costs obviously are, at a number, when we get up to 20, 30, and 40 we feel like we're going to be powering those clients for a long, long time.

William A. Warmington
Analyst, Wells Fargo Securities LLC

Q

And then also congratulations on the APAC launch for LiveRamp in Australia. We've heard from some clients that they're excited about you guys moving more broadly internationally. And so my question for you is do you have a date for when you're heading to India, that seems to be a particular market for you?

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

A

I thought you are going to ask when our Australian road show with you was going to be. But, yeah, we don't and I'll tell you we prioritize these, Bill, based on by and large part what our clients are asking for because we'll move to adjacent markets when our major clients are ready to do so. And while we feel good about the growth that we're seeing in international and our plans to expand there, I will tell you that if you stack up international opportunities relative to just expanding our use cases, more activations in the U.S. Right now, most of our clients are focused on how do they go from 12 to 13th use case because they have lots of ideas with which to light up their data, and so that's where we're putting more of our focus right now.

William A. Warmington
Analyst, Wells Fargo Securities LLC

Q

Okay. Well, thank you very much and good luck with the whole strategic process.

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

A

Thanks, Bill.

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

A

Thank you, Bill.

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

Daniel Salmon
Analyst, BMO Capital Markets (United States)

Q

Good afternoon, everyone. Thanks for taking the questions. Maybe just the first one for Warren. Thank you for – and Lauren as well, as I know you did a lot of this work behind the scenes, is all the slicing and dicing of the revenue and the guidance including and excluding Facebook. I think I know the answer to this, but I just want to ask it bluntly is the guidance assuming that some portion of the revenue that was done through Partner Categories is functionally recaptured by advertisers doing it themselves on their own end for their campaigns on Facebook. I just want to make sure I'm clear on that, and if you can quantify that would be great.

And then second maybe for Scott, and certainly your Chief Risk Officer and Policy Department is if we get – start to cautiously look at GDPR, are there any pieces of legislation ballot initiatives we've seen some in California, we've seen some Senate legislation discuss that is sticking out as being particularly relevant to different parts of Acxiom or maybe said in another way changing data practices in a way that you didn't anticipate? Thanks.

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

A

Hey, Dan. I'll start up on the first one and I want to reiterate something that Scott said which is absolutely true on our guidance and in our plan. We don't really forecast things that we haven't yet proven out. So relative to your first question meaning advertisers, in effect, acquiring third-party data directly from us as opposed to through Facebook or Partner Categories, that is not in our numbers. So should we be successful in that that would be upside for us.

I would say really three things though in that regard before turning it over to Scott. First of all, the use of third-party data continues with our customer base and in the industry, both Scott and I made the point that this is a very healthy industry and the use of third-party data has not gone away. Secondly, the phenomenon that you are talking about, our clients are speaking to us directly about that possibility. And then obviously we are speaking to them as well. So stay tuned.

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

A

Yeah and on the second regarding GDPR, we think that this is the start of a journey as opposed to the end point of it. And you're exactly right, Dan, there is pending legislation, you mention the California ballot initiative, there are others though. The good news is as we look at GDPR and indeed any contemplated legislation in the U.S., those pieces of legislation almost always start with two fundamental principles, giving consumers greater visibility, and then second, giving them greater control over their data. And we think that those two principles make it even more important for companies like Acxiom to exist and be very important in the industry.

And in fact I've become a master at like nuanced GDPR language, there is one of the provisions Recital 63 where possible the controller has to provide remote access to a secure system, which would provide the subject with direct access to their personal data. That recital, Recital 63 describes what we released four to five years ago with about the data. And so, in fact the things that we've done we see influencing policy. So, again, we feel really good about where this is all going. It shines a spotlight on our safe haven and our ethical data stewardship, and at the same time is going to weed out the bad players in the industry that have kind of pulled us into their mess at times, and that is good for us and good for the industry to get rid of those guys.

Daniel Salmon
Analyst, BMO Capital Markets (United States)

Q

Okay. Great. Thank you both.

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

A

Thank you.

Operator: There are no further questions at this time. I'd now like to turn the call over to Warren Jenson for closing remarks.

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

Let me again thank, everyone, for joining us today, and I'll just conclude with a few final thoughts. The first thing, I'd like to reiterate, our industry remains very strong. It is vibrant and we are in the middle of the secular trend, which is not stopping. Data-driven marketing is here to stay.

Next, we are entering FY 2019 in a very exciting place. We have two very, very strong businesses, one in AMS, and one in in the form of LiveRamp. Both of these businesses are poised for growth, poised for expansion. We expect this to be another defining year. Our process is going extremely well and we look forward to updating you in the weeks and quarters to come. Thank you.

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