

02-Jul-2018

Acxiom Corp. (ACXM)

Acxiom Marketing Solutions Business (AMS) Divestment Call

CORPORATE PARTICIPANTS

Lauren Dillard
Vice President-Investor Relations, Acxiom Corp.

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

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

OTHER PARTICIPANTS

Brett Huff
Analyst, Stephens, Inc.

William A. Warmington
Analyst, Wells Fargo Securities LLC

MANAGEMENT DISCUSSION SECTION

Operator: Good afternoon, ladies and gentlemen, and welcome to the Proposed Sale of Acxiom Marketing Solutions to the Interpublic Group Conference Call. My name is Tim, and I'll be your conference operator today. After the speakers' remarks, there will be a question-and-answer session. [Operator Instructions] As a reminder, this conference call is being recorded.

I'd now like to turn the call over to your host Ms. Lauren Dillard, Head of Investor Relations.

Lauren Dillard
Vice President-Investor Relations, Acxiom Corp.

Thank you. Good afternoon, and welcome. Thank you for joining us on such short notice to discuss Acxiom's planned sale of its Acxiom Marketing Solutions business. With me today are Scott Howe, our CEO; and Warren Jenson, our CFO.

As a reminder, today's press release in 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 is available at acxiom.com. Also, during the call today, we'll be referring to the slide deck that is posted on our IR 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, everyone and thanks for joining us. Today, we announced that we've entered into a definitive agreement to sell our Acxiom Marketing Solutions business to the Interpublic Group for

\$2.3 billion in cash. This announcement marks yet another significant milestone in our transformation journey, and we believe it represents a big win for all constituencies.

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 career growth. LiveRamp can seize the 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.

AMS is a strong business with deep expertise in data-driven marketing and unique capabilities to help brands, agencies and their technology partners harness data to improve every customer interaction. In fact, this deal is happening at a time when AMS is generating a lot of momentum. We just looked at our numbers. And on the heels of two exceptional bookings quarters, the business closed yet another very strong bookings quarter in Q1.

Once combined with IPG, AMS will benefit from increased scale and a broader portfolio of complementary services, creating an industry-leader for data-driven marketing solutions. The transaction was unanimously approved by our board of directors and is expected to close in our third fiscal quarter subject to regulatory review, Acxiom shareholder approval and other customary closing conditions.

In addition, today's transaction concludes our previously announced strategic review process. As you know, in February of this year, we announced plans to evaluate strategic alternatives for AMS to further strengthen the business and deliver greater value to clients. As part of the process, we took into consideration a wide range of options for AMS, including strategic partnerships, a tax free spin-off, sale or other potential strategic combinations. After conducting a thorough and competitive process, it became clear that the sale of AMS to IPG is the best path forward for this business and provides the greatest growth opportunities for our clients and associates.

IPG is one of the world's leading organizations of advertising agencies and marketing services companies. And importantly, it shares many of the AMS core values including a commitment to integrity, transparency and diversity and a sharp focus on creating value for clients. While the AMS team has done a tremendous job in navigating the continuously evolving market, we believe that as part of IPG, AMS clients will benefit from greater scale, highly complementary services and an even broader set of solution offerings.

The deal brings together Acxiom's industry-leading ability to implement a data foundation for omni-channel customer engagement and IPG's deep expertise in media strategy, creative design and campaign management. Together, IPG and AMS will be able to uniquely position CMOs for success in a world where data has become the key to providing exceptional customer experiences.

Further, AMS associates will be part of a much larger organization with expanded opportunities for career growth. This transaction also provides significant benefits to Acxiom shareholders, as it will unlock immediate cash value and enable the company to return greater capital through accelerated and ongoing share repurchases. Consistent with our past capital allocation practices, we intend to take a balanced approach to capital deployment, which Warren will walk you through in a moment.

As we work towards the close of this deal, the AMS team is 100% focused on its clients and remains committed to delivering the exceptional level of service clients have come to expect. The remaining team will be focused on the opportunities inside our fast growing SaaS, LiveRamp business. Upon transaction close, we will transfer the Acxiom brand name and associated trademarks to IPG and rename the company, LiveRamp.

Warren and I are excited to remain in our current roles and are fully committed to the future success of LiveRamp. LiveRamp is a best-in-class SaaS business with compelling scale, growth and operating leverage. Its mission is to provide the identity infrastructure that powers exceptional customer experiences.

With greater financial flexibility, we will be able to accelerate our progress in line with this mission. Specifically, we will be able to fund both organic initiatives and external bolt-on capabilities that extend our lead in the growing identity and data connectivity space and help us build on our strong momentum in the market.

Further, LiveRamp will continue to partner with AMS following the transaction close. And we are focused on ensuring a seamless transition for our LiveRamp clients who also leverage AMS technologies and solutions. As always, we remain committed to neutrality in our partner relationships.

Looking ahead, I know I speak for the entire senior leadership team when I say that we are truly excited about the opportunities that lie ahead. And it is on a day like this one that I reflect back on the incredible journey we have been pursuing. The company we have become in no way resembles the company I joined in 2011. At that time, I remember being told by one of the largest consultancies in the world that while there was a lot of shareholder value to be created, the effort required to do so was massive and it was almost an insurmountable challenge. This team has done a phenomenal job over the last several years. And I want to take this opportunity to thank all of our talented associates for their ongoing and unrivaled dedication.

Today's announcement is a true testament to their hard work and a validation of the value we've created for our shareholders, clients and associates. I have been so fortunate, so incredibly fortunate during my time at Acxiom to work with amazing leaders. Warren Jenson, Dave Eisenberg and Jerry Jones have been my copilot's at every step along the way. And each of us has been further energized by the talent and leadership that Anneka Gupta and James Arra have contributed to our group.

And while we together accomplish much, we all feel as if we are only just getting started. I have never been more optimistic about our future than I am right now here today, and I can't wait to share our progress in the quarters and years ahead.

Thank you again for joining us today. Let me now turn the call over to Warren who will share more detail on the transaction and our go-forward business.

Warren C. Jenson

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

Thanks, Scott, and good afternoon, everyone. Well, it's a big day. And for those of you, who have been with us over the last several years, today marks the biggest milestone yet in our ongoing transformation. AMS will join a powerful agency in IPG and will be able to offer our clients even more services and capabilities. At the same time, AMS brings an unparalleled data-driven knowledge base to IPG and their clients. In short, a perfect marriage.

LiveRamp now takes center stage as the true independent source of identity for the entire customer experience-driven economy. And after the close, our shareholders will receive yet another meaningful return of capital. Truly a win for everyone, our industry, consumers and clients and all our associates and our shareholders too.

During my portion of today's call, I'd like to first review the transaction then discuss our planned use of proceeds and finally provide some preliminary thoughts on what you can expect over the next several months.

First, the transaction. Please turn to slide 6. IPG will purchase AMS for \$2.3 billion in cash or roughly 13 times trailing EBITDA. After taxes, fees and other transaction and separation-related costs, we expect our net proceeds to be roughly \$1.7 billion or \$22 per share. In addition, post-transaction, IPG and LiveRamp will have an ongoing commercial relationship including an expanded relationship involving Data Store, the use of AbiliTec and IdentityLink.

The deal is subject to standard closing conditions and customary consents and, given its size and significance, requires Acxiom shareholder approval. Based on our best estimate, we would expect the transaction to close early in our third fiscal quarter. Upon closing, the Acxiom brand will remain with AMS and be transferred to IPG. Our company will be renamed LiveRamp, and shortly after the close, trade under the new ticker RAMP. LiveRamp will be headquartered in San Francisco.

Next, use of proceeds, please turn to slide 7. First, don't expect any big changes as to how we approach our balance sheet, our debt profile, acquisitions or returning capital to shareholders. Since launching our share buyback program in 2011, we have returned approximately \$420 million to our share owners. At the same time, we divested of businesses where there wasn't an obvious strategic fit. And finally, we were not afraid to be bold and make key investments in our business and in our people. We have made smart acquisitions like LiveRamp, Arbor and Circulate and most recently Pacific Data Partners.

That said, when it came to acquisitions, we have played where we had a clear advantage. We leveraged our core capabilities and technology to create significant long-term synergy and value. While we would never claim immunity from a mistake, our demonstrated and disciplined approach to strategic acquisitions will not change. The same discipline holds true when it comes to returning capital to share owners. We are a team that has walked the talk.

So, what's our plan for using the proceeds? Please turn to slide 8. Over the past several months, we've spoken with many of you about capital allocation and thoughts on an optimal approach for returning capital. Here's what we heard. From one shareholder, we expect a meaningful return of capital, a portion of which should be immediate. A clear declaration and statement of your intentions, that announcement is important. All things equal, we prefer share buybacks to a onetime dividend.

From another shareholder, we are supportive of the company's demonstrated approach to acquisitions and expect you to maintain financial flexibility to capitalize on potential opportunities. Be NPV smart; don't distribute all your cash today only to pay high fees on a future capital raise. And finally, keep your options open. We believe in the future of LiveRamp. Well, we do too.

Therefore, our board has improved the following. Subject to closing, we will pay off our existing debt, initiate a \$500 million tender offer for our common stock, and increase our existing share repurchase authorization by as much as \$500 million. We will also concurrently extend the authorization of our program to December 31, 2020. Our program has the standard caveats you would expect. We reserve the right to expand, modify or terminate our program at any time.

Finally, please turn to slide 9, which highlights a preliminary timeline and a few things you can expect from us over the next several months. Under the terms of the agreement, we will file for HSR approval by the end of July. In early August, we will hold our regular Q1 earnings call and at that time, we'll update our guidance assuming AMS will be reported in discontinued ops. On this call, we will also present a historical view of our results with AMS in discontinued ops.

In August, we will issue our proxy. And assuming we have the required regulatory approvals, we will hold a shareholder vote in mid-to-late September. We anticipate the transaction will close early in our third fiscal quarter.

Throughout the quarter, we will also conduct several mini camps or programs on our various LiveRamp initiatives for the investment community. Upon closing, the company will be renamed LiveRamp, and shortly thereafter trade as RAMP. The ticker symbol, RAMP, has been reserved on both the NASDAQ and NYSE. And finally, shortly after the transaction closes, we will host a LiveRamp Investor Day highlighting our company, our strategy and most importantly, our leadership team.

Please turn to slide 10. I'll now conclude with three simple thoughts. Today is a great day for AMS, our clients and associates. After concluding a highly competitive process in evaluating several alternatives, we believe AMS is partnering with the right global leader and with a company where our team will fit in extremely well.

At closing, LiveRamp will emerge as a public company with a great balance sheet, [ph] top to our (00:17:26) leadership and with a vision and passion necessary to capture our enormous opportunity. And finally, we are again pleased to continue our long-established pattern of taking bold steps and thereby creating value and returning capital to you, our share owners.

Thank you for joining us today, and we will now take a few questions. Operator?

QUESTION AND ANSWER SECTION

Operator: Thank you. [Operator Instructions] Your first question comes from the line of Brett Huff with Stephens. Your line is open.

Brett Huff

Analyst, Stephens, Inc.

Q

Good afternoon, and congratulations on the announcement.

Warren C. Jenson

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

A

Hey. Thanks, Brett.

Scott E. Howe

President, Chief Executive Officer & Director, Acxiom Corp.

A

Thanks, Brett.

Brett Huff

Analyst, Stephens, Inc.

Q

Great price. So, and thanks for the detail and kind of thinking strategically about what's coming next, the timeline was helpful. When we think about how we're going to – what amount of money we're going to use for M&A versus repo and internal investment, it seems to me that \$230 million of debt and then \$500 million of immediate tender leaves roughly \$1 billion. Can you give us any more insight into how you're going to make that decision or if you have any preliminary ideas of, are there things out there that you're already interested in from an M&A point of view, kind of give us a sense of that final capital allocation if you could?

Warren C. Jenson

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

A

What I would say, Brett, when we think about our business and it's a little bit like I said in the formal part of the remarks and Scott may want to weigh in here too is, don't expect any changes. When we think about M&A, we want to play with an advantage and leverage our strengths. And I think this is an exact case where history is the best guide to the future. Our attitude and practices are not going to change. We've been highly disciplined. We've looked for places again, where we can play with an advantage and leverage our core competencies and our strengths. That is not going to change.

We are going to continue to focus on long-term value in places where we can create synergy. The great news when thinking about return of capital, we were getting ready for this call and going through the transaction and obviously, included in our deck, we put some of the SaaS multiples for everybody to take a look at. And what we realized is that, if we were a young SaaS IPO candidate right now, every single one of those companies would actually just kill to be in our position in this situation.

And if you think of where LiveRamp is going to emerge, it's going to emerge as a well-capitalized company with no debt, plenty of acquisition flexibility and at the same time, our plan is to return up to \$1 billion of capital to our share owners and reduce the share count. How could you ask to be in a better position than that? So, coming back to your question as to our priorities, number one, drive long-term growth and long-term return on invested capital; two, have the flexibility in our balance sheet and capabilities to drive strategic M&A growth and partnerships; and then, third, do as we have consistently done for the last six years opportunistically return capital to our shareholders.

Brett Huff

Analyst, Stephens, Inc.

Q

Right. Appreciate the feedback.

Warren C. Jenson

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

A

Thank you.

Operator: [Operator Instructions] Your next question comes from the line of Bill Warmington with Wells Fargo. Your line is live.

Warren C. Jenson

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

A

Hey, Bill.

William A. Warmington

Analyst, Wells Fargo Securities LLC

Q

Good afternoon, and congratulations on the deal.

Warren C. Jenson

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

A

Thank you.

William A. Warmington
Analyst, Wells Fargo Securities LLC

Q

So I wanted to ask about the ongoing LiveRamp business. Specifically, to ask about – you've laid out some helpful metrics on the slide deck. Where I wanted to get a little more clarification was on the ongoing G&A. You'd talked in the past about corporate being kind of 15% to 20% of revenue for LiveRamp. And I just want to make sure corporate and G&A are sort of one and the same or how should we think about the operating margin for that business?

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

A

Bill, let me see if I can give you a little bit of guidance. And I want to say, I guess, reiterate something on this call. The purpose of this call is not to give guidance or to talk in detail about our go-forward plan for LiveRamp, rather to really talk about the details of today's transaction. But I think I can provide some color on your question nonetheless.

When we think about LiveRamp, think of it as a segment. And our guidance at the beginning of the year was that it would have a segment margin in the low teens, okay, and that's the segment margin before corporate overhead. The only other thing that I would tell you is exactly what you just mentioned. If you benchmark a comparably sized public SaaS company, the corporate overhead they would grow into would be about 15% to 20% of revenue.

So, if for purposes of your modeling, we recognize it's going to take us some time to build into that, but that's how you should also think about the profitability profile of LiveRamp. CapEx has been running kind of give or take 5% of revenue. So, more to come on that topic, but hopefully that's helpful in the short term.

William A. Warmington
Analyst, Wells Fargo Securities LLC

Q

Okay. So, just to be clear, it sounds like the operating margin may actually be negative initially as you grow into it, is that the takeaway?

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

A

Bill, I think we'd just tell you to go ahead and apply that math, but that is likely the outcome. Now, again, what you should take into consideration is really our margin expansion that we have seen year in and year out. So, while that may be the case, obviously, we have consistently been able to drive increases in leverage as our volume has increased too.

William A. Warmington
Analyst, Wells Fargo Securities LLC

Q

Got it. All right. And a question on the transaction. Are there breakup fees for Acxiom and IPG?

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

A

We will file our agreement tomorrow, Bill. So we'd say, everybody, it's going to be open there for everybody to take a look at. I'd mention two things. Standard breakup fee, everybody should understand though that we are fully committed to making this transaction happen.

William A. Warmington

Analyst, Wells Fargo Securities LLC

Q

Got it. And then one final one if I could. You mentioned some long-term agreements with AMS, just wanted to double check what those were or how we should think about those for LiveRamp?

Warren C. Jenson

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

A

You should think about two things. And I'm going to talk about long-term arrangements with think of AMS and IPG or IPG now in total. There are two aspects to our arrangement. Obviously, LiveRamp and AMS share a lot of clients. So, AMS and IPG will be a very important partner of LiveRamp in the go-forward world. It's one of the terrific things about this arrangement is, we already had a great relationship with IPG and we intend, along with them, to expand that relationship.

So, item number one is, we share a lot of clients between LiveRamp and AMS. Item number two, as I mentioned in the formal part of my remarks, Bill, we will expand the relationship that exists today between LiveRamp and IPG.

William A. Warmington

Analyst, Wells Fargo Securities LLC

Q

Got it. Well, thank you very much, and again congratulations.

Warren C. Jenson

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

A

Great. Thank you.

Scott E. Howe

President, Chief Executive Officer & Director, Acxiom Corp.

A

Thanks, Bill.

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.

Great. Well, thank you operator, and thanks to those of you who could join on such short notice. Let me just, again, end as I did the formal part of my remarks. But first by thanking again all of you as shareholders who are supporting us and being with us on this journey. It's not over. In some ways, it's just beginning. Also thanks to all of our associates around the world for all the hard work you've done to make this possible.

Today is a great day for AMS. It's a great day for our clients and for our associates. It's a great day for LiveRamp. Here in a few months LiveRamp will emerge as a very strong highly capitalized public company with a wonderful opportunity in front of us. And then finally, we want to, again, thank you our shareholders and reiterate that we're pleased to continue our long-established pattern of taking bold steps and thereby creating value and returning capital to you, our share owners. Thank you very much and look forward to chatting in the days ahead.

Operator: This concludes today's conference call. Thank you for joining. You may now disconnect.

Disclaimer

The information herein is based on sources we believe to be reliable but is not guaranteed by us and does not purport to be a complete or error-free statement or summary of the available data. As such, we do not warrant, endorse or guarantee the completeness, accuracy, integrity, or timeliness of the information. You must evaluate, and bear all risks associated with, the use of any information provided hereunder, including any reliance on the accuracy, completeness, safety or usefulness of such information. This information is not intended to be used as the primary basis of investment decisions. It should not be construed as advice designed to meet the particular investment needs of any investor. This report is published solely for information purposes, and is not to be construed as financial or other advice or as an offer to sell or the solicitation of an offer to buy any security in any state where such an offer or solicitation would be illegal. Any information expressed herein on this date is subject to change without notice. Any opinions or assertions contained in this information do not represent the opinions or beliefs of FactSet CallStreet, LLC. FactSet CallStreet, LLC, or one or more of its employees, including the writer of this report, may have a position in any of the securities discussed herein.

THE INFORMATION PROVIDED TO YOU HEREUNDER IS PROVIDED "AS IS," AND TO THE MAXIMUM EXTENT PERMITTED BY APPLICABLE LAW, FactSet CallStreet, LLC AND ITS LICENSORS, BUSINESS ASSOCIATES AND SUPPLIERS DISCLAIM ALL WARRANTIES WITH RESPECT TO THE SAME, EXPRESS, IMPLIED AND STATUTORY, INCLUDING WITHOUT LIMITATION ANY IMPLIED WARRANTIES OF MERCHANTABILITY, FITNESS FOR A PARTICULAR PURPOSE, ACCURACY, COMPLETENESS, AND NON-INFRINGEMENT. TO THE MAXIMUM EXTENT PERMITTED BY APPLICABLE LAW, NEITHER FACTSET CALLSTREET, LLC NOR ITS OFFICERS, MEMBERS, DIRECTORS, PARTNERS, AFFILIATES, BUSINESS ASSOCIATES, LICENSORS OR SUPPLIERS WILL BE LIABLE FOR ANY INDIRECT, INCIDENTAL, SPECIAL, CONSEQUENTIAL OR PUNITIVE DAMAGES, INCLUDING WITHOUT LIMITATION DAMAGES FOR LOST PROFITS OR REVENUES, GOODWILL, WORK STOPPAGE, SECURITY BREACHES, VIRUSES, COMPUTER FAILURE OR MALFUNCTION, USE, DATA OR OTHER INTANGIBLE LOSSES OR COMMERCIAL DAMAGES, EVEN IF ANY OF SUCH PARTIES IS ADVISED OF THE POSSIBILITY OF SUCH LOSSES, ARISING UNDER OR IN CONNECTION WITH THE INFORMATION PROVIDED HEREIN OR ANY OTHER SUBJECT MATTER HEREOF.

The contents and appearance of this report are Copyrighted FactSet CallStreet, LLC 2018 CallStreet and FactSet CallStreet, LLC are trademarks and service marks of FactSet CallStreet, LLC. All other trademarks mentioned are trademarks of their respective companies. All rights reserved.