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Acxiom Corp. (ACXM)

Q3 2018 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Operator: Good afternoon, ladies and gentlemen, and welcome to the Acxiom Fiscal 2018 Third Quarter Earnings Call. As a reminder, this conference call is being recorded.

I would 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 third 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 and 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 to you, Lauren. Good afternoon, and thank you for joining us. Today, Warren and I will be talking about three major topics. I'll start by talking a little bit about some of the changes in our portfolio structure we announced earlier today. We'll then review the quarter in a bit more detail. Finally, we'll also provide our initial thoughts on next year's financials.

Let's start with the portfolio changes by laying out: one, what we are doing; two, why we are doing it; and three, what it means for each business moving forward. First, what we are doing. In recent calls, we've talked about the portfolio separation activities we are then pursuing so that we can create clear lines of sight, independence, and strategic flexibility for each of our major businesses.

This process took several quarters, represented a significant onetime investment, and required us to think very strategically about each of our businesses. Earlier today, we announced the plan to reconfigure our portfolio into two distinct business units, LiveRamp and Acxiom Marketing Solutions.

As part of this structure, key Audience Solutions assets will be distributed across each in a way that we believe best positions both businesses for long-term success. LiveRamp will own identity and the integrations. All identity assets including IdentityLink, AbiliTec IP, and Acxiom's TV integrations will be consolidated within LiveRamp, creating the world's first truly end-to-end identity cloud for people-based marketing. We believe these are natural network businesses that should be provisioned at scale to anyone and everyone in the industry, and our goal for this business is to introduce the entire ecosystem of advertisers, agencies, publishers, platforms, and data providers to our capabilities.

The remaining Audience Solutions lines of business for data and data services will be combined with Marketing Services to create Acxiom Marketing Solutions, the world's deepest bench of expertise for helping marketers combine data and technology to power exceptional customer experiences. This parallels how traditional packaged data is sold by other large MSPs, and aligns with how our clients want to buy these products and services. Our goal for this business is centered on delighting our clients and, in so doing, generating strong cash flow.

Next, why we are doing this and why now. In 2015 we established the structure with three separate divisions to strengthen our ability to bring clients distinct value around Connectivity, Data, and Marketing Services. This approach unlocks several benefits including clear lines of sight, clearer accountabilities and accelerated innovation. As a result, we grew LiveRamp into one of the world's fastest and most successful SaaS companies while driving increased growth, profitability, and efficiency across all parts of our business.

LiveRamp is now a business with scale that is ready for the next phase of its growth. At the same time, over this period, the pace of industry change has accelerated and the marketing landscape is more dynamic than ever before. Today, customer journeys span multiple channels and devices across a growing number of touch points. Marketers rely on dozens of technology systems, publishers, and partner relationships to support these interactions, each of which stores data in a separate silo coded through a different version of a customer ID. As a result, identity has become a foundational element for people-based marketing and client demand has grown for services that apply data and technology to power exceptional experiences across all parts of the customer journey. These shifting market dynamics require us to have maximum flexibility in order to remain competitive, meet our clients' evolving needs, and strengthen our leadership positions.

As part of our recent separation and transformation efforts, we took a hard look at our divisional structure in light of today's market and evaluated our current go-to-market approach against our future growth opportunities. Coming out of this evaluation, it became increasingly clear that our business is naturally aligned against the two very different and distinct opportunity sets. Inside of Acxiom, we have a platform business that is centered on identity and integrations. It is a true network business, and we believe it should be delivered at scale for the benefit of the entire marketing ecosystem.

We also have a large services organization comprised of some of the world's leading data experts. There is no one better positioned than this group to help marketers solve their toughest data-driven challenges. However, these businesses are very different. They have different growth drivers, they have different financial profiles, and they require different operating models and capital investments.

As a result, we are realigning our portfolio in a way that best positions each for future success and enhances our overall strategic flexibility. We believe this structure unlocks several clear benefits, including a simplified go-to-market approach. The realignment will enable each business to better leverage its strengths to address the distinct trends and opportunities I just described. Importantly, we believe it will make it easier for clients and partners to engage with us as this structure is a natural extension of how our clients want to buy our products and services.

Stronger operational structure. Each business will be able to adapt faster to clients' changing needs, address specific market dynamics, and accelerate decision-making processes. Each will have meaningful scale, a clearly defined portfolio role, and targets for growth.

Meaningful synergies. This structure provides added flexibility to capture efficiencies as we streamline our go-to-market approach and tighten operational spending. We also believe there will be some revenue synergies through the acceleration of the Data Store, addressable TV, and the broader licensing of identity.

Distinct and clear financial profiles. Each business will be able to leverage its distinct growth profile and cash flow characteristics to optimize capital allocation decisions. Throughout this transition, we are committed to preserving the clean lines of sight we've created around our assets so we can continue to operate with a high degree of transparency and efficiency both across businesses and within each business.

A more visible investment thesis. We believe a simplified structure makes each business' distinct and compelling value proposition more visible. LiveRamp is a high-growth SaaS business that is the market leader in a rapidly growing category. It is a natural network business that greatly benefits from economies of scale as it grows. At the same time, Acxiom Marketing Solutions will offer investors a rare combination of stable growth, improving margins, and predictable cash flows.

And finally, enhanced strategic flexibility, which I'll discuss this more in a moment. So, what does this mean for each business moving forward? Our number one focus over the coming months is to finish out our year strong. The new structure will take effect on April 1, and we intend to report our results under the realigned business units beginning in the first quarter of fiscal 2019.

James Arra and Anneka Gupta will continue to serve as co-presidents of the LiveRamp business reporting to me. James and Anneka each focus on different areas of the business. James oversees sales and service while Anneka manages product and engineering. As I mentioned earlier, our immediate focus in this business is to continue expanding our role as the leading provider of identity technology to the marketing ecosystem.

We continue to add new clients at a growing pace and we have considerable opportunity to grow revenue from our existing client base. In the near term, we also plan to expand our identity cloud, so we can actively pursue opportunities with TV advertisers and B2B marketers, which more than doubles the amount of media spend we can support through our technology.

Rick Erwin and Dennis Self will serve as co-presidents of Acxiom Marketing Solutions, also reporting to me. Each brings a unique perspective skill set and set of experiences. Rick has spent his entire career working with clients to transform data into value, whereas Dennis has applied his long experience as a CTO to the modernization of our database architecture and processes. He has also resurrected our new business efforts. In the coming weeks, we expect to better define the roles each will play in managing Acxiom Marketing Solutions.

As I mentioned earlier, one benefit of the new structure is increased strategic flexibility and optionality. Over the last several months, we have undergone an effort to further step rate our businesses to drive very clear accountabilities and to get to clean standalone financials. These separation efforts and related spends are now largely complete. With this realignment, we believe we are in a position to evaluate strategic options to further strengthen our Acxiom Marketing Solutions business and deliver greater value to our clients.

Acxiom Marketing Solutions is a great business with longstanding relationships with some of the world's biggest and best brands. We believe scale and breadth are important for long-term success. Our goal is to support our clients with a suite of services to help them deliver exceptional customer experiences in an omni-channel world, and we intend to explore a wide range of options that could accelerate our ability to do this. These options may include a strategic partnership, acquisition, tax-free merger, joint venture, tax-free spin-off, sale, or other potential strategic combinations.

With all that said, let me provide a few highlights from the quarter before turning the call to Warren. We seem to have found a steady rhythm across our businesses where it seems each quarter we can point to some accomplishments while also acknowledging where we have challenges and opportunities for even better performance. This past quarter was no exception.

In summary, we delivered another solid quarter in Q3, once again led by a strong performance from our Connectivity division. LiveRamp Connectivity revenue was up 45% year-over-year and the business exited Q3 with a revenue run rate of more than $220 million. Beneath the top line, we posted record segment margins with gross margin up over 800 basis points and segment margin exceeding 10% for the second quarter in a row.

During the quarter, we added over 50 new logos, the majority of which were new brand deals. We also continue to expand our partner network. During the quarter we added several new integrations including a partnership with Radius to bring people-based targeting to B2B marketers. Today, our growing partner ecosystem includes over 550 marketing platforms publishers and addressable television providers, representing the largest network of integration in this space by magnitudes.

Google Customer Match also continues to gain momentum. We currently have over 150 clients leveraging this use case including approximately 20 clients outside of the U.S.

Last year we announced an effort with AppNexus, Index Exchange, and others to embed identity in the programmatic bidstream. I am pleased to share that we are making great progress against this initiative and hope to share a commercial launch date in the coming weeks.

There are currently over 20 platforms both from the supply and demand side, participating in the Advertising ID Consortium, giving the Consortium critical mass as it expands to include publishers, marketers, and agencies over the coming quarters.

To repeat what I've said before, we think this is a big deal. Programmatic display continues to be an important and growing segment of total digital ad spend, with total spend in the U.S. expected to exceed $45 billion by 2019. However, today companies in programmatic rely on their own cookies or device advertising IDs to identify audiences, resulting in fragmentation and data loss. This leads to less effective targeting, frequency management, optimization, attribution and ultimately a poor consumer experience. By standardizing around a common cookie and people-based identifier, we believe the Consortium can help solve this problem, which would be a huge win for the entire ecosystem.

Turning now to Audience Solutions and Marketing Services. While revenue from Audience Solutions fell short of our expectations in Q3, we believe top line growth is secondary to cash flow generation. And on this important measure, I have been consistently pleased with our progress. On a year-to-date basis, combined AS and MS segment income is up mid-single digits over the comparable period, and segment margin has expanded by over 250 basis points

During the quarter, Audience Solutions based headwinds associated with the pricing model transition at one of our large publisher partners. We have been anticipating this impact now for several quarters, and we continue to expect this change to negatively impact our growth rates next year. Absent this publisher, revenue for the division was up over 5% during the quarter. You'll recall that we've been pursuing a number of growth initiatives within AS. Some of these have performed well while others haven't yet proven their merit.

In Q3, excluding the impact of the large publisher I mentioned, our digital data revenue was up over 40%. Agencies and publishers have seen the success of the walled gardens and are moving quickly to embrace similar data sophistication. We believe this represents a significant ongoing growth opportunity.

We also had some new booking success, including an extended relationship with Cox Automotive and consumer base and new logo wins with Driven Brands and Fair Square Financial. Some of our other initiatives are taking longer than expected to contribute, and we're monitoring their progress and our planned investment closely. As I mentioned earlier, we are focused on cash flow for this business, so if revenues don't materialize in some initiatives, we adjust our investments and reprioritize accordingly.

I feel good about the momentum of our Marketing Services business. On the heels of a very strong Q2 bookings quarter, Q3 represented one of our largest bookings quarters in recent history, driven by several new logo and upsell wins. And in fact, Q4 is on track to be even bigger as we recently closed our largest new logo deal in over a decade. Notably, we continue to believe Marketing Services will generate top line growth in Q4. During the quarter, we signed a new deal with Fair Square Financial, a newly formed credit card company led by several industry veterans. Fair Square operates in the market under the brand name Ollo or Ollo Card Services. As part of this deal, we are excited to help Fair Square Financial better leverage its people-based data management capabilities to identify and engage prospective customers and drive its acquisition marketing strategy.

I am also thrilled to share that we recently added Toyota to our client roster. We are very excited to partner with Toyota to power its next-generation marketing database. Toyota is shaping its future marketing strategy to drive greater lead generation and higher engagement throughout the customer journey. Toyota is leveraging Acxiom to help create a unified view of the consumer at the data layer, enabling better people-based marketing everywhere consumers are today and will be tomorrow.

We also continue to do a great job servicing existing clients, and I am pleased to report that just last week, we were recognized by Walmart Services as its 2018 Supplier of the Year for our ongoing high levels of performance and service.

In closing, I recognize that we're sharing a lot of information in today's call and look forward to fielding any additional questions you may have. We believe that changes announced today represent another step in our ongoing transformation and better positions each of our businesses for long-term success. We look forward to updating you on our continued progress in the quarters ahead.

I will now turn the call over to Warren.

Warren C. Jenson

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

Thank you, Scott, and good afternoon, everyone. In my portion of today's call, I'd like to cover three things. I'll touch on the highlights from the quarter in today's announcement, next I'll discuss the impact of tax reform and provide updated FY 2018 guidance, and finally share a few preliminary comments on our outlook for FY 2019. At the conclusion of my prepared remarks, Scott and I will again proactively address some anticipated QA.

Announcement highlights. Please turn to slide 3. Today we announced the next strategic step in what has been a multiyear journey. We have unlocked what we and many of you perceive as hidden and trapped value. We have given direct line of sight to sum-of-the-parts valuation.

Please turn to slide 4. We believe LiveRamp is a high-revenue, multiple SaaS business with strong operating characteristics. This quarter LiveRamp added over 50 new logos and continue to build out its partner network both in the U.S. and internationally.

Revenue was up 45% year-over-year. Gross margin was 68%, a record for any quarter. Segment margin was 12%, also a record. On a trailing 12-month basis, Connectivity generated $24 million of segment EBITDA, as compared to $11 million for the comparable period.

Next we have presented preliminary draft view of our new segment, Acxiom Marketing Solutions, or AMS. Please keep in mind, these numbers represent a starting point for your models. Over the coming months we will finalize adjustments so expect movement. That said, we believe these numbers to be directionally correct.

Like many of you, we expect this business to be valued on its cash flow and EBITDA performance. Make no mistake, the combination of AS and MS is nothing like Acxiom of the past. From top to bottom, we have a world-class team. While LiveRamp will sell identity to anyone and everyone, AMS will continue to sell all its products and services to its existing client base and others.

We are a digital and industry thought leader. Today, our data is available at over 150 digital destinations, and our teams around the globe are helping marketers solve their toughest data-driven challenges. We are bringing innovative offerings to market and winning with important new clients like Toyota.

On a combined basis, over the last three years, our performance trend lines are clear. Consider that, our gross margins are up over 600 basis points from 43% to 50%. EBITDA margins are up 400 basis points from 32% to 36%. And as a result, over this three-year period, EBITDA has increased from roughly $235 million to almost $255 million on a trailing 12-month basis. Again, this segment is nothing like the Acxiom of old.

Next, we continue to execute during the quarter. While there were puts and takes, our overall performance was solid. Overall top line continues to improve. Adjusted revenue was up 5%. Q3 was the ninth consecutive quarter in which revenue was increased by 5% or more. In the quarter, the strength of Connectivity was mitigated however by a softer-than-expected performance in Audience Solutions.

On the bottom line, the company once again demonstrated a trend of continuous improvement. Total company gross margin exceeded 50%. In fact, at an impressive 54%, it is a record for our company. Our gross margin has been at or above 50% in each of the last five quarters.

Operating income of $38 million was up 14%. On average, over the last nine quarters, our operating income has increased 20%. Operating margin was 16%, up 120 basis points. On a trailing 12-month basis, our operating margin was 13%. Adjusted EBITDA improved 10% to $53 million, and our EBITDA margin was 23%, up 90 basis points. And finally, free cash flow to equity on a trailing 12-month basis was €67 million, up from €53 million in the comparable period.

In summary, today marks the beginning of our next inflection point and one in which we believe we will fully unlock of sum-of-the-parts valuation. We are organizing into two strong business units, each with a trend line of performance and strength, and each capable of industry leadership. This announcement benefits all constituencies, our clients, employees, and our shareholders. And finally, our Q3 performance is yet another proof point in the trend line of continuous improvement.

Now moving on to FY 2018 guidance. First, a couple of comments on tax reform. Please turn to slide 15. For the fourth quarter, we expect our tax rate to be approximately 39%. For the year, we expect our blended rate to be roughly 36%. And for FY 2019, we expect our tax rate to be approximately 28%.

For FY 2018, the headline for our overall guidance is as follows. Our top line expectation has been reduced, but at the same time on a comparable basis, our bottom line guidance remains intact. And with the benefit of tax reform, our EPS estimate will increase. Let me just say that again. Our top line expectation has been reduced, but at the same time on a comparable basis, our bottom line guidance remains intact. And with the benefit of tax reform, our EPS estimate will increase.

With that said, we now expect revenue of between $910 million and $915 million versus our previous expectation of between $920 million and $930 million. This reduction is primarily associated with lower expectations for Audience Solutions. Relative to our divisional guidance, we expect MS to be down low- to mid-single-digit consistent with our previous statements. For AS, we now expect revenue to be flat to perhaps slightly up. And for Connectivity, we now expect revenue growth to dip slightly below 45% for the year. This is as a result of slightly lowered expectations for select platform clients and the Data Store. That said, LiveRamp continues to perform at an exceptional level.

On the bottom line and for the company, we now expect EPS of between $0.85 and $0.89. This includes a $0.04 to $0.05 benefit from tax reform. This guidance is essentially unchanged on a comparable basis.

Our separation-related spending has been completed. We will however incur transaction-related expenditures in Q4 of between $2 million and $3 million. We will continue to report in three operating segments through our fiscal year-end. In FY 2019, however, we will report in two segments: LiveRamp and AMS. Slide 17 includes our other FY 2018 guidance assumptions.

Now some early thoughts on fiscal 2019. Before jumping into questions, I'd like to share a few preliminary thoughts on fiscal 2019. These observations do not contemplate a potential transaction or the corresponding impact on any negotiated intercompany agreements. As I mentioned, in FY 2019 we will report in two segments: LiveRamp and AMS. Importantly, please note that in the event of a transaction, forward segment estimates will be impacted. We estimate our tax rate to be roughly 28%. Overall CapEx should be roughly flat to FY 2018 as a percentage of revenue. As it relates to our exploration of strategic alternatives for AMS, we only intend to provide updates when conducting our quarterly calls.

For the AMS segment, we expect another year of improved bottom line performance and one in which segment income and EBITDA should increase. We are particularly pleased with this outlook given the fact that we will face a tough revenue comp with our largest digital data partner. This result is also particularly important as EBITDA, EBITDA margin, and EBITDA growth are the key valuation metrics for this business.

For purposes of your sum-of-the-parts valuation, you should assume the relevant AMS tax basis to be approximately $250 million. For LiveRamp, we expect our top line to grow by at least 30% and we expect another year of significant improvement in contribution profit. Our segment income margin should comfortably be in the low-double digits.

In summary, today marks the start of yet another inflection point in our journey together. We are unlocking our company's sum-of-the-parts valuation, organizing into two strong operating units, each with a trend line of performance, strength, and industry leadership. And finally, our Q3 performance is yet another proof point in a trend line of continuous improvement. As always, we ask that you be conservative in your forward expectations.

I will now turn the call back to Lauren for a few questions.

QUESTION AND ANSWER SECTION

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

Q

Thanks, Warren. First, I'd like to focus on the quarter and guidance for Q4 and FY 2018. Warren, what contributed to the softness in Audience Solutions, and can you elaborate on the lowered guidance for the year?

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

A

Lauren, I'm happy to. First, there were two important positives in AS for the quarter. Digital revenue outside of our largest publisher partner was up more than 40%. This was a very strong performance. Next, our core revenue, that being data and recognition, was up low-single digits. Now what didn't pan out as expected was the revenue contribution from other initiatives, specifically our efforts around global data and penetration of new verticals. This caused Audience Solutions to miss their quarterly forecast. For the year, we made the call to lower our expectations consistent with this performance.

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

Q

Thanks. That's helpful. And just as a follow-up for you Scott, last call you were very confident that the new initiatives inside of Audience Solutions would offset the anticipated decline in your largest digital publisher partner. What happened? It seems like quite a shift.

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

Yeah. Lauren, first off, you're right. Our full-year guidance reflects a step back. As Warren just mentioned, we had a couple of real positives in the quarter specifically digital revenue growth exclusive of our largest digital partner and growth in the core. That said, our other initiatives are taking longer to kick in than we anticipated even a few months ago. And as a result, we made the guidance call we did. Remember, we planted a lot of seeds to the extent that some aren't working. We'll course correct and prioritize those that are.

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

Thanks. Warren, your statements and guidance imply a sharp deceleration in Connectivity growth in Q4. Given this, what gives you confidence in 30%-plus growth next year?

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

Well, in short, it's our core bookings. Like any other SaaS business, a material portion of our growth will be reflected in our Q4 run rate. Net, our underlying bookings trend is what gives us confidence. Let me just add that we're incredibly excited about the core prospects for LiveRamp and our other growth initiatives, specifically Data Store, addressable TV, and international. We've said it before and we'll say it again, we believe our business stacks up with best-in-class SaaS.

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

Thanks. Now just a few questions on the realignment, Warren, this one's for you, have you hired bankers and what is your anticipated timing?

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

Yes we have. We're pleased to be supported by both Morgan Stanley and Evercore. As to process, we're not committing to a specific timetable. As I mentioned, we only intend to provide updates when conducting our quarterly calls.

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

Thanks. Scott, can you give us a little bit more color on the AbiliTec realignment?

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

Yeah, sure. Well, the only thing that is truly moving is the IP, the intellectual property, but that is a big deal. You may recall me saying that I believe one of the biggest missteps in Acxiom's history is that when AbiliTec was created a couple decades ago, it wasn't licensed to the entire world. We're making that possible now. Anyone else who has created their own identity solution should reevaluate our solution because we believe we can provide it cheaper and better. I want to remind everyone that the legacy recognition revenue associated with data and database services remains with AMS. We would expect a cross-licensing arrangement, the specifics of which we are currently finalizing.

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

Q

Thanks for that. Warren, a final one for you. First, thanks for the color on the new segment. One thing that might help with my model is some directional color on how corporate expense should be allocated between the segments?

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

A

Great question, Lauren. Let me first provide a baseline. Today, we have approximately $105 million in corporate overhead. This represents roughly 11% of revenue. Here is how I would think about it in a go-forward world. For AMS, given we are looking at all alternatives, the amount of corporate overhead required would be determined by the type and character of the potential transaction. By our estimates, this could range anywhere from 0% to 10% of segment revenue.

For LiveRamp, if you look at public company peers relevant to LiveRamp's size, we estimate corporate expense as a percentage of revenue is to be in the high-teens.

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

Thanks, Warren and Scott. That's all from me. So, operator, we will now open the call to questions.

Operator: [Operator Instructions] Our first question comes from the line of Bill Warmington of Wells Fargo. Please go ahead. Your line is open.

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, everyone.

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

A

Good afternoon.

William A. Warmington
Analyst, Wells Fargo Securities LLC

Q

So a question for you on the implementation of the new structure. It sounds like that's going to be taking place along when you start reporting FY 2019. What are you thinking in terms of a timeline for starting to consider these strategic options, or has that already started?

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

A

We're out of the gate on that, and, yeah, so that started. And then in terms of your structure question, that work has also started. We will snap to our new operating structure effective April 1, which is when we will also start to report our financials in that fashion.

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

A

Yeah. Exactly, Bill. And the only other thing I would add on top of what Scott said is we tend to continue to provide a considerable level of detail. This is not about loss of information in our segments, rather it's about the structural change that we're making and the business reasons behind it.

William A. Warmington
Analyst, Wells Fargo Securities LLC

Q

Okay. And then a question for you on the Connectivity growth. So it had been in the 40% to 50% growth range, which I know is very strong. And I understand that you have a high class problem in the sense that growing at that rate for a number of years, you start to build up a sizable base. And so the new growth, there's preliminary thoughts on the growth at 30% or better. I wanted to ask about what – if there's anything other than the larger base, is there anything else that's going on in the market, which is taking that growth rate down from the 40% or 50% level to the 30%-plus level?

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

A

Well, we see positives. So, obviously, we have a high degree of predictability as we sit here. And as I mentioned in the formal part of our remarks, we have bookings that allowed us to say what we did. At the same time, I would ask everyone to think about our growth levers as we head into FY 2019, and we believe them to be considerable. First thing is new sales, so accelerate more branded option. The second thing is higher same-store sales as we believe it's very early days in terms of the use case development. And then the third thing is new products. So we remain extremely bullish on that which we're doing, we're on Data Store, as Scott mentioned, what's going on in TV

And then finally international. So as we think about where we are, one, we love our position, we love the performance of the business, we like its size, its scale, its financial metrics, and we believe that we have the right growth levers in place.

William A. Warmington
Analyst, Wells Fargo Securities LLC

Q

Okay. And then on the digital data front, you mentioned the 40% growth without the one large customer. If you can talk a little bit about whether you think that level of growth is sustainable for that piece of the business.

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

A

Well, we'll see as we go forward next year. Scott wants to jump in here. But at the end of the day, we're very positive when you think of what we've been able to do outside of the single large publisher because we believe we're at the forefront and at the cutting edge of what's going on in the digital data world. So we wanted to highlight that because it's key to our performance next year. We believe that without committing to a specific growth rate, that Rick and his team have put a lot of positive things into place.

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

Yeah. It's more than just Rick and his team in terms of the growth that we think we'll generate in AMS over time. It's also increasingly LiveRamp and Data Store. So what's going on here is that the walled gardens have really created a playbook for the rest of the industry to follow. And so now we're seeing a secular wave of that next tier of publishers, large platforms and agencies embracing data as part of the products they build and the processes that they engineer. And so we think in both sides of the business, there is a lever for us to pull of ongoing growth.

William A. Warmington
Analyst, Wells Fargo Securities LLC
Q

Got it. All right. Well, thank you very much.

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

Thank you, Bill.

Operator: Your next 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

Thanks for taking my question, just a couple. Number one, Warren, you talked a little bit, and, Scott, you talked a little bit about the Audience Solutions driving the guide down mostly, and I want to make sure I got it. Was it the worst price compression and renegotiation with a large publisher or was it slower other revenue growth drivers you're trying to develop or was it a mix of both? And if it's a mix, kind of 80/20 50/50 anything like that would be helpful?

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

No. Inside of Audience Solutions, it really didn't have to do with a single large publisher. This had to do mostly, Brett, with our initiatives. It's kind of 50/50 between that, and as you recall in our last conversation, we talked about contract revenue, check, they delivered as planned. And then we had a commit from our sales force, and candidly that came in a little bit lower than we had expected. So I'd put – and again this is against our internal numbers – about 50/50 between again a lower-than-expected contribution from the commit, and then secondly, it was lower performance out of our initiatives. And then the combination of really the initiatives – more specifically the initiatives caused us to lower our guidance for Q4.

Brett Huff
Analyst, Stephens, Inc.

Q

Okay. And then to dig in a little bit more on the Connectivity, 30% growth is still great and you said more than 30% potentially in 2019. And you guys tend to be – trying to be conservative on that asset, I know, and it's done very well. Can you give us a sense of – you mentioned some of the growth drivers or levers that you do have available to you. How big a pull on those levers would be required to get us meaningfully above 30% to the 35% or even 40% level? I know you're not going to guide to that, but I'm just curious what are the levers that could get us there?

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

A

Yeah, I mean, there are some things in each. In just winning new clients, we've laid down a pretty successful track record of new bookings quarter-after-quarter. To the extent that we can accelerate that, our evangelization efforts are waking people up to the category and they find us – marketing is kind of me-too industry. So as some clients experience success with data-driven marketing, other clients follow. So number one would be just continued or even accelerated new bookings.

Second is a lever that quite frankly we haven't done a great job of pulling over the last couple of years, and that is just increasing usage. We haven't historically had a team that has been designed to kind of evangelize adoption. I mean, you've heard me talk about this before, like Google did a really good job of this a decade ago when they brought in Torrence Boone to teach marketers how to use Google products.

We think that's an opportunity for us. Now we've seen an increase over time in usage, and then from on average 1 use case to now north of 11 per client. But that's nowhere near where we think it could land. And so we're starting to think about what would it look like if we were to put some people against driving usage and kind of evangelize and teaching the industry how do to expand their data-driven efforts.

And then the final piece is new products. We have a lot of things going on there. So I talk about the people-based programmatic efforts with the consortium. I mean, that's a good example of that. We have five or six things that we have under way. But as you can see from the new initiatives in AS, we're reluctant to like lay claim to any kind of growth behind those until we actually see the proof points. And so we have some bets that we're making, but all very early and very small.

Brett Huff
Analyst, Stephens, Inc.

Q

Okay. Last one from me, just Google Customer Match, I think it seems like it's going to be a really big deal just given such a powerful use case and so many people use Google. You mentioned that I think you had 150 clients live and maybe 20 international. How big does that get and how quickly? I mean, is that one of the things that we should really look for as a growth driver?

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

A

Well, I think it will be a growth driver as much as it is oftentimes the first use case that someone will apply when they sign up for an IdentityLink subscription. So it's not – you won't see incremental revenue from that per se, you'll see it drive adoption. And I kind of look at that as the other side of the coin, people-based programmatic, because together, search and programmatic represent, what, like 75% display advertising or digital advertising spend. And so all of a sudden, what we do becomes relevant to nearly every digital advertiser around the planet. So it certainly helps us prospect when we can go in with strong case studies around both of these use cases.

Brett Huff
Analyst, Stephens, Inc.

Q

Great. Thanks your time. That's all I needed.

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

A

Thank you, Brett.

Operator: 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

Hey. Good afternoon, guys. Two questions. First, Scott, I know that you've taken down your footprint in Europe pretty considerably over the course of your tenure, but I'd just be curious about your thoughts on the impact of GDPR, not just across your businesses but maybe how your clients are looking at preparing for it as well when enforcement begins to go into effect in May? And then second, a couple of quarters ago, you talked a little bit about, briefly about initially exploring the opportunity for LiveRamp's technology outside of the marketing division. I'd be curious if you have any updated thoughts on how that's gone. Thanks.

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

A

Warren, take the first one.

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

A

Hey Dan, this is Warren. I'll jump in on the first one on GDPR. I'd say a couple of headlines. First, everyone on the call should understand that data-driven marketing is every bit as important for companies outside of the U.S. as it is inside the U.S. Retailers across Europe, across Asia are competing with Amazon.com, who is an expert at data-driven marketing, and it cannot cede data-driven marketing to the large [ph] Internets (50:39), so this is very, very important across the board. Now, that said, people are being very, very cautious because it's really heightened the importance of privacy and heightened the importance of compliance. I would tell you flat out that that benefits Acxiom and benefits LiveRamp in the long term because that is one of the things that we bring to the table, an expertise as to how to deal with privacy compliance. We believe that we are the gold standard on that front.

Now what we are seeing, however, in balance is in the short term, in particular inside of LiveRamp, for some match partners, they're pulling back a little bit just trying to make sure – everyone is making sure that they are compliant. So I would say in the short term, which we will bake into our plans, of course, will be higher match costs, and then sometimes just a little bit of reluctancy to sign up as they make sure they have the clients to sign up, as they make sure that they have their ducks in a row. We'll repeat what we've said in past calls. In the long term, GDPR works in our favor, some short-term pain, which we, like many others, are feeling, but this is our sweet spot and something that we believe over the long term will work to our advantage.

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

And then in terms of the exploration of additional verticals, I mean, I think we have a track record over the last six or seven years of trying to be pretty judicious stewards of capital. In other words, we're not big on making really big bets, we make very small bets. If they work then we'll double down behind them. And so we're still in the exploration stage, and we've looked at a few things, healthcare, B2B, risk. But I will tell you none of them yet – we're not in a position where we're ready to make a big announcement around any of them. We're still in the developing case studies and proof points and deciding what kind of investment we want to put behind those efforts.

Daniel Salmon
Analyst, BMO Capital Markets (United States)
Q

Great. Thank you both.

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

Thank you.

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

Adam Klauber
Analyst, William Blair & Co. LLC
Q

Good afternoon. A couple different questions. So with the split up, can you just give us a ballpark? Will the majority of Audience Solution revenues be with LiveRamp or will it go with AMS?

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

Let me touch on that and Scott may want to provide an additional piece of color. If you look in our slide deck, we've given you a bridge to the new segments. Now, as I mentioned in my portion of the call, there are going to be some tweaks at the margins here, particularly as it relates to the history, but they are going to be at the margins, so consider this to be directionally correct. So directly to answer your question, the bulk of the revenue will go from Audience Solutions into AMS.

And then as it relates to the go-forward, there are going to be some variables depending upon the nature of any transaction, inter-company agreements, and/or, as Scott mentioned, the potential of a commercial deal as between a new partner and LiveRamp in a go-forward world.

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

And then just to rip off that, I mean, one way to think about it, maybe a good rule of thumb here would be to say where we have scalable, naturally network products, then the IP, the intellectual property goes to LiveRamp such that we can sell it to anyone and everyone in the industry.

The existing contracted revenue goes to AMS who becomes a reseller of LiveRamp products. And our goal over time is to have a host of resellers of LiveRamp products, including some of the traditional competitors to AMS.

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

Just to add, that was page 4 of our slide deck.

Adam Klauber
Analyst, William Blair & Co. LLC
Q

Right. Right. Okay. Thank you. And then as far as Connectivity, so for the first three quarters your growth was close to 50%. How much of that really came from the deals at year-end?

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

So from the deals at year-end, are you talking about this most recent quarter?

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

Arbor and Circulate.

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

Oh, for Arbor and Circulate.

Adam Klauber
Analyst, William Blair & Co. LLC
Q

Yeah, yeah, year-to-date reported Arbor and – yeah, where they add to growth

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

Again, as we mentioned, even going back a year ago, we immediately integrated Arbor and Circulate. Our guidance was for the year, which I'll reiterate, that it would provide roughly $15 million of incremental revenue and EBITDA, maybe not quite exactly that amount of EBITDA, but $15 million of incremental revenue. We've really just mentioned to people for purposes of your models, you could straight line that. But right from the outset, one of the strengths of this acquisition and why it's performed so well is we immediately integrated it.

Adam Klauber
Analyst, William Blair & Co. LLC
Q

Right. Right. That's helpful. And then as far as Audience Solutions, once you get to next year and the change in the larger client, the contract with the larger client, that annualizes, I guess, how confident are you that that business starts growing again or shows growth again?

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

Let me start from the outset on the numbers, and I know, Scott will jump in qualitatively, too. I just want to be clear with everybody and we have been in the past, but to reiterate that this is a significant headwind for next year. And we would sit here and put three important considerations for our performance in FY 2019. Number one is stabilization of the core, number two, which we've highlighted today is our growth in other digital, and then third will be what we're doing and continue to do around other growth initiatives. Those are the things that will drive our performance. Those are the things that our team is 100% focused on.

Adam Klauber
Analyst, William Blair & Co. LLC
Q

Okay. Okay. Thank you. That's helpful.

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

Thank you.

Operator: Your next question comes from the line of Richard Kramer of Arete Research. Please go ahead. Your line is open.

Richard Kramer
Analyst, Arete Research Services LLP
Q

Thanks very much, guys. Just two quick ones. Just a follow-up on GDPR. I guess we're hearing from over here in the UK a very different set of perspectives. Is LiveRamp going to act as a data processor, a data collector? Can you sort of flesh out a little bit your role and whether you're going to have some one-off compliance costs for, for example, the right – for consumers to be removed from data sets?

And then, Scott, maybe could you just comment a little bit more about your comment about license revenue going to LiveRamp because it does seem a bit of a sticking point with the AppNexus, Index Exchange, and others sort of joining a central pool? What sort of ways in which can you envision that you might assuage some of the commercial concerns that those players have in terms of sharing data with LiveRamp that it then license out to really exclusively on its own behalf? Thanks.

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

So we will – let me touch on GDPR and then again I'll turn it over to Scott. First, on GDPR, we're going to continue with LiveRamp to provide the role we always have, the same with what we provide in the United States. As it relates to the higher level of compliance costs, sure, there is some higher level of compliance costs. As an example, we, today, are working with all of our match partners to ensure that we have the appropriate levels of permission in place as we go forward. And as I mentioned earlier, to some degree, there are some people that might be pulling out of that, it might make our match network in the short term more costly but we are incurring additional levels of compliance that's just part of doing the business that we do. And in the short term, we have higher match costs, and then also to some degree, people are slowing down particularly as we go through the transition.

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

And on the programmatic, I don't think – I have zero concern as to whether anyone in the industry views LiveRamp as a threat. When we launched this, literally the response was phenomenal. There are well over 20 partners that have participated. And along the way, they've given us feedback about what they want LiveRamp's role to be and how this comes together.

We have stayed completely true to our positioning as neutral and agnostic. And so we've opened up some of these capabilities such that others could participate. The design has changed from what we had originally envisioned when we first started the conversations.

It's really important in everything we do that the market views us as a neutral, agnostic provider for anyone and everyone. And so we don't take any kind of biased information or repurpose it to our advantage here. Anyone and everyone can participate in this effort.

Richard Kramer
Analyst, Arete Research Services LLP
Q

Okay. Thanks. And maybe can you just comment a little bit on any additional sort of data sources you might need upon on the mobile side sort of to augment what you've got on desktop?

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

Yeah. I mean, I think your questions – I'll even broaden it, which is to us, identity is one thing. It's not e-mail or a physical postal address or anything like that. When we think about identity, we think about dozens or, if not, hundreds of elements of information, which can be used to create a match. And so we're pursuing any and all information that can be part of the identify graph. And I think in mobile you'll see a pattern that follows what we've done on the PC and the browser where if you go back, gosh, four, five years ago, our match rates were probably 10% to 20%, now in many cases it can be 60% to 80% or higher. And on mobile now, we've gone – we're embarking on a similar journey. We're just under 50% but well significant progress from where we were a couple of years ago.

Richard Kramer
Analyst, Arete Research Services LLP
Q

Okay. Thank you.

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

Thank you.

Operator: There are no further audio questions at this time. I will now turn the call back over to Warren Jenson for closing remarks.

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

Great. Thanks. Thank you, operator, and thank you, all, for joining us. I'd like to take this opportunity to remind everyone that RampUp, the premier industry conference for leaders in martech, is taking place March 5 and 6 at the Fairmont in San Francisco. Similar to last year, we will be holding an investor breakout session the afternoon of the 5th. Again, we will be holding investor breakout session the afternoon of the 5th. If you're interested in participating or getting more information, more information is available on the Investor Relations website under Events and Presentations, or you can reach out to either me or Lauren directly. We hope to see everyone there.

Let me simply summarize our today's call again by thanking you but also reiterating something that we said earlier. Today marks the start of yet another inflection point in our journey together. We believe we are unlocking a sum-of-the-parts valuation for our company. We're organizing into two strong operating units, each with a trend line of performance, strength, and leadership. And finally, our Q4 performance is yet another proof point in a trend line of continuous improvement. As always, we ask that you be conservative in your forward expectations. Thank you for joining us today.

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