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**Q1 FY14 Earnings Conference Call Script**  
**July 31, 2013**

**Moderator:** (reads usual statement, introduces Jay McCrary)

**Jay McCrary, Treasurer:**

Thanks, operator. Good afternoon and welcome. Thank you for joining us to discuss our fiscal 2014 first quarter results.

With me today are Scott Howe, our CEO, Warren Jenson, our CFO and Art Kellam, Corporate Controller.

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 from the forward looking statements. For a detailed description of these risks, please read the risk factors sections 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 of non-GAAP financial measures, is available at [acxiom.com](http://acxiom.com).

Also, during the call today, we will be referring to the slide deck posted on our web site. A link is also included in today's press release.

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

**Scott Howe, CEO:**

Thank you Jay and good afternoon everyone – thanks for joining us.

I'm going to start today's call with some bad news. Since joining Acxiom we have had the good fortune on these calls to, by in large, talk about positive things and the actions we are taking to build a better, stronger and growing company.

For the second part of my remarks, I will do that again, as we are excited about the progress we are making with the Audience Operating System, some recent new logo wins and the strength of our growing partner eco-system.

But before getting to the positive – I want to talk about a setback we have had in the IT Infrastructure business.

Over the past few months we have experienced some significant customer losses. In our 10-K we talked about termination notices and the associated customer revenues. Unfortunately since our filing we have been notified of an additional termination. The reasons for the overall losses differ. Two were basically bad luck, where customers decided to take their IT infrastructure in-house as part of being acquired by a third party. Others were situations where we lost to competitive bids and our services were just not renewed.

That is obviously not the result we worked for, nor is it acceptable.

So, where from here?

First and foremost – I have asked Kevin Zaffaroni and his team to re-double their efforts to delight our ITO customers. This remains priority one. To each of our customers, we want you to know we are fully dedicated to your long term success.

Second – we have re-tooled our ITO sales and marketing efforts and now have several new prospects in our pipeline. That said, these are functions that have laid dormant for several years, so even though we have more prospects in the pipeline, rebuilding a cadence of growth will take time.

Finally – we are revamping our ITO innovation. We recently introduced the Acxiom Private Cloud, which leverages our existing infrastructure with a superior combination of service, storage and flexibility. Our ITO customers also benefit from our proven experience in security and data privacy.

In addition, we have launched the Acxiom Private Portal, which allows existing customers to see a performance dashboard on either their desktop or mobile device. In short, it makes it easier for our clients to manage their outsourced IT.

In total, we expect to record fiscal 2014 revenue of between \$65 and \$70 million from ITO customers who have given us notice of termination. Given the timing of these terminations, we do not expect these customer losses to impact our overall financial guidance for fiscal 2014. That said, we expect the fiscal 2015 revenue from these customers to be negligible.

Since the impact of this lost revenue will not be felt for several quarters, rest assured that we will use the time to make every effort to take steps to minimize the long term bottom line impact to Acxiom.

This is not the message I wanted to start with, but it is our reality and I fully expect our ITO team to rally to this challenge.

**Now, I'd like to turn our Focus to Marketing and Data Services, the launch of the Acxiom Audience Operating System and our expanding network of partners.**

This past weekend a historic merger was announced – Omnicom and Publicis are coming together. It was interesting to read their joint press release and the commentary. Let me share with you a few of the quotations.

From the joint press release, Maurice Levy summarizes the trends underlying the merger, “the communication and marketing landscape has undergone dramatic changes in recent years including the exponential development of new media giants, the explosion of Big Data, blurring of the roles of all players and profound changes in consumer behavior.”

Similarly, John Wren highlights the requirements of, “a new standard for supporting clients with integrated messaging across marketing disciplines and geographies.”

In the Sunday *New York Times*, Tanzina Vega wrote, “the merger of two industry giants, Omnicom and Publicis, to create the largest ad company in the world, signals that advertising is now firmly in the hands of big data....”

Likewise, paraphrasing Forrester’s David Cooperstein:

“(Agencies) are being asked by clients to deliver four services including:

- Marketing and business strategy based on deep data
- Technology driven ad management
- Competitive customer-facing systems, and;
- Channel agnostic, or channel complementary, creative juices”

The point I am trying to make is pretty clear. The world is coming to us, as big data and insight based decisioning is exactly what we do. It is also exactly our vision for the Acxiom Audience Operating System. Our technology will enable 1:1 targeted marketing at scale across all channels and all devices.

Let me share a few updates:

First – we intend to launch the Acxiom Audience Operating System in September at AdWeek.

When you think about this launch you shouldn't consider it as an end date or a single event, but rather the start of a long and prosperous journey. Our intent is that the AOS will continue to build in both functionality and efficacy with ongoing waves of continuous enhancements.

With literally every passing week and month, we are planning to add new features, capabilities, data sources, partners and applications. The AOS is a living eco-system and one, as we execute, that will constantly continue to grow and build in its effectiveness and scale.

In preparation for the launch I have been spending a lot of my time focused on both our product and overall marketing efforts. Given our investment in innovation, Acxiom has an exciting story to tell and I'm placing great emphasis on improving our storytelling in the coming weeks. With this launch you will witness an exciting new approach to Acxiom's product marketing, our collateral and how we interact with our customers. In addition, you will see a new website which will convey a cleaner and far more contemporary story.

Let me also share a few updates on our development progress. There are several important pieces to the AOS, including:

- i) access to the world's best data
- ii) the ability to transform that data into insight about people, and
- iii) ultimately the ability to use these insights to create better results

On each dimension, we are making significant progress. For example:

- Our total unique anonymous cookie pool is now approaching 1.1 billion
- We have several companies that are currently working to implement their user interface into the AOS and several others in the queue
- Our mobile reach now exceeds 200 million customer profiles

In terms of our Ecosystem – we now have:

- Over 50 publisher and developer partners, including
- Five of the six largest US publishers, and
- Our digital reach will soon approach nearly every internet user in the US. This complements our already industry leading offline reach which approaches 95 percent. As a result, we are uniquely positioned to communicate relevant stories to people across both online and offline channels in a cohesive and compelling fashion

In summary we are very excited about this launch and the beginning for our AOS and its eco-system. You will hear a lot more about this in September.

**Now finally – a bit of news about Marketing and Data Services Customers**

This past quarter we announced several new label wins. We will be providing database solutions for Springleaf Financial and Wellmark along with data and analytic services for US Cellular. We also signed a renewal with a Top 3 Telecom provider.

Our pipeline continues to be robust and is up strong double digits year over year. Included in our pipeline is over \$25 million which is associated with our mid-tier database solution. Further we have four customers who have purchased this solution and are in various stages of deployment.

Additionally, while it's early, our AOS and partner network pipeline now consists of tens of millions of dollars in identified opportunities. Over the next 30 days, Acxiom's entire sales and service organization is being trained on our key selling points, pricing and other necessary areas. While we continue to encourage you to be conservative in your revenue expectations, we intend to hit the ground running.

So while there is still work to be done to convert our pipeline into revenue, we believe we are doing the right things to get our Marketing and Data Services top line moving again.

Before I turn the call over to Warren – let me conclude with the following. I am deeply disappointed with the Infrastructure Management losses. We will do everything we can to prevent this from happening again and also use the time we have to take steps to minimize the resulting dilution. At the same time, we believe we are on to something very special with the Acxiom Audience Operating System. We believe it is revolutionary and ground-breaking for marketers, advertisers and agencies. For the first time one-to-one targeted marketing will be available at scale across all channels and devices.

Now, I will turn the call over to Warren.

**Warren Jensen, CFO:**

Thanks Scott and good afternoon.

Before commenting on our first quarter, I would like to update you on our progress against some of our other initiatives.

**First – running a better business.** As Scott mentioned in our last call, I now have responsibility for our Marketing and Data Services infrastructure and our corporate IT functions. This past quarter we completed an analysis which defined roles and responsibilities as between our IT, delivery and engineering organizations. What we found was a knowledgeable and dedicated group of associates who make sure customer needs are met, but we also found a lack of role clarity, shadow IT organizations and duplication. In a word we found “self-induced” complexity creating a maze of people-based solutions. Let me give you two examples:

- Like in any organization, system access is a big deal and must be well controlled. Today, Acxiom is very well controlled but we do it in a very complex way. We maintain a matrix that is maintained by individual, as opposed to a system which is role based. Role based access is contemporary and commonplace. The impact of our complexity is that every year we process more than 30,000 system access change requests. In a role-based environment, this number should be in the hundreds.
- Next, customer service. Today, by and large, our customer service approach is handled customer by customer. Meaning the vast majority of our customer teams each have their own home grown ticketing, scripting and processes for issue resolution. In other words, a big opportunity for synergy, automation, knowledge sharing and efficiency. Further, we found individuals with some sort of responsibility for customer service in multiple organizations.

Our next step is to clarify roles and responsibilities. We will then go after these and other opportunities in the months and quarters ahead.

**Next – we are working with both product management and sales to build out our pricing models for the Audience operating system.** While we won't get into the specifics of our pricing, I will touch on our general thoughts:

- The AOS is real-time SaaS based platform. Our pricing will have a tiered approach with both subscription and usage based fees
- Partners such as Publishers will typically be charged either a percentage of ad media spend or on a CPM basis

We are also implementing an automated back office solution, which will include billing, revenue recognition and customer support.

**Finally – looking at the months ahead, we intend to take steps to formally separate our operating units.** You should expect meaningful expenditures over the next few quarters. These expenditures will cover things like:

- Formal documentation associated with intercompany agreements
- Network and IT separation and
- Outside consulting and contractor assistance

Our efforts will not only be focused on the formal separation of our operating units, but will also be focused on ongoing operational effectiveness and on minimizing the bottom line impact from our lost ITO clients. The bad news is we lost some clients, the good news we have time to act before we will feel the impact.

**Now – our first quarter Fiscal 2014 results – a few highlights.**

- For the quarter – 12 out of our top 20 customers in U.S. Marketing and Data Services showed year-over-year growth. Revenue for the top 20 customers was up 2 percent in Q1
- For the top 100 U.S. Marketing and Data Services customers revenue was up 3 percent
- Overall margins were slightly down compared to last year, primarily as a result of increased spending associated with AOS
- Despite much higher AOS related spending, our GAAP diluted earnings per share were flat at \$.17 compared to last year
- We repurchased \$16 million of stock in the quarter and to-date approximately \$156 million. We have retired almost 13.5 percent of our outstanding common shares
- Finally, please note that this quarter we moved our email business from the Other Services segment into Marketing and Data Services. We consider email to be a core application in the AOS eco-system and feel this presentation better reflects our current approach in assessing our business performance. The Other Services segment is now essentially our U.K. based fulfillment company.

**Now – we will discuss our quarterly results in more detail.**

I will be referring to the slide deck which was posted on our web site. A link was also included in our press release.

**Starting with slide 3 and our summary financial results.**

- Total revenue was \$266 million, down 2 percent from last year. U.S. Marketing and Data Service revenue was also down 2 percent for the quarter. IT Infrastructure Management and International Marketing and Data Services were down approximately 1 percent and 6 percent respectively
- Operating expense for the quarter was \$242 million, down 2 percent. The decrease was primarily attributable to lower IT related expense offsetting an increase in AOS related spending and S, G & A. Of the ~ \$3 million increase in S, G & A, approximately 2/3 of the increase was associated with project related spending and also higher outside legal costs
- GAAP diluted earnings per share were \$.17 in the quarter, flat to the prior year
- Now moving to slide 4 and our top line performance. U.S. Marketing and Data Services revenue was down 2 percent for the quarter. The decline in revenue was primarily driven by reduced quarterly activity at one of our largest customers and lower year-over-year email volumes
- IT Infrastructure Management revenue was down 1 percent
- The U.S. Other Services revenue decrease of \$2 million reflects the complete transition of the risk business
- International Marketing and Data Services revenue was \$24 million, down approximately \$2 million or 6 percent. The International Other Services revenue increased \$2 million or 31 percent
- There was no material FX impact in the quarter
- Slide 5 – for the quarter, our company’s operating margin was 9.0 percent compared to 9.4 percent in the same period a year ago. This decline is primarily due to lower U.S. Marketing and Data Services margins
- In the U.S. – Marketing and Data Services margin was 10.3 percent, down from 13 percent last year. The decrease in margin is again primarily attributable to increased investment in the AOS and increases in S, G & A expense
- IT Infrastructure Management margin increased to 15.5 percent compared to 12.6 percent last year. This increase was primarily due to efficiency gains and a contract termination fee
- Operating margin for International Marketing and Data Services decreased to a negative 17 percent compared to a negative 11 percent a year ago. This is primarily due to weakness in our European and Australian operations. Our International Other Services business margin improved to 6.8 percent compared to 5.5 percent in the previous year

**Now to a few comments on slides 6 and 7.**

For the quarter, free cash flow to equity improved \$13 million compared to negative \$18 million in the prior period. On a trailing 12 month basis, free cash flow to equity was \$70 million compared to \$175 million in the prior period. Excluding the proceeds from the sale of the background screening business, free cash flow to equity decreased \$32 million mostly related to increased capitalized software for the investment in new products and higher taxes.

Capitalized software costs increased \$2 million in the quarter as a result of our AOS investments. Total capital spending, which includes capital expenditures, capitalized software, and data acquisitions costs increased \$5 million in quarter to \$17 million.

During the first quarter, the company repurchased another \$16 million of stock. Since inception of the share repurchase program we have retired approximately 13.5% of our common stock for approximately \$156 million. Our total share repurchase authorization is \$200 million.

For the quarter we continued to maintain a strong cash position, an improved leverage profile and a strong balance sheet.

#### **Now on to guidance**

There are a few things that we would like to mention.

- Again, tuck-in acquisitions are a possibility, and some of these may be focused on technology, which would accelerate our progress in bringing added functionality to the AOS. Given these acquisitions may not come with revenue or earnings, they could be dilutive to our guidance
- Our guidance excludes any unusual items that may be incurred during the fiscal year
- Next, looking ahead, our comparisons will continue to be tough due to our on-going spending heading into our upcoming AOS launch and our projected slow ramp in AOS related revenue
- More specifically related to Q2, our margins will be pressured by not only our product related spending but also our launch support and a material increase in our spending associated with the separation of our business units. In short, for Q2 we expect some top line pressure and down margins

**With that said, for fiscal 2014, we are maintaining our revenue and diluted earnings per share guidance of roughly flat year over year.**

Thanks for joining us today and we look forward to the launch of AOS and updating you throughout this year.

Operator, we will now open the call to questions.