



601 E. Third Street, Little Rock, AR 72201
www.acxiom.com

Q4 FY 13 Earnings Conference Call Script

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 2013 fourth quarter and fiscal year results.

With me today are Scott Howe, our CEO, and 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.

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:

Thanks, Jay and good afternoon everyone.

As we leave Acxiom's fiscal 13 and now head into 2014 – I thought it might be useful to give you my perspective on where we are in our journey and where we will go in the months and quarters ahead.

From the outset – let me repeat something I said three months ago, when we last spoke. In that late January call I mentioned that we were knee-deep in implementation. Well – let me correct that by saying we are neck-deep in implementation. Every day, we are coding new innovation and calling new prospects. Essentially, we're laying the foundation for a more prosperous future.

Next – you'll also remember I said in some ways this is the hardest time. Our investment spending has ramped materially, but as excited as we are about the products we are creating, we have yet to taste the tangible rewards of meaningful revenue. Well – I was right – even though our fourth quarter came in as advertised – this is the hardest time and we certainly felt that this quarter.

And as we indicated in our last call we know that revenue and margin pressure will continue into at least the first half of 2014.

So where am I going with all this? While we are by no means perfect in our execution or satisfied with today's current state – we believe that we are:

- On course;
- Our investment thesis is stronger than ever; and
- Our opportunity is even larger than we had originally imagined.

Today – I would like to talk about the strength of our investment thesis and our priorities for our 2014 fiscal year.

The Acxiom investment thesis is as follows:

First – we are playing from a position of competitive strength.

- We have a strong Marketing and Data Services business with long-standing relationships.
- We are deeply engrained in all of our clients' core marketing operations.
- We are a leader in the management of consumer data. Today:
 - ✓ We have relationships with over 40 percent of the Fortune 100;
 - ✓ We maintain privacy-compliant profiles on more than 700 million individuals; and
 - ✓ We process more than 50 trillion transactions every year. To put this number in perspective: We process more transactions per day than there are searches on Google.
- Finally – we have critical skills and know-how in data privacy that are essential in today's big-data marketing world. Acxiom is a pioneer in this industry and a defender of individual privacy rights. Our relationship with Facebook is a perfect example, which I'll talk about in a few minutes.

Second – competitive advantage for advertisers and publishers is created by mining insights – initially – from their proprietary data sets and then by supplementing that information with 3rd party data or machine-learning. This truth is becoming increasingly apparent and plays directly to our strengths.

Let me explain.

As we spoke about in New York – the single most powerful and underutilized asset for a marketer is the data collected by the world's most trusted brands about their customers and prospects.

Our clients' proprietary data sets are the most informative and predictive information about a consumer's preferences and their ideal customer experience. This trove of insights starts squarely in the products and platforms that Acxiom provides to our customers to manage huge proprietary data sets. Acxiom products enable these brands to collect, curate, analyze and apply these insights to mail, email, call centers, and now online, mobile and social channels.

We then marry our clients' data with data from other third parties – which include online, social and mobile to build a more complete consumer profile. In contrast – others begin and end with just digital data – leaving them with an incomplete view of the consumer and a far less effective solution.

Under the leadership of Dr. Phil Mui, our product development is focused on making all the necessary connections: connecting disparate data silos into a single, holistic view of every consumer, connecting these holistic views with useful insights and finally connecting these insights with tangible activities that increase our marketers' return on investment.

We're pleased with our progress: Acxiom's products are now connecting these data sets and our capabilities with data from new channels including online, social and mobile – creating what we believe will be the most complete, predictive profiles the industry has ever seen. Precision marketing at scale across all channels, devices and applications

Third – we believe we have 4 tangible opportunities to drive long-term shareholder value. More specifically, we intend to:

1. Invest in technology and intellectual leadership to create true innovation – this is what we've come to call the Acxiom Audience Operating System;
2. Expand our client base by redefining our position in the big data ecosystem. Our emerging capabilities position us with a far broader array of potential clients and new types of revenue streams that display more SaaS or what I would even call DaaS characteristics;
3. Supplement our efforts with an expanding set of partnerships and occasional portfolio refinements such as tuck-in acquisitions or divestitures; and finally but importantly;
4. Run our business better – within every client, across every geography, every product and every function.

These four value creation opportunities overlap directly with our company's strategic imperatives for 2014. Let me speak briefly about each one in turn:

Imperative #1: Invest and Deliver Innovation through the Acxiom Audience Operating System.

Many of you may not have had a chance to attend our recent product briefing, so let me give you a refresher on what we are building.

We are building an ecosystem that for the first time in the history of marketing will allow advertisers

- to plan, buy and optimize their audiences;
- with both precision and scale
- across all channels, devices and applications.

As Dr. Phil said in New York – it's magical. We believe what we are building, over time, will help transform the fundamental process and expectations for marketing.

Our technology stack has three layers:

First – we are building a data layer that allows us to ingest a broad array of both structured and unstructured data. We already have a deep array of client and structured third party data and are making great progress towards building out other data sets. For example, we currently have information on nearly 1 billion online users. We are also matching ~ 90 percent of all U.S. social profiles. We have made significant progress establishing and collecting broader and deeper data sets than any company in the world and we will continue our build-out over this coming fiscal year.

Second – we have “re-conceptualized” our core database technologies into the Acxiom Audience Operating System. This new technology layer will allow us to both marry and anonymize disparate offline and online data to derive more useful insight for our customers. In addition, it will also allow a much broader group of customers and partners to work with Acxiom through a series of secure APIs.

Finally – we are creating an application layer that allows Acxiom, our clients and partners, as well as third-party developers to create unique applications on our Audience Operating System. We have already created some initial applications to address glaring marketing needs. For example, we recently announced AbiliTag™ – which allows publishers to match offline audience advertiser data with the publisher’s own online data sets. We also launched Audience Propensities™ – with over 3000 big data models to help predict consumer behaviors. Our pipeline for Audience Propensities is over \$9 million for the first half of year. These application efforts will make us one of the first in the world to allow marketers to research and reach audiences across online and offline channels and optimize advertising spend through a single interface. Once again – this is a first for our industry.

But clearly we still have much more work to do. While we’re releasing a number of products and feature enhancements in beta, we are working hard to improve these offerings based on beta client feedback and usage. For example, we’ve already dramatically improved our User Interface from the demos many of you saw in New York.

Our full first wave of innovation won’t be in complete commercial release until later in the year. Until then, we will continue to be “neck deep” in coding and demonstrating our emerging technologies to customers and prospects.

Imperative #2: Expand our client base by redefining our position in the big data ecosystem.

In Sales – under the leadership of Nada Stirratt, our initial focus was to ensure that our core existing client base was satisfied and that we were innovating for their future needs. We are pleased with the progress we have made, as evidenced by the results we’ve generated. For example:

- For the year in US marketing and data services – our top 20 customers grew by approximately 9 percent and
- Our top 100 customers by approximately 7 percent.

But, of course, that is only a start – and we believe the real payoff will come in future quarters as our innovation starts to fuel growth with new types of customers and revenue.

Our sales team has started to hit **their stride in building a disciplined approach to sales, sales operations and deal management.** The result of this is that our pipeline has never been more robust. In fact today – our pipeline for U.S. Marketing and Data Services is up more than 30 percent year-over-year, even when excluding potential revenue from publisher partners and application developers. While we still need to close that pipeline – we like our chances.

In fact, over the past quarter, we closed on new deals with Foot Locker, Total Wine & More, and a major global consumer electronics company. In addition we had renewals with 2 of the largest financial institutions in the U.S. and also expanded our relationship with Macy’s.

Imperative #3: Partnerships and a Portfolio Focus

Acxiom is continuing to form partnerships with leading publishers and consumer technology companies. These partnerships, powered by our Audience Operating System, allow all advertisers to reach their

customers and prospects in digital channels with a precision that only direct marketers have relied on for decades.

This quarter, we announced an exciting partnership with Facebook that greatly improves the options available for our clients. Acxiom is an ideal partner for Facebook because of our data assets (including our 3800+ Audience Propensities) and our trusted client relationships. For Acxiom, Facebook's very large and engaged audience, targeted with the help of Acxiom data, will enable our clients to reach with confidence a large portion of each client's customers and prospects across both mobile and desktop devices with frequency, consistency, and in a format that supports sharing.

Facebook's mission, to make the world more connected, complements our own. Acxiom is uniquely positioned to support connections between Facebook users and the companies and brands they value, connections that are accomplished securely with full respect for user privacy. The ads people see on Facebook powered by Acxiom's data will be more relevant to their interests – which delivers a superior brand experience as well as providing better advertiser results. Our partnership with Facebook represents a big step toward achieving our objective, to provide one-to-one marketing at scale.

We are also expanding our mobile presence in other areas. In addition to the Facebook partnership, we are pleased to announce a partnership with 4info. 4info is one of the largest mobile ad targeting platforms in the US. Through 4info, Acxiom will be able to target mobile ads with precision to approximately 100 million consumers.

Along with other mobile partnerships, Acxiom now has the ability to target across the entire United States, addressable mobile users and households on a 1:1 basis, without cookies, in a privacy compliant, safe and secure manner, and that's just the beginning. Mobile is the fastest growing sector in the advertising industry, expected to reach \$7 billion this year. We believe marketing investment will shift to Acxiom partners because our clients can justify increased mobile spend with confidence.

These two partnerships complement a flurry of other partnering activities such as:

- 6 new partners added in the quarter taking our total to over 40.
- Our partner network reaches over 95% of unique visitors across the internet. This includes 4 out of the top 6 U.S. publishers.
- In mobile – we now reach over 200 million uniques in our partner network.

More broadly, on the portfolio front we will continue to evaluate opportunities to accelerate our progress through continued optimizations and possible tuck-in acquisitions.

Imperative #4: Run a better company.

I'm really pleased with the progress we've made over the past year. We've engineered some important changes, and have much more potential for future improvements.

Most importantly, our management team is now firmly on the ground and working extremely well together. While there are certainly challenges in our turnaround, we know what they are and feel as if we have detailed, tactical plans in place against each obstacle.

We leave 2013 with a robust management cadence, a target P&L in place and clear accountabilities for performance.

We now come to work thinking about finding a better way every day. While our top line remains a work in progress – we are pleased that we grew our Non GAAP EPS by 4 cents this year despite a drop in revenue and some big investments in engineering, data and our delivery organization. Some highlights include:

- Our IT Infrastructure Management segment increased their margins by 200 basis points.
- In addition, we have recently announced the Acxiom PrivateCloud™.
- Mike Lloyd and his Delivery team understand that they are chasing a moving target. They must deliver near term gains in performance and customer satisfaction but also build for a future in which even greater efficiencies and satisfaction are possible, and
- We are also now separating our corporate and Marketing and Data Services IT functions from our IT Infrastructure Management business. This is yet another important step in compartmentalizing our businesses into stand-alone entities and realizing additional efficiencies through our IT efforts. I have recently asked Warren Jenson, to manage this operation and he will address his plans later on the call.

* * * * *

In closing, while we still have much to do, I believe that the transformation of Acxiom is well underway and that we are right on course.

We have accomplished many extraordinary things over the past year.

We have generated a lot of excitement around our product innovation that will give us a foundation to provide for both our new growth and improved profitability. We have introduced our product capabilities to the world and proved we have the ability to transform the marketing industry.

This opportunity is even bigger than we thought.

During fiscal 2014, execution and focus will be the drivers to establishing Acxiom as the clear leader in our industry. But make no mistake, as I have said before, we are still in the middle innings of our turnaround. The future appears bright, but the present requires a detailed focus on execution. I look forward to sharing our progress with you.

Now, I will turn the call over to Warren.

Warren Jenson, CFO:

Thanks Scott and good afternoon everyone.

Before commenting on the fourth quarter and fiscal year – I would again like to update you on our progress related to a few of our initiatives. Following that update – I will lay out our thoughts about where we are headed in fiscal 2014.

First – our efforts to run a better business. We leave fiscal 2013 with a robust process in place to measure our business, hold managers accountable and to get ahead of trends early. We have also established a long term target P&L for each of our businesses and expect that our managers not just deliver on the current period but incorporate initiatives – today – that will make next year’s target possible, too. We believe that these fundamental actions have given us a solid foundation for the future.

Next – we are essentially complete in our efforts to make each of our business segments operationally independent.

Looking ahead to 2014 – let me highlight a few things on which we will be working:

First – we will be relentless in our drive to simplify and automate everything we do. As I mentioned in our last call – the customer always comes first – but every day we need to find a better way. This is a high priority for our Engineering, Delivery and IT teams. You can expect me to update you throughout the year on our progress

Next – we are building our pricing models for our new products. Further – we are also building our operational and back-end systems in order that we have a completely automated way of interacting with our customers and a seamless back end for reporting and billing.

Third – we are going to do a little plumbing. As we worked to build our target P&L we discovered that our product hierarchies and coding are a bit confused and inconsistent between functions. We have just kicked off an effort – the objective of which – is to standardize all of our definitions and product coding across Acxiom. While there are many milestones associated with this project – we believe this effort will help us take another major step forward in our drive for clarity, accountability and simplicity.

Finally let me say that I am excited about taking on this new set of responsibilities associated with our IT operations. As Scott mentioned this is not new ground to me as I have always been deeply involved in the operational aspects of the companies where I have worked. While it is our objective to name a CIO to oversee these functions – I can tell you there are three things on which we will initially focus. First – simplicity and role clarity. We want to make sure that we are working seamlessly with our partners in both engineering and delivery. Next – we will be separating out and centralizing our company’s corporate IT functions. Today this is fragmented. We believe centralizing this function will result in a much stronger capability and higher service levels. Finally – we will continue to relentlessly focus on quality and customer service coupled with a regular cadence of improved productivity. To my IT associates listening in – thanks for welcoming me to your team and thanks for all you do.

Now – we will discuss our results for both the year and the fourth quarter – First a few highlights for the fiscal year:

- While total company revenues declined – U.S. Marketing and Data Services Revenue was up 2 percent for the year
- In U.S. Marketing and Data Services:
 - ✓ revenue from our top 20 customers grew by approximately 9 percent, and
 - ✓ revenue for our top 100 customers grew 7 percent
- Internationally – while we did not quite reach break-even we
 - ✓ reduced our losses by 50 percent to \$3.5 million
 - ✓ In China our business grew by 18 percent and is now on a run rate that exceeds \$20 million

- ✓ Finally – in Brazil we believe we have stabilized this business and positioned it for expansion
- This year we re-ignited our engineering efforts and today have more than 200 people working on building our audience operating system
- Our IT Infrastructure Management business expanded its margin to 10.6 percent – up over 200 basis points year over year
- In total – despite our investments in new products, data and delivery – we were able to increase our Non GAAP EPS by 4 cents to \$.76
- During the year we repurchased \$74 M of stock. Since the inception of our share repurchase program, we have repurchased approximately 10.4 million shares for a total of \$140 million
- Finally – we leave fiscal 2013 with a strong balance sheet and significant acquisition capacity

In summary – while we are not pleased with our top line performance, we leave 2013 with stronger customer relationships, a reinvigorated product development organization and a managerial cadence that we believe will help us run a stronger and more effective company in the years ahead.

Financial Overview

I will now discuss the details of our fourth quarter.

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 from continuing operations was \$277 million – down 4 percent from last year. U.S. Marketing and Data Service revenue was relatively flat for the quarter while IT Infrastructure Management and International Marketing and Data Services were down approximately 4 percent and 16 percent respectively.
- Operating expense for the current quarter was \$257 million – down 3 percent. Adjusting both periods for unusual items, operating expense was \$255 million up approximately 1 percent. The increase in expense was primarily attributable to our investment in new products and added customer support.
- Excluding the impact of approximately \$2 million of restructuring related charges Non GAAP diluted earnings per share were \$.19 in the quarter. This compares to \$.22 in the prior year.
- Finally – our current quarter results were impacted by an R&E tax credit of \$1.4 million or approximately \$.02 per share.
- Now on to slide 4 and our top line performance. U.S. Marketing and Data Services revenue was flat for the quarter.
- IT Infrastructure Management revenue was down 4 percent. This decline reflects a contract renegotiation and decreases in one-time project revenue.
- U.S. Other Services revenue, which includes our risk products and email fulfillment business was \$5.5 million, down from \$9.7 million a year ago. This decline was a result of lower email volumes and the continuing transition of our risk business.
- For the quarter, International Marketing and Data Services revenue was \$29 million, down approximately \$5.5 million or 16 percent. There was no material FX impact in the quarter.

- Slide 5 – For the fourth quarter, our company’s operating margin was 7.3 percent compared to 7.8 percent in the same period a year ago. Excluding unusual items – operating margin decreased to 8.0 percent from 12.1 percent in the prior period. The decline in margin is due to lower U.S. Market Data Services and IT Infrastructure Management margins.
- In the U.S. – Marketing and Data Services margin was 11.6 percent, down from 17.0 percent last year. The decrease in margin is again primarily attributable to data and the investment in our audience operating system.
- IT Infrastructure Management margin decreased to 3.6 percent compared to 8.7 percent last year. The decrease was primarily the result of a contract renegotiation.
- Operating margin for International Marketing and Data Services improved to 6 percent compared to 3.8 percent a year ago. The improvement was a result of cost reductions.

Now to a few comments on slides 6 and 7.

For the quarter, free cash flow to equity was \$42 million compared to \$103 million in the prior period. Excluding the proceeds from the sale of the background screening business, free cash flow to equity increased \$13 million on a year over year basis.

On a trailing 12 month basis, free cash flow to equity was \$56 million compared to \$203 million in the prior period. Excluding the proceeds from the sale of the background screening business, free cash flow to equity decreased \$73 million. Reductions in free cash flow for the year were primarily attributable to increases in cash taxes along with other changes in working capital.

During the fourth quarter, the company repurchased \$9 million of stock. Since inception of the share repurchase program we have retired approximately 13 percent of our common stock for approximately \$140 million. Our total share repurchase authorization is \$200 million.

We ended the year with a strong cash position, an improved leverage profile and a strong balance sheet.

Now on to guidance

Let me start out by saying – we are incredibly excited about the year ahead. Speaking for our entire CEO staff – we have planted some important seeds this past year and we look forward to reaping the benefit of the changes which have been made. That said – there are a few things we ask that you keep in mind.

- First – it’s possible that we will make tuck-in acquisitions this year. Some of these maybe focused on technology which would accelerate our progress in bringing the Acxiom Audience platform to market. Given these acquisitions may not come with revenue or earnings – they may be near term dilutive to our guidance.
- Next – as we mentioned in our last call we are in a period where we are clearly feeling the impact of investments – our investment spending ramped late in fiscal 2013 and we are spending ahead of revenue. As a result – our comparisons in the first half of the year will be tough Specifically – we expect down margins in Q1.
- Further – our new product launches will be late in the fiscal year and revenues will build slowly.
- Overall – we expect revenue in Marketing and Data Services to be up for the year.
- However – in our infrastructure Management segment we expect revenues to be down.

All that said – for the year – we expect revenue and diluted earnings per share to be roughly flat year over year.

Thanks for joining us today. On behalf of all my colleagues – we look forward to updating you throughout the year.

Operator, we will now open the call to questions.