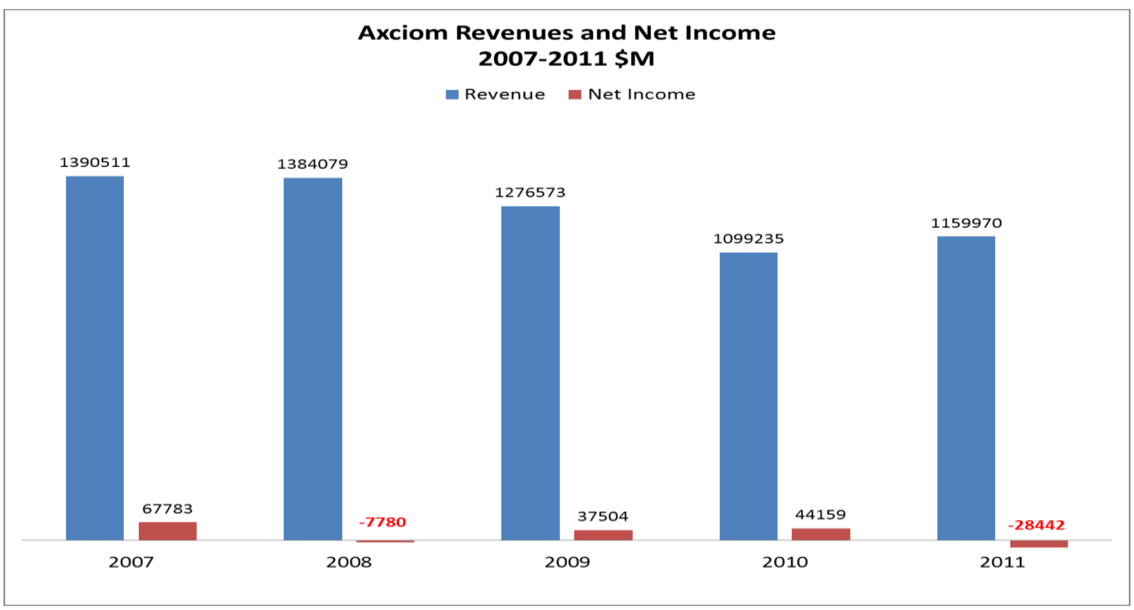
Special Report for BIIA Members Only

Business Information: Green Shoots of Recovery - Part 3 Acxiom

In the first two articles we have looked at how the three major credit bureaus Equifax, Experian and TransUnion and FICO the global analytics business are currently performing and what the future might hold for them. In this article we take a look at *Acxiom* one of the leading global marketing and information management companies.

Overview

In March 2011 Acxiom finished their financial year in a state of crisis, searching for a new CEO and with their CFO announcing he was resigning for personal reasons. Previous CEO John A Meyer had announced his resignation ahead of the publication of the company's year-end results, which heralded a $28m loss and an $80m impairment dollar against its international operations. Meyer had joined Acxiom in February 2008 and immediately found himself struggling with the impacts of the financial crisis on Acxiom's revenues and profitability as the graph below shows:



For those unfamiliar with Acxiom's business it is tempting to think of them as a marketing information business, however, at the end of financial year 2011 they were providing a range of services which included:

- Global multichannel marketing capabilities which can be integrated to form full solutions with measurable ROI
- Consumer insight products, including data and segmentation
- Data integration, management and delivery capabilities
- Information systems technology and management
- Fraud/risk management and identity authentication

At the time of the 2011 annual report, Acxiom as well as providing core marketing services (data, analytics, data integration and data management) were also offering outsourced management of information technology and databases. Two of their most notable customers in this area are D&B and Transunion. With whom they have a number of contracts for the provision of technology, database management and infrastructure services. D&B estimated in their last annual report that they would make payments amounting to$218m to Acxiom over the next 3-5 years. Transunion and Acxiom announced in April 2010 an extension to their 18 year relationship in this area.

In providing fraud/risk management and identity authentication Acxiom were competing directly with the likes of Experian, Equifax, Transunion and Lexis Nexis in this market.

Understanding Acxiom's Business Model in detail

To understand Acxiom's business model in more detail and to get a better picture of the challenges they faced back in March 2011 and where they might head in the future it is necessary to analyse the sources of their revenues and how these individual categories were performing.

Acxiom categorised their revenues in 2011 in two broad segments, Information Services and Information Products.

Information Services include revenues generated from the following activities:

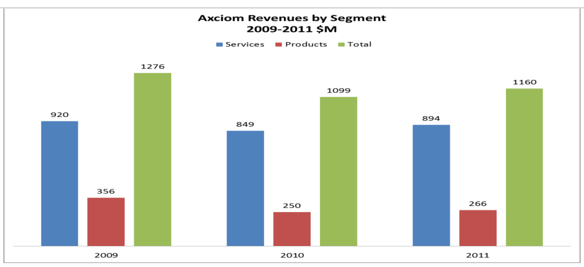
- Customer Data Integration
- Multi-channel Marketing Services
- Infrastructure Management

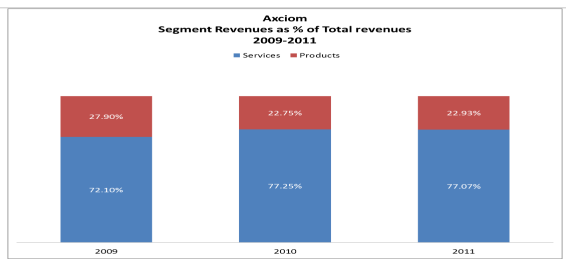
- Consulting

Information Products include revenues generated from the following activities:

- Consumer Insights
- Risk Mitigation Products
- US Background Screening services

The following charts show how these two segments have performed over the last three years and the change in revenue mix:





See larger formats of charts on last page

Perhaps the most striking feature of these charts is the 5% increase in Information Services as a % of total revenues over the last three years.

Information Services

What was driving the growth in Information Services? Firstly acquisitions made in 2011 in MENA (Middle East & North Africa) and GoDigital, a Brazilian company, specialising in data quality management and multi channel marketing, added $10m of revenues. Organic revenue growth was driven by a $27m increase in Infrastructure Management revenues from new contracts, $12m increase in multi channel marketing revenues and $7m increase in consultancy revenues. This growth was offset by $16m decline in revenues for customer data integration (CDI), due to contract losses in Europe and US, with Europe accounting for $11m of the losses. The volatility of revenues from Infrastructure Management Services,which rely on an organisations ability to win and retain major contracts, was underlined by the announcement of the loss of a contract that had generated $18m in 2011.

Information Products

Information Products revenues grew by $17m dollars with revenues from International declining by $4m offset by growth in US revenues of $21m. Background Screening services and Consumer Insights both recording strong growth.

Profit Margins

The significant change in revenue mix with an increasing % of total revenues coming from Information Services has created some potential challenges for the future. Overall since 2009 the total profit margin has been relatively flat at c26.6%. However, Information Services margins have declined from 24.5% to 22.2%, in part due to the decline in revenues from the higher margin CDI business line, but also one can imagine that competition for Infrastructure Management Services contracts is very intense both against local players and the likes of large Indian based outsourcers such as TCS and WIPRO.

The decline in Information Services margins, has been offset by growth in Information Product margins from 26.5% in 2009 to 28.7% in 2011, demonstrating the benefits of a relatively fixed cost base that information and data businesses enjoy when revenues increase.

Impairment Charge

Perhaps the most significant item in the 2011 Annual Report was the decision to take a $79.7m writedown against goodwill and other intangible assets related to Acxiom's International operations. This was triggered by a change in management's view of the long term growth and margin forecasts for the European and MENA regions and the disposal of operations in Netherlands and Portugal. For those of us old enough to remember, Acxiom acquired Claritas in 2003 for c$40m, Claritas at the time was one of the leading Marketing Services businesses in UK and Europe with revenues estimated at $100m. This move proved to be a mistake, the subsequent underperformance of the business and the integration challenges providing a significant distraction to senior mangement, something many industry insiders had warned of at the time.

March 2011 a turning point?

So where exactly did Acxiom find itself in March 2011? It had just announced respectable growth of 5.5%, but margins were down from 9.6% in 2010 to 2.7% because of the impact of the writedown. Many observers would argue at this point it wasn't clear whether Acxiom was an information company that provided services as a means of creating added value and locking in customers, or an outsourcer that sold data. The writedown had at least got one big skeleton out of the cupboard and cleared the way for the new CEO to decide the way forward.

Post March 2011

In July 2011 Acxiom announced the appointment of Scott Howe as CEO, Howe had been Corporate Vice President of Microsoft's Advertising and Publisher Solutions business, having joined Microsoft when they acquired aQuantitive a digital marketing agency. Howe had left Microsoft in May 2010 to focus on other interests.

In January this year they named Warren C Jenson as CFO, Jenson had previously been CFO at Electronic Arts, and held senior financial positions at Amazon.com, Delta Airlines and NBC. Prior to joining Acxiom he had been COO at Silver Spring Networks, a company involved in developing Smart Grid computing technology a key component of Acxiom's technology platform.

On April 19th 2012, Acxiom named Dr Phil Mui, as Chief Product & Engineering Officer, Dr Mui had previously been Group Product Manger for Google Analytics. In his statement CEO Howe, gave an insight into his thoughts on the future strategy for Acxiom. When saying "*Mui is the capstone for our strategic initiatives. His vision, brilliance and extensive career accomplishments are exactly what Acxiom needs to accelerate our ability to deliver game-changing, client-centric solutions that will help our clients achieve greater success."* Dr Mui will lead a team of 750 people and play a major part in deciding where investments will be made in the new R&D programme announced by Howe earlier in the year.

Perhaps a further insight into Howe's thoughts on the future of the business were illustrated in Acxiom's 3rd Quarter results announcement, which included a change in reporting revenues by segment. The revised reporting grouped revenues into:

Marketing & Data Services

- Customer Data integration
- Consumer Insights

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- Marketing Management Services
- Consultancy
- Agency Services

Infrastructure Services

- IT outsourcing
- Transformational Sources

Other Services

- Email fulfilment
- US Risk Businesses
- UK fulfilment services

In announcing this change the company spoke of services "*Designed to address the needs of global marketing leaders and their advertising supply chain partners, these solutions distill actionable insight from today's high volume of data and enable recognition of customers and high value audiences across the spectrum of addressable communication options*." This is a clear message that Acxiom is going to focus on its core business of providing marketing solutions in the future.

This structure provides greater transparency in the relative performance of the three segments and the impact that lower margin Infrastructure Services and the loss making Other Services are having on the company's overall profitability can be seen in the chart below, which is based on 9 months performance to Decmeber 31st 2011 compared to 9 months December 31st 2010.

	Revenues				Profitability			
	2011	2012	Growth		2011	2012	Growth	Margin
Marketing & Data Services	543200	568824	4.50%	Marketing & Data Services	58085	66148	13.88%	11.63%
Infrastructure Services	227881	223935	-1.76%	Infrastructure Services	18973	19133	0.84%	8.54%
Other Services	55488	50610	-9.64%	Other Services	-1119	-4437	-296.51%	-8.77%
Total Revenues	826569	843369	1.99%	Operating Income	75939	80844	6.46%	9.59%
				Corporate Expenses	3619	-17841		
				Total Operating Income	79558	63003	-20.81%	

It can clearly be seen that growth in the higher margin core marketing & data services is being offset by declining revenues from the Infrastructure and Other Services segments.

Marketing & Data Services

Growth in Marketing & Data Services year to date was largely driven by growth in the US ($20m) but revenues also grew from the International business by approximately $5m, although perhaps against expectations, revenues from Brazil fell by $1.2m.

Infrastructure Services

Revenues year to date declined by $4m largely due to the cancellation of the contract reported in the 2011 results, offset by a large one-off project and increased revenues from existing contracts. Further underlining that growth in this segment is very dependent on high retention rates and new business wins, where a single customer loss or win can make or break a year.

Other Services

Other Services revenues declined by $5m year to date, including the loss of revenues from the diposal of operations in the MENA region. Both US Risk Services and the UK Fulfilment business experienced declines in revenue**.** Acxiom also announced the intention to dispose of its US Risk Services business in December 2011 to Sterling Infosystems, the third largest background screening company in the world, for a sum estimated to be in the region of $75m. This disposal was positioned as a further restructuring of Acxiom's portfolio focusing its investment and management attention on driving growth in Marketing & Data Services.

Brazil

The Q3 report also contained news of a further write down of goodwill and other balance sheet items in the International business, this time with regard to the Brazilian operation. The write down of c$18m related largely to this region.

Conclusion

Less than 12 months since Acxiom found itself without a CEO and having to announce a $28m loss, there is evidence that the new CEO is refocusing the business around its core capabilities of Marketing Data, Analytics and Platforms. It will not be surprising if there are further disposals outside the core business and it will be interesting to see whether its IT outsourcing business has a long term future.

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Whilst there are clearly significant execution challenges ahead and a considerable amount to do to convince investors that Acxiom is a company to invest in (it has significantly underperformed the Nasdaq Composite and S&P 500 as the chart below shows), it appears that the new management team have recognised that the company's best chance of growth lies in focusing on its core marketing business and its core US market. Only time will tell if they will succeed in turning the business around.

Acxiom Share Price compare to Nasdaq Composite and S&P 500 Indices 2007-2012 (Red Line) Source FT.com

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BIIA is indebted to Phil Cotter for sharing his insights with BIIA Members.

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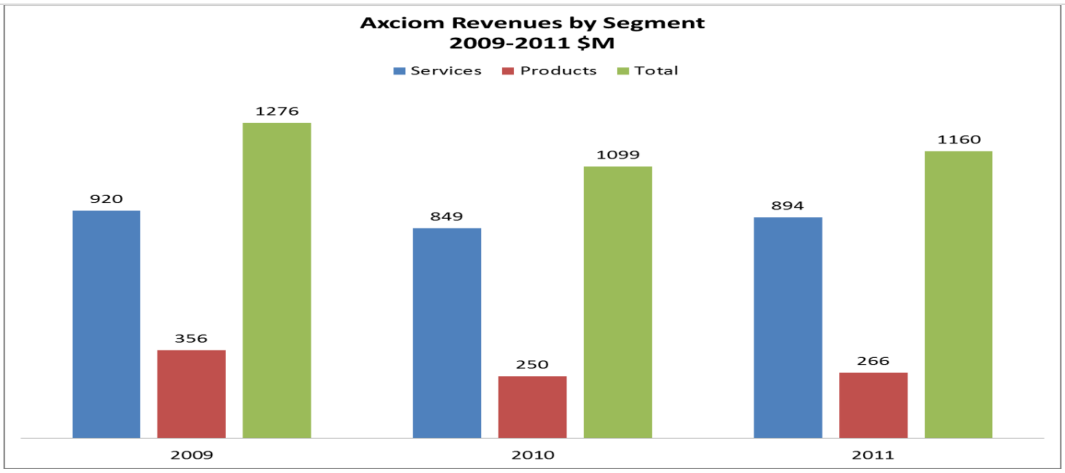
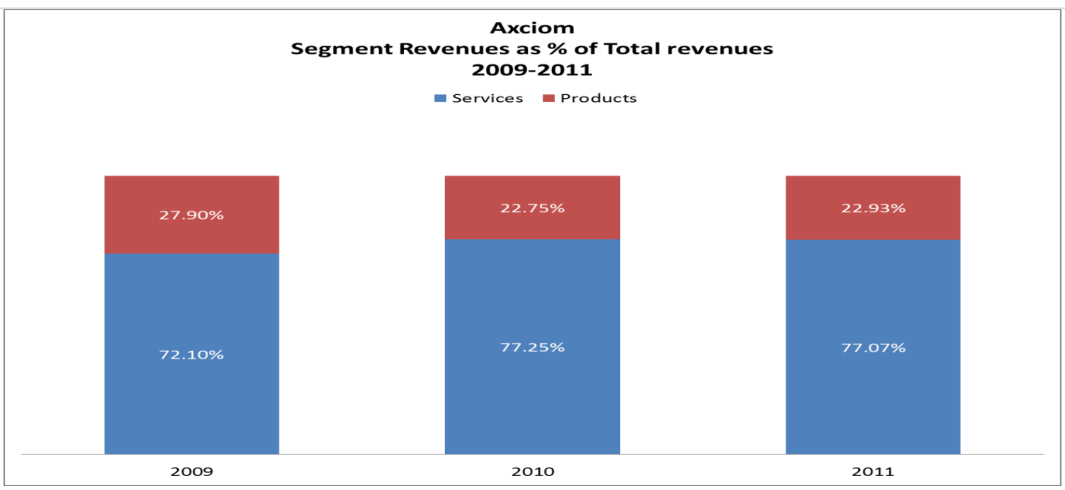

Axciom Revenues by Segment
2009-2011 $M
Services
Products
Total
920
356
1276
849
250
1099
894
266
1160
2009
2010
2011


Axciom
Segment Revenues as % of Total revenues
2009-2011
Services
Products
27.90%
72.10%
22.75%
77.25%
22.93%
77.07%
2009
2010
2011