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LiveRamp Holdings, Inc. (RAMP)

Q2 2020 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Operator: Good afternoon, ladies and gentlemen, and welcome to the LiveRamp Fiscal 2020 Second Quarter Earnings Call. As a reminder, this conference call is being recorded.

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

Lauren Dillard
Head of Communications and Investor Relations, LiveRamp Holdings, Inc.

Thank you, operator. Good afternoon and welcome. Thank you for joining us to discuss our fiscal 2020 second quarter results. With me today are Scott Howe, our CEO; Warren Jenson, President and CFO; and James Arra, President and Chief Commercial Officer.

Today's press release in this call may contain forward-looking statements that are subject to risks and uncertainties that could cause actual results to differ materially. For a detailed description of these risks, please read the Risk Factors section of our public filings and the press release. A copy of our press release and financial schedules, including any reconciliation to non-GAAP measure is available at liveramp.com. Also during the call today, we'll be referring to the slide deck posted on our website.

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

Scott E. Howe

Chief Executive Officer & Director, LiveRamp Holdings, Inc.

Thank you, Lauren. Good afternoon, and thanks for joining us today. We delivered another outstanding quarter, highlighted by record bookings, accelerating top-line growth, growing ecosystem momentum, and a relentless focus on improving operational execution. For the quarter, total revenue was up 39%. Our subscription business grew 31%, driven by our enterprise and agency channel and marketplace and other was up over 80%, fueled by the continued strength of our data marketplace, an acceleration of our advanced television business.

From an operational standpoint, we made significant strides to scale our infrastructure and build a strong pipeline of customer-focused product innovation. During the quarter, our engineering teams completed the migration to the Google Cloud, establishing a solid foundation for durable long-term growth.

In addition, our integration of Data Plus Math is pacing ahead of plan. Customers remain incredibly excited about the combination and our field teams are seeing early indicators that validate the large cross-sell opportunity.

And finally, we remain disciplined in our approach to capital allocation and are delivering on our commitment to you, our shareholders. During the quarter, we repurchased more than $80 million of stock and fiscal year-to-date, have repurchased approximately $100 million.

Our recent momentum is being fueled by the strong secular trends facing enterprise marketers today. As the world becomes more multi-channel, consumer behavior is shifting and organizations are increasingly realizing that true competitive advantage lies in providing meaningful customer experiences, experiences that are personalized, relevant and cohesive across all channels and interactions.

Data is at the center of this and data-driven experiences are the key to brand differentiation and retention. In concert, consumer expectations are at an all-time high and data privacy and security are more important today than ever before. Identity and data connectivity play a critical role in each of these megatrends and enterprises are increasingly turning to LiveRamp because we, are the safe and secure choice to enable their omni-channel customer data strategies. We are winning in the market because of our open and neutral approach, the breadth of our ecosystem and tremendous network affects it fuels and our steadfast commitment to data governance.

I would like to spend the remainder of my time addressing two important topics, the durability of our growth and CCPA readiness. Durability of growth. Warren and I often talk about the different levers of growth at LiveRamp, including our core initiatives that will drive continued growth in the coming years and the longer term bets we are making to sustain our growth for the next decade and beyond. At LiveRamp, we are maniacally focused on delighting and growing our customers, a mindset which directly aligns with the land and expand component of our model.

I am excited to share that this was our largest-ever bookings quarter, surpassing our previous record by 50%. This quarter, bookings were roughly split between new logo and upsell and we continue to see nice growth in average deal size. We made broad additions across our enterprise customer base, adding approximately 30 new customers and bringing our direct subscription customer count to 720.

We remain optimistic about the expand driver of our growth equation. We'll never be satisfied. And over the past eight years, we've always tried to be transparent about the areas where we feel LiveRamp can improve. Last quarter, I talked in some detail about our focus on improving our core subscription net retention churn and sales effectiveness. We're not yet where we aspire to be, but our efforts are having an impact.

Our subscription net retention was a 109% in the quarter, and while we are aiming higher, we outpaced the expectations we shared several months ago. During the quarter, our marketplace and other business grew by more than 100% excluding Facebook, fueled by the growing trend towards BYOD or bring-your-own-data. As brands continue to build more sophisticated third-party data strategies, they are increasingly turning to our marketplace to streamline their buying needs and we feel well positioned to benefit from this trend heading into the holiday season this quarter.

In addition, we are pleased to share that our third-party API is now live at Amazon. TV also had a standout quarter. It was up roughly 75% in Q2 and we expect elevated levels of growth in the back half of the year. As I mentioned upfront, the Data Plus Math acquisition has generated a lot of excitement across our customer base and we are very pleased with how its pipeline is building.

One metric we track inside our TV business is what percent of the top 500 largest TV advertisers transact with networks using Data Plus Math metrics, with the goal being 100% over time. Today, roughly 45 brands are making TV buys based on Data Plus Math metrics and the outcomes that matter most to them. This is a stat that sparks optimism on two fronts. One, how quickly we've achieved double-digit adoption among existing clients; and two, how many more prospects remain for us to pursue.

Let me share a representative example. One of our existing LiveRamp retail customers has been a longstanding, onboarding measurement and data store account, but is also a large TV advertiser. Leveraging Data Plus Math, they are now able to measure what matters on TV, which for them, are store visits and in-store transactions. Better still, at the same time, a major network also signed with Data Plus Math to guarantee on outcomes for this brand as well which is an important proof point supporting our thesis that Data Plus Math has tremendous opportunity for both the buy and sell side, everybody benefits.

Of course, measurement is only one area of the advanced TV ecosystem we serve. LiveRamp is unique in that we play across all areas of advanced TV including addressable, data-driven linear and CTV. Our vision for LiveRamp TV is to lead the transformation to a more personalized and data-driven TV ecosystem. We are one platform for planning, activating, measuring and optimizing every dollar spent on television. We have included more examples in the appendix of our slides for those interested in digging a little deeper on television.

James will walk through our go-to-market strategy in more detail momentarily. But our recent success gives me a lot of confidence in the durability of our growth and in our path to $1 billion.

Next, CCPA readiness. Another key initiative this year is to establish LiveRamp as the trusted best and essential industry standard for connected data. Core to this effort is the work we are doing around CCPA readiness. We recently held three different customer advisory days and in each, CCPA was a huge topic of conversation. The good news is that customers and partners are looking to us to provide guidance and set the standards for how the industry should operate.

While we are working toward broad compliance with CCPA, one specific area of focus for us is assisting the many sophisticated companies who collect any form of people-based data, a roster which includes brand, publishers and data providers, in providing the right level of notice and choice to consumers under CCPA. One benefit of being a global company is that we've done this before with GDPR and have a solid playbook to follow.

We are working closely with our ecosystem to identify which changes must be made to privacy policies, notices to consumers and our contracts with partners and customers. Our consent management platform, Faktor is also demonstrating the important role it can play in ensuring consumer preferences are captured and maintained. We also remain heavily engaged with regulators at both the state and federal level to ensure the right balance between consumer protection, continued data innovation, business outcomes and a level-playing field.

In summary, customers and partners are looking for us to lead and we are building products and services that embrace privacy, transparency and importantly great consumer experiences. While we recognize there is still much influx as draft regulations get finalized, we are well positioned to work through regulatory guidance, as it becomes clarified. Again, we have included additional slides on this topic in the appendix for those who want to learn more.

To conclude, I'd like to personally thank our exceptional customers, partners, and LiveRampers for their ongoing support and hard work. I am very pleased with our execution in the quarter and with the foundation we are building for durable long-term growth. The market trends fueling our business remain intact and we look forward to extending our recent momentum into the back half of the year.

Thanks again for joining us today. I'll now turn the call over to James, who will discuss our go-to-market efforts in more detail.

James F. Arra

President and Chief Commercial Officer, LiveRamp Holdings, Inc.

Great. Thanks a lot, Scott. And good afternoon, everyone. As Scott said, LiveRamp had a very solid quarter. We're seeing great progress with many of the initiatives we've put in place over the last few quarters, as was demonstrated by our strong performance in Q2.

I'd like to spend the next few minutes accomplishing a few things. First, a quick review of our high level go-to-market strategy we outlined at Analyst Day one year ago. Second, I'll share with you some of the programs we've put in place to execute against this strategy. And third, I'll review a few of the key metrics we are tracking that give us confidence we are on the right path, we are executing well, and we are setting the groundwork for $1 billion revenue goal in FY 2024.

Let's review the go-to-market strategy we outlined a year ago. As we discussed then, our high level strategy is similar to many SaaS technology companies, land and expand. We focus our commercial efforts on engaging the right set of prospects, enabling them with our platform and ultimately growing our committed revenue with them by activating more and more high value use cases, but given the platform nature of our business, our go-to-market strategy has an additional lever beyond land and expand. We also have the ability to extend by enabling incremental marketplace revenue streams outside of our core subscription business.

LiveRamp's unique position in the market allows us to land, expand, and extend. So how are we doing against this strategy? Let's start with the land portion. As Scott stated, Q2 is our largest booking quarter ever beating our previous record by more than 50%. We closed our largest new logo deal in recent history, a multi-year partnership with a major marketing cloud provider. We also closed five new logo deals with annual contract value greater than $400,000 and 13 transactions with ACVs over $200,000. The recent market momentum can be attributed to a couple of primary factors. First more and more companies are recognizing the importance of data-driven approach to the customer experience.

LiveRamp's leadership position in helping companies enable this is making us become a must-have technology. Our sales team is capitalizing on this trend by building the largest new local pipeline we've ever had.

Second, we've done quite a bit of work refining our approach on new logo acquisition. Late last year, we launched a new field strategy team. This team has implemented a variety of programs devoted to this effort and we are now beginning to see these pay off. Through our field strategy team, we implemented expanded product and sales training program, we've rolled out more powerful new logo playbooks that leverage many of the best practices we've learned over the years and we've refined our account segmentation approach to ensure we have our best resources on our highest value prospects.

Let's now look at the expand portion of our strategy. In Q2, we beat our upsell bookings target and saw nice improvement in our churn metrics. We closed six upsell deals that were larger than $600,000 in annual contract value with the largest one being a $1.7 million upsell deal with one of our agency holding company clients. We also signed a $1 million upsell deal with a major television programmer, enabling them to offer expanded advanced TV use cases to their advertisers.

Our Data Plus Math acquisition is already contributing to our account expansion strategy. For the quarter, we built a pipeline of more than $20 million and closed Data Plus Math upsell deals with nine existing clients.

Let me highlight one of these examples for you. A major insurance company that has been a LiveRamp IDL client for a few years, they are a big TV advertiser and are now leveraging the Data Plus Math technology to optimize all aspects of their linear, addressable and OTT advertising decisions.

All of this has resulted in our subscription net retention increasing to 109% for Q2. As you all know, this is a trailing metric and we are still seeing the impact of a few larger upsell comps from a year ago. Our momentum with improved upsell performance and the progress with Data Plus Math gives us confidence subscription net retention is trending in the right direction again. Warren will share more specifics on this in his section. We're very pleased with the progress we saw in Q2.

Similar to the efforts on our land portion of our go-to-market, we're seeing the benefit from a number of improvements we've made to drive greater account expansion. Early in Q2, our field strategy team rolled out a new whitespace and account planning tool to standardize our account planning process. Since we implemented this, our upside pipeline has grown by more than 60%. Additionally, we took steps to increase accountability within our account management function. Our customer success team is fully focused on renewals and driving engagement on existing products sold and our commercial leads team is focused on account expansion.

We are already seeing positive results here and feel there is more to come. The work our field strategy team has done on training and playbook development has also been applied to our account expansion efforts. We rolled out new upsell playbooks by use case type and have expanded our account management training.

As I mentioned earlier, LiveRamp's unique position in the market gives us an additional lever for growth, our ability to extend our marketplace business, leveraging our SaaS platform. Keep in mind, the revenue we generate in our marketplace business comes from the same existing subscription customers we have.

As Scott mentioned earlier, Q2 was another strong quarter for our marketplace business. Data marketplace and other revenue was up 118% excluding Facebook. You will recall from our Analyst Day last year, the concept of bring-your-own-data. This is where brands and agencies leverage data packages to build unique audiences by combining them with their first-party data and with other second and third-party data sets.

One example of this is our consumer social offering. When Facebook shutdown partner categories, the third-party data marketplace, many of our brand clients still wanted to leverage third-party data within Facebook. With our consumer social data package, they still can. Through LiveRamp's data marketplace, they're able to license data and build unique and powerful audiences that can then be targeted on many media platforms, including Facebook. We've seen very strong adoption here and had 73 clients leverage to this in Q2.

We continue to bring additional data packages to market and recently launched a measurement data package and a virtual CRM data package for our CPG clients. A key challenge for many CPG brands is the lack of CRM data. Through this data package, they are now able to build a virtual CRM to power their people-centric marketing. We attribute much of our marketplace success to the subject matter expert sales model we've rolled out late last year. These SMEs are able to extend our existing SaaS relationships and drive marketplace growth on top of our traditional subscription business.

As you know, the subscription net retention metric, I mentioned earlier, does not include any of our marketplace revenue. Subscription net retention is an important metric but we don't feel it captures the whole story of LiveRamp growth. Warren will be introducing a new platform net retention metric that looks at the entirety of the growth we can drive from our existing customers.

I'd like to conclude by leaving you with three points to remember. First our land, expand, and extend model is working. We are seeing solid growth from all three of these levers. Second, our model is scaling. We've seen continuous improvement in rep productivity and we'll end the year with sales and marketing expense as a percent of revenue improving over FY 2019.

And finally, LiveRamp had a great quarter. We are well-positioned for a strong second half and a strong as FY 2021. I'm really proud of what the team accomplished in Q2 and I look forward to our continued success in future quarters. Thanks for your attention.

I'll now hand off to Warren.

Warren C. Jenson

President, Chief Financial Officer & Executive Managing Director-International, LiveRamp Holdings, Inc.

Thanks, James, and good afternoon, everyone. We're pleased to report another great quarter, highlighted by the strength of both our subscription revenue growth and the outstanding performance of marketplace. A few call-outs. Our business is strong demonstrating its importance in the ecosystem and its durability.

Revenue was $90 million up 39%. Excluding the impact of Facebook, revenue was up 43%. Subscription revenue of $72 million was up 31% and represented approximately 80% of total revenue. Marketplace had a blow away quarter. Revenue of $18 million increased by 118%, while transactional, make no mistake, this business is highly predictable, highly accretive and a durable part of the ecosystem.

Our growth has been consistent and consistently strong. Looking at the last 14 quarters, revenue has increased by more than 40% in 11 quarters and by more than 30% in 13 quarters. Even more importantly, ARR has grown by more than 30% in 13 of the last 14 quarters.

Next, operationally, we continue to tighten. Our gross margin is again climbing and was 63% this quarter. Excluding transition spending of $5 million, our non-GAAP operating loss was $15 million. Our migration to the Google Cloud is now complete. Data Plus Math and Faktor are fully integrated Transition spending is behind us. We have finished any material transition service reliance on Acxiom. And lastly, as you look at your estimates for Q3, you'll see we are getting close to cash flow breakeven.

Finally, we continue to support our shareholders. In the quarter, we've repurchased 1.7 million shares for $80 million. Fiscal year-to-date, we have repurchased 2.1 million shares for approximately $100 million.

Now, for the remainder of my remarks, I'd like to provide and talk about the four corners of LiveRamp's growth and update our guidance. Four corners of growth. Please turn to slide 9. This chart highlights four metrics, which we believe frame our forward growth prospects: first, subscription net retention, previously referred to as dollar-based net retention; next, platform net retention; third, growth in ARR, and finally, marketplace growth.

A few call-outs and explanation. Subscription net retention, to level set, subscription net retention looks at the year-over-year growth in subscription revenue from customers, which had subscription revenue in the prior year period. This lagging metric is obviously important. But it does not include, growth associated with new logos, growth in subscription revenue from existing customers who may have only been a marketplace customer in the prior year period and of course growth from marketplace.

In the current quarter, subscription net retention was 109%. As we look ahead to both Q3 and Q4, we now expect subscription net retention to be between 107% and 110%. The improvement in the quarter and for the year was and is being driven by stronger upsell and usage trends.

Platform net retention, this metric looks at year-over-year growth in revenue from customers who were a source of any revenue in the prior year period. This is obviously a much more comprehensive metric and more reflective of our overall historical same-store sales performance. In the quarter, our platform net retention was 119%. As you look at our historical performance, you can also see the overall rate of net expansion has been highly consistent and stable.

For the balance of our fiscal year, we expect this growth metric to be between 110% and 115%. Growth in ARR, this leading metric measures year-over-year growth associated with the fixed portion of our subscription revenue. We have presented this metric both in the aggregates and excluding the impact of last year's transaction with IPG. In either case, you will see a strong performance trend.

And finally growth in marketplace. This trailing 12-month metric, while lagging, complements the growth in ARR. Approximately 17% of our subscription customers are now using marketplace, up from 10% a year ago. Taken together, the trends are compelling and demonstrate our strength, consistency and durability of our performance.

RPO, please turn to slide 10. RPO is a measure of contracted revenue, which has not yet been recognized. It does not include any contracted revenue, where a contingency exists, nor does it include any non-contracted transactional revenue. The current portion of RPO is contracted revenue, we expect to recognize over the next 12 months. As we look at the strength of our ending ARR, the performance of marketplace and the current portion of RPO, we are confident in our growth outlook.

Now, onto guidance, please turn to slide 12. Many of you have asked, if we have de-risked our guidance for the potential impact to CCPA. The short answer is, we have tried to do exactly that. But to be clear, we don't have perfect knowledge. And as Scott mentioned, there's still much to be finalized. Therefore, we would ask you to be conservative with your estimates.

As a reminder, our guidance excludes items, including stock-based compensation, purchase intangible amortization and restructuring charges. In FY 2020, we now expect to report revenue of between $376 million and $381 million, up between 32% and 33%. Non-GAAP operating loss of between $63 million and $68 million. While this estimate includes $11 million of transition costs, please keep in mind, transition spending is now behind us and our migration to GCP is complete.

For Q3, we expect revenue of up to $101 million, gross margin to be in excess of 65% and operating loss of approximately 9% of revenue and to be within close proximity of positive operating cash flow. For Q4, we expect our operating loss as a percentage of revenue to be in the low double-digits, driven by spending for ramp up, higher variable compensation, seasonal increases in payroll taxes and higher spending in preparation for CCPA. You can find other guidance assumptions on slide 14.

With that, let me close with a few final thoughts. This was another great quarter for LiveRamp. We are building lasting solutions that embrace privacy, consent, transparency and great customer experiences. We operate in a world that needs a neutral safe haven and we are that company. Our trend lines are clear. Our business is strong. It's highly predictable and durable. We build products, our customers want and need, and have multiple long-term growth levers in place. This is an inflection point. We are now through transition spending in our GCP migration, we have a path to profitability and ample liquidity to see us through our progression and finally, we remain incredibly optimistic about our long-term opportunity.

On behalf of all LiveRampers, thanks again for joining us today. Operator, we will now open the call to questions.

QUESTION AND ANSWER SECTION

Operator: Thank you. [Operator Instructions] Your first question comes from the line of Dan Salmon with BMO Capital Markets.

Daniel Salmon
Analyst, BMO Capital Markets (United States)

Q

Hey, good afternoon, everyone. Maybe, Warren, I could just follow-up on the guidance for a moment and your comment a moment ago about de-risking for CCPA. I'd just like to understand what you mean there a little bit better, because when we look at your retention ratios reaccelerating, when we look at some of the big partnerships you've signed with other players in the ecosystem lately, it seems like the opposite. It seems like your business is picking up and people are coming to you in light of that. So when you talk about de-risking the guidance for that, is that a thought about being cautious on how much that acceleration continues or is it more around the sort of actual technical impact that it could have to the methodology for your products? And then, I've just got one follow-up after that.

Warren C. Jenson
President, Chief Financial Officer & Executive Managing Director-International, LiveRamp Holdings, Inc.

A

Great. Let me say a couple of things, Dan, one, we feel appropriately confident in our back half outlook. There are several things that we think are a 100% working in our favor, an incredibly strong performance in ARR. As both James and Scott mentioned, we had an incredible bookings quarter as well. Marketplace, last quarter 76% growth, a 118% growth this quarter. So when we look at ARR, we look at the strength of marketplace, we look at the strength of our current portion of RPO backlog and our overall metrics. We feel appropriately confident in the back half of the year and our forward growth outlook.

Now that said, we also are cautious relative to the impact of CCPA. We don't know everything. So we've given a lot of extra care to look at our bookings, to look at our closure rates, what's in our pipeline, some of the technical challenges that we're working through. And as best we could, we tried to de-risk that in our guidance to ensure that we, in fact, do deliver on what we say.

As I mentioned, we don't have perfect knowledge. There's still a lot to be done, but we feel we've been appropriate and in taking into account both our confidence in our forward outlook along with trying to take some measure for the things that are uncertain.

Daniel Salmon
Analyst, BMO Capital Markets (United States)

Q

Great. Now, maybe just one follow-up, thinking about going a little further down the income statement, just to margins, without giving any guidance or anything as you noted a moment ago, you've gotten past a lot of, I don't know if we – relatively temporary costs whether that's the shift to Google Cloud, whether that's sort of lingering transaction costs, sort of grinding a little bit past the standup of the corporate costs for the company a year after now being independent. Warren, do you think you're back to the point sort of pre-sale of the legacy Acxiom assets where LiveRamp really enjoyed a nice time within the company there where, both you were investing in products, but also delivering margin at the same time? It feels like you're back to that sort of position but I'd love to hear more color on that. Thanks.

Warren C. Jenson
President, Chief Financial Officer & Executive Managing Director-International, LiveRamp Holdings, Inc.

A

I would tell you, yes. Now, obviously growth is never linear. Not every ratio is going to go in the right direction every single quarter, but we feel Dan just as you highlighted, this is really an inflection point. This has been a massive year of considerable transformation and transition at LiveRamp. We set up a public company infrastructure. We migrated in really record speed to the Google Cloud and now we're at this inflection point where it's all behind us. As we prepared for the call and we're talking about this inflection point, the best way we could summarize it was to say that literally from this point forward, every single line item in our income statement can benefit from revenue leverage. And again, it's not always going to be exactly linear on every line, but in principle we are now at a point to deliver on exactly the point you just made.

Daniel Salmon
Analyst, BMO Capital Markets (United States)

Q

That's great. Thank you very much, Warren.

Warren C. Jenson
President, Chief Financial Officer & Executive Managing Director-International, LiveRamp Holdings, Inc.

A

Thank you.

Operator: Your next question is from the line of Shyam Patil with FIG (sic) [SIG] (00:34:09).

Oliver Hu
Analyst, Susquehanna Financial Group LLLP

Q

Hi. This is Oliver on for Shyam. So I just wanted to ask what's the right way to think about net clients adds going forward? And I also know that it's early to talk on international, but can you discuss some of your progress and adoption rates in other countries?

James F. Arra
President and Chief Commercial Officer, LiveRamp Holdings, Inc.

A

Sure. So this is James. I'll start on the net customer add. So we've been consistent right about net customer add around 30-or-so, between 25 and 30 per quarter and that's the trend we expect to see moving forward. Now, there's certainly some opportunity for us to expand that, but that's really what we've built into our model at this point and we feel pretty good about being able to hit that quarter-in and quarter-out.

Scott E. Howe
Chief Executive Officer & Director, LiveRamp Holdings, Inc.

A

Great. And then, let me chat just for a moment about international. In terms of product adoption, I'd say there are three things that we're focused on internationally that are working extremely well and we believe have a lot of long-term promise. First thing is, what we're doing in our data sharing platform and many of you have heard us talk about the work that we've done with Carrefour, we believe this is breakthrough. The second thing is measurement and then the third thing while it's still very nascent is TV.

Now, in the near-term though, I want everybody to be aware that while we're seeing tremendous long-term demand from customers, there are a couple of short-term transition things that we're going through that will reduce our growth rates. We repeat that again, our growth rates in the near-term, specifically, as I think many of you are aware, the ICO, which is the UK regulator issued guidance for [ph] RTV (00:35:52) this past summer. The implementation of that guidance, which we and the industry are going through is slowing our growth right now in particular in the UK, but that it is having an impact and will have an impact in the back part of the year.

The second transition that we're going through, which we believe will benefit us in the long-term is the shift away from third-party data in Europe to more second party data or very natural data sharing relationships, just as we're doing today and I alluded to with Carrefour. So the good news is that, we're in a position to be a primary beneficiary of this shift towards second party data and at the same time, what we know is that we're seeing significant demand for our data sharing platform, as well as, for measurement and early positive signs in TV.

Oliver Hu
Analyst, Susquehanna Financial Group LLLP

Q

Okay. Thanks.

Scott E. Howe
Chief Executive Officer & Director, LiveRamp Holdings, Inc.

A

Thank you.

Operator: Your next question is from the line of Stan Zlotsky with Morgan Stanley.

Stan Zlotsky
Analyst, Morgan Stanley & Co. LLC

Q

Perfect. Thank you so much, guys. A couple of quick questions from my end, one on just putting a finer point on Dan's question earlier, when we think about CCPA and potential impact whether positive, negative, whichever one, is next year maybe a better year for us to be thinking about more material impacts as we set our models? And then, I have a quick follow-up.

Scott E. Howe
Chief Executive Officer & Director, LiveRamp Holdings, Inc.

A

Yeah. So Stan, this is Scott. CCPA takes – goes into effect on Jan 1 or potentially six months from when the final regulations are written. So any impact we would expect to see next year. That said, we've spent the better part of the last six months preparing ourselves for CCPA in terms of remediating our policies, all of our client contracts and ensuring that privacy by design is built into all of our products.

The hard part will be quite frankly our readiness, but rather it's helping all of our clients and partners ensure that they're ready as well. And again, I think, we're way in front of the curve here and GDPR has been a good blueprint for us to follow. The fact that we purchased Faktor is a big thing, because it allows us to get consent management in front of all of our partners so they can do that in turnkey way. Our most popular sessions for attendance at our ramp-ups, ramp-ups on the road, have been both television and CCPA where the CCPA has been drawing standing-room only.

We launched the micro-site and the newsletter, so we can continue to communicate any changes with clients. And what we're finding is that there's a lot of demand from clients to us for one-on-one legal and counseling sessions, so that they'll be ready. So all is to say, I think we're really well-positioned. I think that there is a flight to quality here that we might be the beneficiaries of. But, I will also at the same time say the final CCPA language still has not been written and so I can't say with a crystal ball that there won't be any impact. But I think we've done a good job of preparing for it.

Stan Zlotsky
Analyst, Morgan Stanley & Co. LLC

Q

Okay, perfect. And then, a similar high level question, a couple of announcements that you guys put out recently, the partnership with Rubicon and yesterday the partnership with MediaMath really caught our eyes. Specifically the MediaMath partnership, given the uneven nature of that relationship that we've heard in the past, maybe walk us through what those announcements mean to you guys on a going forward basis. That's it from me. Thank you.

Scott E. Howe
Chief Executive Officer & Director, LiveRamp Holdings, Inc.

A

Yeah. Stan, first off, thanks for asking and noticing that. We are super excited about this partnership with MediaMath. It's been a long time comment. They are a great company and I've known Joe, their CEO for the better part of 10 years and he is one of just the great tech leaders in the space. And so, I like what he is doing with the source capability and I am really pleased that we can integrate IdentityLink into that.

More broadly speaking to the string of partnerships that we've announced, I think that there are two things going on. Number one is, I think it's a validation of our entire philosophy. We have long talked about being neutral and agnostic and whatever skepticism major partners had about that it seems to really have melted away over the last 6 to 12 months. And whether it's the APIs that we announced for Amazon's DSP, the store sales measurement capabilities that we have with Google and The Trade Desk or integrations that we have with Facebook, we are walking the walk that we aim to catalyze anyone and everyone in the industry.

The second thing that I hope is not lost on everybody is, I think the string of announcements is a measure of progress that we've made in our authenticated traffic solution and de-risking the entire ecosystem for a world in which third-party cookies may not always be the standard. We've started talking about ATS like literally six to eight months ago and where we stand now, we have 10 SSPs either under contract or already implemented, including Index and Rubicon, next up will be OpenX and PubMatic, then we have 20 DSPs, including the MOBI, QRIO and most recently MediaMath. So I think the world has taken notice. They've standardized on IdentityLink and I think that's good for the entire ecosystem.

Stan Zlotsky
Analyst, Morgan Stanley & Co. LLC

Q

Okay. Perfect. Thank you so much.

Operator: Your next question is from the line of Kirk Materne with Evercore ISI.

Kirk Materne
Analyst, Evercore ISI

Q

Yes. Thanks very much. Congrats on the quarter and thanks very much for the incremental supplemental details on the deck. I really appreciate you all and Lauren putting that together, I think it's really helpful around...

Scott E. Howe
Chief Executive Officer & Director, LiveRamp Holdings, Inc.

A

You got it.

Kirk Materne
Analyst, Evercore ISI

Q

...some of the forward metrics, so kudos on that.

Scott E. Howe
Chief Executive Officer & Director, LiveRamp Holdings, Inc.

A

That's right. Thank you.

Kirk Materne
Analyst, Evercore ISI

Q

I guess, maybe just to start, obviously, we look at the ARR, sort of [ph] ex-IPC (00:43:15), a nice jump this quarter, which is obviously great to see. Is there anything changed in the marketplace? Was it just a matter of kind of being maybe a little more consistent getting deals across the door, maybe upselling deals at a little more consistent clip? Can you just maybe provide a little bit more color on that front, that would be great to start? Thanks.

James F. Arra
President and Chief Commercial Officer, LiveRamp Holdings, Inc.

A

Yeah. So I'll go and take. This is James. Yeah, I think there's a couple of things happening. First, as I mentioned in my remarks, there's a number of programs we've put in place over the last few quarters and we're starting to see the fruit from those efforts. So it is creating some really nice signals for us that we're getting better at [ph] what else (00:43:53) that we do. And I think that's a really good sign. The second piece of that is, we're already starting to see a lot of traction develop with Data Plus Math and I mentioned, we signed upsell deals with nine of our existing customers around that and that's certainly contributing to ARR growth.

And then, finally, we had a couple of larger transactions this quarter, we mentioned one of them earlier with the marketing cloud company and that certainly helps us as well. So really good signals. We've got great pipeline. We're really bullish on the second half of this year and into FY 2021, some really, really good signals.

Kirk Materne
Analyst, Evercore ISI

Q

Okay. And maybe just to follow-up [ph] now, I don't know (00:44:36) if it's James or Warren want to take this one. But obviously marketplace had a huge quarter well above what we were thinking. What kind of visibility do you have in that? You mentioned that you do have visibility into that. But it's obviously not a more traditional subscription model. So when we think out over the next couple of quarters or the next year, how do you feel, I guess, how do you get confidence in sort of this kind of growth rates are obviously pretty – probably not sustainable? But how do you get comfortable with sort of a more of a – what kind of run rate that business can grow out maybe over a longer period? Thanks.

James F. Arra
President and Chief Commercial Officer, LiveRamp Holdings, Inc.

A

Sure. I'll go and start. This is James and then, I'll hand it off to Warren to add a little more color. When you look at the durability of our revenue streams, obviously committed revenue is most durable. But given the run rate that we have and the track record we have in our growth of marketplace, we get a lot of predictability with it and there is things that we can do to make us feel very very comfortable with the outlook based on historically what we have been going. I mean, that's really what we apply to this. Now, as you said, we had a couple of really great quarters and we don't expect and we aren't planning to have another 118% quarter in the second half this year. But there is a lot of momentum happening on the marketplace side. Scott mentioned earlier the third-party data, API with Amazon and that could be huge for us as well. So we're seeing some really good things happening that give us a lot of confidence in our ability to continue to grow our marketplace business faster than our core growth rates.

Warren C. Jenson
President, Chief Financial Officer & Executive Managing Director-International, LiveRamp Holdings, Inc.

A

And then, Kirk, I would only add to that, it's about building a history of sufficient scale that this transactional revenue does become predictable. And so, we now have a really pretty good handle on seasonality. Our quarters are big enough that a lot of the noise is out of it, I mean, there is going to be some noise here and there, but the businesses have sufficient scale that you can actually plot the trend lines pretty clearly.

Kirk Materne
Analyst, Evercore ISI

Q

Super. Thanks for taking my questions.

Warren C. Jenson
President, Chief Financial Officer & Executive Managing Director-International, LiveRamp Holdings, Inc.

A

Thank you.

Operator: Your next question comes from the line of Tim Nollen with Macquarie.

Tim Nollen
Analyst, Macquarie Capital (USA), Inc.

Q

Hi. Thanks very much. I'd like to come back one more time on the net retention question. And if you could just elaborate a bit more on why you think the overall platform net retention number, the 119% number, why are you confident that the marketplace portion of that remains strong sustainable? I mean, it is as you referred to it is somewhat, I guess, discretionary spending, but you seem quite confident still that you can retain those clients and continue to sell more to them. So just a bit more color on that would be great, please.

And then, two other quick ones. You've talked about getting toward profitability during fiscal 2021, I wonder if you have any other commentary around that and timing within that. And then, lastly, still have a super strong balance sheet. Any comments, please, on use of cash? Thanks.

Scott E. Howe
Chief Executive Officer & Director, LiveRamp Holdings, Inc.
A

Let me take first and [ph] you take next one (00:47:53).

Warren C. Jenson
President, Chief Financial Officer & Executive Managing Director-International, LiveRamp Holdings, Inc.
A

Sure. Go ahead.

Scott E. Howe
Chief Executive Officer & Director, LiveRamp Holdings, Inc.
A

So in terms of the stability of that broader platform metric and in particular on the data marketplace portion of it, we see a couple of trends going on that we think have fueled demand for our data marketplace. Number one is a flight to quality that in times of regulation, the importance of gathering consensus for data, rather than a client going out and striking a number of one off ad-hoc relationships, they can access all of the ethical data providers within our marketplace and we will have done a lot of the work for them.

In addition, it's the ease-of-use. So again, instead of having to go out and strike 20 different contracts, we have hundreds of data suppliers available who are plugged into our grid for all their available turnkey notice. And so, it's just an easier way to buy and it's a safer way to buy, which underscores that that flight to quality.

Warren C. Jenson
President, Chief Financial Officer & Executive Managing Director-International, LiveRamp Holdings, Inc.
A

Great. A couple of other things that I'd just point out in terms of our confidence and just to put some math behind the strength of the business. If you look at slide 9 of our deck where we presented the four corners to grow, these are trailing 12-month numbers. So every period represents 12 months of growth, in Q2, 49%, 68%, 60%, 60%, 81%. So there is a trend line of very, very strong performance over multiple 12 periods which gives us a lot of confidence. A couple of things then to the follow-up questions.

First of all, we do remain committed to profitability in FY 2021. We would remind everyone of something that I know Scott has said and I've repeated and that is, if there is an opportunity that we feel merits doubling down on, we would not hesitate to do that. That said, we remain committed to profitability in FY 2021. In terms of our use of cash, we do have and are fortunate to be in a position of having a great balance sheet. Our capital allocation priorities remain the same. First of all, fund our growth opportunities and our operating needs. Two, have acquisition flexibility. We want to continue just as we've done to be very selective, but have flexibility to make acquisition. And then, just as we have in the past in that context really support our shareholders through our share buyback.

Tim Nollen
Analyst, Macquarie Capital (USA), Inc.
Q

Great, thanks a lot.

Warren C. Jenson
President, Chief Financial Officer & Executive Managing Director-International, LiveRamp Holdings, Inc.

A

Thank you.

Operator: Your next question comes from the line of Robert Coolbrith with Wells Fargo Securities.

Robert J. Coolbrith
Analyst, Wells Fargo Securities LLC

Q

Good afternoon and congratulations on the quarter. Wanted to ask on Facebook and BYOD, I think you said you have 73 customers now bringing third-party data into Facebook to replace the partner categories functionality. Just a few questions related to that. I think a couple of quarters back you said you had about 250 customers using the FB integration, so just it seems like you would have a fair amount of runway to go there, but just please correct [ph] this is wrong on that (00:51:16).

Second, are you seeing this as sort of a starting point for broader use of BYOD for programmatic and other use cases?

And then, finally, I think part of your categories is pretty popular among CPGs and some other markers who may have had pretty limited first party data assets. So wondering if BYOD is serving as a starting point for some new customer discussions with some of those types of marketers where you might be able to help them with other things like second party partnerships or anything you might be able to say about that. Thank you very much.

James F. Arra
President and Chief Commercial Officer, LiveRamp Holdings, Inc.

A

Sure. Yeah. So on Facebook, on the social package that I talked about earlier, what you were referring to is the clients that we work with we may be pushing the first party data into Facebook. That was the number in the 200s. So yes, there's a lot more runway for us here with third-party data, 73. It's still early but we think there's a lot of growth still to be had with that. But we're very happy with the progress we've seen over the last few quarters there. The second question you had or the second comment you had about Facebook, if you can repeat that?

Robert J. Coolbrith
Analyst, Wells Fargo Securities LLC

Q

Well, just are you seeing that as a starting point for broader BYOD usage and programmatic and other use cases and then finally is this starting to catalyze discussions with CPG and others who might not have had really significant first party assets fees or any platform in the past?

James F. Arra
President and Chief Commercial Officer, LiveRamp Holdings, Inc.

A

Yeah, very much so. And as I mentioned earlier this whole idea of these data packages that we can bring out to brand that is a core part of our marketplace strategy and our growth strategy. And as you said, there are certain segments out there like CPG where they don't have a whole lot of their own data and putting together packages such as the virtual CRM package that we put together or some of the various transactional packages that other companies have that they can leverage become really powerful. Facebook is one destination that I can lever to that and these packages. There's many others that we work with and they're using them in other places. And like I said, this is a key part of our strategy and the other part about this that's interesting is, many times even though this is marketplace revenue, many times, we can get brand to commit revenue associated with it. So it creates a lot more predictability in this sort of transactional business.

Robert J. Coolbrith
Analyst, Wells Fargo Securities LLC

Q

Great. Thank you.

Operator: Your next question is from the line of Brett Huff with Stephens.

Q

Yeah. Hey, guys. This is [ph] Joel (00:53:45) on for Brett. Thanks for taking my questions. Congrats on a nice quarter.

Warren C. Jenson
President, Chief Financial Officer & Executive Managing Director-International, LiveRamp Holdings, Inc.

A

Great. Thanks, [ph] Joel (00:53:49).

Q

What is the biggest thing that Ramp is looking out for that can make winning in TV harder? Thank you.

Scott E. Howe
Chief Executive Officer & Director, LiveRamp Holdings, Inc.

A

[indiscernible] (00:54:02) harder?

Q

Like the Connected TV, winning in Connected TV?

Scott E. Howe
Chief Executive Officer & Director, LiveRamp Holdings, Inc.

A

Yeah. I mean, I think the biggest obstacle to us is in scaling the business are really first and foremost, our own capacity to scale. And what I mean by that is, if you think about the person, a single person who is probably logged the most frequent flyer miles in the last quarter, it's John Hoctor who runs our Data Plus Math business, virtually, every television advertiser wants to talk to him. And so, we need to duplicate his ability to evangelize the story with subject matter experts and teach our entire organization, how to tell the story to clients and how to get [ph] campaigns off the (00:54:55) ground.

Our Connected TV business was up 400% in Q2. So our issue here isn't about the obstacles to growth, it's really about how do we accelerate that growth. [ph] It's off a (00:55:14) small base. There's a lot of excitement. There hasn't really been a whole lot going on in television for 20 some years in terms of innovation, but all of a sudden, we can go in and help clients fight with much more granular data than they could with just TRPs and GRPs and an outcome-based measurement. So we think it's a big opportunity, real big opportunity for us.

Q

Great. Thank you.

Operator: This question is from the line of David Gearhart with First Analysis.

David Gearhart
Analyst, First Analysis Securities Corp.

Q

Hi. Good afternoon. Thank you for taking my questions. I just have two really quick ones. Can you give us the organic revenue growth rate year-over-year for the quarter? And then, also just looking at the platform net retention rate, I think the guide was for $110 million to $115 million for Q3 and Q4, seems to be a more noticeable step down relative to the subscription net retention rates. So just wondering if something material is coming out of there or something that we should be aware of? Thank you.

Warren C. Jenson
President, Chief Financial Officer & Executive Managing Director-International, LiveRamp Holdings, Inc.

A

Happy to do it. We had a million dollars of acquisition benefit from Data Plus Math in the quarter. And just to reiterate for everybody on the call, what our guidance was. First of all, Data Plus Math is now completely integrated into our TV business. So we don't operate it as a separate subsidiary. It's integrated into our operations. That said, when we made the acquisition, we said that it would be about $5 million or we are counting on $5 million of benefit from the acquisition in this fiscal year and about a $1 million of that falls within the quarter. We just reported and then figure $2 million and $2 million for the remainder of the year. So if TV was up 75% for the quarter, it would have been up 50%, but for that million dollars.

Going to the platform net retention, it's really about the forecast growth rate for marketplace. So just to the question that James talked about it little bit earlier, we're not comfortable supporting those big growth rates in Q3 and Q4. So it's just solely a reflection of a more moderate growth outlook for marketplace still strong mind you, but a more moderate growth rate in Q3 and Q4.

David Gearhart
Analyst, First Analysis Securities Corp.

Q

All right. That's it for me. Thank you.

Warren C. Jenson
President, Chief Financial Officer & Executive Managing Director-International, LiveRamp Holdings, Inc.

A

Thank you.

Operator: And this concludes our Q&A session. I will now turn the call back over to Warren Jenson for closing remarks.

Warren C. Jenson
President, Chief Financial Officer & Executive Managing Director-International, LiveRamp Holdings, Inc.

Well, thank you again for joining us today. This was truly another great quarter for LiveRamp. Most importantly, we're really proud that we're part of an ecosystem where we're building really lasting solutions that embrace privacy, consent, transparency and great customer experiences. We do believe the world needs a neutral safe haven and we believe we are that company. Our trend lines are clear. We build products our customers want and need. This isn't an inflection point. We're now through transition spending and GCP migration. We have a path to profitability, ample liquidity and we remain incredibly optimistic about our long-term opportunity. Again on behalf of all my colleagues at LiveRamp and all LiveRampers, thanks again for joining us today.

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