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LiveRamp Holdings, Inc. (RAMP)

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MANAGEMENT DISCUSSION SECTION

Adam Klauber
Analyst, William Blair & Co. LLC

Good morning, everyone, and thanks for joining. This is Adam Klauber with William Blair. We are very happy to have LiveRamp. We've got CEO, Scott Howe; and Lauren Dillard from LiveRamp. We think it's great company, very unique in the digital ad space. And it's a great chance to hear about what's going on today. So, for five minutes or so, Scott's going to go through some presentation, some remarks. After that, I'll have some Q&A. And after that, we'll open up for [ph] – we kind of have time for (00:00:37) questions after that. So, Scott, do you want to jump off?

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

Well, first off, thank you, Adam. It's a pleasure to join you and everybody on the call this morning. In terms of prepared remarks, I just have very few, but I wanted to above all leave everyone with three overarching themes. First, we think LiveRamp solves a really challenging problem. Second, we are incredibly important to our clients and partners and our business exhibits a strong network effect. And third, we're demonstrating strong SaaS characteristics.

So, first, we solve a challenging problem. The story of LiveRamp is really one of data connectivity. We solve [ph] one (00:01:20) important problem, that of how do companies all over the world ingest the data that matters to them, determine what it means and activate it at the destinations that matter. In short, our vision is pretty simple: we make data safe and easy for companies to use. We do that through a SaaS platform.

And quick description, take a typical client say a Citigroup for instance. They use our service to upload their CRM files, all of which are permission-enabled and authenticated and they will activate that information when they advertise on Google, when they advertise on Facebook, perhaps when they do direct mail, when they do e-mail. Many of our retail clients use that information to deliver custom offers at a point of sale, a cash register itself. Where ever data can be utilized, our goal is to make data actionable at those destinations.

Second, we are an incredibly important partner – we are incredibly important to our clients and partners and our business exhibits strong network effects. You can see that on this slide here. We work with nearly everyone. We invented the category within the last decade. We believe we are the unquestioned, unchallenged category leader and we really pledge neutrality. Our statement is that we will work with anyone and everyone in the industry as long as they are ethical. That includes at times competitors, many of whom white label our products. So, even if we lose head to head, we still win because we get revenue from those partners.

So, to demonstrate, we work with virtually all of the major technology platforms, we work with over 400 direct brands representing 60% of the top advertisers, we work with all six of the largest agency holding companies, we work with 18 of the top 20 major digital publishers, and we work with hundreds of different data providers. Importantly, each of them is drawn to us because we work with all the others. And so, if you want to do something with data and you want to have it be secured, you want to have it be authenticated, you want to have it be compliant and you just don't want to have any operational headaches, then you're going to work with us because you can reach everyone else that matters to you.

And then finally, and, Lauren, if you could shift to the second last slide. Our business is demonstrating strong SaaS characteristics and here are some example stats that we pulled from our most recent earnings call, which was just a few weeks ago. Our quarter end, fiscal year end was March 31. So, for the year we generated just about $300 million in recurring subscription. Our total revenue was a tad above $380 million. So, about 20% of our revenue is variable or usage-based and oftentimes that is from our data marketplace.

Our net retention metrics 122%, not quite where we'd like it to be, but very strong. Our margins are showing continued improvement. If you look at our financial performance over the last six quarters, you can see that illustrated literally every quarter. Our gross margin has increased and our operating margin has increased as well.

We're not profitable yet. However, if you do your own models, you can see that that day is coming soon. And we tend to start small, our average order is in the hundreds of thousands of dollars, but we now have 53 clients that are [ph] $1-million-plus spenders (00:06:04). It's due to our success of expanding and extending the clients in our portfolio.

In summary, again we think we solve a challenging problem. We think we're important to our clients and partners. We have a strong network effect and we're demonstrating strong SaaS characteristics as well. We think we're – if you look at the market, we're trading at a discount relative to other best of breed SaaS companies. So, we think this is an interesting time to be exploring LiveRamp.

With that, Adam, I'll turn it to you for Q&A.

QUESTION AND ANSWER SECTION

Adam Klauber
Analyst, William Blair & Co. LLC

Q

Great. Thanks, Scott. The question on everyone's mind throughout this conference is you had – you set expectations after the quarter, very – on a very positive note, you expect revenue to be positive in high-single digits. Generally, how would you say the last two months have been tracking? And in particular, I think a lot of people are wondering is how is May versus April? So, any color around that would be really helpful.

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

A

Lauren, you want to...

Lauren Dillard
Chief Communications Officer, LiveRamp Holdings, Inc.

A

Yeah, I'm happy to, Adam. We're not going to provide a specific update on May during today's presentation. What we'll say is we're really happy with our results in April and we posted some of those as part of our earnings call a couple of weeks ago. We are lucky in that a big chunk, 80% of our revenue is contracted subscription revenue and so we have pretty good predictability and line of sight into that revenue.

That said, there are, as Scott alluded to, more variable components of our business model as well, specifically our data marketplace business. And for those of you less familiar with LiveRamp, our data marketplace business helps bring together data providers with all of the different destinations both brand destinations as well as platform and publisher destinations where that data can be used and when we do that we take a rev share. So, that is kind of the area of our business that is more transactional in nature, more tied to overall campaign and ad spend.

So, we're looking at that area of our business really closely. We're also watching the usage component of our subscription business, which tends to run about 10% to 15% of total subscription revenue, closely as well. As you'd also expect, we're looking at all of the kind of leading indicator metrics around pipeline, deal cycles, closure rates, churn, et cetera. And while I think we're happy with what we're seeing like those areas will definitely be pressured given the broader macro environment. So, that's kind of where we apply the conservatism, Adam, when we guided for Q1.

Now that said, I think most others in our space today are talking about down year-on-year revenues in Q1 and we're talking about growth. So, again, happy to be able to report that.

Adam Klauber
Analyst, William Blair & Co. LLC

Q

Great. Thank you. Well, one of my favorite topics is always advanced TV. Could you describe LiveRamp's position in the market, where you think we are today in that market and as we look forward, what's the real potential for LiveRamp and advanced TV?

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

A

Yeah. Adam, I'll tell you. We're really excited about our advanced TV potential. It's not something you've heard me talk a lot about the last couple of years. In fact, every time I did talk about it, I kind of qualified it by saying, hey, this is growing rapidly but it's still small.

Last quarter for the year when we announced, I think we really hit a milestone because advanced television represented 10% of our overall revenue for the past fiscal year and it's growing faster than our average top line growth. We think that's going to continue and we think we have a couple really interesting trends at our back.

Number one, I think we've hit really a tipping point for television. For years people have talked about when is the Upfronts of broadcast television going to transition to something that's purchased more like digital. Well, in part because of COVID, we've seen an explosion of at-home screen time along with the cancellation of traditional Upfronts. That coupled with the recessionary pressure that many clients are feeling indicates, we're hearing it that now is the time to test television.

They can buy more granularly through us instead of just buying on traditional TRPs and GRPs from [ph] panel-based (00:11:15), very thin set of demographics. They can buy according to the audiences that they're already using in their online or direct mail spend, very granular, oftentimes simply activating their existing CRM or a loyalty database information on that television buy.

The other thing that we offer that's very enticing for advertisers is the ability to buy on outcomes. So, instead of just buying pure reach and then hoping that works, you could actually buy on the outcome and pay not on the reach but rather on the result. So, did someone visit your website, did someone go to a car dealership, did someone buy the product? And that again, coming out of a recession, is appealing to advertisers.

Surprisingly, perhaps, it's also very appealing to content providers because having new pricing models gives them more flexibility to meet advertising demands and having more granularity in terms of the measurement ensures that they actually get paid for the ads that are shown.

So, all this to say we're very bullish on this. Again, smaller, 10% of our revenue, but we think it's going to continue to grow faster than our average revenue.

Adam Klauber
Analyst, William Blair & Co. LLC
Q

Great. You mentioned tipping point, I guess what's happened or what factors [ph] have happened cross (00:12:56) that tipping point? And also, just to give – just to give our clients an idea or for flavor, can you talk about some of your partners across the spectrum, who you're dealing with, who you're active with in advanced TV?

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

Yeah. So, I'll start with the second piece and Lauren maybe you come in and talk about the tipping point. But what I would tell you is the thing that we really like about our television business, it's an extension in many respects of our overall market position. We work with everyone and we're trusted and neutral. And so, we work with all the major advertisers that are already buying programmatic or activating their data elsewhere with us. We, increasingly, are working with all of the major holding companies who oftentimes are the biggest television buyers. And importantly, we have partnerships with all the major MVPDs.

In our last earnings call, we also announced something that we think is potentially another game changer for us and that is we announced a four-year exclusive partnership with Comscore. Through that exclusive partnership, we'll bring our addressability data, but we have licensed viewership data from Comscore across 90 million set-top boxes and connected devices and so we now bring the combination of not just who is watching, but also what is the content that they're watching. We think it's a powerful one-two punch for advanced television.

Lauren Dillard
Chief Communications Officer, LiveRamp Holdings, Inc.
A

Yeah, and then just, Adam, on the tipping point, I mean I think there are a few different factors at play here. If you think about this stay-at-home period, I mean the time we're all spending in front of screens has absolutely skyrocketed and our interactions with streaming platforms and especially ad-supported streaming platforms has also grown pretty significantly in the last few months. So, that's going to make it easier for advertisers who are advertising on platforms, like Hulu and Roku and other EVOD platforms, reach their audiences in a really granular way and also in a way that allows them to perform measurement on the backend.

Then as you well know, Upfronts have been canceled or postponed. And I think as we kind of move out of this stay-at-home period into what is arguably more of a recessionary environment, networks are going to have to provide more flexibility to advertisers in how they're buying TV inventory and we think that is going to be a big tailwind for Data Plus Math and the outcome-based buying that it enables as well as just for the kind of overall advanced TV space.

Adam Klauber
Analyst, William Blair & Co. LLC
Q

Great. Switching topics, let's go to privacy, privacy regulation, and California is implementing a major policy this year. A couple of things, what does that mean for your clients? You've been rolling out some products effectively to help. So, could you talk about I guess both what does it mean for clients and how are those clients adapting or thinking about your products?

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

Well, I'll tell you what it means for all of our clients and partners, is it makes things just a little bit more challenging. Every time new regulations are introduced whether it's GDPR or CCPA or dozens of potential pending state regulations, it becomes much more difficult for a single company to go it alone.

If you think about what our clients are good at, they're good at retail, they're good at entertainment, they're good at travel, they're good at building cars. They're not necessarily good at staying abreast of thousands of changing privacy regulations, the latest in data security requirements or data authentication and anonymization techniques. That's all we do. And so, as the regulatory environment gets more complex, our competitive defensibility increases and we become even more valuable to our clients.

Now July 1 is the enforcement date for CCPA. That's an event that we and our clients have prepared for, for the last couple of years and quite frankly even before that to get ready for GDPR in Europe, really meant that you were also getting ready for CCPA because at their heart, there's a lot of overlap between the two regulations. So, I think we're in good shape come July 1. And I think because we work only with really reputable advertisers and large publishers that you would have heard of, our partners are in good shape as well.

Adam Klauber
Analyst, William Blair & Co. LLC

Q

Great. Just a follow-up, so, how are GDPR and CCPA different? And from a data point standpoint, how did your business react sort of right after GDPR and what's been the outcomes after GDPR?

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

A

Yeah. I think the – well, first off, let me talk about how they're similar. And so GDPR, CCPA and virtually every other regulation that's been contemplated have at their heart consumer transparency, visibility and control that it's really important that if you're collecting data around users that you inform them that you're doing it, that they understand how it's being utilized and they have the ability to correct it or opt out of it.

Now, the big difference between GDPR and CCPA is GDPR is what is called an opt-in framework meaning that at the point of notification the consumer needs to say, yes, you can utilize my data in that way. CCPA is an opt-out framework, meaning that you tell the consumer that you're using their data. If they're uncomfortable with it, they can tell you no I don't want to do that. But it's the difference between actively saying yes or after the fact saying no I don't want to do that.

What I would tell you, in Europe the opt-in rates that our clients and partners are seeing and remember these are big companies that you've heard of, the opt-in rates are in the high-90%s. The opt-out rates, in our first couple weeks of the CCPA, were kind of the inverse of that. So, low-single-digit percents. In fact, in the first few weeks of CCPA, I want to say LiveRamp generated a grand total of a half a dozen to a dozen opt-outs. So, it's really negligible.

Adam Klauber
Analyst, William Blair & Co. LLC

Q

Great. And just one more, so prior [indiscernible] (00:20:41) GDPR, did clients slow down their advertising spend or advertising dollars just because they were uncertain? And are you seeing that with CCPA, again a little tough with COVID-19, but...

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

A

Yeah. So, remember who we work with. So, we're working with large global retailers and global publishers. So, yes, in Europe we did see a hesitation for regulatory compliance to companies a quarter or two to ensure that they were fully compliant. However, we haven't seen that for CCPA and I believe it is because in getting ready for GDPR those companies were unknowingly also getting ready for CCPA. So, we had to probably build a privacy team, we had to become a little bit smarter about data usage, and once they built those capabilities, they see that a lot of the privacy regulation is fairly similar.

Adam Klauber
Analyst, William Blair & Co. LLC

Q

Great. Okay. Going back to growth which is what a lot of our clients care about, marketplace initiative has been a really strong growth initiative. Lauren, can you talk to us about how big that is, how much that's grown? But importantly, people don't know LiveRamp [ph] while they (00:22:11) probably don't understand that, could you talk about why that's gaining so much speed and again long-term, how big could that be?

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

A

Yeah, maybe I'll start with the second and then, Lauren, if you want to come in and just share some of the size, growth rate, those kinds of things. In terms of the drivers, what I would tell you is there are a couple things going on. Number one, it's just the increased realization that making a decision or powering an experience with data is more effective than the absence of data.

Now, the best data is often someone's loyalty database or their CRM database and activating their own customer files in those interactions. But oftentimes if a client starts that way, the next natural thing that they do is they say, is there other data that I can append to my existing datasets that would make the decision even more useful, drive even better ROI for me.

And so, then they oftentimes look across the portfolio of different companies that operate in our data marketplace and it might be a Dun & Bradstreet, it might be an Edmunds, it might be any number of different data providers and they will purchase that data and enhance their files with it. So, that's the biggest demand driver.

The second thing that we're seeing that's very specific to LiveRamp is that increasingly by working with us, it takes all of the complexity out of the supply chain. Our data marketplace has essentially created a one-stop shop for all data. So, instead of going out and partnering with dozens of different data manufacturers through LiveRamp, you can have all of those relationships with one place and, importantly, we've gone out and accredited those data manufacturers such that folks know that they're buying it from a safe and reputable data provider.

Now, we're not a data manufacturer. We're just making those data manufacturers more accessible through our SaaS platform. But again, we only make the ones that are reputable, accessible, the long tail of disreputable, unethical data providers have no home with LiveRamp.

Lauren Dillard
Chief Communications Officer, LiveRamp Holdings, Inc.

A

Yeah. And Adam, I would just add to him that the simplification point that Scott just mentioned also extends to the activation or distribution of that data as well. So, if you're a brand and you want to create a consistent audience that you then reach through an e-mail services provider, through Facebook, through Google, maybe through a CTV platform, you can do that in a very simple way using data marketplace.

And then to your earlier point around size, it was about $75 million in revenue in FY 2020 so representing about 20% of our total revenue. It was growing roughly 71% in FY 2020. To be clear, we – again that is the area we're watching closely during this period. It's going to be more impacted than our subscription revenue base. So, we are not forecasting 70% growth in Q1 or in FY 2021.

I believe in April we saw overall ad spend pull back that impacted our marketplace business. It was growing kind of high-single digits, I believe 8% in April. We've since seen some signs of stabilization as have other companies in our space. But again, that's the area of our business we're going to be watching most closely during this time.

Adam Klauber
Analyst, William Blair & Co. LLC

Q

Okay, great. And we just have three minutes left. So, one last question on capital allocation you've had [indiscernible] (00:26:32) capital from the transaction, the sale of the deal business. You bought back a bunch of stock. How's that M&A pipeline? Has that picked up at all [ph] some of the distress (00:26:43) or how's the M&A pipeline looking?

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

A

Yeah. I will tell you that our approach to M&A, Adam, has not changed one bit. We have always been incredibly judicious, I think, very effective stewards of shareholder capital. In the time that Warren Jenson, our exceptional CFO and I have worked together, we have actually returned in excess of a $1 billion of capital to shareholders. That amount exceeded the market cap of the company we originally joined. And so, we'll continue to do that. I want to say in the last quarter we bought over $100 million of shares back very opportunistically.

So, we'll continue to kick tires and to the extent that something is an interesting and accretive tuck in, well we'd consider that. But the other place that we're increasingly using our capital is in commercial deals and Comscore is a great example of that. It doesn't have to be an expensive acquisition to be meaningful. In that case, we prepaid the rev share arrangement for them because we knew cash was important to them. So, a $10 million transaction we prepaid four years. But in exchange for that, we're able to get a really valuable data asset and do it under the banner of exclusivity.

So, I think you'll see us be aggressive commercially as well. And it's weird, I would have said a month ago my answer might have been a little bit different because it looked like valuations were maybe depressed, that it was going to be a buyer's market for the first time in a decade. But when I look at the recent stock market trends, I'm not sure I see that anymore.

Adam Klauber
Analyst, William Blair & Co. LLC

Well. Great. Scott and Lauren, I'd like to thank you very much. We're right at half an hour or so. Really appreciate the time today and please follow up with myself or Lauren is always happy to answer questions on the company. So, everyone, have a great day. Thank you.

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

Great. Thank you.

Lauren Dillard
Chief Communications Officer, LiveRamp Holdings, Inc.

Thanks, Adam.