04-Aug-2022

LiveRamp Holdings, Inc. (RAMP)

Q1 2023 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Operator: Good afternoon, ladies and gentlemen, and welcome to LiveRamp's Fiscal 2023 First 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, Senior Vice President of Finance and Investor Relations. Please go ahead.

Lauren Russi Dillard

Senior Vice President-Finance & Investor Relations, LiveRamp Holdings, Inc.

Thank you, operator. Good afternoon and welcome. Thank you for joining us to discuss our fiscal 2023 first quarter results. With me today are Scott Howe, our CEO; and Warren Jenson, President and CFO.

Today's press release and this call may contain forward-looking statements that are subject to risks and uncertainties that could cause actual results to differ materially. 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 financial measures, is available at liveramp.com. Also, during the call today, we will be referring to the slide deck posted on our website.

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

Scott E. Howe

Director & Chief Executive Officer, LiveRamp Holdings, Inc.

Thank you, Lauren, and thanks to all of you for joining us today. I'm going to dive right in to our quarterly performance. There was a lot to like about our Q1 performance and I'll share some of the highlights. But there were also some things we didn't like and I'll talk about those areas also, and importantly, what we're doing to improve our performance for the future.

Q1, again, exceeded guidance across all metrics. Total revenue grew 19% and Subscription revenue was up 20%. Marketplace & Other grew 18%, driven by our Data Marketplace business, which was up 29% in the quarter. We ended the quarter with $409 million in ARR, up 20% compared to the same period last year. On the new business front, we would have liked to report stronger net adds which came in at only 5 for the quarter. New business in the US is simply not where I would like it to be.

During the past quarter, we put a real emphasis on building earlier stage pipeline, onboarding additional sales reps and developing our partner and cloud channels, but these activities are inherently longer lead time initiatives. While disappointed in volumes, we remain very encouraged by the quality of new customers we are adding. For example, in the quarter, we continued to see particular strength in our large enterprise customer segment as a result of increased adoption of our enterprise data enablement platform, Safe Haven. Our $0.5 million to $1 million customer count was up 28%, and our $1 million-plus customer count grew to 90, an increase of roughly 30% compared to the prior year.

In the quarter, we signed a notable new deal with a major automotive manufacturer to help support the launch of its new global vehicle services and distribution business. This new customer is using LiveRamp to leverage its first-party data for customer acquisition and expand the reach of its B2C audiences to B2B. This deal was sourced through our partnership with Google Cloud Platform, or GCP, and is a great example of how customers are increasingly leveraging LiveRamp inside of their cloud environments.

Turning from new business to expansion of existing customers, we saw continued solid growth from existing customers in Q1. Subscription usage as a percentage of total Subscription business was roughly 12%, slightly ahead of our expectations. Subscription net retention came in at 113%, and platform net retention was also 113%.

During the quarter, we signed a seven-figure expansion deal with a large American retailer to help enable the growth of its retail media business. This retailer is using the Safe Haven data enablement platform to both power audience profiling and targeting, and also to enable collaborative analytics with its partners.

Another expansion deal in the quarter was with a longtime LiveRamp data activation customer in the travel sector as they pursue their digital transformation and build out their data infrastructure. This customer is leveraging LiveRamp to provide foundational identity inside of their CDP and cloud data warehouse to power both their paid media channels but also notably their internal customer experience applications, things like their call center, email services providers and site personalization tools.

While the quarter itself was solid, looking ahead, our caution has grown. Our pipeline remains stable and is actually even growing. However, recessionary concerns have certainly entered into customer conversations across certain industries and customer types, notably our midmarket customers, we are seeing a lengthening of deal cycles and pressure on conversion rates. There is no question that companies are being more deliberate about their investments right now. Given what we are seeing, we are tempering our second half Subscription bookings outlook. As you would expect, we're already taking action to accelerate our performance, which I'll talk about in more detail momentarily.

Related to the more variable components of the business, namely Subscription usage and Marketplace, we are monitoring activity very closely. We are not yet seeing a material pullback in data-enabled advertising spend. Subscription usage and Data Marketplace activity were healthy in Q1 and our mid-period reporting suggests another solid performance in Q2. That said, it is hard to ignore the recent trends that media peers and other industry experts have cited, suggesting a softening of the advertising spend in the back half of this year.

Warren will discuss these dynamics in more detail during his section, but for the reasons mentioned, we are reducing our guidance to incorporate these market factors into our outlook for the balance of the year. While the macro environment has become more challenging, our long-term opportunity remains unchanged, and I am confident in our ability to manage and win through uncertain times.

I'll repeat a point I've made before. The technology we provide is mission-critical to our customers' data strategies. Digital transformation continues to be a top initiative for most major enterprises, and our platform is a key investment priority for companies that are focused on using data to deliver better customer experiences and competitive advantage.

We have also adjusted and executed through uncertainty before, and we will surely draw on the lessons we've learned. During the early stages of the COVID-19 pandemic, for example, we prioritized positioning use cases that better resonated in a more challenging macro environment, like addressable television and collaborative measurement, and we adjusted our sales playbooks and selling motions accordingly. We also quickly identified cost-containment initiatives that allowed us to protect our bottom line while still delivering innovation to customers.

And perhaps a final and important reason for my long-term confidence is that we have clear line of sight areas we believe will improve our top line growth, profitability and return on shareholder capital, which brings me to the next topic I'd like to discuss today. On our last call, we highlighted a few areas of the business with untapped potential. Let me now provide a brief update on each.

Opportunity number one, accelerate growth. We're entering into a likely recession, which implies caution in our short-term guidance. Despite that, I think there are opportunities to accelerate long-term growth, which we intend to accomplish by prioritizing three key initiatives: first, expanding our sales and marketing capacity; second, expanding to new geographies; and third, accelerating our partner channel efforts.

Initiative number one, unlocking greater sales capacity and productivity. As discussed in May, a top organizational priority this year is to expand our sales capacity and drive greater accountability and productivity. We aggressively hired enterprise sellers in the first quarter, adding over 20 new quota-bearing head count. We also remained focused on ensuring our sellers are well-trained in enterprise selling and have implemented several initiatives to drive greater levels of productivity.

For example, in Q1, we rolled out an enterprise sales training academy to our entire commercial team with the goal of enhancing our sellers' enterprise sales skills and helping them manage more complex deal cycles that involve more stakeholders across the enterprise.

In Q1, we also piloted a new onboarding program for new commercial hires with the goal of reducing the ramp time from six to four months. We are seeing early signals that these programs are working, for example, reps signing deals in their first quarter at LiveRamp. And while these initiatives will take time to bear fruit given a potential looming recession, we believe that continued investments and selling capacity will fuel stronger long-term growth.

A second growth initiative this year is to drive continued ATS adoption amongst publishers and marketers and accelerate our international expansion. ATS has emerged as the global standard for addressability in a post cookie and device ID world. In fact, Sincera, a new verification service, recently found that RampID had the largest active cookie-less footprint of all IDs in the markets, with a 70% absorption of its ID into the mainstream, meaning IDs that are both deployed on publishers and actionable for advertisers. This is due in large measure to our growing partnerships with the world's largest publishers, 1,500 in total, representing more than 11,500 publisher domains.

ATS is a key source of competitive differentiation for LiveRamp in both the US, and importantly, international markets as today we are the only identity solution with global scale. This is reflected in our recent international momentum. In the quarter, International bookings were up 40% and revenue was up nearly 40%, with key deals being signed in China, Australia, Germany and the UK.

Last week, Google announced that it was postponing its time line for deprecation of third-party chrome cookies to mid-2024. Let me address what this means for LiveRamp. LiveRamp is ready for the cookie-less future today. However, we will continue to support cookie-based workflows as long as they exist. So any impact, positive or negative, associated with Google's delay is minimal.

Where we do see an impact is confusion in the market, both in the industry and with shareholders. And we intend to further increase the amount of case studies and education that we provide to the entire ecosystem, so that our position as the essential industry standard becomes even more apparent. For those clients who want to continue to use cookies, we'll support them. For those that recognize that better performance can be unlocked with authenticated identifiers, we provide the greatest reach and best performance. We work with over 400 industry identifiers today. And in a world with or without cookies, we are uniquely embraced as the ubiquitous standard that connects virtually everyone and everything in the industry.

A final growth initiative this year is to expand our partner channel strategy with a focus on broadening our cloud partnerships. In recent months, the topic of competition from cloud providers has come up more frequently. So let me address this misconception head-on. Our strategy is to enable not to compete with the clouds and to partner closely to serve the market together. We remain committed to delivering our technology wherever our customers' data lives and have deployed key products in the cloud solutions our customers increasingly depend on for their critical data workloads. We are enabling customers to achieve faster returns on their cloud investments, reduce data fragmentation, and more easily leverage identity in the cloud.

Today, we are live in GCP, AWS and internationally in the JD Cloud, allowing their customers to deploy LiveRamp's identity and addressability solutions with the click of a button. And by the end of the quarter, we expect our addressability solutions to be live in Azure to help publishers better monetize inventory in a cookie-less world.

In addition, we are continuing to strengthen our partnership with Snowflake to provide core identity resolution and identity translation solutions that will be foundational for customers to use for segmentation, activation, collaboration and measurement. We are not competing for storage and compute, nor do we believe our cloud partners are interested in building their own identity graphs and broad data connectivity capabilities. So ensuring we create enduring and symbiotic partnerships will be a longer term growth driver for us.

Opportunity number two, improving operating profit and cash flow. Q1 represented our ninth consecutive quarter of profitability and our track record here is very strong. Since LiveRamp became an independent company in

2018, we've demonstrated an ability to balance healthy investments in the business with improving profitability, and we expect this year to be no exception. As we enter what will surely be a recession, we will aggressively pursue cost efficiencies in many areas of the business, but will continue to prioritize investments in go-to-market and also critical R&D initiatives to optimize for long-term growth.

The final opportunity I'll highlight is the opportunity to drive greater shareholder value. At our last call, we shared that we are not remotely satisfied with LiveRamp's recent share price performance. We don't think it appropriately reflects our opportunity or potential. While our top focus continues to be executing on the strategic initiatives I outlined above, we also remain committed to exploring creative ways to maximize shareholder value. In May, we announced plans to opportunistically repurchase up to an additional $150 million of LiveRamp's common stock before December 31. I am pleased to share that today we have repurchased approximately $80 million of that $150 million.

In summary, we delivered a solid quarter but recognize that we have much work to do on top line acceleration and profitability. While the macro environment has become more challenging, we remain confident in our long-term market opportunity, and importantly, confident in our ability to manage and win through uncertain times. We are a critical component of our customers' data infrastructure. And finally, as we always have, you can expect us to closely monitor the business, quickly adjust as needed, and be good stewards of capital with a focus on maximizing long-term value for our customers and shareholders.

With that, thank you again for joining us today. And a special thanks to our exceptional, exceptional customers, partners and to all LiveRampers across the globe for their ongoing hard work and support. We look forward to updating you on our progress in the coming quarters.

And with that, I will now turn the call over to Warren.

Warren C. Jenson

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

Thanks, Scott. And good afternoon, everyone. And thanks for joining us today. Q1 was a solid quarter and in line with our expectations. Today, I'd like to focus my remarks on two areas: first, share a few highlights for the quarter; and next, provide guidance for Q2 and update our guidance for the full year.

For the quarter, total revenue was $142 million, up 19%, and Subscription revenue was up 20%. International revenue was up approximately 40%, and adjusted for FX was up 49%. Marketplace & Other increased 18%. Data Marketplace, which represents roughly 80% of ongoing Marketplace & Other revenue, was up 29%. Subscription and platform net retention were both 113%. While net Subscription customer accounts increased by just 5 this quarter, our $1 million customer count was 90, up 29% versus the prior year.

Current RPO or our next 12-month contracted backlog was $295 million, up 15% year-over-year. ARR ended the quarter at $409 million, up 20%. To be balanced, as anticipated, our bookings were soft in Q1. International bookings, however, did remain strong.

Beneath the top line, our business model continues to deliver. Gross margin was 75%. Operating income was $4 million, our ninth consecutive quarter of profitability. And operating cash flow was negative $33 million. Please remember that Q1 is a seasonally low cash flow quarter due to annual incentive comp payments. In addition, the year-ago quarter benefited from the prepayment of certain expenses in Q4 of FY 2021. These prepayments were made in order to optimize tax refunds provided for in the CARES Act.

And finally, we continue to return capital to shareholders. In the quarter, we repurchased 2.1 million shares for $60 million. And fiscal year-to-date, we have repurchased $80 million.

Please turn to slide 5. Before moving on to guidance, as always, would ask you to consider our trended performance: growth, a trended three-year CAGR of 22% since June of 2019; non-GAAP gross margin improvement of 1,200 basis points; non-GAAP EBITDA increase of $100 million; and $872 million of cash returned to shareholders. In summary, growth, gross margin expansion, operating leverage and capital stewardship.

Now on to guidance for Q2 in FY 2023. Before jumping into the numbers, I'd like to provide some context for our guidance. Since we last spoke, we, like you, have been carefully watching the macroeconomic and media and advertising related trends. We've also continued to stay close to our customers and their budget pressures. Given those factors, we felt it prudent to lower our estimates for the year. The change to our guidance is predominantly impacting Q3 and Q4. 60% of the reduction we estimate will impact Subscription revenue and 40% Marketplace.

Now the bottom line, please turn to slide 16. As you see on this chart, we are taking steps to protect our bottom line for the year and lower our expense run rates as we start laying the foundations for FY 2024. Of the $20 million to $25 million reduction to our top line guide, we estimate we can offset approximately $10 million through cost avoidance. As a reminder, in FY 2023, we are absorbing roughly $19 million of spend that was avoided during COVID, as well as funding our international expansion.

And finally, given that we have frontend loaded our repurchase activity, we expect to temper our pace through the remainder of the year. We will, however, not hesitate to be opportunistic. With this in mind, please turn to slides 13 and 15. For the second quarter, we expect revenue of approximately $144 million and non-GAAP operating income of approximately $8 million. For the full year, we now expect revenue of between $590 million and $600 million and non-GAAP operating profit of approximately $39 million or a margin of roughly 7% at our midpoint.

Please keep in mind this guidance excludes intangible amortization, stock-based comp and restructuring and related charges. As always, and given the macro uncertainties, would ask that you be conservative in setting your revised models.

A few other calls-outs for Q2 and the full year. For Q2, we expect Subscription net retention to be roughly 104% and platform net retention to be approximately 108%. The sequential decline from 113% is being driven by an expected lower relative contribution from both net upsell and usage. In Q2, we expect our gross margin to be roughly 75%. We also expect to incur approximately $12 million of restructuring charges. These charges are primarily associated with the rightsizing of our real estate footprint and other restructuring initiatives.

For the full year, we now expect Subscription growth to be in the low double digits. Marketplace & Other, given the macroeconomic environment, we now expect growth of approximately 20% for the year. We expect gross margin to be roughly 75% for the full year. Investment in services and continued international expansion are driving the slight year-over-year gross margin decline. Finally, we are anticipating a modest negative revenue impact from FX in FY 2023. We would again remind everyone that we do not have any exposure to either Ukraine or Russia.

Before opening the call to questions, I'll now close with a few final thoughts. While it's disappointing to reduce our back-half guide, we feel like it's the appropriate thing to do given the trends we are seeing and sensing. That said, we are confident in our long-term opportunity. Further, we are taking steps to not only ensure we are continuing to invest for our future, but also to protect our bottom line, both in the short term and also for the years ahead.

On behalf of everyone here at LiveRamp, thanks for joining us today and thanks to our terrific customers. Operator, we will now take questions.

QUESTION AND ANSWER SECTION

Operator: Thank you. [Operator Instructions] Your first question comes from the line of Elizabeth Porter with Morgan Stanley. Please go ahead.

Christopher Quintero
Analyst, Morgan Stanley & Co. LLC

Q

Hey, guys. This is Chris Quintero on for Elizabeth. Just wanted to touch on your guidance. Talked about elongating sales cycles and just curious if any of that has to do with the cookies, they're lying and delayed as marketers might feel less pressed to look at alternative solutions like yours in the near term?

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

A

No. 100% macro environment. We don't see an impact on Google's deprecation delay in our business at all. If we see one, it would be absolutely negligible. And as I mentioned in my prepared remarks, regardless of whether someone is committed to cookies or already prepared to move away from them, in either case, we're going to support them.

Christopher Quintero
Analyst, Morgan Stanley & Co. LLC

Q

Thank you.

Operator: Your next question comes from the line of Kirk Materne with Evercore. Please go ahead.

Peter Burkly
Analyst, Evercore Group LLC

Q

Hi, guys. This is actually Peter Burkly on for Kirk.

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

A

Hey, Peter.

Peter Burkly
Analyst, Evercore Group LLC

Q

So I guess first – hey, Warren. I guess first one, just last quarter, you guys kind of mentioned that the forward guidance, you're baking in a bit of conservatism around largely the usage portion, I guess, and a little bit in the Marketplace. Just given new commentary, I assume, the net change in the guide here, is that really just – I mean, the macro has certainly deteriorated over the last quarter or so. Assuming that, that changes, it's really just entirely incremental conservatism as opposed to anything maybe negative you saw in the quarter.

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

Peter, let me try to address that. The first thing that I would say is I would never just say it's incremental conservatism because we call them like we see them. But I think you've pretty much answered the question yourself. What's happened? A lot has changed since we last spoke in May. If you think about it, a couple of quarters of negative GDP growth, inflation continues, very strong rate hikes. Now we're hearing of layoffs and some of the largest corporations and most important corporations in America, if not, not the world.

And then finally, I would just say we've had a lot of conversations with our customers. So based on the overall macroeconomic backdrop, we just felt it prudent to really hedge going into the back part of the year.

Peter Burkly
Analyst, Evercore Group LLC
Q

Okay. Great. That's helpful. Maybe just one more, if I could. Yeah, you guys mentioned hiring last quarter and you kind of brought it off again this quarter saying [ph] had some (00:28:53) strong hiring in the quarter. And that onboarding program to sort of shorten the ramp time for the reps is pretty interesting as well. So just curious, as you guys stand here today, how do you feel about the current head count? Are you kind of more back in line with where you want to be or are you going to continue to hire pretty aggressively kind of throughout the areas?

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

Yeah. It's really a mixed bag. So I would tell you, number one, we're really happy with our ability to add 20 sellers and get them ramped up quickly. We think that's going to help going forward, even against the economic recessionary pressures that we expect. And we'll continue to hire selectively in key engineering areas where it's really critical for our product development. But in other areas of our business, as I mentioned in my prepared remarks, we are really using the recessionary pressure that everyone's feeling to take a hard look at our own cost structure. And so, in a lot of other areas, we expect to unlock operational efficiencies.

Peter Burkly
Analyst, Evercore Group LLC
Q

Helpful color. Thanks, Scott. Thank you, Warren.

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 Shyam Patil with Susquehanna. Please go ahead.

Shyam Patil
Analyst, Susquehanna Financial Group LLLP
Q

Hey, guys.

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

Hi.

Shyam Patil
Analyst, Susquehanna Financial Group LLLP

Q

I just had a few questions. Warren, just back to the answer that you just gave, I'm just curious, in your outlook for the fiscal second half, are you guys actually seeing things getting worse or are you just kind of assuming things will get worse based on all the external news right now?

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

A

Boy, that's a really good question. Obviously, our quarter, Q1, was pretty much as is to our guide. And our Q2, if you look at again the guide, is pretty much unimpacted. Where we are seeing and really feel the need to really adjust our estimates is really all in Q3 and Q4. So I'd say again, what has changed, I'd say it's the macroeconomic environment. It has, I would say, gotten worse since we spoke in May. I think that's definitely worse. I'd say, our customer conversations are talking – they're talking to us about a lot of the things that they're concerned about.

So what I would say is, again, it's a backdrop to what I said, those are things that – those are conversations we've been having this quarter, and taking those things into account really caused us to lower our bookings outlook going into the second half of the year, and as a consequence, lower our overall estimates.

Shyam Patil
Analyst, Susquehanna Financial Group LLLP

Q

Okay. Got it. Got it. And Scott, in your prepared remarks, you talked about certain industries seeing softness and then talked about SMBs. Was just curious on the SMB side, how big is that as a portion of your Subscription business? And then which industry types are you guys, I guess, forecasting downward revisions for the second half of your fiscal year?

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

A

Yeah. The SMBs, give or take, call it 20%, 25% thereabouts of our business. That said, obviously, our real strength is with the larger enterprise clients. I look at the SMB, Shyam, as a potential opportunity for us longer term. And why I say that is, historically, we haven't always been able to have kind of an affordable cost to serve for smaller type clients. I think that's where the channel partnership opportunities could really help us out.

If you think about how those SMBs are buying, so often they're turning to, say, their marketing clouds or their public cloud partners and thinking about LiveRamp as part of that bundle. So to the extent that we can reach them through a Snowflake or through a Salesforce or through an Azure, that could be a real opportunity for us longer term. That said, short term, we feel like we've lived this before and it wasn't that long ago, right? If you think about the first couple of quarters of COVID, the conversations we had with clients then are very similar to the ones we're having now. They were scared. They didn't know what to do.

Now long term, we had a playbook and we saw that – we think we did really well in that recession, particularly pulling out of it because we're able to talk to our clients about, in a recession, it's more important than ever that every marketing dollar be accountable and addressable. The only way you can do that is through LiveRamp. So we think we'd become more important as a recession deepens. But at the very start of it, I'd just tell you, everybody's scared, everybody's nervous, and no one has certainty as to what the next couple of quarters will look like.

Shyam Patil

Analyst, Susquehanna Financial Group LLLP

Q

Got it. If I could sneak in one more quick one. In your Marketplace & Other line item, it seems like the outlook is a bit more optimistic. Just curious, I mean, I think we've all assumed that it's more sensitive to macro than Subscription business. Just what gives you guys that maybe relatively more optimism there?

Warren C. Jenson

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

A

I'd say a couple of things. First of all, we did lower our estimate from 25% growth to, call it, roughly, 20% growth. So we did bring down our outlook. However, underneath that, there's some really interesting things going on. First of all, in Data Marketplace, by the third quarter, we should have Data Marketplace integrated into Safe Haven. We think that's a big deal. And it's actually one of the top use cases that our customers are asking us for.

We are introducing tools for better discoverability and believe that we can increase our brand attach rate. And then finally, really the integration of Data Marketplace into more destinations, think like the mini walled gardens. So while, yes, you're 100% correct, there's some real positive things also going on inside the business.

And then finally, one of the real bright spots is our service business. While still small today, we're expecting that this business will roughly double in FY 2023. And so far, based on all of our bookings and everything that's gone on in Q1 and what's expected for Q2, we're off to a great start. So yes, I'd say, comment, 100% correct. Estimates have been slightly lowered. But at the same time, there's some real positive things going on underneath the hood.

Shyam Patil

Analyst, Susquehanna Financial Group LLLP

Q

Thank you, guys.

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 Jason Kreyer with Craig-Hallum. Please go ahead.

Jason Michael Kreyer

Analyst, Craig-Hallum Capital Group LLC

Q

Thank you, guys. Scott, you made some indications in your comments just on some of the early signals you're seeing. So I think you referenced like the longer sales cycles, lower conversion rates, things like that. Can you unpack that a little bit more like how broad based that is or if it's just kind of early indication from a few clients? Just anything more there would be helpful.

Scott E. Howe

Director & Chief Executive Officer, LiveRamp Holdings, Inc.

A

I'd say, early indications as opposed to a trend line, trend lines formed over weeks and quarters and we're still in the very early stages. I would tell you, the softness we saw in our new logo is really a continuation of what I started talking about last quarter. And that is, having enough selling capacity and then also building pipeline. I only know one way that sales works and that is one conversation, one sales rep, one day at a time. And you just got to rinse and repeat and keep doing that.

And so, we are really kind of relentlessly focused on continuing to hire and onboard, continuing to build pipeline. We've rolled out some lead-gen programs, and then really pushing hard on this channel partner strategy. So short term, we think that we're going to face these recessionary headwinds. But long term, we're pretty optimistic that the investments we're making right now will pay dividends in the coming quarters.

Jason Michael Kreyer
Analyst, Craig-Hallum Capital Group LLC

Q

Okay. And then, Warren, you'd referenced the waterfall on slide 16. So you've got like $22 million in scale and efficiencies. That's down from, I think, $32 million that you called out last quarter.

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

A

Right.

Jason Michael Kreyer
Analyst, Craig-Hallum Capital Group LLC

Q

So I think the scale component makes a lot of sense with a lower top line. I just wanted to double click on that efficiency component. So when you talk about like protecting the bottom line over the course of this year, do you anticipate seeing more there or should we expect that to be revised? Or are there different elements baked into that efficiency component?

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

A

Well, I [ph] would (00:38:36) take our guidance for what it is. But at the same time, I'd just reiterate what Scott said as we're looking at all elements of our cost structure. I think this represents a good time again to do that as we always have in the past, too. We're being tight on hiring overall. But that said, again, to repeat what Scott mentioned, we're going to continue to fund our growth initiatives and make investments in our sales force and in engineering and elsewhere because we are playing for the long term.

But at the same time, we're going to take this as an opportunity to really avoid some costs and continue to rightsize our overall expense base. And then finally, I mentioned this in my prepared remarks, we're also doing this with an eye toward FY 2024. So we're looking at not only the impact of what this could mean for this fiscal year, but also setting ourselves up, hopefully, for success as we move into the next year.

Jason Michael Kreyer
Analyst, Craig-Hallum Capital Group LLC

Q

Thank you.

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. Please go ahead.

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

Q

I hope you don't mind if I harp on the guidance one more time, and then I've got another question as well. But just to be clear, is it more the discretionary spending element within Subscriptions and also obviously on the Marketplace side that leads to the reduction? Or is there some of the fact that you were a little behind in your hiring due to COVID times and therefore your new business is a little bit slower than you would like? Is it a mix of both or one or the other for the guide for this year?

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

A

I would say, if you mean the discretionary element, utilization, I think we've pretty much had that right, Tim, when we gave our guidance in May. We've seen it basically really hold up. I mean, we were 12% obviously in Q1. And everything that we can see, our initial guide, give or take, of roughly 11% seems like it's the right guide.

So really where we're seeing it is in booking softness. So as I mentioned, we, on our last call, talked about booking softness for the first half of the year. We now believe that booking softness is going to increase through the back part of the year. And then as you would expect looking at the overall macro backdrop, we've also increased our estimates for contraction, and so the combination of those two things is really what's driving the lowering of our Subscription forecast.

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

Q

Okay. Yeah. I guess I'm wondering, is it more on elements of spending that clients can be discretionary on, as in spend versus not spend...

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

A

Got it.

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

Q

...more [indiscernible] (00:41:19) staff element of the business, which...

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

A

Really, I'm glad you pushed on that a little bit. Where we're seeing the pressure are on things really media-related. So think about activation and targeting related use cases. So that's where we're seeing the pressure, both in terms of bookings and expected contraction.

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

Q

Yeah. That's what I was looking for? That's what I was expecting. Okay. Thanks.

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

A

Good. No, thanks for pushing on that.

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

Q

Okay. Can I ask one other question as well? You mentioned International being relatively strong. On your last call, you talked about this Trade Desk EUID relationship and you talked about this Carrefour win. Is the International optimism deriving from those things? And is it more in Europe or is there more to it than that?

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

A

I would say, yes and yes. I mean, those are all positive things. And we're really looking forward to our global partnership with Trade Desk. There are two things going on internationally is, I think, for everybody, if you recall, two years ago, we really shifted our strategy and we sell one thing and it's basically Safe Haven. So I think we've really over the course of the last couple of years, really been able to build our enterprise sales muscle internationally as it relates to Safe Haven. And we're benefiting from that across the board.

The second thing, and Carrefour by far is one of the linchpins here, is the retail flywheel is just working, is more advanced in Europe than it is in the US. So that's the second element from which we are benefiting. So those would be the two factors I would call out.

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

Q

Okay. Thanks, Warren.

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 Nicholas Zangler from Stephens. Please go ahead.

Nicholas Zangler
Analyst, Stephens, Inc.

Q

Yeah. Hi, guys. I know you touched so many advertising channels. So is there any way to delineate if there are any channels in particular where we're most likely to see such a pullback in the back half of the year, whereas maybe others might be less impacted? I'm kind of talking about social media versus TV versus connected TV. Just anyway to parse out what you might see in the back half there?

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

A

It's an interesting question, and we can answer that. I don't have the data at the tip of my fingers right now because where we would see that is in our distributions and how the mix has changed over time. And so, we have seen in the past, for instance, when there are shifts between the walled garden and the open web or CTV, we see that in our numbers. And I just haven't run it to have the data at my fingertips. But we will do that and get back to you on that because it's a great question.

Nicholas Zangler
Analyst, Stephens, Inc.

Q

No. That's fine. I'm also just curious about your exposure to political ad spend. We've seen some strong early commentary from some broadcasters in TV. So I was just curious, if you're – how would you describe your exposure to that, if at all? And just your thoughts on the impact, I guess, for what is your 2Q and likely your 3Q?

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

Yeah. Very little year-to-date. But I will tell you, historically, we have been involved and both on issue levels and with parties. And so, I would expect we would participate in that going into calendar Q3 and the elections yet again. But that would be baked into our guidance.

Nicholas Zangler
Analyst, Stephens, Inc.
Q

Understood. Thank you, guys, very much. Appreciate it.

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. Please go ahead.

Robert J. Coolbrith
Analyst, Wells Fargo Securities LLC
Q

Great. Thank you for taking our questions. First, wondering if you could talk to client urgency with respect to ATS with the deprecation deadlines being pushed out again to 2024. I understand you have the benefits of the product versus cookies, so just wondering if you could speak to motivation you're seeing [ph] in way of your (00:45:41) customers right now.

And then on the Safe Haven side, Scott, I think you've talked to differentiation versus competitors, but in the past few calls you touched on it but I think with respect to the public clouds in your comments earlier. But just wondering if you could maybe revisit the topic of competitive differentiation for Safe Haven, who you're going head-to-head with, if anyone, on a consistent basis? And what is driving customer decision in favor of Safe Haven? Thank you.

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

Sure. I'll take the first one and Warren maybe you can take the second on Safe Haven. With respect to – sorry, lost my train of thought. Remind me of the first question again.

Robert J. Coolbrith
Analyst, Wells Fargo Securities LLC
Q

Sorry, just on the client urgency around ATS...

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

ATS, yeah.

Robert J. Coolbrith
Analyst, Wells Fargo Securities LLC

Q

...considering that cookie deprecation deadlines are being pushed out further.

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

A

Yeah. So on that, what I would tell you is sophisticated advertisers see an opportunity because they're actually generating a pretty significant lift. Remember that, roughly, 45% of US ad traffic has already moved off of cookies. That is Microsoft Edge, it is Firefox, it is Safari. And so, if you want to advertise effectively on those browsers, you have to authenticate. And we're seeing phenomenal lift there. So sophisticated advertisers recognize that, and they view this as a first-mover advantage to really reach audiences that haven't been addressable in a few years.

On the publishers side, it's interesting. I was at a publisher summit last week on addressability, and some of the biggest publishers in the world were there with us. And without exception, without exception, they have seen strong results from ATS the kind of lifts that Microsoft has publicly reported of 40% improvements in yield are par for the course, and in many cases, much better. However, what they all were talking about is how do they work together to further accelerate advertiser demand? Because while the sophisticated advertisers see the opportunity, that is not necessarily yet the case with everyone.

Now all that said, let me just reiterate one final point here. It's what I said in my prepared remarks, we actually don't care. And whether an advertiser wants to use cookies or whether they want to use authenticated measures, doesn't matter to us. We're going to support both. As long as different identifiers exist, we're going to support different identifiers.

The only reason we really care is because it's creating confusion in the market and with investors. And so often, we get the question of what's the impact on your financials? Couple of years ago, people said, hey, we're concerned that cookies are going away. Now the same investors are saying, hey, we're concerned that cookies aren't going away. And so, we'd just like some finality to this, so we can take that risk off the table altogether because we don't believe there's any risk here.

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

A

And then let me jump in on the Safe Haven question. It's a really good one. Why are we winning? And I would highlight really five things that differentiate Safe Haven from the rest of the market. And if you quickly dive under the requirements that a brand has for their environment, cleanrooms aren't just cleanrooms. You have to have a lot more than that. And I'm going to highlight really five things.

The first thing is our neutrality. We don't buy or sell media, so we're agnostic. The second point here is we're cloud-agnostic. We can partner with anybody. Two, privacy. This has been a hallmark of LiveRamp is our privacy standard. And if you think about privacy-preserving technology, we are really at the forefront of defining that. The third thing is it just doesn't work without identity. And we are the global leader in identity and the standard, whether it's in the cookie world or in the cookie-less world. Fourth, with ATS, if you're a global brand, we're future-proof, given ATS. And then finally, it's the ability to handle permissions at scale.

So taken together, those are five requirements that any brand out there thinking about Safe Haven deployment really asks about and are critical to having the sort of capabilities that they need. But more importantly, each of those elements fall right into the sweet spot of LiveRamp.

Robert J. Coolbrith
Analyst, Wells Fargo Securities LLC

Q

Awesome. Warren, just on the cloud-agnostic point. Fair to say that the move or shift to multi-cloud and hybrids doesn't benefit you, given your cloud-agnostic stance?

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

A

100%.

Robert J. Coolbrith
Analyst, Wells Fargo Securities LLC

Q

Awesome. Thank you.

Operator: This concludes the question-and-answer session. I will turn the call to Warren Jenson.

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

Great. Well, everybody, again, thank you so much for joining us. And let me just conclude with some of the same remarks I made in the prepared remarks. For us, while it's disappointing to reduce our back-half guide, we feel like it's the appropriate thing to do given the trends that we're seeing and that we're sensing.

That said, we would 100% also separate the short term from the long term as we're highly confident in our long-term opportunity. Rest assured that while we're tightening our belts, we're also taking steps to ensure that we're also continuing to invest for our future, but at the same time, protecting our bottom line and setting us up for the years ahead.

Again, on behalf of everybody here at LiveRamp, thank you so much for joining us today.

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