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LiveRamp Holdings, Inc. (RAMP)

Q2 2021 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Operator: Good afternoon, ladies and gentlemen, and welcome to LiveRamp's Fiscal 2021 Second Quarter Earnings Call. At this time, all participants are in a listen-only mode. After the speakers' presentation, there will be a question-and-answer session. [Operator Instructions] Please be advised that today's conference is being recorded. [Operator Instructions]

I would now like to turn the call over to your host, Lauren Dillard, Chief Communications Officer. Please go ahead.

Lauren Dillard

Chief Communications Officer, LiveRamp Holdings, Inc.

Thank you, operator. Good afternoon and welcome. Thank you for joining us to discuss our fiscal 2021 second 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

Chief Executive Officer & Director, LiveRamp Holdings, Inc.

Thank you, Lauren. Good afternoon and thanks for joining us today. We hope you and your loved ones are managing to stay safe and healthy during this extraordinary year.

We delivered another strong quarter in Q2 with total revenue up 16% and subscription revenue up 19%. Our continued growth amid a tough environment demonstrates our critical role in enabling the digital transformations and data-driven strategies of our customers and partners. Particularly in times of macro uncertainty when performance marketing takes center stage, global brands are leaning into our technology to consistently deliver better customer experiences and business outcomes.

Beneath the top line, the strength of our model was again on display. Gross margin improved to 72% and we delivered our second profitable quarter in a row despite continued investment in our key growth areas. This performance is a reflection of our strong network effects, marginal economics and the incredible leverage in our model. Warren will walk you through the quarter in more detail.

So for this call, I thought it might be useful to frame my remarks by addressing three of the most common questions investors have asked over the past several months. One, what gives you optimism for the future? Two, how will identity evolve over time? And three, what does the future shape of LiveRamp's business look like?

So what gives me optimism for the future? LiveRamp is sitting at the intersection of several powerful secular trends that will fuel strong medium and long-term growth. 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 all interactions.

Data is at the center of this. And data-driven experiences are the key to true customer engagement, brand differentiation and competitiveness. At the same time, the global pandemic has forced organizations to think bigger, innovate and transform to drive customer value as enterprise marketers look to gain any competitive advantage with data. Existing strategies are being disrupted and new data strategies are forming.

Simply stated, the breadth and depth of a brand's data-driven relationships must exceed that of their nearest competitor or by definition they are at a disadvantage. Nowhere is this more evident than the shift away from linear to connected television and the emergence of strategic data partnerships with which we are powering Safe Haven. These represent two megatrends from which LiveRamp is perfectly positioned to benefit.

We are winning in markets because we make it safe and easy for marketers to use data to deliver better customer experiences and gain competitive advantage. We are uniquely positioned to help our customers build an end-to-end view of their customers by enabling data connectivity and collaboration within and across enterprises. Like other SaaS technology companies, our high-level go-to-market strategy centers on a land and expand model. We focus our efforts on engaging the right set of enterprise prospects.

Our target universe is the global 2,000 largest advertisers, enabling them with our platform and ultimately growing our committed revenue with them by activating more and more high-value use cases over time. However, given the platform nature of our business, we have an incremental lever in our ability to extend by layering marketplace revenue streams on top of our core business. Our land, expand and extend model is working. And our new growth initiatives like Safe Haven and Advanced Television are generating considerable global momentum.

Land. We closed another solid bookings quarter and in particular saw a nice rebound in new logo wins. We added 15 net new direct subscription customers in Q2. And our ACV for brand deals expanded over 50% compared to the prior year as we continue to have success selling more advanced use cases to both our new and existing customer base.

In the quarter, we signed a new contract with a major global gaming company to enable first-party data activation for customer acquisition and personalization across display, social and CTV channels in seven different markets where they do business. We also had a nice new logo win with Australia's largest supermarket chain to power people-based addressability and audience activation. This is particularly notable given the entire contract is predicated on ATS or cookie-less workflows.

In addition, we landed a number of new Safe Haven customers in Q2, which is noticeable given the fact these relationships are typically longer term, at a higher ACV and often give us an opportunity to further grow our TAM. More specifically, businesses like Safe Haven and Television not only represent big expansion opportunities for us but are also opening up entirely new markets and verticals that we have not historically served like consumer packaged goods.

In the quarter, we won a new activation and television measurement deal with a major packaged goods holding company as well as adding another global CPG partner and another top 10 US retailer and supermarket chain to our Safe Haven roster. Notably, this progress has all been made in the past 12 months and we're now live at three top 10 US retailers.

The expand component of our strategy was also at work in Q2. A new product adoption from existing brand customers has become an increasingly material contributor to subscription growth rates. Our subscription net retention rate was a healthy 111% and we now have 62 $1 million plus customers.

Along with Safe Haven, Television has and continues to be a big driver of up-sell. Our CTV business was again up over 70% in the quarter. As eyeballs and dollars shift to CTV, cross-channel measurement and in particular outcome-based measurement has become critical to marketers looking to demonstrate ROI on their TV media investments. For example, we recently expanded our relationship with Honda to help scale their measurement footprint across all of their television investments including linear, addressable and CTV.

While a promising trend line is emerging around multi-product adoption, white space with existing brand customers continues to be a significant opportunity for us. This is perhaps most significant with television, measurement and Safe Haven, all of which serve important and emerging customer needs.

And finally, extend. As I mentioned, LiveRamp's unique position gives us an additional lever for growth, the ability to extend our marketplace business while leveraging our core platform. Marketplace & Other performed better than expected in Q2. While linear television transactional revenue remained pressured in line with industry trends, our data marketplace was up 27% driven by the stronger than expected recovery of digital advertising and expanded relationships with our big marketplace partners.

The flight to quality trend continues to benefit our data marketplace. And early indicators suggest Q3 will benefit from the seasonally strong holiday quarter. While linear television will remain a headwind throughout this fiscal year, we are encouraged by the slope of recovery for our core data marketplace business.

To summarize, LiveRamp is sitting at the intersection of several powerful secular shifts. Our land, expand and extend model is working and our new products are winning. While our growth will never be exactly linear, we are building a strong foundation for growth over the next decade and beyond.

Next, as the industry continues to transition away from third-party cookies and other device-level identifiers to more stable consumer-friendly technologies, another common question we've received is how is identity going to evolve over time. The short answer, we see our role as catalyzing a widespread industry collaboration. Viewed that way, we think everyone in the industry will win as a result of our efforts.

Seismic shifts have afforded our industry the opportunity to come together and create an ecosystem that is better and stronger than what existed before. Evolving privacy regulations and policy changes from browsers and device makers make industry collaboration imperative to ensuring the success of a fair, competitive and open internet centered on a value exchange between content providers and consumers.

With ATS, we are creating an infrastructure that allows publishers to build direct consented relationships with their consumers through authentication. And in fact, ATS enables a direct connection between publishers' CRM data and marketer data to power people-based advertising and measurement on web display, in-app and connected television without being reliant on third-party cookies or device identifiers.

ATS is gaining strong industry support because it is neutral, open and interoperable. It is consumer-first, privacy-centric and secure. It is people-based and omni-channel, which is a big selling point for our customers who do a lot more than just programmatic and need a solution that works across all their different media and customer experiences. And finally, ATS is a global scale and is available in the top markets where our customers do business.

Today, either live or committed, we are working with more than 25 SSPs or supply-side platforms including four of the five largest platforms, more than 45 DSPs or demand-side platforms and more than 215 global publishers including 60% of US Comscore top 50 representing over 14,000 distinct web properties and reaching well over 90% of the US addressable population. We also recently announced that moving forward, The Trade Desk will leverage our infrastructure. This announcement cements LiveRamp's role as critical neutral technology for the entire ecosystem.

While we are thrilled with our continued progress scaling ATS, perhaps most encouraging are the early results ATS is delivering for our customers and partners. It has become very clear that we are building a solution that is significantly better than what it will replace and all of our constituents stand to gain.

ATS is delivering better marketing results than cookies across nearly three decades of digital marketing. The kinds of results that ATS is delivering in the early brand campaigns has only previously been observed with the launch of search and later the initial results of behavioral targeting campaigns. On the last call, I shared the results of a case study with Fitbit where Fitbit saw a 2x increase in return on ad spend with leveraging ATS versus the control group of bidding on cookies through a major DSP.

They also saw meaningful improvements in cost per page view and average order value. We recently completed another case study which will be published soon with a major technology company and saw very similar results, up to 190% improvement in ROI. ATS is helping publishers make more money. Publishers are also seeing significant lift with ATS. For example, recent analysis showed that ATS garnered significantly higher CPMs across all major browsers translating to higher revenue for publishers.

On Chrome, yields increased by 50% when a LiveRamp ID was present. And not surprisingly, on browsers that currently block cookies, the impact was even greater. On Safari traffic, publishers are realizing a staggering 375% yield improvement. And finally, ATS delivers a far better consumer experience. Consumers are able to participate in the value exchange of the internet and receive more personalized experiences and offers while maintaining choice and control over their data. So let me summarize. ATS works actually better than what it will replace. It helps publishers make more money and ATS has reached critical global mass.

Finally, the third question I'd like to address before turning the call over to Warren is what does the future shape of our business look like. Let me start by saying I am so proud of how our team has risen to the challenges of the pandemic. I could not be more pleased with our execution during this uncertain time.

The power of our software as a service model is playing out as we continue to scale well beyond our existing run rate. Our land, expand and extend model is working. We are proving we can layer incremental revenue onto our existing infrastructure with very manageable incremental investment.

We recorded the second consecutive quarter of profitability and generated positive operating cash flow and free cash flow. And I am pleased to report that we now expect to be profitable for the full year. But keep in mind our opportunities are enormous and we are playing for the long term. As we think about investment priorities and capital deployment, our approach remains consistent. Our first priority is to fund internal growth. Here, we continue to expand our investment in R&D.

Second, we continue to look at strategic M&A and partnership opportunities that deliver immediate value to customers and extend our reach further into the enterprise. Finally, as circumstances warrant, we will opportunistically return capital to shareholders.

To summarize, LiveRamp is capitalizing on several key secular trends. Our land, expand and extend model is working. And our customers and partners are leveraging our technology to enable their digital transformations and customer data strategies. ATS is working and has reached critical global adoption. And finally, our recent results reflect the power and potential of our business model, the long-term shape of our business that is forming. And my optimism for the future has never been greater.

With that, thanks again for joining us today. And a huge thank you to our exceptional customers, partners and employees for their ongoing support and hard work. I'll 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. I also hope that you are and your families have remained safe and healthy since the last time we spoke.

We delivered another strong quarter amidst a tough macroeconomic backdrop and a challenging time for many of our customers. We increasingly find LiveRamp's technology to be core to our customers' most important long-term strategies and initiatives. We are fast becoming critical infrastructure.

Today, I'd like to focus my remarks in three areas. First, give an update on Q2 and recent business trends highlighting the continued strength and durability of our model. Next, provide Q3 guidance and finally a few high-level observations for FY21.

Q2 results. Please turn to slide 4. We are durable SaaS and our position of neutrality continues to pay dividends. Despite the global environment, we had another strong growth quarter. Total revenue was up 16% and subscription revenue increased 19%. The usage portion of subscription revenue was approximately 9%.

Overall marketplace was up 4%. As Scott mentioned, our data marketplace which represents roughly 75% of ongoing marketplace and other revenue was up 27%. As expected, where we felt pressure was in the transactional portion of our linear TV business. Customer counts were up. In the quarter, we added 15 net new subscription customers. Current RPO or our next 12-month backlog was up 13%. As a reminder, the timing and contract length of renewals can and will cause volatility in this metric. ARR ended the quarter up 18% and net retention was 111% while platform net retention was 109%.

Next, our long-term growth levers are in place and thriving. Specifically, I'd like to talk about ATS, CTV and Safe Haven. As you think about these important products and capabilities, I'll share some common characteristics. Each leverages our existing platform, so they're very cost-efficient. Each is global and each has a distinct but more importantly a collective flywheel or network effect.

ATS. As Scott mentioned, we now have reached critical mass globally. We see this as a foundational capability which along with Safe Haven will have a profound impact on our global opportunity and size of our business. Connected TV, we're in a unique position. We bring together the strategic combination of identity, neutrality and extensive global integrations. This combination is foundational for cross-screen and full-frontal measurement. As a result, as advanced TV continues to take share, our revenues naturally expand.

In the quarter, our CTV business was again up more than 75%. And in addition, our TV value prop is resonating internationally. In the quarter, we launched a TV measurement partnership with Bouygues Telecom, France's third largest telecom provider. In short, no matter the screen, we enable every single TV ad to be addressable, counted, measured and valued properly.

Safe Haven. Please turn to slide 17. LiveRamp Safe Haven is a platform which enables permission-based data collaboration at scale. This capability is critical for a brand's long-term competitiveness. For example, the platform allows a retailer to safely collaborate with its entire CPG ecosystem to create a single view of the customer, expand their reach and drive real measurement.

Further, given the global nature of both ATS and Safe Haven, what is exciting is that a multinational CPG can leverage the Safe Haven platform in every market and country they serve using ATS as the common connector. While you'll hear more about this in the coming quarters, this powerful global flywheel is already taking shape.

Safe Haven is also on a global role in opening up an entirely new TAM. As you can see we have the beginnings of an incredible installed base. We are already working with three of the top 10 US retailers and four of Europe's top retailers. We are already working with seven of the top 50 largest global CPG brands. We estimate the TAM for Safe Haven to be approximately $6 billion having now opened up the entire CPG ecosystem.

And finally, we are just getting started. As we look to the future, we expect Safe Haven to expand to many additional $1 billion verticals. We have included a summary of the flywheel illustrating why we are so long-term bullish on the opportunity. ATS, connected TV and Safe Haven [ph] equals (00:26:08) a long-term winning global hand.

And finally, our model is working and all trend lines point to the validity of our long-term performance objectives. Gross margin improved 90 basis points to 72%, a record for standalone LiveRamp. Productivity was driven by identity graph optimizations and the elimination of transition spend. We were profitable again in Q2 marking our second consecutive quarter of profitability.

We are also seeing tremendous leverage as approximately 70% of each additional revenue dollar fell through to the bottom line even after normalizing for transition spend and COVID-related savings. In the quarter, we estimate COVID-related savings to have been roughly $7 million. In the US, our operating margin was 4%. Adjusted

EBITDA was positive $4 million and both operating cash flow and free cash flow were positive $6 million, another big milestone for RAMP.

Finally, our balance sheet continues to be in great shape. Our cash balance is $651 million, a slight increase from the end of June. Absent further repurchase or acquisition activity, this balance should be a low watermark for the year. And finally, we extended our repurchase program for another two years. This will enable us to be opportunistic should circumstances warrant. We have approximately $325 million remaining under authorization.

In summary, we are SaaS and our revenue performance is demonstrating the durability of our business model. We have products and capabilities in place that are leveraging the powerful secular trend toward transparency and addressability, real measurement and permission-based data collaboration. Together, we believe these capabilities position us for strong long-term growth.

We have a strong balance sheet and a demonstrated record of capital stewardship. And finally, the strength of our business performance is a reflection of who we are as a company. We are Switzerland and we are an agnostic provider of critical technology.

Now onto guidance for Q3. Please turn to slide 12. For Q3, we expect revenue of up to $113 million and non-GAAP operating income of up to $4 million. Please keep in mind this guidance excludes intangible amortization, stock-based comp and restructuring and related charges.

A few other callouts for Q3. In Q3, we expect marketplace to seasonally benefit from the holidays but tempered by continued pressure from transactional linear TV. We expect net retention to be roughly 105%. The sequential decline is being driven by an expected lower contribution from usage and to a lesser extent a slower rate [indiscernible] (00:29:26) bookings. And we expect gross margin to be roughly 70% in Q3. The slight sequential decline is being driven by incremental security-related investment.

While we do not intend to provide full year guidance, a few high-level thoughts. We'll start off by stating the obvious. The macro global pressures and uncertainties are real and we are not immune, full stop. That said, we continue to expect FY 2021 to be a growth year in both subscription and marketplace. In fact, we now expect total revenues for the year to be up low double digits.

Based on demand and the scale of global customer requests, we see a significant opportunity for our Safe Haven technology and TV capabilities. As a result, we are electing to step up the pace of our future development and geographic expansion. Therefore, you should expect to see an increase in R&D in both Q3 and then again in Q4.

While this will dampen near-term profitability, we are playing for the long term and the big prize. Despite these investments, we expect to be profitable on a non-GAAP basis for the full year. Our projected expense phasing is highlighted on slide 14. Other full year guidance items have been included on slide 15.

Finally and most importantly, we ask that you be conservative in your expectations and in particular your Q4 top line estimates. This is a time to be cautious. Before opening the call to questions, I'll close with a few final thoughts. First, thank you to all of our customers and employees. It's you who make this company great. Next, we are SaaS and our model is demonstrating its durability and leverage. And finally, it's a fabulous time to be at LiveRamp. We are Switzerland, neutral and agnostic. Our products and innovation sit at the center of a strong secular growth trend and our global role has never been more important.

Operator, we will now open the call to questions.

QUESTION AND ANSWER SECTION

Operator: Thank you. [Operator Instructions] And the first question will come from the line of Daniel Salmon of BMO. Please go ahead.

Daniel Salmon
Analyst, BMO Capital Markets Corp.

Q

Great, thanks. Good afternoon, everyone. Scott, thanks for giving some of those popular questions you get. One of the most popular we get is the about the competitive environment and Trade Desk and Unified ID 2.0. That's a big part of it. We've heard lots about that from all parties including you. That's been great. In the past, you've also talked about how the digital economy will always have multiple IDs versus old advertising which often only had one main form of measurement. So just high level, can you talk about within all this competitive noise – and there's much more beyond just Unified ID 2.0 to be sure. How do you think about LiveRamp being the, I guess, largest, most important, largest revenue generator? What do you think the important things are to positioning the company to be that? And then, Warren, just a quick one for you. You said the share buyback renewed here. Just curious, is that something you have a great appetite for at these levels? Thanks, everybody.

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

A

Hey, Dan. In terms of the number of identifiers; there are literally, as you know better than anyone, thousands of different identifiers that exist in the marketplace, many of them proprietary clients or publishers. Our goal from the get-go and embedded in the design of ATS was to be the Rosetta Stone, the translation layer that would tie all of these different identifiers together and allow anyone and everyone who's ethical in the industry to operate seamlessly and efficiently across all of those identifiers.

Again, ATS from its inception was designed to be neutral and interoperable. We think The Trade Desk deal is – it's not a surprise to us. We always knew from the get-go that they were an important partner, an important destination for our clients. And so of course we would be interoperable with them. We love the fact that different folks are out there talking about identity in the industry because it's raising awareness of the need for the entire industry to move away from third-party cookies. And quite frankly, as I think about how do we knit ourselves into the permanent fabric of the ecosystem and really take advantage of the opportunity before us; it's no longer about simply the product. The product works. And I'm an old crusty guy who grew up in the online industry. I mentioned in my prepared remarks we've only seen this a couple of times before. The kind of lifts that we're seeing both for advertisers and publishers, it's phenomenal.

What we now need to do is raise awareness of everyone in the industry that it's time to shift to something better. And some people may still mistakenly believe that Google isn't going to follow through on deprecating third-party cookies. We don't believe that to be true. And even if that did happen, we know from the results I shared today that our solution is better for the industry and all who embrace ATS. We think we're at critical scale and that's important. I talked about 90% alignment to kind of the addressable US market. That's really important to advertisers. I talked about the yield improvements publishers are getting. That's critical. This simply works better and it's time for the industry to make to switch.

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

A

And then, Dan, I'll comment just briefly on the share repurchase announcement. Just to remind everyone, we frontend-loaded our repurchases this year earlier in the calendar year when – the period of this significant market dislocation. The reason for extending was really to give the company flexibility. So in the event circumstances warrant, we have the flexibility to be opportunistic. And again, the share repurchase was extended for two years. We have roughly $325 million on the authorization remaining.

Daniel Salmon
Analyst, BMO Capital Markets Corp.
Q

Okay, great. Thank you both.

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

Thank you.

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

Thanks, Dan.

Operator: Your next question will come from the line of Kyle Evans of Stephens. Please go ahead.

Kyle Evans
Analyst, Stephens, Inc.
Q

Hi. Thanks for taking my questions. My first one's pretty short and simple. What is the competitive set for Safe Haven who could replicate that product? And then I've got a follow-up. Thanks.

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

What's really pretty interesting, Kyle, is when you think about data collaboration, data collaboration has existed for decades. Many of you have heard me talk about my experiences as CFO at Delta and Codeshare. Codeshare was a great thing for the airlines and it was a great thing for the consumer and represented collaboration amongst the airlines. What makes the Safe Haven platform very unique is really a few things that we can do either uniquely or better than anybody else.

The first thing is it's grounded in global privacy. So one of the things that we've done at LiveRamp is we've embraced privacy. We don't fight it in anyway. It's really part of the fabric of everything that we do. And we have a really comprehensive understanding of global privacy too. The second thing I'm going to highlight is really identity and single view of the customer. So as you think about combining multiple datasets – whether you're a retailer, a CPG, a healthcare company, it doesn't matter the industry. What we can uniquely do across all those datasets is create a single view of the customer and identity. And that's very, very powerful.

And then the third thing increasingly is something that's very, very important in a technology-driven world is we are a scalable global platform. We're not a one-off service structure, but rather we're a scalable platform. And when you think about the combination of ATS and Safe Haven; as I mentioned in the prepared remarks, this allows us to work with the CPG and literally every market in which they operate. And that's just a big deal and something that makes us very, very unique.

Kyle Evans
Analyst, Stephens, Inc.

Q

Great. Your long-term gross margin goal of 75%; you looked like you were going straight at that this quarter, impressive margin expansion there. And now you're talking a little bit about future development, international expansion and maybe some gross margin compression. Can you help us think about how that'll kind of phase out over the next couple of quarters and when you think – if you care to share, when you think we'd get to that 75%? Thank you.

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

A

I'll jump in on this one. We won't talk about a specific timeframe for reaching 75%. I would call out obviously our progression has been really excellent. And you're seeing a lot of things, I think, benefit us when it comes to gross margin. First of all, just operational excellence when we think about how we're managing our identity graph. We just made some really terrific moves in terms of the sophistication with which – as to how we manage our different sources and that's creating productivity. [indiscernible] (00:39:42) our IT infrastructure, we would expect long term to continue to drive scale. The third thing is many of our new revenue sources really just leverage this infrastructure. So we have a fixed infrastructure in place. And as we layer revenues on top of that infrastructure; obviously, it scales and benefits our gross margin. And then fourth, while we don't know the exact timeframe for the deprecation of cookies, that's a good thing. Not only, as Scott mentioned, is it a great thing for the ecosystem and for our customers, but it also promises good things for our overall gross margin. So we're on the right track. Q4, there is always going to be ups and downs. We'll have quarters where it goes up and maybe quarters of slight pullback. In the third quarter, we're anticipating making some incremental security-related investment enhance our 70% guidance.

Kyle Evans
Analyst, Stephens, Inc.

Q

Thank you.

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

A

Thank you, Kyle.

Operator: Your next question will come from the line of Stan Zlotsky of Morgan Stanley. Please go ahead.

Melissa Dunn
Analyst, Morgan Stanley

Q

Hi, guys. This is Melissa Dunn on for Stan. Thank you for taking the question. The first one I had was on your total RPO numbers. Noticed that those declined quarter-over-quarter. If you could just give us a little color on why that would happen.

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

A

Melissa, I'd be happy to and great question. Just as a backdrop for everybody on the call, let me remind everyone that the timing and amount of renewals directly impacts RPO and the current RPO or the next 12 months. So for LiveRamp in the next several quarters, as is always the case, we of course have renewals and in some cases renewals that are multi-year. So therefore, in particular, as we think about RPO again end current RPO, that puts a little bit of pressure on our numbers. So that's what you're seeing in our numbers today. The good news here is we're used to renewals and our value prop remains solid.

Melissa Dunn
Analyst, Morgan Stanley

Q

Okay. That's really helpful. And then on the guidance for 105% net retention rate, just to clarify that's for Q3, correct? And then also if you could just dig into a little bit more detail on why the decline there. I know you mentioned a couple of things there, but a little more color would be really helpful. Thank you.

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

A

I'd be happy to. It's really pretty straightforward, just a change in variable. So when we look at where we are sequentially from where we are going from 111% down to 105%, it's literally almost entirely being driven by a change in variable. There is some impact. Let me just remind everybody we are in the middle of a global pandemic and we'd be the first ones to say that we're being impacted. So to some degree, a lower contribution from bookings as well but mostly driven by variable.

Melissa Dunn
Analyst, Morgan Stanley

Q

Okay. Thank you, guys.

Operator: And your next question will come from the line of Kirk Materne of Evercore ISI. Please go ahead.

Kirk Materne
Analyst, Evercore Group LLC

Q

Yeah. Thanks very much and congrats on the results.

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

A

Thanks, Kirk.

Kirk Materne
Analyst, Evercore Group LLC

Q

Warren, maybe just double-clicking on your last comment, I really [indiscernible] (00:43:28) global pandemic right now. But I'm just wondering if you could help us bridge kind of your enthusiasm around the long term versus what is challenging near term whether it's the ability to get new deals into the pipeline, the visibility on pipeline closure because it sounds like you guys feel very good about the [indiscernible] (00:43:50) perception into some of these newer products. You're investing behind them. So I assume you're doing that because you feel good about the demand coming. But obviously, we have a little bit of this bridge over the next six months. So I was wondering if you could just give us an idea. Is it just getting deals into the pipeline because of the budgets? Is it the inability to really forecast when they're going to close? When you talk to your sales team, what's sort of the thing that you guys are struggling with maybe from a visibility perspective?

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

A

Hey, Kirk. It's Scott. So I'll jump in on this one. I think we're all excited to put COVID behind us, but it's real and it's unpredictable. And you know how we create our guidance. We guide to things that we can see. And now more than ever, it's time to be conservative because we don't know if there's going to be a double-dip recession here. We don't know how pervasive the recent uptick in COVID will be. And we certainly saw back in March an impact in our variable usage. Moreover, we know from experience over the last six months – yeah, one of the most encouraging things that we saw last quarter is we saw net new wins, new logo wins. That's just harder to do though when we don't have face-to-face interaction with clients that don't have a great working relationship with us. So those are reasons for kind of near-term conservatism.

I will tell you I am incredibly optimistic about the long-term future of our business. And again, I would point to three things, ATS where I already talked about why I'm so optimistic in my prepared remarks and again to Dan. We think that the results don't lie there. What we're doing is working and we think we're hitting the tipping point for identity to tip to ATS as kind of the embedded infrastructure for the industry. Connected television, we're surfing a secular trend. That's where we're actually being aided by the pandemic. More people than ever are connecting from devices at home and eschewing linear television for connected TV. The stats that we're seeing there, albeit off a low base, are pretty impressive. Bookings up over 100%. ARR up over 100% and revenue up over 70%.

And our Comscore deal that we talked about last quarter. Well, a big chunk of that didn't go live until October 1. So we think we have some tailwinds there but again off a lower base and longer term. And then finally, Safe Haven. Warren just talked about some of the reasons he's optimistic about Safe Haven. Again, ARR up over 100%, revenue up nearly 90%. I talked about working with three of the 10 largest retailers in the US, another four in the EU. And by virtue of those relationships, they're introducing us to their partners which over time, despite a pandemic, gives us more confidence that we can real in new logos. So long term, a lot of things that we really like. Short term, we're just really nervous about this pandemic and what could happen over the next three months if these trend lines follow what we've been seeing in the last few weeks.

Kirk Materne
Analyst, Evercore Group LLC

Q

That's helpful. And maybe, Warren, if I could just double-click on Safe Haven for a second. Can you just give us an idea of sort of the magnitude of those relationships with the larger retailers? Are these clients that are already within the 62 that are paying you $1 million a year? And what's sort of the timeframe for these deals? I'd imagine they might be a little bit longer from just a sale cycle perspective. But can you just sort of give us some dimensionality around the opportunity there, at least what you've seen thus far?

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

A

The great news is they're both existing customers and brand new customers. For example, the large retailer that Scott spoke about, top 10 retailer in the US that we signed this past quarter, brand new customer. So it's really across the board. And the reason why we're able to penetrate an account like that is, I think, just given really the uniqueness of our value proposition and uniqueness of our platform. A couple of additional points of color that I might add is even on average, our average ACV is more than double that of a typical brand. So these are typically big ticket sales and they're sometimes a lot larger than that too.

And then, finally, I just want to re-emphasize that this is a global opportunity. Our Safe Haven pipeline in Europe and even APAC is more than – it's in multiples larger than where it was a year ago and again with some of the most sophisticated brands in the world. And what those brands are doing is – and we're just seeing this happen in the market. There's several engagements that we're working on right now that look to dramatically expand our global presence. And the beauty of it is our brand customers are leading us there, which is exactly what we want to have. So we see unique opportunity, great ASPs, a product that is very unique in the marketplace and third, a product which is opening up really a global TAM.

Kirk Materne
Analyst, Evercore Group LLC

Q

[indiscernible] (00:50:07). Thank you all.

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

A

Thank you.

Operator: Your next question will come from the line of Brian Fitzgerald with Wells Fargo. Please go ahead.

Brian Fitzgerald
Analyst, Wells Fargo Securities LLC

Q

Thanks, guys. You mentioned the strong hand you have in Safe Haven and ATS and CTV and ATS, I think in the example you used being the connective tissue that's extending that global CPG's ability to drive multiregional campaigns. I guess my question is, how would you assess the current level of cross-sell or up-sell? And then how much potential do you have there?

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

A

Yeah. I would tell you I think it's significant in terms of potential. One of the things that we tried to emphasize with our sales force this year and particularly in the back half is the importance of attach rates. We believe that – for instance, Warren talked about Safe Haven. Every time we land one of those opportunities; well, that has a chance to pull in data enrichment, ATS, our core subscription, measurement capabilities. And so there are all kinds of up-sell opportunities. I would say for our most penetrated up-sell, that would be probably data marketplace. We're still up-sell if you look at our attach rates of less than 20%. Measurement would be less than 20%. So connected television, less than 20%. So just tremendous opportunity as we educate our clients. And that's great new bookings for us because it's a lot easier to up-sell an existing client, a lot less expensive than going out and winning a brand new logo.

Brian Fitzgerald
Analyst, Wells Fargo Securities LLC

Q

Yeah. Thanks, Scott.

Operator: And your next question will come from the line of Tim Nollen with Macquarie. Please go ahead.

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

Q

Great, thanks. I'd like to come back on the subject of measurement and attribution again. Kind of a two-part question, I guess, on one topic. Could you give us a bit more color on the role of ATS and its participation in Unified ID 2.0 in terms of helping create a new measurement system for understanding consumer behavior in response to advertising? And the second part is regarding the Data Plus Math and Comscore deal which you just referenced only went live on October 1. I just was going to ask if there's anything more you could discuss regarding that relationship and what is going on there. Thanks.

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

A

Yeah. So for ATS, let me start there. The design principle behind ATS and indeed all of our products at LiveRamp is we want to be neutral and interoperable. Our goal is to catalyze our clients, many of whom are direct brands, many of whom are other technology companies or marketing cloud providers. And so with ATS, our goal is to be the Rosetta Stone and help everybody reach addressable audiences. That's going to entail that there will be other companies that will build their own measurement solutions on top of what we're doing and certainly Trade Desk will do that. They have their own algorithms and own measurement capabilities built into their unified ID, built into how they deliver, choose which ads go to which users. That's invisible to us, but we catalyze it. We're an important piece of it.

And going forward, when we think about measurement, what we hear from many of our clients is the need for an end-to-end holistic measurement solution that includes television, it includes programmatic display, includes e-mail and direct mail and other directly addressable mechanisms. We're building that. But importantly, we're building it with APIs such that existing measurement providers can embed our technology into what they're offering. That explains some of the R&D increase, the investment that we've made over the last quarter to make sure that our technology has the right APIs, is modularized and is scalable such that others can build on top of it. Your second question, remind me what that was.

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

Q

Yeah, about Data Plus Math and Comscore and how that relationship is doing.

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

A

Yeah. So far, so good. We're really pleased to have them as a partner. It's significantly improved the number of connected devices that we could reach in the US alone. For instance, by adding in Comscore's connected devices, we now reach over 80 million connected devices. So that is full steam ahead. And when I last looked at the pipeline, it is absolutely exploding as we've educated our team and Comscore has educated theirs about what the collective partnership can do. So I think we struck the deal at the right time to take advantage of a real secular trend going on in the industry hence my optimism for CTV.

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

Q

Okay. Thanks a lot.

Operator: Your next question will come from Jared Pomerantz of Susquehanna. Please go ahead.

Q

Hey, guys. It's [ph] Sean (00:56:25). I had a couple of questions. First of all, congrats on the continued strong performance.

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

A

Thank you.

Q

...the ATS adoption and partnerships. I was just wondering, Scott – I know you talked a lot about ATS, talked a lot about the partnerships. We get questions a lot about the economics. And I was wondering can you talk about just how you're thinking about the economics of ATS to LiveRamp and has that evolved over time. And then, Warren, I know you've gotten asked this question a bunch of different ways. But I was wondering if you could maybe talk about October-November trends for subscription and marketplace revenue, if there's something you saw that's informing the outlook or is this just kind of the same level of conservatism that you've taken over the past couple of quarters. Thank you.

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

A

Well, [ph] Sean (00:57:19), let me start with the economics of ATS. And if I make no other point, let me make this one really strongly, which is we designed this to be good for anyone and everyone in the industry. And so while I know your question is around our economics, let me start by saying the economics are better for everyone. Publishers are generating higher yields. Advertisers are generating higher ROI. And we think our importance in the ecosystem to catalyze that kind of performance becomes even greater.

Now, how do we monetize that? It's historically been through our license and this is our core subscription. Right now, that core subscription is really around personalization and measurement of a cookie-enabled graph over time that will transition to an ATS-enabled graph. From a revenue perspective, it slots in nicely. I would think over time, our TAM increases because historically we've been aimed at kind of larger enterprise direct clients. We think ATS is a product that everyone and anyone in the industry who's doing anything with addressable marketing, they ought to embrace. And so we think that's going to expand. It's going to over time be a nice mechanism to win new clients and introduce them to our subscription model.

In addition, the other impact that you'll see on our economics is the cost structure with ATS is very different than the cost structure with cookies. You'll see that over time manifest itself in our gross margin. One of our single most expensive expenses every year is maintenance of the cookie graph. As cookies are deprecated, that expense melts away. And in some respect, the earlier question about how quickly can we get to our 75% target margins is really in large part linked to how quickly are cookies deprecated. If that happens sooner, then we'll get to those margins. We'll make faster progress. The longer that takes and we have to maintain the cookie graph along with ATS; well, that would slow our pace.

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

A

And then, [ph] Sean (00:59:53), let me just chat briefly about the guidance. In short, no change to our guidance methodology or level of conservatism. We've tried to play it consistently throughout the year and that continues. And then, finally, I'd just repeat what we said in the prepared remarks which this is the time to – I would ask you all to be conservative in your expectations.

Q

Yeah. Thanks, guys.

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

A

Thank you.

Operator: That is all the time we had for questions today. I will now turn the call back over to Mr. Warren Jenson for closing remarks.

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

Great. Thank you, operator. And thanks to all of you for joining us today. And also again thank you to our employees and also our customers, most importantly. I'd leave you with, I guess, three quick thoughts to close.

First of all, there'll always be ups and downs. But I think one thing that we can say definitively is LiveRamp's TAM is expanding dramatically and it's expanding globally. ATS is that critical mass which is a big, big deal. Secondly, I'd leave you with the thought that our growth initiatives are working globally. Whether it's ATS, whether it's connected TV or Safe Haven; they all have a tremendous amount of momentum. And then, finally, with the thought that our model is working. If you were to go back over the last couple of years and look at our quarterly progression and year-over-year progression, you can see that our model is scaling. And you can see where the trend lines are taking us over the long term.

With that, thank you all for joining us today. And we look forward to the follow-up calls.

Operator: This concludes today's conference call. Thank you for joining. You may now disconnect.