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LiveRamp Holdings, Inc. (RAMP)

Q1 2025 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Operator: Good afternoon, ladies and gentlemen, and welcome to LiveRamp's Fiscal 2025 First Quarter Earnings Call. After this speakers' remarks, there will be a question-and-answer session. [Operator Instructions] Thank you. As a reminder, this conference call is being recorded.

I would now like to turn the call over to your host, Drew Borst, Vice President of Investor Relations.

Andrew M. Borst

Vice President & Head-Investor Relations, LiveRamp Holdings, Inc.

Thank you, operator. Good afternoon, everyone, and thank you for joining our fiscal 2025 first quarter earnings call. With me today are Scott Howe, our CEO, and Lauren Dillard, our 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 reconciliations to non-GAAP financial measures, is available at investors.liveramp.com. Also, during the call today, we'll be referring to the slide deck that is also available on our Investor Relations website.

With that, I'll turn the call over to Scott.

Scott E. Howe

President, Chief Executive Officer & Director, LiveRamp Holdings, Inc.

Thank you, Drew, and everyone for joining our call. My comments today will cover three topics. First, I'll talk briefly about the quarter. Second, I'll address Google's recently announced new approach to third-party cookies and what it means for LiveRamp. And finally, I'll give an update on our efforts to capture the significant opportunity in data collaboration.

Let's start with the recent quarter. We delivered strong financial results in Q1, reinforcing our conviction in the strength of our business and the large market opportunity we are pursuing. We made nice progress integrating Habu and executed soundly on the priorities we discussed on our last call. We improved our customer experience and retention, enhanced our platform and expanded our ecosystem, all with an eye toward simplification, both for customers and partners as well as for LiveRampers.

Let me quickly touch on what I see as the three key highlights from the quarter. First, Q1 exceeded our expectations on both the top and bottom line. Second, this was the second consecutive quarter of double digit growth in both total revenue and subscription revenue.

Additionally, marketplace revenue grew 28%, reflecting strong demand across digital advertising tactics, including CTV. We have long discussed our ambition to be a Rule of 40 company with sustainable 10% to 15% revenue growth. So I'm pleased that we continue to make progress in an uncertain macro environment.

Finally, two of our key performance indicators were notably strong. First, annual recurring revenue grew by $11 million quarter-on-quarter, marking the third consecutive quarter of double digit millions net new ARR. Second, subscription net retention, which measures our performance with our existing customers, increased by 2 points quarter-on-quarter to 105%.

While there was a lot to like about the quarter, know that there are also areas in which we seek to improve our performance. Our Q1 deal cycles remained elongated versus historical norms, like in Q4, and customers remain cautious given the macro uncertainty. We're responding by highlighting the ROI our customers can achieve, removing any obstacles to faster adoption and making it even easier to work with LiveRamp. We also continue to focus on our own efficiencies. I'll touch on some of these efforts in a moment.

My second topic is Google's recently announced change to its Chrome cookie plans. A lot has been written about the announcement in recent weeks and I think the discussion has often missed the mark. The headlines, typically some version of, Google Abandons Cookie Deprecation, don't do justice to the announcement and miss the meta point.

Sure. Chrome is abandoning its original plan of deprecating third-party cookies in early 2025, but in lieu of that, Google announced a new plan with two specific initiatives. First, Chrome intends to make it easier for consumers to opt out of third-party tracking. And second, Chrome will introduce IP protection, which prevents covert tracking by websites, starting with Chrome Incognito mode.

We, and the industry, will await more details from Chrome about how and when these changes will be rolled out. But ultimately, if Apple's app transparency tracking is any indication, we expect Chrome's changes will have the same or similar effect as deprecating third-party cookies.

With Apple's ATT, the data shows that US consumers opt in for tracking at an average rate of only 24%. In addition, as marketers have increasingly realized over recent years, the total impact of Safari, Edge, Firefox and other browsers that have already turned off cookies means that half of the Internet has already moved away from browser tracking technology. And of course, cookies are irrelevant for CTV and mobile in-app advertising.

We see four key takeaways. One, it is still the case that third-party cookies will diminish in their importance to the ecosystem over time. Two, we're rapidly moving toward a more consumer-friendly world, one in which consumers have visibility and control over how their information is used. In such a world, consumer consent is paramount and consumers are providing this authentication directly to their trusted brands and content destinations.

Three, all of the work that we've done with our Authenticated Traffic Solution, or ATS, has user authentication at the very center of our design, which solidly positions us for the future. That's particularly true for the fastest-growing advertising channels, like CTV, that are cookie-less. And four, our authenticated technology generates better results than cookies, on which I will elaborate in a moment.

Importantly, the Chrome announcement does not meaningfully change PAIR. PAIR, or Publisher and Advertiser Identity Reconciliation, is a separate initiative led by Google's DSP, Display & Video 360, and continues to move forward as originally planned. PAIR securely connects first-party data from brands and publishers on Google's Display & Video 360 to deliver addressable advertising to consumers.

So, again, exactly what does all this mean for LiveRamp? We think time has only validated our strategy with ATS. Our role has always been to connect our customers' data to whatever channel, using whatever identity technology. And we are uniquely positioned to do this in a world where cookies remain in use for a while longer.

Today, the vast majority of our brand customers use RampID, which combines the reach of cookies and our ATS. They do this because it generates significantly better advertising performance. One example that I've mentioned before is the case study with Omni Hotels & Resorts that showed 4x improvement in conversion rate using PAIR and ATS over traditional cookie-based CRM first-party audience targeting in Display & Video 360.

We recently published another case study with Indeed, the leading online job site with similarly impressive results. Indeed use RampID and ATS to generate a 54% improvement in its retargeting audience and 20% improvement in its response rates over cookies.

We have long viewed the industry's move to authenticated addressability, including Chrome's transition from cookies, as a catalyst for our data collaboration platform that helps brands manage, accumulate and activate first-party data. A stay on cookie deprecation attenuates the urgency for some companies to aggressively implement new technologies, but it does not change the longer-term opportunity. After all, authenticated addressability was only one of the megatrends supporting growth in data collaboration.

Other drivers include personalized marketing becoming the standard for consumers and marketers alike; a customer journey to purchase that is increasingly complex and fragmented; the shift to cloud computing that creates more data silos amidst the requirement for minimal data movement; walled gardens becoming more data accessible, allowing brands to leverage their first-party data for more granular measurement of advertising effectiveness. Last, but certainly not least, increasing consumer data privacy regulations.

Beyond these mega trends, there are a growing number of use cases for data collaboration beyond advertising. We recently partnered with Forrester to publish a report evaluating how business leaders from varying sectors are using data collaboration to enable a wide range of revenue-driving use cases across their organizations and between ecosystem partners.

One of the headline findings is that 93% of respondents, yes, 93% think improved data collaboration is critical to driving improvements in customer loyalty, data quality, regulatory compliance and more.

Let me transition to my final topic for today, providing an update on what LiveRamp is doing to seize the data collaboration opportunity. We are approaching this from a few angles. First, we are making collaboration simple and easy from both a product and go-to-market standpoint.

Second, we are building the most scaled and ubiquitous collaboration network. Third and perhaps most importantly, we're fine-tuning our message to highlight some of the additional use cases I just mentioned and create a heightened sense of financial urgency to get started.

Let me fill in some details on each of these. We are making our product easier to use in a number of ways. We have integrated into our LiveRamp clean room platform, powered by Habu, all of our identity, activation and cross-screen measurement reporting capabilities.

We have built query templates for the most common data collaboration use cases, such as advertising measurement and retail media. So it's easier for the supply and demand sides to quickly generate insights and realize value from collaborating their data.

On the go-to market, we have refined our packaging and pricing, and continue to publish new case studies to educate the market on the benefits of data collaboration. We are leaning into the use cases that are top of mind for customers, such as accessing unique data for audience measurement, customer journey mapping, activation and in some cases, to train and validate AI models.

We are also cultivating deeper relationships with cloud hyperscalers and system integrators. With the clouds, we continue to pursue our embedded identity, activation and clean room capabilities across all the major cloud providers.

With the SIs, we are working with a wide range of specialized firms as well as full service IT consultants. The key challenge our customers face when embracing new technology is limited bandwidth with their existing teams, and leveraging system integrators, or SIs, reduces the time to value for our customers.

We're seeing good traction so far. With Q1 bookings influenced by SIs increasing by nearly 300%, albeit off a low base, with a similar outlook in the quarters ahead. The feedback from customers has been positive. Our sales pipeline for clean rooms and collaboration is significant.

Converting this pipeline into bookings takes time as we work through a sales cycle that is slightly elongated amidst a tighter software spending environment. Still, we are making progress even with uncertain macro conditions.

The second area of focus is building the most scaled and ubiquitous collaboration network. Data collaboration is a classic network business and we're moving quickly to add the most critical nodes to our collaboration network. These nodes are large social, CTV and media properties as well as large retail media networks. They are data rich companies that want to engage in data collaboration with brand suppliers and advertisers.

Our platform already has the requisite cloud interoperability that allows for seamless data collaboration between companies storing data in different clouds. And that is essential. But we're finding that many data owners struggle with how to efficiently scale their data collaboration, given a lack of standardization for the terms of service, data queries and use cases.

The world's largest retailers have many hundreds, possibly thousands of CPG suppliers with whom they want to engage in data collaboration. Today, even the largest retail media networks are only using data collaboration with the largest 50 or 100 CPG suppliers, in part, because the lack of standardization makes it too time consuming and costly to scale data collaboration.

As the category creator and leader, we are working to eliminate this friction so that greater and more immediate value can be realized by all. For example, we are now working with 30 of the largest digital publishers and retail media networks to establish standardized terms of service and query templates. In most cases, these 30 large data owners are already LiveRamp customers or partners, which gives us a running start. Our customers are helping us improve our product so that we can all succeed together even faster.

Finally, as I mentioned, we're fine-tuning our story, placing less emphasis on near-term cookie deprecation and more emphasis on the many other drivers of data collaboration. This involves developing different messages by key industry vertical, but also, importantly, walking through the economic return of technology adoption with clients. We've developed value calculators for our sales reps to make this easy.

The data collaboration category is large and has a sticky network effect, but we're still in the early, early stages of market development. Ease of use, greater standardization, scalability and economic modeling will promote more ubiquitous one-to-many data collaboration and get our network flywheel spinning ever faster.

In closing, let me reiterate what I believe to be the key themes from the quarter. First, Q1 was a strong start to FY 2025, with revenue and operating income exceeding our expectations, double-digit growth in revenue and ARR, and record Q1 operating margin. We continue to make steady progress on our ambition of being a Rule of 40 company, but we're certainly not satisfied.

Second, while Chrome's path to authenticated addressability has clearly changed, the end state with cookies being less effective is likely to be the same. We have and will continue to support cookies as long as customers want to use them, and our case studies demonstrate that using RampID and ATS alongside cookies delivers materially better advertising performance for brands.

Finally, we are as bullish as ever about the data collaboration opportunity and there are multiple megatrends underpinning the opportunity in this increasingly strategic market. To capitalize on the market potential, we are focused on making our product intuitive and easy to use from a product and go-to-market standpoint, and also scaling the network nodes to allow all participants to realize even greater value.

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

I will now turn the call over to Lauren.

Lauren Russi Dillard

Executive Vice President & Chief Financial Officer, LiveRamp Holdings, Inc.

Thanks, Scott, and thank you all for joining us. Today I will cover two topics. First, a review of our Q1 financial results, and second, provide our outlook for FY 2025 and Q2. Unless otherwise indicated, my remarks pertain to non-GAAP results and growth as relative to the year ago period. I will be referring to the earnings slide deck that is available on our IR website.

Starting with Q1, in summary, we delivered strong results above our expectations, highlighting another quarter of solid execution. Revenue came in at $176 million, $4 million above our guide, and operating income was $27 million, $2 million above our guide.

Operating margin expanded by 2 points to 15%. Subscription net retention improved by 2 points sequentially to 105%, and ARR grew 12%, the second consecutive quarter of double-digit growth.

Let me now provide some additional details. Please turn to slide 5. Total revenue was $176 million, up 14%, with subscription revenue in line with our expectation and marketplace and other ahead, thanks to a stronger-than-expected digital advertising market. This was the first full quarter with Habu and it contributed roughly $3 million in revenue.

Subscription revenue was $135 million, up 11%. Fixed subscription revenue was 12%, a 3-point acceleration from last quarter, while subscription usage revenue was up 1%, broadly in line with our flat expectation. Usage as a percentage of total subscription revenue was 12%, in line with the 10% to 15% historic range. ARR was $478 million, up 12% year-on-year, and quarter-on-quarter, grew by $11 million, driven by use case expansion and an improvement in customer churn and downsell.

Subscription net retention was 105%, 2 points better sequentially and at the high end of our 100% to 105% expectation range. The improvement was mostly driven by lower customer churn and downsell. Total RPO, or contracted backlog, was up 8% to $536 million. Current RPO was up 13% to $398 million.

Last quarter, we mentioned the selling environment was mixed and that was the case again in Q1. Our sales pipeline remains robust and our renewal rate was the highest Q1 on record. On the other hand, as Scott mentioned, our average sales cycle, like in Q4, remained slightly elongated relative to the recent trend. Overall software budgets appear to be under greater scrutiny and customers are being more cautious. These divergent trends were apparent in our stable customer counts, with an improvement in customer churn equally offset by lower gross adds.

Marketplace and other revenue increased 28% to $41 million. Data Marketplace, which accounted for 78% of marketplace and other revenue, grew by 23%, reflecting continued strength in digital advertising, and in particular, CTV, which roughly doubled in the quarter.

Moving beyond revenue, gross margin was 74%, up 1 point year-on-year. Operating expenses were $103 million, up 12%, driven primarily by investments in product and sales head count to support revenue growth. Habu accounted for roughly 3 points of the increase.

Operating income was $27 million, up from $21 million a year ago, and our operating margin was 15%, up 2 points. GAAP operating loss was $5 million due to stock-based compensation and purchased intangible asset amortization.

Stock comp was $28 million, up from $13 million a year ago. As a reminder, the prior year benefited from accelerated vesting for tax planning purposes and the current year includes the impact of the Habu acquisition.

Operating cash flow was a negative $9 million, down from positive $26 million a year ago, which included a non-recurring $28 million tax refund. Cash flow was negative in the quarter due to seasonal working capital movements that we expect will normalize over the course of the year.

We repurchased $16 million of stock in Q1 and have approximately $142 million remaining under the current authorization that expires at the end of this calendar year.

In summary, Q1 represented a solid start to fiscal 2025. We beat on both the top and bottom lines and flowed the beat through to our updated guidance. Subscription revenue and ARR grew by double digit year-on-year for a second consecutive quarter. Subscription net retention improved 2 points sequentially, operating margin expanded by 2 points and was the highest Q1 margin on record.

Finally, let me now turn to our financial outlook for FY 2025 and Q2. Please turn to slide 12. Please keep in mind our non-GAAP guidance excludes intangible amortization, stock-based compensation and restructuring and related charges.

Starting with the full year. We are flowing through the Q1 beat and now expect revenue to be between $715 million and $735 million, up 10% at the midpoint. As we said last quarter, our prior guidance assumed Chrome would deprecate cookies in our fiscal Q4 and there were both near-term positives and negatives.

As such, Chrome's announcement of a new approach to cookies is roughly neutral to our FY 2025 revenue guide. Our view on subscription revenue is unchanged. We continue to expect fixed subscription revenue to grow high single to low double digits. Usage revenue is expected to be flat year-on-year. This outlook assumes the selling environment remains tight over the balance of the fiscal year and reflects some conservatism with respect to usage.

Our outlook for subscription revenue assumes net retention remains within a range of 100% to 105%. With marketplace and other, we now expect growth in the mid-teens, up from our prior expectation of low double digits to mid-teens. Underpinning this estimate is an expectation that Data Marketplace growth will be in line to above the growth in the overall US digital advertising market.

We continue to expect gross margin to be approximately 75%, give or take 1 point. We expect non-GAAP operating income of between $127 million and $131 million. At the midpoint, this represents 23% growth and a margin of 18%, up approximately 2 percentage points.

We expect stock-based compensation to be $113 million, down from $116 million previously. We expect GAAP operating income to be between negative $2 million and positive $2 million. And lastly, on share repurchases, we continue to expect to spend between $60 million and $70 million this fiscal year, depending on market conditions.

Now, moving on to Q2. We expect total revenue of approximately $176 million, non-GAAP operating income of $31 million and an operating margin of 18%.

A few other call-outs for Q2. We expect subscription revenue to be up high single digits, with fixed subscription up low double digits. We expect usage to be slightly down year-on-year due to a difficult comp. Marketplace and other revenue is expected to be up high teens. We expect Q2 gross margin to be 75% and we expect stock-based comp to be approximately $29 million.

Before opening the call to questions, I'll conclude with a few final thoughts. We had a strong Q1, ahead of our expectations on both the top and bottom line, reflecting strength with existing customers and healthy digital ad markets. Q1 revenue and ARR both grew double digits for a second consecutive quarter. Net retention improved by 2 points and our operating margin expanded by 2 points.

As we look ahead, we like our strategic position and our conviction about the long term has never been greater. But we also recognize that in the short term, the path is not always linear and we are sailing in choppy economic waters. As such, we are flowing through the Q1 revenue and operating income beat to the FY 2025 guidance, and leading the rest of the year largely unchanged.

And finally, we remain committed to our long-term financial North Star of being a Rule of 40 company. We believe the secular trends Scott highlighted today represent a long runway for growth and we will remain disciplined with respect to investment, delivering continued efficiency and profitability while smartly investing for the future.

On behalf of all LiveRampers, thanks again for joining us today and thank you to our amazing customers. Operator, we will now open the call to questions.

QUESTION AND ANSWER SECTION

Operator: Thank you. The floor is now open for questions. [Operator Instructions] Your first question comes from the line of Shyam Patil with Susquehanna. Please go ahead.

Shyam Patil

Analyst, Susquehanna Financial Group LLLP

Q

Hey, guys. Good afternoon. Congratulations on the results. I had a couple of questions. The first one, you guys gave out some really positive stats and case studies on the performance uplift from using the RampID and ATS versus cookies. I'm just curious, what do you think needs to happen from here for advertisers to kind of better maybe understand this and to maybe act quicker or drive broader adoption? And then second question, the Data Marketplace growth was very strong again, is up, I think, about 23%. Any call outs or additional color about the – about that segment and kind of how we should think about it going forward? Thank you.

Scott E. Howe

President, Chief Executive Officer & Director, LiveRamp Holdings, Inc.

A

Hey, Shyam. So, first off, thank you, and I'll take the first question. We are really pleased with the results that we've seen from PAIR, as is Google. And I think the biggest challenge for both of us is just to evangelize this. In some respects, Google's Chrome announcement lessens the urgency some advertisers may have felt to switch. But in other respects, the uncertain economic environment makes the results even more noteworthy.

And so, in my prepared remarks, you'll recall that I talked about how are we tightening our data collaboration story. Well, that extends to PAIR and the usage of cookie alternatives as well, that in a hard economic environment, the best thing you can do is tell our clients the kind of bottom line results that they'll see by converting. And that's true of the programmatic space, but it's also really true and where we saw a lot of nice growth was in CTV. Because to the extent that PAIR and authentication is used for CTV, you can do a lot more in terms of targeting our ad suppression than you could using kind of traditional panel data. So I think it's lining up well for us, but it's certainly causing us to tighten our marketing story and be a little bit more aggressive in terms of the return on ad spend story that we're sharing with the market.

Lauren Russi Dillard
Executive Vice President & Chief Financial Officer, LiveRamp Holdings, Inc.

A

And Shyam, I'm happy to jump in on marketplace. We were very pleased with our marketplace performance in the quarter. And as we mentioned in the prepared remarks, Data Marketplace growth was again north of 20%. A few call-outs. First, the digital ad market broadly was very healthy in Q1, which certainly benefits our marketplace.

In addition, and Scott just alluded to this a moment ago, but our continued outperformance, we think, reflects our exposure to some of the fastest growing segments of the market. And in particular, CTV which, as I mentioned earlier, roughly doubled year-on-year.

And then, finally, last year, we talked about several initiatives to make the buying and selling of data on our marketplace easier and more seamless. And I think what you're seeing in our growth rates is those initiatives really begin to pay off.

Shyam Patil
Analyst, Susquehanna Financial Group LLLP

Q

Great. Thank you, guys.

Operator: Your next question comes from the line of Elizabeth Porter with Morgan Stanley. Please go ahead.

Christopher Quintero
Analyst, Morgan Stanley & Co. LLC

Q

Hey, Scott. Hey, Lauren. It's Chris Quintero on for Elizabeth here. I wanted to ask about Habu and if we can get an update on how that integration is going. It seems like you're already kind of making some integrations there, but just curious kind of how that's shaping up verses your expectations so far.

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

A

Yeah, Chris, hey, thank you. With Habu, we're pleased with the integration. I mean it was pretty smooth. The technology is fairly lightweight. And we knew exactly what we wanted to do together even before the deal closed. And then probably even more pleased by the interest. The pipeline very quickly grew and has continued to remain robust.

In terms of our deal model, I looked at this the other day, we're kind of right where we expected to be coming into two quarters. But I'll tell you, we're playing for something far longer, a much bigger prize. And that speaks to both the financials, where I like our pipeline, but we got work to do in terms of pushing that pipeline from a lot of early stage interest into closed deals.

And then second is building out our network density. We know that this is a network business and scale really matters. So when we sign up any node of the network, we know that they probably carry with them, I talked in the call, about 50 to 100 key partners right off the bat. And so once you lock all that in, it's really sticky. There's a nice network effect, and you get the kind of proverbial network flywheel going. It just gets better and better.

So we have a lot of work to do on that, because although we're the market creator and it's a sizable market, we're also in the early, early stages of all of the work here. And so the things that I talked about in my prepared remarks about making the product simple, ensuring that our sales reps show up with their value calculators and can express the return, and then also articulating a deep bench of different case studies and use cases for our clients. That will help a lot.

I would leave you with, the thing I hear so often from our clients or prospects really, is something along the lines of, I know I need this, but I don't really know how to get started. And that feels very similar to what we heard seven, eight years ago in the data onboarding space. I know I need this, but I don't really know what to do. And what we learned is we have to evangelize to the market and teach them how to use the technology. I mean that's really our focus for the back half of the year.

Lauren Russi Dillard
Executive Vice President & Chief Financial Officer, LiveRamp Holdings, Inc.
A

And Chris, I might just add a little bit of financial color to that. So first, we remain on track for the $18 million of synergized revenue this year that we've discussed on past calls. Q1 bookings were consistent with our expectation, even despite what we feel is a more difficult selling environment.

As Scott mentioned, pipeline for Habu and for our clean room cleanroom products remains very robust. And so now it's really about execution and pipeline conversion. And then, finally, we also remain on track for Habu to be roughly breakeven this year, which is also something we discussed when we announced the deal.

Christopher Quintero
Analyst, Morgan Stanley & Co. LLC
Q

Got it. That's super helpful. And then maybe sticking with you, Lauren. I want to ask about the full year guidance on revenue. Really great to see that get raised. But I'm curious around the decision of kind of keeping that wider range, given the set of risks and opportunities that are coming out from the cookie deprecation change.

Lauren Russi Dillard
Executive Vice President & Chief Financial Officer, LiveRamp Holdings, Inc.
A

Yeah, it's a great question, Chris. And just given the challenging selling environment and what we see is kind of an increasingly uncertain macro environment, we felt it was prudent to maintain a wide range, just given where we are in the year. As a reminder, roughly 30% of our total revenue is variable, and the forward visibility here is fairly limited, especially in the out quarters. This is also the revenue that tends to be most sensitive to macro conditions. So, therefore, with respect to the variable areas of our business, we just – we built in a wider range of outcomes.

Christopher Quintero
Analyst, Morgan Stanley & Co. LLC
Q

Excellent. Thank you.

Operator: Your next question comes from the line of Jason Kreyer with Craig-Hallam. Please go ahead.

Jason Michael Kreyer
Analyst, Craig-Hallum Capital Group LLC
Q

Great. Thank you. I just wanted to follow up on some of the additional use cases, Scott, that you talked about. Just curious if you can kind of elaborate on that and just kind of thinking for any companies that are potentially kind of on the fence about the urgency following this cookie decision. I mean, can these additional use cases really catalyze of bringing that into bookings?

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

A

Yeah. Give me one second, because I actually am just looking for some notes actually on this. But what I would tell you is what we've heard, and I really spoke to this in the standardization – when I was talking about standardization, this is one where our clients are speaking pretty loudly about how they want to use the technology. And so as an example, when we sat with some of our big retail and packaged goods clients in Cannes, we heard the same themes over and over from them in terms of what would be the standard queries that they'd want to launch with. Because what they don't want is if they're working with, say, 50 partners, that each time they do a query with one of those 50 partners, it looks different.

And so what we heard was feedback around shopping cart analysis, the pipeline journey. There were a couple dozen different things that virtually everyone has talked about. From that, we launched an effort bringing together a number of those partners to basically try to standardize it. Our thought is we'd work with those partners and then eventually release those standards to the industry. And so we're going to do it for the most important use cases first.

Now, I think what you're getting at in some respects is how much of our business is kind of retail media networks, and that's what I've been talking about to this point, versus how quickly is this transitioning to, say, commerce network. And so last quarter, for instance, one of the world's largest airlines launched their commerce media network and we're powering that.

And so we're seeing both in travel and financial services a very similar phenomenon take flight to what we've already seen in retail media where we have such a strong share but want to grow our network density. And so those use cases, the standard queries, those will look a little bit different and that those will take us a quarter or two to develop in concert with the industry partners. But the stats, you probably – do you want to talk about the [indiscernible] (00:42:34)?

Lauren Russi Dillard
Executive Vice President & Chief Financial Officer, LiveRamp Holdings, Inc.

A

Oh, sure. Yeah, the vertical expansion.

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

A

Yeah.

Lauren Russi Dillard
Executive Vice President & Chief Financial Officer, LiveRamp Holdings, Inc.

A

Yeah. As Scott alluded, I mean, we still believe we have a lot of opportunity within retail and CPG, but we're continuing to see opportunity build outside of this as well. And so if we looked at the clean room deals signed in Q1, about two-thirds of those were outside of the retail and CPG space. And there's a fairly similar composition of deals in the pipeline today as well.

So, yes, we think the opportunity is large even outside of kind of the initial retail and CPG use case.

Jason Michael Kreyer
Analyst, Craig-Hallum Capital Group LLC

Q

Great. Thank you. And then just last one for me. Just wanted to follow up on some of the commentary on the sales cycle. Just kind of curious what you're hearing around the macro. So is there anything new from kind of some of the commentary you've had earlier and just kind of some of the biggest hang-ups maybe in some of these elongated sales cycles?

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

A

Sure, Jason. I would tell you, we have a lot of visibility near term and I feel really good about a year. But candidly, we're playing for next year and beyond. And so that's really about getting stuff through the funnel and spinning up these sticky network flywheels. And what we're hearing kind of anecdotally, but also I'll give you some real examples here, is that the mood at our clients is really being affected by this macroeconomic uncertainty.

We had three deals slip at the end of last quarter, some of which we've signed already. So we're talking about this extension. We're not losing business. But in each of the three cases, they slipped because at the client, there were layoffs. We had one client, in addition to those three, where they signed the contract before the end of the quarter and the person who signed the contract got laid off within the next week. And so we're now working with a different key point of contact that than we were before.

And we have the – one of the world's largest packaged goods companies we have a great relationship with and have been growing business, they told us they put a pause on all new initiatives just to see where the macro economic uncertainty would land. So, I think what we're hearing is people are a little bit nervous about rate cuts, about the political environment, about the stock market in the past week, and that's causing them to just be a little bit slower on everything they're doing.

Jason Michael Kreyer
Analyst, Craig-Hallum Capital Group LLC

Q

Very helpful. Thank you.

Operator: Your next question comes from the line of Mark Zgutowicz with Benchmark. Please go ahead.

Mark Zgutowicz
Analyst, The Benchmark Co. LLC

Q

Thank you. Hi, Scott, Lauren. Just a couple for me on two unrelated topics. One, Oracle, just curious if you could give us perhaps an update on the marketplace related pipeline that might be progressing there. And if you can maybe talk about how you think about that revenue opportunity on a net basis, as I know Oracle is a subscription client of yours as well? And then I have a follow-up.

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

A

Yeah, positives and negatives, but all told, we expect this to be a net positive. The subscription revenue is committed, but we think the opportunity for incremental Data Marketplace gains will dwarf that in the long term. So we feel pretty good about it.

I would just also mention, because I think it's always good to reinforce that, the way Oracle's data business works is pretty different than our own. So we are a marketplace. We're not compiling data, per se, building segments that we sell directly, but rather think about that Oracle demand for their segments is going to other data providers who will use our pipes. So, the reason – I say this because the reasons that Oracle exited the data business, we don't think are relevant for us. We just see this as a nice opportunity.

Lauren Russi Dillard
Executive Vice President & Chief Financial Officer, LiveRamp Holdings, Inc.

A

And, Mark...

Mark Zgutowicz
Analyst, The Benchmark Co. LLC

Q

Got it.

Lauren Russi Dillard
Executive Vice President & Chief Financial Officer, LiveRamp Holdings, Inc.

A

...I want to just provide a little bit of color with respect to the marketplace pipeline. As Scott mentioned, it's still early. I mean, this is playing out in real time. And so, accordingly, we're just treading lightly here. We haven't built much upside into our guidance. So should this materialize faster or in a more meaningful way than we're anticipating, there might be a little bit of upside relative to the midpoint of our guide.

Mark Zgutowicz
Analyst, The Benchmark Co. LLC

Q

Got it. That's helpful, Lauren. And then, maybe a broader question, Scott. If you think about clients of yours – and this is, I guess, putting the macro pressures aside, but clients that have been on the fence in your pipeline, just waiting for cookie deprecation to sort of pass, how does this new discussion, with consent and the opt-in, opt-out, how is that discussion going with them? Does that change any commitment or conversion potential on any of those that were sort of on the fence?

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

A

Yeah, it's a great question. And I talked about PAIR and cookie deprecation in my prepared remarks from a more of a LiveRamp perspective. So let me add kind of the customer view, which is what you're talking about. I think it's a great question.

All of our existing customers have been using ATS and RampID for some time now. So really, no impact for them. And I think Google delayed enough that by the time they made the announcement with our clients, it was a little bit of a yawn. They've kind of read beneath the lines and they said, well, Google is still going to get to the same place, but rather than brute force the industry, they're going to do it through the browser settings and users are going to have the choice and get to the same place anyway. And so not a whole lot of concern expressed by our clients.

And I would say for prospective customers who tend to probably rely more heavily on cookies, we're hearing the same thing that they think the puck is still going to be shot to the same place. It just will take a little bit longer. And so, yeah, maybe the urgency has died down a little bit with them, because there's not this kind of forcing function, but what's really going to happen here is the forcing function won't be Google's timeline. It will actually be the economics. And so go back to 50% of display is cookie-less already, and so if you're not using authentication, then you're not reaching Safari, Firefox and Edge users who probably have been consuming a lot less targeted messaging, so their response rates are going to be better, and Safari's demographics are better, too. They tend to be more valuable customers. So you don't want to miss out on that.

Second, most of our major marketers and prospects are doing heavy television as well. If you're doing a heavy television, then you're probably doing streaming, you're doing CTV. I mean, how many of us have even watched the Olympics over network television? Like, literally five minutes before this call, I was watching the men's 400 meter on streaming that happened like an hour ago. That's how people are consuming content. And if you want to advertise on that kind of content, then you have to use authentication.

And so, I think the market forces are what's going to drive this over time, but we'll do our part to accelerate that simply by pulling together case studies, holding webinars and doing evangelization with Google and with others to ensure that people have visibility into the lift that they can realize.

Mark Zgutowicz
Analyst, The Benchmark Co. LLC

Q

Makes sense. Thanks, Scott. Appreciate it.

Operator: [Operator Instructions] Your next question comes from the line of Tim Nollen from Macquarie. Please go ahead.

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

Q

Hi, Scott. Hi, Lauren. I'm hoping I could pull together a few threads on this Google PAIR topic, which has been weaving in and out of this discussion. First question is, I'm noticing that there were three partners initially on the Google PAIR. And that was you, it was Habu, which you've acquired, and it was InfoSum, who has now lost their CEO to WPP. I'm wondering if there's any sort of implication from that as to your role within Google PAIR.

And then in addition, given the cookie deprecation cancelation, given a lot of complaints about the Privacy Sandbox from users of it, I'm not talking about you. I'm talking about other companies and users that have had issues and concerns about it. And also, given the upcoming DOJ lawsuit against DV360, I'm just wondering, is it possible you could opine on what Google's incentive or perspective or urgency to make Google PAIR work could be?

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

A

Oh, wow. I hesitate to provide insight on – my guess on another company's motivations. But what I will tell you from a LiveRamp perspective, it's super valuable to be having conversations with the Google advertising people on a regular basis, comparing notes on case study performance, talking about potential clients we should visit together, speaking at one another's events. I would characterize the relationship that we have with Google Ads to be as good as it's been in the last decade. And so I think that's going to be useful.

And what I would tell you at Google Ads, and not all departments of Google speak to one another, they're all in on PAIR. The Chrome decision came from Chrome. There is a strong belief at Google that good performance and good privacy can go hand-in-hand, which we 100% agree with. So I think that's a really nice opportunity for us and we'll continue to push on that.

On the anti-trust stuff, I will just tell you, remember, that I came to Acxiom from Microsoft a little bit more than a decade ago. And when I was – when my company was acquired by Microsoft, they were in kind of the same situation that Google now finds itself in.

What I would tell you is anti-trust remedies take a long time to play out. And so, we're focused in on how do we make next year, not what happens necessarily with Google five years from now. And I don't think anybody can predict how this is going to play out across what will probably be three to five years.

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

Q

Yeah. I appreciate that as well. Thanks for the color. And any comment on InfoSum, if it's also possible to talk about another company out there that relates to you?

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

A

Well, I would tell you, we just – they're based out of Europe. We don't see them a whole lot competitively. And so, I mean, I can't tell you anything other than that. Just we don't see them in the market and our clients aren't talking about them.

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

Q

Okay, great. Thanks so much for the color, Scott. Thanks.

Operator: That concludes our Q&A session. I will now turn the call back over to Lauren Dillard for closing remarks. Please go ahead.

Lauren Russi Dillard
Executive Vice President & Chief Financial Officer, LiveRamp Holdings, Inc.

Thanks so much. Let me just conclude with a few final remarks. First, we had a strong Q1 ahead of our expectations on both the top and bottom line, reflecting another quarter of solid execution. Q1 revenue and ARR both grew double digits for a second consecutive quarter. Net retention improved by 2 points and our operating margin also expanded by 2 points. As we look ahead, we like our strategic position and our conviction about the long-term has never been greater.

But we also recognize that in the short-term, we're operating in an uncertain macro environment. As such, we're flowing through the Q1 revenue and op-inc beat to the FY 2025 guidance and leaving the rest of the year largely unchanged.

And finally, we remain committed to our long term financial North Star of being a Rule of 40 company. And we believe the secular trends Scott highlighted today represent a long runway for profitable growth. With that, thank you again for joining us and we look forward to chatting in the days and weeks ahead.

Operator: Ladies and gentlemen, that concludes today's call. Thank you all for joining. You may now disconnect.