28-May-2019

LiveRamp Holdings, Inc. (RAMP)

Q4 2019 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Operator: Good afternoon, ladies and gentlemen and welcome to LiveRamp's Fiscal 2019 Fourth Quarter Earnings Call. All lines have been placed on mute to prevent any background noise. After the 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, Lauren Dillard, Head of Investor Relations.

Lauren Dillard
Head-Communications & Investor Relations, LiveRamp Holdings, Inc.

Thank you, operator. Good afternoon and welcome. Thank you for joining us to discuss our fiscal 2019 fourth 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 filing and the press release. LiveRamp undertakes no obligation to release publicly any revision to any of our forward-looking statements. 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 will turn the call over to Scott.

Scott E. Howe

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

Thank you, Lauren. Good afternoon and thanks for joining us today. I am very pleased to report another outstanding quarter highlighted by strong top line growth, continued momentum across each of our key growth initiatives, and new partnerships that solidify our role as the ubiquitous provider of people-based identity and data connectivity for the open ecosystem.

For the quarter, total revenue was up 30%. Excluding the impact from Facebook's discontinuation of partner categories, revenue was up 40%. Our Subscription business grew 40%, driven by the continued strength of our enterprise and agency channels, coupled with increased contribution from some of our Horizon 3 initiatives like B2B and second-party data, which we are now referring to as enterprise data networks. Marketplace & Other revenue was up a solid 43% driven by Data Store.

Beneath the top line, as we expected and discussed, margins were again pressured due to transition-related spend. However, we are making great progress against the key operational initiatives Warren highlighted on our last call, and we continue to expect this spend to be completed in the first half of FY 2020.

The fourth quarter capped off an incredible year for this company, a year that was both transformational and, in many ways, foundational for building the business we aspire to be. A year ago, LiveRamp was a single division of a larger company. Today, it is a best-in-class SaaS platform that is uniquely situated at the center of several key industry trends. And amid all this change and potential distraction, we kept our eye on the ball in FY 2019 and executed soundly against our key strategic initiatives.

I often talk about our growth opportunities and horizons, grouping those initiatives that we are counting on to deliver growth over the near, medium and long-term. I'd like to provide a brief update on each. The first Horizon is all about continuing to execute on the drivers that have propelled our business to-date, namely: adding new customers and growing existing customer relationships. Here, we continue to make good progress. Over the last year, we added over 115 new direct customers, including the more than 25 in Q4.

New logos during the quarter included a large global luxury brand and leading personal finance platform. We ended the year with approximately 665 direct customers across our three major verticals, up 21% from the prior year. A second near-term growth lever for the business is our ability to land and expand as customers leverage their data in more places, and in more ways platform usage grows and so too do our customer relationships.

On our last call, we shared that upsell bookings were becoming a bigger component of total new bookings, a trend we saw continue in the fourth quarter. We now have approximately $46 million customers, up from $34 million a year ago. And our best-in-class dollar net retention metric landed at 114% for the quarter.

Horizon 2. Horizon 2 opportunities include newer initiatives inside of LiveRamp, specifically Data Store, LiveRamp TV and international that continue to become more meaningful growth drivers for us. Together, these businesses generated over $70 million in FY 2019, representing roughly 25% of our revenue and growing approximately 50% year-over-year, excluding Facebook.

Data Store, again, had a nice quarter and was up 42% ex-Facebook. We continue to expand our Data Store capabilities internationally and have had good success adding new and interesting data sources to our marketplace.

We continue to make good progress inside our Advanced TV business. Despite coming off a seasonally strong quarter in Q3, we generated some nice momentum in the fourth quarter, positioning us well for continued growth in FY 2020. We added 25 net new logos to our TV business in Q4, a mix of brand new customers to LiveRamp and existing brands, leveraging our TV capabilities for the first time.

As more OTT inventory, which includes connected TV, becomes data-enabled, we continue to expect this piece of Advanced TV to become a growth area for us. In addition to existing partnerships with Hulu and Roku, we added three new stand-alone OTT partners in the quarter, including fuboTV and Tubi and continue to maintain a nice pipeline here.

In addition, across our entire TV business, we are seeing strong interest in cross-screen measurement use cases from both programmers and brands. Programmers are bundling inventory and seeking to preserve or increase reach in an increasingly fragmented ecosystem, while brands are seeking to understand and attribute business outcomes across formats.

Given the role we play across all data-enabled TV categories, we are better positioned than anyone to enable true cross-format measurement. For example, a large national brand is currently using our platform to link cross-format video ad exposures from linear, addressable TV and OTT, with conversion funnel data from online visits, online purchases and store purchases to measure campaign effectiveness.

Finally, our Horizon 3 strategy includes all the initiatives we are seeing today that we believe will expand our footprint across the enterprise and fuel growth over the medium to long-term. LiveRamp B2B, enterprise data networks and our recent Faktor acquisition all fall into this bucket. I am very excited with the progress we are making across these efforts and, in many respects, they are even outpacing our own internal expectations.

LiveRamp B2B had a strong fourth quarter and the momentum we are generating in this business is pretty remarkable, given it is only a year old. B2B marketing is $160 billion market worldwide, yet it is trailed behind consumer marketing in its data-driven sophistication. Modern marketing and ad tech stacks were never designed for the B2B world. So while B2B marketers got by with the tools, platforms and data available to them, none of it was optimized to meet the challenges of B2B.

Built on top of our B2C solution, LiveRamp B2B layers in professional and firmographic data, providing enterprises with the ability to reach B2B audiences with professional identity at the individual level and breaking a company-level dimension to identity resolution. It's the best of account-based marketing and people-based marketing combined and some of the largest B2B marketers in the world like HPE and T-Mobile are turning to us to power it.

Our B2B business was up strong double digits in FY 2019 and our exit run rate and outstanding team sets this business up for a strong FY 2020. Through the Data Store, we have B2B third-party data solutions live in 150 markets worldwide and over 1.9 billion targetable devices globally.

And finally, following the acquisition of PDP last year, our B2B team is scaling nicely to support this growth. We believe our B2B business can be every bit as big as our B2C business over time so it is very encouraging to see these trends emerge.

A final Horizon 3 initiative I would like to highlight is the productization of an emerging need that clients and partners have long looked to us for guidance. This, of course, is the area of permissions, compliance and consent management; together which we often call data stewardship. With changing privacy regulations, a myriad of emerging state legislation and the importance of managing permissions across all of our partners and our customers, we believe this is an area where we need to exert continued industry leadership.

We recently acquired a European consent management platform or CMP called Faktor that enables companies with a digital presence to maintain their web and mobile visitors' privacy preferences across all the company's digital partners. In addition, through this tool, consumers are able to better manage how and where their data is used. This deal is a natural extension of our commitment to ensuring data is accessible across the digital ecosystem and that consumers maintain transparency and choice about how their data is shared.

With the addition of Faktor, LiveRamp gains a deeply talented team dedicated to accelerating LiveRamp's data stewardship efforts. In the coming quarters, any client or partner who needs to manage consent and maintain transparency to ensure compliance with CCPA can utilize LiveRamp's suite of privacy tools. Of course, continued product innovation provides the fuel that drives growth across all of our three Horizons.

Good news. Throughout the past fiscal year, we've made a number of enhancements to our product efficacy. We're constantly striving to become faster, more automated and easier to use. For example, we completed a major rearchitecture of the AbiliTec graph to create more accurate people representations which improved match rates and expanded the reach in people-based capabilities of our graph.

The enhancements made through our technical foundation should also help support new identifier types as they emerge in the future. We also significantly enhanced our data management capabilities and added new functionality to make it easier for our customers to resolve first, second and third-party data together. This supports our data networks use cases and allows brands and data providers to more easily build and sell highly curated data sets throughout our Data Store.

And finally, over the last year, there was a big focus on enhancing the extensibility of our platform through a more robust set of APIs. APIs are critical for delivering our core capabilities more quickly and seamlessly to our customers and enable us to more easily create and package new products around our identity and data foundation. Over time, these same APIs will also allow others to build functionality and innovate on top of our platform, directly fuelling the network effects of our business. For these reasons, this will remain a top product priority in FY 2020.

Of course, another reason our product is widely perceived as the industry standard is our ubiquity across the entire ecosystem. We believe tremendous network effects and value are unlocked when key industry players standardize on a stable, open, people-based identifier.

Underscore people-based here. This is not simply a cookie-based or cross-device ID that you may have heard some of the digital media platforms discuss. It can be mapped back to actual individuals, not just cookies or hashed emails but real people who may interact with Facebook and Google yet also visit physical stores, call service centers, have a post box, own a cellphone, live in a house or apartment, watch television, likely have multiple email addresses and regularly interact with their favorite companies. Just as a single repetitive note doesn't equate to a symphony, we recognize that our clients don't want to deliver exceptional experiences on just a single channel or even a couple of digital walled gardens but rather across all the many complex methods of customer interaction.

As a result, we both pioneered and continually enhanced our people-based identity capability, have always ensured it has best-in-class data stewardship and have provided this offering neutrally to anyone and everyone in the industry for over 30 years. Long before cookies were even invented, we were helping companies deliver better experiences to their customers and as market needs evolve in the future, we'll continue to refine our approach and incorporate new technologies and industry-wide partnerships.

For example, over the last couple of years, we had led a consortium effort with Index Exchange, dataxu, and others to create an open-identity solution for the ad tech ecosystem. And this effort continues to build momentum. Last quarter, we shared that the first IdentityLink campaign went live and Index Exchange became the first ever supply side partner to provision IdentityLink in bid requests for their inventory. Today, this capability is enabled across the vast majority of U.S. publishers who utilize Index Exchange in more than 8 billion bid requests a day are being received with an IdentityLink attached. We're also excited to share that two of the largest exchanges, OpenX and Rubicon Project, have also started the process of implementing this capability.

And finally, we continue to see strong interest outside of the U.S. and from CTV dedicated SSPs, the first of which will be live this summer. At our seventh annual RampUp Conference earlier this year, we announced the launch of IdentityLink for RTB or real-time bidding. This offering provides demand-side platforms, ESPs, with free perpetual access to IdentityLink and complements the free access to IdentityLink that SSPs get through the Advertising ID Consortium.

By standardizing people-based identity for the open Internet, LiveRamp is enabling DSPs to build capabilities that require consistent identity across participants. Benefits include reduced data loss between platforms and increased audience reach and importantly, enhanced consumer privacy features. We currently have more than 20 DSPs signed up for this solution and are working through contracting with another dozen.

In addition, in recent months, we quietly launched an effort called the Authenticated Traffic Solution and have been working closely with all of the major SSPs and many of the world-leading publishers to provide marketers with addressability across cookie-less inventory in a privacy conscious way. You can expect to hear more about our Authenticated Traffic Solution in the coming weeks and months. But the key takeaway here is that all of the efforts I just highlighted reduce the entire ecosystem's reliance on third-party cookies.

And this, this is welcome news. In fact, just last week, I was invited to kickoff the Annual Executive Summit, an Index Exchange where I talked about the industry's need to reduce its reliance on third-party cookies. Once again, I heard strong sentiment across the industry around the importance of identity, the need to move beyond the cookie and the need for publishers to establish trust with the consumer. Importantly, there was also a strong sense of optimism as publishers and platforms recognize the enormous opportunity in front of them.

The walled gardens have been able to differentiate themselves not necessarily with their content, but instead with their people-based addressability. However, today, the world's largest deterministic people-based graph can be paired with the most premium inventory available and it's a fantastic combination for marketers.

In addition to sharing a bit of the ongoing improvements we've been pursuing, I also wanted to briefly touch on the changes Google announced earlier this month. Some of you've asked about this news, at its I/O conference in early May, Google announced the series of changes to the privacy controls in its Chrome browser designed to give users more transparency, choice and control over their data. Specifically, Google intends to change how cookies are handled in Chrome and provides users with the ability to distinguish between the types of cookies websites have installed on their browsers. Sites will be required to declare their cookies as either same site or first-party, or cross-site or third-party cookies.

Importantly, third-party cookies will not be blocked by default, and users will continue to have choice and control over cookie use in their browser privacy settings. As part of the announced changes, Google also intends to aggressively restrict browser fingerprinting across the web. For context, fingerprinting is a technique where details used to make a page display correctly in the browser, like the user's language, time zone, operating systems, plug-ins or fonts, are instead used to uniquely identify the user. It is a method for identifying the user when a cookie is not set and represents significant privacy issues as it can be difficult for a user to opt out. Fingerprinting is not part of our business. Therefore, we do not expect that change to have any material impact on us.

Google indicated that these changes would be progressively rolled out later this year, but did not provide specific timing. They also have not offered a demo of the user interface, so the placement and presentation of the UI remained unknown. That said, we expect these changes as we understand them today to be manageable and immaterial to our business. Net, no major impact to our business.

Ultimately, we think Google struck a balance between protecting user privacy and preserving a healthy and competitive ecosystem, and we support steps that the digital marketing ecosystem can take to increase consumer choice in privacy and improve online experiences. As the industry evolves so too will we, just as we have for the past few decades. One thing that will never change our mission is to power a trusted neutral people-based identity solution that catalyzes the entire ecosystem for anyone and everyone for the good of all participants.

Let me close my remarks by talking a bit about our optimism for the future. While we made tremendous progress across our key growth and product initiatives in FY 2019, our enthusiasm will always, always be tempered by humility and a realism that there is still much to improve upon. We have opportunities across our business to operationalize key processes, improve sales effectiveness, reduce churn, and accelerate product innovation.

In the coming year, we are focusing our efforts around three key initiatives to invest in these opportunities. The first strategic initiative involves continuing to delight and grow our customers. We have a bold ambitious goal of becoming a $1 billion business by FY 2024, but many growth levers that can fuel our progress. As upsell becomes a bigger growth driver for us in FY 2020, we must double down on customer evangelization to promote use case adoption. As customers leverage more data in more ways across our platform, not only does our relationship grow, but, importantly, we reduce any risk of churn because our solution becomes so, so sticky.

The second initiative is to establish LiveRamp as the trusted, best and essential industry standard for connected data. The work we are doing inside our commercial and product teams to drive ubiquity of our identity and improve the extensibility of our platform all align with this initiative. And, finally, we have several initiatives underway to aggressively expand our addressable market.

Today, much of the value we create is tied to digital media. Our goal is to power every, every part of the customer experience, which means enabling all components of the media plan and expanding our role inside the enterprise. Our Horizon 2 and 3 initiatives fall squarely within this effort.

To conclude, I'll end where I began. FY 2019 was a truly remarkable and foundational year for LiveRamp. I am incredibly proud of what this team has accomplished and even more excited by the value that is yet to be unlocked. Literally, every day, it feels as if our opportunity set is expanding, and I am so energized to be part of this journey.

With that, I would like to thank my colleagues, our absolutely exceptional LiveRamp team for their ongoing hard work and many, many contributions.

Thank you again for joining us today. We look forward to updating you on our continued progress in the coming quarters.

I'll now turn the call over to Warren to review the quarter in more detail.

Warren C. Jenson

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

Thanks, Scott, and good afternoon, everyone. Well, it's been quite a year. That said, our call today is not about the past, rather it's all about tomorrow. We are moving decidedly forward and enter FY 2020 in a great place. Our business is strong and predictable. We exited the year on a $313 million revenue run-rate; three quarters of which is tied to committed recurring subscription revenue.

At March 31 ARR was $232 million, up 41%; a growth rate which is a full 10 points higher than a year ago. Our dollar-based net retention remained strong at 114%. And in Q4, our subscription revenue was again up more than 40%. The importance of our network continues to build.

We are the ubiquitous source of people-based identity for the open ecosystem. We now have 665 direct customers and thousands more indirectly. Our identity graph is uniquely multi-dimensional and unmatched. And most importantly, as Scott mentioned, it keeps getting stronger. Through our authenticated Traffic Solution and other efforts like Ad ID Consortium and IDL for RTB, our connections are becoming even more direct. And, finally, our global connections now tie together thousands of companies across multiple continents.

Land, expand and extend is a way of life. Our growth levers are working. Horizon 1 land and expand revenue increased 35% during FY 2019. Horizon 2 revenue, which includes TV, Data Store and international grew 49%. And our Horizon 3 revenue run rate has doubled and now exceeds $12 million.

Of note, our second-party data sharing service is now up and running on four continents with more than 30 tenants in place. Next, we've used this transition to tighten and harden LiveRamp's operational capabilities. In other words, used process to our advantage. This focus is yielding results.

Product and engineering; we strengthened our customer-first product lifecycle framework. The result; a much tighter connection between our customers and go-to-market teams and our product organization. Our speed of decision making has also increased dramatically. Operations; we are standardizing our workflows and building muscle that will drive a culture of continuous improvement. We are over halfway complete in our migration to the Google Cloud. This migration should be finished by the end of the second quarter.

In security and privacy, we now have in place a team of world-class experts that are second to none. We took what was great at Acxiom and made it even better, more modern, more standard and more automated. Go-to-market; we have implemented a strong set of routines between sales operations, our Data Ethics team, legal in the field to reduce cycle times and drive higher levels of predictability into our pipeline.

We are now using business intelligence and AI to deliver customer signals to our field teams in real-time. These investments, along with other process improvements, have enabled us to see opportunity more quickly and to upgrade our early warning architecture to get ahead of needless churn or potential down-sell. Ultimately, we are just getting going operationally. These investments are all about customer satisfaction and excellence, creating great and rewarding careers, scalability and winning.

And, finally, we ended FY 2020 with a gorgeous balance sheet and in a position of financial strength and flexibility. Few companies can talk about this kind of liquidity and flexibility with an ongoing buyback program in place.

In summary, we had another strong quarter. We have a great business which is benefiting from a powerful network effect and a global secular trend. That is the key to great customer experiences, and we strive every day to increase the value our customers generate from our platform. Ours is a business that is fast becoming ubiquitous and one that is defended by natural scale. We are Switzerland. LiveRamp's neutral platform is foundational to enabling a healthy, open and competitive ecosystem.

For the remainder of my remarks, I'd like to walk through a few specifics from the quarter and end with our guidance for FY 2020. Please turn with me to slide 7. Given the many ins and outs in Q4, we thought it would be helpful to spend a few minutes walking through the reconciliation of our GAAP to non-GAAP results.

This quarter, we proactively took actions which resulted in $15 million of cash tax savings. We eliminated redundant data costs in our identity graph resulting in a one-time charge of $12 million. Next, we accelerated the near-term vesting of select non-NEO stock awards. This resulted in a $20 million one-time non-cash charge.

Turning to slide 9, in Q4, our operating loss was $22 million; our pre-tax loss was $14 million. Included in our results was $9 million of transition-related spending. As a reminder, we expect transition spending to be complete by Q2 of FY 2020.

Next please turn to slide 11. Our operating cash flow for the quarter was $38 million. Please keep in mind this included a $60 million tax benefit. And finally a few other housekeeping items. During the quarter, we repurchased 175,000 shares for $10 million. Since 2011, we have repurchased 22.6 million shares for $449 million. We ended the year with over $1 billion in cash and no debt. In FY 2019 we adopted the new revenue recognition standard and are prepared to adopt the new lease standard in the first quarter of FY 2020. The impact of ASC 606 was not significant. Further, the adoption of the new lease standard will have no material impact on earnings.

Now to our guidance. Please turn to slide 13. As a reminder, our guidance excludes items including non-cash stock comp, purchase intangible asset amortization, and restructuring charges. In FY 2020, we expect revenue of between $358 million and $372 million, up 25% to 30%, and a non-GAAP operating loss of between $50 million and $70 million. This estimate includes approximately $15 million in transition costs.

For Q1, we expect revenue of up to $78 million and an operating loss of approximately $29 million, of which $10 million is associated with transition. Slide 14 includes our expected revenue phasing and highlights the breakdown of our remaining transition spend. Slide 15 includes other key guidance assumptions. A few highlights. We expect transition spend to end in Q2. We expect operating loss as a percentage of revenue to uptick slightly in Q1 and Q2 as compared to Q4 of FY 2019.

That said, we expect margins to improve considerably in the second half of FY 2020. In fact, we expect our operating loss as a percentage of revenue to be in the mid-single digits for both the third and fourth quarter. We continue to expect to be profitable in FY 2021.

Stock-based compensation of approximately $80 million or $20 million per quarter. Of the $80 million, approximately $22 million is acquisition related.

Taxes. Given we are expecting to be in a loss position for FY 2020, we expect our tax rate to effectively be 0%. Looking to future years, we would expect our long-term tax rate to be between 25% and 27%. We expect interest income of approximately $24 million. Please keep in mind that acquisitions would lower our cash balance and reduce this estimate. We expect our ending share count to be approximately 70 million. And finally, we would anticipate CapEx to be between 4% and 5% of revenue.

With that, let me close with a few final thoughts. We enter FY 2020 from a position of strength and opportunity. Our business is strong, predictable, and recurring. We have multiple growth levers comprised of products and services, which are creating billions of dollars in value for our customers. These solutions are perfectly positioned to capture our opportunity, and we do so from a position of financial strength.

On behalf of all my LiveRamp teammates, our transformation has only just begun.

With that, operator, we will now open the call to questions.

QUESTION AND ANSWER SECTION

Operator: [Operator Instructions] Your first question comes from Dan Salmon from BMO Capital Markets. Your line is open.

Daniel Salmon
Analyst, BMO Capital Markets (United States)

Q

Hey, good afternoon, everyone. Scott, thanks for your comments – added comments around your views on how changes to the Chrome browser may or may not impact the company. We've also had some continued news around ITP continuing to be upgraded. Just – you noted that the impact on your business is relatively limited so far as you see it right now, but could you maybe just take us behind the curtain a little bit to understand how all of these changes impact your conversations with your partners in particular? Are you looking at different technical integrations around this or opportunities to work together differently as a result of this? But I would just love to understand a little bit sort of some of the technical things that though this may not impact the business as you see it, may need to be rewired a little bit under the hood.

And then the second question, Warren, you mentioned the transition to Google Cloud. We've seen some blog posts on that. Could you give it a little bit more color on how you expect that to help you set a foundation for some of those growth horizons? And then, look, the last one with cloud services that often comes into play as – would investors be right or wrong to assume that your work with Google on the cloud side suggests a growing or stronger than ever partnership on the advertising side? I'd just love to hear your thoughts on that as well. Thank you.

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

A

Sure, Dan. I'll start with your first question. This is Scott. I'm not sure that Google's news or any of the other topics that you brought up are necessarily new to us as much as they are part of a longer journey that we've been on going back – gosh, the last couple, three decades really. To us identity has never been one single thing. Identity is everything. It's a multi-dimensional creation, rendition of an individual. It's not a hashed email. It's not a cross-device cookie ID, but rather it's a much more complex rendition that consists of things like name and a postal address, telephone, email address, cookies, premium publisher identities, mobile IDs, connected television IDs, social graph identifiers, you name it. And so this is something we think about for a long time and if you go back even a couple of years to launching the Ad ID Consortium, I think in some respects we might have been ahead of the industry because we were trying to create a mechanism whereby which the daisy chain of cookies, you wouldn't get data loss there, and also we create redundancy such that there would be non-cookie alternatives. Some of those conversations early on we've talked and people probably weren't ready to hear.

But what I will tell you is that Google's announcement I think made everybody in the industry more willing to listen and inspect their own processes and ask themselves, do they have a single point of failure, and if so, what can they do about it. Well, the easiest thing they can do about it is ensure that they're integrated more deeply with us and others on things like IdentityLink. So I think it positions us very well for the future, both – well, regardless of what happens with Google or Apple or Facebook or anyone because our clients are looking to do much more than any single swim lane, they're looking to play across the entire pool and we allow them to do that.

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

And then, Dan, let me jump in on the second question. I think, it's really fascinating I was reflecting as Scott was talking, when you think about a young company in effect just going public as we did and you think about young company getting bigger, the natural inclination is that you think companies start to slow down. One would argue what actually happens to the best growth companies is if they don't slow down, they actually get faster.

So everything that we have been doing throughout this transition period relative to our transition spend and the capabilities we've been building are all about accelerating our pace in every aspect of everything we do, whether it's how we execute, whether it's how we innovate, whether it's how we go to market. So our partnership with Google really incorporates all of those elements just like we've been building into other parts of our company. So we think about accelerating our scalability, accelerating our speed of innovation and also the fact that we're a global company, and we want to have standard global solutions across the board and Google Cloud fits right into that.

Next relative to our partnership on the advertising side, we're firmly of the view and Scott mentioned it and I did too in our prepared remarks is that the world needs an open, independent source of identity and the world needs an open, independent data safe haven and we fill that role. We're a great partner for the Google Cloud. We're a great partner for the other cloud providers as well. Our objective is to be a great source of growth for each of the different cloud providers.

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

Okay. To put an exclamation point on that, we're Switzerland. We worked with anyone and everyone. I think we worked with Google in half a dozen or more different ways and we'll expand that over time. But we'll do the same thing with everyone else.

Daniel Salmon
Analyst, BMO Capital Markets (United States)
Q

Okay. Thanks, guys.

Operator: Your next question comes from Kirk Materne from Evercore ISI. Your line is open.

Stewart Kirk Materne III
Senior Managing Director, Evercore ISI
Q

All right. Thanks very much. I think I want to focus on the guidance for this coming year. And, Warren, could you help us think about sort of what needs to happen to sort of hit the high end or maybe go beyond 30%, so you just put up a really good subscription quarter, or 40% this quarter? What are you sort of toggling between in terms of the guidance? And I guess along those lines, so you had obviously, along with everybody else, a lot of questions about sort of the impact the Google changes could have on industry spend in general or things around like CCPA. So I guess how do you contemplate some of those things also within the guidance, just to get a sense of the conservatism around it or just kind of how you're thinking about it?

Warren C. Jenson

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

A

Let me try to address maybe that in reverse order and I'm sure, Scott, may want to weigh in here as well. Our guidance philosophy has remained the same or since the time actually we've all been here at – or we all started off at Acxiom and now at LiveRamp. And we just try to call it right down the middle.

So we don't change our risk profile. We just call them the way we see it. So it's – this is our best estimate as to how we see things today. A few things relative to our outlook, obviously, as you think about – and let me tell you about margin and then jump in to revenue. As we think about our margin profile going into the back part of the year, you can – we're counting on a few things. First of all, we're counting on a revenue uptick in Q3 relative to Q2. That is completely consistent with how our business has performed in the past. So number one, we'd expect revenues to accelerate. That's going to create incremental fall-through.

The second thing is our GCP migration will be completed by the end of Q2. With that, we would expect our gross margins to rebound and should be between 65% to 70% in the second part of the year. And then the third thing, which is well within our control, is we expect to see expense leverage. Therefore, we would expect our losses in the back part of the year consistent with our guidance from our last call to be in the mid-single digits.

Interestingly, while not part of our guidance today, when you start to think about operating cash flow before CapEx, you're going to see that we're getting pretty doggone close to breakeven if not positive in those quarters. So way too early to make that as a callout, but we are watching cash very carefully. And by the end of the year, you'll start to see some really positive things happening on the cash flow side providing we're successful in hitting our numbers.

Now what about hitting the upper end of our guidance? The great thing is we're really optimistic and I think the trends support it in each one of our growth initiatives, whether it's what we're calling enterprise data networks or second-party data sharing, whether it's what's going on in B2B or even adoption of the data store throughout our entire brand's customer base. The trends are working in our favor. So what would it take higher levels of execution, some of these opportunities kicking in in a bigger way than perhaps is reflected in our guidance, all of which we think are possibilities, but, I'd come back, our guidance is what it is. Would encourage you to align on the numbers which we've shared with you today.

Stewart Kirk Materne III

Senior Managing Director, Evercore ISI

Q

Okay. And maybe just a follow-up, somewhat related there, for Scott. And, Scott, you mentioned the opportunities around sales execution or sales productivity and renewal rate, the improving general renewal rates. Just what are you thinking? I assume there's always a sense that you guys want progress on those fronts, especially as you continue to grow. So are you assuming just because of net new hiring that you might not see as much on an absolute basis on that front? Or how should, I guess, we think about those things because it seems like higher renewal rates would be some low-hanging fruit for you all if you're taking a one to two-year review?

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

A

Yeah. I think that's fair, Kirk. We've invested in our sales force, and we would expect that over time their productivity improves. And this really speaks to the Horizon 1 growth initiatives. We know, for instance, I mean, it's all about winning new clients and then upselling the clients once we win them. And from a new client perspective, we still feel like we barely scratched the surface of our TAM. So if you think about the top 2,000 marketers in the world, we have 10% of those. So the vast majority of the market we feel is still out there to win from a new bookings, new logo perspective.

And then, from a use case expansion, we feel like we've been on a nice trajectory. In fact, I think it was just in recent quarters that our up-sells have started to outpace our new logo growth. But we have a lot of killer use cases that we need to continue to tap into. So across our client base, there are 250 or so clients that have activated Facebook. That's great, but it's not everybody. Well over 100 that are doing people-based search with Google and increasingly Bing; terrific, but not everyone.

Amazon has been a great use case for us in recent quarters, last couple quarters. That's grown from nothing to just under 50 clients activating that, but still under-penetrated. So there's a lot of evangelization that needs to continue to be done once we win clients, and those are the expectations that we have on our sales team going forward.

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

A

Hey, Kirk, one other thing that I would add coming back just to sales trends is, let me just remind everybody that there's always going to be ups and downs depending upon year-over-year comps. So if you take dollar-based net retention as an example is in Q1 and Q2 in particular we would expect that rate to come down from, call it, 114%-115% down to 100% to 110%. And the reason for that is we had a couple of really large corporate upsells a year ago, which makes the comps difficult. That said, business remained strong. It's just there are going to be periods where there are going to be ups and downs in our growth rate.

Stewart Kirk Materne III
Senior Managing Director, Evercore ISI

Q

Right. Thanks for the answers.

Operator: Your next question comes from Robert Coolbrith from Wells Fargo Securities. Your line is open.

Robert J. Coolbrith
Analyst, Wells Fargo Securities LLC

Q

Great. Good afternoon. Thanks for taking our questions. We have a couple going back to the Google Chrome browser changes, sorry. First off, thanks for the additional color. One question that we have been receiving is, any sense for ballpark exposure the cookie-based targeting advertising ecosystem versus other venues like the walled garden, the television and so on?

And then second question, I think you talked about some changes to the AbiliTec graph. I think you mentioned that's moving to more of a people-based model. Correct me if I'm wrong on that. Just wondering if you could provide some additional color there. I know that's an issue some of your very small competitors make some noise about. And any early impact on match rates or match accuracy, or anything else you can tell us about that? Thank you.

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

A

Why don't I take the first and then maybe – you want to take the second? All right. So first off, this is Scott, with Google, the question that you're asking about in terms of exposure isn't really quite frankly how we think about it because we think about it as redundancy. And, again, when we're building our identity graph, we're trying to create this multi-dimensional array of every person.

I often talk about the metaphoric spreadsheet, where it's 9 billion rows for every consumer on the planet and hundreds of thousands of columns for different identifiers. And some of those are cookies and some of them are mobile ad IDs, some of them might be an e-mail, some of them might be a physical postal address, and so on and so forth. And the key is if one of the columns goes away because of a walled garden's decision, do you still have information to make an effective match.

And so, the initiatives that I outlined that we've been pursuing in recent months and years are all about creating that redundancy. And you'll recall in my prepared remarks I talked about the 8 billion daily IdentityLink that Index Exchange sees, as an example. Well, that doesn't mean that 8 billion people are using – or 8 billion calls are going to those every day through IdentityLink. They're probably still using cookies. But if the cookies went away, IdentityLink would be there to receive all the calls. And so, it's that redundancy that we're pursuing. What has me optimistic is that if cookies did go away, I think our importance to the ecosystem actually goes up because we are a viable alternative to walled garden methodologies.

Now, your second question was really about strengthening our match rates, was that...

Robert J. Coolbrith
Analyst, Wells Fargo Securities LLC

Q

Well, I think you highlight some changes to AbiliTec. Just wondering if you could tell us a bit more about that.

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

A

Yeah. So this is kind of an ongoing effort that we've been pursuing for, gosh, 20-30 years, and we'll never be done with that. And more specifically, some of the most recent work which internally we code-named Project Eagle was about strengthening our offline identifier linkages and reducing redundant linkages wherever possible. And as a result, that should give our marketers not only better match rates, but also more deterministic, higher-quality match rates because you don't want to put your marketer in a position where if they have their CRM file, you can say, oh, yeah, we match it to 10 people that are possible matches. You want as much as possible to have a one-to-one match. So all the work that we did was around ensuring a higher deterministic match rates there by just cleaning up our algorithmic logic.

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

A

Yeah. Robert, I'd add one thing into the word redundancy and think of multi-dimensional. So when we think of what we're doing in our mission to be the open source of people-based identity for the open Internet, we think about display, we think about mobile, we think about TV, we think about offline, we think about global, we think about authenticated traffic solution, about IDL for RTB, we think about Consortium. So in terms of adding value, yes, we're providing redundancy, but we're creating value across multiple dimensions as well.

Robert J. Coolbrith
Analyst, Wells Fargo Securities LLC

Q

Great. Thank you.

Operator: Your next question comes from Vasily Karasyov. Your line is open.

Vasily Karasyov
Analyst, Cannonball Research LLC

Q

I have a two-part question on advanced TV advertising that you mentioned in your prepared remarks. So question number 1, it seems that you believe that it's an opportunity for you. You have to believe that ad-supported VOD will be outgrowing subscription VOD services going forward that's creating an addressable market for you. So if that's true, can you give us maybe some details what gives you the confidence that that's what's going to happen in the midterm?

And the second part of the question is Pluto TV. You mentioned Hulu and Roku has been a good – have been both good partners for you. Recently, Viacom after they closed the acquisition of Pluto TV, they started disclosing some pretty impressive usage metrics. So I was wondering if you could talk about whether that's an opportunity for you, Pluto TV, and how far along are you with Pluto TV compared to Roku and Hulu and so on? Thank you.

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

A

Yeah. So, Vasily, thanks for the question and this is Scott. Let me deconstruct your two questions into a few kind of takeaways as we see them. And number one is what I would tell you, which you understand as well as anybody is, the advanced television space is incredibly complicated. There is just a lot of different players right now, and so from a very high level, there's addressable television, which is either a targeted insertion through a set-top box or a data-driven linear television effort. And then there's also OTT, so over-the-top, and that is comprised of three pieces, the ad-supported video-on-demand, subscription video-on-demand, and then also a piece where we don't play transaction video-on-demand, and so very complicated.

The second thing I would tell you is that no one, including us, knows who will win and that extends to the actual participants themselves. And so, I say that because the lines between AVOD and SVOD, so ad-supported video and subscription video, they're really blurry.

So like in the ad-supported where we work with companies like YouTube or Pluto or Tubi, in many cases, they both have an ad-supported free model, but then they also have a subscription model as well. So in the subscription side it probably put like Hulu and Roku and fuboTV who we work with, but like Hulu on the subscription side has the cheap subscription, which has got more ads or you can pay even more for the premium and be ad free.

So even though participants on either side of that are experimenting with different pay models, different subscription models to figure out what worked. As a result, importantly what we see our clients doing are two things. Our clients are testing across all of the different options so we're seeing major marketers that are still doing the bulk of their television buying in traditional linear but they're dipping their toe in the water with data-driven linear. They're doing addressable through the set-top box. They're doing AVOD and they're doing SVOD and because it's so complicated, they're also asking us, hey, this is complicated. How do we measure all this? And so an increasing part of our business isn't just supporting all these different mechanisms and partnering with all these different television providers but it's also helping advertisers make sense of it all because our advertisers aren't necessarily happy with the incumbent measurement options and moreover, they're realizing they don't just need to make sense of measurement across complicated television but they need to link television, advanced television, with all the other things they're doing: search and display and direct mail and make sense of it.

Our strategy on this is actually pretty simple, which is we're going to work with everyone and we've actually had a lot of success with that. I think we work with nine of the top 10 programmers, eight of the top eight MVPDs, and five of the top eight OTT providers. That said, if you want to go into the industry trends of AVOD and SVOD and talk about our perception of what's going on there, I think it would be time well-spent for you to sit down with Allison who runs our television business and is an incredible expert on this and is the one having all the conversations with the different providers. And we can give you kind of our sense at a moment in time of how the industry is playing out, but right now, it's a horse race and our goal is to bet on every horse in the race.

Vasily Karasyov
Analyst, Cannonball Research LLC Q

Thank you. I'll take you up on that offer.

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

Good.

Operator: Your next question comes from Brett Huff with Stephens. Your line is open.

Brett Huff
Analyst, Stephens, Inc. Q

Hey, guys. Congrats on a nice quarter and thanks for the detail, as always.

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

Hey. Thanks, Brett.

Brett Huff
Analyst, Stephens, Inc. Q

Two questions for me and then I'll let you answer them. Number one, we haven't gotten an update on Europe yet on this call. My view is that your network effect is really working in the U.S. I know you've invested in Europe. I know, Warren, you were working on that for a long time and we've been three or four years into that so wondering kind of how our position is in Europe. Are we kind of sprinting ahead like we have in Europe?

And then number two, I don't think we talked about absolute size of the ID graph, whether it's mobile or otherwise. I know sometimes, you give us that, at least on a relative rank order basis with some of the other key walled gardens or other providers. So if you could give us update on that, it'd be great. Thank you.

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

Brett, I'll jump in on the international front. First, we're really pleased with our overall performance in international. I'll share a couple of numbers with you, all of which exclude Facebook because obviously that impacted the comps year-over-year. Just think about our growth rate, Q2 of FY 2019 was 40%. It was 65% in Q3, 46% in Q4, and for the year, 52%.

When we think about international, next year, we're expecting another strong growth year. We're approaching a point where in France and in the – in France in particular and likely the UK that we're approaching profitability in those markets certainly over the next 12 to 24 months. We're also seeing real innovation take place, particularly as it relates to that which we're doing around creating enterprise data networks or second-party data sharing.

And then finally, we're really maturing as to how we're thinking about expanding into additional global markets, which is really working with our clients and their data networks in order to form our identity graph because now, more than ever, our clients are global – advertisers who want global solutions and they're in every -- in most markets around the world and we're working to accommodate those needs.

So, so far, we're accomplishing our objectives. We're continuing to expand. We've learned a great deal having worked through the complexities of GDPR and really hardening our security and privacy chops and then bringing the innovation that that has created back to the U.S. into other markets in the world.

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

A

And then in terms of your second question, Brett, I think the stats that we probably have shared in the past are really around our U.S. digital coverage and there, I think, we are truly an alternative to what you can get in the walled gardens. I think we're 200 million-plus uniques. Facebook and Google are probably 220 million or something like that.

Truth be told, internally, we think about this a lot more granularly than we probably have the inclination to share on earnings call. We think about each one of our identifiers, whether it be display or mobile or offline and ask ourselves do we have complete coverage? Do we have complete accuracy? Have we had success selling those into our clients and what can we do to make each element of our graph more effective? Someday, we'll probably dress that up in some beautiful marketing collateral, but I don't think we're there yet.

Brett Huff
Analyst, Stephens, Inc.

Q

Great. Thanks for the detail, guys.

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

A

Thank you.

Operator: Your next question comes from Tim Nollen with Macquarie. Your line is open.

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

Q

Thanks very much. I'll just squeeze one in here, please, if I could, which is about investments and use of cash, probably a Warren question. Just want to make sure if you could lay out maybe one more time what your priorities are on investments. I assume international is one. You've talked about developing APIs. If you could just maybe run through maybe one more time kind of and maybe an order of importance what your most important investments are upcoming as you get toward profitability.

And then you referred to your cash balance, of course, just about $1.1 billion of cash. Anything else to say about use of cash? You did mention about how interest expense might change obviously within the acquisitions. I don't know if there's any other acquisitions you're thinking about doing? Anything you might be able to give us in terms of other use of cash. Thanks.

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

Tim, I'm happy to jump in on that. Our priorities for use of cash remain unchanged. So number one, we think about growing and capturing the opportunity that's in front of us and we've made it a point no matter what it is, wherever it is in our company, we are not going to starve our growth – our long-term growth opportunities for near-term bottom line performance.

That said, also part of our investment, at least in the near-term, has been, as I mentioned earlier, all about really building scalability into everything we do and hardening our operational processes. So big picture number 1, it's all about the growth opportunities that we see in our future and in making sure that we are funding those opportunities, whether second-party data sharing, whether it's international, whether it's B2B, whether it's Data Store, et cetera, and/or use case development.

The second thing is having the flexibility for a disciplined approach to acquisitions. The great news is that the team that is on this call and our management team have been together for several years and has a really – we have a track record. So history is probably a very good guide to the future in that we always look to take advantage of our core competencies and we say where can acquisitions fit into the things that we do well in order that we can create synergy, whether that's operating synergy or whether it's top line synergy or taking a capability that we have and then applying that to a new market? So we want to have flexibility to look at acquisitions, partnership opportunities and be able to move on those opportunities quickly when they arise.

And then the third thing is really returning capital to our shareholders and again, history is a great guide to the future. Over the last eight or so years, we've returned over $450 million in our buyback plus a $500 million tender in returning capital to our shareholders. So in over, call it, roughly an eight or so year time period, we're close to $1 billion in capital that has been returned to our shareholders. So in that, our priorities remain absolutely the same as they've always been.

I might just as a final note reiterate what I said in our last call and that is at least in the near term, we're going to take a conservative approach relative to our buyback. So, for purposes of your models, I'd factor in maybe $10 million to $15 million a quarter. Again, we just think that's prudent for where the market is today for potential opportunities that are out there. We feel it being liquid in this sort of environment we're in. It's a real asset to our company and to you, our shareholders.

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

Okay, great. Thanks. And sorry if I maybe should notice, what is left on the authorization of the buyback or should we just assume it's an ongoing thing?

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

A

Left on the authorization through the end of 2020 is $550 million.

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

Q

Still left.

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

A

FY 2021. Again, through the end of FY 2021.

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

Q

Yeah. Thanks.

Operator: That's all the time we have for questions. I'm turning the call back to Warren Jenson for closing remarks.

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

Great. Well, thank you, operator, and thanks most importantly to all of you for joining us on the call today. Let me just conclude with a few final thoughts.

First of all, I hope you can tell from this call that we couldn't be any more excited about the opportunity than we are today. Our business is strong. It's predictable and it's recurring. Today, we are very fortunate to be in the position that we have multiple growth drivers that are helping our customers create wonderful customer experiences while capturing $1 billion in value.

And finally, just as I ended my more formal remarks, please remember that transformation at LiveRamp isn't over, it's only just begun. Thanks again for joining us today.

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