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LiveRamp Holdings, Inc. (RAMP)

Q3 2024 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Andrew M. Borst
Vice President-Investor Relations, LiveRamp Holdings, Inc.

Good afternoon and welcome. Thank you for joining our Fiscal 2024 Third 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 liveramp.com. Also during the call today, we'll be referring to the slide deck posted on our website.

And with that, let me turn the call over to Scott.

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

Thank you, Drew, and thanks to everyone joining our call today. Q3 represented another quarter of improved momentum for LiveRamp. So, my initial remarks today will focus on our recent accomplishments in greater detail. As we look forward, however, we see a watershed year for the digital marketing industry and a significant opportunity for LiveRamp. So, I'll also spend some time talking about our goals for FY 2025 so that we can revisit our progress against these ambitions in the coming quarters.

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Q3 revenue growth exceeded our expectations across the board with total revenue up 10%, subscription revenue up 5% and marketplace up 29%. Non-GAAP operating income was up 40% year-on-year and was $7 million or 25% ahead of our guidance.

A year ago, you may recall we had a non-recurring contract settlement. Adjusting for this, our underlying subscription growth was 8%, which is a notable acceleration from the 5% rate we posted in the trailing three quarters. This acceleration reflects the turnaround in sales productivity that has been building over the past several quarters.

As I often say, the gift and curse of a SaaS model is reported revenue growth is slow to decelerate and also slow to accelerate. The quarter seemingly demonstrates that we are now on the upswing and, encouragingly, the leading indicators of our revenue growth give us increased confidence about the fiscal year ahead.

Our ARR, or annual recurring revenue, in Q3 was $447 million, increasing by $19 million quarter-on-quarter, which is the largest dollar increase in the last nine quarters. Building on the new logo booking strength of Q2, Q3 represented our best new logo quarter in over two years.

We signed a major health insurance company to a seven-figure annual contract with a three-year term for our identity and clean room products. A US supermarket chain signed a two-year contract with a seven-figure ACV for identity and data onboarding. Finally, we signed a new financial services customer to a two-year seven-figure annual contract for our identity, activation and measurement products.

We also continue to perform well upselling existing clients, particularly large enterprise customers. In Q3, we upsold 42 Fortune 500 customers, spanning a wide range of sector verticals. We had a seven-figure ACV upsell with a premium credit card company for data onboarding and activation.

We upsold a major CPG company to an incremental seven-figure annual contract for multiple products, including our data clean room, activation and measurement. Finally, we had another seven-figure upsell with a global beauty and cosmetics company for our identity and clean room products.

I am extremely proud of our recent sales performance and the turnaround our sales team has orchestrated over the past year plus. Our sales capacity and productivity have turned a corner, setting us up for continued gains.

Capacity. Sales attrition this year, after spiking in FY 2023, has normalized back to FY 2022 levels, and our direct seller head count is approximately 10% higher than it was in FY 2022. Our sales capacity is in a healthy position, and that means we can proactively optimize for sales performance.

Sales productivity. Not only is our capacity at a level sufficient for faster revenue growth, we are also seeing improving productivity. Average bookings per rep were up over 20% year-on-year in both Q3 as well as fiscal year-to-date.

Our conversion of sales pipeline to contract signings has improved for four consecutive quarters now and in Q3 was a 10-quarter high. Much of this improvement is coming from sellers we onboarded last year, a testament to both our revised hiring strategy that focuses on experienced enterprise sellers with vertical expertise as well as our revamped onboarding and enablement process that has accelerated the ramp time for our new reps.

Cloud partnerships. We also continue to make progress with our cloud channel partnerships, and bookings from this channel will double this fiscal year. In Q3, we were selected as a 2023 Amazon Web Services Global Industry

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Partner of the Year for playing a key role helping customers drive innovation and build solutions on AWS. This accolade should sound familiar, because last August, Google Cloud also selected us as Partner of the Year.

We also continue to gain traction with our Snowflake sales partnership and our embedded identity and activation products. As for Azure and Databricks, we expect these partnerships to scale more meaningfully in the coming year, thanks in part to Habu's strong relationship.

Let me turn to our major areas of focus for the year ahead, starting with Habu. We announced the acquisition of Habu on January 18 and closed on January 31. We have had many conversations with customers, partners, employees and shareholders. I'm pleased to share that the feedback has been overwhelmingly positive across the board.

Our stakeholders and partners recognize the importance of first-party data collaboration for personalized marketing in a world of diminishing third-party signals. They appreciate that no single company has enough data on their own to have a complete and comprehensive view of the customer journey, making data collaboration imperative.

The combination of LiveRamp and Habu creates the software platform that makes this type of data sharing safe, simple, scalable and smart. The LiveRamp data collaboration platform has long been a leader in the clean room space. In fact, we launched the first commercially-scaled clean room more than four years ago.

The acquisition of Habu helps us take our clean room offering to the next level by adding three critical capabilities: First, streamlined and simplified cross-cloud collaboration that will allow customers to seamlessly connect data across clouds, warehouses, and clean rooms, while reducing complexity and IT infrastructure constraints.

On this point, it is important to understand that Habu's clean room architecture is complementary to LiveRamp's legacy clean room offering. Habu brings its software to the client's cloud environment, whereas our clean room is a fully managed and hosted environment.

In effect, the customer sends their data to our environment and sits on our cloud. Some customers prefer a hosted environment because it requires no internal IT resources and – or their data is not yet in the cloud. We have a significant number of current clients using our clean room and we continue to add new customers every quarter, including Q3.

Looking forward, as more data moves to the cloud, we expect the embedded cloud architecture to become more prominent. And our clean room product road map, prior to the Habu acquisition, included the conversion of our clean room to the cloud-embed architecture.

But with this acquisition, this conversion is no longer necessary. We are saving time and R&D dollars that will be redeployed to other product enhancements. And in the meantime, our combined clean room offering can meet any customer's technical requirements, whether it's cloud embedded or hosted.

Second, a first-of-its-kind single view of measurement across any walled garden, programmatic channel or media partner, including media networks and all major CTV and TV platforms. Habu enhances our ability to measure walled gardens, which is critical given that walled gardens account for nearly three-quarters of non-search digital advertising. This single view of measurement is incredibly powerful for brands looking to compare audience measurement and return on ad spend across platforms.

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Third, and perhaps most importantly, Habu provides an exceptional user experience with an easy-to-use self-service interface. Habu's unique architecture allows customers to create a clean room with a click of the button, accelerating the time to value. This benefits all customers, but especially non-technical customers, SMBs and international customers that often have less internal technology resources.

Our customers care about scale and simplicity, and this combination delivers more of both to everyone in the ecosystem, allowing us to accelerate the scaling of our collaboration network for all customers. Their early feedback from customers supports our belief in the power of this combination.

Last week, I attended the Internet (sic) [Interactive] (00:11:38) Advertising Bureau's Annual Leadership Meeting, where I received firsthand feedback. Our customers are especially excited to have a cloud-native identity, plus clean rooms, plus activation in a single unified platform, and the opportunity for a more scaled collaboration partner network. They are also excited about the improved ease of use.

In fact, we had a large publisher reengage with us about a clean room solution after initial discussions went dormant over the implementation time. Retail media network customers with managed service platforms are excited to have a platform that makes data collaboration more self-serve, to collaborate with a wider set of partners.

Our sales team has hit the ground running. We have already completed a full training on Habu's product and have been actively engaging with customers. In just the first two weeks since announcing the Habu acquisition, our sales team has conducted well over 100 customer calls and meetings to discuss the combination, and our sales pipeline has expanded already by several million dollars.

Last week, as an example, at the IAB meeting, Habu's CEO, Matt Kilmartin, told me he felt like a rock star, given the dozens of meeting requests that he fielded from clients and prospects. He was absolutely the most popular man at the IAB. It's a tremendous start, and the momentum is building. We are thrilled to welcome Habu to the LiveRamp team and are very optimistic about what we will accomplish for our existing and new customers in the coming years.

2024 will also be the year the advertising industry embraces true people-based marketing that leverages authenticated identity as the third-party cookie is retired. Consequently, this will be a second major focus area for us in the coming year. We view cookie deprecation as a significant opportunity for LiveRamp because we believe first-party data collaboration will be one of the primary solutions for marketers to sustain personalized advertising in the absence of third-party signals.

On January 4, Google deprecated third-party cookies for 1% of Chrome users globally, the next milestone in Google's announced plan to phase out third-party cookies for all Chrome users globally in the second half of 2024. Given Chrome's 60% plus browser market share globally and given past delays with its cookie deprecation timeline, this 1% deprecation of third-party cookies was a notable step forward in the industry's transition to people-based marketing, leveraging authenticated identity.

We have been preparing for this signal-less future for some time now, and we are excited to continue helping our partners, customers and stakeholders on the journey to a more privacy-friendly approach. Our Authenticated Traffic Solution, or ATS, is more than four years in the making and was purpose-built for the signal-less marketing environment we are about to enter. ATS safely and securely connects the first-party data from marketers and publishers to personalize and measure advertising on authenticated inventory.

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Additionally, we have partnered with Google's Display & Video 360, DV360, on its PAIR initiative. DV360 is Google's Demand Side Platform and is the market share leader. DV360 gives advertisers programmatic access to display and video ad inventory from Google's owned and operated sites, such as YouTube as well as third-party publishers. PAIR, which stands for Publisher Advertiser Identity Reconciliation, is DV360's answer to third-party cookie deprecation and allows advertisers and publishers to securely and privately reconcile their first-party data to enable personalized advertising.

LiveRamp's role in PAIR is twofold. First, Google has mandated the use of an independent clean room partner for PAIR and announced three launch partners. LiveRamp and Habu, now the same company, were two of those three partners, and our combined scale and readiness vastly exceeds the third partner. Second, PAIR fuels adoption of LiveRamp's Authenticated Traffic Solution since both advertiser and publisher audience must now be consented. For more than six months now, we have been testing PAIR with our publisher and advertiser partners.

Last week, we published our first PAIR case study with Omni Hotels & Resorts. The results are truly outstanding. PAIR campaigns showed a 4x increase in conversion rate over traditional cookie-based first-party audience targeting in DV360, indicating PAIR delivered better-performing impressions. 4x, this is a big deal.

LiveRamp has long championed the idea that personalization and privacy is not an either/or proposition. The results of this case study demonstrate that campaigns based on authenticated first-party data are not just more effective than third-party cookie campaigns, they are significantly more effective. We are excited to move into the post-cookie world. And based on these results, advertisers should be also.

Before turning the call over to Lauren, let me touch on our bottom line results. Rule of 40, including bottom line performance, is a third major focus area for us in the coming year. We have certainly not lost sight of the bottom line, while we've been delivering better top line performance.

We started this fiscal year expecting to deliver margin expansion of 500 basis points. And now, based on our updated guidance, we expect to deliver 600 basis points. Candidly, we could have delivered even more margin upside this year, but we chose to reinvest some of this upside into our product and people, so we can return to sustainable double-digit top line growth.

We are also now steadily producing a meaningful amount of operating cash flow. Q3 was our sixth consecutive quarter of positive operating cash flow. And in the trailing four quarters, we produced nearly $110 million in operating cash flow. As proud as I am of this, there is more work to be done. As you know, our medium-term goal is to be a Rule of 40 company with sustainable 10% to 15% revenue growth and a 25% to 30% non-GAAP operating margin.

Given our guidance, we will end FY 2024 as a Rule of 24 company. But our current momentum and ongoing operational focus gives me confidence that in FY 2025, we will continue to make progress toward our medium-term goal. In almost every area of our business, we see opportunities to further improve our efficiency and effectiveness.

We'll continue to make pipeline and bookings a top priority, knowing these are the drivers of future SaaS revenue. Across our organization, we will continue to push for productivity gains through scale, automation and improved performance. We'll continue to re-architect to improve product scalability. We'll push to make our technology even more simple, intuitive and increasingly self-serve to broaden our available market and improve our cost to serve. And finally, we'll continue to make client satisfaction a top priority, always trying to reduce churn and create even more reference clients.

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In closing, let me reiterate what I believe to be the key themes from the quarter. First, I am really pleased with the organic momentum in our business, particularly with subscription revenue growth turning towards high single digits. As a result, we have again raised our FY 2024 guidance.

Second, the acquisition of Habu will further accelerate this organic momentum by establishing the industry-leading, interoperable platform for data collaboration across all clouds, all walled gardens globally, strategically expanding our collaboration network, and driving further adoption of our core identity and connectivity solutions.

Third, industry trends, well, they're a wind at our back over the long term. This includes the deprecation of third-party cookies as well as the shift to cloud computing, retail and commerce media networks and CTV. We are well positioned to benefit from all of these megatrends in the years ahead.

Thank you again for joining us today, and a special thanks to our exceptional customers, partners and all LiveRampers, including our new Habu colleagues, 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 Q3 financial results; and second, our updated outlook for FY 2024 and Q4. Unless otherwise indicated, my remarks pertain to non-GAAP results and growth as relative to the year-ago period.

Starting with Q3 results, revenue and operating income were consistent with the preliminary results we reported on January 18. Revenue came in at $174 million, $9 million above our guidance, and operating income was $36 million, $7 million above our guide. Operating margin expanded by 5 percentage points to a record high of 21%, and we generated $17 million in operating cash flow, our sixth consecutive quarter of positive OCF. Let me now provide some additional details.

Please turn to Slide 5. Total revenue was $174 million, up 10%, with subscription revenue and marketplace and other significantly ahead of expectations, driven primarily by continued sales execution in a stronger-than-expected digital advertising market. Subscription revenue was $132 million, up 5%. Recall that the year-ago quarter benefited from a $4 million non-recurring contract settlement with a large customer.

Fixed subscription growth accelerated from our most recent quarter by approximately 150 basis points to 5%. Usage as a percentage of total subscription revenue was 16%, a tick above our historical 10% to 15% range. ARR was $447 million, up 6%. ARR improved quarter-on-quarter by 5% or $19 million. This sequential dollar increase was the largest increase in the last nine quarters. The improvement was primarily driven by continued good growth in customer upsell and new logo, as well as lower customer churn and downsell.

Subscription net retention was 101%, stable sequentially and in line with our expectation. Current RPO, or our next 12-month contracted backlog, was $382 million, up 18%. Total RPO, including contracted backlog beyond the next 12 months, was up 35% to $546 million. Like with recent quarters, there is a large difference between CRPO and ARR growth. As we've discussed previously, CRPO is very sensitive to the timing of renewals and to contract durations. And given our enterprise focus and shift to more multiyear deals, both of these factors again benefited CRPO growth in the quarter.

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Overall, the Q3 selling environment was fairly healthy. We continued to see an improvement in the conversion of pipeline to signed deals, and our US conversion rate was a 10-quarter high. On a dollar basis, our new logo signings were also a 10-quarter high, as our strategy of prioritizing larger customers continues to bear fruit. Also, our quarterly contraction, or the combination of downsell and customer churn, was a two-year low. Our average deal cycle continued to run at eight to nine months, consistent with the trailing five quarters. One area of continued softness to call out is with small, low ACV customers, both brands as well as tech platforms, including ad tech that is experiencing structural change.

Marketplace and other revenue of $42 million increased 29%, driven by data marketplace, which grew 24% and accounted for 79% of marketplace and other revenue. Data marketplace growth was fueled by the strong digital advertising environment, and in particular CTV, as well as enhancements we've made to our data marketplace to make the buying and selling of data more seamless. We also continue to see strong growth in professional services, which accounted for nearly one-third of the revenue growth in marketplace and other.

Moving beyond revenue, gross margin was 75%, down 1 point year-on-year and 100 basis points higher than our guidance, driven primarily by the timing of planned investments and services growth. Operating expenses were flat at $95 million, with savings from last year's restructuring offset by the normalization of sales commissions and incentive comps.

Operating income was $36 million, up from $26 million a year ago, and our operating margin expanded by 500 basis points to a record high of 21%. GAAP operating income was $15 million, representing a GAAP operating margin of 9%. We incurred $3 million in restructuring charges, primarily due to our APAC restructuring and Habu acquisition-related expenses.

Stock-based compensation was $17 million, down from $30 million a year ago, due to the accelerated vesting of certain non-NEO RSUs in Q4 of FY 2023 for tax planning purposes. Operating cash flow was $17 million, up from $16 million a year ago. The year-on-year comparison was negatively impacted by the timing of current year tax payments. Fiscal year-to-date, operating cash flow is $78 million, up from $4 million last year.

We repurchased 347,000 shares for $10 million in Q3, bringing the year-to-date total to $45 million. We have approximately $173 million remaining under the current authorization that expires on December 31, 2024.

In summary, Q3 was a strong quarter. Revenue growth improved to 10%, with both subscription and marketplace exceeding our expectations. ARR grew by $19 million quarter-on-quarter, the largest quarterly increase in over two years.

Our non-GAAP operating margin expanded by approximately 500 basis points. We generated $17 million in operating cash flow in the quarter and $109 million in the trailing four quarters. Finally, fiscal year-to-date, we have returned $45 million to shareholders through our share repurchase program.

Next, let me now turn to our financial outlook for FY 2024 and for Q4. Please turn to slides 12 and 13. Please keep in mind our non-GAAP guidance excludes intangible amortization, stock-based compensation, and restructuring and related charges.

Starting with Q4, we expect total revenue of between $158 million and $162 million, up 6% to 9% year-on-year; non-GAAP operating income of $13 million to $14 million, and an operating margin of 8% to 9%.

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A few other callouts for Q4. We expect subscription net retention in Q4 to be 100%, or roughly stable quarter-on-quarter. We expect customer count to be flat to down, reflecting ongoing changes and consolidation in the digital advertising market that may impact smaller tech platform customers, including ad tech. While this would impact customer count, we don't expect the revenue impact to be material.

We expect subscription revenue to be up mid-single digits, with fixed also up mid-single digits, similar to Q3 and usage flat in the name of conservatism. We expect marketplace and other to be up mid- to high-teens based on current trends quarter-to-date, and assuming the current digital advertising market remains stable throughout the course of the quarter. We expect gross margin to be approximately 75%. We expect operating expenses to be up roughly 10% year-on-year.

Let me spend a moment here. First, Habu is going to add roughly 3 points of OpEx in the quarter. Next, in Q4, we will start lapping the savings from last year's cost restructuring, which provided a meaningful benefit to our expense growth fiscal year-to-date.

And finally, with respect to the sequential dollar increase, recall that Q4 is seasonally our highest operating expense quarter of the year due to our RampUp conference, payroll taxes and incentive comps. The quarter-over-quarter increase in Q4 is consistent with historical seasonality, excluding the impact of one-time cost restructuring, like we had last year.

We expect GAAP operating loss to be between $18 million and $17 million, inclusive of $5 million to $6 million of additional expense associated with Habu stock-based compensation, intangible amortization, and acquisition-related expenses.

Now, for the full year, we are increasing our total revenue guidance by approximately $13.5 million at the midpoint compared to our $9 million beat in the quarter. We now expect revenue to be between $646 million and $650 million, up 8% to 9% year-on-year. Non-GAAP operating income is increased by $4 million at the midpoint and is expected to be between $103 million and $104 million. At the midpoint of our guidance range, the operating margin is approximately 16%, up 600 basis points year-on-year.

We expect stock-based compensation to be approximately $71 million, which benefits from the $23 million in accelerated vesting in FY 2023. We expect $12 million in restructuring charges, $1 million higher than our prior guide, due to acquisition-related expenses. We expect GAAP operating income to be between $8 million and $9 million.

Before opening the call to questions, I'll conclude with a few final thoughts. First, Q3 was strong on both the top and bottom lines. Our growth in subscription revenue and ARR is trending higher, and we are positioned for further acceleration exiting this year.

Next, as we look ahead, there are a couple of initiatives that we believe will help our top and bottom line both next year and beyond. First and foremost is efficiently and effectively integrating Habu. Additionally, we will make incremental progress with our India offshoring initiative, and we intend to roll out back-end product improvements that will allow us to more efficiently process our customers' data.

And finally, our financial North Star remains Rule of 40. On the top line, we're encouraged by the positive trends in sales productivity and the Habu opportunity and, ultimately, what that implies for subscription growth next year. On the margin front, the leverage in our model, combined with the expansion of our new India office, gives us a

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path for steady margin expansion in the coming years, while continuing to appropriately invest to support healthy top-line growth.

With that, on behalf of all LiveRampers, thank you for joining us today. Operator, we will now open the call to questions.

QUESTION AND ANSWER SECTION

Operator: [Operator Instructions] Your first question comes from the line of Shyam Patil from Susquehanna International Group. Please go ahead.

Aaron Samuels
Analyst, Susquehanna International Group, LLP (SIG)

Q

Hi, Scott. Hi, Lauren. This is Aaron Samuels on for Shyam. Thank you for taking our question. Maybe starting off, Scott, thank you for the details on the PAIR case study. Could you just elaborate on your expectations for how the DV360 partnership and PAIR could impact the business moving forward? And then we've got a follow-up as well.

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

A

Sure, and thanks for asking that, Aaron. I was actually kind of hoping someone would ask about PAIR, because this is such a fun story. At LiveRamp, we always try to balance kind of a relentless operating focus month over month, quarter over quarter, and balance that with a long-term view. And when I look back – I mean, we started working on ATS as a response to PAIR over four years ago. And so, that journey can really be divided into three phases. And we're hitting the really fun part right now. So, it started with preparing for the future and building the tech during COVID, connecting to all the DSPs and SSPs, brands, publishers and agencies. And we've shared the market share stats there. We're in a really good shape in terms of connecting all the different nodes of the industry.

The second piece is proving that it works, and that's squarely what we're doing right now. So, we released the Omni case study. That's the first of many. And that was phenomenal. I mean, results that almost defied logic, 4x improvement for consented users versus targeting the same users on cookies, so really nice lift there. Remember, we also published a publisher case study going back a year. You can see that in my blog. I did a blog yesterday. I have a link to it. That showed that publishers also get a nice lift. So, they generate higher yield when they use authenticated solutioning. And soon to come is we'll show that reach also increases.

Right now, even without cookies fully deprecated, we have effective reach that generates meaningful volume. And at scale, we think we're going to – once everyone's fully implemented, we think the reach to authenticated traffic will exceed the targeted reach to those same users on cookies. It's just more persistent. So, this is one where it's better for consumers. It's better for advertisers. It's better for publishers. Really nice story.

So now what? We reached the third part of the journey, and this is where the real fun happens. It's evangelization time. It is about telling the industry that we're ready when they are. And oh, by the way, for those in the industry, they need to be ready a little bit sooner than they think. So, Google talked about 1% starting in January, scaling to full deprecation of cookies by fall. Well, if that's a ratable deprecation, which it will be, by summer, cookies won't work, not effectively, because already Safari's out, Edge is out, Firefox is out. And then when 50% or more of

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Google cookies are out, cookies are done. So, we need to educate clients on how to get started and how to get going quickly.

Now, this is also fueling demand for Habu. So, it gives us potential access to new clients, but it also fuels demand for clean rooms, because the only way you can do this kind of targeting is by having a clean room and anonymizing, securing the data, which is what we do. And while this makes so much sense for clients in retail and travel and financial services, who have deep loyalty databases, it also makes sense for companies that don't have that. And so, hence the growth of things like retail media networks, because since the retailer themselves can identify the customer, a company like P&G, or Kraft, or Coca-Cola can benefit from that through data collaboration.

And so, this really is something that's good for everyone. We're going to hear a lot of noise over the next couple months about companies saying they're not ready and that we should delay. And I would say there's no stopping this train because it works better. The tech is ready and I don't think Google's stopping either. So, this is going to be a really fun time for us.

Aaron Samuels
Analyst, Susquehanna International Group, LLP (SIG)

Really interesting. Thanks, Scott. And then, Lauren, just a quick one for you. You talked about an OpEx step up from 3Q to 4Q as being seasonally typical. Just wanted to double click on this. Is there any color you can share on sizing the typical seasonal step up? Thanks again.

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

Sure. Thanks, Aaron. I'm happy to. So at the midpoint of our guidance, we are expecting OpEx to increase by roughly $12 million quarter-on-quarter, of which you can assume $5 million to $6 million is related to seasonal items such as RampUp, payroll taxes, and incentive comp adjustments. So, wouldn't expect that to carry forward into our Q1 run rate.

The remaining portion is being driven by the addition of Habu, which is adding about $3 million of OpEx in the quarter, and just underlying expense increases reflecting some of the investments we're making now to support future top line growth. So, as an example, we are choosing to pull forward some sales hiring as well as services hiring to ensure we have really strong capacity entering FY 2025.

Aaron Samuels
Analyst, Susquehanna International Group, LLP (SIG)

Great. Thank you again.

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

Elizabeth Porter
Analyst, Morgan Stanley & Co. LLC

Great. Thank you so much. My first question was on the large customer count. The 1 million-plus customers increased really nicely. And I think it's one of the highest net adds we've seen in about a year and a half. And you also referenced a lot of upsells in the quarter. And so, I was wondering what is driving some of the loosening of spend now after being in a tight environment. Is it customers feeling better about macro, kind of the cookie

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deadline coming up, sales execution? I appreciate there's probably a lot of factors in there. But if you could just help us unpack what's driving a greater uptick now, that'd be really helpful. Thank you.

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

A

So, the answer is yes. All of those things certainly do play a factor. But I think two things in particular are really driving the interest in clean rooms and connectivity. Number one is an increasing recognition amongst sophisticated advertisers that they are all competing around data. And when they look across the landscape, and we can name the – we could point to the walled gardens, companies that collect information from us as consumers across multiple touch points, and they are really well positioned to compete effectively. So, everyone else in an industry is saying, how do I catch up? And they can't. Not everybody can out Amazon, Amazon, unless they collaborate. And when they start to pool their data together in a privacy-compliant way, they can actually extract insights that are far more interesting than that of any data giant.

And then the second thing is around measurability and loss of signal. As media plans expand, there are more and more line items on those media plans. Just take linear television, for instance. It's all but tipped towards CTV. And there are so many different choices for placing your ads on different viewership than they previously existed with linear. With that explosion of choices comes the need for personalization, not necessarily just message personalization, but the kind of technology that also allows companies to do ad suppression. So, just simple frequency capping, for instance, is so important on CTV and programmatic. And you can't do that unless you have a measurement standard, a measurement technology such as LiveRamp has that facilitates the data going out, but also the measurement data coming back.

And then, I'll throw one other thing into the mix. That is that we work in a copycat industry. And so, every company is looking out there and saying, who's doing it better than me? And Elizabeth, you've been to RampUp before. You know what we do. We don't talk ourselves. We put our clients and partners on stage. And right now, our clients and partners are all talking about the successes that they're having. And that's going viral and attracting other clients. There's a network effect that just takes off when our retailers bring us packaged goods partners and those packaged goods partners bring us more retailers. So, we're starting to benefit from that, rightfully as you point out, with our upselling efforts, but also with our new logo efforts.

So since the pandemic, really, this has been our biggest percentage of new logo business. About a third of our bookings this quarter was new logo. And that's the network effect and the cloud partnerships starting to bear some fruit.

Elizabeth Porter
Analyst, Morgan Stanley & Co. LLC

Q

Great. Thank you so much. And just as a follow up, I wanted to ask on the expense side, appreciate the extra color on Q4. Is it fair for us to look at that $3 million from Habu in the quarter and extrapolate that into next year? [ph] I know (00:46:30) you have additional offshoring and ongoing savings initiatives. So, just how should we think about the net of those two things going into fiscal 2025?

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

A

Yeah. And Elizabeth, I'll just start by saying we're going to give a lot more color on both the top and bottom line for FY 2025 on our May call. So, perhaps stay tuned for precise detail. But with respect to Habu in particular, it's

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going to contribute $3 million of expense in Q4. That's a partial quarter impact given we closed that deal January 31. So, you can assume it should add anywhere from, call it, $16 million to $18 million in expense in FY 2025.

Elizabeth Porter
Analyst, Morgan Stanley & Co. LLC

Q

Great. Thank you so much.

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

Robert J. Coolbrith
Analyst, Wells Fargo Securities LLC

Q

Hi, Scott. This is actually Rob on the call. I wanted to ask, as your customers are absorbing the 1% Chrome cookie deprecation impact, but also at least attempting to start evaluating privacy sandbox, what are you hearing from them? We've heard some of the frustrations there early on, but is that enhancing your conviction and confidence in the future of consent, ID-based advertising? And I know you talked about a little bit of an evangelization, but wanted to ask a little bit more about your go-to-market right now. You've done a ton of groundwork obviously over the past four years, but how are you sort of reinforcing this or reinforcing that right now during a critical transition phase? Thanks.

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

A

Yeah, Rob, first off, in terms of the go-to-market, I would say, while we're developing really nice case studies, the frustration that we hear from clients has been fairly consistent. They just don't know how to get started, and it's different. I mean, cookies have been embedded in their workflow for over 20 years. And so, this represents a change to how media is bought and sold. But we think it's a change for the better, and we don't think that this is going to be slowed down materially. If it is, we'll be fine, but we think that that better future is just within our grasp as an industry.

But to get there, we have to make it simple, and we'll do that through evangelization, sharing case studies. We have a bunch of webinars upcoming. Some of our big partners, including Google, will start to evangelize this themselves in the market, that this is no longer a product initiative. This becomes a commercial initiative for them. And we'll certainly make this a priority at RampUp. We'll have entire tracks devoted to this to teach people what to do. But ultimately, our efforts to evangelize and make it simple to get up and started, that will go so far. What will ultimately carry the day is just more companies having success, because it will go viral.

All that said, I would end by saying I feel like I've seen this movie before. I lived through Y2K in 1999. I lived through GDPR a few years ago, and in both cases, there were people that just didn't want to recognize what was coming, and they said, hey, this isn't real. I'm not going to be concerned about it. It will all work itself out. And then, on the eve of both those events, it was panic. It was pandemonium. And what I would tell you is if history follows true to that, we're ready for it. And we will have our entire selling capacity geared towards fielding those requests, answering the questions, and getting clients and publishers who wait to implement up and running quickly.

Robert J. Coolbrith
Analyst, Wells Fargo Securities LLC

Q

Got it. And Lauren, just to follow up on Habu, is there any purchase accounting impact or anything else to call out there on the cost side or in terms of the profit impact?

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

Yeah, absolutely. So, we talked about Habu adding roughly, call it, $6 million to $18 million in non-GAAP expense next year. We also expect it to impact GAAP expense by about $25 million with about $15 million of that being driven by incremental stock-based comps and the balance being driven by purchased intangible asset amortization.

Robert J. Coolbrith
Analyst, Wells Fargo Securities LLC
Q

Got it. Thank you very much.

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

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

Perfect. Thank you. Lauren, maybe just wanted to spend a second dissecting the guide, specifically the subscription revenue guide. We've seen nice improvement in the key metrics like ARR and net retention, RPO. But if we contrast that with the Q4 guide kind of consistent or maybe a little bit of a slowdown in subscription revenue from the December quarter, just trying to see if we can reconcile that slowdown a little bit.

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

Yeah. And we would expect subscription growth to improve slightly quarter-on-quarter with fixed subscription being stable to slightly up in Q4 and usage being roughly flat. And usage has been one of the areas of our business where we've chosen rather to just model pretty conservatively in our outlook given the variability and sometimes kind of historical quarterly variability in particular. So, that's the piece of the business that if we do much better on subscription revenue, it will be because we outperform there.

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

Okay. Appreciate that. One follow-up for me, just on the offshoring initiatives that you've had in place over the last year, just wondering if there's any changes to the expectation there now as you're integrating Habu.

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

Thanks for the question. The headline is no major changes. I'd want to acknowledge that this is a multiyear process and we're in the very early phases of implementation. We're pleased with our progress to date, but of course, with any project of this magnitude, there are early learnings and moving pieces, and we're just really focused on making sure we get it right for the business for the long term. To date, we have just north of 100 [ph] roles (00:54:07) offshore and continue to take a very measured and thoughtful approach to how we transition future [ph] roles (00:54:12). So, we are still expecting cost savings in FY 2025, but the really meaningful savings we expect to accrue in FY 2026 and beyond.

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

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Thank you.

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

Mark Zgutowicz
Analyst, The Benchmark Co. LLC

Q

Thank you. And apologies if you addressed this in your opening, I got on the call a little bit late. But I was just hoping you could [ph] flush (00:54:43) out a bit the acceleration that you saw in the total RPO relative to current and maybe what's sort of driving that and whether that gives you confidence in accelerating revenue over the next 12 months. And then, I have a follow-up. Thanks.

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

A

Yeah, happy to. So, total RPO in the quarter was up 35%, CRPO or the current portion up 18%. And the delta there, Mark, is entirely being driven by multiyear deals, which as we've mentioned now for a few quarters, we've seen really nice success landing larger enterprise accounts on multiyear terms, which is a really positive thing for the business over the medium to long term. I mean, to answer your question directly, yes, this does give us increased confidence in our outlook for next year, and we'll, of course, share a lot more there during our May call.

Mark Zgutowicz
Analyst, The Benchmark Co. LLC

Q

Okay. Super. And then as it relates to Habu, not to get too in front of you guys, given it was just recently closed, but just trying to get a sense of when the revenue synergies sort of materialize. And possibly more near term, just looking at your services line, which you had some really nice growth this year. Given Habu's SMB focus, if that could perhaps add a little bit of momentum on your services line, if you could comment on that, appreciate it. Thanks.

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

A

Yeah. I can start. And I think I talked about it a little bit in my prepared remarks. We don't expect to wait to get synergies. Synergies start with pipeline and commercial conversations, and those are already well underway. So, over the last two weeks, we have had over 200 face-to-face meetings. Last week was the IAB Annual Leadership Meeting, and the Habu team was very busy meeting with clients and prospects with their LiveRamp counterparts. We have RampUp coming up at the end of this month, where we'll invite several thousand clients and prospects to San Francisco. Once again, that's going to be a great opportunity to get in front of clients.

We're already seeing that in our pipeline, so several million dollars increase already. And then the question is, how long does it take for those to convert into revenue? But we feel pretty optimistic about it. We've hit the ground running. One of the things that we do, as a matter, of course, when we are having conversations with companies from a corp dev perspective, is we co-author a Google document with them, and it gives us a chance to see how they think, because what we do is map out a shared vision and our implementation strategy together. So, all of that was written, revised, iterated, discussed well before we ever agreed on a final purchase price. And as a result, we have hit the ground running.

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

A

And hey, Mark, for everyone's benefit, maybe I could just put a couple of numbers against Scott's comment. So in Q4, we expect Habu to contribute roughly $2 million in revenue. Consistent with what we mentioned when we announced the deal, we expect it to contribute roughly $18 million in FY 2025. And a lot of that assumption is predicated on Habu's stand-alone momentum. The synergies, at least the revenue synergies, begin to show up in the back half of 2025, but we think get really interesting as we look ahead to FY 2026.

Mark Zgutowicz
Analyst, The Benchmark Co. LLC

Q

[ph] That's super helpful (00:59:04).

Andrew M. Borst
Vice President-Investor Relations, LiveRamp Holdings, Inc.

A

Operator, we have time for...

Operator: Your next...

Andrew M. Borst
Vice President-Investor Relations, LiveRamp Holdings, Inc.

A

Sorry, operator, we have time for one more question, please.

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

Kirk Materne
Analyst, Evercore ISI

Q

Yeah. Thanks very much. Scott, I guess just to start, can you just give a little bit more color on the cloud partnerships, maybe where each of those are? I know you said they're doubling. Can you just remind us sort of sequentially maybe which ones are contributing perhaps a little bit more now and what your expectations are for the calendar year?

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

A

Yeah, Kirk, and I think there's kind of a pre-Habu answer and a pro forma answer. And that was one of the drivers of that acquisition. So if you look back in time, LiveRamp made the decision to standardize initially on GCP as our cloud partner for our own tech. And so, that was naturally an easy way to get started. And Google has always, throughout the 10-year history of LiveRamp, been one of the biggest, if not single biggest, sources of new client originations. So, that will continue.

But more recently, we had made some nice inroads with AWS. I mentioned in my prepared remarks being named one of their partners of the year. And then also Snowflake, which I think last quarter I talked about how effective they've been at walking us into their clients. In each of those cases, when they bring us in, we drive more storage and compute. So, it really is a nice collaboration. Admittedly, we hadn't made as much progress with some of the

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other partners like Databricks or Azure. And in those cases, the good news is Habu has great relationships pretty much across the board.

Now, this is really important because if I go back to one of our client advisory boards from last year, we asked the question, how many of you are using the cloud? And every single hand in the room went up. And then we asked, how many of you are using multiple clouds? Every single hand in the room went up. So, you need to have a relationship with every different cloud provider, because not only do individual companies utilize multiple clouds, but when they start to collaborate, it is absolutely the case that you have a Snowflake Cloud talking to an Amazon Cloud talking to an Azure Cloud.

And if you can't service, if you can't be interoperable across all of them, then your growth is going to be inhibited. So, I think this goes back to why were we so excited about Habu? One of the big reasons is we think it accelerates our traction with cloud. We're already pleased. We talked about the doubling, but we think this is going to be an area of the business in the coming years that should grow faster than the rest of the business.

Kirk Materne
Analyst, Evercore ISI

Q

Thanks, guys. That's super helpful. And then just a quick one for Lauren. Lauren, on your guide, I was a little surprised, subscription net revenue is going back down towards $100 million. And I know that's probably some conservatism in there, but given the trends in ARR, I guess, is that related to the lower – I guess, the lower ARR business that you were talking about, sort of smaller customers that might still be – there still might be some churn going on in that part of the customer base? Is that the reason for that? Or is there something else that would push it back down after sort of stabilizing the last couple of quarters?

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

A

Yeah. So, two things I would call out, it's first what you just mentioned, Kirk, and then also we are assuming a lower contribution from variable revenue in Q4, consistent with the seasonal trends there.

Kirk Materne
Analyst, Evercore ISI

Q

Okay. That's super helpful. Thank you all.

Operator: Thank you. I will now turn the call over to Lauren Dillard for closing remarks.

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

Thanks so much. And first, thank you again, everyone, for joining us today. Q3 was strong on both the top and bottom lines. Our growth in subscription revenue and ARR is trending higher, and we are positioned for further acceleration exiting this year. And as we look ahead, we believe we have several growth levers to drive continued strong top-line growth and margin expansion.

And finally, as Scott referenced during the call, we have our annual RampUp conference coming up at the end of February in San Francisco. We invite all of you to join. We'd love to have you there. If you have any questions or need help registering, please reach out to me, Drew, or [ph] Cassandra (01:04:06), and hopefully we see you at the end of the month.

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With that, thanks again for joining us today. We look forward to updating everyone on our progress in the quarters ahead.

Operator: This concludes today's conference call. Thank you for your participation, and you may now disconnect.

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