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LiveRamp Holdings, Inc. (RAMP)

Q2 2024 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Operator: Good afternoon, ladies and gentlemen, and welcome to LiveRamp's Fiscal 2024 Second 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] As a reminder, this conference call is being recorded.

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

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

Thank you, operator. Good afternoon and welcome. Thank you for joining our fiscal 2024 second quarter earnings call. With me today are Scott Howe, our CEO; and Lauren Dillard, Interim 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 will be referring to the slide deck posted on our website.

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

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

Thank you, Drew. And thanks to everyone joining our call today. As I reflect back upon our recent quarters, three key themes emerge. First, I'm really pleased with the progress we're making in our business. We posted strong second quarter results. Revenue and operating income exceeded our expectations and we have good momentum with many of our leading indicators of growth. Operating margins reached a record high and we generated positive operating cash flow for a fifth consecutive quarter. And we continued to make progress against our Rule of 40 ambitions.

Second, while it was a really nice quarter for us, our entire team recognizes we now have an opportunity to build off our momentum. Throughout the business, there are areas that we can continue to improve, which keeps us humble, yet also fuels our optimism for the future.

Third, and finally, I continue to believe that our future is even brighter. Our business is aligned with some key megatrends; cloud computing, consented first-party data collaboration, and growth in retail, media networks and CTV. Let me talk about each one of these key themes in turn.

First, strong business resilience and momentum. I'm pleased with our progress, and our business is demonstrating strong resilience and momentum. Q2 revenue and operating income exceeded our guidance and consensus estimates. Our operating margin expanded for the fourth consecutive quarter and by 800 basis points year-on-year to 20%. We produced $36 million in operating cash flow in the quarter, bringing the trailing four quarter total to $108 million.

Our trailing top line indicators showed improved momentum. Total revenue grew by 9%, with subscription revenue up 5% and Marketplace & Other up 25%. Subscription growth was in line with our expectation, while Marketplace & Other outperformed significantly driven by healthy digital advertising markets and growth in Professional Services.

Q2 subscription net retention was 101%, a 3-point improvement from last quarter and surpassing 100% two quarters earlier than we had initially expected. The sequential improvement was driven mostly by higher upsell, but also lower contraction. Returning to 100% was an important milestone, but by no means, will we stop here.

Our leading top line indicators were even more encouraging. Q2 was our highest new logo bookings quarter in dollar terms in two years, and we added six new Fortune 500 customers. We signed a multimillion dollar annual contract with a leading global financial services company for our data collaboration platform. We signed the high six figure annual contract with the world's leading farm machinery brand. We also signed a high six figure annual contract with an iconic athletic footwear and apparel company, a brand which we've been pursuing for many quarters. We also signed or upsold opportunities with two of the largest global airlines. Additionally, we also successfully upsold our existing customers. We had an upsell with a major pharmaceutical company, representing a seven figure annual contract and a multiyear term. We also signed a seven figure upsell with a major social media platform to allow marketers to use their first-party data for targeted marketing using our RampID.

Over the last several quarters, we've talked about several near-term tactical growth levers to reestablish double-digit revenue growth, with the sales force being one of the major ones. This was a big driver of our bookings momentum. Our sales force attrition has fully normalized and sales force capacity remains well above fiscal 2022 levels. Sales force productivity also continues to improve, and our newer sellers are also contributing, with first year reps posting comparable bookings to their more seasoned counterparts. I view this as a strong indication we are hiring talented sellers and on-boarding them effectively with better training and collateral. While we are pleased with where we are with our sales force, we will continue to invest in quota-carrying head count to ensure we are set up for next year as well as continue to expand our professional services function. This group is really doing a fantastic job, on pace to double revenue this year to $20 million and driving improvements in customer satisfaction and upsell rates.

Second, we aren't satisfied and see room for improvement. As I've often told our organization, when great companies look in the mirror, they never love what they see. Even in a quarter of accelerating momentum, we see opportunities for improvement. Let me talk about a few areas on which we're focusing. One, we're not yet where we want to be on Rule of 40. We have always aspired to be a Rule of 40 company, and I'm very encouraged by ongoing progress we are making on both the top and bottom lines. For us, we expect the Rule of 40 to look like 10% to 15% revenue growth and 25% to 30% operating margins. But of course, today on a trailing four quarter basis, we are essentially a Rule of 25 company. And so that obviously falls short of our long-term aspirations.

So how do we get there? On the revenue side, continued sales execution is essential, and I'm encouraged by the trends of recent quarters. I also believe that a handful of existential market trends, embedding our products within cloud computing partners, the continued growth of retail media networks and CTV and the market evolution from cookies to true consumer authentication can further fuel our top line success in coming years.

On the margin side, we just posted the highest quarterly operating margin in our company's history, and we're raising our operating income guidance for the year. The bridge from here to 25% to 30% will be driven by several factors.

First, our SaaS business model has a high incremental margin and we expect our revenue growth to accelerate. Second, we expect improving cost efficiency as we expand our incremental hiring and backfill efforts to our new office in Hyderabad, India. As we've said before, this initiative will result in several hundred basis points of margin expansion as it gets phased in over the next two fiscal years.

And finally, there is no area of our business where we're not constantly evaluating opportunities to improve our process efficiency and our system architecture. Two, customer counts. Our $1 million-plus customer count increased by three and our $0.5 million to $1 million customers also increased by three. That's really indicative of the success we're having with the more sophisticated direct customers that comprise our ideal customer profile.

As I've discussed previously, we made a conscious decision last year to focus on high, long-term value brand customers. These customers have large digital ad budgets that are being deployed over dozens of digital destinations, and helping these customers measure and optimize their spending using their first-party data is among our most compelling use cases. These customers typically have an annual contract value greater than $1 million, with a multi-year term, and above-average renewal and upsell rates.

With that said, overall, our Q2 customer count of 895 was down 20 from the prior quarter, driven by declines with low ACV non-brand customers, such as ad-tech platforms. I don't think this is cause for concern, but I do think it's an area in which we can and must improve as winning even more high quality new logos will accelerate our upsell efforts in the coming years. The go-to-market partnerships that we have with the major cloud providers should help us on this front, and we continue to see growth in our pipelines as a result of this initiative.

In addition, we see that data collaboration is a flywheel that seems to be introducing us to new quality opportunities. Our success serving the retail media networks across the globe, for example, ensures that both retailers and their myriad of packaged goods partners must work with LiveRamp to unlock the benefits of data collaboration.

Three, international. We are well positioned in major international markets given the fact that we work with so many marquee global brands who want us to support them across the markets in which they operate. That said, international revenue growth in the quarter of 3% on a constant currency basis was lighter than we would have liked. And China was the main driver of this disappointing performance.

Earlier this summer, I spent a couple of weeks meeting clients and prospects in Europe. I think we're uniquely positioned with companies that really matter, and we also have a strong, strong team in place. Likewise, I was in Australia just last week and met with many of the top retailers and brands in that market, where we have a number of interesting data collaboration activities that we power. Like many companies, however, we are rethinking our expectations for China. The combination of COVID impacts, changing political philosophies and an uncertain economy in China are negatively impacting top line international growth. In response, we are restructuring our China business, reducing our operations to a minimally viable footprint in case things change in that market. Overall, we don't expect this international restructuring to have a material impact on total revenue or operating income. But I wanted to mention this, so that investors understand that we remain committed to working with our major clients across the markets that they prioritize.

Third, longer term our business is aligned with some key megatrends. Let me spend a few minutes on our longer term prospects. Our product innovation and go-to-market partnerships seemingly have us well-positioned to capitalize on some existential industry trends. The continued growth of cloud computing in marketing and advertising.

In September, LiveRamp convened a group of marquee clients, each a leader in their respective industry, to walk through our product roadmap and gather feedback on our direction. Every client in attendance was operating in the cloud, and many attendees talked about their challenges, navigating multiple cloud providers, both internally and as they seek to collaborate with other partners externally. We see the seismic shift to cloud computing as a big opportunity for LiveRamp. Our cloud strategy is to operate where our clients' data live and securely connect their data from the cloud across the entire digital marketing ecosystem, bringing our products to the customers' cloud environment provides tangible benefits to our customers in the form of greater operating and cost efficiency, increased data security, and a quicker time-to-value on their LiveRamp subscription.

The cloud providers also get the benefit of more storage and compute volume, which drives their revenue models. As more application workloads move to the cloud in the coming years, this will be a wind at our back and will drive the return on the cloud investments we are making today. Our cloud strategy is already succeeding in the market and there is no better external validation of this than receiving the Partner of the Year award from Google Cloud. We were recognized as a Global Industry Technology Partner of the Year for delivering embedded solutions that help customers enrich their Google Cloud environment.

Our cloud partnership is not limited to GCP. We are executing the same strategy with all the clouds and we are making significant progress with AWS and Snowflake, as well as Azure and Databricks.

During the quarter, we announced that our identity capabilities are now natively available within AWS Entity Resolution. With this integration, marketers, publishers, tech platforms and agencies can extend the interoperability of data in the cloud to marketing and advertising destinations using RampID.

With Snowflake, our complete identity capabilities are now embedded and the very early customer feedback has been very positive. While these efforts are still nascent, we're starting to reap the rewards of our efforts. Overall, we remain on track to double our total cloud bookings in FY 2024 to approximately $20 million.

Signal loss and a march toward customer authentication. Last month, I participated in the New York Advertising Week Conference, a weeklong event that brings together leaders from across the world of advertising and marketing. It was a productive week of meetings with customers, both existing and prospective. And I left the conference energized about LiveRamp's market position and the opportunity we have to help advertisers and publishers with some of their most pressing identity and data challenges. My many conversations highlighted an important truth consented first-party customer data and the ability to securely share it across the ecosystem is only becoming more important as we get closer to mid-2024, when Google begins phasing out third-party cookies on the Chrome browser. Large brand marketers need to securely use their authenticated first-party customer data for addressable advertising across the vast and fragmented digital marketing ecosystem.

And increasingly, they need to collaborate with trusted business partners for enhanced insights about the customer journey. They need to do all this in order to drive sales, customer satisfaction and return on ad spend. Our identity infrastructure and data collaboration platform provides a solution to signal loss and cookie deprecation by connecting our customers' first-party identity to all manner of digital publishers, ranging from the largest walled gardens to the smallest DSPs and everything in between.

Using identity infrastructure across all of these different publishers and platforms, enables more accurate cross-screen and cross-platform measurement that is critical to optimizing return on ad spend. We continue to expand our identity infrastructure to give brands greater access to data-driven premium advertising inventory. Over the past few months, we announced a handful of major platform integrations with RampID. We integrated RampID on FreeWheel, a leading supply-side platform for CTV publishers. As a result, brands can now leverage their first-party data in conjunction with LiveRamp's RampID and activate on FreeWheel's Premium Video Supply.

We also made RampID interoperable with Yahoo's DSP and its ConnectID as well as Epsilon's CORE ID. In addition to giving brands access to more data-driven premium inventory, these platforms can transact with brands on a durable, consistent identifier, giving them increased scale even through signal loss.

Finally, but importantly, we continue to support Google's migration away from cookies to true consumer authentication. During the quarter, we continued our beta testing of Google PAIR. PAIR, which stands for Publisher and Advertiser Identity Reconciliation allows brands to safely and securely use their first-party customer data to connect to open web publishers on DV360. To make this happen, marketers use the clean-room tech in LiveRamp's data collaboration platform to securely reconcile identity with publishers and purchase inventory via DV360.

Once third-party cookies are eliminated, PAIR will be the only way for brands to target on DV360. We're the largest and most scaled partner with Google on the PAIR launch. We now have over 6,500 publisher domains live on Google PAIR across North America, Europe, and APAC. And we continue to scale advertising campaigns and are seeing marketer match rates continue to increase. Our key objective here is to continue to evangelize how this works to major advertisers through webinars, workshops and [ph] post-case (00:20:01) studies, knowing that the education we do on this front will benefit clean-room collaborations between any advertiser and any publisher who want to partner with one another.

The rise of retail media networks. Retail media networks, increasingly just commerce media networks were another key topic at Adweek. These advertising channels continue to grow, taking an increasing share of advertising budgets, and they are becoming ubiquitous. Brand marketers are trying to manage customer data and identity across a growing number of different retail media networks. According to a recent Association of National Advertisers survey, over half of marketers are using five or more different retail media networks, including 16%, that are using 10 or more different networks. This continues to be LiveRamp's opportunity. First, by helping brand marketers safely and securely use first-party data on these platforms; and second, by enabling omni-channel measurement among various retail media networks as well as the other advertising platforms.

A shift to CTV and data collaboration. As the pandemic shifted consumer viewing habits, CTV has witnessed explosive growth. While this growth offers LiveRamp customers yet another set of platforms on which to activate their data, we believe the opportunity is far greater. While granular audience targeting and frequency capping unlock first wave of advertiser benefits, there is an increasing opportunity for additional services. For example, given the fragmentation in CTV, measurement becomes an increasing need. Advertisers need it to demonstrate their ROI, and publishers require measurement to justify their pricing and validate their inventory efficacy.

In addition, many CTV providers have rich collection of authenticated user data related to demographics and viewing behavior, and these increasingly offer a data collaboration opportunity, not unlike what is driving the explosive growth in retail media networks.

In closing, let me reiterate what I believe to be the key themes from the quarter. First, I really like the resilience and momentum our business is showing, particularly with respect to the top line progress we are making. As a result, we're raising our guidance for the year, but we're not satisfied. Not even close. We think continuing to win new clients accelerated our progress in international markets and continued focus on all aspects of Rule of 40 are going to unlock even greater value for our shareholders as we progress in our efforts.

Above all, however, I'm excited about LiveRamp's positioning against a number of key existential trends; cloud computing, retail media networks, first-party data collaboration, CTV, and the slow march toward authenticated addressability can all be tailwinds for our business in the coming years.

Thank you again for joining us today and a special thanks to our exceptional customers, partners, and to all of my LiveRamp 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

Interim Chief Financial Officer, Senior Vice President-Finance & Investor Relations, LiveRamp Holdings, Inc.

Thanks, Scott, and thank you all for joining us. Today, I will cover two topics. First, a review of our Q2 financial results. And second, our updated outlook for FY 2024, and for Q3. Unless otherwise indicated, my remarks pertain to non-GAAP results and growth is relative to the year-ago period.

[ph] Starting (00:23:55) with Q2 results, in summary, results were above our expectations. Revenue came in at $160 million, which was $8 million above our guidance and operating income was $32 million or $13 million above our guide. Operating margin expanded by 8 percentage points to a record high of 20%, and we generated $36 million in operating cash flow, our fifth consecutive quarter of positive OCF.

Let me provide some additional details. Please turn to slide 5. Total revenue was $160 million, up 9%. The subscription revenue was slightly ahead of our expectations, while Marketplace & Other was significantly ahead, driven primarily by a stronger-than-expected digital advertising market. Subscription revenue was $126 million, up 5%, and growth was driven by broad product and sector strength. Fixed subscription revenue grew mid-single, and usage as a percentage of total subscription revenue was 15%, within the historical 10% to 15% range.

ARR was $428 million, up 2%. We believe this growth represents a low watermark as the recent improvement in bookings and contraction will start to more fully impact this metric moving forward. In addition, Q2 growth was hurt by the timing of bookings being recognized in ARR, reflecting our move-up market to larger, more complex deals.

Subscription net retention was 101%. The sequential improvement was mostly due to improved upsells and to a lesser extent, reductions in contraction. While our longer term aspiration is obviously much higher, we are pleased to get our SNR back above 100% two quarters earlier than we initially expected.

Current RPO or next 12-month contracted backlog was $339 million, up 16%. Total RPO, including contracted backlog beyond the next 12 months, was up 26% to $490 million. Like last quarter, there is an unusually large difference between CRPO and our ARR growth. As we've discussed previously, CRPO is very sensitive to the timing of renewals and the contract durations and both of these factors again benefited CRPO growth in the quarter.

Overall, the Q2 selling environment remained stable. On the positive side, we saw an improvement in our pipeline conversion back to FY 2022 levels and on a dollar basis had the strongest new logo quarter in the past two years. Also our contraction were the combination of down-sell and customer churn, improved both quarter-on-quarter and year-on-year and budget constraints were cited less frequently.

On the other hand, our average deal cycle continues to run about one quarter longer than our FY 2022. This has been the case now four consecutive quarters and is at least partially due to our shift upmarket to larger high LTV enterprise customers with more complex data collaboration use cases. You can see this shift show up in some of our key growth metrics, like our $1 million customer count.

Marketplace & Other revenue of $34 million increased 25%, driven by Data Marketplace, which grew 19% and accounted for 78% of Marketplace & Other revenue. Data Marketplace growth was fueled by a healthy digital advertising market, including strength in CTV. We also continue to see strong growth in professional services, which accounted for nearly one-third of the revenue growth in Marketplace & Other.

Moving beyond revenue, gross margin was 75%, flat year-on-year and 200 basis points higher than our guidance, driven primarily by the timing of planned investments. Operating expenses decreased 5% to $89 million, driven by last year's cost restructuring and benefited from the shift of certain expenses to the fiscal second half.

Operating income was $32 million, up from $17 million a year ago, and our operating margin expanded by 800 basis points to a record high of 20%. GAAP operating income was positive for a second consecutive quarter at $8 million, representing a GAAP operating margin of 5%. We incurred $7 million in restructuring charges, primarily related to a goodwill impairment associated with the restructuring of our China operations and a lease impairment.

Stock-based compensation was $60 million, down from $27 million a year-ago due to the accelerated vesting of certain non-NEO RSUs in Q4 of FY 2023. Operating cash flow was $36 million, up from $21 million a year ago, due primarily to higher earnings. We repurchased 490,000 shares for $15 million in Q2, bringing the fiscal first half total to $35 million. We have approximately $183 million remaining under the current authorization that expires on December 31, 2024.

In summary, Q2 was a strong quarter. Revenue growth improved to 9%, with both subscription and Marketplace exceeding our expectations. Our non-GAAP operating margin expanded by 800 basis points. GAAP operating income was positive for a second straight quarter. We generated $36 million in operating cash flow in the quarter and $108 million in the trailing four quarters. And finally, we repurchased $35 million of stock through Q2.

Next, let me now turn to our financial outlook for FY 2024 and for Q3. 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 the full year, we are increasing our total revenue guidance by approximately $10 million at the midpoint and now expect revenue to be between $632 million and $637 million, up 6% to 7% year-on-year.

Our outlook for subscription revenue is unchanged. We continue to expect subscription revenue to grow in the mid-single digits with usage as a percentage of total subscription near the midpoint of the historic 10% to 15% range. We expect subscription net retention to hover around 100% for the next two quarters. We now expect Marketplace & Other revenue growth to be in the low-double digits for the full year, up from our prior expectation of mid- to high-single digits. We continue to expect gross margin to be approximately 74%, despite the outperformance in Q2, which was mostly a timing issue.

In the second half, we are making incremental investments in our platform architecture and in professional services to support future revenue growth. We expect our operating expenses to decline this year by approximately 4%, but are still making additional investments in our sales force and cloud strategy, as well as some upfront investment to ensure our offshoring initiative is successful.

Despite these added investments, we are increasing our operating income guidance to be between $97 million and $100 million, $7 million higher than our prior guide at the midpoint. At the midpoint of our guidance range, the operating margin is approximately 15%, up 500 basis points year-on-year. We expect stock-based compensation to be approximately $69 million, which benefits from the $23 million in accelerated vesting in FY 2023 and is slightly lower than our prior guide. We now expect $11 million in restructuring charges given the lease and goodwill impairments recognized in Q2. We expect GAAP operating income to be between $8 million and $11 million. Lastly, we continue to expect share repurchases of between $15 million and $20 million per quarter in the fiscal second half.

Now moving on to Q3. We expect total revenue of approximately $165 million, operating income of roughly $29 million and an operating margin of approximately 18%. A few other call-outs for Q3. Recall that in the year-ago quarter our subscription revenue included a non-recurring contract settlement of $4 million, resulting in a 3 percentage point growth headwind for subscription revenue this Q3. Excluding this headwind, we expect underlying subscription growth to be mid-single digits. We expect subscription net retention in Q3 to be approximately 100%. We expect Marketplace & Other revenue to grow by low-double digits. This growth rate is slower sequentially because we are taking a measured view on digital ad market growth in light of the current macro and geopolitical environment. And we expect gross margin to be approximately 74%.

Before opening the call to questions, I'll conclude with a few final thoughts. First, Q2 was strong on the top line and especially the bottom line. Importantly, we think our revenue growth metrics are turning the corner.

Next, given the uncertain macro environment, we remain appropriately cautious with our revenue guidance for the balance of the fiscal year. We have good visibility on our subscription business and with Marketplace, we are striking a balance between our strong execution and the risk of a slowdown driven by forces outside of our control. To be clear, we would expect to see upside in Marketplace, particularly in Q4, if the advertising markets hold at the current level.

And finally, as Scott mentioned, our financial North Star is Rule of 40 with mid-teens top line growth and a 25%-plus operating margin. On the top line, we are encouraged by the positive trends in forward bookings and contraction. On the margin front, the high incremental margin inherent in our model, combined with the expansion of our new India office, gives us a path for sustained margin expansion in the coming years, while we continue to appropriately invest to support 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: Thank you. [Operator Instructions] One moment, please, for your first question. Your first question comes from the line of Shyam Patil of SFG. Your line is open.

Jared Pomerantz
Analyst, Susquehanna Financial Group LLLP
Q

Hey, guys, this is Jared on for Shyam. Thanks for taking the question and congratulations on the impressive quarter.

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

Thanks, Jared.

Lauren Russi Dillard
Interim Chief Financial Officer, Senior Vice President-Finance & Investor Relations, LiveRamp Holdings, Inc.
A

Thank you, Jared.

Jared Pomerantz
Analyst, Susquehanna Financial Group LLLP
Q

Of course. I've got a couple, if you don't mind. I guess for starters, focusing in on the higher LTV customer strategy, can you elaborate a bit further upon that and how you're thinking that just plays out through the rest of the year, as well as maybe unpacking a bit more of the decline that we saw in the current quarter? And then for the second question, you continue to highlight CTV as a driver of strength in the business. Anywhere in particular that we should be looking in your results as we're looking both in this quarter and then for further CTV strength down the road, and just how are you thinking that that CTV strength continues to materialize?

Lauren Russi Dillard
Interim Chief Financial Officer, Senior Vice President-Finance & Investor Relations, LiveRamp Holdings, Inc.
A

Great. Thanks, Jared. I'm happy to take the first and I'll pass it to Scott for the second. With respect to customer count, I'll start maybe by just highlighting something Scott mentioned in his prepared remarks, which is that this is a direct reflection of a decision that we made as a business several quarters ago, to really focus our selling efforts on large, high ACV enterprise customers, where we believe our value proposition today is the greatest.

During the quarter, we did see continued pressure on customer count. This was almost entirely driven by small customers in the ad-tech sector that are being impacted by the macro, as well as other market dynamics. That said, I think it's important to note that our dollar-based metrics are improving and reflect this quality versus quantity dynamic that Scott had mentioned.

As an example, in the quarter, we closed one of our strongest new logo bookings quarters in recent history, and we saw a pretty nice uptick in both $1 million customers, as well as customers who fall in the $500,000 to $1 million range.

So terms of our outlook for the balance of the year, we do expect this dynamic to continue for at least the next couple of quarters, which means total customer count could continue to decline. But we would expect other metrics like $1 million-plus customer count to continue to increase.

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

A

And Jared, on your second question, I would tell you I'm really bullish about CTV, and you probably heard that in my prepared remarks. In terms of where you're going to see it, I would say it's hard to tease out, but you can broadly look at three major areas. The first is subscriptions. If you look at the CTV providers, for the most part, they're 100% authenticated. So they could be a big winner as third-party cookies go away, because that spend is addressable and it works.

And so where you see that in our business is in our subscriptions. And so as the market tips to CTV, I think you'll see our subscriptions become even stickier. And you might see that in terms of a usage increase as well. What's kind of startling, I was looking at the stats earlier today. If you look at our distributions, the destinations that advertisers send data to, if you look at the top 50 by volume, nearly half of them, 22 of them are pure CTV providers or CTV platforms. So it suggests that very quietly, over the last couple of years, advertisers are already making a shift.

The second place that you're going to see this is in our Marketplace business. I mean, again, it's kind of beneath the surface one. TV data sales is as a part of Marketplace. We're actually up a staggering 50% year-over-year. And that data comprises, I think, roughly 10% of the total demand within Data Marketplace. So nice story there as well.

And then the third place that you'll see it, not surprisingly, because they're getting more demand and because they also have really deep pockets of authenticated data, is we think there's an opportunity for data collaboration, very similar to what we've seen in the retail media network space, the various CTV providers have something really interesting to share. And so there's an opportunity that all of them are interested in and partnering more deeply with the major advertisers of the world, collaborating on data sets that advertisers can find their target audiences. And also understand kind of end-to-end measurement across everything that happens once an ad is seen.

So three really interesting places and just come full circle. We've hit the tipping point for CTV. It's here. We're seeing it in our numbers and we think that's going to be a really nice tailwind for us really for the next few years.

Jared Pomerantz
Analyst, Susquehanna Financial Group LLLP

Q

Great. Thank you both.

Operator: Your next question comes from the line of Elizabeth Porter of Morgan Stanley. Your line is open.

Christopher Quintero
Analyst, Morgan Stanley & Co. LLC

Q

Hey, this is Chris Quintero on for Elizabeth. Congrats again on another solid quarter here. Maybe to start, out of all the kind of like top line initiatives that you all have been focused on over the past year or so, whether that's the sales force improvement or the growing industry partnerships, I'm curious to hear what areas have maybe surprised you the most to the upside than maybe you initially expected so far?

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

A

Yeah, Chris, I would tell you that to me, sales success is a function of two ingredients. First, you have to have demand. And there, I think we've probably been pleasantly surprised based on our initial forecast in terms of market softness and I think the market's just developed better than we thought.

But from a demand side, there are so many levers that we're pulling, cloud partnerships, CTV, collaboration networks. Likewise really, really pleased with some of the traction we're getting with major European clients and Australian clients. And what's interesting is the opportunities that we're seeing. If you looked at our pipeline and you looked both at the named clients and the conversation that's underway, it is really encouraging, because they're all companies that you would have heard of and they're doing really fascinating things with data. So I like the demand side and that's firmed up, I think even better than I would have thought. But to meet the demand, you also have to execute. You have to be able to respond. And there I'm equally pleased.

We've really done a revamp of our marketing collateral. Our team has done a nice job of onboarding and training and arming sellers with the tools that they need to succeed. And we're seeing that in our numbers, more specifically, best new logo quarter in a couple of years, strengths kind of across the board, auto, financial services, health care, retail , and our pipeline conversion was the highest we've had in seven quarters and even stronger with the $1 million deals.

So when I look at the numbers, everything's kind of tipping in the right direction. Now, the one thing I'd say to our entire organization, many of whom are listening on the call today, is success has to be stacked. We can't let up. We have a lot of momentum, but a couple of good quarters doesn't make the trend line we're looking for. So we need to keep it going through the back half of the year.

Christopher Quintero
Analyst, Morgan Stanley & Co. LLC

Q

Got it. That's very helpful. I also want to ask around the impressive six Fortune 500 customer additions in the quarter that I think you mentioned. Just curious how those kind of came about. Do they come through the improved Salesforce or maybe through some of your industry partnerships? And what do you think worked well in the process to ultimately win those large customers?

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

A

Yeah, hold on. I'm just going to pull a stat, which is kind of mind-blowing, actually. What I would tell you is what I'm really pleased with is our channel partnerships. And I think we're seeing a lot of traction there. One of the things that I realized when I worked at Microsoft, I thought that, years ago, all of Microsoft's sales were direct. And when my company got acquired, I realized, no, it's not the case. They have a really big partner, Salesforce. And in fact, most SaaS companies use partner channels to their benefit. With the exception of LiveRamp.

Now, a couple of years ago, we really started to push on channel partnerships. And our focus for this past year has really been with the clouds and cloud data warehouses. We've done direct partnerships with all the major cloud providers. We've also forged strategic partnerships with system integrators for cloud opportunities. And we are partnering closely with the ecosystem, educating them about how our products work in the cloud and the use cases, go-to-market education.

As an example, if I think about just last quarter alone, we did over 215 joint planning calls just with Snowflake. But ultimately, we're going to be judged by our results. And on this, 60% and this is the stat I was looking for. 60% of our commercial leads closed cloud business year-to-date, which is an amazing stat relative to a year or two ago. And if you look at cloud attached business as part of our revenue, we'll double it this year to $20 million for the year. So really, really encouraged. And I think we're still in the early stages of getting those partnerships up and running.

Christopher Quintero
Analyst, Morgan Stanley & Co. LLC

Q

Excellent. Thank you so much.

Operator: Your next question comes from the line of Mark Zgutowicz of The Benchmark Company. Your line is open.

Mark Zgutowicz
Analyst, The Benchmark Co. LLC

Q

Thank you and good evening, Scott and Lauren.

Lauren Russi Dillard
Interim Chief Financial Officer, Senior Vice President-Finance & Investor Relations, LiveRamp Holdings, Inc.

A

Hey, Mark.

Mark Zgutowicz
Analyst, The Benchmark Co. LLC

Q

Just two questions. Just curious, what dynamics drove the usage as a percent of subscription revenue above expectations to 15%? I think the 15% is sort of at the higher end of your historical range . And what might that suggest in terms of 2024? And then separately, curious, what kind of demand you may be seeing outside of your core CPG in retail verticals? And excuse me, you've talked in the past about health care and fintech being sort of limited with the data privacy laws. Just maybe some color there would be helpful. Thanks.

Lauren Russi Dillard
Interim Chief Financial Officer, Senior Vice President-Finance & Investor Relations, LiveRamp Holdings, Inc.

A

Sure. I'm happy to take the first, Mark and I'll let Scott jump in on the second. With respect to usage as a percentage of subscription revenue, you're right, it landed right around 15% in the quarter, which is at the high end of our historic 10% to 15% range. The only notable thing I would call out is just, we benefited certainly from a better macro environment and better overall trends in digital advertising than we assumed in our outlook going into the quarter. Again, in the back half and this is consistent with how we've been guiding both subscription usage and Marketplace, we are attempting to be both balanced and conservative and so, would guide you to the midpoint of that 10% to 15% range in Q3 and Q4 versus what we saw in Q2.

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

A

And then Mark, your second question is really about which verticals. And in my prepared remarks today, I talked about my time at Adweek a few weeks ago in New York. And one of the things that was all over Adweek literally every conversation was the growth of retail media networks. It's the fastest growing part of most media plans. And as a result, other advertisers, marketers and data providers have really taken notice. And the whole driver of retail media networks is collaboration that's happening between retailers and their merchant partners. I think we're starting to see that evolve in a really healthy way to other verticals.

I think it was in Q4 last year, I talked about the automotive space as an example and I shared a new client win that we had and a fascinating case study where they're using us and doing data collaboration not yet with the rest of the world, but between the OEM, the regional advertising groups, and the actual dealers where cars are sold.

And when all of them are collaborating, all of a sudden, you can make that connection between a car that's manufactured where an ad is served regionally and whether it actually drove a purchase at the dealer. That is a great case study that I look forward to sharing with you someday at an Analyst Day, because it's also indicative of a company we brought on, and when they came on, they were just an onboarding client, $0.5 million a year, and within three years they're doing some of the most sophisticated things that any of our clients are doing. Their spend is over 10 times as much as it was when they started, and they just keep layering more sophistication on what they're doing.

Another more recent example is I talked about some airline wins that we had, and I'm really excited about where one of them is going to take their partnership with LiveRamp because certainly they'll start and they'll use LiveRamp to better direct their own spend from a marketing perspective. But the partner collaboration that they're going to turn on over time, they have a network of both code-share partners and hundreds of different travel partners where they can be sharing data for the collective good and drive a better customer experience as well.

In addition, most airlines, including this one probably more than most, have a lot of untapped assets. In particular, the screens that are in your seatback and the apps that you might be watching to watch movies when you're on the plane. So some just amazing things that you're going to see out of the travel space. And a third vertical and I'm just giving these three, as examples would be the publisher space.

Earlier, Jared asked me about CTV, and there, we're seeing such interesting innovation from those CTV providers. They can build unique segments from their data. They can create multi-screen packages, and they can collaborate with advertisers to really deliver a full purchase funnel measurement. From the moment an ad is seen, to how much engagement to an actual purchase in-store at a dealership or online. So I think the whole concept of retail media networks, and that term is yesterday, collaborative networks or collaborative data partnerships, I think the world is wide open, every sector. And the good news is we sit right in the middle of that.

Mark Zgutowicz
Analyst, The Benchmark Co. LLC

Q

Interesting stuff. Thanks, Scott. Very helpful.

Operator: Your next question comes from the line of Jason Kreyer of Craig-Hallum Capital Group. Your line is open.

Cal Bartyzal
Analyst, Craig-Hallum Capital Group LLC

Q

Great. Thank you. This is Cal Bartyzal on for Jason. So, I guess first just to start, we've seen some good improvements in the results in the last couple of quarters. So, I just wanted to get some color on the bookings trajectory. If you go back to some of the issues that started back in 2022, I mean, do you think that all of those have kind of been put behind you now and the start of a migration higher? And I guess how is that kind of manifested in the strength for your first-year sellers?

Lauren Russi Dillard
Interim Chief Financial Officer, Senior Vice President-Finance & Investor Relations, LiveRamp Holdings, Inc.

A

Yeah. I'm happy to take the first part and Scott can weigh in on the strength of our first-year reps. So with respect to our bookings momentum, as we mentioned in our prepared remarks, I think we're very encouraged by our recent sales momentum. And I said this in my prepared remarks. I believe our growth metrics are turning a corner. I use the word turning rather than turned, because we do need to see continued strong execution in the second half, both with respect to bookings as well as contraction, really to begin to see our key growth metrics accelerate in Q4 and exiting this year. So feel pretty good about the few strong quarters of bookings we've posted. But as we both mentioned now, we need to see that trend continue in the back half.

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

A

Yeah. In terms of our selling efficacy, in the prepared remarks, I talked a little bit about the bookings efficacy of our new reps relative to our seasoned reps. And they're roughly the same. And it's interesting. If I think back to LiveRamp's early days, we invented a category. And so we had a lot of young sellers who knew more about technology and our products than anybody else on the planet. So they were the unquestioned experts in all areas of data onboarding. Now many of them are still with us and they've grown and they've become spectacular sales representatives.

But more recently, the clients that we're serving tend to be larger, bigger contracts, brands that are very recognizable. And our profile of the new people that we're hiring has probably shifted a little bit, more towards industry vertical experts. And I think one of the reasons that our new hires have been so effective is they can go in and they can talk the language of retail, the language of automotive, the language of travel. And they're very effective in a slightly different way than perhaps our original sellers and what they brought.

The combination of all those people together and the sharing of best practices, I'm really happy with because I think we have great technical knowledge, coupled with great industry knowledge. So when a situation arises, there's always multiple people across the organization that you can say, you can tap into and say, what would you do here? So I feel like we're showing up with really smart ideas to clients, and those clients are receptive to it.

Cal Bartyzal
Analyst, Craig-Hallum Capital Group LLC

Q

Perfect. And then just quickly, just circling back to the comments on Marketplace. The conservatism in the guide, I mean, did you guys see anything around that October timeframe that you would call out? Or is this just more just general uncertainty? Thanks.

Lauren Russi Dillard
Interim Chief Financial Officer, Senior Vice President-Finance & Investor Relations, LiveRamp Holdings, Inc.

A

Yeah, great question, Cal. So we did see a bit of a pullback in early October, which we would at least, partially attribute to the conflict in the Middle East. Since then, growth has been healthy, but we are taking a conservative view for the balance of the quarter, just given the macro uncertainty as well as our lack visibility into this area of the business. As a reminder, it was this quarter last year where we saw growth swing from positive to negative year-on-year in a matter of a month. So we just think it's prudent to be conservative with our guide and to kind of put some numbers against that, we're assuming Marketplace growth in Q3 is low-single digits and roughly flat in Q4.

Cal Bartyzal
Analyst, Craig-Hallum Capital Group LLC

Q

Thank you.

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

A

Operator, we have time for one more question, please.

Operator: Understood. Your last question comes from line of Brian Fitzgerald of Wells Fargo. Your line is open.

Brian Fitzgerald
Analyst, Wells Fargo Securities LLC

Q

Thanks. And Scott, I don't know if you have a role here, but we wanted to ask about an announcement at Amazon unBoxed of the Amazon Publisher Cloud. It sounds to us like even when publishers are doing premium direct deals going forward there, there's going to be significant utilization of clean rooms and presumably, some underlying identity resolution technology. Just wondering if you could give us some thoughts on trends there and what you're seeing and how you think LiveRamp factors into that?

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

A

Yeah. It's so interesting. If I go back five years ago, one of the questions that I often got from shareholders or potential shareholders were things like, hey, will Amazon, Google and Facebook eventually put you out of business? And I say, no, absolutely not. They're competing with one another. We are complementing them, we are partnering with them. Well, you see it today, because it's not just Amazon, but it's the fact that we are the beta launch partner for Google PAIR. And you see it with the relationship that we have with Meta, you see it with the relationships that we have with virtually every CTV provider.

It is just the case that in the world we live in, people are rightfully very protective of their data. And so, the world needs someone like LiveRamp to ensure that collaboration can happen, but either side is protected. And if one side says, trust us, give us all your data, you should naturally be suspicious. And so, I think it is a really good sign that on both the advertiser side and the publisher side, big companies are recommending that LiveRamp be utilized to facilitate the collaboration.

Yeah, the other thing that I would say that's a little bit part and parcel of this is, I get a lot of questions about the ID space, because it seems like every week, someone's unveiling a new identifier. Well, we work with hundreds of them now. I mean, again, it goes back to our positioning as neutral and interoperable, we're the Rosetta Stone. So whether it's AXIOM's new identifier, Facebook's identifier, Fabric's identifier, Google's identifier, it doesn't matter to us. UID, there needs to be that Rosetta Stone that can tie it all together. And that's the role that LiveRamp plays.

Brian Fitzgerald
Analyst, Wells Fargo Securities LLC

Q

Awesome. I really appreciate it. Thanks, Scott.

Operator: There are no further questions at this time. I will now turn the call over to Lauren Dillard.

Lauren Russi Dillard
Interim Chief Financial Officer, Senior Vice President-Finance & Investor Relations, LiveRamp Holdings, Inc.

Thanks very much. And let me just close with a few final thoughts. First, Q2 was strong. We're pleased with our execution in the quarter. And importantly, we think our revenue growth metrics are turning the corner. Next, given the uncertain macro environment, we remain appropriately cautious with our revenue guidance for the balance of this fiscal year. And finally, we continue to make nice progress against our Rule of 40 aspirations, and believe we still have several levers to pull to improve both our growth rate and margin profile moving forward.

So with that, thanks again, everyone, for joining us. And we look forward to speaking with many of you in the days and weeks ahead.

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