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LiveRamp Holdings, Inc. (RAMP)

Q4 2022 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Operator: Good afternoon, ladies and gentlemen, and welcome to LiveRamp's Fiscal 2022 Fourth Quarter Earnings Call. As a reminder, this conference call is being recorded.

I would now like to turn the call over to your host, Lauren Dillard, Senior Vice President of Finance and Investor Relations.

Lauren Russi Dillard

Senior Vice President, Finance & Investor Relations, LiveRamp Holdings, Inc.

Thank you, operator. Good afternoon and welcome. Thank you for joining us to discuss our fiscal 2022 fourth quarter results. With me today are Scott Howe, our CEO; and Warren Jenson, President and CFO.

Today's press release and this call may contain forward-looking statements that are subject to risks and uncertainties that could cause actual results to differ materially. For a detailed description of these risks, please read the Risk Factors section of our public filings and the press release. A copy of our press release and financial schedules, including any reconciliation to non-GAAP financial measures, is available at liveramp.com. Also, during the call today, we will be referring to the slide deck posted on our website.

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

Scott E. Howe

Director & Chief Executive Officer, LiveRamp Holdings, Inc.

Thank you, Lauren, and thanks to all of you for joining us today. I'm hoping that my prepared remarks today will highlight three fundamental takeaways about LiveRamp. First, as the economy enters a period of market uncertainty, we believe LiveRamp is well insulated from macroeconomic headwinds relative to most companies. We're resilient, 80% subscription based and embedded into the very fabric of the data economy.

Second, in the recently completed Q4, we posted another quarter of growth with a number of notable client wins. And third, we're by no means satisfied with where we are and have clear line of sight to areas that we think can improve our top line growth, profitability and return on shareholder capital.

First, LiveRamp's resilience. Let me start by just addressing the swirling macroeconomic headwinds. I always enjoy talking with Wall Street at our fiscal year end, as it provides a chance for both reflection on the path we traveled, as well as an opportunity to share our perspective on the next leg of the journey.

This year feels really different, however, given the absolute chaos of the financial markets in recent weeks. With the devastating war in Ukraine, supply chain challenges, rising inflation rates and volatility in the financial markets, as well as lingering impacts of the global pandemic, this year has brought a significant amount of uncertainty.

As we have seen in the past, broader market uncertainty can serve as a strong catalyst for LiveRamp's business, as companies shift their dollars toward resources that more directly enable them to address and to measure their marketing performance. This not only plays into our strengths, but is the very reason we exist.

Since our founding over a decade ago, LiveRamp has been recognized as a leader in the customer experience economy. We've grown through multiple industry cycles and ecosystem changes, delivered category-creating innovation to our customers and future-proofed our product for the next generation of data-driven experiences.

Despite recent macroeconomic uncertainty, we are entering FY 2023 from a position of strength with conviction in our ability to deliver a balance of solid top line growth and enhanced operating profit, all while continuing to transform customer experiences and generate more valuable business outcomes.

Moreover, our success in identity, addressability and data collaboration have embedded us into the very fabric of the data ecosystem. Case in point, today, more than 1,500 publishers, representing more than 11,000 domains, are leveraging LiveRamp's authenticated addressability technology, including roughly 80% of the Comscore 50and the major walled gardens. These include both display publishers and mobile app inventory, and there are a handful of great case studies on our website that prove how well our solutions are working.

In part due to these integrations, LiveRamp is now connected to over 85% of consumer time spent online in the US and continues to scale internationally as well. For example, earlier this year, we announced an expanded partnership with The Trade Desk to power their EUID in Europe. Taken together, these successes secure our destination network. And of course, on the origination side, 80% of our revenue is comprised of predictable SaaS subscriptions, which help insulate us from large economic fluctuations.

Second, LiveRamp continued to grow and win with clients in Q4. In Q4, we exceeded our guidance across all metrics for the eighth consecutive quarter. Total revenue grew 19% and subscription revenue was up 22%. Normalizing for the wholesale contraction, total revenue grew 26% and subscription revenue was up 31%. We exited the quarter and year with approximately $400 million in ARR, up 19% as reported, and up 28% normalized for wholesale. We're pleased with these top line results, which continue to be driven by the momentum in our land and expand selling motion.

In the quarter, we added 15 net new logos and continue to see particular strength in our large enterprise customer segment as a result of increased adoption of our enterprise product suite, Safe Haven. Our 500,000 to 1 million customer count was up 30%, and our $1 million-plus customer count grew to 87, an increase of 24% compared to the prior year.

In the quarter, we signed a new Safe Haven deal with [ph] Colgate (00:07:16) in the EU for projects in both the UK and France, and a TV measurement deal with a major North American insurance provider.

Safe Haven also continues to be a big driver of account expansion. For example, last quarter, we talked about a new Safe Haven deal with JD.com. In the quarter, we expanded this relationship to include an emerging new use case, enabling collaborative personalization on JD.com's owned and operated properties. This is a great example of next generation retail media network use cases powered by our capabilities.

Another Safe Haven expansion example from the quarter was with a major global agency holding company. As part of this multiyear strategic partnership, LiveRamp will power the identity and collaboration suite for top clients in the retail, CPG and financial services verticals.

Given the breadth of use cases enabled by the platform, Safe Haven customers have higher ACVs and upgrade at higher price points. As we continue to upgrade our customer base to Safe Haven, we expect the average length and size of our contracts to continue to increase and the average churn and contraction to remain lower than what we have typically seen on average. Our subscription net retention in the quarter was 111% or 119% normalized for wholesale.

Turning to our bottom line, our gross margin expanded to 76%, ahead of our long-term target of 75%, and we delivered sustained profitability. For the full year, operating margin was roughly 8%, up 400 basis points. This performance reflects the leverage in our model and our ability to generate strong free cash flow across the business, which is perhaps a great segue to the final topic I would like to discuss: our focus on and commitment to value creation.

Third, we are not remotely satisfied and have implemented plans designed for faster growth, improved profitability and greater return for our shareholders. As I often remind our employees, great companies have an ability to look in the mirror and never, never like what they see. They recognize that there are always ways to better serve clients, grow even faster, improve efficiencies, and build better market traction. LiveRamp aspires to be not just great, but an exceptional, an exceptional company. And we recognize that we have many improvement levers, which can accelerate our success in the coming quarters.

Let me walk through a few areas of the business where I don't think we're hitting on all cylinders and where I think there is untapped potential for us to pursue. While some of these may explain our recent performance and near-term outlook, all of them represent opportunities to further improve on our operating plan for the coming year.

Opportunity number one, accelerate our top line growth. Although we grew subscription revenue by roughly 20% over the past year, I think we can do better. We intend to accomplish this through four discrete initiatives: one, expanding our sales and marketing capacity; two, improving our product efficacy; three, expanding to new geographies; and four, accelerating our partner channel efforts.

In FY 2022, we came out of the blocks fast, fast in bookings, the early indicator of future revenue. But we slowed in the back half of the year. Now let me be clear, we're not – we're not seeing material competitive headwinds, adverse economic conditions or changing client demands. The biggest driver is a product of the hot labor market of the past 12 months. We simply did not hire enough sales reps.

In the US, for example, year-over-year revenue increased by roughly 20% compared to sales and marketing head count growth of approximately 8%. When you further refine this number to just experienced commercial salespeople, we were roughly flat.

We're already responding to this challenge. We've hired 18 new commercial leads over the past three months, an increase of about 25% to our sales capacity. With the influx of talent, we've also introduced new training and development programs to ensure sales reps are more persuasive, well trained in enterprise selling and more effectively achieve their quotas.

We also hired a CMO and are in the process of building a more robust lead gen program to provide qualified leads to our sellers. And while we know that not every person we hire will succeed, we strongly believe that successful SaaS sales at scale is a math equation. Just requires growing pipeline, strong sellers and predictable conversion rates. We believe that continued investments in selling capacity will fuel stronger long-term growth.

Now in SaaS, there's an old axiom that great product sells itself. To this end, we also think our recent refinement of our Safe Haven suite will continue to pay dividends for us. Some investors ask whether Safe Haven is just another clean room. The answer? The answer is an emphatic no, that we can work with almost any clean room or any cloud.

Safe Haven represents a holistic integrated suite of all of LiveRamp's capabilities that can be easily purchased and used through a common user interface and is interoperable with all kinds of complementary technologies, major data destinations, CDPs, storage and compute the clouds. We work with everyone, and there isn't a true competitor that has our breadth and scale.

All data is accessible, can be powered with identity, can be activated anywhere and can be centrally managed with appropriate permissions and security. This bundled suite is exactly how clients have expressed how they desire to work. A simple buying process and user experience, seamless across hundreds of valuable use cases and increasingly cloud-agnostic, so that clients can plug us into any partner. Clients can explore new functionality and upgrade as their needs expand.

Today, we have over 40 brands on the Safe Haven suite. These clients have higher annual ACV and a net dollar retention in excess of 120%. Within the next year, our goal is to double the number of clients leveraging the Safe Haven suite. We think the migration will be relatively painless. As existing onboarding or television clients, they won't experience disruption, but rather we'll simply start to use a cleaner, more intuitive UI with access to capabilities to which they may not have been previously exposed.

A third strategic initiative this year is to accelerate our international expansion. The combination of ATS and Safe Haven has been a game changer for our international business and has allowed us to scale the new markets more quickly and much more efficiently. Today, we serve over 40 markets, up from 12 only a few years ago. In FY 2022, our international bookings outpaced the US and revenue for the quarter was up 33%. We increasingly serve global multinational companies and believe we have a long runway for growth here.

A final key initiative in FY 2023 is to expand our partner channel strategy, the initiative that James Arra has been leading for us. This includes ecosystem partners, systems integrators and increasingly, importantly, cloud providers. We help our customers unlock value from their data wherever it lives. And as more customer data migrates to the cloud, key LiveRamp technologies, identity, for example, can be deployed natively in these environments. This enables these customers to achieve faster returns on their cloud investments, reduce data fragmentation and allows for greater flexibility and simplicity with using identity in the cloud.

A year ago, we announced a strategic partnership with GCP, which has been a nice source of lead gen for us. And since then, we announced similar partnerships with AWS and more recently, Snowflake to power identity natively within their cloud environments and data warehouses.

In the coming year, we expect to launch additional LiveRamp technologies like advanced segmentation and activation natively in the cloud as well. This will unlock many additional use cases and deliver even greater value to our cloud customers. Now we haven't built significant revenue from these efforts into our near-term forecast, but over time, we think that this could be a catalyst for us.

Opportunity number two, improve operating profit. LiveRamp's SaaS model exhibits strong economies of scale. On this, our track record speaks for itself. Operating cash flow over the past 12 months was $78 million, an improvement of over $100 million from just two years ago. Again, we are not satisfied. As the travel restrictions of COVID ease, we'll absorb additional T&E, but we'll continue to improve profitability in the coming year. While we'll increase sales capacity and invest internationally, most other areas of our business will benefit from increasing returns to scale.

And opportunity number three, improve shareholder return on capital. We are not remotely satisfied with LiveRamp's recent share price performance. We don't believe that our stock price currently appropriately reflects our potential, and we're committed to continue exploring all opportunities to maximize shareholder value. Of course, the best thing we can do is simply continue to grow revenues, profits and satisfied clients. And as I just discussed, that's our intent.

But in this erratic market, as we have done historically, we will also explore returning capital to shareholders. For example, we have a strong track record of opportunistically and aggressively buying back shares based on market conditions. As a result, over the course of the last decade, we have returned over $1.2 billion to shareholders in the form of share repurchases, including more than $800 million since the LiveRamp-Acxiom separation in late 2018.

Given the current market, we today announced our intention to repurchase up to an additional 150 million of LiveRamp's common stock before December 31. Warren will discuss this in more detail during his portion of the call.

In summary, let me revisit the three key themes with which I started the call. First, in a period of market uncertainty, we believe LiveRamp is a safe choice. We'll continue to grow and improve profitability, and we're embedded into the very fabric of the data ecosystem we serve. Second, Q4 represented another quarter of growth, and we anticipate more of the same in the coming year. And third, but perhaps most importantly, know that we aren't even remotely satisfied with our current trajectory.

In the coming months, we will seek to grow bookings and revenue even faster by increasing our sales and marketing capacity, improving our products, expanding geographically and broadening our cloud and partner channels. We will continue to focus on a path of cash flow improvement. And we will explore creative ways to unlock shareholder value, included – including an accelerated buyback program.

There is much work to do, but our market opportunity is significant and continues to grow. We are a critical component of our customers' data infrastructure and continue to deliver category-creating innovation to the market.

Finally and importantly, we have a strong team in place to execute against our goals, and we enter FY 2023 focused and energized to deliver on the year ahead.

With that, thank you again for joining us today and a special thanks to our exceptional customers, partners and to all of our LiveRampers across the globe 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 Warren.

Warren C. Jenson

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

Thanks, Scott, and good afternoon, everyone, and thanks for joining us today. Q4 was a solid quarter. And while there is always room for improvement, the one thing we can say is that amidst the sea of change and uncertainty, we continue to deliver.

Today, I would like to focus my remarks on three areas. First, share a few highlights for the year in Q4; next, provide guidance for Q1 and FY 2023; and finally, discuss our approach to capital allocation and provide an update on our buyback program.

For the year, LiveRamp had a solid year. We grew. Total revenue was $529 million, up 19%. We exceeded our long-term gross margin target. Our gross margin was 76%, up 400 basis points. We again demonstrated considerable operating leverage. We were profitable, not only for the full year, but in every quarter, too.

Our fall-through ratio was approximately 30%. We generated cash. Operating cash flow was $78 million. Our capital spending for the year was a modest $4 million. And finally, we returned capital to share owners. During fiscal 2022, we repurchased 1.3 million shares for $59 million.

Please turn to slide 6. In the fourth quarter, total revenue was up 19%, and subscription revenue increased 22%. Overall Marketplace & Other revenue was up 6%. Data Marketplace, which represents roughly 80% of ongoing Marketplace & Other revenue, was up 15%. Customer accounts were – counts were again up. In the quarter, we added 15 net new subscription customers.

Current RPO or our next 12-month contracted backlog was $309 million, up 21%. As a reminder, the timing of renewals can and will cause volatility in this metric. ARR ended the quarter at $399 million, up 19%. And net retention was 111%, while platform net retention was 110%.

As expected, our results were negatively impacted by wholesale contraction, as shown on slide 18. This impact was $30 million for the year and approximately $6 million for the quarter. Excluding this, total revenue increased 26% and international, up 45%. Subscription revenue was up 31%, and ARR up 28%, and net retention would have been 119% and platform net retention 116%.

Beneath the top line, our business model is working. For the quarter, gross margin improved 200 basis points to 76%. Productivity here was driven by continued identity graph optimizations. We were profitable, and operating cash flow was approximately $60 million, driven in part by a tax refund of roughly $30 million related to a carryback of losses.

Before moving on to guidance, please consider our trended results since RAMP became public. Please turn to slide 5. The performance is pretty clear. Growth on a – growth, a trended CAGR of 23% since FY 2019. Non-GAAP gross margin improvement of 1,200 basis points, non-GAAP EBITDA improvement of $104 million and $812 million of cash returned to share owners.

In summary, FY 2022 is a mirror of the past, growth and gross margin expansion, operating leverage and capital stewardship.

Now on to guidance for Q1 and FY 2023. Before jumping into the numbers, I'd like to talk about our priorities and considerations for FY 2023. First, while our foundations and product market fit remain strong, we're being appropriately cautious in our outlook, given macroeconomic uncertainties.

Also, as Scott mentioned, our overall growth bookings slowed in Q4, and we expect relative softness for the first half of the year. That said, we believe this slowing will correct as our reps ramp and as we build our enterprise sales motion. Next, we are committed to continuing to deliver bottom line leverage.

Please turn to slide 15. We expect our operating profit to increase despite the post-COVID rebound in expenses, continued R&D investment and costs associated with our global expansion. We are currently available in 40 countries. By year-end, we expect to be up and running in 60.

Now on to guidance. Please turn to slides 13 and 14. For the first quarter, we expect revenue of approximately $139 million and non-GAAP operating income of approximately $1 million. For the full year, we expect revenue of between $608 million and $625 million and non-GAAP operating profit of approximately $49 million or a margin of roughly 8% at our midpoint. Please keep in mind this guidance excludes intangible amortization, stock-based comp and restructuring and related charges.

A few other call-outs for Q1 and the full year. For Q1, we expect subscription net retention to be roughly 112% and platform net retention to be approximately 114%. The sequential decline from the adjusted net retention of 119% is driven by an expected lower relative contribution from usage and to a lesser extent, anticipated contraction. In Q1, we expect our gross margin to be roughly 75%, and we expect Q1 operating income to be the low watermark for the year.

For the full year, in order to help you think about our top line guidance, let me provide a high-level bridge from our FY 2022 performance. Subscription revenue. We expect subscription revenue to grow in the mid-teens. The factors impacting our year-over-year performance are: lower relative contribution from both bookings and usage; the previously disclosed incremental $15 million of wholesale contraction and to a lesser extent, our assumptions for FX.

Usage. In FY 2022, usage was approximately 14% of revenue. Given the macro uncertainties, we expect usage in FY 2023 to be approximately 11%. Marketplace. Given the strength of Data Marketplace, our plans for FY 2023 and our outlook for our service business, we expect marketplace to grow in excess of 25% for the year.

We expect gross margin to be roughly 75% for the full year. Investment in services and continued international expansion are driving the slight year-over-year gross margin decline. We are anticipating a modest negative revenue impact from FX in FY 2023. We would remind everyone that we do not have any exposure to either the Ukraine or Russia. Finally, we have included other assumptions for the year on slide 14.

I'd like to now conclude by talking about our capital allocation philosophy. Over the course of the last decade, our approach to capital allocation has been consistent and focused on three priorities. We want a strong balance sheet that allows us to invest in the business to extend our market leadership and global opportunity, strategically take advantage of acquisition opportunities and as appropriate, return capital to shareholders through our repurchase program.

With that as a backdrop, we exit FY 2022 with a business that has a strong balance sheet, has financial flexibility and one that is profitable in generating meaningful cash flows. Given that strength, we intend to repurchase an additional $150 million of stock by the end of Q3 FY 2023. Repurchases will be made under our existing share repurchase program that extends through December 31, 2022. Under the program, we are authorized to repurchase outstanding shares in the open market or privately negotiated transactions.

Before opening the call to questions, I'll now close with a few final thoughts. Through the challenges of this past year, LiveRamp again delivered on its commitments. Our foundations are strong. We have consistently demonstrated an ability to navigate change, to ensure our customers are competitive and can use data to create lasting and personal relationships with their customers.

Our model works; growth, strong gross margins and demonstrated profitability. And finally, we are confident that over time, our model will generate significant returns on invested capital.

On behalf of all of us here at LiveRamp, thank you for joining us today. Operator, we will now open the call to questions.

QUESTION AND ANSWER SECTION

Operator: Thank you, sir. We will now begin the question-and-answer session. [Operator Instructions] Your first question is from Kirk Materne with Evercore ISI. Please go ahead.

Peter Burkly
Analyst, Evercore Group LLC

Q

Hi, guys. This is actually Peter Burkly on for Kirk.

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

A

Hey, Peter.

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

A

Hi, Peter.

Peter Burkly
Analyst, Evercore Group LLC

Q

Warren, I thought – how are you doing?

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

A

Good.

Peter Burkly
Analyst, Evercore Group LLC

Q

I thought maybe I'd start with you, Warren. Just curious, I mean, it definitely sounds like you're baking in the usage being down a bit for fiscal 2023 and seems like that has a – of the factors, that's the biggest impact on guidance. But I just kind of want to just clarify what extent the current macro environment is sort of baked into that fiscal 2023 guidance?

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

A

I'd say that's a really great question to start off with. I would say when you think about our guidance, I'd use, maybe three words. I'd start, number one, with balance. And then number two, given the macro set of uncertainties, I would say an appropriate level of conservatism. And I think usage is a great example. It was 14% in FY 2022. Our planning assumption is 11%. Obviously, that could prove to be too conservative. But given everything that's going on, we felt it prudent to be, again, appropriately conservative.

I'd also highlight that we've taken into account the recent bookings trends in our guidance. We've taken into account the incremental wholesale contraction that we've talked about for the last several quarters. And as I mentioned in our prepared remarks – or in my prepared remarks, also a small impact for FX.

And then finally, I would tell you, while our guidance reflects appropriate level of conservatism, our direction and ask of our team is exactly on the other side of that trade is, we're asking them to go blow away these results. But again, to your question, given the macroeconomic backdrop, we think that we've given the appropriate guidance.

Peter Burkly
Analyst, Evercore Group LLC

Q

That's helpful color. I appreciate that, Warren. Scott, maybe for you. You mentioned you're planning on picking up hiring here in fiscal 2023. I'm just curious because we've obviously been hearing some software companies that are sort of pulling back on hiring a little bit. And granted you guys have a lot of growth in front of you, so it does make sense. Just curious given the environment, I guess, how you're thinking about that balance between growth and profitability going forward?

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

A

Yeah. I always think back to a quote from Warren Buffett, probably said many, many years ago, in hard markets, winners win. And we think now is the time to actually win share. We certainly hear from our clients that they love our products. Our pipeline is growing, and we think that there's a big prize in front of us.

I hate myself for allowing ourselves over the last quarter or so to get behind in hiring because when we recruit people, we have a pretty good message to tell them, too. They get to work on something that really changes the world. And there's not a company in the planet that isn't trying to figure out how to use their data more effectively, to power better customer experiences, better ROI, better decisions. And they get to work with some of the best companies in the world.

I always tell people when they're talking to us, hey, judge us by the company we keep. And the companies that we've talked about, even here on this earnings call, over the last couple of quarters, we've talked about Amazon, we've talked about Walmart, we've talked about Target, we've talked about Carrefour. We work with some of the best companies, and so people want to come work here. We just need to hire more of them in sales. It doesn't mean we're going to hire across the board. But we think that this is the bottleneck that could really accelerate our top line.

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

A

Hey, Peter, if I could add just a couple of things in there. I'd ask everybody – and you probably took a look at this slide as we were going through our prepared remarks. I think it's slide 15. Just as Scott mentioned that we – our priority is hiring coders and callers. There's also a lot of discipline that we're forecasting into our operating performance for FY 2023 as well.

If you think about the fact that we're absorbing about $20 million of incremental COVID costs, we're also expanding internationally, which is an investment of roughly $6 million, we're projecting to generate an increase in operating income. So yes, we are prioritizing hiring to drive growth. But at the same time, we're being very disciplined in our approach to cost and also disciplined in our approach to delivering higher operating profit in FY 2023.

Peter Burkly
Analyst, Evercore Group LLC

Q

That's super helpful color. Thank you, guys.

Operator: Your next question is from Brian Fitzgerald with Wells Fargo. Please go ahead.

Brian Fitzgerald
Analyst, Wells Fargo Securities LLC

Q

Thanks, guys. A couple of questions. International showed really nice acceleration, and then you called out some incremental investment in international expansion working with Trade Desk, and then you called out some stuff in the operating income bridge. Can you talk a bit more about what's driving that strength and your expansion plans for 2023? Are you going deeper in existing markets, opening up new territories? Anything further there?

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

A

I'd be happy to start, and Scott, you may want to weigh in on this, too. We're forecasting that about 20 geographies during the course of the year. So today, we're in about 40. We'd expect to be in 60.

One of the terrific things about what's going on internationally – I'd cite two things. First of all, we've said it before on multiple occasions, and Scott mentioned it earlier today, the combination of Safe Haven and ATS is a winning combination. ATS is allowing our customers to go global with a consistent approach in every market in which they operate. So one, we have great product market fit.

The second thing that I would highlight, which is a little bit tied to the last thing I mentioned, is that our customers are pulling us into these global markets. So as we move to another 20 countries, it's global advertisers that want to be in those markets, and they're asking us to be there. It's our customers taking us to Brazil, to Italy, to Spain, and so on.

So I'd highlight a couple of things. One, our model works. ATS and Safe Haven are a winning combination. And third, it's our customers that are driving our expansion.

Brian Fitzgerald
Analyst, Wells Fargo Securities LLC

Q

And Scott, did you want to – Scott, did you want to add or – Warren, that's a great...

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

A

I think there was a mic drop. I mean I [indiscernible] (00:41:04)...

Brian Fitzgerald
Analyst, Wells Fargo Securities LLC

Q

Yeah. That's what I thought. Maybe one – the only follow-up I had was on the phasing guidance. It looks to imply a deceleration in September quarter. You rebounded in the back half. You talked a little bit about this. Could you talk about the trends though impacting your view? Is it the macro baked in? Is it comp issues? Is it the sales force hiring and you noted them ramping the productivity backlog drawdown? Anything or maybe it's all of those?

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

A

I don't know that I would add anything beyond that, which we've already said. It's really a combination of all of those things. Obviously, the holiday quarter is a bit seasonal for us, too.

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

A

Yeah. Yeah.

Brian Fitzgerald
Analyst, Wells Fargo Securities LLC

Q

Okay.

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

A

The one thing I would layer in, I mean, this speaks to the fact that we hired 20 new sales reps in the last quarter. Our experience has been that people don't start and immediately be as productive as they someday will be on day one, right? It takes six months for them to really find their stride. And so that's built into our numbers here.

But again, we kind of believe that sales is a math equation. If you get talented sales reps and you know you have a good pipeline, you know you have a good product, and for us, check, check and check, then if we hire the right number of people and deliver against our product builds, then the revenue is going to happen.

Brian Fitzgerald
Analyst, Wells Fargo Securities LLC

Q

Thank you. Appreciate it, guys.

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

A

Thank you.

Operator: Your next question is from Shyam Patil with Susquehanna Financial. Please go ahead.

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

A

Hi, Shyam.

Shyam Patil
Analyst, Susquehanna Financial Group

Q

Hey, guys. Hey, guys. I had a couple of questions. First one on Safe Haven, can you just talk about how we should think about the contribution to revenue and growth in this upcoming fiscal year?

And then second question, can you just maybe update us on how Carrefour and Walmart, those relationships are progressing?

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

A

Sure. This is Warren. Why don't I kick this off? And Scott, you can weigh in here, too. I'd start off with what Scott mentioned in his prepared remarks, and I'd even go back to some of our earlier calls, where we think our platform is applicable to every single LiveRamp customer. So we're very optimistic about the prospects. And remember that our net retention is in excess of 120% on Safe Haven-related customers.

Here's a couple of stats that – or at least one stat that I'd mention. I think last quarter, we talked about ARR for Safe Haven-related revenue to be about $76 million. Well, that's now even one quarter later, pushing $100 million. So we think there's a lot of potential.

Two other things that I would highlight. And again, I'm really stealing thunder from Scott and what he mentioned in his prepared remarks, is what's really interesting is just how important it is that our products be integrated into the platform and actually it's exactly what our customers are asking for. So a couple of things for you to be thinking about in the upcoming fiscal year is we intend to integrate Data Marketplace into Safe Haven. Again, this is something that all of our customers are asking for.

When you think about the potential for TV, well, integrating TV into the platform is exactly what every large advertiser wants. So for us, we think the potential is 100% there. There's a tremendous product market fit. And we see ourselves really just at the beginning of what this platform can be. I don't know before I talk on [ph] the other clients (00:45:22), Scott?

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

Yeah. Maybe I'll add one thing, Shyam, which is if you think back over the last few years, I mean, we were certainly – we've always been SaaS. But in some respects, we were SaaS in our pricing model, but not necessarily SaaS in every aspect of the product. And more specifically, what I mean by that is the best SaaS products truly do sell themselves.

Historically, as we created new features, new offerings, our clients were forced into kind of a weird world where we would sell them a variety of kind of disjointed, unbundled products. You want some television with that? Do you want to do onboarding? Hey, let's plug into Data Marketplace. And our salespeople were forced to learn 10 different products to sell. And our clients were forced to work with us in 10 different ways.

The greatest SaaS products don't work that way. They work the way that Safe Haven works. And more specifically, a client can now log in, and regardless of what they choose to start with us for, maybe they're an onboarding client, well, they're a Safe Haven client now because they buy the subscription to Safe Haven and maybe they're only using onboarding. But in the UI, every other thing that they could possibly want to use is right there.

And so it encourages clients to self-explore, to ask questions, to upgrade over time. And that's why we're already seeing the net retention of Safe Haven to be so much higher than the average because our clients find these things for themselves. And so great SaaS products over time improve your selling efficiencies as well because it puts more of the onus of discovery on the clients.

Now you may marry that up with professional services and some evangelization there, and we'll do that just as other big SaaS companies have done before us, but this transition to a bundled, discoverable SaaS offering, it really does change how we go to market in a very positive way both for ourselves, but more importantly for our clients.

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

And then I'll take the second part of the question on both Walmart and also on Carrefour. Let me start with Walmart and just simply say that we're just at the beginning of that relationship. So I'd say stay tuned on that front, but obviously we're thrilled to be a partner of Walmart and we're thrilled with the opportunity to really build this business alongside them.

Next taking about Carrefour, a couple of key words that I would say. I think we're in the expand and accelerate phase. Let me just kind of tell you again a few things that I find incredibly interesting right now is we're now up and running in France, we're now up and running in Brazil, we're now up and running in Belgium, we're now up and running in Italy, we're now up and running in Spain. So this is really an exciting time.

Two, as a result of the work that we've been doing globally with ATS, we also are building incredible ATS publisher relationships in each of those markets. For example, this quarter, in Brazil, Globo and UOL, so some wonderful publisher relationships; in Spain PRISA and Prensa Ibérica. So a lot of really, really positive things going on that are helping us now to accelerate that partnership.

A couple of other things to think about. I'd use two other words would be expertise. As a result of our overall relationships not only with Carrefour but other CPGs and retailers, we are building up a tremendous level of expertise in CPG, retail media and retail that is extremely valuable in this market, in particular where retail media networks are exploding.

Two, our product is – just continues to get better. We're incredibly excited about our analytics library and what that can mean for assortment management and pricing and category management and also more effective media inactivation. And then finally, I think we're starting, again, I'd still put it very early innings to see what network effects can be created. I think it was last quarter we talked about partner tenants being at roughly 100. Today, overall, we're now over at 180. So again it's the beginning, a lot more work to do, but I think some exciting progress.

Shyam Patil
Analyst, Susquehanna Financial Group
Q

Great. Thank you, guys.

Operator: Your next question is from Jason Kreyer with Craig-Hallum. Please go ahead.

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

Great. Thank you, guys. So appreciate all the color on just the objectives for growth and profitability. You did give the guide for the year that I think indicates kind of 15% to 18% top line growth and 8% non-GAAP operating margin. As you go forward, Scott, you talked about how you're not happy with those rates as we look across 2023. So curious what kind of figures would you be happy with? What are you expecting to accelerate that to? And then when should we start to see traction against that plan?

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

Yeah. I mean great question. And what I'm not going to do is give guidance that trumps the, I think, appropriate guidance we just gave. I mean, those are the conversations that we have internally. But I have a pretty simple philosophy, which is a plan is a stake in the ground. And our challenge is to run past it. So judge us by our track record. If you look back at our history, we don't have a history of missing our guidance, and we don't intend to this year either.

Jason Michael Kreyer
Analyst, Craig-Hallum Capital Group LLC

Q

Okay. Fair enough. The Marketplace revenue came in slower – at a slower growth rate than it's been the last few quarters. But Warren, I think you indicated a reacceleration there in FY 2023. So curious if you can talk about maybe what happened in Q4 and how that reaccelerates?

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

A

I would – I'd separate the Data Marketplace performance in Q4 into what we've been calling TV transactional and Data Marketplace. So overall, up 6%; the Data Marketplace was up 15%. As I mentioned, we're pretty excited about what's ahead for Data Marketplace next year. And I'd tell you three things that are on our road map.

Number one is really tighter Safe Haven integration. Again, as I mentioned just a little bit earlier, this is one of the number one things we're hearing from clients, is they want Data Marketplace integrated into Safe Haven so they can directly access third-party data.

Number two is we think we have a pretty good plan for building higher brand attach rates and also for really enhancing the discoverability of data sources inside of the platform.

And then finally, think about more destinations. So having Data Marketplace integrated into, say, mini-walled gardens, which we also think is an opportunity. So those are three things that we're pretty excited about for the year ahead.

And then finally, something we really haven't talked about today, but is equally exciting is what's going on in our service business. We really kicked this off this past year, and we're expecting to double this business in FY 2023. So the combination of what's going on in Data Marketplace, coupled with the exciting momentum that we have inside of our service business give us a lot of optimism for the year ahead.

Jason Michael Kreyer
Analyst, Craig-Hallum Capital Group LLC

Q

Thank you.

Operator: [Operator Instructions] Your next question is from Tim Nollen with Macquarie. Please go ahead.

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

Q

Hi. Good evening. Thanks for taking the question. There's obviously so much news about privacy regulation and moves by the big walled gardens and so forth. And I think one topic that's come up that's been a bit of a newer wrinkle to it is some non-ID-based forms of targeting. Google moving to its topics system from FLoC, and then I think Prebid has something under the works. I just wonder if you could talk a little bit about what such non-ID-based moves would mean for LiveRamp if they gain traction, just not clear what the distinction is between what you do and how that would pan out. Thanks.

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

A

Yeah. Well, first off, I would tell you that I think there are a couple of big regulatory trends. And on both fronts, we are way out in front. I really like our position. And it's funny, I mean, some of the companies that you mentioned, whether it's the walled gardens or – I think there's now a case study of how we performed on mobile apps and on Safari inventory live on our website. All these companies work with us. And it's because we built everything around consumer transparency and choice.

If you have the consumers' consent, and they have visibility into what's being done, then you generate much better marketing returns. If you don't, then you have to fall back to an alternative form of targeting, oftentimes contextual and they just don't perform nearly as effectively. What's interesting is if you look at the best contextual targeting and then you layer in addressability on the top of it, it becomes significantly better yet again. So there's a real place for addressability as new forms of targeting start to emerge.

Now I'd also say that there's been a real – some negative news recently about some forms of targeting, and they're all forms that we don't do because, again, everything we do relies on consumer consent. But anything that is a device ID or relies on fingerprinting or some kind of technology that allows you to build an identity without necessarily knowing the identity and obtaining consent, we think those are losers. And those are – there's no place in the industry for that.

The other big mega trend that we're seeing, Tim, which has gotten some news recently, is we've long been out front of the market and talked about the fact that we're neutral. We'll work with anyone and everyone who's ethical, including companies that have called themselves our competitors.

We are interoperable. And I think you're seeing a trend now in regulation towards mandating the very kind of interoperability that we've long preached. And again, that's going to help us a lot, whether it be with the cloud providers where we're increasingly working with many of them. It's not necessarily in our forecast, but we think it's some nice upside as we scale that. Whether it's with the thousands of publishers that we work with, whether it's the walled gardens, whether it's the CDPs, whether it's the marketing cloud, we'll continue to be interoperable because what we bring is so unique.

What we bring isn't a clean room, isn't a CDP. What we bring is data access, identity, data activation and all the permission controls. And those capabilities are things that are best done at scale, neutrally and interoperably for the entire industry, which is exactly our strategy.

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

Q

That's great. Thanks a lot, Scott.

Operator: And your last question is from Nicholas Zangler with Stephens. Please go ahead.

Nicholas Zangler
Analyst, Stephens, Inc.

Q

Yeah. Hey, guys. In the past, you've talked about connected TV-related revenues being the fastest growth driver within LiveRamp. I was hoping just to get an update on connected TV-related growth and exposure and your thoughts maybe on the outlook within this segment, particularly as some of these social media companies are seeing some ad-related weakness.

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

A

Yeah. I'll tell you, connected television continues to be something we're bullish on. It grew faster than our overall business. It's increasingly hard to kind of parse it apart because so many of our clients are just buying it on a subscription basis. So it just becomes another use case. But I think it was probably up 30%, maybe a little bit more for the year. Overall, we're very optimistic about the opportunity.

This is also an area, though, where if there are any clients on the phone listening to this, we've heard you that you want us to make it even simpler to buy, more integrated into the rest of our offering. And so that's what we're doing as we integrate it into our Safe Haven product suite. It's going to become drop dead simple to plan and buy connected television right alongside everything else that any client is doing.

And ultimately, we think that this is a secular trend that's going to continue to benefit us and others in the industry. Linear television hasn't tipped. We've been talking about the tipping point for the last couple of years. CTV is growing explosively, but it's still the case that it's probably only 15%, maybe a little bit more of overall television spend. The vast majority of the prize is still waiting for us and others like us to capture. So we think it's going to be a real nice tailwind for us for the next few years.

Nicholas Zangler
Analyst, Stephens, Inc.

Q

No, no, that makes sense. And then just one on Safe Haven. I've thought Walmart was obviously just such a huge win for the Safe Haven product. And I want to make sure I'm thinking about this correctly. But has that relationship in and of itself been a driver for incremental wins within Safe Haven? Like does that naturally bring other CPGs into the fold to utilize Safe Haven? And does it make other retailers feel the need to utilize Safe Haven just to remain competitive and keep up with [ph] what's there (01:02:09)?

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

A

I won't comment on that one, in particular, but I would tell you, overall, 100%, 100% true. And we're seeing it on two fronts. Number one is the quality of our retail relationships spurs the flywheel with packaged goods partners. And I think Warren shared a stat earlier that we essentially nearly doubled the number of Safe Haven partner tenants.

And that's being driven not necessarily by our selling effectiveness. I mean, we're good. But oftentimes, the door is being opened by one of the retailers. They're setting up the meetings. They're telling their partners, hey, we want you to work with LiveRamp. And if you do, here's the data that's going to be accessible to you, and here's the value that together we'll be able to unlock. So that's a great message.

And then I think you're also right on the second thing, which is marketing as a whole is like a lot of industries. It's a me-too industry. You look and you say, who's doing it better than me? And when the companies that are the most respected in the world are all partnering with LiveRamp, that's a good trend. That's a good trend.

And so the success of some of the giants and the case studies that are coming out of companies like Carrefour make a company that might not be quite as big as Carrefour want to work with us. And a great example of this that we talked about last quarter was JD.com. So one of China's biggest retailers. They heard a lot about the Carrefour example from our team, including Vihan, Vihan Sharma, who helped spearhead the Carrefour win and now is responsible for our entire selling effort worldwide.

So getting those kinds of client success stories out just helps us in the retail category. And we're not even getting started because retail leads to financial services, leads to travel. There's a lot of different industries that we intend to go, pursue over the next few years.

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

A

I'd add just one thing is – and Scott indirectly talked about it, but it's also global. Awareness around the Safe Haven platform extends to new markets where we haven't even begun to penetrate.

I happened to be in Germany here a few weeks back. And we had a great representative – representation of CPG of retail of others, of publishers, all of whom are very familiar with the work that we are doing with Safe Haven. So almost regardless of geography around the world, whether it's Latin America, whether it's Asia or whether it's Europe or even the Middle East, Safe Haven has become – again, a lot more to do, but it's becoming a known brand.

Nicholas Zangler
Analyst, Stephens, Inc.

Q

Great. I – a lot. I got one more. I think I know the answer to this, but just love to hear your thoughts. So I mean, in the past, you guys have talked about advertisers just becoming more ROI-driven within uncertain times, which I think benefits LiveRamp through the use of ATS, obviously providing the ability for user targeting relevant ad delivery, insightful feedback for these advertisers to justify their spend. So I mean, obviously, does this thinking hold up in the current environment? And then – and do you think this is just an accelerant to the shift to utilize targeted advertising by advertisers just in totality?

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

A

Yeah. Well, I'm so glad you asked this question because it's something that we talk about internally quite a bit. And first off, I'd just tell you, I know that there's a lot of hand-wringing in the market around economic softness. We're not seeing that right now.

And the good news, I'd just reiterate the fact that we're SaaS, we're subscription. So we have a pretty good line of sight into our forward numbers. And we found that it's insulated us in the past. I mean you could see that in the early part of COVID, for instance. When media take rate businesses were falling off the cliff, we weren't because we tend to be just a staple and have a lot of persistency or consistency with respect to our revenue model.

Now the downside to that is when times get great and all of a sudden there's a huge boom in media spend, we don't necessarily get the roller coaster ride up that some others have seen. So we're very predictable and stable.

But in 2001, I lived this. I lived through it again in 2007. I saw it again in the first six months of COVID. Every time there has been a recession, the last three US recessions, there has been a flight away from branded, what I would call pray and spray advertising to accountable, addressable advertising. Marketers would say it's a flight from above-the-line to below-the-line advertising or from brand to direct response advertising.

The first thing a CEO does when the market gets soft is they turn to their CMO, they turn to everybody and they say, where can we tighten the belt? And so the CMO has given instruction of we need to make sure that every dollar you spend is accountable and has an ROI against it. The only way a CMO can do that is by working with a company like LiveRamp.

So I think back to a quote from one of the big travel marketers in the early part of COVID. And they said, hey, LiveRamp is going to be the last thing I turn off. And it's going to be the first thing I turn back on because it sits underneath everything I do. And sure enough, that travel marketer was back online after a brief kind of 60-day pause at the early part of COVID. And we sat underneath everything they did. So I expect that this trend could really help us.

Nicholas Zangler
Analyst, Stephens, Inc.

Q

Great. Thanks so much, guys. Good luck.

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

A

Thank you.

Operator: And that ends the question-and-answer session. I will now turn the call back to Warren Jenson for final comments.

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

Well, great. Well, thank you, operator. And most importantly, thanks to all of you on the call. I'd leave you with, I guess, three final thoughts today. One, we believe our foundations remain very strong at LiveRamp. And while we 100% take nothing for granted and would be the first to say that we still have a lot to do, we're also very confident in our guide today.

And then finally, I want to invite everybody, if you happen to miss RampUp in San Francisco here a couple of months ago, and you happen to be headed to Europe, we're having RampUp Paris on June 14, and we would love to have you join us.

So with that, thanks to all of you for joining us and behalf of all my colleagues here at LiveRamp, we really appreciate your support.

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