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LiveRamp Holdings, Inc. (RAMP)

Q3 2019 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Operator: Good afternoon, ladies and gentlemen, and welcome to LiveRamp's Fiscal 2019 Third Quarter Earnings Call. All lines have been placed on mute to prevent any background noise. After the speakers' remarks, there will be a question-and-answer session. [Operator Instructions] Thank you. As a reminder, this conference call is being recorded.

I would now like to turn the call over to your host, Andrew Connor with Investor Relations.

Andrew D. Connor
Investor Relations and Competitive Intelligence, LiveRamp Holdings, Inc.

Thank you, operator, good afternoon, and welcome. Thank you for joining us to discuss our fiscal 2019 third 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.

LiveRamp undertakes no obligation to release publicly any revisions to any of our forward-looking statements. A copy of our press release and financial schedules, including any reconciliation to non-GAAP financial measures, is available at liveramp.com. Also, during the call today, we will be referring to the slide deck posted on our website.

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

Scott E. Howe

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

Thank you, Andrew. Good afternoon and thanks for joining us today. This is an exciting time for the company, and I am very pleased to report an excellent third quarter highlighted by strong top line growth, a significant return of capital to shareholders, and an improved outlook for the remainder of the year.

For the quarter, total revenue was up 35%, and excluding the lost revenue from Facebook up 49%. Our subscription business grew 42%, driven by the continued strength of our enterprise and agency channels. Marketplace and other revenue was up 13%, and excluding Facebook was up more than 90%, driven by Data Store, and our industry leading TV business. Beneath the top line, as we expected and discussed at our Analyst Day, margins were pressured due to transition-related spend. However, we've made significant progress hardening our public company infrastructure and expect this spend to abate over the first half of the next fiscal year.

Earnings per share from continuing operations for the quarter were $0.03 and benefited from interest income related to invested proceeds from the AMS sale. Finally, in December, we completed a $500 million tender offer, adding yet another data point to our long-standing track record of returning capital to shareholders.

At LiveRamp, our vision is to provide the trusted platform that transforms connected data into knowledge and remarkable experiences. This vision has never been more relevant. There is not a company on the planet that doesn't want to enable better decisions, improve ROI and deliver better experiences to its customers.

And it all begins, it all begins with data. Our mission is to make that data safe and easy to use. Leveraging our core capabilities and identity resolution, connectivity and data stewardship, we provide the neutral power grid for data, breaking down data silos and creating the foundation through which the ecosystem can deliver innovative products and services. We are not a data manufacturer, nor are we an application provider; rather, we are the platform that connects and enables data to be more effectively used across all applications that power the customer experience economy. We are Switzerland.

At our Analyst Day in October, we shared a bold plan to be a $1 billion business by the end of fiscal 2024 and outlined three growth horizons against which we are executing to achieve this goal. Because so many of you joining us today are new to this story, I thought it might be valuable to spend more time on this topic and update you on our progress.

The first horizon is all about continuing to execute on the drivers that have propelled our business to date; namely, adding new customers and growing existing customer relationships. I'm pleased to share that the third quarter bookings were up meaningfully year-over-year, and we added approximately 30 new direct subscription paying customers during the period. We continue to experience strong momentum inside our direct enterprise and agencies channel, and new enterprise wins included BMW, Nextdoor and NerdWallet.

We ended the quarter with roughly 640 direct subscription customers across our three major verticals, up from 520 a year ago. A second near-term growth lever for the business is our ability to land and expand. Our subscription pricing model is tiered based on data volume. So, over time, as clients expand their usage and leverage their data across more endpoints, our relationships expand. Our strong net dollar retention rate is a great measure of this growth, and consistent with historic periods, was greater than 115% again this quarter.

According to a recent Forrester study analyzing the cost savings and business benefits of using IdentityLink, customers surveyed experienced a 240% return on investment over three years with a short investment payback period of less than three months. The study also revealed that brands are experiencing a material increase in marketing budget efficiency and enjoying much greater control over their marketing stack. There can be no better measure of success than the results our customers generate. So, this analysis is pretty meaningful to us.

Today, the majority of new customers begin leveraging LiveRamp to enable basic display targeting use cases, but grow into more sophisticated identity resolution use cases over time, such as measurement, advanced analytics, second party data sharing and others. We highlighted several customer expansion examples in our Analyst Day presentation.

As our customers leverage their data in more places and in more ways, the stickier our solution becomes and the more value our customers derive. Another usage metric we track is number of connectors per customers, which grew to over 14 in Q3.

At the same time, we continue to expand our partner ecosystem to offer new use cases to our customers, strengthening the overall network effects of our business. During the quarter, we entered into a new strategic partnership with Marketo, making it easier and more seamless for marketers to leverage our identity graph inside Marketo's platform and activate their offline data across online channels.

This LiveRamp inside experience is fueled by one of our many new APIs. And we aim to replicate this model as we build out partnerships in new customer experience verticals like customer data platforms or CDPs and conversation technology providers. This was a strong quarter in terms of new customer adds and growth within existing accounts. And we remain grateful and energized to serve our growing and loyal customer base.

Horizon 2; Horizon 2 opportunities include newer initiatives inside of LiveRamp specifically Data Store, LiveRamp TV, and international that have become more meaningful growth drivers for us in FY 2019. While still early days, these businesses combined will generate roughly $70 million of revenue this fiscal year and grew by more than 70%, excluding Facebook, in Q3 from a year ago. Let me briefly provide an update on each.

Data Store, for those of you unfamiliar with Data Store, it is a data marketplace where data buyers including brands, agencies and technology platforms can buy ethically sourced and accredited data from over 150 leading data providers. All keyed off a common people-based identity framework.

Given the transactional nature of this business, revenues associated with Data Store are captured in our marketplace and other revenue line. For the quarter excluding Facebook, Data Store was up over 75% driven by new participants and strong usage trends during the holiday season, a signal that the role of appropriately sourced data is only growing in importance.

In fact according to the IAB, marketers spent over $19 billion on data in 2018 in the U.S. alone with the amount spent on digital data assets, up approximately 37%. And within our business, we continue to see strong signals from both the demand and supply side.

Next LiveRamp TV, our advanced TV division continues to be one of the fastest growing areas of our business as advertisers continue to shift budget from linear TV to more accountable and measurable channels like addressable TV, and connected TV or CTV. The increasing data enablement of TV across platforms presents a huge opportunity for us. While many companies claim explosive growth in television, we believe we are the only company that enables all forms of advanced TV, including addressable, data driven linear, CTV, and business outcome-based measurement.

During the quarter, TV related revenues were up 38% year-over-year, and we saw addressable campaign volumes more than double. Much of this demand continues to be driven by current direct enterprise clients leveraging our TV capabilities for the first time. However, at the same time, we are also experiencing a tremendous uptick from new brands as we deepen our partnerships with agencies to enable these new capabilities. We had several key TV wins during the period including Cox, Turner and iSpot.tv, and our automation efforts with MVPD's networks continue to payoff.

We recently expanded our relationships with Disney and NCC Media, the industry's largest cable TV advertising consortium. Through this partnership, we are enabling a growing number of multi-MVPD addressable campaigns. And NCC is leveraging our identity capabilities for reporting enablement with their measurement partners.

I am also excited to share that just this afternoon, we formally announced the launch of IdentityLink for CTV. CTV is advertising's fastest growing video channel, and it also is the fastest growing piece of our TV business. CTV revenue grew over 300% sequentially albeit off a small base. In 2019, it is estimated that the number of CTV users in the U.S. will grow to a 190 million, and advertisers will spend nearly $13 billion reaching these audiences.

Despite this growth, marketer still struggle to connect digital TV and traditional TV identities without a consistent identity solution available in the market. By linking individuals to the products and services they love, including smart TVs, connected TV devices, and streaming services, LiveRamp aims to infuse people-based data into every step of the CTV advertising experience. Q3 was a strong quarter for TV and we have a good line of sight into it and even stronger Q4, which we believe will set this business up nicely for FY 2020.

International, we continue to make good strides outside of the U.S. And under Warren's leadership, our international business again delivered a solid performance in the quarter. Total revenue excluding Facebook was up 65%, driven by strong growth in Europe. We continue to believe that GDPR will be a net tailwind for our business as more and more large brands and platforms in Europe and all over the world turn to LiveRamp to help them appropriately leverage their people-based data in an increasingly complex environment.

Remember, in many respects, complexity is our friend. The industry is not abandoning data driven marketing. Rather, it is embracing innovative solutions that enable data to be more effectively leveraged and shared while protecting consumer privacy. The work we are doing with companies like Carrefour, Target, and other large retailers all around the world to enable second-party data use cases, those are great examples of this.

Finally, Horizon 3 includes all the initiatives we are seeing today that we believe will drive the ubiquity of our identity solution and fuel our growth over the medium-term to long-term. LiveRamp B2B, second-party, the Advertising ID Consortium in potential adjacent markets all fall into this group. We continue to make steady progress against our Horizon 3 opportunities. Second-party data is building global momentum with several recent customer wins. And you could expect to hear more about our B2B offering over the coming months.

Before moving on, let me briefly provide an update on our consortium efforts. In 2017, we announced an effort with Index Exchange, dataxu, and others to create an open identity solution for the ad-tech ecosystem. Today, there are over 30 participating members from both the supply and demand sides. And I am pleased to share that the first IdentityLink-enabled campaign went live last quarter. IdentityLink is the first ever people based ID to be made available in the programmatic bid stream. And marketers can now bid directly on IdentityLink for peoplebased targeting, frequency capping and suppression.

This month, IdentityLink will be available to US based inventory across publishers who utilize Index Exchange's Header Tag Wrapper. Index Exchange, who works with nearly 90% of the ComScore top 100 publishers, is a leading global advertising marketplace powered by data where premium digital media companies sell their ad impressions in real-time. This is a huge milestone for LiveRamp and represents a major achievement for the consortium.

I'd like to spend a minute talking about our identity solution relative to others in the industry. A couple of years ago, Forrester laid claim that Identity Resolution was the next competitive battleground for marketers implying that those who get it right will thrive and those that don't, well, won't. As identity in the concept of an identity graph has grown in importance so too have companies claiming to provide some flavor of it. Most of which by the way we power in some capacity. The increase in market awareness is a rising tide that lifts all boats, but I do think it is important to understand the advantages of our identity graph relative to others.

We are the clear leader in deterministic people-based identity, the important differentiator here being peoplebased. There are a lot of companies that claim to have this capability, but in effect, are really just cookie-based or cross-device graphs. They may have pieces of the puzzle like an email address, device ID or browsing behavior, but lack the full 360-degree view. Combining 45 years of historical data with 5 billion occupancy records, 200 million monthly authentications, and more than 10 billion records per day, think of LiveRamp as the identity superset. Leveraging AbiliTec and our expansive partner network, we can map identify across the hundreds of identifiers an individual may have. Email addresses, present and past postal addresses, phone numbers, user IDs, subscriber IDs, social IDs, mobile IDs, smart and connected TV IDs, IDs for gaming consoles, and the list goes on.

Another very important differentiator is the concept of portability. Data and identity in a silo is not enough. To unlock the true power of identity, it has to be connected and portable across the entire ecosystem of applications that power the customer experience economy. For example, Facebook, Google, and other media buying platforms have great identity graphs. However, their solutions are restricted to the four walls of their respective platforms and are leveraged to more effectively monetize their inventory. They aren't open, they aren't neutral, and they don't extend across the entire ecosystem in the same way that ours does.

And when I refer to the ecosystem, I am not just referring to programmatic display. Our graph can be applied to a much broader set of use cases. Measurement, television, email service providers, chat, direct mail, call centers, and so on and so on.

Before wrapping up, let me address the conversation around consumer data regulation as I am sure the topic is on many of your minds. As we accelerate toward an increasingly digital world and economy, data has come to shape virtually every interaction between companies and consumers. It is the foundation for the ad-supported Internet, which supports millions of jobs, contributes over a $1 trillion to GDP, and enables access to free services and information online. Importantly, it also creates a level playing field for companies of all sizes to provide better and more relevant customer experiences.

We believe that everyone who handles people-based data must, must be transparent, and accountable for ensuring it is used in ways that benefit consumers and protects them from harm. At LiveRamp, data stewardship is core to everything we do. Our Global Data Ethics Program goes to great lengths to ensure that our policies are not only legal, but also just and fair to ensure all stakeholders including consumer, societies, and economies benefit from how data can be utilized.

A key element of our program is the belief that companies handling sensitive consumer data must provide consumers with transparency, notice and control. This is also a core tenet of GDPR and upcoming regulation like the California Consumer Protection Act or CCPA. We continue to enhance our program to ensure we remain ahead of all regulatory mandates, and are investing in capabilities like consent management technology to strengthen our ability and our clients' and partners' ability to provide data transparency and control to consumers. We have been vocal proponents of stronger privacy regulation and believe that regulation should not only protect the consumer, but also protect competition rather than concentrating power in the hands of a few digital giants. Smart regulation is great for the industry and deepens our moats. We believe in the democratization of data and an open Internet where companies of any size can compete. And our goal is to be the trusted platform, the safe haven to enable this.

Before I close, I want to acknowledge Jerry Gramaglia, who has served as Chairman of the Board of LiveRamp and its predecessor Acxiom since 2011 after joining our board a decade ago. Earlier today, we filed an 8-K announcing that Jerry will be leaving our board when his term expires later this summer. This is an entirely amicable departure that reflects both Jerry's confidence in our future as well as his personal priorities.

I first met Jerry when he flew to my then residence in Seattle to interview me for Acxiom's CEO role. And we spent a day at my kitchen table discussing, debating, and iterating the strategy that we have spent the past eight years executing. Under his board leadership, we created a new SaaS category helping companies safely and easily transform connected data into knowledge and remarkable experiences. We significantly increased our appetite for innovation and supplemented this Greenfield development with the acquisition of LiveRamp, Arbor, Circulate, Allant, and Pacific Data Partners.

We focused our strategy in areas where we believed we could create strategic advantage and divested legacy businesses, background screening, IT outsourcing, email, and a variety of international paper survey businesses that were no longer aligned with where we were going. We unlocked significant shareholder value with the realignment and divestiture of Acxiom Marketing Solutions. And from that, we have reemerged as a SaaS pure play, a category leader poised for future growth.

And during Jerry's tenure as Chairman, we have more than quadrupled the value of our shares. Every two weeks for the past eight years, Jerry and I have met for breakfast to discuss our strategy and progress. He's been an incredible mentor, partner, and champion for shareholder value, and he has also become a lifelong friend. Jerry will be missed, but this is also an exciting opportunity for us to add new perspectives whether it be diversity, international experience, or deep SaaS knowledge.

To conclude, we feel great about our progress on the third quarter and the momentum we have entering Q4 and FY 2020. As I look back over the past year, the accomplishments of this team are truly remarkable. On the same call a year-ago, we shared a plan to evaluate options that had the potential to transform our business and create meaningful value for all constituents.

Fast forward to today, we executed soundly on that plan, unlocked enormous value for our shareholders, and are a fundamentally different companies company than we were a year ago. Internally, I've talked about our journey today as reaching base camp. It has been an extraordinary ascent and one of which we are very proud, but tomorrow, the bigger climb is ahead of us.

Our opportunity set is expanding and there is still much value to be created. I have never been more energized to be part of this journey than I am right now. But our long term confidence will always, always be tempered by humility and hard work. After all, there's many, many areas of our business that can and must be further improved.

Our team recognizes we need to get better. We need to get faster. We need to be more efficient. And we need to continue to drive innovation if we are to become the company we aspire to be. Our growth initiatives continue to gain momentum. And we believe in our path to become $1 billion business while also acknowledging that the path may not always be linear.

With that, I would like to thank our amazing team for their ongoing hard work and contributions. Thank you again for joining us today. We look forward to updating you on our continued progress in the coming quarters.

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

Warren C. Jenson

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

Thanks, Scott, and good afternoon. Well, everybody, welcome to LiveRamp. It's been quite a launch. This marks our first quarter as a standalone company, and it was an awesome start. We received $2.3 billion from the sale of Acxiom to IPG; completed a $500 million tender, retiring 14% of our outstanding shares; made significant progress to harden our public company infrastructure; and through all the change and heavy lifting, we kept our focus on our customers, our opportunity, and at the same time, we delivered a great growth quarter. We landed 30 new logos, we again expanded our client relationships, and are pleased to report our tenth sequential quarter in which our dollar-based net retention rate exceeded 115%. We also now have $42 million clients. Revenue was up 35%, and 49% excluding Facebook. And finally, subscription revenue grew by 42%. Next, we are building a growth machine for tomorrow.

Please turn to slide 5. Land, expand and extend is fundamental to how we work with our customers. Our quarterly results highlight the strength of this strategy. Horizon 1 revenue increased 40%, Horizon 2 revenue on a comparable basis grew 73%, and our run rate for long-term Horizon 3 revenue now exceeds $11 million, more than doubling year-over-year. In short, working with our customers, we are creating new products and services to help them compete and win. We have a product strategy that is built to deliver in the short, medium, and long term. This is how we get to a $1 billion in five years.

Our business model works. Please turn to slide 6. Let me remind everyone that we are a platform. And as we add volume, our margins naturally expand.

And finally, our business is highly predictable. Please turn to slide 7. Our subscription revenue represented 81% of total revenue. The usage portion of subscription revenue was again in excess of 15%. And Data Store revenue naturally scales with the expansion of our business.

In summary, we have a great business, which is benefiting from a powerful network effect and a global secular trend. Data is the key to great customer experiences. Ours is a business that is fast becoming ubiquitous, and one that is defended by natural scale. In addition, what we do is foundational to our clients and to a healthy open and competitive ecosystem.

For the remainder of my remarks, I'd like to walk through a few specifics from the quarter, summarize our FY 2019 guidance, and lastly, share a few preliminary thoughts on fiscal 2020.

Q3 performance. Please turn to slide 8. As you know, we are in a transition period and one in which we are standing up our public company infrastructure. With that in mind, please note that our third quarter results include approximately $9 million of transition related spend. In other words, we would suggest that our quarterly expense run rate is inflated by this amount. The great news is that we expect transition spending to slow considerably in Q1 of FY 2020 and to be finished in the second quarter of our next fiscal year.

Turning to slide 12. Finally, don't think of this work as simply adding overhead. Rather, think of it as a focused effort to strengthen our operational processes to better serve our customers, reduce our cycle times for new product introduction, and more quickly, scale our operations as volumes continue to build. We have work streams in place to accomplish these objectives. The beauty of this focus and effort is that it creates a win-win. Better customer service, faster cycle times, almost immediate payback, and a clear path to higher margins.

Now, to our guidance. As a reminder, our guidance excludes items, including non-cash stock comp, purchased intangible asset amortization, restructuring charges, and transaction related costs. We are tightening our FY 2019 guidance and now expect revenue to be as much as $284 million, an increase of 29% year-over-year. This compares to our previous guidance of 25% to 30%.

On the bottom line, we expect a non-GAAP operating loss of approximately $55 million. Further included in our bottom line guidance is $21 million of transition related spending. Next, we expect to incur $14 million of restructuring charges in Q4. These charges are primarily associated with the termination of certain redundant data contracts. And finally, keep in mind that our Q4 stock-based comp maybe abnormally high as we move through the final phase of our transition and also as we execute tax optimization strategies. Slide 16 highlights these and a few other points related to our Q4 guidance.

Now, let me close with a few preliminary thoughts on FY 2020. As we look ahead to fiscal 2020, we are confident. Our business is extremely healthy and our growth initiatives are building momentum. With that in mind, our focus is shifting from transition to accelerating our pace of execution, innovation, and grow. At the same time, we expect to leave FY 2020 with a top line margin structure, which not only points to another big growth year in FY 2021, but one that is solidly profitable too.

With that in mind, as always, we ask that you'd be conservative in your estimates. It's still early. We suggest you think about top-line growth of between 25% and 30%. On the bottom-line, by Q4 FY 2020, we would expect our operating loss as a percentage of revenue to be in the mid-single digits. Our buyback, we plan to be conservative in our near-term approach. We believe we are in a period where financial flexibility will pay disproportionately high strategic dividends. That said, you should expect us to consistently be in the market, but also be highly opportunistic.

In summary, we are pleased to deliver another great quarter and are very excited about what's ahead for LiveRamp. As a team, we have demonstrated an ability to navigate a monstrous transformation while keeping our eye squarely on our customers, building a great and lasting company, and on continuous innovation.

With that, operator, we'll open our call to questions.

QUESTION AND ANSWER SECTION

Operator: [Operator Instructions] Your first question comes from Robert Coolbrith with Wells Fargo Securities. Your line is open.

Robert J. Coolbrith

Analyst, Wells Fargo Securities LLC

Q

Good afternoon, and thank you for taking our questions.

Warren C. Jenson

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

A

Hey, Robert.

Robert J. Coolbrith

Analyst, Wells Fargo Securities LLC

Q

Hi, a couple of questions please. First, wanted to ask a couple of questions about the land and expand strategy. First, I am wondering if you could speak to whether the strength in the quarter was driven more by additional onboarding activations or entirely new use cases like measurement and analytics. Also in relation to direct versus mediated client relationships, noted that you have some clients transitioning to a mediated relationship with IPG. Wondering if you could talk more generally about whether the upsell opportunity differs in any material way between those two client groupings direct versus mediated or reseller relationships. And then finally, just wanted to ask on seasonal factors, a little bit of change in the phasing guidance for the year. Wondering if you could just talk us through seasonal factors and how we should be approaching our modeling for 2020 quarters or any thoughts there? Thank you.

Warren C. Jenson

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

A

Why don't I jump in, Scott...

[indiscernible] (00:35:44)

Scott E. Howe

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

A

...you take the third.

Warren C. Jenson

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

A

Okay. That sounds perfect. Probably the best thing that I could say is, this was a quarter in which our up-sell and our existing business drove more of the revenue growth. So about 60% of our growth came from upselling to existing clients and about 40% for new. If we look for the full year, Robert, would expect about 55% of our fullyear growth to come from upselling to existing and about 45% to come from new. Scott.

Scott E. Howe

A

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

And so, your second question was really around what is the up-sell opportunities across our three foundational client groups; brand, platforms, and data. And I would tell you that we think that there are up-sell opportunities across each. That said probably in brands and data, we have an even bigger opportunity than platform simply because platforms tends to be a little bit more chunky given the fact that there are less clients and they're larger average client sizes. That said, what's super interesting is when you look at the new products and capabilities we are adding, say for instance like Data Store, we think across the board, there are going to be great opportunities for brands, for platforms, and for data providers to automate their supply chain through our Data Store. So it's really a nice story because we think that there is opportunities across the board right row. We're still early innings of the game we're playing.

Warren C. Jenson

A

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

And then finally on the seasonal question, increasingly, as marketplace becomes larger and continues to grow, we'll feel the impacts of seasonality. So, there will be some elements of seasonality to our business. That said, the lion's share of our revenue remains subscription, again, over 80% of our revenue is subscription.

Robert J. Coolbrith

Q

Analyst, Wells Fargo Securities LLC

Thank you.

Warren C. Jenson

A

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

Thank you.

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

Brett Huff

Q

Analyst, Stephens, Inc.

Good afternoon, guys.

Warren C. Jenson

A

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

Hi Brett.

Scott E. Howe

A

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

Hey, Brett.

Brett Huff

Q

Analyst, Stephens, Inc.

Congrats on a nice quarter and thanks for some of the detail, and a little bit of thoughts on fiscal 2020, that's always helpful.

Warren C. Jenson

A

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

Yeah, you're more than welcome.

Brett Huff

Q

Analyst, Stephens, Inc.

We've gotten a couple questions – this is a big picture question and then I have one follow-up – on ad spending. The macro is a little murkier in some cases for a lot of folks or at least we're thinking that this year or in this calendar year than last [indiscernible] (00:38:19) incoming calls on ad spending, trends, impact? So, what are you seeing on that front? And then number two, if we do see a slowdown in ad spending, how do we think about that impacting your business? And then I've got a follow-up when you're done.

Scott E. Howe A

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

Yeah, I would tell you, first off, I don't think that we are least historically we haven't seen tremendous sensitivity to kind of macroeconomic trends. I think rather there's a larger secular trend that we benefit from, which is all of our clients want to make their decisions more accountable and deliver better experiences to their customers. And so, we are benefiting from the macro trend of the shift from unaccountable media to more accountable media. We should benefit from that, in television, we've certainly seen that some of our killer use cases have been in display targeting or search personalization. So, as the pendulum shifts from unaccountable to accountable everything, we tend to be the beneficiary from that.

I can't predict the future, but Brett I have lived the past and going back even to my early days at aQuantive when I lived through the 2001 implosion and then the 2007 meltdown when I was at Microsoft, what I saw was that we were a little bit more protected in each of those businesses because the first thing to get cut on media plans was broadcast media, unaccountable media. And there was a flight to safety for holding things accountable. I think my hypothesis would be that would hold true in our business today as well.

Brett Huff Q

Analyst, Stephens, Inc.

That's helpful, and then just a couple of quick questions on specific products. Thank you for the update on the association, wanted to dig a little bit on TV and Google or paid search stuff. Thank you for the TV data. I think we got all we needed there, but anything on the LiveRamp for search. If you guys – seem to us if you guys can nail addressable TV and search, it will go a long way towards a lot of visibility on that kind of Tier 2 type horizon or the Horizon 2 stuff. Can you just give us an update on that? Thank you.

Scott E. Howe A

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

Yeah. I think you're right, and we've talked I think a couple quarters ago about our partnership with Bing as well. And so, for an advertiser that's doing anything in search, it is now the case that through us, they can do peoplebased search far more efficiently and essentially reach what 90%-plus of the search market through Google and Bing. So, a super nice opportunity. Where I'd like to see us push still further is how do we wrap that, how do we help our marketers understand how to utilize those techniques in combination with other things that they may be doing on the media plan. So, for instance, if someone behaved, they came into the dealership or they're already a current cardholder or you serve them an email or they've seen an addressable television ad, how could you then configure your search ads, render those differently as a result of how you've interacted with the consumer in the past. And I think that's the really important thing that our clients are asking LiveRamp about. They don't think about just search or just television or just email at a silo anymore. They think about all those things holistically and how do they deliver a seamless narrative to their customers across all of those touch points, that's what they want to do. Increasingly, we got to help them get there though.

Brett Huff
Analyst, Stephens, Inc.
Q

Great. [ph] That's what I needed (00:42:30). Thanks again, guys.

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

Thank you, Brett.

Operator: Your next question is from Dan Salmon with BMO Capital Markets. Your line is open.

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

Hi, Dan.

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

Good afternoon, everyone.

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

Hi, Dan.

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

First, maybe a bit of a high level one for Scott and then a couple of nitty-gritties for Warren. First, Scott, you identified there earlier and you talked around this for some time of different client groups, specifically platforms, data providers, and brands. You've also spoken more about, I don't know if reseller relationships is the right way to put it, but working with partners to bring in new customers, I guess, is a fair high level...

Scott E. Howe
A

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

Sure...

Daniel Salmon
Q

Analyst, BMO Capital Markets (United States)

... comment on it. My question is sort of two parts for you is, I would assume that you can work direct more often as I go down the hierarchy of platforms, data providers and then brands just because there's more of them as I go down through that group. But correct me if I'm wrong, if that's the case. And then second is, how did your economics change? Did they change at all when you're working through a partner, and maybe how that may differ from one partner to the next?

And then just a couple of quickies, Warren. In the 10-Q, we noted the performance obligations moving up, and we would assume that that is related to IPG's commitment to LiveRamp, but any color that you can add to that would be great? And then just one, to clarify how exactly AbiliTec is flowing through your income statement, including presumably being paid for as part of your scope of work for your clients in revenue, but also particularly in COGS, where licensing revenues may be going up? Thanks.

Scott E. Howe
A

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

All right. So, Dan, I'll start and this is Scott obviously. I think your hypothesis is spot on that with the major platforms, we want to have a direct relationship with all of them. I mean, be integrated into their technology, be an important piece that makes their technology more effective, followed by data, followed by brands. And with the largest advertisers, marketers on the planet, we feel that they would benefit from having a direct relationship with us. There are a lot of small advertisers who might only be doing Facebook, who might only be doing search, and it might not be cost-effective for us to maintain a direct relationship with them at this time [ph] until (00:45:25) we develop even more self-serve features in our platform. We'll do that someday. But right now we think those clients are well-served by working with us through their agency or through another reseller.

The economics of each of the groups, well, I don't think it varies so much by group as much as it does by volume. And so naturally, if there's an opportunity for us to secure a really large volume contract, we're going to have more favorable terms for that. That's kind of the nature of our SaaS pricing that even in a direct client, if you utilize more of it, you'll slide up and go to the next pricing tier, and your marginal costs will go down. When we're dealing with a really big platform, think of that as kind of the end of the spectrum, they're doing so much volume with us, their marginal price will be the lowest of the group.

Warren C. Jenson
A

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

And then Dan, let me just comment on your other two questions. In terms of the performance obligations, yes, our backlog does include IPG and just a couple of other points of color for everyone. In the third quarter, our contractual relationship increased our revenue about $4.5 million. Q4 will also be about $4.5 million. And then as you think about FY 2020 year-over-year it will be up about $10 million just given the nature of our overall contractual relationship.

Secondly, on AbiliTec, the cost of AbiliTec is found in COGS. And one of the reasons why you see our gross margins coming down is the addition of that cost, which we're very bullish on obviously for the long-term in terms of what it does for our identity graph, but also in terms of what we believe in the future we'll have in terms of monetization opportunities. The impact in COGS give or take is going to be between three to five points.

Operator: Your next question is from [ph] Tim Nolan (00:47:42) with Macquarie. Your line is open.

Q

Hi, thanks. I've got a couple which might come across as me being a relative newbie here. So I hope it's understandable. But first, I wanted to ask about the 2020 guidance. OI breakeven, it sounded like kind of midsingle digit low losses by Q4. Is that a similar tone as what you had spoken of before or is it may be a bit lower. I think you were talking previously about possibly getting to breakeven by 2020. So, I want to make sure I understand that.

Secondly, just want to make sure I understand about your TV business, because I've got notes from prior calls that you are looking into TV revenues doubling this year. You're now talking about three different sets of numbers, and I just want to make sure I understand what is what. You're saying your TV revenue in Q3 was up 38%, your addressable campaign volumes were up more than double, and your IdentityLink usage for connected TV was up 300%. So just want to make sure I understand exactly which of those is which and how does that relate to prior comments about TV revenues doubling this year?

Warren C. Jenson

A

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

So, I'll go ahead and, [ph] Tim (00:48:52) jump in on the first one. A couple of points just to be completely clear. We have not given guidance before this for FY 2020. So this is the first time we've really talked about guidance. And what we felt appropriate is our philosophy is we want you to see what we're seeing and then we just try to call it right down the middle of the fairway. And that's exactly what we did in giving you some preliminary guidance for FY 2020. And overall, the purpose was really to kind of be able to look at the four corners of what FY 2020 would look like today. And obviously, when we give more formal guidance in May will help to fill that in a little bit more.

On the second point, again, just to be very clear, the guidance we gave at Analyst Day is that we would be profitable in FY 2021. And what we're trying to do with our comments today is again just give some shape to your models for FY 2020, recognizing that by the fourth quarter of FY 2020, we would expect that our operating losses as a percentage of revenue would be in the mid-single digits, which would set us up then quite beautifully to move into FY 2021 to not only hopefully have a great growth here, but also a year in FY 2021 that would be solidly profitable.

Q

Okay. I was probably jumping on the gun there. Thanks for the clarification.

A

Warren C. Jenson

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

No, that's fine.

A

Scott E. Howe

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

And the second question was about television. You reeled off some stats and I will admittedly say that I think my head exploded by the time you got to that the third or fourth in terms of trying to keep them all straight. I think quite frankly all of them are right. One of the great things about our television business is that unlike other players in the space, we actually allow our clients to access all forms of advanced TV. So that's connected TV, that's addressable television, that's data driven linear, and it's also measurable outcomes as well. So there's a lot going on.

I will say the common thread through all of our television efforts is it's still off a small base. And our focus over the last six months to 12 months has been solidifying our processes, ensuring that our clients are generating good outcomes. And our belief is that if we build great products and take care of our clients, the growth will naturally come. That said, I still think we have yet to arrive at the tipping point for television. It is still the case that broadcast linear television dwarfs all of the addressable channels. So I would expect you're going to see great growth rates from us across the board, however, if you measure it in the coming months. But I have yet to feel like this is going to be the majority of our business or a big contributor yet. That's why we have it grouped in our Horizon 2 initiatives you know, starting to scale but still a long, long track record in front of it.

Q

Yeah. Great. They're all nice big numbers anyway, so that's fine. Thank you for the color.

A

Warren C. Jenson

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

Thank you.

Operator: Your next question is from Adam Klauber with William Blair. Your line is open.

Adam Klauber
Analyst, William Blair & Co. LLC
Q

Thanks. Good afternoon.

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

Hey, Adam.

Adam Klauber
Analyst, William Blair & Co. LLC
Q

Looking at revenue growth for the quarter ex-Facebook, just ballpark, how much of that is coming from new clients versus how much is coming from upsells, and what would that have been roughly a year ago?

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

So as I mentioned just a little bit earlier, Adam, in Q3, about 40% of our revenue came from new and about 60% from upsell. In the Q3 of 2018, call it, 55% from new, 45% from upsell. And that by the way is very consistent with how we've been talking about the business and our expectation. And just to get a little bit – I am probably getting a little bit ahead of myself relative to FY 2020. But FY 2020 is going to be about, right now, we're looking at 60%, 65% upsell, about 35%, 40% from new.

Adam Klauber
Analyst, William Blair & Co. LLC
Q

Okay. Thank you. And sorry if you said this, but which use cases are really expanding and growing if you can name the top maybe two or three that would be helpful?

Scott E. Howe

A

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

It's still probably the case that the biggest entry point for us is going to be display driven targeting and personalized search. So, typically when someone starts, they are going to do Google, they're going to do Facebook. Then very quickly, they want to expand those targeting efforts across the rest of their media plan. And where we're starting to see some really nice traction, you heard us talk about this on Analysts Day is in areas like analytics and measurement where as you activate more and more people-based targeting efforts, there becomes more and more of a need to think about those efforts holistically across the media plan, determine what kinds of things are generating the best comparable lift, start to develop media mix models, understand the linkage between online advertising and in-store conversions. So, all those lead clients to things like analytics and measurement.

And then you've heard us talk a little bit about some killer use cases that we're pretty excited about. Like, we talked about our partnership with one of the, well, the largest global retailer. Well, that's just gotten off the ground. We have several dozen clients active, but we're still working on improving the product there. We have our API scheduled to rollout later this spring, which will generate I think even faster uptake of that. The key is that wherever our clients are trying to go, that's where we'll invest and turning on those use cases. Whether it would be point-of-sale, call center, commerce experiences, and the like. And again, that's one of the advantages we bring. We don't operate in a single swim lane, rather we are the connective tissue that allows our partners to think about everything they're doing holistically.

Adam Klauber

Q

Analyst, William Blair & Co. LLC

Okay. Thank you. And then as far as looking at breakeven 2021, which is consistent obviously what you talked about before. Is that mainly going to be through additional revenue scale leverage on your base or is there an element that you may have to rationalize some cost within the company to hit breakeven.

Warren C. Jenson

A

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

A couple of things, I want to be clear again on what we've said. We said we would be solidly profitable in FY 2021. So not simply breakeven. So that was our statement and we are absolutely committed to that.

A couple of things to your second question, I want to come back to the strength of our model. And if you have the charts that we had even in our deck, we are a platform business. So as we add incremental new revenue streams like Data Store or like TV or second-party or even B2B, it is leveraging our fixed cost base, which produces natural leverage and natural scale. So, a good example of that even today in the U.S. despite adding all these costs and standing up our public company infrastructure, our gross margins in the U.S. are still over 65%. So this is a very strong business, that with volume will very naturally scale.

From there as you work your way down the income statement, across every line, whether it's R&D, whether it's sales and marketing and/or G&A, we expect each of those functions to scale as we grow. I think one of the advantages we had again as a company is, we have – yes, we have work to do and we're going through the transition, but we started this journey with a very sophisticated infrastructure in place and one that was incredibly modern and contemporary. So, very quickly, we're moving from LiveRamp as a division through this transition period to by the end of the second quarter of next year we will be completely through the transition and focused on nothing but growth, nothing but scaling, and nothing but taking advantage of our opportunity.

Adam Klauber

Q

Analyst, William Blair & Co. LLC

Okay. That's helpful. Thank you.

Warren C. Jenson

A

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

Thank you.

Operator: Your next question is from [ph] Leslie Karisio with Cannonball Research (00:58:21). Your line is open.

Q

Thank you. Good afternoon. Scott, I think you said that you don't believe that the tipping – we are at the tipping point of budgets transitioning to advanced TV advertising yet. And that is confirmed by all of the companies involved. You talked to Roku and The Trade Desk, and the traditional media companies. I wonder from where you stand why do you think that is and what is required to – for us to get over that tipping point? And then I'll ask the second question right away is related since you outlined your Horizon 2 ambitions at the investor day, there has been some developments in the advertising supported television as you know Viacom, a client of yours in the addressable bought Pluto TV, which is purely ad supported. I'm wondering if you see that as an opportunity or is it just going to be cannibalistic to your current addressable TV business with Viacom and other players? Thank you very much.

Scott E. Howe

A

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

Yeah. So, on the first, and this is just one person's opinion here. I think the biggest challenge that we have to face is, one, it's a cultural challenge. It is the fact that television for the most part has been bought and sold the same way for the past 50 years. And old processes are hard to break. As a result, I think one of the opportunities for us surprisingly isn't necessarily in connected television or even addressable television, it's also in data-driven linear television, which allows a marketer to buy the same way that they bought before, but use more granular data to do the planning. And I think those small steps are going to get people more and more comfortable with television. That said, I believe the tipping point – and I say this from 20-some-years of experience in the digital space –

marketing is nothing if not a me-too industry. And so as we see some big advertisers have tremendous success and grab share through data driven television, then others will very quickly adopt those strategies.

In terms of the impact of any consolidation in the industry on us, I don't worry so much about any of that. Rather, I've always believe that complexity is our friend. And whether that's complexity of industry changes, complexity of heightened regulations, complexity of new technologies, whenever those things occur, our clients naturally are as confused as anyone, and they look to us to help shepherd them through all those changes. So I like the fact that we live in an environment that is changing rapidly, because I actually think that heightens our important to the ecosystem around us.

Q

Thank you very much.

A

Warren C. Jenson

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

Thank you.

Operator: This concludes the Q&A portion of the call. I'd like to turn things back over to Mr. Warren Jenson, President and CFO of LiveRamp.

Warren C. Jenson

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

Well, thanks, everyone, for joining us today. I'll conclude with just a few final thoughts. We're nearing the completion of our transition and we'll enter the next phase of our life cycle from the position of considerable strength. Our business is performing beautifully. We're an integral part of our customers' work flow, we have a huge addressable opportunity, a great team, and a balance sheet that is the envy of our peers.

We're in the middle of a strong, secular wave. Data is the key to customer intimacy, and our solution is key to unlocking the potential of data. We enable a level playing field and a competitive ecosystem. We're building a growth engine to deliver not only short-term results, but also growth for the medium and long-term. And finally, everyone, we can't wait to have you join us at RampUp in two weeks. Thanks, again, for joining us today.

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