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LiveRamp Holdings, Inc. (RAMP)

Q4 2024 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Operator: Good afternoon, ladies and gentlemen, and welcome to LiveRamp's Fiscal 2024 Fourth Quarter Earnings Call. All lines have been placed on mute to prevent any background noise. After the speakers' remarks, there will be a question-and-answer session. [Operator Instructions] As a reminder, this conference call is being recorded.

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

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

Thank you, operator. Good afternoon and welcome. Thank you for joining our fiscal 2024 fourth quarter earnings call. With me today are Scott Howe, our CEO, and Lauren Dillard, our CFO. Today's press release and this call may contain forward-looking statements that are subject to risks and uncertainties that could cause actual results to differ materially. For a detailed description of these risks, please read the Risk Factors section of our public filings and the press release.

A copy of our press release and financial schedules, including any reconciliations to non-GAAP financial measures, is available at liveramp.com. Also, during the call today, we'll be referring to the slide deck posted on our website.

And with that, I'll turn the call over to Scott.

Scott E. Howe

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

Thank you, Drew. And thanks to everyone joining our call today. As I've done in past year ending earnings calls, today I'll strike a balance between talking about the quarter and the year that just ended and perhaps, more importantly, provide a bit of color around what we intend to accomplish across the coming year.

We ended fiscal 2024 on a high note, with Q4 revenue and operating income exceeding our expectations and a positive inflection in several key performance indicators. As we look ahead to FY 2025, we like our strategic position. Our Data Collaboration Platform seems well positioned to capitalize on the growing need for secure first-party data collaboration and to sustain addressable digital advertising in a world of third-party signal loss. Operationally, we also feel as if there are still a lot of ways we can run the business even more effectively and efficiently.

Before turning to our FY 2025 priorities, however, let me spend some time on Q4 and FY 2024. Q4 revenue growth exceeded our expectations across the board with total revenue up 16%, Subscription up 11% and Marketplace up 38%. Revenue was ahead of our guidance by $12 million or 7% and non-GAAP operating income was ahead by $3 million or 20%. Revenue growth came a long way in FY 2024.

You might recall that our initial guide 12 months ago was for revenue growth of 2% to 4%. Over the past year, we actually grew our top line at 11% or 10% on a like-for-like basis, excluding Habu. The majority of the upside was driven by our Marketplace business, but Subscription also over performed in the fiscal second half.

Subscription revenue growth, after positively inflecting in Q3, accelerated again in Q4 by 1.9% on a like-for-like basis. This growth acceleration demonstrates the progress we made throughout FY 2024, improving our sales productivity and customer retention.

The best leading indicator of Subscription revenue is ARR or annual recurring revenue. And in Q4, growth accelerated for a second consecutive quarter. On a like-for-like basis, ARR grew by 7%, a 1-point acceleration sequentially and the fastest quarterly growth since Q3 FY 2023. We continued to see positive momentum in new logo bookings in Q4. Last quarter, I highlighted that Q3 was our highest quarter for new logo dollar bookings in over two years.

Well, Q4 was the second highest and just 1% below Q3. We signed a new three-year contract with a seven-figure annual value with a major home improvement retailer for a bundle of our solutions across identity, connectivity and data collaboration. We signed another seven-figure annual contract with a multi-year term with a major pharmacy retailer for identity and connectivity.

We also continue to successfully upsell our existing customers. Our subscription net retention was better than we expected at 103%. This is still below the levels we aspire to achieve, but I'm pleased with the progress we made in FY 2024, improving retention by 6 percentage points. We had a notable seven-figure upsell with a multi-year term with a major pharmaceutical manufacturer for our identity onboarding solutions.

We had a high six-figure upsell with a two-year term with a major cosmetics and beauty retailer for our clean room and data collaboration solutions. These customer wins speak to the broader success we're having with the largest, most innovative brand customers.

In Q4, our $1 million-plus customer cohort count increased by 10 quarter-on-quarter to 115, equaling our highest net add quarter on record, and FY 2024 was our best fiscal year on record with 20 net $1 million dollar plus customer adds. While I am pleased with our progress in FY 2024, there remains room for improvement.

The entire LiveRamp team is focused not just on sustaining our current momentum, but hopefully improving upon it. I am energized about the opportunity in front of us with our Data Collaboration Platform and the industry megatrends that should continue to be a wind at our back from the transition from third-party signals to authenticated addressability, to accelerating growth in major CTV and commerce media providers, to cloud computing and artificial intelligence. All of these market trends are seemingly poised to drive incremental demand for our solutions and it's our responsibility to seize this opportunity.

We have four overarching corporate priorities for FY 2025. First, enhance both our products and customer experience to help improve customer retention while positioning us for greater upsell success. Second, extend our leadership position in data collaboration. Third, scale our partner and connectivity ecosystem. And fourth, simplify LiveRamp for our customers and employees.

I will elaborate on each of these in a minute. But the common thread is that if we successfully execute on these priorities, then we will continue to make progress with our primary financial objective of becoming a Rule of 40 company. Starting with upgrading our products and customer experience to improve customer retention, this is and will always be an ongoing effort as great customers always expect constant progress. But let me share a few examples.

First, we have better aligned our pre and post-sales teams to more efficiently and effectively onboard new customers and reduce the amount of time between contract signing and go live. Second, we continue to modernize our technology to facilitate greater scale and faster turnaround time. Third, we've upgraded all customers from cookie-based workflows to our RampID, which readies them for PAIR and other non-cookie integrations where the advertising performance typically is significantly better. Finally, we deployed dedicated resources to help our activation customers expand the number of destinations where their first-party data is being used.

Our internal data tells us that both customer retention and profitability are positively correlated to the number of publisher destinations to which our customers activate their first-party data. We made significant progress with customer retention in FY 2024, but we think these initiatives and others will help us continue improving in FY 2025.

Our second priority is extending our leadership in data collaboration. Data collaboration helps companies manage and optimize data that is siloed across a growing number of cloud computing environments. Data collaboration is also an antidote to third-party cookie deprecation and other signal loss.

In a recent eMarketer survey, advertisers and publishers were asked, which solutions held the greatest promise of replacing cookie-dependent solutions? The number one response from approximately half of the advertiser and publisher respondents was first-party data activation. We believe this is particularly true for the largest, most sophisticated companies. After all, first-party data is not equally distributed across the ecosystem. Some companies are rich in first-party data, like retailers and major publishers, and others are first-party data poor.

Our Data Collaboration Platform provides a solution for this data inequality by enabling the secure sharing of first-party data with trusted business partners for mutual benefit. In a manner similar to the mutual benefits, retailers and CPG companies get through data sharing in retail media networks.

Habu is an important component of our data collaboration strategy. We're now four months into the Habu acquisition and I'm convinced the influx of both talented people and elegantly simple yet sophisticated technology make us a better company and position us for greater long-term success.

We have already integrated Habu's clean room technology into our Data Collaboration Platform. The onboarding of our new colleagues was fairly easy, given our shared excitement about the future. And the talented Habu leadership team has been given expanded responsibilities and access to even more resources.

Customers are responding positively to Habu's product, particularly its key differentiators of seamless cross-cloud interoperability, customizable analytics and walled gardens and a simple user-friendly UX.

As a result, our sales pipeline continues to scale. One month after the deal closed, our incremental data collaboration pipeline was $30 million. And now, four months in, it's over $40 million. While Habu's capabilities are a key component of our data collaboration strategy, together they are only one part of a much broader holistic offering.

At RampUp in February, we officially launched the next generation of the LiveRamp Data Collaboration Platform, modernizing and unifying our identity, connectivity, data access and data collaboration capabilities on to a single composable platform. The modernized platform introduces new capabilities such as a simplified user interface, new ingestion pipes that reduce processing time and accelerate speed to value, composable technology for cross-cloud interoperability to unlock data collaboration partnerships and an expanded partner marketplace, where third-party developers can build custom applications.

By bringing all of our capabilities into a single seamless user interface with simplified orchestration, customers are able to more easily connect audiences across partners and unlock greater value across all of their data collaboration needs.

In addition, we will continue to invest this year in unifying our back-end systems to modernize our platform architecture to drive improved speed, stability and scalability. This matters to our clients, many of whom have scaled their usage of our platform in ways we never imagined even a few short years ago. The combination of technology, scalability and network density help extend our leadership position in data collaboration as well as help with our first corporate priority of improving customer retention.

Our third priority is to continue scaling our partner and connectivity ecosystem. This has long been a key competitive advantage as the efficacy of our product is in part a function of where and how our technology can be used.

Network scale matters and we have the world's leading ecosystem across publishers, technology platforms and data providers, all either powered by or being upgraded to post-signal solutions. Our Authenticated Traffic Solution or ATS has been in the making for five-plus years in anticipation of third-party signal loss. Today, ATS is a fully scaled solution that connects publisher and marketer data to better personalize and measure advertising across channels and across geographies.

ATS has been adopted by over 21,000 publisher domains, including 75% of the Comscore 100 publishers and it connects to over 92% of US consumer time spent online. Irrespective of Chrome's deprecation timeline, the digital advertising market has largely moved beyond third-party cookies.

Marketers look to reach their consumers, not just on Chrome browsers, but across the compelling channels of Safari, mobile in-app, retail media and CTV. ATS is omni-channel. We've partnered with Disney+, Tubi, NBCU, Paramount+ and many more pubs and these partnerships are not limited by the cookie.

ATS is available wherever a consumer is today and will be in the future and we envision a future where today's connections with major platforms, publishers and CTV providers increasingly are complemented by AI applications and new consumer touch points.

Additionally, we have partnered with Google's DSP, Display & Video 360, on its PAIR initiative. PAIR, which stands for Publisher Advertiser Identity Reconciliation, is DV360's answer to third-party cookie deprecation and allows advertisers and publishers to securely and privately reconcile their first-party data to enable personalized advertising.

Our role is providing the clean room infrastructure that allows advertisers and publishers to securely activate their first-party data on DV360. PAIR continues to scale adoption with large publishers, including CTV publishers like NBCUniversal. The early results from PAIR are highly encouraging. Our case study with Omni Hotels & Resorts showed PAIR campaigns delivered a 4x increase in conversion rate over traditional cookie-based targeting in DV360. And we've seen similar results in, as of yet, unpublished case studies.

A recent analysis of our brands who use PAIR showed that they were able to increase their match rates by 27%. This is meaningful incremental reach that is available today, because PAIR is not limited to Chrome, but is available across Safari, Firefox, Edge and CTV inventory. Results like this convince us that the industry should just embrace cookie-less alternatives like PAIR and ATS and stop fretting about deprecation timelines. But we'll make use of the extra time afforded to all by Google's recent announcement to delay full implementation until after the holiday shopping season.

In the coming months, in partnership with Google and others, we will continue to publish case studies and educate the ecosystem so they are ready for full cookie deprecation when it occurs in early calendar year 2025. As PAIR scales, the benefit to LiveRamp should show up in the form of, first, incremental activation from our existing subscription customers and, second, new logo opportunities that are doing first-party data targeting exclusively off third-party cookies today.

Of course, third-party cookie deprecation is certainly a catalyst for the adoption of PAIR. So, Google's decision to delay Chrome third-party cookie deprecation until early 2025 will have an impact on our PAIR opportunities. We think we've appropriately reflected this in the FY 2025 guidance Lauren will provide today. However, in the medium to long term, we remain well-positioned and we think improved advertising performance customers can achieve with PAIR will ultimately win out.

Finally, our fourth priority for FY 2025 is simplifying LiveRamp for our customers and employees. There's a plethora of coordinated activities that will ultimately simplify our technology and ease of use. We're always working to improve our UIs, simplify and streamline our contract processes, re-examine our pricing policies and modernize our technology.

One of the emerging initiatives is leveraging artificial intelligence, both internally to improve our own productivity and make our products better and externally to help our customers organize and accumulate the data that is the fuel for their own AI models and initiatives. Internally, we are using AI in a number of ways, from helping our software developers write code more quickly, to helping all LiveRampers find useful information more quickly through an AI-powered assistant tool with enterprise search.

More specifically, approximately 15% of our developers are now regularly using AI tools to assist with coding. And on average, these tools have generated an estimated double-digit percentage improvement in productivity. We are also incorporating AI into our Data Collaboration Platform and Data Marketplace that will provide ease-of-use and accelerated time-to-value benefits.

For example, our Habu technology offers Gen AI-powered data queries that can produce reports without requiring SQL coding skills, which makes the platform more usable for less technical business users.

In our Data Marketplace, we are training a proprietary AI model to accelerate our review of the data labels and descriptions provided by data sellers, which is critical to ensuring favorable buyer experience. Finally, we are using AI with our ID graph to drive increased accuracy and stability through a more sophisticated understanding of data fragment relationships.

Beyond our internal use of AI, the LiveRamp Data Collaboration Platform has a much larger and critical role to play in helping customers use data to propel their own AI initiatives. Our data collaboration and enrichment products and connected partner ecosystem help brand marketers improve the quality, quantity and diversity of customer data used. This customer data is the foundation for training generalized AI models and transforming them into the kind of proprietary models that produce brand-specific predictive customer insights, such as optimized segmentation, interests, propensities and affinities. Ultimately, these AI-powered insights help brand marketers deliver personalized marketing experiences more effectively and efficiently.

In closing, let me reiterate what I believe to be the key themes from the quarter. First, Q4 was a strong finish to FY 2024, with revenue and operating income exceeding our expectations and a positive inflection in several key performance indicators. Notably, the growth in ARR, which is the best leading indicator of our fixed subscription, accelerated for a second consecutive quarter to double digits on a reported basis.

Second, we're not satisfied. As we look ahead to FY 2025, we have an ambitious set of corporate goals and priorities that will, if we successfully execute, help us advance toward our goal of being a Rule of 40 company.

Finally, we believe we're well-positioned against the trends that matter. Our Data Collaboration Platform is well-positioned to capitalize on the growing need for secure first-party data collaboration to sustain addressable digital advertising. Our platform provides the right capabilities and there are multiple industry megatrends working in our favor, including the shift to cloud computing, the proliferation of AI tools and marketing, growth in new walled gardens in CTV and commerce media and, of course, the rise of authenticated addressability over third-party signals.

Thank you again for joining us today and a special thanks to our exceptional, exceptional customers, partners and all LiveRampers for their ongoing hard work and support. We look forward to updating you on our progress in the coming quarters.

I will now turn the call over to Lauren.

Lauren Russi Dillard

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

Thanks, Scott. And thank you, all, for joining us. Today, I will cover two topics. First, a review of our Q4 financial results and second, provide our outlook for FY 2025 and Q1. Unless otherwise indicated, my remarks pertain to non-GAAP results and growth as relative to the year-ago period.

Starting with Q4, we had a strong finish to FY 2024, with revenue and operating income exceeding our original expectations. Revenue came in at $172 million, $12 million above our guide. And operating income was $16 million, $3 million above our guide. Operating margin was 9% and we generated $28 million in operating cash flow in the quarter and $106 million in the fiscal year.

Let me provide some additional details. Please turn to slide 5. First, as a reminder, we closed the acquisition of Habu on January 31. Consistent with what we shared previously, the transaction contributed $2 million of revenue in the quarter or approximately 2 points of subscription growth and roughly $3 million of expense. As you would expect, it also positively impacted our other revenue metrics.

Total revenue was $172 million, up 16%, with Subscription revenue and Marketplace & Other significantly ahead of expectations, driven primarily by continued sales execution and a stronger-than-expected digital advertising market. Subscription revenue was $134 million, up 11%. Fixed subscription revenue was 9% and usage as a percentage of total subscription revenue was 14%, in line with the historical 10% to 15% range.

ARR was $467 million, up 10%, reflecting a $12 million impact from Habu and continued growth in customer upsell and new logo. Subscription net retention was 103%, 2 points better sequentially and ahead of our expectation. The outperformance was driven in part by Habu and by strong upsell of our clean room and connectivity products. Current RPO or our next 12-month contracted backlog was $414 million, up 23%. Total RPO, including contracted backlogs beyond the next 12 months, was up 20% to $566 million.

As a reminder, RPO and CRPO are very sensitive to the timing of renewals and to contract durations. And given our focus on large enterprise customers and shifts to more multi-year deals, both of these factors, again, benefited growth in the quarter.

Overall, we see some positives and challenges with the current selling environment. Our pipeline continues to build nicely and new logo activity remains strong in Q4, as Scott pointed out.

Importantly, our focus on large customers continues to yield results. In Q4, we added 10 new $1 million-plus subscription customers, matching our all-time best quarter. That said, our average sales cycle ticked up slightly in the quarter from recent trends of eight to nine months. In addition, we continue to experience softness with smaller, low-ACV customers, both brands as well as technology platforms, including ad tech that is experiencing some structural change.

Marketplace & Other revenue of $38 million increased 38%, driven by Data Marketplace, which grew 32% and accounted for 78% of Marketplace & Other revenue. Data Marketplace growth was aided by an easy year-ago comp, as well as a healthy digital ad market, with particular strength in CTV. We also continue to see strong growth in professional services, which accounted for approximately 30% of Marketplace & Other growth.

Moving beyond revenue, gross margin was 75%, flat year-on-year. Operating expenses were $113 million, up 16%, reflecting the acquisition of Habu and higher performance-based compensation. Operating income was $16 million, up from $14 million a year ago, and our operating margin was 9%. GAAP operating loss was $14 million.

Stock-based compensation was $25 million, down from $45 million a year ago, which included the accelerated vesting of certain non-NEO RSUs for tax planning purposes. Operating cash flow was $28 million, down from $31 million a year ago, due to higher cash taxes and working capital. For the full year, operating cash flow was $106 million, up from $34 million last year.

We repurchased $15 million of stock in Q4, bringing the full year buyback to $61 million. We have approximately $157 million remaining under the current authorization that expires in December of this year.

In summary, Q4 was a strong finish to the fiscal year, with revenue and operating income exceeding our expectations. Growth in subscription revenue and ARR positively inflected, returning to double digits, and subscription net retention was comfortably above 100%. Operating margin was stable on a reported basis and on a like-for-like basis expanded by 1 point.

In FY 2024, we generated over $100 million in free cash flow for the first time in our history and returned the majority to shareholders through our share repurchase program.

Please now turn to slides 12 and 13. Please keep in mind our non-GAAP guidance excludes intangible amortization, stock-based compensation and restructuring and related charges.

Starting with the full year, we expect revenue of between $710 million and $730 million, up 8% to 11% year-on-year. Our revenue guidance reflects the continuation of the Q4 momentum in the fiscal first half and slightly slower revenue growth in the second half, given limited visibility into the macro, as well as the potential for cookie deprecation to cause some short-term disruption among customers.

Cookie deprecation is, obviously, a big change to the digital advertising market and will require the industry and our customers to adapt. We don't have perfect visibility into how and when our customers adapt, particularly in the near term.

We see both opportunities and risks associated with cookie deprecation and the wider-than-normal range on our revenue guide reflects this. We expect subscription revenue growth to accelerate to the high-single digits and fixed subscription revenue is expected to grow high-single to low-double digits. Subscription usage revenue is forecasted to be roughly flat year-on-year.

We also expect international subscription revenue to be down mid-teens year-on-year, given our recent APAC restructuring. Our outlook for subscription revenue assumes net retention remains within a range of 100% to 105%, broadly consistent with the recent trend.

As Scott discussed, we have several initiatives underway to improve customer retention and we would hope net retention will improve as the year unfolds. For now, however, this is not embedded in our guide. We expect Marketplace & Other revenue growth to be between low-double digits and mid-teens. Underpinning this estimate is an expectation that Data Marketplace growth will be in line to above the growth in the overall digital ad market.

We expect a gross margin of approximately 75%. We expect non-GAAP operating income of between $125 million and $129 million. At the midpoint, this represents 21% growth and a margin of 18%, up approximately 2 percentage points.

Operating expenses are expected to increase mid-to-high single digits, of which the Habu acquisition accounts for approximately 3 points. The remaining growth reflects investments in our sales force, cloud strategy and scaling our partner network, partially offset by incremental savings from our offshoring initiative.

We expect stock-based compensation to be $116 million, up from $71 million last year. The year-on-year increase is primarily driven by two items. First, $23 million from the normalization of accelerated vesting in FY 2023. And second, $12 million associated with the Habu acquisition. We expect GAAP operating loss to be between $8 million and $4 million.

Lastly, we expect to return a significant portion of our FY 2025 free cash flow to share owners through our share repurchase program. We expect to spend approximately $15 million per quarter, depending on market conditions. We believe this is a great investment and will largely offset the impact of forecasted dilution.

Now, moving to Q1, we expect total revenue of $172 million, non-GAAP operating income of $25 million and an operating margin of 15%, up 100 basis points year-on-year. A few other call-outs for Q1. We expect subscription revenue to be up roughly 10% and Marketplace & Other revenue to be up high-teens year-over-year. We expect Q1 gross margin to be approximately 74% and we expect stock-based compensation to be approximately $29 million.

Before opening the call to questions, I'll conclude with a few final thoughts. First, we had a very strong Q4, ahead of our expectations on both the top and bottom line, demonstrating improved sales execution against the backdrop of healthy ad markets and our continued commitment to efficient growth. Q4 revenue growth returned to double digits, including low-double-digit subscription growth. For the year, we produced over $100 million in free cash flow and returned the majority to shareholders through our buyback.

And finally, FY 2025 will be a year of improved subscription growth compared to last year and continued margin expansion. Our revenue guidance reflects a continuation of the Q4 momentum in the fiscal first half and slightly slower revenue in the second half, mostly in the name of conservatism.

The swing factors within the revenue range will be, first, the health of digital ad markets as it relates to our variable revenue streams; second, sales execution, particularly with the assumed improvement in bookings driven by Habu in the second half; and, third, customer churn and downsell relative to the modest improvement assumed in our guide.

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

QUESTION AND ANSWER SECTION

Operator: Thank you. The floor is now open for questions. [Operator Instructions] Your first question comes from the line of Shyam Patil of Susquehanna. Your line is open.

Shyam Patil
Analyst, Susquehanna Financial Group LLLP

Q

Hey, guys. Congrats on the nice results. I had a couple of questions on Habu. First one, can you elaborate on the integration and the customer response relative to your initial expectations? And then, second one, can you remind us of your financial targets for Habu in fiscal 2025? Thank you.

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

A

Yeah. Shyam, in terms of Habu integration progress, we've done this a few times now. We think we're pretty good at it. And it's complex. So, I'll talk about a few different pieces. First off and most importantly is always the people integration. And there, we've had 100% migration of Habu employees over to LiveRamp and I'm really pleased. I mean, this is an injection of world-class talent and fresh ideas, which is great for our company, because it brings new thinking, but it also energizes our legacy team.

It has also given us some bench strength. And if you look at the Habu leadership team, many of them have already taken on expanded roles within LiveRamp and others of them have taken on brand new challenges. And an example I would give is Matt Kilmartin. He's just a brilliant CEO, talented entrepreneur and the acquisition has kind of freed him from the day-to-day management grind. So, we're using his entrepreneurial skills to tap in. He's going to lead the charge on new use cases and verticals.

And as you know, Shyam, this is something we've talked about for a couple of years now, but we haven't ever made as much progress as we would like outside of advertising and marketing. And so, we feel like we have a good product. We got – with some small configuration or maybe some slight design mods, it's extendable to all kinds of other use cases. We just need someone smart and entrepreneurial, thinking about it all the time and driving the charge. And so, Matt is going to do that. So, very excited about the people integration.

The second big piece that is very visible to our clients is the product integration. And there, I'm really pleased. I mean, Habu has done a great job of building simple, yet elegant technology. And because we were starting to think about the technology integration well before we announced the deal, this was a pretty easy lift.

As importantly, we brought in an influx of talented engineers who can look at our architecture and product design for the first time with fresh eyes. The CTO over at Habu, a guy named Roopak Gupta, I mean, he's just brilliant. And the conversations that we've had together is, I've said, Roopak, challenge everything, because that fresh thinking is going to make us better. And the intersection of Habu's technology with LiveRamp's thinking is going to lead to a better outcome for our clients.

The third piece, which comes after the first two, is pipeline. And here, it came pretty quickly, because literally within a month of the deal, we had created $30 million of pipeline. We're now up to $40 million. I would tell you, clients are intrigued and I've spoken to a handful of our very largest clients. I've heard nothing but good things. And then, because we've done the first three right, I think performance comes next. And I would tell you that we're on track with the deal model.

Lauren can talk about that, unpack that a little bit more detail. But as importantly, we have really strong line of sight to what we need to do. And we're ensuring, through pretty aggressive project management, that our teams are moving fast. And we're removing the obstacles in front of them.

I don't know, what'd I miss, Lauren?

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

A

Yeah. Hi, Shyam. With respect to the second part of your question on our financial targets, as we shared in the call, we added about $12 million of ARR in Q4, which you can think about as the inorganic contribution to growth in 2025. We continue to target $18 million of revenue in 2025. Again, this is a synergized number, so inclusive of a few million of synergies from cross-sell in the back half of the year.

A point I would make and Scott just made it as well, but Habu is being fully integrated into our platform. And given the strong opportunity for cross-sell of LiveRamp products alongside Habu, drawing the line between LiveRamp and Habu will become increasingly challenging as we move through the year.

And then, just a final point, on the bottom line, we continue to target breakeven on an op income basis, which equates to about 1 point of dilution on op margin in 2025.

Shyam Patil
Analyst, Susquehanna Financial Group LLLP

Q

Great. Thank you, guys.

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

Jason Michael Kreyer
Analyst, Craig-Hallum Capital Group LLC

Q

Wanted to stick with Habu. We've talked about that the last couple of months as kind of being a plug-and-play solution for smaller marketers. I'm just curious, any updates on that, any progress with smaller customers in the quarter or what we should anticipate for the evolution of that being a better solution for the lower end of the market?

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

A

Yeah. I mean, that's certainly part of our pipeline. And no particular updates in terms of new clients to share that I didn't talk about in my prepared remarks. So, I feel pretty good about that. I ultimately think one of the bigger catalysts is still out in front of us. I believe that when we get across the finish line on cookie deprecation, that's going to be the biggest catalyst that we've seen for adoption of a Data Collaboration Platform, because you need one in order to activate in DV360. And DV360 is the market share leader along with Amazon's DSP.

It drives the most tonnage on most media plans. So, most advertisers are going to have to embrace what we do if they want to avoid disruption in their advertising efforts. So, we're a little bit bummed about the slowdown in deprecation probably more so, because having planned for this for five years, I just want it behind us and to start talking about the glorious future as opposed to what's to come, but I think all good things in store for the future of clean rooms.

Jason Michael Kreyer
Analyst, Craig-Hallum Capital Group LLC

Q

Thanks, Scott. And then, like a month ago, Google announced that they're moving PAIR to an open source platform in conjunction with the IAB. Just curious if there are any implications there. Wondering if this kind of broadens the reach of PAIR by expanding the developer network in making it available to more developers, but curious your thoughts on the opportunity.

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

A

Well, we'd sure like to think so. I love the fact that Google open source that and put it into the hands of the IAB. The more standardization that there is around adoption of authenticated ways to buy, bifurcated consents at both the buyer and seller side, that's the future, is to get consented users. And so, the more that that can take wing, not just with Google, but with major CTV players, with all the social media platforms, it's just better for the entire industry, but fuels more standardization. And we've seen the great returns that you get through PAIR. It's pretty significant lift, not just for advertisers, but also for publishers in terms of their yield. So, everything that Google can do to spread adoption is something we're cheering for.

And I should also just say, I mean, a big chunk of our summer here at LiveRamp is going to be spent out in the road evangelizing. We'll take use of the extra time Google afforded with their PAIR deprecation timeline to educate and evangelize the offering in the market, in many cases with Google. So, we'll be doing some stuff with them at Cannes next month and just a lot of road shows, seminars, things like that to ensure that the market is ready.

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

Elizabeth Porter
Analyst, Morgan Stanley & Co. LLC

Q

Great. Thank you so much. I just wanted to follow up on your comment about kind of the bigger catalyst being data collaboration and really needing it for DV360. I understand that the timeline to recognize some of this opportunity has been pushed out a bit. But any sort of framework you're providing in terms of how to think about sizing the opportunity tied with PAIR and how that could impact LiveRamp?

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

A

Yeah. Well, first off, Elizabeth, and I'm sure that Lauren can dive into this a little bit more, I would tell you if you look at our guidance, I mean we're being what we think is appropriately conservative with respect to PAIR. And with the timeline now really shifting into the last quarter of our fiscal year, so that January to March timeline, yeah, we won't see a huge impact of it in our year this year, but we've been very what we think appropriately conservative, because there's just going to be gives-ins and gives-outs.

Remember that you have an entire industry that was built on cookies and has operated on them for the last 30 years and we got nine months to get them fully ready for the cutover. And my guess is we'll be pretty successful with the sophisticated advertisers, but there's probably going to be a lot in the industry who won't be ready. And so, it'll be interesting come next calendar Q1 to see how that plays out. It wouldn't surprise me if there's a stall as folks figure out what they're doing operationally before there's an acceleration.

That said, as you know, Elizabeth, we're out in the market telling folks not to wait, because the same techniques that can be utilized in PAIR, it's just an extension of what folks are doing in cookies today, but it gives you pretty significant incremental reach, because it allows you to reach the consented users on Firefox and Edge and Safari. And that drives a pretty significant increase in performance.

So, we're going to try really hard to prepare the industry and get them converted well before next Q1, but I just think it's a little bit unpredictable. Now, the last thing I would say is, initially, we think that we'll see the first impact on just usage, because people will switch from cookies to true authentication and everything that they do. It'll make our existing clients even stickier. It might drive some incremental usage. That's particularly true as authenticated methods extend to the major CTV providers.

But then, the next catalyst will really be not seen in our subscription usage as much as just clean room adoption. We think that virtually everybody is going to need to have a clean room to do the kind of addressable advertising that they've grown used to. And that should be a catalyst for us both in the US to win potential new clients, but then also internationally, where, in many cases, Google's market share internationally, DV360's market share internationally is much higher than it is here in the US.

Elizabeth Porter
Analyst, Morgan Stanley & Co. LLC

Q

Great. Thank you so much. And just as a quick follow-up, it was good to see the new logos start to increase quarter-over-quarter after being flat to down earlier in the year. So, could you just talk about kind of where are the incremental kind of customers coming from? Is this momentum with cloud partners, kind of Habu? And how should we think about just the durability of net adds?

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

A

Yeah. Hi, Elizabeth. Lauren here. Great question. And as we've mentioned in the past, there are lot of moving pieces with respect to customer adds and Habu did benefit this metric in the quarter. On an organic basis, customer count was roughly stable in Q4 and the trends that we have been seeing in recent quarters played out again in Q4, which is continued strength in high ACV brand customers, partially offset by continued pressure with lower ACV customers, particularly in the ad tech cohort.

As we look ahead to FY 2025, we would expect overall customer count to be somewhat muted, again given the dynamics that I just mentioned. That said and we've discussed this in recent quarters, we have shifted our sales focus to larger, higher LTV brand customers over the past year plus and you really see that play out in metrics like our $100 million customer count, which grew nicely in FY 2024, and we would expect to continue to grow nicely into FY 2025.

Elizabeth Porter
Analyst, Morgan Stanley & Co. LLC

Q

Great. Thank you so much.

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

Mark Zgutowicz
Analyst, The Benchmark Company, LLC.
Q

Thank you. Hi, Scott and Lauren. Congrats on an exceptional quarter. Just a couple questions from me. On the pipeline, $30 million, I guess it's $40 million now since the Habu acquisition. I'm curious if you think about what's driving that, maybe this split between demand for walled gardens, self-service, cloud interoperability from your existing clients versus new verticals, accelerating subscription outside of retail and CPG. If you could maybe provide some color there, it would be helpful.

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

Yeah. It really is both. So, if I think back, a year, two years ago, we, obviously, had a lot of success powering the retail media networks. But even in my prepared remarks, the examples that I gave went beyond retail. So, I talked about a pharmaceutical, for instance, company and we're also doing some really interesting things in travel. And not surprisingly, some of the most interesting things that we're starting to talk about and you're starting to see are actually in the entertainment space. It's the case that as you think about a world that increasingly first-party data is going to be really important, well, who has great sources of first-party data? The major publishers and they're not all named Google and Facebook.

You think about all of the CTV providers that you authenticate every time you log in. They have deep viewership information and they know a lot of demographic information as well. And so, kind of the clean room capabilities that any advertiser can spin up with those destinations is pretty powerful. So, I think retail and packaged goods gave every other industry a roadmap to follow here.

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

And, Mark, maybe just to put some additional color against that, if we look at the collaboration or clean room deals we won in Q4, about half were with retail and CPG, but half were with the companies that Scott just mentioned, so publishers, travel and entertainment companies, automotive companies, healthcare. And if we look at the composition of our pipeline and the pipeline created, it kind of mirrors that split.

Mark Zgutowicz
Analyst, The Benchmark Company, LLC.
Q

Got it. That's helpful. And maybe on the new verticals, is it too early to start talking about a potential sizable TAM expansion here, outside of the CPG and retail? Meaning do you have adequate sales capacity to sort of address these newer verticals? Is that expanding, will that sort of TAM expand as you add more capacity there or is that just a learning curve more with those industries and that just takes time?

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

I feel really fortunate. I think we're a little bit ahead of this one, because if you recall a couple years ago during the Great Resignation, we really saw a big exodus for a short period of time to our sales force and we used that opportunity when we backfilled to remake our sales force. We actually created vertical industry groups. So, now, we have a retail group. We have a financial services group. We have experts in travel.

And that's so important. When LiveRamp was formed, we used to be able to go in and wow people just talking about the technology. But now increasingly, particularly given the fact that we have higher-level audiences within the clients we're calling on, oftentimes it's the CMO or the CEO. We have to go in and talk in their language. We have to understand how does the airline industry work, for example? How do airlines make money in future? How are they going to monetize their screens on their seat-backs and personal entertainment devices that you use in flight? And so, by hiring that way for the last couple years, I think it's actually improved our sales productivity and actually driven some of the success we're seeing in these new verticals.

Mark Zgutowicz
Analyst, The Benchmark Company, LLC.

Q

Sounds great. Thanks very much. Appreciate it.

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

A

Thanks, Mark.

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

Peter Burkly
Analyst, Evercore ISI

Q

Yeah. Hi, Scott, and hi, Lauren. This is actually Peter Burkly on for Kirk. I'll echo my congrats on a nice quarter.

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

A

Thanks, Peter.

Peter Burkly
Analyst, Evercore ISI

Q

So, [ph] a lot to like (00:58:29) here, a couple metrics that really stood out to us, the large customer growth of $1 million customers and then the NRR acceleration. So, Scott, maybe I'm hoping I can start with you just on the large customer growth. Does this feel like a broader opening up of wallets dynamic or is this reflective of the strong momentum in the Data Collaboration Platform, which are generally larger deal sizes?

And then, Lauren, maybe just as a second one, on the NRR metric, understanding the color on with Habu's contribution and assuming the large customers are acting as a tailwind here. But I'm curious, the sort of pressure on the NRR has been contraction at the lower segment of the market of your customer base and sounds like that's sort of continuing on. But I'm just curious, given the acceleration and kind of the go-forward color, does it feel like that's sort of stabilizing or perhaps even inflecting just in terms of that lower customer contraction and just a little bit more trouble at the low end? Thanks.

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

A

Yeah. So, Peter, I'll start with the first. If you looked at our cohort of largest clients, these million-dollar plus-a-year spenders, I think you would recognize almost every single one of them as being kind of major advertisers, brands that you trust, really strong consumer brands. And we did a detailed analysis of – we did a big customer segmentation about a year ago. And what we found is that those sophisticated large spenders share some characteristics in common.

They're, obviously, more profitable to us. The churn rate for those is significantly less. But the most interesting insight was the number of activations that they had. And for the largest clients, I can't remember exactly the number, but it was in excess of 18 activations that they had. And when you have 18 activations, you're lighting up different destinations, maybe point of sale, certainly a lot of different properties. You're a lot more sophisticated about what to do with your data.

You probably are much more likely to want to have a clean room and set up data collaboration with partners. You're certainly much more likely to want measurement back. And so, they just start becoming power users. And so, I don't think it's a function of the macro or budgets becoming easier to get or anything like that.

I think it's just a function of, those are more sophisticated companies, they've learned how to use their data effectively and they're trying to do even more with their data. Our challenge internally is how do we get some of our smaller companies to look more like those big companies? So, we're kind of laser focused on making sure that everybody activates more destinations on their media plan, which is going to lead them to adopt more usage with us.

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

A

And, Peter, with respect to your question on NRR, I will just again point out that Habu contributed a couple points to NRR in the quarter. Outside of that, we are seeing some stabilization with our lower ACV customer cohorts, but the bigger driver continues just to be stronger contribution from up-sell with our largest customers as they adopt clean room and collaboration use cases.

Peter Burkly
Analyst, Evercore ISI

Q

Very helpful. Thank you both.

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

A

Operator, we have time for one more question.

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

Brian Fitzgerald
Analyst, Wells Fargo Securities LLC

Q

Thanks. Scott, I want to follow up on your PAIR's commentary. Obviously, there are thousands of DV customers out there and it seems like DV360 customers need to use PAIR to target ads off of first-party data and measure performance after deprecation. Has Google built free tools to access PAIR via data hubs or otherwise? It seems like you are far and away the most important partner for Google's messaging about PAIRs, the announcement with NBCU and so on, and customers more or less need to adopt. Is that a correct way to view the opportunity expansively or are there other considerations, free tools, more clean room partners likely to be named over time? Any other reason to look at it more conservatively?

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

A

I'm sure that there will be more partners over time. We were fortunate to be one of what are now two launch partners, Habu, LiveRamp, and then there was a third. So, we actually comprise two-thirds, I guess, of the original launch partners for this. And the deal is they're not building the technology. Rather, they're mandating that someone who does [ph] PAIRing (01:04:05) has a clean room partner. Google wants to be agnostic in this and they want to ensure that someone can ensure that, on both sides, the consents have been obtained and handle the security and anonymization that occurs. Now, all that said, I would tell you anecdotally that it felt like, for a long time, we were having a lot of conversations with the Google product team.

And we were really involved going back and forth with suggestions around their design and doing a lot of process mapping. Since January, the switch has really flipped on with the Google commercial teams. For example, they invited me to come speak to their sales leadership in New York about a month ago. And likewise, their [ph] AdPlat (01:05:06) sales leader came and spoke to LiveRamp's entire sales organization when we had our sales kick off a few weeks ago.

We're going to be out in market with them, educating and evangelizing. I mentioned we'll do some stuff with them at Cannes which is coming up here in a couple weeks. And then, we have a lot more things planned to educate and evangelize. I think the biggest barrier here isn't the technology at all. It is just kind of the inertia of 30 years of people using cookies and just educating them that there's a better way. And although it requires a process switch and that may be painful, as soon as you do it, you unlock better results. So, that will be the key messages you'll hear both from Google and from us in the coming months.

Brian Fitzgerald
Analyst, Wells Fargo Securities LLC

Q

Got it. Appreciate it.

Operator: I'll now turn the call back over to Lauren Dillard for closing remarks.

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

Thanks so much. So, in closing, we ended FY 2024 on a high note with both revenue and operating profit outperforming our original expectations. As we look ahead, FY 2025 will be a year of improving subscription growth and continued margin expansion. Our revenue guidance reflects a continuation of the Q4 momentum in the fiscal first half and slightly slower revenue growth in the second half, mostly in the name of conservatism.

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

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