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LiveRamp Holdings, Inc. (RAMP)

Q4 2021 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Operator: Good afternoon, ladies and gentlemen, and welcome to LiveRamp's Fiscal 2021 Fourth Quarter and Fiscal Year-end Earnings Call.

At this time, all participants are in a listen-only mode. After the speakers' presentation, 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, Lauren Dillard, Chief Communications Officer.

Lauren Dillard
Chief Communications Officer, LiveRamp Holdings, Inc.

Thank you, operator. Good afternoon and welcome. Thank you for joining us to discuss our fiscal 2021 fourth quarter results. With me today are Scott Howe, our CEO; and Warren Jenson, President and CFO.

Today's press release and this call may contain forward-looking statements that are subject to risks and uncertainties that could cause actual results to differ materially. For a detailed description of these risks, please read the Risk Factors section of our public filings and the press release.

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

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

Scott E. Howe

Chief Executive Officer & Director, LiveRamp Holdings, Inc.

Thank you, Lauren.

Good afternoon and thanks for joining us today.

In preparing for this call, I reflected back to the last time we spoke when our stock price was hovering around $80. What a difference three months can make. And I've reflected on the old Benjamin Graham quip that states within the short run, the stock market is a voting machine, but in the long run, it is a weighing machine. Given this, I wanted to focus my remarks on three specific investment themes, our strategic position, our top line growth prospects and our operating characteristics. In each, I feel like we are even better positioned than when we last spoke.

First, our strategic position. While it is now widely accepted that the ability to interpret, enhance and activate data is a critical and enduring component of most companies' success, the past 12 months witnessed significant change in the data ecosystem. Google affirmed its intention to retire third-party cookies. Apple instituted changes to IDFA and regulation throughout the world placed heightened emphasis on consumer privacy, transparency and choice. Our clients and partners look to LiveRamp to determine how best to navigate this changing landscape. And we believe industry complexity further enhances our strategic position.

For example, recognizing that cookies were an antiquated technology, LiveRamp began developing an alternative for the industry, the Authenticated Traffic Solution or ATS several years ago. Given its widespread adoption, better performance, global reach and privacy-first approach, we're now finding that our Authenticated Traffic Solution represents a key differentiator in virtually every client conversation.

ATS is critical on our new logo efforts where we once again posted some meaningful wins and also has the potential to catalyze even greater adoption of our platform. While we do not intend to charge publishers or our media platform partners for use of ATS, over time, we expect the Authenticated Traffic Solution to drive increased platform usage and cross-sell of newer use cases like conversion, analytics and personalization that were previously served by the third-party cookie.

In addition, our industry authentication solution significantly accelerates our international expansion efforts and opens up new addressable markets in geographies we have not historically served. Just two years ago, we were in the US, UK, France, Australia and China. Today, our geographic footprint also spans Spain, Italy, Germany and Japan, and continues to grow.

We're at critical scale today with the Authenticated Traffic Solution and global adoption continues to build. To date, more than 400 publishers worldwide have adopted ATS to offer marketers a more efficient way to reach audiences and measure performance. We've supported more than triple the number of ATS-enabled campaigns in Q4 relative to prior quarter and more than 100 of our brand customers have already shifted spend to use our industry authentication solution.

Most importantly, the industry is embracing ATS because it is a better solution than what it is replacing. Our authentication solution is the only truly neutral omni-channel and global technology available. And as a result, publishers make more money, marketers generate higher returns and consumers gain greater control and transparency over their data.

For too long publishers have ceded control of identity and their first-party relationships to the browsers or other platforms that have profited and built segments using publisher data collected via the third-party cookie. As the only neutral and media agnostic solution in market, we don't care where or what media is bought. All we want to do is enable the connection of data to inventory, where the publisher and marketer wish to transact. This is why publishers like Microsoft, one of the world's largest publishers, are seeing initial results of 40% higher CPMs when leveraging ATS.

Marketers, marketers are also seeing better results when using ATS. Forrester recently published a report that independently evaluated ATS's performance relative to third-party cookies and the results verified the superior performance we generated. Forrester found that advertisers deploying our industry authentication solution can generate a 340% ROI improvement over three years with a payback period of less than six months. In a separate series of case studies, a leading international hotel chain generated a 400% increase in bookings and a well-known consumer electronics brand drove a 200% return on advertising spend when leveraging ATS. These types of results are game changing for our customers.

I've often been asked by analysts and shareholders how we compare against other identity providers that have more recently emerged in the wake of cookie changes. Notwithstanding the fact that we either private label or allow many of these partners to ride in our carriage, we feel we are very well-positioned for the future. Two important points. One, we are far broader than alternatives when evaluated by use cases. And two, unlike some US-first alternatives, we've built our products for the more exacting privacy standards of GDPR. As a result, we're the only company that offers a truly global capability. We included a couple of diagrams in our appendix that illustrate both of these points.

I share this data as evidence of an important theme. We believe industry disruption is a good thing for our business, as the resulting uncertainty makes us an even more valuable adviser to our clients and gives us natural opportunities for game-changing innovation. Second, revenue growth. On our May call a year ago, we talked about navigating FY 2021 from a position of strength by doubling down on our customers, supporting them through their digital transformations and by leveraging our durable business model and strong financial position. And we did just that, throughout an unprecedented pandemic year, we still grew. For the quarter, total revenue and subscription revenue were both up 13%. Marketplace & Other also grew 13% driven by Data Marketplace which was up 25% and benefited from a steady recovery in digital advertising spend.

As we look to the future, our confidence is strong. In our last call, we discussed $30 million of revenue we have sunsetted associated with the deprecation of third-party cookies. We'll grow through this headwind as well.

Let me share four important proof points. One, we're winning with clients. Q4 represented yet another record bookings quarter with bookings for the quarter up more than 70%. For the full year, bookings were up 37%. Both pretty remarkable feats given the macro environment of the past year. This performance is a testament to both the value we deliver to our customers and our commercial teams' relentless focus on execution and customer success.

Two, we're winning with the largest companies. While our net customer adds metric has been pressured given the pandemic, the new logos added over the last year are more strategic and have the sophistication to leverage a wider set of our product capabilities. As a result, the average ACV of a new logo brand deal in FY 2021 was 50% larger than it was a year ago.

Three, we're building stronger selling capabilities. We're leveraging subject matter experts, a more disciplined approach to global account planning and a continued focus on whitespace analysis. In addition, over the course of the last year, in response to continued client requests, we launched the services business. While this does not represent meaningful standalone revenue, it allows us to educate our customers while helping them use LiveRamp more effectively. We're pleased with our progress to date. Inside of our overall bookings performance, upsell bookings were up 75% and we closed a record number of global deals in FY 2021.

Fourth, most importantly, we're well positioned for the future. In fact, recent conversations with customers and prospects make me confident our long-term opportunity is even bigger than what we had first envisioned. Our vision is to make it safe and easy for companies to use data. We did this initially by pioneering data onboarding, bringing our customers' offline data online to improve cross-channel advertising. While this remains a critical need for any customer-centric business, increasingly, we are discovering and our customers are discovering new applications and new markets for our products that even a few years ago would not have seemed possible.

You see this momentum reflected in both the steady growth in average brand ACV, which was up 28% in FY 2021, as well as in the continued strong growth of $1 million-plus customers which totaled 70 plus at the end of the year. There are so many great recent examples of our growing role across the enterprise. And I'd like to highlight a few today.

In Q4, we signed a multi-million-dollar new deal with a leading insurance provider and one of the largest advertisers in the US. In addition to leveraging LiveRamp to activate data-driven media campaigns, this organization wanted to develop a more sophisticated first-party data and identity strategy. They are using Safe Haven to unify their data assets and stand up a measurement and analytics environment to better understand the return on their media investments, and in particular, their advanced television spend in advance of the upfronts.

A second example is with a multinational automotive manufacturer, who has been a customer for several years. We significantly expanded our partnership with this customer in the quarter to help them build out their identity infrastructure. Once again, they are leveraging our Safe Haven capabilities to unify data across their different business units, dealership networks and agency partners to create a more holistic and connected view of their customers that they can then activate for display and social targeting via ATS.

A final example is found in the successes we've recently experienced with the consumer packaged goods sector. Our success in retail encourages growth in packaged goods and vice versa. In fact, two of our largest upsell deals in the quarter were with top 50 global CPG brands to enable onboarding from multiple digital and connected television destinations, cross-channel analytics and data collaboration.

Third, operating strength. While Warren will dive into our operating performance in more detail in his remarks, I did want to briefly touch on this third key investment theme. As is the case with most SaaS businesses, LiveRamp's model exhibits initial fixed costs with strong marginal economics and scale benefits. We saw this on display throughout FY 2021. I am pleased to share that this quarter marks our fourth consecutive quarter of operating profit, and for the full year, we generated $16 million of operating income. In FY 2022, we plan to increase our rate of investment in R&D to capture our growing Safe Haven and CTV opportunity, and expand our identity advantage. As we invest, we will deliver durable growth while also maintaining profitability.

In summary, looking back on the past year, what we feel more than anything is gratitude. Thank you. Thank you to our employees, customers, partners, and everyone else in the LiveRamp community for your ongoing support and hard work. Our strong execution and progress despite the unique macro challenges of FY 2021 give us even greater confidence in our future.

First, the market forces that have driven our success to date are gaining momentum. Businesses today must be digital-first and data driven in how they deliver customer experiences. And LiveRamp is playing a critical role in enabling both of these trends. We are strongly and strategically positioned for long-term success. Second, we're winning with clients and are well positioned for growth. Third, the strength of our operating model allows us to invest from a position of strength. Finally, but importantly, the recurring nature of our business gives us visibility and confidence about FY 2022. And we look forward to updating you on our continued progress in the quarters ahead.

With that, I will turn the call to Warren.

Warren C. Jenson

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

Thanks, Scott, and good afternoon, everyone, and thanks for joining us today. Q4 was a solid quarter, and even more importantly, we enter our new fiscal year from a position of strategic strength and with momentum. Today, I would like to focus my remarks on three areas. First, share a few highlights for the year and Q4. Next, discuss a few specific call-outs for the quarter. And finally, talk about our momentum and provide guidance for Q1 and FY 2022.

For the year, in one of the most challenging business environments, LiveRamp had a solid year. We grew, total revenue was $443 million, up 16%. We expanded gross margin. Our gross margin was 73%, up 600 basis points. We were profitable not only for the full year, but in every quarter too.

To put some perspective on our operating performance, on a $62 million increase to our top line, gross profit increased $69 million and our bottom line improved $80 million. While our expenses benefited from COVID-related savings of approximately $25 million, no matter how you slice it, the strength of our model was clear. And finally, we returned capital to our shareowners. During fiscal 2021, we repurchased 1.3 million shares for $42 million.

Please turn to slide 4. In the fourth quarter, total revenue was up 13% and subscription revenue also increased 13%. Overall Marketplace & Other revenue was also up 13%. Data Marketplace, which represents roughly 75% of ongoing Marketplace & Other revenue, was up 25%. Customer accounts were again up. In the quarter, we added 15 net new subscription customers. And as Scott mentioned, we had a record bookings quarter driven by our expansion levers, Safe Haven and CTV.

Current RPO, or our next 12-month backlog, was up $25 million sequentially. As a reminder, timing of renewals can and will cause volatility in this metric. ARR ended the quarter up 13% and net retention was 101%, while platform net retention was 104%. As a reminder, both our ARR and retention metrics were pressured by contraction associated with a few wholesale arrangements. In the quarter, this wholesale contraction had a $5 million impact on ARR and impacted our retention metrics by 2 points sequentially.

Beneath the top line, our business model is working and the trend lines are clear. For the quarter, gross margins improved 300 basis points to 74%, again another record for standalone LiveRamp. Productivity was driven by continued identity graph and hosting optimizations. We were profitable again in Q4. In the quarter, we estimate COVID-related savings to have been roughly $8 million. Operating cash flow was negative $18 million and free cash flow was also negative $18 million.

Two additional call-outs. In the quarter, we proactively took steps to take advantage of the loss carryback provisions of the CARES Act. As a result, we accelerated vesting of non-NEO equity awards scheduled to vest in the first half of FY 2022. This increased our quarterly charges for stock-based comp by approximately $23 million in Q4. And secondly, we prepaid certain qualifying service fees. This timing difference negatively impacted Q4 cash flow by approximately $20 million. While these timing-related actions negatively impacted our Q4 GAAP operating results and cash flow, they created meaningful shareholder value as we now expect to receive a tax refund of roughly $28 million after we file our tax return for FY 2021. Next, while we did not repurchase any stock in Q4, we have been in the market subsequent to quarter end and repurchased approximately 275,000 shares for $13 million.

In summary, we did what we said we would do in FY 2021. LiveRamp delivered a solid growth year and a strong operating performance.

Now, onto the guidance for Q1 and FY 2022. Before jumping into the numbers, I'd like to talk about the strength of our foundations and our momentum heading into FY 2022. First, our foundations are strong. ATS is now adopted by more than 400 publishers worldwide and is the only solution in market that is truly omni-channel and global. And it worked. It's a better solution than what it will replace. This year, we strengthened our platform. We made significant investments in platform usability, scalability and privacy preserving technology.

Next, momentum is building. First, we acknowledged the $30 million wholesale contraction is pressuring growth metrics in FY 2022. However, underneath this headwind, we have a very healthy business. Bookings have been strong, in particular, the last two quarters. Second half bookings were up 52% and for the year up 37%. International is rounding the corner. While bookings growth will precede revenue growth, second half bookings increased 190% and for the year were up more than 85%. At the end of FY 2021, we were supporting customers in over 10 different markets with plans for further expansion in the year ahead.

Next, our key expansion levers, TV and Safe Haven are on a roll. TV, bookings in the second half of FY 2021 increased over 80% and for the year were up more than 150%. ARR is up 61% and as we approach the upfronts, momentum continues to build from both the buy and sell side.

Safe Haven, second half bookings were up over 100% and for the year up over 150%. In FY 2021, both ARR and revenue were up well in excess of 100%. Safe Haven is global. Roughly one-third of our FY 2021 Safe Haven bookings came from outside the US. Safe Haven is an enterprise platform. When customers deploy Safe Haven functionality, they are addressing a set of use cases that leverage all of LiveRamp's capabilities which often extend well beyond media.

Our Safe Haven platform is now being used by more than 45 brands and has contributed meaningfully to the ACV expansion Scott mentioned. Further, we are building a strong network effect. In other words, our retail and CPG flywheel is taking shape. In the US, we now serve customers representing 30% of US grocery and big box retail, and in Europe, customers representing roughly 7% of grocery and big box retail, and we serve more than 30% of the 50 largest global CPGs, up from 20% just three months ago.

And finally, the operating characteristics of our business are very clear. Our gross margin is approaching our long-term target. We have demonstrated phenomenal operating leverage and we have shown we know how to be profitable. Add it all up, we feel the scales tip in favor of LiveRamp.

Now, on the guidance, please turn to slide 12 and 13. For the first quarter, we expect revenue of up to $112 million and a non-GAAP operating loss of up to $2 million. For the full year, we expect revenue of up to $509 million or roughly 15% growth and to be slightly profitable on a non-GAAP basis. Please keep in mind this guidance excludes intangible amortization, stock-based comp and restructuring-related charges.

A few other call-outs for Q1 and the full year. For Q1, we expect subscription net retention to be roughly 96% and platform net retention to be approximately 102%. Please note that in Q1, wholesale contraction will negatively impact our revenue growth rate by approximately 8 points and our retention metrics by roughly 10 points. We expect net retention to recover throughout the year. In Q1, we expect gross margin to be roughly 73%.

For the full year – please turn to slide 14, on this slide, we try to highlight the positives and the challenges. Again, we acknowledge that the $30 million wholesale contraction will pressure growth metrics in FY 2022. However, underneath this headwind we have a very healthy business and good line of sight to our guidance. Excluding the $30 million impact for the year, we expect total revenue growth to be in excess of 20% and subscription revenue growth to be approximately 25%.

For the year, we expect gross margins to hold roughly flat at 73%. And lastly, we intend to increase our investment in R&D to further capture the global Safe Haven and TV opportunities. Given the strength of our recent bookings, we have good line of sight to accelerating international revenue growth in the back half of FY 2022. In addition, we expect revenues from both Safe Haven and CTV to double in the year ahead.

Before opening the call to questions, I'll close with a few final thoughts. Through the challenges of this past year, LiveRamp again delivered on its commitment. Our foundations are strong. We have consistently demonstrated an ability to navigate change to ensure our customers are competitive and can use data to create lasting and personal relationships with our customers. Our technology is world-class and it's only gotten better this past year. Our growth engines are finding their stride. Safe Haven and TV are on a global roll. And finally, our model works; growth, strong gross margins and demonstrated profitability. We are confident that over time our model will generate significant returns on invested capital.

Thank you for joining us today. Operator, we will now open the call to questions.

QUESTION AND ANSWER SECTION

Operator: Thank you. [Operator Instructions] Your first question comes from the line of Shyam Patil from SIG. Your line is open.

Shyam Patil
Analyst, Susquehanna Financial Group LLLP

Q

Hey, guys. Congrats on a great fiscal year. I had a couple of questions. Maybe the first one on CTV, could you guys talk a little bit about the scale that you're seeing with this business, and maybe elaborate some of the trends and kind of how you think about the privacy changes that are coming up and how they impact that business?

And then second question, Warren, when we look at the revenue guidance for fiscal 2022, of the $509 million you've guided to, how does that break out between subscription and Marketplace, and how should we think about the quarterly impact of the cookie-based revenue throughout the year?

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

A

Great. Let me jump in on the first question, and then Scott I'm sure will want to talk about the trends and I'll come back to the guidance question. It's really interesting what's going on inside of TV as the connected TV business just is doing extremely well. If you take a look at our growth during the quarter, it again was strong and we expect another great year next year. In fact, as I mentioned in the prepared remarks, we would expect that business to more than double or to double next year. Right now, connected TV is about 50% of total. If you forecast through the end of next year, it should be about 70% of total, as the transactional or the linear transactional portion of the business will become less of a factor.

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

A

And to your point about megatrends, so there's three that we really see and hear a lot in the market, particularly now because we're in the middle of the upfront season. Number one, I think we're seeing a growing trend towards cross-screen purchases, and that really benefits LiveRamp because we're unique in our ability to connect different packages and really allow advertisers to determine their holistic return on their cross-screen spend.

Second is the importance of first-party data. More and more advertisers are realizing that their own first-party data is one of their most valuable assets, and to the extent that they can deploy that in purchasing television, well, that is only going to make their television dollars stretch a lot further.

And then the third is accountability. It's so important coming out of the crazy year we just experienced. Not surprising many advertisers are trying to figure out how to make every dollar of their marketing plan accountable. For a long time, television has been the big question mark. You know it works, you just don't know what elements work. We're seeing that change through the advent of measurement, and again, that really plays to our strengths.

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

A

And then let me jump in on the phasing. In our slide deck – I didn't make reference to this in my prepared remarks. But on slide 19, we've laid out the quarterly impact of the wholesale transaction – wholesale transaction contraction, if you will. In short hand, in terms of looking at total revenue, it's about $8 million a quarter, looking at subscription revenue, about $8 million a quarter, comes down a little bit in Q4. ARR in Q1 and throughout the year, again, through at least Q3, will impact ARR by about $30 million. And then again, as I mentioned in the prepared remarks, about 10 points in Q1, it's impacting our net retention metrics.

On your other question relative to the mix, think about subscription and Marketplace roughly being 80/20, as it has been historically.

Shyam Patil
Analyst, Susquehanna Financial Group LLLP

Q

Great. Thank you, guys.

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

A

Thank you.

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

A

Thanks, Shyam.

Operator: Your next question comes from the line of Stan Zlotsky from Morgan Stanley. Your line is open.

Stan Zlotsky
Analyst, Morgan Stanley & Co. LLC

Q

Perfect. Thank you so much, guys, and congratulations on a strong finish to a challenging year. I wanted to go back to the large customer metrics and the 70 customers that you finished with, the greater than $1 million of subscription. If you look at it sequentially, right, five new logos added sequentially, really demonstrates the strategic nature of the product and it's the most that you've added sequentially since Q3 of fiscal 2020. Is there something specific that happened in the quarter that drove so many customers above that $1 million threshold, was this something that you were doing yourself, or is it just organically as people were coming to LiveRamp?

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

A

Well, I think, ultimately, it's a sign that we're innovating and creating products that our customers want to buy. And as a result, that allows us to command a higher price point, a higher ACV for some of our new logos. And certainly, we had a lot of success in the quarter with upsell, some of that forced by the hand we were dealt with the pandemic. But if you think about the things that we've developed over the last year, ATS breeds accountability and we don't necessarily see that in the numbers so much yet because it's still early in terms of adoption. But that will drive overall platform economics.

Safe Haven, just a phenomenal introduction, a lot of success last year, and that tends to be a much bigger price point and pull-through of their products. Connected television, such an easy upsell to a lot of our clients aimed at one of the biggest components of most advertisers' media spend. In the coming year, we'd like to see that ACV trend continue. But quite frankly, when I look at the number of net adds, I think that's an opportunity for us as travel opens up out of the pandemic.

Stan Zlotsky
Analyst, Morgan Stanley & Co. LLC

Q

Got it. That's very helpful. And I wanted to get back to the $30 million impact from this wholesale contract – contracts rather, that are flowing out of revenue. And thank you, Warren, for giving disclosure of the $5 million impact in Q4. Help us to characterize – was the $5 million impact in Q4, was it larger than you expected, was it in line with what you expected and just overall pacing of the $30 million flowing out of the numbers? Are you seeing that change versus how you initially thought about it or is it kind of proceeding along as you thought?

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

A

No. Great question, Stan. I'd say exactly as we thought. We felt when we gave our guidance this last quarter we had a very good handle on exactly what it would be, and there has been absolutely no change to that. So, again, I'd just reiterate from the first point I made during the call, expect ARR to decline about $30 million or roughly $30 million in Q1, and that will trend through Q3, and then it drops to about a $25 million impact in Q4.

Stan Zlotsky
Analyst, Morgan Stanley & Co. LLC

Q

Got it. And when you talk about the $30 million wholesale, is there anything that's left over after fiscal 2022 into fiscal 2023, was that most of it already gone out of the numbers afterwards?

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

A

Again, as we sort of mentioned on our last call, and just to reiterate something that we said out here, I guess, a few months back, we went through line-by-line every one of these relationships because they're complicated. We do a lot of things. And we took a very methodical look at every element of these relationships and then forecast what the declines would be, which led to the $30 million. We also said that as we looked at the out-years, we thought there could be as much as $15 million of incremental impact beyond FY 2022. But then also highlighted obviously we have a lot of other growth initiatives in place that we hope that doesn't even become a factor as we move into FY 2023.

Stan Zlotsky
Analyst, Morgan Stanley & Co. LLC

Q

Perfect. Thank you so much, guys.

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

A

Thank you, Stan.

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

Brian Fitzgerald
Analyst, Wells Fargo Securities LLC

Q

Thanks, guys. With the recent release of iOS 14.5, we've seen a couple of different narratives emerge really about consumer opt-in rates. Some saying those rates are actually pretty high, others saying quite low. So, we want to know if you could provide some insight into what ATS publishers and brands are seeing in the iOS environment?

And then we also want to ask about your customers' ability to drive opt-in rates higher over time. We know in the new iOS version, there's really only going to be one chance to ask that up and whereas it's more open-ended in other environments, more shots on goal, if you will. So, are your customers seeing higher share of authenticated traffic over time as they get more chances to ask for consumers to authenticate? Thanks. Just these two.

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

A

Yeah. Brian, it's Scott. First off, I would just remind everybody, we're so much broader than mobile or any one channel like programmatic or anything like that. Our advertisers, marketers, when they work with us, they're using us to use their data across all kinds of different touchpoints. And so importantly, what I want everyone to understand is that all the impacts of IDFA, we feel are immaterial to LiveRamp both in terms of our ability to reach our customers target audiences and there we do not expect any financial impact of ATT or IDFA. I looked at the numbers just yesterday and I looked since the implementation of ATT, what is the impact on our customer records. And it is not changed one iota over the past few weeks.

In terms of the opt-in or opt-out rates, I only know what I read and what I hear from clients because that's not something that we see. Remember, we're not a media player. We're not an application provider. So we wouldn't necessarily see that. I've seen estimates that are pretty low in the single digits. I've also seen a slate of recent articles. And what I would tell you is our clients seem to think this as well. That suggests that those numbers will be much higher.

What I would also tell you is that both based on what we've seen in display and then what we've heard from app providers, they are getting much better at telling the authentication story, i.e., making it really clear what the value exchange is and enticing customers to be excited about that. And so, at least in the display space, we've seen and heard from our clients that authentication rates are going up.

The last thing that I would tell you is, it might come as some surprise, but you don't need very high authentication rates to really move the needle from a publisher yield perspective or from a marketer efficacy perspective. Authentication rates of even 10% or 15% drive meaningful upside. And so, when we see publishers that in many cases are far higher than that, we published a case study of Microsoft, talked about 40% yield improvement across their traffic. We think that there is a lot of reason for optimism amidst all the noise.

Brian Fitzgerald
Analyst, Wells Fargo Securities LLC

Q

Got it. Thanks, Scott. Appreciate it.

Operator: Your next question comes from the line of Kyle Evans from Stephens. Your line is open.

Nicholas Zangler
Analyst, Stephens, Inc.

Q

Hey, guys. This is Nick Zangler on for Kyle. On the guide for F 2022, can you help bridge the F 2021 to F 2022 here? So we've got a 15% growth in revenue inclusive of the $30 million headwind, this third-party cookie sunset, operating income is going from $16 million to $2.5 million at the midpoint. Can you just help us better understand the investment that's taking place in F 2022? Of the $25 million in savings you talked about from COVID what comes back there? And then any expenses associated with the cookie sunset that can be removed in F 2022?

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

A

Great. Thanks, Nick. A few points in there that are pretty interesting is, I think if you look at our results over the past year, you'll really see the progress we've made in COGS, again given the margin expansion and a lot of that has come through rationalization of our cost. So, we continue to look for opportunities and would expect opportunities throughout the course of the year. Two, in terms of COVID phasing, again, we'll see exactly how this comes out. But of the $25 million, I'd expect maybe $1 million of that to come back Q1, a couple million Q2, maybe $4 million or $5 million Q3 and call it $6 million, possibly $7 million or so in Q4.

We like many others expect that not all of those costs are going to come back. We think we have a real opportunity to better manage our T&E, do different things that will really drive savings while not impacting our effectiveness at all. So we think that'll be upside permanently embedded into our run rates.

On the bottom line where we do expect to invest this year is in R&D and to some lesser extent in sales and marketing. The reality is we just see a tremendous opportunity in front of us in both connected TV and then also in global Safe Haven. And I might even just pause there and elaborate for a second, I don't think it's lost on anybody on this call the retail media networks are just blowing up. The great news is we are a pioneer in this space. Our Safe Haven platform was built with Carrefour pretty close to four years ago and it's only gotten better. And as a result of that, we've been able to create the share that we have. We think it's an incredible accomplishment to have a segment share of 30% of grocery and big box retail in the US and even 7% in Europe. Further, our business is expanding dramatically with the CPGs around the world too. So we're incredibly excited. Net-net, any additional cost will principally come in the form of incremental R&D to sales and marketing as you would expect, but to a lesser extent and very modest amounts in G&A.

Nicholas Zangler
Analyst, Stephens, Inc.

Q

That's super-helpful. And then I wanted to talk, right, on the ATS solution here. I would imagine that any publisher who has put up a registration wall maybe in response to the elimination of third-party cookies is doing so in an attempt to monetize their inventory, and therefore would be an easy sell for LiveRamp to incorporate ATS. So the question is, is there any reason why a publisher who has gone ahead and put up that registration wall is hesitant to link up with ATS?

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

A

There's really not. I would say that there are two drivers to fulfilling kind of universal adoption. One is just readiness. And so, believe it or not, despite all the commentary from Google about adhering to their February 2022 timing, there are still some publishers that haven't moved as aggressively as we think they should in terms of testing an authenticated solution. And the reason is pretty simple, I mean, a lot of those publishers don't have a lot of operational resources. And so, this is just stacked a little bit lower in their queue and they think they'll play catch-up later in the year.

There's another group of publishers and they're not the top 50, I want to say we've looked at the analysis a couple of months ago, say like 49 or something in the top 50 publishers in the US have put up some form of authentication, but there is a group of publishers that comprise at least a slice of programmatic today. We've never worked with them that really don't have the quality content to entice the consumer to sign up for a fair value exchange. I think those publishers are in trouble. And quite frankly, I don't think anybody is going to shed any tears about them. They tend to be the click-bait publishers of the world. So, there's a flight to quality here which will be good for the industry.

Nicholas Zangler
Analyst, Stephens, Inc.

Q

Great. Very interesting thoughts. Thank you. Appreciate it.

Operator: Your next question comes from the line of Jack Andrews from Needham. Your line is open.

Jack Andrews
Analyst, Needham & Co. LLC

Q

Well, good afternoon. Thanks for taking my question. I want to ask you, if I can ask you, a couple of questions on Safe Haven. I guess, could you talk about how you see the market opportunity of Safe Haven? Is this largely greenfield or are you running into other potential competitors like Snowflake in this market?

And then just a related question is, could you maybe frame for us what percentage of your customer base could potentially consume Safe Haven or shot another way, are you seeing maybe Safe Haven lead to net new customers for LiveRamp overall that you have been able to appeal to historically?

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

A

Great. There're some great questions and let me start with the last and then work my way to the first. When we look at our customers and we look at the functionality of Safe Haven plus what we will be building over the next 12 to 24 months, we feel that 100% of our customers can adopt Safe Haven and use this platform. So, we see an enormous opportunity. We measure our TAM north of probably roughly around $16 billion and it just gets bigger every day. It's not only about retail media in retail, it's also becoming about category management, in-store promotion, how store managers are using that data to better manage their selections on a day-to-day basis. So, the opportunity even inside retail just continues to get bigger.

Secondly, we've begun penetrating in healthcare and financial services, it's not too far ahead of us either. So, we see the market as being very, very large and us really at the beginning. One of the biggest advantages we have – I'd cite three advantages that are really unique to LiveRamp. The first is privacy. Our skills in privacy and then what we're doing with data fleets and privacy preservation and the non-moving of data are second to none. Secondly, identity. Everything that Scott has talked about relative to identity and what we're doing with ATS positions us in a very, very unique way.

Third, there are other providers out there that approach really data collaboration more as a service. We have built a scalable SaaS platform that will scale with demand. So, a retailer doesn't want just one-to-one platform, they want one-to-many. They want their entire supply chain, which is why we feel so optimistic around our opportunities not only in retail, but also how they translate to CPG. But when it comes to Snowflake, we think they're very complementary. So, in a number of cases, we just see them as being very complementary solutions and not at all competitive.

Jack Andrews
Analyst, Needham & Co. LLC

Q

Thanks for the color, and congratulations on the results.

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

Great. Thank you.

Operator: Your next question comes from the line of Tim Nollen from Macquarie. Your line is open.

Timothy Nollen
Analyst, Macquarie Capital (USA), Inc.
Q

Oh, thanks. I just have one other numbers question and I hope I didn't miss it earlier. But you were talking about your net retention rate going down to the 95% range, I think you said for Q1 and then improving from there? Can I just ask, will we back at above 100% by the second half of the year? And I think that 95% included 10% from this dropdown you've mentioned a few times now last two, three quarters. If we're back over 100%, add 10% to that, are we back in the 115%, 120% range over the next few quarters?

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

Let me try to take each of those questions. So, our guide for Q1 was about 96%, not 95%, again, a 10-point impact from the wholesale contraction. As we look to the back part of the year, I think we can – again, we're not going to make it a practice to give long-term retention guidance, but we see it improving steadily, and by the back part of the year, yes, north of 100%. As to our long-term goals, that is our intention. We're not satisfied anywhere down in this 100% to 105%, 110% range. We'd like to see that accelerate as we move forward in the coming years.

Timothy Nollen
Analyst, Macquarie Capital (USA), Inc.
Q

Thanks.

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

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

Hi. Thanks, guys. Just wondering if you can break down the record bookings figure and then kind of give us the key drivers there. And then regarding ATS, obviously, that's bringing in new logos, but as that progresses kind of with the route to market there, how do you take that product in and generate kind of accelerating revenue growth for a product that you're not specifically charging for?

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

You want to take the first?

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

Yeah, let me take the first on bookings. Really, the two principal drivers we've already touched on, and those would be Safe Haven and also connected TV as the growth rates were obviously terrific relative to the year-over-year comps in bookings. I think the other thing that bodes well, which I'll just reiterate for everyone, is our second half bookings have been very, very strong. And throughout the years, we lapped some of the earlier quarters. You're going to see that show up in all of our metrics. So, we're optimistic.

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

A

And then on ATS, from the start, we've pledged interoperability, I mean, our goal here is to really build a solution for anyone and everyone in the industry. But that's not to say that we don't see an opportunity for us there. I think as ATS adoption becomes really ubiquitous, it's an opportunity for advertisers everywhere to take advantage of their first-party data. And as they do so, they'll find us and become our new subscription customers. And as they have success in, say, programmatic, there's really no limit to what they can do.

I think in one of the appendix slides, I laid out a schematic of all the different use cases that ATS offers, and I often talk about ATS and LiveRamp were really the entire pool. And there are many other identity solutions with which we're interoperable. Oftentimes, they represent just a single swim lane. So, as they succeed, we succeed, and as we succeed, hopefully, we drive their success. But success in programmatic or in display media or in mobile can lead to call centers or point-of-sale activation, CTV certainly. So, we think that this is a really important way to get the flywheel going for us.

Jason Michael Kreyer
Analyst, Craig-Hallum Capital Group LLC

Q

Hey, Scott, one follow-up there just in regards to your comment on first-party data. Can you just talk about the market opportunity that you see from this Portrait Engine solution?

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

A

Oh, yeah. I'll tell you I think it really goes back to my prepared remarks on the fact that regulation and the complexity with it really benefits us strategically. As there is more heightened regulation forces a lot of companies to really think about what is their most valuable asset from a data perspective. So often it is their own authenticated, permissioned first-party data and that stands to reason because those are the customers that that client knows the best. They're the repeat customers.

And so, to activate that information and use that as a starting point of everything you're doing online, that is a really easy and effective way to get started. Our Portrait Engine really is focused on the concept of first-party data and first-party identity. And using that for any company that's not yet sophisticated about data, dip their toes in the water and get started. So, I'm pretty optimistic about what this can be for us in the coming years.

Jason Michael Kreyer
Analyst, Craig-Hallum Capital Group LLC

Q

Thank you.

Operator: Your next question comes from the line of Daniel Salmon from BMO. Your line is open.

Daniel Salmon
Analyst, BMO Capital Markets Corp.

Q

Hey. Good afternoon, everyone. Two questions, Scott or Warren. First, could you just update us on your search for a new head of the sales force? And then second, to either of you again, maybe Scott could you return, you mentioned the creation of a services arm. Just curious what prompted that decision now, and what you're hoping to achieve out of that new initiative more broadly. Thanks.

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

A

Sure. So, on the first, I'm really pleased with what our teams accomplished. I mean, we really haven't missed a beat over the last couple of quarters as James was transitioning to his new role of spinning up the cloud-based partnerships, and that's off to a great start. But we've posted our strongest two bookings quarters in LiveRamp history. The team is really doing great. It's giving me a chance to spend even more time with clients. And that's the best part of my job. So, it's been super-energizing. At the same time, conducting the search itself has been equally energizing. We've been using one of the big search firms. I've personally interviewed over 30 external candidates. It's given me a great chance to mine them all for their best ideas. And I would say, we're closer to the end of the process than we are to the start of it. But I would tell you I feel like we have nothing but good options. This is going to end well for us.

On the services front, like we do with a lot of our product innovations, we listen to our clients. And for a couple of years now, we've heard from our clients that they really need some help getting off the ground. You've heard me say this before, Dan, that so often the biggest complaint we have is it feels like you sold me a Porsche, but I don't know how to drive stick.

Well, by starting up a professional services arm, we can educate our clients about how best to use LiveRamp and for some of our newer products like Safe Haven, that's so important because not only is the product a little bit more complex than our norm, but the clients using it are operating at the very edge of sophistication and so, the collaboration that we can have with them just allows them to get up and running far more quickly. Most other SaaS companies have much bigger professional services businesses than we do. I think in hindsight, I'm kind of kicking myself for why we waited so long because this is off to a really good start for us.

Daniel Salmon
Analyst, BMO Capital Markets Corp.

Q

Great. Thank you, Scott.

Operator: There are no further questions at this time. I turn the call back over to Warren Jenson for closing remarks.

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

Great. Thank you, operator, and again to all of you on the call, thank you so much for joining us today. Let me close with just a few quick final thoughts.

First and most importantly, we all want to really acknowledge and thank our wonderful customers for their support during this past year and all they do to make our products great and to help us be better every day. We're grateful to serve you. Secondly is to thank our associates. There's one reason why we again delivered on our commitments and that's the people of LiveRamp. So, to all of our associates, we also really extend a big strong thank you and are incredibly grateful.

When we think about our road ahead, I'd leave you with these thoughts. Again, our foundations are strong. And even more importantly or as importantly, we're a company that has consistently shown an ability and demonstrated an ability to navigate change to ensure our products are viable and that our customers are competitive, and we think that's a big deal. Our technology is world-class and has just gotten better just this past year. Our growth engines are finding their stride and our model works.

Again, thank you so much for joining us today. We look forward to your follow-up questions.

Operator: This concludes today's conference call. Thank you for participating. You may now disconnect.