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LiveRamp Holdings, Inc. (RAMP)

Q3 2023 Earnings Call

CORPORATE PARTICIPANTS

Drew Borst
Vice President-Investor Relations, LIveRamp Holdings, Inc.

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

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

OTHER PARTICIPANTS

Shyam Patil
Analyst, Susquehanna Financial Group LLLP

Elizabeth Porter
Analyst, Morgan Stanley & Co. LLC

Peter Burkly
Analyst, Evercore Group LLC

Brian Fitzgerald
Analyst, Wells Fargo Securities LLC

Jason Michael Kreyer
Analyst, Craig-Hallum Capital Group LLC

Mark Zgutowicz
Analyst, The Benchmark Co. LLC

Dean Sublett
Analyst, Stephens, Inc.

MANAGEMENT DISCUSSION SECTION

Operator: Good afternoon, ladies and gentlemen, and welcome to LiveRamp's Fiscal 2023 Third Quarter Earnings Call. After the speakers' remarks, there will be a question-and-answer session. [Operator Instructions] As a reminder, this conference is being recorded.

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

Drew Borst
Vice President-Investor Relations, LIveRamp Holdings, Inc.

Thank you, operator. Good afternoon and welcome. Thank you for joining us to discuss our fiscal 2023 third quarter results. With me today are Scott Howe, our CEO; and Warren Jenson, President and CFO. Today's press release and this call may contain forward-looking statements that are subject to risks and uncertainties that could cause actual results to differ materially. For a detailed description of these risks, please read the risk factors section of our public filings and the press release. 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.

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

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

Thank you, Drew. And thanks to all of you for joining our call today. There are three key messages I hope you will take from our time together. First, we delivered another solid quarter demonstrating the durability of our business model. Second, we are making steady progress with our key initiatives to reaccelerate revenue growth, including an improvement in sales force productivity and two new integrations with The Walt Disney Company and Amazon Web Services. Finally, we made meaningful operating margin improvement in the quarter and we expect the improvement to continue in FY 2024. Third quarter performance met or exceeded our guidance and the key financial metrics, including revenue, gross profit, and operating profit, and also demonstrated the durability of our business model.

In recent calls, I've talked about our efforts to strengthen our sales force and our broader macroeconomic concerns. Revenue growth, which I characterize as a lagging indicator given the high subscription component of our business, came in as we expected in Q3. Total revenue in the quarter grew 13% year-on-year. Subscription revenue grew by 14%, and marketplace and other revenue grew by 9%. The growth in marketplace and other was less than we expected due to slower growth in third party data sales, reflecting macro pressure on advertising spend. Our Q3 customer count of 910 was down from Q2. We held study with large strategic customers and declined in small and medium-sized businesses and low ACV accounts. The declines in SMB partially reflects the challenging macro, but also our strategy to prioritize larger more profitable enterprise accounts.

Our $0.5 million to $1 million customer count grew by 6 from the prior quarter, and our $1 million-plus customer count increased by 2 to 94. We think our expanding channel partnership initiatives, which I will elaborate on in a moment, will eventually help with SMB new logos.

We had a notable seven-figure new client win with the global advertising agency that work for data activation. This client is using our identity products to help its clients create consistent audience segments, deploy targeted advertising campaigns, and measure the effectiveness of those campaigns across platforms. We also added a new six-figure client in the recreation vehicle space where we are enabling collaboration between the corporate marketing team and their network of distributors. Existing clients continued to grow, albeit at a more moderate rate.

Subscription net retention was 101% in line with our guide. Platform net retention was 102%. Just as revenue is a lagging indicator, pipeline and growth bookings are more leading indicators. These measures are stabilizing and we're seeing some encouraging signs on bookings while we're not where we want to be. We saw a sequential improvement from the prior quarter and the highest bookings of the year.

Bookings were broad-based across the US sales force with 90% of reps closing deals in the quarter. Our new first year reps made a meaningful contribution, collectively accounting for nearly one-third of total bookings. Our ramped rep count defined as an experienced rep of more than six months increased by 20% from the prior quarter and was the highest since Q4 fiscal 2022.

Our qualified pipeline is robust. We have our RampUp annual client and partner conference occurring in 30 days and we have a number of really interesting client and partner conversations in play. We had success upselling large customers across a number of different products in a variety of sectors. We had a seven-figure upsell of a major auto manufacturer to support activation and measurement of advertising campaigns. We had a high six-figure upsell of a leading US grocery retailer to support their scaling retail media network using our Safe Haven product. Finally, we had a six-figure upsell with a men's clothing retailer for data activation and attribution measurement.

We usually don't speak about specific clients, but many investors have asked about our relationship with Interpublic and Acxiom given its historical significance in approaching contract expiration. I am pleased to say that we have extended our relationship with Interpublic and Acxiom at terms consistent with our previous contract.

We are the first to acknowledge that one quarter is not a trend and we still have much room for improvement. The stabilization in Q3 bookings is encouraging, especially in a difficult macro environment, but our work is hardly complete, now we must build upon the Q3 performance.

One last thing on Q3. We continue to walk the talk on improving our operating income. Our non-GAAP operating income increased by $11 million year-over-year to $26 million, and our margin expanded by 6 points to 16%. That was a record high for us in any quarter.

So let's next talk about how we're planning to accelerate revenue, because obviously that's a big potential value driver. We're making progress, but the journey continues. On our last call, I outlined several efforts we had implemented to reaccelerate top line growth. One, improve our US sales force productivity; two, deepen channel partnerships; three, expand our network of destinations; and four, something I don't think I talked about as much but is always happening, continuous product improvement.

As discussed on prior earnings calls, we experienced above normal attrition in our US sales force in FY 2022 driven in part by exogenous factors such as the Great Resignation. We rebuilt our sales force and returned to normalized sales capacity this quarter. As importantly, we are streamlining their go-to-market motion with simplified and standardized pricing models and also verticalizing our sales force and creating sales plays for clearly defined used cases and business outcomes in each vertical. Above all, we've been working to unlock our new sellers and reverse the bookings weakness trend.

As I mentioned, we're seeing signs of progress. Our Q3 growth bookings are stabilizing and represented the high watermark fiscal year-to-date. 90% of reps closed the deal last quarter and new reps made larger than expected contributions. While the macroeconomic environment is unpredictable, we enter our Q4 with a strong pipeline and some interesting conversations in play. And our upcoming RampUp client and partner conference is a great chance to push these discussions forward. That said, there is more work to be done here.

Our second major top line initiative is to deepen our channel partnerships. LiveRamp has a long history of developing productive channel partnerships with data management platforms a decade ago and continuing more recently with DSPs and SSPs, and customer data platforms. We continue to deepen our channel partnerships, including the ones we discussed last quarter with Salesforce's new CDP called Genie and Snowflake.

This quarter, we have an exciting new partnership with Amazon and its new AWS Clean Rooms. We designed and released a new cloud identity solution that is purpose built for AWS customers with embedded capabilities in the customer's AWS environment interoperable with key AWS services and can be purchased and deployed directly through AWS Marketplace. Together, we make it easier for advertisers and marketers to incorporate insights into campaigns and improve reach, relevancy, frequency and measurement, all while protecting consumer data.

Our continued work with AWS allows LiveRamp's person-based identifier RampID to be used as a key to collect data and drive more impactful audience modeling and planning for global clients. Ensuring they can extend the utility of data safely and securely and remain compliant with regional privacy regulations. This is just one example of our expanding channel partnerships. We are also expanding channel sales efforts with other cloud providers, cloud data warehouses, marketing clouds, and global systems integrators.

I think this can be a major driver of future growth for us, but let me also caution that we're still in the early rollout with many of these partnerships and we know that the sales cycles typically span two to three quarters. Our third major sales initiative is expanding our network of digital destinations, websites, CTV providers and other channels where customer data can be utilized. By offering turnkey solutions with the largest network of publishers and digital destinations, LiveRamp established itself as the indispensable scale leader, which will drive growing usage of LiveRamp solutions, fuel international expansion and ultimately drive incremental bookings and revenue.

Last quarter, we announced significant new identity integrations with two of the largest advertising publishers in the world, Meta and Google. This quarter, we have two more major integrations to discuss, starting with The Walt Disney Company and its streaming properties. Earlier this morning at the AdExchanger Industry Preview, Disney announced our collaborative effort to make LiveRamp's RampID interoperable with Disney's audience graph so that advertisers can reach their audiences at scale in a rapidly changing environment. The interoperability between LiveRamp and Disney will set the stage to enable audience-based addressability at scale across Disney's connected TV and streaming inventory. We're excited to expand our business with Disney and offer these new capabilities to customers.

We also recently announced Pinterest will use our Safe Haven Data Collaboration Platform to enable secure data collaboration and campaign measurement amongst brands, publishers, retailers and data owners, regardless of where their data is stored. This cross-cloud interoperability is a big deal because it is frequently the case that collaborators use different cloud providers for their storage and compute needs. The first advertiser to collaborate with Pinterest using our technology is grocery retailer, Albertsons, who will use it to deliver closed-loop reporting for brands that participate in its retail media network.

Finally, our fourth top line initiative is constant product improvement to meet the needs of the world's largest and most sophisticated companies. LiveRamp is the data collaboration platform of choice for the world's most innovative companies. The most pressing need for large sophisticated marketers is building a platform that gives them a holistic 360-degree view of their customer, allowing them to connect data to every customer interaction, activate advertising campaigns across the marketing landscape, and measure the results. This is a relatively simple concept, but it is complex to execute in a fragmented media environment with increasing global privacy regulations.

Nonetheless, LiveRamp is uniquely positioned to power these requirements because of several core competencies, which we now bundled together into our core Safe Haven Data Collaboration Platform. First, foundational identity. We offer groundbreaking leadership and consumer privacy, data ethics, and foundational identity. Our identity solutions create a single view of the customer at scale. ATS, LiveRamp's Authenticated Traffic Solution is now deeply embedded into the digital ecosystem. We work with more than 80 DSPs, 80 SSPs, nearly 80% of the top 50 Comscore sites, and over 12,000 domains. All but a few of LiveRamp's top 50 destinations no longer rely on cookies or mobile device IDs.

As a result, today, more than 80% of our brand customers are sending to almost entirely future-proof destinations. And by late spring, it will be more than 95%. In short, due to our efforts over the past several years, our identity solution is future proofed for the deprecation of third party cookies, and is completely configurable for however our clients and partners choose to integrate their data.

Our flexible collaboration is a second differentiator. Our technology facilitates complete flexibility to collaborate wherever data lives. We believe the future is one in which permissions can set and secure data collaboration can occur without needing to share or reveal personally identifiable information, which is not just a preference but increasingly a legal requirement in some markets. We worked hard to make our data collaboration platform extensible, scalable and agnostic. And the proof is in the many partnerships we're now starting to announce, including Microsoft, Snowflake, AWS, Salesforce and GCP.

Finally, we have established the premier global ecosystem, an expansive data rich network of top tier partners for incomparable scale and reach. Clients can access the widest array of first, second and third-party data and a global network of activation partners, all of which are ever expanding. I've talked about some of the recent progress here, including Disney and Pinterest. And you should expect a handful of other global partnerships to be announced throughout the coming months.

The benefit from this hard work, marketers and their agencies can safely use relevant data in every addressable customer interaction. Marketers pocket greater return on investment. Destinations deliver more relevant messages and greater profitability. And consumers gain both more control and have better experiences. Other companies may offer one of these capabilities, but we uniquely provide all three at unparalleled scale.

Historically, we've done this directly to sophisticated enterprise marketers, but we increasingly see an opportunity to embed ourselves into other technologies, particularly with respect to the cloud and cloud data warehouses. One of the subtle yet significant changes is bringing our capabilities to our customers computing environment, including clouds and clean rooms just like we are doing with AWS clean rooms. We will empower this collaboration across clouds through data federation and connect more first, second and third-party data to drive tangible business outcomes for our customers.

While bookings reacceleration is obviously a top priority for us, before wrapping up, let me speak about our profitability. Over the past few years, quarter-after-quarter, we have delivered methodical and meaningful improvement in operating income, both dollars and margin. And this will continue to be another of our top priorities. We expect our non-GAAP operating profit to increase by nearly 50% in FY 2023. In FY 2024, we expect operating income to grow at a similar rate and margin to expand even more, driven mostly by the $30 million to $35 million in cost savings from the cost actions announced last quarter. But we're not done yet as Warren will discuss shortly.

In summary, we delivered another solid quarter of results ahead of our projections and demonstrating the durability of our business model. We are making steady progress with our key initiatives to reaccelerate revenue growth, including an improvement in sales force productivity and two new integrations with Disney and Amazon. And we made meaningful operating margin improvement in the quarter. We expect the improvement to continue in FY 2024. But know that we are not satisfied. Think of today as just a progress report on a methodical journey to reaccelerate top line growth, achieve steady margin improvement, and ultimately unlock greater shareholder value.

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

I will now turn the call over to Warren.

Warren C. Jenson

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

Thanks, Scott, and good afternoon, everyone, and thanks for joining us. Today I would like to focus my remarks on three areas. First, share a few highlights from the quarter. Next, provide a few preliminary comments on our FY 2024 priorities and outlook. And finally, confirm our top line and update our bottom line guidance for FY 2023.

For the quarter, please turn to slide 5. Total revenue was $159 million, up 13%, and subscription revenue was up 14%. Excluding a $4 million onetime contract settlement, which we called out last quarter, both subscription and total revenue were up 10%. International was up approximately 27% and adjusted for FX was up 37%. Marketplace and other increased 9%. Data Marketplace, which represents roughly 80% of ongoing marketplace and other was up 5%, reflecting softness in the overall advertising market. Subscription net retention was 101 and platform net retention 102.

The year-over-year decline in subscription net retention was driven by a lower relative contribution from upsell bookings and usage. The sequential decline was driven by the same factors. Platform net retention was also negatively impacted by slower growth in marketplace, and other. Usage was 16% of subscription revenue driven by data providers, platform partners and the $4 million of one-time contract settlement. Excluding this settlement, usage was 14%.

Subscription customer accounts decreased by 10 sequentially, while our $1 million customer account increased to 94, up 9% versus the prior year. The decline in total customers was driven by a reduction in small and medium sized customers with comparatively low ACVs and profitability. Current RPO for our next 12-month contracted backlog was $324 million, up 12% year-over-year. ARR ended the quarter at $426 million, up 12%. Bookings rebounded sequentially and on an absolute basis, it was the strongest quarter this fiscal year.

Beneath the top line, our profitability again improved. Non-GAAP gross margin was 76%. Non-GAAP operating income was $26 million, up from $15 million a year ago, and our operating margin was a record 16%. In terms of fall through, for every dollar of incremental revenue, approximately 62% fell through to operating profit. Included in our GAAP results were approximately $12 million of restructuring charges, principally associated with real estate reserves and severance. Operating cash flow was $16 million.

And finally we continue to return capital to shareholders. In the quarter, we repurchased 2.3 million shares for $50 million. And fiscal year-to-date, we have repurchased 6.1 million shares for $150 million. Further in December, the board approved an extension and expansion of the authorization. We currently have $218 million available for share repurchases through December 31, 2024.

Trends and a few preliminary thoughts on FY 2024. Before moving on to our guidance, I thought I might spend a few minutes and talk about two things. First, what we're seeing at our business, and next, provide a few preliminary thoughts about FY 2024. As is always the case, there are both positives and some challenges, but overall we see a lot going for us.

First, while we have plenty to do, the leading indicators of subscription growth are showing signs of improvement. Growth bookings improved by more than 30% sequentially in Q3. And we have line of sight to a similar level of bookings in both Q4 and Q1 of FY 2024. Ramp reps are delivering. Rep productivity was the highest we've seen this fiscal year and a significant number of new reps ramped in the quarter.

Our sales channels are expanding as Scott discussed. Our cloud offerings are taking shape. And finally, I'm pleased to say that our relationship with Acxiom has been renewed on terms consistent with our existing agreement, and in fact we see upside to this relationship going forward. Acxiom and IPG are great partners and we're excited to continue to work together on go-to-market solutions for our shared customer base.

Next, LiveRamp offers a set of products and capabilities that are unique and table stakes for the industry. Our competitive advantage is clear. Foundational identity, person-based identity is the unifying key to connect data across the Ad and MarTech universe. This foundation is what makes it possible for brands to personalize and use data in every interaction with their customers. We make every impression addressable. This is the foundation for Customer 360 and this is what we do, and no one comes close.

Our reach is unparalleled. We reach every media channel, display, TV, Meta, TikTok, Pinterest and with PAIR Google too. This creates a powerful network effect. And finally, we are grounded in privacy and data protection. We work to anticipate change and work with an ethos that puts the consumer at the center of our decision-making process.

Our next set of product enhancements are exactly what customers need and are asking for: Federated, Cross-Cloud with Advanced Privacy Enhancing Technology. We work with clients that have standardized on a single cloud provider, but more importantly, enabled collaboration and permissioned data sharing between the majority of brands, where they and their partners operate across multiple cloud providers. Today, our Federated-Cross-Cloud collaboration module is in beta with over 20 large brands and publishers.

Next, third-party cookies are now largely irrelevant to the long-term success of LiveRamp. LiveRamp's ability to connect enterprise data to consumer experiences no longer relies on the third-party cookie. Over the past years, we've future-proofed the open web with ATS. We have also established new integrations across social and CTV. And soon, we'll be announcing MarTech capabilities starting with e-mail and SMS.

With the launch of PAIR this spring, our brand customers will have the ability to do everything they do today without the need for third-party cookies. We now have cookie list integrations with all major media types and with nearly all of the top 50 publisher destinations. In other words, brands and publishers are future-proofed.

Please turn to slide 15. The value we provide also goes well beyond programmatic. Speaking of this, we are thrilled with our expanded partnership with Disney. This is just one of several CTV announcements you'll see in the coming months. LiveRamp is the go-to choice for any premium CTV provider to make their inventory addressable in a controlled and privacy first way.

And finally, our model is scaling and margins are expanding. We are delivering and expect to continue to deliver meaningful margin improvement. We expect FY 2023 operating profit of between $60 million and $63 million, an increase of approximately 45% year-over-year.

In the second half of FY 2023, we expect our operating margin to expand by approximately 7 points year-over-year. The head count reduction and real estate rationalization steps we discussed last quarter will be finalized by the end of Q4. We continued to expect $30 million to $35 million in annual OpEx, savings stemming from these actions. But to be balanced, we also have challenges.

The macro environment remains uncertain, and we continue to feel bookings pressure as our customers continue to tighten their belts and new budgets are tough to come by. As we said last quarter, these pressures are impacting our ability to attract new logos, conversion rates and contraction. And make no mistake, we do face competition too. Taking into account both the positives and challenges.

A few early thoughts on our FY 2024. First, expect from us a conservative and tempered outlook for top line growth in both subscription and marketplace.

Next, we will continue our efforts to progressively build on our bookings momentum, salesforce productivity, and the work we are doing in customer service to better serve our customers and minimize contraction. From a product perspective, we expect to continue to roll out our product suite in the cloud and further enhance our Safe Haven platform by launching Federated/Cross-Cloud capabilities.

As I mentioned earlier, this capability is now in beta with approximately 20 clients, including several major publishers and brands. In FY 2024 we are committed to increasing non-GAAP operating profit by roughly 50% year-over-year. In the back half of FY 2024, we expect our location strategy initiatives to set us up for another year of strong operating income growth in FY 2025.

Lastly, we expect to return the majority of our FY 2024 free cash flow to shareowners through our repurchase program. We believe this is a great investment and will by and large offset the impact of forecast dilution.

In summary, a cautious outlook on the top line, continued focus on bookings and product, but a strong increase on the bottom line coupled with the majority of our cash flow being returned to shareowners.

Q4 and full year FY 2023 guidance. Please turn to slide 12s and 13. Keep in mind our guidance excludes intangible amortization, stock-based comp and restructuring and related charges. For the full year FY 2023, we continue to expect revenue of between $595 million and $600 million. And we now expect non-GAAP operating profit of approximately $60 million to $63 million, up from our previous guide of approximately $60 million. And as always, and in particular, given the macro uncertainties, I would ask that you be conservative in setting your revised models.

A few other call-outs for Q4. We expect subscription net retention to be roughly 100% and platform net potential to be approximately 99%. In Q4, we expect our gross margin to be roughly 75%. We expect to incur approximately $10 million of restructuring charges. These charges are primarily associated with the continued right-sizing of our real estate footprint. We expect stock-based comp to be roughly $22 million in Q4 and $103 million for the full year. In addition, we were exploring certain tax strategies that could generate a meaningful cash tax benefit. If implemented, these tax strategies will result in an incremental non-cash stock charge during the quarter. This incremental charge is not included in our guidance.

Before opening the call to questions, I'll now close with a few final thoughts. We are going after big long-term opportunities where we have a right to win: identity, data, collaboration and marketplace, and doing so wherever data may reside.

While we are operating in a challenging environment, we are using this as a time and opportunity to strengthen our operating muscle and deliver meaningful and durable bottom line improvement in cash flow, and at the same time do the things necessary to create sustained efficient growth. On behalf of everyone here at LiveRamp, thanks for joining us today and thanks to our terrific customers. Operator, we will now take questions.

QUESTION AND ANSWER SECTION

Operator: Thank you. [Operator Instructions] Your first question today comes from the line of with Susquehanna. Your line is now open.

Shyam Patil
Analyst, Susquehanna Financial Group LLLP

Q

Hey, guys. Nice job on the execution. I had a couple of questions. First one, you guys have had a lot of interesting partnerships that you guys talked about in the prepared remarks with some big players out there like AWS, Meta, Pin, et cetera, just wondering if you could just talk a little bit about just what kind of potential you see from the partnerships to kind of drive the business going forward? And then, Warren, I had a follow-up for you. You talked about a tempered outlook for fiscal 2024 revenue growth. Can you provide a detail or color on this? Thank you.

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

A

Good. Thanks. Yeah, Sean. Thanks. I'll start and this is Scott. When I think about the partnerships, you can really kind of group them into several different categories. First, we've really made a push on our destination partnerships. You know we believe that the part of the value we provide is the reach and ubiquity of all the places they can utilize their data. And so wherever they're interacting with their customers, we want to enable that securely and safely and easily with their data. And so the Disney example is a great case study there.

Pinterest is another. I would tell you there, I think what -- the number one impact is that it just embeds us into the very fabric of the ecosystem and improves the durability of our business. Now over time, you're going to see an additional potential revenue driver because just as our major marketing partners recognize that they have really valuable first-party data. So to do all those destinations, whether it be Disney or Pinterest, and I talked about this with the Pinterest example, they recognize they have valuable first-party data.

And so they're looking for someone who's unbiased, who isn't in the media business to help them unlock that. And so all of the ATS destinations that we have, we're already under way with really interesting conversations with our major partners to help them unlock the value of their data. You'll see that play out over the next couple of years.

And then there's another group of partnerships which are really the tech partnerships. And there, I think the value will be driven by our ability to grow this SMB channel. And some -- you've listened to our calls for years now, and we've always talked about the challenges we've had with SMBs. We see higher churn there. Oftentimes those clients come on and they realize -- they don't use our full breadth of functionality and so they punch out. And our cost to serve that segment is really high. So it is an anchor on our profitability.

We think there's an opportunity when we embed ourselves into Snowflake or AWS or Salesforce with the Genie partnership or with Microsoft and Azure. I mean, there's just a wave of these things that we have under way now. It allows us to reach those SMB clients, I think, more effectively.

And in addition, our historical strength has really been with the CMO. Take a company like Snowflake, they're really strong with the CIO. And so it's a nice complement where they can bring us into conversations and vice versa and really help one another with the selling efforts.

So, again I'll just caution what I said in the prepared remarks. We're early stages in this. We've gotten a lot of traction very early, but we also know it takes two to three quarters to recognize revenue from these things, and so I don't expect a big amount of revenue until the back half of next year. This year we did about $10 million. I would expect that to grow fairly significantly next year, but I think the real proof will be the tail end of next year and then the following year.

Warren C. Jenson A

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

Right. Let me touch a little bit on our FY 2024 outlook. I'm going to make a couple of broad comments and I think sort of set the stage. First, everybody should just recognize it's still early. So we, like you, are going to be watching the macro environment unfold over the coming months. And then, of course, we'll update you as we give our formal guidance in May.

Secondly is we feel that this is the exact time that it's appropriate to be conservative in setting expectation for the top line. It's just the best way to go is you do your planning. And it also recognizes that there is fundamentally a lot of uncertainty broadly and also in the ad marketplace.

So, sitting here today would say be conservative on the top line. Think about it, a low-single-digit growth rate for the company. With that in mind though, we would also ask everybody to think about the guidance that we've given on the bottom line. We're expecting to deliver a roughly 50% increase in operating income in FY 2024.

So, for us, in thinking about all this uncertainty and the broader ecosystem today as you think about FY 2024 there are three things you can expect from us. Number one, a conservative top line. You can expect significant margin expansion and you can expect a strong return of capital.

Shyam Patil Q

Analyst, Susquehanna Financial Group LLLP

Thank you, guys. It's very helpful.

Warren C. Jenson A

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

Thank you.

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

Elizabeth Porter Q

Analyst, Morgan Stanley & Co. LLC

Great. Thanks so much. I just first wanted to follow up on the low-single-digit view for fiscal 2024. Just given that the Q4 exit rate is kind of more mid- to high-single digits, so for that 4% to 6% range, so what are some of the drivers of kind of the incremental weakness from the Q4 exit rate and just given that it feels like the dynamic should be getting almost better into back half. But just wanted to kind of get your views on the puts and takes there. Thank you.

Warren C. Jenson A

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

Thanks, Elizabeth, for the question. I'd say the following. The headline would be really just thinking about marketplace. We clearly saw weakness, as others have in our third quarter and in particular in December and then we just have our January results into and we also saw pressure. So I think we just have got to be really cautious as it relates to data marketplace. We would say think about flat to down potentially next year again sitting here today, obviously, better on the top line related to subscription.

Finally on this point, again where we are in the planning cycle is it just pays dividends to be conservative across all of the assumptions. Again, there's just way too much uncertainty. We want to see our bookings trends continue and even strengthen more and then deliver on a lot of the initiatives that we have in place.

Elizabeth Porter
Analyst, Morgan Stanley & Co. LLC

Q

Great. Thank you. I like that color on marketplace versus subscription. Super helpful for us and makes sense on setting a conservative guidance next year. Just as a follow up, I wanted to congratulations on just all the great partnerships. And I wanted to dig into a little bit more on the AWS Clean Room. Historically, you've had a really strong relationship with retail and CPG verticals in your Clean Room offering.

So just as it relates to AWS, what's the opportunity to expand kind of more meaningfully outside of retail verticals, given just retailers maybe hesitant to be an AWS kind of customer? That is question one. And then second you called out SMB specifically for AWS but are large enterprises addressable here as well?

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

A

Oh, I think they are, Elizabeth – and this is Scott. I don't know if you're planning to attend RampUp, but it's really interesting. One of our first sessions that Warren's going to leave is kind of a discussion on commerce networks. And so we'll have a major retailer on stage, I think it will be Albertsons. We'll have General Motors on stage talking about the future of connected cars, and we'll have one of the major airlines I think on stage talking about connected travel.

And I think that illustrates what we're seeing. What started as retail media networks has really become commerce networks. And commerce networks really apply to almost every vertical. So, for instance, in the connected car business, automotive manufacturers, I mean, basically any retail shop, any automotive repair, every gas station, they should be forming partnerships and collaborating on data. And in the travel space, all you have to do is look back to the late 1990s when all of the travel marketers formed partnerships based on miles. Well, now we're entering a new age where the partnerships and collaboration will be on intelligent data usage.

So there are very few industry verticals that we don't think should be experimenting with data collaboration. I think it's going to be one of the drivers for marketing and data usage over the next few years. And so I think there's a tremendous opportunity. I think AWS sees it, Snowflake sees it, GCP sees it, and we're forming similar partnerships with every major cloud provider. The good news is that regardless of who wins there, we're going to be supporting them and helping their clients and data partners.

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

A

Elizabeth, I might add just one thing to what Scott said. It's interesting. If you think of all the partnerships that we have in place that have been announced, it's pretty ubiquitous. And if you think about multiple industries, there are three things that are just table stakes that it doesn't matter whether it's retail, healthcare, financial services, et cetera. You have to have foundational identity, you have to have unparalleled reach and you have to have the strongest approach to privacy and security, and fundamentally that's what we do.

Elizabeth Porter
Analyst, Morgan Stanley & Co. LLC

Q

Great. Thank you so much.

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

Peter Burkly
Analyst, Evercore Group LLC

Q

Yeah. Hi, guys. This is actually Peter Burkly on for Kirk. Appreciate taking the questions here.

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

A

Hey, Peter.

Peter Burkly
Analyst, Evercore Group LLC

Q

So maybe, Scott, just to start with you, given the choppy macro, I'm just curious if you could kind of double-click on the dynamics of just how all the choppiness is sort of impacting net new client additions versus sort of the upsell expansion opportunities? And then maybe just a quick follow up for you, Warren. It looks like you guys are guiding to 100% NRR for next quarter. Just curious, as you look out a year, does that keep trending down in the near medium term to the low 90s, or do you see that sort of at the bottom? Just curious if you could kind of touch on that a little bit. Thanks.

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

A

Yeah, Peter. I think the macro environment overall is cause for conservativism as everyone builds their models. That said, I would tell you, I'm really pleased with some of the progress we're making with our sales team. I mentioned in my prepared remarks we were really impacted by this Great Resignation. We saw a lot of our sales reps lead. We were really a talent magnet for other companies, and boy, they paid our sales reps 50%, 60% more to jump ship. So we've now rebuilt that capacity. I would tell you, I'm really pleased with our pipeline. I think it's at an all-time high. Our bookings sequentially were up. And so there's a lot of interesting conversations under way. Bad macro economy or not, there is still a lot of interest in doing clever things, sophisticated things with data. And in fact, in a bad economy, it actually encourages companies to be more innovative.

So I think we can benefit from that. But you have to temper that with the other side of our business. I mean, if – I was just talking about the data subscription side, our data collaboration platform, this other side of our business that Warren touched on, our data marketplace. That's where we'll absolutely see macroeconomic pressure. We saw it last quarter. We're seeing it in the early weeks of this year. And when we listen to the calls of a lot of the major media companies, we hear them talking about it as well.

So all this to say is I just echo something Warren said, which is it's early. We wanted to get out in front of guidance for next year and talk about things and broad brush strokes. But we will learn a lot more in the next quarter or so before our fiscal year starts by seeing how the macro economy develops, what happens to data marketplace and how our cloud partnerships continue to develop as well.

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

And then, Peter, let me take the second question. We're not going to give long-term guidance on net retention on this call or probably ever. But what I can flat out tell you is nobody would even be remotely satisfied with the net retention trend that dips down into the low 90s, just full stop. So, for us, we think we're doing the right things to really turn around what has been a downward trend. It's what we're doing to drive higher bookings and drive higher upsell.

Secondly, it's all the work that we have going on to focus on usage and working with all our partners. So, you can expect that to continue as well as the work that we're doing to reduce any impact of contraction. So, no long-term guidance today, but make no mistake, 100% is not our end objective whatsoever.

Peter Burkly
Analyst, Evercore Group LLC
Q

Very helpful color. Thank you both.

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

Brian Fitzgerald
Analyst, Wells Fargo Securities LLC
Q

Thanks. Scott, there's a sense out there maybe that the competitive set is expanding. Some players in Clean Rooms and CDP and adtech build out some lighter weight kind of onboarding at any resolution capabilities. Wondering if you could give us your take on that trend, whether or not you were there behind the scenes powering some of these. And then we'd imagine larger clients want to use one provider with many activation options, but wondering if you see a place in the market for some of these newer lighter weight offerings out there?

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

Well, it's interesting. I mean, we're pretty unique, but we've always faced competition. And if you go back a decade, people would talk about us competing with DMPs or more recently DSPs. But in reality, that masks what was really happening, which is we power those things. And I think that is going to be the case going forward as well. And sort of DMPs and DSPs will increasingly be talking about CDPs, and the marketing clouds. Well, we've had some recent announcements, CDPs, I think it was last quarter I talked about our Salesforce collaboration for their Genie launch. And more recently, I've talked about, obviously, AWS today and Snowflake where we continue to push forward on that partnership.

It's so funny. I oftentimes get investor queries when they see the announcement of Disney in Trade Desk or today's Acxiom-Snowflake partnership. And we just smile because when an announcement occurs with two partners that we're working with, what gets left unsaid is that they're riding our rails to deliver the joint value. So, every time you see one of those things, think that's an opportunity for LiveRamp.

And just to make it real clear, what I think about what clients need, they obviously need storage and compute. They need a service layer and they need the ability to do segmentation and a good UI. Those will be provided by the marketing clouds, the Adobes, the Salesforces of the world. That's never been the business that we've been in.

However, the concept of foundational identity, our ubiquity, and the connected ecosystem, we stitch it all together. And so, we make the marketing clouds actually work. We make the data that sits in them be usable at all the destinations that matter. And so, we think there's a real essential role for us. You hear me talk about the fact that we've knit ourselves into the very fabric of the ecosystem. And I think all of these partners are potential growth opportunities for us long term.

Brian Fitzgerald
Analyst, Wells Fargo Securities LLC

Q

Got it. Thanks. Appreciate it.

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

Jason Michael Kreyer
Analyst, Craig-Hallum Capital Group LLC

Q

Thank you. I was actually interested in Warren's comment on CTV data partnerships and specifically making media more addressable. So, we've heard in a lot of our conversation there's just limited access to truly addressable inventory and connected TV. So, just curious what you think your role is in that ecosystem and if you think you could serve as a catalyst to making more of that inventory truly addressable.

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

A

Oh, I love this question. And what I would tell you is too often when people talk about CTV, you're hearing about programmatic CTV, which is a very small slice of the CTV environment. Well, we play there and we power the folks that play there, but we see the much bigger opportunity to be making the entire upfront CTV inventory addressable and targetable. And so, we already have partnerships with virtually every major CTV player, not just for programmatic, but for the vast majority of their inventory. And those that you haven't heard us talk about historically, I think you'll hear us talk about in the coming months.

So, really important part of what our clients are trying to do. They don't just do programmatic, they don't just do display advertising. They advertise on CTV. They advertise in e-mail. They want to make their data available at point of sale. And we enable all of those things. So we are much more ubiquitous than any one media tactic. Really excited about what you'll hear from us and the capabilities we'll expand there in the coming year.

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

A

Hey, Craig (sic) [Jason]. I would add one thing on the point is, I know in certain places in the market, there's just so much demand that you don't even honestly need to do targeting. But I think that's a short-term phenomena, and I think the Disney announcement today was really a great example of where the streamers will go and what will be done. Bottom line is when you use data effectively, you're going to create better CPMs, you're going to create higher levels of revenue.

Jason Michael Kreyer
Analyst, Craig-Hallum Capital Group LLC

Q

Thank you, guys.

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

Mark Zgutowicz
Analyst, The Benchmark Co. LLC

Q

Thank you. Good evening, guys. A couple of specifics...

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

A

Hey, Mark.

Mark Zgutowicz
Analyst, The Benchmark Co. LLC

Q

...on the ATS publisher growth, these – I think that moved from 1,500 to 2,000 quarter-over-quarter, which has been flat for the last few quarters. I'm just curious what drove that, if there's any specific partnerships that contributed there.

And then, two, on Safe Haven. I'm just curious if you could give us an update on the ARR trajectory and – sorry, if you did already, I might have missed it, but that would be helpful. Thanks.

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

A

Yeah. On the ATS, what I would tell you is I'm not sure that there's any one single thing, rather I would just say we've reached critical mass, and it's not driven now by Google's timeline for cookie deprecation. Rather it's just driven by the fact that addressability works more effectively. Our publishers are seeing fairly significant. Microsoft published a case study about a year ago showing 40% lift in yields when they switched from cookies to authenticated inventory. And the vast majority of our publishers are seeing similar things. And so, those stories, those case studies travel fast and virtually every major publisher wants to deepen their partnership. And it's not just in the US, it's worldwide. And I think this is another thing that really sets us apart that we probably don't talk about nearly enough.

We're not a US company. We are a global company. And if you are a global advertiser, the only way you can reach your audience in dozens of countries that you want to be in is through LiveRamp. So, all of the partnerships that we're signing are global, and in many cases we are the only authenticated option in some of those markets. So I think all that's coming together. That said, it's still early stages in terms of the vast amount of media flowing through these authenticated channels. So, I think that plays out over the next couple three years.

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

A

And Mark, the only other thing I would add is in our deck, you'll see a bunch of case studies that we've linked to. If you haven't had a chance to take a look at the case studies, would encourage you to do so because you can really see the effectiveness of overall ATS.

And then to your second question, one thing that we'd suggest everybody sort of think about is increasingly LiveRamp is a platform sale and Safe Haven is our enterprise platform. So, we don't think in terms of discrete products. What we think of is how do you use that platform for different use cases. A use case could be activation, it could be measurement, it could be identity or it could be collaboration. So, increasingly, we're going to be just talking about the platform, you know, and not a discrete element called Safe Haven. Safe Haven is our platform.

To your specific math, though, as we go through this transition, Safe Haven influenced ARR is up about 62% year-over-year. It's gone from roughly 20% of ARR to about 29%, again, year-over-year. So up 900 basis points.

Mark Zgutowicz
Analyst, The Benchmark Co. LLC

Q

That's helpful. Thanks, Warren, Scott. Appreciate it.

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

A

Thank you.

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

A

Thank you.

Operator: Your next question comes from the line of Dean Sublett with Stephens. Your line is now open.

Dean Sublett
Analyst, Stephens, Inc.

Q

Hey, thanks for squeezing me, and appreciate it.

A

[indiscernible] (01:01:01)

Dean Sublett
Analyst, Stephens, Inc.

Q

I'm on for Nick Zangler. So, we were wondering, as [ph] fast (01:01:06) services continue to proliferate with like [ph] beta (01:01:09) announcing today. We were just wondering about your exposure to that and if it's still visible enough for you to frame up, how that's contributing to CTV growth, if at all. And maybe just any long-term thoughts on [ph] fast (01:01:22)?

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

A

I would – let me kick things off and we won't comment, and maybe Scott would on specific things that may or not have been announced. But big picture, think about our TV strategy, and our TV strategy is to make every impression addressable. So for us, we have partnerships with all the major MVPDs, with DISH, with DirecTV, with all the major publishers, whether it's Fox, Tubi, Paramount, WarnerMedia, Hulu, Roku. Today, we announced Disney and also in Mobile.

So, as we think about our approach to CTV, it boils down to that first statement. We intend to make every impression addressable, and CTV is an important part of the overall value that we create.

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

A

Yeah. I mean, I don't know if I have much to add other than as some of the streaming services start to accept advertising, you can get a nice revenue bump simply through volume. But that gives you one quarter, the next quarter volume doesn't grow infinitely. You have to start turning the yield level. And the only way you improve your yield is through better targeting of both context and user. And that's what we provide. So, I look at things like this as an opportunity for us, and it feels a lot like the business that we've been in forever.

Dean Sublett
Analyst, Stephens, Inc.

Q

Got you. That's it for me. Thanks, guys.

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

A

Thank you.

Operator: There are no further questions at this time. Warren, I turn the call back over to you.

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

Great. Well, thank you operator, and thanks to all of you for joining us today. Let me conclude again with just a few final thoughts. First, we're really excited about the markets that we play in, they're big, there are big long-term opportunities. And we believe that we are playing and demonstrating our right to win, whether it's in identity, whether it's in data collaboration, whether it's in measurement or whether it's in marketplace. And in doing so, wherever data may reside.

Second point would be we are in an uncertain environment. And I'd repeat the three big takeaways you should walk away with for FY 2024. You're going to see us forecast a conservative top line, you're going to see us give guidance that will involve significant margin expansion, and you will see a strong return of capital.

And then, finally, just we hope all of you are going to join us at RampUp on February 28 and March 1. We've got a great lineup of customers, of clients and partners, and competitors, and everybody else who will be in attendance. And we'd love to have you there. So, if we can help with your registration, please reach out to Drew or Cassandra.

With that, again, thank you, and we look forward to the follow-up calls.

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