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LiveRamp Holdings, Inc. (RAMP)

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Elizabeth Porter
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MANAGEMENT DISCUSSION SECTION

Elizabeth Porter
Analyst, Morgan Stanley & Co. LLC

Good afternoon. Thank you, everyone, for joining us to Morgan Stanley TMT Conference. My name is Elizabeth Porter. I'm an analyst on the US Software Equity Research Team. And I'm very pleased to have with us today LiveRamp's CEO, Scott Howe; and SVP of Finance and Interim CFO, Lauren Dillard. We are taking audience Q&A. So, there will be a mic going around at the end. And lastly, for important disclosures, please see the Morgan Stanley Research Disclosure website at www.morganstanley.com/researchdisclosures.

And with that, Scott, Lauren, thank you so much for being with us today.

Lauren Russi Dillard
Senior Vice President-Finance & Investor Relations, LiveRamp Holdings, Inc.

Thanks for having us.

QUESTION AND ANSWER SECTION

Elizabeth Porter
Analyst, Morgan Stanley & Co. LLC

Q

So you just had your user conference ramp-up in San Francisco last week and there was a lot of discussion on just how the landscape of ad tech and mar tech is evolving. And I'd love to get some of your thoughts on what are the bigger shifts that you're seeing and, importantly, how is LiveRamp positioning the company and the product portfolio to align with those shifts.

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

A

Yeah. And first off, let me just say it was a great conference, but this, this is a great conference. I would say there were two big mega themes that we heard last week at our conference. And I think you probably heard on stage with some of your other companies in the last few days. Number one is kind of a megatrend towards data collaboration. Every company in the world has realized that data is important to unlock better ROI and deliver a better customer experience. But they're increasingly realizing that they can't call out Amazon on Amazon. They can't do it by themselves.

So they need to work with other companies who might also have really good complementary data. For us, there's a huge opportunity in that data collaboration megatrend because we do something that is best provisioned for the entire industry at scale and has a real network advantage. And namely, we sit underneath collaboration and provide three really essential services. Number one is turnkey access to all the data and all the integrations that matter. Because if you just have data in a can and it can't, like, ingest other data or be pushed out to moments that matter, it's no good. So rather than every company trying to do hundreds of integrations themselves, they just work with us and we provide it all turnkey.

The second is a concept called foundational identity. If you have two datasets and you want to marry the insights together, you need a commonality, a key across those two datasets. That's identity, such that you can say, hey, this customer is the same as this customer even though they're defined differently, you can marry them together.

And then the third is this whole concept of just activation – and activation and permissioning positioning, because as soon as you activate your data at a destination, as soon as you start to collaborate with someone else, you got to worry about like who can see what under what conditions and can I control how people use the data. And so, again, all done best at scale. So, megatrend number one, Elizabeth, was this whole concept of data collaboration.

As you get data collaboration out of that, emerges megatrend number two. And it's this concept of what I'll call data federation for technical folks. But really what it means is how do you extract the value of data without moving your data, because as soon as you start sending data around, you increase kind of security risk, and then you also start to incur massive storage bills. And so, we worked really hard at how do you extract the value of data without sending it around different places.

So, technically, you take kind of a view of the data and you send a view of the data as opposed to duplicate the entire data set and send it someplace, significantly lowers any security concerns, gives companies a lot more control over the data. It gives them a lot more comfort that no one's ever going to misappropriate their data. And so both of those things, I mean, they're true for us, but you're also seeing those trends play out. They're driving things like cloud data warehouse usage. Snowflake is a huge beneficiary from both those trends. Snowflake is one of our recent channel partners. So, I would imagine most of your portfolio companies, Elizabeth, are seeing those same two megatrends.

Elizabeth Porter
Analyst, Morgan Stanley & Co. LLC

Q

Definitely. And so those megatrends will certainly provide a secular tailwind over the long term. But I remiss if I didn't hit on just the kind of the near term, and LiveRamp, like many other software companies, have been impacted by the volatile, kind of, macro environment, particularly as it relates to your SMB customer base. So what are the demand impacts that you're seeing and how are you navigating this environment? And exiting 2022, you do acknowledge some of the weakness installs in demand. And how are things changing in your view into 2023?

Lauren Russi Dillard
Senior Vice President-Finance & Investor Relations, LiveRamp Holdings, Inc.

A

Sure. And LiveRamp, like most companies, as you alluded to, is not immune from the macro. And I kind of call out three areas where we're seeing an impact. It's most noticeably showing up in our marketplace business. And for those of you less familiar with LiveRamp, we have a data marketplace that sits on top of our core software platform and enables data buyers and data sellers to transact.

That business is the most cyclical and variable component of our revenue, tends to ebb and flow with the overall health of the advertising markets. That business had been growing healthy double digits through November. We saw a stall in December and again in January. And so that is an area of the business where we're just watching really closely right now.

The second area I'd point to is our subscription revenue has a usage component that accounts to roughly 10% to 15% of total subscription revenue. To the extent that, again, the ad market remains pressured, advertising less, using less data to inform that advertising. That area of the business would be impacted. And we saw kind of a slight sequential deicel there.

The final area I'd point to and this is the fixed subscription component of our business. While it is, it tends to be the most predictable, least-variable portion, and we have seen, as many have talked about in the space, elongated sales cycles in recent quarters, slower growth bookings. But saw a nice rebound in Q3 that we hope can be continued in Q4 and beyond. I'd go back to a couple of the things that Scott said. I think the secular trends remain squarely in our favor. The demand signals are there. We have they're one of the healthiest pipelines I can remember in recent history. But I think there's just a general kind of cautiousness right now that we're watching.

Elizabeth Porter
Analyst, Morgan Stanley & Co. LLC

Q

Got it. And it's got you even flagged Snowflake as a big partner. And I think in general, we've seen with the data clean rooms. We get a lot of investor questions, is there competition or is this co-opetition? And so, I'd love to get your view on what is the opportunity set from here from a new logo and a revenue perspective and when these partnerships you expect to show up in results? And just how you think about this dynamic of they're also doing a clean room, but we are going to go ahead and partner with that and what that enables for LiveRamp?

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

A

Yeah, Elizabeth. I will tell you, there is massive competition, but it's not with us. It's amongst four different constituents that are all heading towards a four-way intersection and there's a collision about to occur. On the one hand, you have the legacy CRM systems that have been around for 30 years, and a lot of them are very bespoke, very custom, a high degree of professional services that are helping companies manage their data. It's the Experian, the Acxiom, the Epsilons, the Merkles of the world.

Second, you have kind of this emerging category of CDPs, customer data platforms, owned by companies like Adobe or Salesforce who launched Genie. Third, you have a group of capabilities called clean rooms that it seems like everybody in the world is launching, particularly major agencies. And then fourth, you have this category of the cloud data warehouses, and it includes like Snowflake and Databricks, but then also the public clouds they're built on, AWS, and Azure, and GCP. The key is we're partnered with every single one of them, because it's really important for clients to be able to future-proof their tech stack.

And so, all four of those foundational technologies do the same thing. They do some degree of segmentation, some storage, and some compute. We don't compete in any of those things. The things we do are the things I talked about earlier, the collaboration, the foundational identity, the permission management. Those connect all the pieces of the tech stack. So, like most SaaS businesses have this portion of their revenue that is kind of partner-driven. Well, historically, we haven't had that. We created the category. We grew really fast, but we're realizing we can unlock a bunch of future revenue by getting really smart about this.

And so we announced a partnership with AWS. We've announced a partnership with Snowflake. We announced the partnership with Adobe last week. We announced a partnership with Salesforce Genie. And in every case, I mean, virtually everyone, we're going to market together. There are huge benefits to that. Like, we believe, like, when we go to market with Snowflake, it kind of halves the time from conversation to closed contract. We own the paper, but Snowflake has like 2,000 sales reps and we don't. So we can get a lot more coverage through things like that. Last year, these kind of channel partnerships, we did, what, $10 million. We'll do that this year, up from nothing a year ago. And we think that can be a really fast-growing element of our business as we go into next year and beyond.

Elizabeth Porter
Analyst, Morgan Stanley & Co. LLC

Q

Great. And I want to double click on, you mentioned Adobe, Salesforce, and historically, we thought about LiveRamp and really strong integrations into the ad tech ecosystem, but we're seeing more into the mar tech side. So how should we think about just that opportunity with more mar tech providers and kind of the cadence of these partnerships and when that can start to impact results?

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

A

Yeah. I'll tell you there's two things that are really interesting here. Number one is just the depth of integrations. And even in the ad tech space, Elizabeth, if you look at kind of an average large enterprise client, there's probably a couple hundred destinations that they want to send data to to enable more personalized messaging. It could include CTV, search, premium display, programmatic. And we light up nearly a thousand of those different destinations.

So last week at our conference, we had Google on stage, we had Meta on stage, we had Amazon Ads business on stage. We had publishers all across the world. And so, that's great. We know that the more integrations that a client does, the stickier they are. And by the time they get to like a half a dozen different places they're sending their data, we're really embedded into the very fabric of what they're doing.

But why stop at ad tech? Companies are doing so much more than advertising. And a great example is last week we announced a partnership with Twilio, which allows companies to activate their data in e-mail or text. And then all of a sudden, like, if you go to a retailer and then you get a text the next day, you can look at the advertisements right next to the text message and say, oh, does that combination work more effectively, does that allow me to deliver a better experience.

And so, we look at this as the first step because where e-mail and SMS goes, contact centers are next. We've already done a lot with point-of-sale in commerce. And when I think about the playbook that Salesforce perfected 20 years ago, they started with like one killer product that was appropriate for one member of the C-suite and then expand it. And we think we're in a similar position as ad tech goes to mar tech, goes to commerce, goes to who knows, but anywhere you can use data, we intend to be there and help our clients use their data effectively.

Lauren Russi Dillard
Senior Vice President-Finance & Investor Relations, LiveRamp Holdings, Inc.
A

You asked about kind of potential growth upside. And when we talk about upside the next year, one of I think the biggest near-term levers we have is driving incremental usage of our platform through new partnerships like the Twilio one kind of outside of the traditional ad tech universe that we've historically supported. This is something internally what we're really focused on and we're actually kind of designing incentive structures around.

Elizabeth Porter
Analyst, Morgan Stanley & Co. LLC
Q

Great. And beyond just investing in the partnership side and the tech integrations, you've also refreshed the sales force, particularly after some attrition after the pandemic and the Great Resignation that hit a lot of companies. So I wanted to check in on the progress there. I think you spoke about 90% of reps closing deals in the latest quarter and new reps even adding more contribution than you had initially expected. So, are there any other metrics that you can provide us in terms of the productivity of the sales force, how that's ramping?

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

Yeah. I mentioned Salesforce.com earlier and I always think about years ago, I remember Marc Benioff saying, as our sales force goes, so too does Salesforce.com. We're $600 million in revenue. And at that scale, revenue generation becomes a math problem. You need to have so much pipeline which generates so much bookings. And to get the bookings, you need X number of sales reps. And we fell short of the math for a while because we had a leakage of our sales reps during the Great Resignation, too slow to replace them.

The good news is we're catching up and we've actually taken the opportunity, like, we're a different company at $600 million than we were at $60 million. So, 5 years ago, 10 years ago, as a category creator, we had a lot of 23-year-old sales reps straight out of school that could use a lot of industry acronyms and dazzle you with magic. Well, now, as the category around us is maturing a little bit, we need people with deep industry expertise. So we've hired people at vertical expertise and who have SaaS experience. We found that they're getting up to speed far quicker than historically our sales reps have. I want to say last quarter, 90% of our reps wrote a piece of business, which we feel pretty good about. And our average annual contract value per rep right now is north of $2 million, which suggests, all right, we should continue to add. So we'll do that.

And, again, we've caught up to where we were maybe 18 months ago, but we're not building for where we were. We're building for where we're going. And so, to really feel good about accelerating our revenue growth, we'll continue to make some very surgical hires in the sales team. And those are always, like, easy to manage because if someone is not performing, then you hold them accountable and replace them with someone who is. Great salespeople should always pay for themselves.

Elizabeth Porter
Analyst, Morgan Stanley & Co. LLC

Q

Great. And I do want to switch over a little bit to the financials and the guidance. And so the preliminary outlook for your fiscal 2024 revenue was for low single-digit growth year-over-year, including subscription revenue growth of about mid-single-digits, which is down from mid-teens expected for this year. And do you feel that fiscal 2024 is kind of the trough for growth? And what would be the biggest factors to get subscription goals to reaccelerate?

Lauren Russi Dillard
Senior Vice President-Finance & Investor Relations, LiveRamp Holdings, Inc.

A

Yeah. And so, as you mentioned, we provided very early color on next year, really assuming kind of a steady state macro, meaning, not appreciably better or worse than the current environment. And embedded in that was an outlook for mid-single-digit subscription growth. The detail that you just referenced is largely – largely reflects the impact of the lower growth bookings we experienced in Q4 of last year and in the first half of FY 2023 as a result of the sales force challenges that Scott just mentioned. Outside of the macro, I think upside to growth could be driven by improved sales force productivity as well as some of these channel partners beginning to – the channel partnerships rather beginning to deliver perhaps earlier than we're assuming they will. We're not guiding FY 2025 today, but our goal is to get back to solid double-digit growth. And I think all of the levers that we've talked about today, so accelerating new logos, driving incremental usage of our platform and really getting the channel partner flywheel spinning would all contribute to that reacceleration.

Elizabeth Porter
Analyst, Morgan Stanley & Co. LLC

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Great. Even outside of some of the top line challenges, you guys have really done a lot to protect kind of the profitability side. And you now expect operating income to be up 50% year-over-year in fiscal 2024. So, where are you getting the most leverage from? And are there still levers to further push kind of profitability beyond the benefits that you've gotten from restructuring?

Lauren Russi Dillard
Senior Vice President-Finance & Investor Relations, LiveRamp Holdings, Inc.

A

Yeah. Absolutely. So, correct, we're guiding to 50% growth in operating income dollars next year. A large part of that growth has been driven by actions already taken to-date. So we talked about a head count reduction. We've also done a lot in the way of real estate restructuring rationalization. I think you'll see leverage from every component of OpEx next year, maybe less so from sales and marketing as we're continuing to kind of build back sales capacity. And beyond that, I think we've got strong line of sight in FY 2025 to similar levels of operating income improvement, especially as we move certain job functions offshore, which is a company-wide initiative right now that we're right in the middle of.

Elizabeth Porter
Analyst, Morgan Stanley & Co. LLC

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Great. And then I'll ask another one and then open it up in case there's any audience Q&A. But LiveRamp is in an industry where privacy is an element that's of super importance, and it's constantly changing. So what do you think makes LiveRamp kind of so resilient and able to keep up in that dynamic marketplace of privacy?

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

Yeah. There's a saying in the industry, privacy by design, and I think we actually coined the term. So, we bet way above our weight in terms of the regulatory and privacy conversations from the get-go. We thought hard about how do we want to design for the future, and our belief was the future is going to be a consent-driven world. You have to have bifurcated consent. If you use data effectively, you better get consent from the user, you better have consent from the company, you better have consent from the destination where you want to use the data. If you do that, you deliver a better customer experience, then, anything is possible. So that is at the core of everything that we've done.

And again, like, we don't have any other businesses. We're not an ad network, we're not a CDP, we don't operate a clean room or we don't do storage and compute. We just help people connect data safely and securely. So, when that's all you think about, it's really all you think about. And it is deeply embedded in our DNA. All the regulatory stuff helps us. It deepens the moats around our industry and makes us even more important to our clients and partners because they all need help navigating what is an increasingly complicated network of state, federal and global regulation.

Elizabeth Porter
Analyst, Morgan Stanley & Co. LLC
Q

Are there any questions in the audience? We have a couple minutes left, so I'll run through a couple more. So LiveRamp has made a number of changes in the last years. We talked about kind of the sales force refresh, the restructuring, the expanded partnerships. As we look into 2023, what are some of the most important top strategic priorities for you?

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

Oh gosh. I would say commitment to our shareholders. Like, we recognize that shareholders have a lot of options, and we feel really good about where we are moving as a Rule of 40 company. We have great line of sight into the bottom line and we are going to continue to improve our efficiencies towards target margins of 25% north over time. And we are going to reaccelerate the top line. So, we are manically focused on that.

Commitment to our customers. We live in an industry that never sits still. Clients are always thinking about new ways they want to utilize their data and so we are always going to be pushing on working with new companies and new destinations, new technology partners to enable data collaboration.

And finally – and not third is commitment to consumers. And it goes back to your last question about privacy. We recognize that this isn't a world that is just about companies making money. It's also about consumers realizing value. And so, everything we do has the consumer and their consent and a fair value exchange in mind.

Elizabeth Porter
Analyst, Morgan Stanley & Co. LLC

Great. So that almost brings us to our time. Thank you so much for joining us today and sharing your insights. And looking forward to watching what comes next.

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

Thank you, Elizabeth.

Lauren Russi Dillard

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

Thanks so much for having us. Thanks all for joining.