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LiveRamp Holdings, Inc. (RAMP)

Q3 2020 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Operator: Good afternoon, ladies and gentlemen, and welcome to the LiveRamp Fiscal 2020 Third Quarter Earnings Call. 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 2020 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 in the press release. A copy of our press release and financial schedules, including any reconciliation to non-GAAP 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
Chief Executive Officer & Director, LiveRamp Holdings, Inc.

Thank you, Lauren. Good afternoon and thanks for joining us today. I always enjoy our time together as it serves as an inflection point for us to share more detail about our operating performance and then summarize what we believe to be the key overarching trends in our business. In my remarks today, I'll first briefly highlight what was, on almost any measure, another strong quarter, and then I'll share with you, in turn, four overarching themes I believe to be true about LiveRamp.

The short summary, we delivered another strong quarter, highlighted by solid top line execution, significantly improving profitability trends, growing industry leadership and continued business momentum across each of our key growth areas. We reported our first-ever $100-million-plus quarter, and total revenue was up 28% year-over-year. Our subscription business grew 25%, driven by both our enterprise and agency channel and an acceleration in our platform and publisher verticals.

In addition, Data Plus Math continues to build momentum and benefited our subscription growth rate in the quarter. Marketplace and other revenue was up over 40%, fueled by the strength of our data marketplace and advanced television business.

Beneath the top line, we remained relentlessly focused on operational execution and generated meaningful margin improvement in the quarter. Gross margins improved to 69% and operating loss as a percentage of revenue improved to negative 5.5%, demonstrating significant leverage.

Finally, we continue to support our shareholders through our buyback. During the quarter, we bought back more than $20 million of stock, and fiscal year-to-date have repurchased just over $120 million.

Across LiveRamp, our attention is already fixed, not on the performance of the past quarter but rather on our path forward. To this end, let me share four key themes that are increasingly emerging and give us continued confidence and optimism. One, our role in the ecosystem has never been more important, which is fueling our continued success. Two, our growth model is working as evidenced by many proof points. Three, our platform is now viewed as essential infrastructure for our clients and, at the same time, create strong network effects, which in turn are driving sustained profitability improvements. And four, finally, we continue to be incredibly optimistic about our future, as we're seeing a myriad of future growth levers and recognize there are opportunities for us to manage the business even more effectively.

Let me next address, each of these key themes in turn. First, our role in the ecosystem has never been more important, which is fueling our continued success. The past year has witnessed two potentially seismic changes to the marketing ecosystem. The initiation of new regulations such as CCPA and the more recent announcement that Google intends to phase out their support for third-party cookies in Chrome over the next two years. Neither of these changes is a surprise to LiveRamp and we have, in fact, been working with our clients and partners for many months to ensure they will be well-positioned for future success.

CCPA went into effect on January 1. And the headline is, we were prepared. LiveRamp has always been a vocal champion of consumer transparency and choice, and we embraced CCPA as an opportunity to demonstrate our thought leadership and guide our customers and partners through their compliance framework. We kicked off an extensive process well over a year ago and also made significant investments over this period to expand both our product and data ethics teams, to ensure we were appropriately resourced.

To date, CCPA has had no material impact on our business with respect to both our graph and data marketplace. Consumer requests have been very manageable and well in line with our expectations. In short, CCPA further hardens our position as the neutral, safe choice.

In addition, last month, Google announced plans to phase out support for third-party cookies in Chrome within the next two years. Google also indicated it plans to work with its ecosystem partners to enable a healthy ad-supported web, while providing users with greater transparency and control over their data. We fully support this initiative and Google's transition runway. And we've been readying for a more effective and secure technology for several years.

There are three key facts we think our partners should consider in light of Google's announcement. Number one, LiveRamp is much bigger than programmatic. Let me remind you of how LiveRamp technology actually works. IdentityLink is a people-based identifier and is anchored on our core offline Abilitec asset, rather than cookies or device IDs, providing greater privacy, security, portability and durability than other identifiers.

We are also omnichannel, and built out our distribution network to support all types of marketing use cases including advanced TV, social, mobile app, search, and offline channels. In fact, as new identifiers continue to emerge, creating even greater ecosystem complexity across channels and partners, our ability to integrate with any of these emerging technologies has increased our relevance. Chrome cookies are not utilized in our advanced television, mobile or offline relationships. They are also not utilized in our Google Search or Microsoft Bing integrations.

Furthermore, in the digital display world, Chrome cookies are not utilized in our direct integrations with platforms like Facebook, Twitter, Pinterest, or Spotify, where consumers spend close to 50% of their time. Cookies have historically been utilized in the display integrations we have with programmatic platforms like DSPs and SSPs, though this, too, is now changing.

Second, importantly we are prepared for industry evolution. In 2017, LiveRamp launched the Advertising ID Consortium, paving the way for people-based identity in the programmatic bitstream. In 2018, IdentityLink became the first-ever people-based ID available for marketers to buy on the open Internet.

Last year, we introduced the Authenticated Traffic Solution or ATS, which allows publishers to match consented user data with a LiveRamp IdentityLink, enabling people-based advertising on an authenticated, cookie-less inventory across the open Internet. ATS is live and can be leveraged by brands, agencies and publishers today to buy inventory without the need for a third-party cookie. We are experiencing strong industry adoption as the ecosystem welcomes a simple standard and unbiased solution. We have 12 SSPs live or committed to implementing IdentityLink in the bitstream, including Index Exchange, Pubmatic, Rubicon Project, TripleLift, and Beachfront. We also have multiple publishers with code deployed on page.

On the buy side, we have 30 DSPs live or committed to bid on IdentityLink including Amobee, Criteo, dataxu, and MediaMath. On the brand side, we're seeing brands innovating with IdentityLink and starting to send data directly to platforms without any cookie sync using just the IDL, creating a faster workflow and better match rates.

Finally, data-driven marketing is table stakes and our technology simply works better. Marketers and publishers are not going to back off tactics that have worked so well for them over the past decade. And our clients are actively seeking to expand their usage of data into more and more of their marketing activities. As data-driven marketing evolves, LiveRamp is uniquely positioned to enable the future of addressability in this new world.

Further, we think LiveRamp offers a better technological solution than cookies for several reasons. Because we utilize a persistent identifier, the sync deprecation, typical when multiple partners utilized cookies, does not exist, so addressable reach has vastly increased. In addition, because we rely on consent-based identity, new pools of inventory can be accessed that are not available today when third-party cookies are blocked which vastly improves publisher yield and advertiser ROI. As it scales, ATS will provide a more consumer-friendly solution.

And finally, buying an IDL just works better. For example, in 2019, we saw a continued marketer adoption and some initial results of the benefits of buying on a people-based ID: 23% increase in measurable impressions; almost three times higher unique audience reach; 24% higher click-through rates; and 20% higher publisher yields.

In summary, we've been preparing for CCPA and third-party cookie changes for some time and believe we are well positioned to help our clients and partners navigate these changes. We also know that the ecosystem in which we operate will continue to evolve and new technologies and regulation will continue to emerge.

Even this morning, I read that the DOJ is launching an antitrust investigation into one of the large-walled gardens. Again, we're agnostic. So rest assured, if cookies don't go away, we will be prepared and plan to continue to support all forms of identity.

Regardless of how the ecosystem evolves, we intend to use industry change to deliver even greater insight and product efficacy to our clients and partners. And we believe industry change is a euphemism for LiveRamp opportunity. It makes our role even more important to anyone and everyone using people-based data.

A second key theme I want to highlight is that our growth model is working, as evidenced by many proof points. Companies of all sizes are turning to LiveRamp because we are the trusted and neutral choice to enable their omni-channel data strategies. And our ongoing commitment to innovation and customer success is fueling our recent market momentum.

Our land, expand and extend growth model continues to deliver. Bookings in the period were again at near record levels, and up more than 50% compared to prior year. We made broad additions across our enterprise customer base, adding approximately 50 new customers and bringing our direct subscription customer count to 770. One example of a recent client win is Syneos Health, a leading end-to-end clinical and commercial solution for biopharmaceutical development. While this still represents marketing related work, it's a validation of the progress we are making with completely new types of customers as we over time work to expand our purview.

Syneos works with biopharma companies to improve and accelerate the delivery of therapies that impact worldwide health. They are leveraging LiveRamp on behalf of their customers to identify and reach doctors and health care professionals for clinical trial recruitment and to market new therapies through their DSP. Syneos selected LiveRamp because of our commitment to data privacy, experience handling sensitive data, and breath of expansion opportunities.

On our last call, James Arra discussed some of the initiatives in place to improve our core subscription, net retention, churn and sales effectiveness. These efforts are having an impact, and we remain very optimistic about the expand component of our growth equation.

Upsell bookings were again strong in the quarter, representing approximately 70% of total bookings. And we continue to have good success upselling more sophisticated use cases like advanced television, measurement and analytics and second-party data sharing. Subscription net retention was 112% in Q3, slightly higher than our previous guidance, given strong holiday usage trends in the quarter. We currently have 50 million-dollar customers, up from 44 last quarter.

And finally, our platform net retention came in at 119% in the quarter. Our data marketplace attach rate was approximately 17%. We expect this to trend higher over time as more and more brands streamline their data strategies with LiveRamp, and our consumer social offering continues to gain scale.

My third key theme, our platform is now viewed as essential infrastructure for our clients, and at the same time creates strong network effects, which in turn are driving sustained profitability improvements. In the quarter, gross margin grew to 69% and operating profit improved $14 million sequentially, demonstrating the power of our model. As we've scaled our network and technology, we have found additional ways to leverage our platform and create incremental revenue streams. Data marketplace, which leverages the same core infrastructure as our subscription business, is a great example of this. Further, as efforts like ATS or and our identity co-op continue to scale, we expect them to generate additional gross margin leverage.

In addition, the network characteristics of our model also creates significant sales efficiencies. Beyond our reseller relationships, products like advanced TV, and our Safe Haven platform for data sharing also have strong flywheel effects that can drive our sales productivity up over time.

Finally, we continue to be incredibly optimistic about our future as we're seeing a handful of future growth levers and recognize there are opportunities for us to manage the business even more effectively.

One growth area for which we are extremely excited is the whole concept of second-party data sharing, the ability for two disparate organizations to share their consented first-party data sets with one another to generate even better business outcomes and consumer experiences. For example, a notable recent upsell win with a global retailer to power their second-party data environment. Leveraging LiveRamp, this partner is bringing together its first party transaction data and data from its brand partners to power better customer experiences, and unlock more complete insights and measurement.

There is an emerging global trend, especially, in retail and packaged goods, where brands are leveraging their data in new and innovative ways to network their vendor partners and make more intelligent trade decisions. For example, a retailer sharing its transaction data with a CPG to power use cases, such as portfolio strategy and performance and promotional effectiveness. By enabling data and audience collaboration in a neutral, permission-controlled, Safe Haven environment, LiveRamp can ensure the data remain safe and secure, while delivering the highest possible matches between partners. We are generating a substantial pipeline across industries including QSR, CPG, retail, telecom and entertainment.

A second important growth area for LiveRamp continues to be advanced television, where we are seeing strong traction with Data Plus Math. Our TV business was up over 50% and we landed some nice upsells in the quarter. For example, we recently started working with a leading quick serve restaurant to match linear television impressions to store visits.

On the sell side, we continue to expand existing network relationships as more brands push for secondary guarantees using Data Plus Math metrics. According to eMarketer, last year data enabled TV ad spend represented roughly 15% of the $70 billion to $80 billion spent overall on television in the US. This number is expected to grow to over 20% this calendar year as brands allocate more of their TV budget to below the line activities like addressable or OTT, where the tactics and returns of digital advertising can be mimicked.

Recent market trends like the rise of network and cable provider consortiums, acceptance of outcome-based guarantees, an explosive growth of streaming platforms suggest we are in the early stages of a massive secular shift. We are better positioned than anyone to benefit from this shift and uniquely play across all areas of advanced television including addressable, data-driven linear and CTV. It is for these reasons that TV will continue to be a big investment area and growth driver for us in fiscal 2021.

And the third major reason for optimism resides in our continued ability to simply operate our business more effectively. With transition spend in our GCP migration behind us, we've established a solid foundation for durable long-term growth and scalability. We also continue to improve key processes that allow us to operate more effectively, streamlining our ticketing process to reduce service costs, while increasing customer satisfaction, investing in platformization and system reliability for greater operational stability and standardizing our implementations that enable us to serve the client needs without customization costs.

So, let me end where I began. Thanks for joining us today, and allowing me to share what we believe to be four emerging truths about our business. As the ecosystem around us continues to evolve our importance as the essential neutral platform for anyone and everyone in the industry only continues to increase. You can see this in our growth, which is underpinned by a powerful and proven model. Our platform is increasingly driving strong improvements in profitability, spurred by our network economics.

And as we enter calendar 2020, we are increasingly optimistic about our future, as we recognize there are ample untapped revenue streams and continued business improvements for us to pursue for many, many years.

With that, 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. Today, I'd like to cover three things. First, walk you through a few highlights from the quarter; next, update our full year guidance; and finally, spend a few minutes sharing some preliminary thoughts about fiscal 2021.

Q3 highlights. We're pleased to report another solid quarter, highlighted by a strong top line performance and rapidly improving bottom line. Our business model is working and scaling. A few call-outs. Our business is strong and continues to post best-in-class SaaS metrics. We reported our first-ever $100 million quarter. Revenue was $102 million, up 28%. Subscription revenue of $80 million was up 25% and represented 80% of total revenue. Marketplace had another strong quarter and was up 38%, driven by the strength of our TV business and continued data marketplace momentum.

In the wake of change, our place in the global ecosystem continues to grow an importance, whether it's global ATS adoption, the strength of our growing TV business or the importance of our Safe Haven platform. Our growth metrics are solid, and more importantly, the trend lines stand toe-to-toe with best-in-class SaaS. Net retention was 112%. Platform net retention was 119%. ARR grew 28%. And our trailing 12-month growth in marketplace was 65%.

Next, our business model is working, and our path to profitability is taking shape. Gross margins were 69%, up 500 basis points year-over-year. Our operating loss declined from $19 million in Q2 to approximately $5.5 million in the quarter, a $14 million sequential improvement. And I'm very pleased to report operating cash flow was positive $16 million, and free cash flow was positive $13 million. And finally, we continue to support our shareholders. Year-to-date, we have repurchased approximately 2.6 million shares for $121 million.

In summary, another best-in-class quarter, a set of growth and performance trend lines that are indisputable, a path to profitability, a company that has returned more than $1 billion to its shareholders, and a company whose importance and role in the global ecosystem has never been greater. That's LiveRamp.

Before moving on to guidance, I'd like to cover a few items from the quarter. Stock-based comp. Please turn to slide 13. Stock-based comp was $30 million in the quarter, up from $25 million in Q2. The increase was driven by changes in the expected timing of acquisition-related awards.

On this slide, we have broken out the expense associated with acquisition-related retention incentives from ongoing awards. Absent any other performance award true-ups, we expect stock-based comp in Q4 to be approximately $25 million. As we had mentioned, please remember that stock-based retention incentives are a key part of our strategy when making acquisitions.

International, our Q3 performance was in line with our expectations. Adjusted for FX, our international revenue increased by approximately 13%. As we noted in our last call, we expect international growth to be soft for the next few quarters, as we transition more and more to an ATS-focused approach and as we build bookings for our Safe Haven platform, advanced TV business, and measurement solutions.

Next, please turn to slide 9, Four Corners of Growth. The strength of Q3 subscription and platform net retention was driven by strong holiday quarter usage trends, and our ongoing operational improvements.

Slide 10, RPO. Again, RPO is a measure of contracted revenue, which has not yet been recognized. It does not include any contracted revenue where a contingency exists, nor does it include any non-contracted transactional revenue. The current portion of RPO is contracted revenue we expect to recognize over the next 12 months. In the quarter, RPO on a next 12-month basis increased $45 million or 29%. Please keep in mind RPO trends can be impacted by several factors including seasonality, the timing of renewals and average contract term. In summary, before turning to guidance, make no mistake, these trends bode well for our prospects in FY 2021.

Next, FY 2020 guidance. As a reminder, our guidance excludes items including stock-based comp, purchased intangible amortization, and restructuring charges. In FY 2020, we expect revenue to be between $376 million and $381 million, up between 32% and 33%. And we now expect our non-GAAP operating loss to be between $61 million and $63 million.

A few other Q4 call-outs, we ask that you be conservative in your estimates, especially now given the industry and macro environment. We expect gross margin to be approximately 67% as we continue to invest in our B2B graph. Op loss as a percentage of revenue to be between 12% and 15%. The sequential decline is in part driven by anticipated Q4 spend associated with RampUp and incremental payroll taxes. We continue to expect net retention to be between 107% and 110%, and platform net retention to be between 110% and 115%.

CapEx, we now expect CapEx to be approximately 3% of revenue for the year, given revised timing associated with our expansion plans. Share buyback, it's not lost on us that there's a material disconnect between our performance trends and our long-term opportunity as compared to our share price. Given this disconnect, we expect to be more aggressive with our share buyback at these price levels. That said, we will continue to balance our repurchase activity with long-term liquidity and the need for strategic flexibility.

Now, let me close with a few preliminary thoughts on FY 2021. This past year has been marked by considerable regulatory and industry change, but amidst all of these changes, we see the following. First, the importance of using data to enable great customer experiences is table stakes. It is essential to global competitiveness.

LiveRamp's role as Switzerland or the industry's neutral third-party is more important than ever. Ours is a unique role. Our products and platform capabilities are increasingly becoming a core part of our customer's infrastructure. And moreover, the demand for our new product offerings, ATS, TV, B2B and data sharing, is considerable and growing. And finally, we have delivered on our commitments. Our trend lines are clear.

As we look ahead to FY 2021, we are confident in our prospects. Our business is healthy, getting stronger every day, and our growth initiatives continue to build momentum. With that in mind, we ask that you be conservative in your estimates for FY 2021. It's still early. We suggest you think about top line growth of between 25% and 30%. And finally, we expect our margin profile to increase throughout the year and demonstrate considerable leverage. As we normally would, we will provide our detailed FY 2021 guidance in our May call.

I'll now conclude with a few thoughts. LiveRamp is flourishing in this environment of change. This past year, our moat has widened and gotten deeper. We are bringing solutions that are solving some of our customers' big strategic challenges. We are helping our customers and partners safely navigate through change. While some may see risk, we see opportunity. Financially, we are delivering a best-in-class SaaS performance and our trend lines are unmistakable. And lastly, we are confident in our prospects and expect FY 2021 to be another great year.

With that, operator, we will open our call to questions.

QUESTION AND ANSWER SECTION

Operator: [Operator Instructions] And your first question comes from the line of Dan Salmon from BMO Capital Markets.

Daniel Salmon
Analyst, BMO Capital Markets (United States)

Q

Good afternoon, everyone. Thanks for taking the questions. Scott, your opening comments there about the sort of momentum that you feel in the business and we also took note of the update that you published on the IR site after the Chrome cookie announcement, noting that you felt that that announcement would drive acceleration of ATS.

And yet, and this is nuanced, obviously, but it does feel like your sort of revenue growth view here whether for the current year or looking into next year is fairly consistent with what we've heard previously. So, is that a matter – you also said you were fairly expecting of this sort of news that largely it was baked in, and so that comment in acceleration that was in the IR update was kind of baked into that? Would just love to circle that up on the top line view.

And then, Warren, just your comment a moment ago about a feeling that you'll lean into share buybacks a little bit more at these levels, I think in the past, you've sort of phrased that as sort of opportunistic. Does the sort of incremental comments here suggest that you're looking at sort of baking in sort of base amounts that you want to execute in a given quarter, or you still sort of looking at it flexibly?

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

A

So, Dan, thanks for the question. On the first one, I guess I would go back to we've been preparing for these changes for well over a year. And so, what may have been news to the industry wasn't necessarily a surprise, other than the timing of it, with respect to our planning.

In some respects, the certainty of Google's timing, we think can be a real catalyst for the ecosystem to move even faster and adopt the technology even faster. I talked in the prepared remarks about the strong adoption trends that we're already seeing, but at our upcoming RampUp Conference in March, and I think you'll attend that, we intend to have an entire track, for instance, to help our clients and publisher partners, titled Navigating a Post-cookie World. And anecdotally, we've already heard that there's going to be pretty strong demand for attendance to that.

So, I think we're well-positioned. And I think this really puts the wind at our back, but in terms of what this means for the future, we have only issued very preliminary guidance today, and it's just not the time for it.

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

A

And then, Dan, to the second question, we will continue to be opportunistic. I think what we wanted to communicate today is, one, we, like many of you, absolutely see the disconnect between our share price and our performance trends. And in that regard, this past quarter, we spent – or I guess year to date, we spent over $120 million, $20 million of which was last quarter. If we were to put a number on it for Q3 – or excuse me, going into Q4, I'd probably put it at around $30 million. And again, overall, what we're trying to do is balance our needs for long-term liquidity and financial flexibility with the fact that we believe there is a significant disconnect between our share price today and our performance trends.

Daniel Salmon
Analyst, BMO Capital Markets (United States)

Q

Great. Thank you, both.

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

A

Thank you.

Operator: And your next question comes from the line of Shyam Patil from Susquehanna.

Shyam Patil
Analyst, Susquehanna Financial Group LLLP

Q

Hey, guys. Good afternoon.

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

A

Hey. Good afternoon.

Shyam Patil
Analyst, Susquehanna Financial Group LLLP

Q

The net adds were quite impressive in the quarter. Just wondering, if you could talk about the drivers there and kind of how you're thinking about net adds going forward?

And then, Warren, just when you talk about conservatism in the macro, are you referring to CCPA and Chrome or are there other factors that you're also considering there?

And then, Scott, you mentioned the potential DOJ investigation into Google's ad-tech business in your remarks. I was just curious just to get your take on that. And if Google does indeed have to divest or have less collaboration among its ad-tech units, how do you think about that as an opportunity, one, for LiveRamp; and then, two, for the industry more broadly?

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

A

Yeah. So, I'll start with the last question, and let me first be completely transparent that The Wall Street Journal article this morning wasn't probably the top thing on my mind this morning. So, I've yet to really fully process it. I've got 20 years of experience in the advertising technology and marketing space. And at times, I've competed with Google when I was running Atlas. And more recently, they've been a major partner to me. So, I still probably have to just process my own personal views about how the industry evolves, depending on how that proceeds. However, what I would tell you, I'm absolutely knowledgeable and convinced about how LiveRamp's role will evolve. And it really goes back to the company that we built. We are neutral, we are agnostic. We don't care what the identifiers will be.

And new identifiers, new technology, new regulation is emerging all the time. Our duty to the industry and those we serve is to ensure that whatever technologies arise, that we are first to integrate with them, and we make that capability available for anyone and everyone in the industry, such that they can connect anywhere and look at things on an apples-to-apples basis. So, regardless of how things play out with Google, near term, we're going to continue to integrate with them. As they change their technology, we'll change how we work with them and that's how we're going to work with everyone else in the industry as well.

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

A

And then, on the second question, we, like all of you, are just looking at everything happening in the world. There's industry change afoot, which we think we're benefiting from. It's giving us incredible opportunities with our customers, incredible opportunity to roll out ATS, but it's still – we're in an environment of change. From a macro perspective, there's obviously a lot going on things, like the coronavirus, all kinds of political things too. We think in that sort of environment, it's just appropriate to be conservative.

Shyam Patil
Analyst, Susquehanna Financial Group LLLP

Q

Great. Thank you.

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

A

Thank you.

Operator: And your next question comes from the line of Stan Zlotsky from Morgan Stanley.

Stan Zlotsky
Analyst, Morgan Stanley & Co. LLC

Q

Perfect. Thank you so much, guys. Two questions for me. One for Scott, one for Warren. Scott, maybe for you, so with third-party cookies, right, the opportunities that would be on the horizon for LiveRamp as changes around third-party cookies continue to evolve, how would they manifest more specifically within your business, right?

What would be the benefits that you would be seeing beyond just the financials, but what would be some of the metrics or some of the commentary that we should be listening for as far as the benefits that LiveRamp would be receiving? And one maybe for Warren, when we look at the results in Q3 and kind of compare them with Q2, Q2 was a very strong quarter, very big beat and raise. We didn't quite see the same in Q3. Maybe, you can kind of walk us through what you saw in Q3 and how did that compared versus your plan and expectations. That's it. Thank you for me.

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

A

Yeah, Stan, on the first question, perhaps the good news is it's not going to change our business too much. And I say that because, remember, 80% of our revenue comes from subscriptions. It's clients purchasing a license for our IdentityLink technology, such that they can push their consented data out to different destinations. Right now, some of those destinations are connected to via cookies. But to the extent that those – that cookie mechanism is replaced by other identifiers or perhaps other channels like television start to become a greater channel for addressable data, you won't necessarily see it in our revenue, but you'll see it in terms of how clients – what our most popular use cases may be.

The important thing with our authenticated traffic solution is it also – we think it's just a better technology. And I talked about this a little bit in my prepared remarks. So, to the extent that we see rapid adoption, it could actually generate greater match rates for programmatic inventory, which would – you would see, over time, manifest themselves in potential increases in the variable component in the overages of our subscription. So, not much change in terms of how our clients think about things, it'll still be subscription. However, longer term, an opportunity for subscription overages, if we get a lot of traction.

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

A

And then, Stan, let me comment a little bit on, again – I think as you rightly called out – the differences between Q2 and Q3 is in many respects they were different, but in many respects they were very, very similar, but maybe in different places on our income statement.

The first thing I want to call out is our top line results are right in line with our expectations. Where we thing we had a real beat and where we're incredibly pleased with our performance is everything that's underneath that. And let me mention a few things that are both related to growth and its operations. On the growth side, if you look at ARR, ex-IPG, it was up 30% last quarter. It's up 30% this quarter. And I think just as a reminder for everybody, we're lapping the IPG deal now in Q3. And so, our subscription growth rates lowered naturally as a result of that. But if you were to go back and strip out IPG out of the last several quarters, actually, we had an acceleration in subscription revenue growth in Q3, which we think is a real positive. And then, again, ARR has increased 30% in each of the last two quarters. Our retention metrics are headed in the right direction. Something that we hope will manifest itself in terms of our future results, we're incredibly bullish about our pipeline, as evidenced of the fact we've had two real-record bookings quarters in both Q2 and Q3. So, very, very close and similar.

And then when we think about our pipeline for our growth initiatives, as Scott mentioned, LiveRamp today is more relevant than it's ever been. We have a lot of momentum with ATS, a ton of momentum with B2B, our advanced TV business , and as Scott appropriately mentioned, our data sharing platform. So we think we're flushed with new opportunities and that's incredibly positive.

And then, finally, and this is a view toward the long-term potential of our model. It's not lost on anyone, I'm sure that we had a $12 million sequential increase in revenue Q2 to Q3 and $10 million of that dropped to the bottom line. Now, while we're taking a little bit of an expense step backward in Q4, that tells you a lot about the potential of our models. So, a real positive that our op loss was $5.5 million. And as I mentioned in my prepared remarks, operating cash flow and free cash flow positive.

Stan Zlotsky
Analyst, Morgan Stanley & Co. LLC

Q

Got it. All right. Thank you.

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

A

Thank you.

Operator: And your next question comes from Brian Fitzgerald from Wells Fargo.

Brian Fitzgerald
Analyst, Wells Fargo Securities LLC

Q

Thanks, guys. I had a couple of questions on ATS, maybe a little bit and thanks for kind of the color you gave us previously. But I wanted to ask about what ATS can do in terms of replacing the functionality offered by third-party cookies. Is it possible to use ATS for a classic retargeting or remarketing in the case where a user is not logged into an advertiser website in the e-commerce use case? And maybe drilling down a bit more, advertisers have had some problems around third-party cookies in Safari over the last kind of several quarters and years. So, would ATS make Safari a targetable and trackable environment? Thanks.

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

A

Yeah. A couple of thoughts, first off, I believe there's a PowerPoint in our Investor Relations section of our website that goes into ATS in a little bit more detail has, some case studies explain how it works. So, that's something that's worthy read, if you haven't had a chance to look at it.

Taking a step back, the fundamental premise of ATS is it starts with consent. And so, on one hand, our advertisers for the last decade have generated consent in building their own CRM data systems. In the absence of third-party cookies, publishers need to build those consents as well. They can't rely on an intermediary to provide that mechanism for them. And so, if either side is generating those consents and the right permissions, then we can sit in-between and that's the role we serve, to sit in between two parties and allow them to trade data. So to your specific question, if the consent exists on either side, absolutely, this can be a great mechanism for retargeting. If the consents aren't collected on either side, then no, retargeting is not possible.

And I think that's one of the real nice side benefits of our ATS solution. It is infinitely more consumer-friendly and it is also more friendly to the parties on either side, because it forces them to examine, whether they've collected the right consents and it forces them to establish the permissions that one another will have over the data. So, the Wild West days of cookies are over. And we just think this is a safer, better technology for the future.

Brian Fitzgerald
Analyst, Wells Fargo Securities LLC Q

Got it. Thank you, Scott.

Operator: And your next question comes from the line of Kirk Materne from Evercore ISI.

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

Hey, Kirk.

Peter Burkly
Analyst, Evercore Group LLC Q

Hi, guys. This is actually Peter Burkly on for Kirk. First question just in terms of NRR, we saw in increase from second quarter, just hoping you could discuss the dynamics in terms of customer expansion versus retention in the customer base.

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

Sure, I'd be happy to. If you look at Q3, in terms of new logo, about 30% came from new logo, and about 70% from up-sell. For FY 2020, we still project that to be new 40% and 60% from up sell.

Peter Burkly
Analyst, Evercore Group LLC Q

Okay. Great. Thank you. That's very helpful. And then, just one more quick one, if I could. I'm just hoping you could discuss what feedback, if any, you've been getting from customers so far just since Google's announcement that they'll be moving away from third-party cookies in a few years.

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

I'm not sure it's been feedback as much as it has been the phones ringing, both marketers and publishers just asking for our advice on what to do. Google I think did the industry a solid by providing such a long transition time and certainty, but smart clients are right in thinking they don't have the luxury of waiting two years, they need to get prepared now.

So, a lot of conversations about how this might change, what they want to do, how they need to capture permissions, how they want to think about data collaboration with their biggest partners, and certainly a lot of demand for more education. Hence why we decided to offer a track on this at our client summit in early March.

Peter Burkly
Analyst, Evercore Group LLC Q

Awesome. Okay. Great. Thanks so much, Scott. Thanks, Warren.

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

Thank you.

Operator: And your next question comes from Jack Andrews from Needham.

Jack Andrews
Analyst, Needham & Co. LLC
Q

Good afternoon. Thanks for taking my questions.

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

Hey, Jack.

Jack Andrews
Analyst, Needham & Co. LLC
Q

Hi. I was wondering if you could just comment a little bit more on the 50 clients whose subscription contracts are exceeding $1 million. Are there just lessons learned from that subset of customers that can be applied to your broader customer base? And how do we think about how many customers can actually reach that spending threshold over time?

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

Yeah, I would tell you there are absolutely some lessons learned. And it really goes back to what James Arra and his team have done really over the last four quarters. They've done a couple things that I think are really smart. One is implementing white space planning across all of our customer base. So the discipline of sitting down and looking at what are the unique challenges that each of our customers have, and as a result, what use cases should we be bringing to them, such that they're most successful.

Going back a few years, you've heard me say before, one of the criticisms that goes back a few years is clients feel like we have a lot of sophistication but they don't necessarily always recognize how to use our technology, because after all, it's a new category. Well, through the white space planning, we're a lot smarter about what recommendations should we take the clients.

The second thing that we've done is implement a real process and discipline around red flags and trigger events that suggest clients may not be utilizing the technology effectively. We look at our operations reports as a management team. Literally, every day when I go home, it's the last thing I look at before I leave. So, we log all kinds of red events or questions that come into our operations. And by cataloging those and ensuring that we're responding quickly, we can solve problems before they ever have a chance to grow. And if you have problems with clients, they're not ready to hear you talk about the white space. So, it's the combination of solving the problems quickly and then always knowing what's next for our client, what we should be talking to them about that we think has been pretty effective.

Longer term, yeah, I would say we would hope that most of our clients can – at least certainly enterprise clients, top 3,000 marketers in the world can be million-dollar spenders. We got a long way to go from where we are to that point, but that's one of the things that gives us optimism for the next 5 to 10 years of our journey.

Jack Andrews
Analyst, Needham & Co. LLC

Q

Great, well, I appreciate the detail around that. As a follow-up question, can I just ask how you're thinking about M&A these days and whether there's sort of an active pipeline of opportunities that you are keeping an eye on right now?

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

A

Well, yeah. Judge us by our past on this. I think in the last seven or eight years, Warren and I have probably looked at hundreds of things and we've been very conservative on what we've actually pursued. So, no change in that approach. For something to be interesting for us, above all, it needs to offer real material value to our clients. And oftentimes, our clients are the ultimate judges in terms of what we want to do, because they're very vocal around whether they need a different capability or a new use case activated. That, in turn, gives us a lot of confidence around whether something can be accretive over time.

Typically, the things we've looked at that we've done haven't been immediately accretive, but within a few years, wildly accretive. So we spend a lot of time building our financial model. And then, I think it's true without exception where we've done things, we've really known the management team very well. Oftentimes, we've worked with them in a commercial fashion for months, if not, in some cases, years. We've known that there was a real cultural fit as well. So, we're always looking at things. We are incredibly conservative and cautious in terms of what we actually choose to pursue. And that will continue to be how we approach it.

Jack Andrews
Analyst, Needham & Co. LLC

Q

Great. Well, thank you for taking my questions.

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

A

Thank you.

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

A

Thank you.

Operator: And the last question comes from the line of Brett Huff from Stephens, Incorporated.

Brett Huff
Analyst, Stephens, Inc.

Q

Good afternoon, Scott, Warren and Lauren.

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

A

Hey, Brett.

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

A

Hey, Brett.

Brett Huff
Analyst, Stephens, Inc.

Q

Three quick questions as I know we're kind of nearing our end time here. On the $50 million incremental net adds, that was a nice acceleration I think as referred to before. I'm wondering if – can we bucket the drivers of those a little bit? And are the buckets to think about evangelism just generally are there trigger events that you're seeing happen more? Is it the sales effectiveness improvement, Scott, that you just mentioned, is there some pricing? I don't know if those are the right buckets, but is there a way to kind of give us a rough – is there a driver of that acceleration that we can put our finger on?

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

A

Yeah, it's going to be hard for me to bucket it on the fly. What I would tell you is there's a few things going on. One is, James and his team have just built a much stronger pipeline over the last 12 to 18 months, and we're seeing the benefit from that. Second, we're also seeing the benefit from some killer use cases like Data Plus Math that the interest in driving addressable data into television which is for many clients the largest single line item on their media plan, that's real. And we haven't reached the tipping point for that yet, but it's certainly causing a lot of clients to ask us about those capabilities as well.

And then a third area is just platform clients. Most of our platform partners are building capabilities whereby which the ingestion of data can make them better. And so, as we get more creative and our technology becomes more flexible, there are more opportunities for us in the platform space. So, it's a combination of all three of those. What we'll do, Brett, is I'm taking your feedback and that's something that we'll think about in the future, because it's a really good question.

Brett Huff
Analyst, Stephens, Inc.

Q

Great. Thank you. And then second question is the CCPA insofar is analogous to GDPR. If I recall, there was a little pause on the part of advertisers in Europe pausing their ad spend a little bit as they kind of looked inward to make sure they were compliant. It was a small hiccup that lasted a quarter, and it was pretty manageable. Is that how we should contemplate CCPA? I imagine it's not as big, but I'm just curious. Is that kind of the right way to think about it?

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

A

I don't think so, Brett. And the reason I say that is because we work with global clients and it's – as I think across our portfolio, almost all of our US advertisers already experienced with us the effort of becoming compliant with GDPR. And as a result, because there are similarities between GDPR and CCPA in terms of providing consumers more visibility and choice in how their data is utilized, the things that they did to remediate GDPR made CCPA remediation, I think in many cases, much, much easier. So, I just haven't seen the amount of anxiety around CCPA that we witnessed a couple of years ago for GDPR.

Brett Huff
Analyst, Stephens, Inc.

Q

Okay. Thanks. And then, last question quickly, the 70% upsell mix was really nice. And I'm just curious can you remind us of the two or three most popular use cases, and then what does that fourth or fifth one that is most driving the 70% expand in the land-and-expand strategy? Thanks.

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

A

Well, in terms of popular use cases things, that may be triggering that, I would tell you – I'd point to the Amazon work we do. We help power their DSP, and I want to say we have nearly 90 clients live on that. It's always been things like Facebook and Google, people-based search, things like that. As we continue to innovate with our large partners, oftentimes, there's really interesting new use cases.

The whole concept of second-party data collaboration, the data Safe Haven work that we've been talking about, boy, that's super exciting, because one of the things that increased regulation is causing all advertisers, marketers to look at is how do they share their data and with who. And so, increasingly, they're thinking about how can they establish strategic partnerships with other great companies for their mutual benefit to power better customer experiences?

And then, finally, television which I mentioned before, Data Plus Math has been a real point of interest across most of our clients that are doing anything in television. They want to learn more about Data Plus Math.

Brett Huff
Analyst, Stephens, Inc.

Q

Great. Thank you.

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

A

Thanks, Brett.

Operator: That's all the time we have for questions. I will now turn the call over to Warren Jenson for closing remarks.

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

Terrific. Thank you. Thank you, operator. And thanks to everyone for joining us today. Let me just conclude with a few quick thoughts. First, LiveRamp is flourishing in this environment of change. If there's one thing that's become clear to us over the last several months is that our moat has widened and it's just gotten deeper.

We are helping our clients navigate all of these changes in a very positive way. As I said earlier in the prepared remarks, while some may see risk, we see opportunity. Financially, we believe we're delivering a best-in-class SaaS performance and our trend lines are unmistakable. And lastly, as we think ahead, to our prospects in FY 2021, we expect that year to be another great year.

And I guess one more, finally, we can't wait to see all of you at RampUp in San Francisco. Remember the dates are March 2 and 3. If you need any information or any help with your registration, please feel free to reach out. Thank you all again for joining us, and look forward to the follow-up calls.

Operator: This does conclude today's conference call. Thank you for your participation. You may now disconnect.