08-Nov-2022

LiveRamp Holdings, Inc. (RAMP)

Q2 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

Elizabeth Porter
Analyst, Morgan Stanley & Co. LLC

Kirk Materne
Analyst, Evercore ISI

Brian Fitzgerald
Analyst, Wells Fargo Securities LLC

Jared Pomerantz
Analyst, Susquehanna Financial Group LLLP

Mark Zgutowicz
Analyst, The Benchmark Co. LLC

MANAGEMENT DISCUSSION SECTION

Operator: Good afternoon, ladies and gentlemen, and welcome to LiveRamp's Fiscal 2023 Second Quarter Earnings Call. As a reminder, this conference call is being recorded.

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

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

With that, 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. My comments today will focus on two areas. First, I will discuss our second quarter performance, providing additional insight into what is going well and where we see opportunities to improve. Second, I want to spend some time on what, for many of us, has been an ongoing source of frustration, our current share price valuation and what we are doing to unlock greater shareholder returns. While I am pleased with the team's determination and resilience in the face of the difficult macroeconomic conditions that are impacting our customers and by extension us, we aren't satisfied with our top line subscription trends and obviously our valuation. Let's start with the recent quarter, which was good on many dimensions but fell short on others.

Q2 exceeded our guidance across all financial metrics and particularly so on operating profit. Total revenue in the quarter grew 16% year-on-year. Subscription revenue grew by 14% and Marketplace & Other grew by 25%, driven by our Data Marketplace business. We ended the quarter with $420 million in ARR, up 15% compared to the year ago quarter.

Our non-GAAP operating profit declined 3% year-on-year as we returned to a more normal post-COVID operating model, but was ahead of plan. Importantly, in recent months, we have closely examined and implemented programs to drive greater efficiency across every single element of our cost structure. As a result of the initiatives we have already pursued, tightening discretionary spend, optimizing head count, and rethinking our real estate footprint, we are increasing our FY 2023 bottom line guidance considerably and we're not done yet. We have a comprehensive plan underway to meaningfully improve our long-term cost structure.

Our Q2 operating cash flow nearly doubled to $21 million. During the quarter, we added 10 new customers, which is an improvement from Q1, but still below our historic trend and where we expect to be in the long run. We have a number of initiatives in place to improve customer growth such as building our early stage pipeline, accelerating the productivity of new sales reps and developing channel partnerships. We have made progress with several of these initiatives, which I will discuss in a moment.

Our $0.5 million to $1 million customer count was up 18% year-on-year, and our $1 million-plus customer count grew to 92%, an increase of 15%. We had a notable seven-figure new client win with a TV technology company to support improved TV audience measurement and advertising targeting. This client is using our identity products to help advertisers create consistent audience segments for targeted advertising campaigns that can be deployed and measured across platforms.

Turning from new clients to expanded business with existing clients, we continue to see good growth. Subscription usage as a percentage of total subscription business was roughly 14%, and subscription net retention was 106%, 2 percentage points ahead of our guidance. Platform net retention was 108%.

We continue to support new use cases in retail media networks, helping retailers unlock new revenue streams. In Q2, we had multiple upsells in this category, including a six-figure expansion with a US membership warehouse club and a six-figure expansion with one of the largest US pharmacy chains. This enables the measurement of advertising campaign effectiveness and return on ad spend, and is a use case that LiveRamp is uniquely positioned to support given our focus on privacy and the ability to anonymously link datasets.

While there were many positives in Q2, there are also some areas we continue to work on in order to create even greater financial momentum. I've talked already about our ongoing efforts to drive faster improvement in operating margins. The other major area of focus for us is bookings, which for our SaaS subscriptions helped lock in predictable future growth.

As expected and discussed on our last call, our booking softness continued in Q2. It continues to be concentrated in the US, but we also saw deals push out in international markets this past quarter. The pressure is seen in both small and large customer segments. However, in Q2, the weakness was primarily driven by our SMB segment.

Our customer discussions confirmed the economy is clearly having an impact, causing reductions to IT budgets and delaying commitments to new long-term service contracts. As a result, despite a stronger pipeline, we continue to see elongated deal cycles and a lower than normal conversion of our sales pipeline into bookings.

Some investors have questioned whether our recent bookings weakness is driven by a secular shift in the marketplace or product market misalignment rather than cyclical factors and a temporary lull in sales productivity. It's a fair question, so let me address it for everyone.

In recent months, I've closely scrutinized our own internal data, including trends, one loss reports, and client satisfaction surveys. I've also met with dozens of major clients one-on-one and participated in even more account reviews. We're never going to be satisfied with the efficacy of our products because our clients' needs constantly evolve and it's also clear we need to constantly educate both clients and investors on our unique positioning in the data ecosystem. But let me share a few important data points.

First, do we face competition? Of course, we always have and will continue to do so but we have direct feedback from our largest customers telling us that our value proposition remains compelling and our solutions are vital to their customer and marketing initiatives. Our customers are dealing with more than just the economy right now. Our largest customers are reevaluating their marketing tech stack, starting with cloud providers and the migration from data marketing platforms or DMPs to customer data platforms or CDPs. This transition is akin to the move a decade ago from CRM databases to DMPs so it's a phenomenon we have experience in managing through.

As customers upgrade their technology stack, their focus quickly shifts to how to justify that investment. LiveRamp's foundational identity makes data more useful. Our turnkey activations deliver insights to the destinations that matter, and our measurement capabilities enable ongoing insights in optimization. I've used the power grid analogy before. If companies are buying the metaphorical equivalent of appliances as they reevaluate their marketing stacks, then LiveRamp is the neutral power grid that enables all of these appliances to work effectively.

Second, the bookings for our top-tier US salespeople, which are the most tenured, continue to grow at a healthy rate. This group has a deep understanding of our product suite and their clients' evolving needs, can sell at the enterprise level, and is more experienced at managing through obstacles to close business. Among our Ramp US sales reps, average bookings per rep are more than 10% above the FY 2022 average. This demonstrates that our products still resonate in the market and even in this economic environment, there is business to be won.

Third, our international bookings, which did not have the same sales force disruptions as the US, continue to post strong growth throughout the first half of the year. Now, to be fair, in Q2, we saw incremental softness in international bookings but is significantly less pronounced than in the US. And remember, the UK and European economic conditions deteriorated more significantly than in the US. All that said, let me be clear. We're rebuilding our US sales force in the face of unpredictable market conditions and we're also, as we always will do, continuing to improve our product offerings based on customer feedback. But based on what we hear and see in the market from our clients, we're confident that LiveRamp is woven into the very fabric of the data industry, and our long-term opportunity remains significant.

Now, this last point offers a good transition to what is on everyone's mind right now, the stock market and LiveRamp's valuation. All of us at LiveRamp are disappointed by our current valuation and are committed to demonstrating to investors that we can be a predictable and dependable Rule of 40 company. Going forward, I want to make sure we give you strong visibility into our efforts to accelerate top line growth, improve operating margins even faster, and address any exogenous risk concerns.

Top line growth. As I just discussed, accelerating bookings in order to drive longer term revenue growth is a top priority. 80% of our top line continues to be recurring SaaS subscription with good forward visibility. Amidst near-term economic uncertainty, there are several initiatives we are pursuing that should improve our bookings and top line growth over the long-term.

First, we're strengthening our US sales team. As discussed previously in the second half of fiscal 2022, we experienced above normal attrition in our sales force, driven in part by exogenous factors such as the Great Resignation. Our sales capacity is back to normal levels as of Q1, and we remain squarely focused on unlocking our new sales capacity and driving higher productivity among our new sales reps. The challenge with our US sales force as a larger than normal proportion are new to LiveRamp, and they're still building their knowledge about our solutions and developing their client relationships.

Just to put some numbers on this, in Q2, the proportion of our US sales reps that were still ramping was approximately 10 percentage points higher than in FY 2022. We've implemented a number of programs to accelerate the ramp time for our new sales reps. For example, we enhanced our sales training program to focus on building skills to manage more complex enterprise deal cycles. Needless to say, the macroeconomic environment has made this task more difficult. Still, we are seeing some positive signs.

For example, we have reduced the amount of time it takes our new sales reps to close their first deal by 25% on average this fiscal year. Additionally, the number of sales reps that have signed deals in their first quarter at LiveRamp is the highest we've seen in the last three years. We believe we're on the right path and expect an improvement in the coming quarters.

Our second major sales initiative is to deepen our channel partnerships. Across the data industry, companies are evaluating their marketing stack. It's often the case that this involves an evaluation of public cloud providers and first-party customer data platforms, also known as CDPs, just as we have previously partnered with DMPs, DSPs, and SSPs so, too, will we expand our efforts to new channel partners.

For example, in September, we continued our collaboration with Salesforce, partnering with them on the launch of their new real-time CDP called Genie. Genie customers will have access to LiveRamp tools to build more accurate audiences powered by RampID, our people-based identifier and access to direct integrations with a network of over 125 DSPs and SSPs on the RampID.

Another example, earlier in the quarter, we announced our identity resolution capabilities built on Snowflake's native applications framework, giving enterprises the ability to plan and measure business outcomes at the person and household level. We have deployed similar partnerships with the major cloud platforms, including AWS and GCP. We're partnering with the most reputable companies in the world and believe these partnership channels will drive additional growth for us as they begin to scale.

And our third major top line initiative is to continue to expand our network of destinations, websites, CTV providers and other channels where customer data can be utilized. By offering the most turnkey destinations, LiveRamp establishes itself as the indispensable scale leader and also fosters greater usage and international expansion. We continue to lead the way on use case expansion.

For example, last month, Google announced Publisher Advertiser Identity Reconciliation or PAIR, a new offering that enables publishers and advertisers to reconcile their first-party data for marketing use in Google's DSP, Display & Video 360, DV360. There's been a lot of noise in the industry around post-cookie solutions. With

Google's announcement of PAIR, LiveRamp is simply the best choice because we're interoperable with PAIR and all other privacy-centric solutions. Google's DV360 will now be another destination LiveRamp marketers can seamlessly activate and measure on a cookieless basis. On top of the addressable reach, we have across over 125 other DSPs and SSPs, more than 11,000 publishers in display, mobile, CTV, and across nearly every continent.

In addition, we also announced an expanded partnership with Meta, enabling marketers to privately and securely use their first-party data on Facebook and Instagram. LiveRamp allows marketers to connect to Facebook's Conversions API, a tool that creates, measures, and optimizes advertising campaigns in flight. Whether marketers activate on DV360, Meta, CTV, or thousands of other destinations, or whether they use UID 2.0, PAIR or hundreds of other identifiers, LiveRamp supports all of them to enable brands to reach their customers wherever they are. We connect with over 10,000 unique publisher domains and sit underneath nearly 400 different identifiers. This can sometimes create industry confusion as some of these destinations and identifiers are growing rapidly. But as these methodologies gain traction, LiveRamp's importance and our ubiquity continues to grow.

In summary, while we certainly face continued competition, as we always have, we have also knit ourselves into the very fabric of the data ecosystem. We're rebuilding our US sales team, implementing channel partnerships with some of the world's largest companies, and innovating with many of the most important media destinations on the planet. We're also constantly upgrading our products. The payoff from these efforts won't be immediate, but we do believe they should give investors confidence about our long-term growth trajectory. Operating profitability improvement, of course, we can't just focus on top line growth. We place equal importance on operating profit improvement and have redoubled our focus on efficiency as the economic environment around us grows more uncertain. We have now posted a year on year improvement in operating cash flow in five of the last six quarters and Q2 operating cash flow last six quarters and Q2 operating cash flow was strong with $21 million, nearly double the year-ago period.

And know that we're not even remotely satisfied. We see opportunities to improve our profitability, and to that end we recently announced an organization restructuring, including a 10% reduction in our current workforce. We also reevaluated our facilities footprint and are optimizing all areas of discretionary spend, and we're also evaluating the other cost levers to fuel future margin expansion. Great companies never stop evaluating opportunities to improve profitability. And regardless of whether we find ourselves in a recession in the coming months, we intend to continue to improve our margins and cash flow.

Exogenous risk, of course, while generating predictable top line growth and continued margin expansion is top of mind for most investors, we are also always evaluating exogenous risks and ensuring we are not only protected but position ourselves to benefit from industry change. I think I've addressed many of the questions I hear most frequently earlier, but to repeat, recessionary concerns.

Recessions are not good for anyone, but we are confident in LiveRamp's position. We have increasingly knit ourselves into the very fabric of the data ecosystem and we've also observed that past recessions have placed greater marketing emphasis on addressability and ROI, the very things that LiveRamp helps our clients achieve. In addition, regardless of the economic environment around us, LiveRamp will continue to pursue ongoing operating margin improvements.

Cookie deprecation. With its payer announcement, Google has seemingly embraced a similar approach to what LiveRamp has been pursuing for the past several years. All of our largest LiveRamp activations, Google, Meta, Trade Desk, Microsoft, CTV, all of them can now be done using non-cookie technologies, and all of our largest publishers are enabled with RampID. Taken together, this positions LiveRamp as the leader in the post cookie world.

Regulation. Data regulation continues to evolve, but we believe regulatory complexity fuels greater utilization of LiveRamp. It is difficult for our clients and partners to stay abreast of the confusing array of state and global regulations. And we find that they look to us to keep them educated, secure, and consumer-friendly in a world where consumer consent and transparency is front and center.

Competition. Finally, the ecosystem in which we operate is changing. DMPs are giving way to CDPs. Client servers are making way for public clouds and a wave of new identifiers is emerging. LiveRamp intends to capitalize on these trends, as we always have, by partnering with everyone, constantly improving our products and capabilities based on the feedback of our clients and partners, and continuing our position as the ubiquitous provider of foundational identity, data collaboration, and connectivity.

In closing, I am pleased with the team's focus and resilience in a challenging environment. In Q2, we delivered 16% revenue growth, nearly doubled our free cash flow and raised our operating profit outlook for FY 2023. We expanded our partnership with many of the largest players in the ecosystem: Google with Pear, Snowflake with deeper integrations, Salesforce with Genie, and Meta through the Facebook and Instagram conversion APIs. All of this will help support our future growth.

At the same time, we have clear line of sight to areas that we believe will improve our top line growth, profitability, and return on shareholder equity. We are seeing initial signs of improving sales productivity, but we have more work to do. We continue to make strides on improving operating margins. Lastly, we remain, as always, relentlessly focused on optimizing 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. Q2 was another solid quarter and in-line with our expectations. Today I would like to focus my remarks on three areas: first, share a few highlights from the quarter; next, spend a minute and talk about trends in our business and our long-term drive to increased profitability; and finally, provide updated guidance for Q3 and the full year.

For the quarter, please turn to slides 5 and 6. Total revenue was $147 million, up 16%, and subscription revenue was up 14%. International was up approximately 26% and adjusted for FX was up 39%. Marketplace & Other increased 25%. Data marketplace, which represents roughly 80% of ongoing Marketplace & Other revenue, was up 23%. Subscription net retention was 106% and platform net retention, 108%. Usage was 14% of subscription revenue driven by data providers and our platform partners. Subscription customer accounts increased by 10 this quarter while our $1 million customer account was 92, up 15% versus the prior year.

Current RPO for our next 12-month contracted backlog was $293 million, up 10% year-over-year. ARR ended the quarter at $420 million, up 15%. Bookings as anticipated were soft in Q2. Beneath the top line, our business model continues to deliver. Gross margin was 75%; non-GAAP operating income was $17 million, our 10th consecutive quarter of profitability; and operating cash flow was $21 million. And finally, we continue to return capital to our shareholders. In the quarter, we repurchased 1.7 million shares for $40 million, and fiscal year-to-date we have repurchased 3.8 million shares for $100 million.

Trends and profitability. Before moving on to our guidance, I thought I might spend a few minutes and talk about two things: first, what we're seeing in our business; and next, our plans for driving higher levels of profitability in the back half of the year and into FY 2024. What we are seeing in our business? As is always the case, there are both positives, some challenges, some positive highlights. Safe Haven, our enterprise platform continues to perform well, a few stats. Safe Haven influenced ARR is now about $120 million or approximately 29% of ARR. This quarter, we were fortunate to add Ahold Delhaize to our strong list of retail customers. Today, we have over 275 tenants collaborating and more than 13 pilots underway across TV, social, brands, and data.

Marketplace. While we're cautiously watching the broader trends in advertising, the strength of our marketplace performance is not accidental. Specifically, we are now embedded in more platforms. In this year alone, we have added 11 organizations who embed our data marketplace within their platforms for easier buying access. We have simplified the buying process by improving automation to power more real-time buying decisions. Several Safe Haven customers have now integrated data marketplace into their platform, bringing third-party data closer to their own data for measurement. Data used to power measurement and connected TV grew 26%, and we've signed 20 new customers to direct buying agreements for use in social platforms and walled gardens.

Cloud. We continue to get closer to our cloud partners while still early a few highlights. Overall, we are seeing a significant uptick in deals being procured through cloud marketplaces. In addition, we have worked with our cloud partners in several instances to generate pipeline and close subscriptions. LiveRamp identity services are now available in AWS Marketplace. This complements our ATS relationship with Amazon Publisher Services. Our products are now available in the Google Cloud Marketplace, and we now have an alpha version of embedded activation in Snowflake.

But we also have challenges too. We are facing pressures, which are impacting our bookings and most notably our subscription business. Specifically, we are feeling the most pressure in the SMB segment and in particular with new logo acquisition. There is no question that our customers are tightening their belts and new budgets are tough to come by. This is impacting our ability to attract new logos and extending the sales conversion cycle. From a product perspective, our bookings pressure is mostly impacting our activation and measurement-related products. What we are not seeing, however, is a sustained fall-off in our upsell related bookings in our large customers.

In summary, several positives, but we are also feeling the pressures of a tightening economy. And while we do face competition and can always do more, we believe our core competencies are important, durable, and remain valuable to our customers.

A more profitable LiveRamp. As the macroeconomic environment began to slow, we met as a management team and committed to using this time to building a stronger, more profitable LiveRamp. Specifically, we laid out two objectives. First, tighten our focus to ensure that our resources are focused on the biggest growth opportunities, where we have core competencies and where we have a clear right to win. And second, to simplify and drive efficiency into our business processes, in other words, build a more profitable [indiscernible] (00:31:05). With these objectives in mind, we have several initiatives underway.

Let me share a few highlights. First, we've tightened our product focus on three areas, which have significant growth potential and where we play with competitive advantage. Identity, providing our customer with the tools to have a true 360-degree view of their customers across marketing, advertising, customer service, and beyond.

Next data collaboration. Safe Haven is the future of data collaboration. Our platform brings together first, second, and third-party data in a privacy safe and permissioned way and marketplace.

Finally, on this point, we see our products being made available wherever data resides, be it a public cloud, cloud, data warehouse, CDP or clean room. These initiatives are all focused on reigniting our long-term growth rate.

Next we started what would be an accelerated journey to build a more streamlined, focused, and profitable LiveRamp. Several steps are already under way. First, our product leadership scrutinized our products and SKUs and eliminated non-productive efforts. We rationalized our product hierarchy, which resulted in reducing our number of SKUs from 240 to 45. Next, we have taken a head count action to better align our resources with our priorities. This action impacted approximately 10% of our workforce. We have taken steps to rationalize our real estate footprint. To provide some context, by March 31, we will have reduced our footprint by approximately 60% from 220,000 square feet to less than 100.

COGS. Our engineering team is re-architecting our workflows to better optimize data ingestion and thereby deliver a better customer experience and at the same time improve our gross margins. In our customer solutions group, we've taken several steps to ensure a top-notch customer experience. We've implemented scorecards across all customer touchpoints, so we're able to quickly identify and address areas of concern. And finally, we've implemented an early warning system and automated triggers to help our CSMs, identify and solve problems before they result in negative customer outcomes.

In sales and marketing, we're focused on three opportunities to drive productivity and better outcomes. We are verticalizing our organization and hiring industry expertise. This supports a more focused approach to both land and develop customers. In addition, we are expanding our channel sales efforts, working with the cloud providers, GSIs, and marketing clouds. We've streamlined span of control to create a more efficient organization. And finally, we're investing our people and their selling skills to increase our team's productivity, and in particular that of our new sellers. I'm pleased to say that our new sellers hired in Q1 are already generating a meaningful pipeline and closed nine accounts in Q2.

In our business enablement functions, we are standardizing our customer contracting processes, simplifying pricing and usage tracking and automating billing activities. These are a few examples of our commitment to build a more efficient LiveRamp and thereby drive both top and bottom line performance. The combination of our actions taken to-date, including our head count and real estate savings, should produce an annualized benefit of approximately $30 million to $35 million. Further to assist you in your modeling, we expect Q4 OpEx to be approximately $93 million or less. Included in this number is approximately $2 million of seasonal spend.

In summary, we are committed to long-term efficient growth and accelerated margin expansion. Rest assured though, we are not done yet. These initiatives and others will continue well into our FY 2024 and beyond. We believe our ongoing efforts will accelerate our path to our long-term margin targets.

Now on to guidance for Q3 and FY 2023. Please turn to slides 12 and 13. Keep in mind our guidance excludes intangible amortization, stock-based compensation, and restructuring and related charges. For the third quarter, we expect revenue of approximately $158 million and non-GAAP operating income of approximately $22 million. For the full year we now expect revenue of between $595 million and $600 million and non-GAAP operating profit 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 Q3 in the full year. For Q3, included in our guidance is a onetime $4 million positive revenue impact stemming from a contractual settlement. We expect subscription net retention to be roughly 100% and platform net retention to be approximately 105%. The sequential decline from 106% is being driven by an expectation of a softening economy impacting both utilization and contraction. In Q3, we expect our gross margin to be roughly 75%. We also expect to incur approximately $19 million of restructuring charges. These charges are primarily associated with the right-sizing of our real estate footprint, severance, and other restructuring initiatives. And finally, we expect to repurchase an additional $50 million of stock in Q3, completing our $150 million commitment. For the full year, we continue to expect subscription growth to be in the low-double digits and Marketplace & Other to increase approximately 20% for the year, gross margin to be roughly 75%, and a modest negative revenue impact from FX.

Before opening the call to questions, I'll now close with a few final thoughts. First, we want to thank our colleagues that were impacted by our recent workforce reductions. Everyone here is grateful for your contributions and is here to support you in this transition.

Next, while we are operating in a challenging environment, we are using this time as an opportunity to tighten our focus, go after costs, and at the same time do the things necessary to create sustained, efficient growth, and margin expansion. We have a history of delivering profit expansion. FY 2023 will be no different, and we expect to do the same in FY 2024. And finally, we are going after big opportunities where we have a right to win. Identity, data collaboration, and marketplace and doing so wherever data may reside.

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: The floor is now open for your questions. [Operator Instructions] Your first question comes from Elizabeth Porter of Morgan Stanley.

Elizabeth Porter
Analyst, Morgan Stanley & Co. LLC

Q

Hi. Thank you so much for the question. And really great to see the improvement on operating costs and controlling what you can in just a given environment. I wanted to ask on the improvement in net customer adds. Could you provide some color on just the improvement you're seeing with either better retention or the ability to get deals through, how those two is balanced, because I believe last quarter you referenced some churn into smaller customer segments, so wanted to get some color on if that's improved or deteriorated, and just if that has remained relatively isolated to the smaller customer segment as well. Thank you.

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

A

Yeah, I wish I had better news for you on this front, but I would tell you that last quarter we were probably out a little bit early in front of other companies talking about the possibility of a looming recession. We started to see a slowdown in our deal cycles. I think we forecast higher churn. And although this past quarter, those things didn't necessarily materialize, I don't think our outlook for the risk ahead has changed.

What has changed is what we're doing about it in terms of really getting close to our enterprise customers, where we – larger customers where we've always had more success building channel partnerships because we think that's going to be in the future a very attractive economically beneficial way to win clients. And increasingly, talking to all of our clients and prospects about what to do in light of a recession, how to bend their span, to be even more accountable and addressable. But all that said, Elizabeth, I think it's a little bit too early to put a flag in the ground and proclaim victory. I would be cautious, continue to be cautious about the economic environment in front of us.

Elizabeth Porter
Analyst, Morgan Stanley & Co. LLC

Q

Got it. And then I was surprised to see the usage as a percent of revenue increase per quarter and also ahead of guide. And I believe you mentioned that platform partners were also a benefit there. So just wanted to get a sense of how sustainable that usage base could be going forward and the benefit that you have from expanded partnership platforms? Thanks.

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

A

Yeah. Elizabeth, let me jump in on this one. And I'll probably start off with exactly what Scott said is that we're taking a cautious approach as we go into the next couple of quarters. And I'd say in particular, going into the fourth quarter, given nobody knows what's really going to happen post-holiday period and everything else that's going on.

Now, with that said, we have seen consistent strength in two areas which make up the bulk of utilization, one with our data partners and then secondly with our platform providers. Q2 is no exception to that. The only place where

I would say we saw a little bit of weakness is in utilization from our brand customers, which is exactly what you would expect to see. But overall, continued strong, would encourage everybody to be cautious also looking at Q3. But that said, we continue to expect a relatively strong performance in the quarter ahead.

Elizabeth Porter
Analyst, Morgan Stanley & Co. LLC

Q

Great. Thank you so much.

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

A

Thank you.

Operator: Your next question comes from Riya Shah of Wells Fargo. [Operator Instructions] For now we will move on to Kirk Materne of Evercore ISI.

Kirk Materne
Analyst, Evercore ISI

Q

Yeah, thanks. Thanks very much and appreciate the additional color on the cost and margin measures. I guess, Scott, when you look at sort of the pipeline for you all right now, it seems that a lot of the other software enterprise companies, you know, expanding with customers is a little easier than landing net new customers to understand your technology. Can you just talk about the interplay on that front with you all right now? And where you're seeing work in terms of expansion where you might be having some, can you just talk about that first and then I have a follow-up. Thanks.

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

A

Yeah, Kirk, I'll even go back in time when I think about the very start of the pandemic and how we built our budget. At that time we had modeled kind of 50/50 new logo versus upsell to existing customers. And what we've found is over the past two and a half years, we got that completely wrong. Now, we got it wrong in the right way insomuch as we've really taken care of our existing customers. And like if you look at our bookings from the last quarter, just a hair under 80% of those were to existing customers. So we feel really good about that.

And I've been – literally dozens of client meetings over the last quarter, have sat in all of our account planning sessions. I've had just a lot of conversations, a lot of insight into how our largest customers are thinking about us. And they really do view as knitting to the fabric of what they're doing. And as an investor, that gives me confidence, I would think, that we're pretty durable. That said, I don't want to gloss over anything. I mean, we got to improve our new logos. We've got to expand the number of customers that are working with us.

And so how do we intend to do that? Well, it's really going to be reliant on expanding our channel partnerships. For the past decade, we've had a lot of success with DMPs. Well, those DMPs are giving way to CDPs and public clouds, and we got to forge the same kind of partnerships with those providers. Educate them on why utilizing LiveRamp makes their products even more effective. Also with system integrators and increasingly with agencies where we've always had good relationships, but we feel like they could be much stronger and much larger for us.

So we think that there is a lot of TAM expansion to be done there. And then the other thing that I talked about in my prepared remarks isn't just expanding to these new clients, but it's also ensuring that our sales force, particularly in the US, is operating on all cylinders. And there, like I feel like we're back to the head count we want, but we have a different mix. Whereas a couple of years ago with really experienced sellers, we can kind of sell through objections. We could evangelize and educate. Now we got to really focus on training the people that we've hired such that they get good even more quickly than would otherwise be the norm.

So a lot of things going on there. But I would tell you where I sit today. I'm probably a little bit more optimistic than I was a quarter ago about where we're going, but we've got to get the new logo engine moving to really feel good about our long-term growth.

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

A

Hey, Kirk, I might just add a couple of things on upsell. If you look at the numbers, what you'd see is any weakness was really being driven by SMBs. And in fact, on a relative basis, looking at our larger customers, again, relatively, were much stronger.

Kirk Materne
Analyst, Evercore ISI

Q

That's helpful. Thank you both. And then just a quick follow-up. Scott, you talked about the relationship with Snowflake and construct of a couple of other partnerships with Google. Could the Snowflake partnership actually start to generate real revenue for you all in the next six months or is anything on the partnership front, I guess, more of a fiscal 2024 opportunity at this point in time?

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

A

Well, I don't know if we've disclosed this, and Warren will hate that I'm going to probably, but this year we expect those channel partnerships, the cloud partnerships to do, almost $10 million in revenue. So it's starting to become real money. And we would expect that going into next year that that would be one of the more rapidly growing parts of our business. So we're pretty optimistic on it. And it's not just Snowflake and GCP, but it's AWS and it's Azure and it's also the CDPs like the Salesforce Genie opportunity that I talked about and the system integrators. So we think there's a lot there. And quite frankly, historically, that's not an area that we've been particularly great at, but it is a capability that other SaaS companies have been good at and comprise a bigger mix of their revenue than for us. So we see that as a nice opportunity for us.

Kirk Materne
Analyst, Evercore ISI

Q

Super. Thank you.

Operator: For your next question, we will return to Riya Shah of Wells Fargo.

Brian Fitzgerald
Analyst, Wells Fargo Securities LLC

Q

Hello. Do you hear me?

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

A

Yeah.

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

A

Yeah, we do.

Brian Fitzgerald
Analyst, Wells Fargo Securities LLC

Q

Thank you. This is Brian Fitzgerald from Wells Fargo. Hey, guys. I just wanted to ask about the enhanced Facebook relationship. Could you talk about what's new there and specifically about the advantage of using ATS versus some other method of server-to-server communication or reconciliation? Is that more a secure or privacy preserving way for marketers to tie into the Facebook CAPI or is that perhaps kind of future-proof CAPI, in relation to anything Apple may choose to do in the future or in relation to limiting access to IP addresses?

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

A

Well, I'll tell you, I'm really glad you asked that question because we feel really strongly about this. And every chance we have to educate clients and investors on this, we're going to take it. We think that the world is moving towards dual consent, bifurcated consent. That is the law of the land and GDPR, and it is where the US is moving as well. It is what LiveRamp has been built on. We want to ensure that we have consent on the business side, the marketer side, and also consent on the destination side. And so everything that we've done is predicated on that bifurcated consent.

Now, there are other ways that some companies have chosen to go after this. Some of them have talked about fingerprinting. And we just don't think that's an enduring technology. We think long term it's not going to be a legal technology. Others have talked about things like hashed e-mails. And quite frankly, we don't think that those are necessarily secure, nor do we think they're very robust. I think the average American has something like seven different e-mails.

So if you just do a hashed e-mail to hashed e-mail authentication, it's probably not a very good match, a very robust match. We use everything doing RampID. We have the most robust identity graph, and then we're matching those to really the largest network of partners. It's pretty amazing. So if you want to work with Facebook, great, then we can help you do that. If you also want to work with Google and DV360, we're pretty unique because we're the only ones who work with both.

Then you throw Trade Desk into the mix and you have the two biggest walled gardens, plus the OpenWeb, and then you throw the Comscore 100 publishers, many of whom have adopted ATS or LiveRamp as their exclusive technology provider. And our network of destinations is unparalleled. So for an advertiser you could do hashed e-mail, unique one-offs with hundreds of different destinations which would be operationally a nightmare or it can work with LiveRamp because we have all of those turnkey destinations already pre-wired with the appropriate security and the right consents in place. We just think that we're a better partner for the future that we're sailing into.

Brian Fitzgerald
Analyst, Wells Fargo Securities LLC

Q

Thanks, Scott. Really appreciate it.

Operator: Your next question comes from Shyam Patil of Susquehanna.

Jared Pomerantz
Analyst, Susquehanna Financial Group LLLP
Q

Great. This is Jared on for Shyam. Thanks for taking the question.

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

Sure.

Jared Pomerantz
Analyst, Susquehanna Financial Group LLLP
Q

Scott, a couple, if you don't mind. Starting off, I know that you touched on Google PAIR and the rollout there in your prepared remarks. Do you mind just digging in a bit further on that? How do you think that this impacts the trajectory of other alternative IDs? And any impact that you would see on the industry more broadly?

And then also just on the Carrefour relationship, was wondering if there was anything that you could call out along how that's been progressing and maybe any of your other flagship deals in this type of macro environment. Thanks.

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

Sure. Maybe, Warren, I'll talk about PAIR and then...

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

Sure.

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

...you can jump in on Carrefour. But the PAIR announcement was that happened three weeks ago and, well, I'm really pleased that Google has eliminated a lot of uncertainty about their direction because with the first, I mean, they announced how they were going to handle the post-cookie world. And quite frankly, it's very similar to what LiveRamp has been espousing for the past few years.

In a nutshell, in the future, if you want to use addressable advertising on DV360, you got to set up a clean room between the advertiser and the publisher and do a secure anonymized connection. That's exactly how we've been working for the last few years. And so we were pleased that they announced this as one of their launch partners. I've talked to a lot of both advertisers and publishers about it, and there's just a recognition in the industry that DV360 is such a large entity that you have no choice but to embrace the clean room approach that they are espousing.

Now, as soon as you do that, then the opportunities to expand that with other LiveRamp destinations are pretty significant because the same kind of clean room that you can set up for PAIR, you can use to traffic to Trade Desk, you can use for Facebook, you can use for any of our CTV providers or you could use for any of our 110,000 different publisher URLs. And so I think it really – we've been kind of looking for the tipping point that will drive us to the post-cookie world. I think this is it. Now, it'll take some time. I mean, it doesn't launch until Q2, calendar Q2 of next year, but we're out there talking to clients and publishers about it now and encouraging them to embrace clean rooms well before that PAIR launch.

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

A

And then I'd be happy to jump in and talk about Carrefour and then also just some other things that we're seeing.

Our relationship with Carrefour remains very, very strong. We're making progress across all the European territories, whether that's France, whether it's Belgium or Spain or even beyond, and then also making progress in terms of our progression in Brazil. One of the great things here is really the addressability map that we're building and when Scott talks about really where ATS is and our overall reach, I think it's important to note that it's not just about Facebook's Conversion (sic) [Conversions] API or Google PAIR's. It's also about our global reach, whether that's in Europe, whether it's in Latin America and/or Asia.

On other progress, it's really interesting. I was incredibly pleased this quarter that Ahold Delhaize signed up as our latest retail customer using Safe Haven. So, I think you can see that LiveRamp, I think we're working now with 8 of the top 10 largest retailers in the US, and this is also expanding internationally as well.

Further [ph] is doubt (00:57:29) that I talked about in the prepared remarks is when you think about collaboration and brands-sharing, we now have over 275 partner tenants set up across this network. So, while still early days, the network effect is beginning. We see this as a major trend not only in retail media, but also in other industries.

And then finally, it's really interesting. In my prepared remarks, I talked about pilots underway and probably the most interesting thing about that statement was the modifier. And it was 13 pilots underway across TV, across social, across brands, and data. So, that is a direct expansion, I would say, of our TAM in the applicability of Safe Haven. So, more to come but we feel great about the progress we've made.

Jared Pomerantz
Analyst, Susquehanna Financial Group LLLP

Q

Great. Thank you. And then just one more, if I may. Obviously, it's still a couple quarters away and there's a lot of macro uncertainty at the moment but how are you thinking about top line momentum as we roll into fiscal 2024? Do you think that roughly mid-teens top line growth could still be a good base case or might we see a bit more weakness there?

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

A

Why don't I jump in and we're not going to give long-term guidance today. But as Scott and I approached this call, we really wanted to leave you all with three very clear messages, the first is that we understand the drivers. We understand our issues, and we understand our challenges, whether it's looking at macro, whether it's looking at the sales force maturity or any market-related pressures we may be feeling or market confusion.

Two, we want to be absolutely clear that when you think about durability, LiveRamp plays with real competitive advantage. In fact, no one can do what we can do, whether it's our approach to foundational identity that we're integrated across the ad and mar-tech ecosystem, that a brand can use data in every customer interaction through LiveRamp. Scott talked about our reach and the scale of our partnerships. It is truly unparalleled.

And then finally, I'd add a third. It's our approach to privacy and security, which is obviously paramount not only to LiveRamp, but every single one of our customers. Those are competitive advantages of LiveRamp and really stress and point out our durability.

And then finally, what we want to highlight for everybody is there's a lot that we can't control, but there are some things that we can control and we are doing things to take action, whether it's training or ramping our sales force, whether it's building out our channel partners and partnerships and cloud relationships, the investments we're making in customer support to drive higher satisfaction and lower churn.

And then finally, I'd point out that we're also investing, again, where we have competitive advantage, in identity, in collaboration, in marketplace. We're advancing our geographical footprint and also the number of destinations. So, again, too early to give guidance for next year, but we want to be super clear. We understand our challenges in the short-term, but overall, we believe in the durability and long-term opportunity for LiveRamp.

Jared Pomerantz
Analyst, Susquehanna Financial Group LLLP
Q

Sounds great. Appreciate you taking the questions.

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

No, thank you. It was a really good question.

Operator: We have time for one more question. Your final question comes from Mark Zgutowicz of The Benchmark Company.

Mark Zgutowicz
Analyst, The Benchmark Co. LLC
Q

Thank you. Good evening, Scott and Warren. Scott...

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

Hi, Mark.

Mark Zgutowicz
Analyst, The Benchmark Co. LLC
Q

...just maybe connecting a couple points you made, the first one earlier about the disconnect with your stock price and then we sort of talk about the scalability of your network and destinations. You mentioned now Google with Meta, Comscore 100, Trade Desk. I think what you're doing with UID in Europe right now is pretty interesting. But I guess the – if you connect those two in terms of where the disconnect is, is there a limitation to scaling those partnerships today in a still a predominantly cookie-based world? And does that scalability really come and you shine in that sort of post-cookie world that we're headed to?

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

Well, let me kind of circle around that before I answer. I think a lot about – I talked to a lot of investors and I hear three things. I mean, number one, we view ourselves as a Rule of 40 company and so what a Rule of 40 companies get valued on, number one, revenue growth; number two, margin expansion; and number three, predictability, so the removal of risk.

And so I think we've talked a lot in this call about margin expansion. That's not a new story. I mean, I look at the numbers on the board in front of me, if I go back a few years ago to FY 2020 to what we expect this year, I mean, we have generated an additional $120 million in operating profit, and we're not done. I mean, we're not nearly done. Look at the things that we did this past quarter as just another step in a journey because we think that there's a lot of cost levers. We can manage our technology better to lower our cost of goods sold. There are things that – every element of our cost structure, we intend to continue to scrutinize. So there're all kinds of things that we can do to get – improve our operating profit.

Revenue, we recognize that's where we've had some softness in bookings over the last couple quarters but as Warren just said, we think we understand what's going on there. We like the things that we've been doing. And as I look at our pipeline right now, I mean, we have double-digit number of million-dollar deals sitting right at the finish line. But we've got to get them through the finish line before we can claim victory but I like the direction our pipeline's going. I like the things that we've done with our sales force.

And then the third thing which is really what you're getting at is establishing the fact that we're durable, that we're predictable. And this is where I feel like we've really run into some headwinds, not of our own doing because there was COVID. Now, there's a recession. There was a fear of cookie deprecation. I mean, first it was is LiveRamp too dependent on cookies and then when Google delayed, everyone said, well, if Google doesn't deprecate cookies, is that bad for LiveRamp. Can't be both ways, but I feel like we're getting some certainty on those questions now. We're seeing what the recession could be. We're talking to clients and we're hearing from them that we're really important.

We finally have an answer from Google on when they're going to deprecate cookies and this launch of PAIR in Q2 of next year, and that removes uncertainty from the industry and I think really serves as an important tipping point. And we're seeing regulatory, how that – regulations are evolving, whether it be GDPR or there's a wave of new regulations by new states in the US implementing regulation and we don't view that as a headwind. We view that as a tailwind and again, we're looking to our clients who are saying, hey, LiveRamp, help us through this. What do we do? All these things, we believe, increase our importance for the future and in some respects, that future can't come soon enough to take those exogenous risks off the table for investors once and for all.

But again, I mean, to summarize, we think the exogenous risks are going away. We're working hard to accelerate our revenue, and we will always continue to work on improving our operating profits until we're best-in-class SaaS in that respect.

Mark Zgutowicz
Analyst, The Benchmark Co. LLC

Q

Super. Thanks, Scott. Appreciate it.

Operator: This concludes the question-and-answer portion of today's conference. I will now turn the floor back over to Warren Jenson for any additional or closing remarks.

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

Terrific. Well, thank you, operator. Before concluding, I probably have the most important announcement of our call and that is on September 28, Lauren, her husband and beautiful family welcomed Emily Louise, a beautiful little girl, into the world. So I know you, like all of us here at LiveRamp, are incredibly happy for Lauren and her family. So welcome, Emily Louise.

In concluding, I guess I'd wrap up with really three summary thoughts from today. First of all, we want to be clear to all of you that we understand our issues and challenges. The second is that we are taking action today to improve both our top line performance and materially increase our bottom line performance. And just as Scott said, the announced actions are just the beginning. This is part of a much larger initiative at LiveRamp.

And then finally, walk away today understanding that our business is, in fact, durable and that we do play with considerable competitive advantage. Thanks to all of you for joining us today, and we look forward to speaking with you in the follow-ups.

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