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LiveRamp Holdings, Inc. (RAMP)

Q1 2024 Earnings Call

CORPORATE PARTICIPANTS

Andrew M. Borst
Vice President-Investor Relations, LiveRamp Holdings, Inc.

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

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

OTHER PARTICIPANTS

Aaron Flack
Analyst, Susquehanna Capital Management LLC

Christopher Quintero
Analyst, Morgan Stanley & Co. LLC

Brian Fitzgerald
Analyst, Wells Fargo Securities LLC

Kirk Materne
Analyst, Evercore ISI

Dean Sublett
Analyst, Stephens, Inc.

MANAGEMENT DISCUSSION SECTION

Operator: Good afternoon, ladies and gentlemen, and welcome to the LiveRamp Fiscal 2024 First Quarter Earnings Call. After the speakers' remarks, there will be a question-and-answer session. [Operator Instructions] . As a reminder, this conference call is being recorded.

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

Andrew M. Borst

Vice President-Investor Relations, LiveRamp Holdings, Inc.

Thank you, operator. Good afternoon and welcome. Thank you for joining our fiscal 2024 first quarter earnings call. With me today are Scott Howe, our CEO; and Lauren Dillard, Interim CFO.

Today's press release and this call may contain forward-looking statements that are subject to risks and uncertainties that could cause actual results to differ materially. For a detailed description of these risks, please read the Risk Factors section of our public filings and the press release. A copy of our press release and financial schedules, including any reconciliations to non-GAAP financial measures is available at liveramp.com. Also during the call today, we'll be referring to the slide deck posted on our website.

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

Scott E. Howe

Chief Executive Officer & Director, LiveRamp Holdings, Inc.

Thank you, Drew, and thanks to all of you for joining our call today. My comments today will focus on three key topics. First, we're off to a strong start to fiscal 2024. Q1 exceeded our expectations on both the top and bottom line. Our operating margin expanded by 11 percentage points, and this was our first ever quarter with positive GAAP operating profit.

Second, there continue to be many levers for us to continually improve our financial performance, and we're focused on reestablishing strong recurring double-digit revenue growth. This will be driven short term by the tactical initiatives we have in motion and longer term by some mega trends that are propelling digital advertising. Namely, new messaging opportunities in retail, media and CTV, a shift to cloud computing, the transition from cookies to true authentication, and generative AI.

Third, we continue to drive meaningful operating income growth and margin expansion and have clear line-of-sight to additional margin improvement. When combined with accelerated top-line growth, this will bring us that much closer to our Rule of 40 goal.

Starting with Q1, revenue and operating income exceeded our expectations and consensus estimates. We produced $26 million in positive operating cash flow in a quarter that is seasonally low and typically negative, and we repurchased $20 million in stock. Q1 total revenue grew by 8%, with subscription revenue up 5% and Marketplace & Other up 21%. Subscription growth was in line with our mid-single full year outlook. While Marketplace & Other was significantly ahead of our expectation due to a better-than-expected digital advertising market. Our Q1 customer count of 915 was down five from the prior quarter, driven by non-brand customers with below-average ACVs. Meanwhile, our $1 million-plus customers increased by one sequentially.

We signed a new three-year seven-figure annual contract with a major retail and hotel operator in the Middle East. Our data collaboration platform will power their new retail media network. We also had a six-figure win with a leading global quick-service restaurant for our data collaboration platform. These recent successes are also representative of our current pipeline. We're talking to recognized global leaders across all consumer industries.

Notwithstanding these key wins, our net new logos continue to run below our historical trend, which is attributable to a combination of tighter client budgets in the face of macro uncertainty. And our decision to focus on larger enterprise clients that typically have a longer sales cycle. These larger accounts typically involve more decision-makers, including procurement, that elongate the sales process. These accounts may take longer to close, but they typically have above-average ACVs often sign multiple-year contracts and renew at higher rates. In short, these customers have a higher lifetime value. As macro conditions improve, we expect our renewed focus on these larger enterprise customers to yield results.

We are performing better with the upsell in an existing customers. We had upsells with two major ad agency customers, each with seven-figure annual contracts and multiyear terms for data onboarding and identity resolution. We also had a multiyear seven-figure annual contract upsell of a large US grocery chain for our data collaboration platform to power their retail media network. Finally, we expanded our relationship with a leading music streamer with a high six-figure upsell and two-year term for data activation.

Subscription net retention of 98% improved slightly sequentially, though this continues to be a metric where we feel we can improve. Platform net retention also improved sequentially to 102%, reflecting the strength in Marketplace growth. We continue to expect our subscription net retention to be 100% or higher by Q4 based on the progress we are making with improving bookings and reducing customer down-sell and churn.

Moving beyond the quarter, let me now speak about the progress we are making on returning to sustainable double-digit revenue growth. On recent calls, I've discussed the tactical moves we've made to drive faster revenue growth, including expanding our sales capacity and productivity, deepening our channel partnerships with cloud hyperscalers and CDPs, and enhancing the utility of our product through new integrations, such as the Meta Conversions API, and Google's Publisher Advertiser Identity Reconciliation or more simply PAIR. We continue to make steady progress with each of these initiatives, but today, I want to talk about the megatrends that are shaping the future of digital advertising and how LiveRamp is positioned to benefit from these trends.

We see four megatrends, one, new marketing channels that possess scale and sophistication similar to walled gardens in both retail media networks and CTV. Two, the shift from cookies to true consumer authentication. Three, cloud computing. And four, generative AI. Our leadership and foundational identity and interoperability across the digital advertising ecosystem puts us in a position to benefit from the growth in retail media and CTV.

Let's start with retail media networks or commerce media networks more broadly defined beyond the retail CPG complex. This is hardly a new trend but it is poised for significant growth over the next five years. According to the media buying agency GroupM, retail media networks already represent the third largest advertising platform at $110 billion globally, and it is forecast to be the fastest-growing platform over the next five years, with a compound annual growth rate of 9%.

These media networks benefit LiveRamp in two ways. First, our data collaboration platform powers retail media networks by enabling the secure first-party data sharing between retailers and brands. Many of the world's largest retailers are using our data collaboration for this purpose, and we continue to add new customers every quarter, as we mentioned earlier. The sales bookings for our data collaboration platform have great momentum.

For a second consecutive quarter, we had strong sales bookings for our data collaboration platform with Q1 bookings accelerating. The second way we benefit from the proliferation of retail media networks as we help brands link customer identity across each of these retail media networks, so they can holistically track and measure their addressable advertising.

We have a similar opportunity in CTV and ad support and streaming. From cord cutting and the rise of ad-supported streaming, the video market is going through a massive transformation. This transformation is fragmenting audiences across more video platforms, while we all appreciate where the puck is going and that is clearly the streaming. In the meantime, linear broadcast and cable television networks still have a 52% share of viewing on US televisions compared to 38% for streaming services.

And within streaming outside of YouTube and Netflix, each of the streaming platforms has a low single-digit share of audience viewing. The challenge for marketers is holistically measuring audiences and advertising across these streaming walled gardens. LiveRamp solves this problem with our common privacy identifier and interoperability with all platforms.

To summarize, more choices and more complexity in the marketing ecosystem make it even more important for marketers to use LiveRamp to simplify workflow and ensure true uniformity across all destinations. So, we think the growth in these additional channels will be a long-term tailwind for our business.

A second major trend is third-party cookie deprecation and impending rise of authentication that will usher in a new era in consumer privacy and digital marketing. Google's announcement in May, confirming it will deprecate third-party cookies on Chrome in the second half of 2024 combined with its rollout of Publisher Advertiser Identity Reconciliation or PAIR for its DSP, Display & Video 360, is a clear signal that the post-cookie era is rapidly approaching.

Our PAIR rollout is going very well. We have 75-plus publishers signed up across North America, Europe and APAC and we are on track to have 100-plus publishers live by September. We continue to scale campaigns with our brands and have seen lots of brand interest in the alpha.

Anecdotally, the campaigns are meeting customer expectations and by our next earnings call, we should be in a position to share more detailed results. We see this as a clear call to action for the entire digital advertising industry and our recent customer conversations, including dozens of customer meetings at the recent Cannes Advertising Festival, proved this out.

We started preparing for the retirement of third-party cookies more than five years ago when we created the Authenticated Traffic Solution or ATS. ATS connects publisher and brand identity without the use of third-party cookies and enables addressable reach and measurement on our encrypted people-based identifier, RampID.

Today, ATS is a globally scaled solution with unrivaled reach and interoperability. ATS is interoperable with the OpenWeb, walled gardens, including CTV platforms and ad-tech intermediaries, including over 165 DSPs and SSPs.

On the OpenWeb, ATS is interoperable with over 14,000 domains, including 80% of the comScore 50 and 90% of consumer time spent online in the US. Taken together, we believe the scale of our solution uniquely positions us to benefit from the final phase of cookie deprecation when it occurs next calendar year. Continued education and evangelization will be an emphasis for us over the next four quarters.

The shift of computing to the cloud is a third megatrend that will benefit our business. According to a recent survey of CIOs, the proportion of workloads running on public clouds, whether AWS, GCP, Azure or others will increase from 30% today to 50% in three years. LiveRamp has a long history of successfully navigating technology platform transitions, starting with the transition from marketing databases to customer data platforms and now to clouds and cloud data warehouses. We have always enabled our capabilities where our customers' data lives and we are well positioned to benefit from the shift to cloud computing.

Over the past year, we have deepened our partnership with each of these cloud providers and we've been deploying native applications that embed our products in these cloud environments. It may sound cliché, but this is truly a win-win-win proposition. It's a win for the cloud providers, because embedding our solutions in their environment drives a material increase in storage and compute, because there is a high volume of data and analytics associated with consumer marketing and the cloud revenue model is entirely based on storage and compute.

It is also a win for our customers, who desire reduced movement of data. Less data movement is more efficient, more secure and reduces the risk of a data breach.

Finally, it is a win for us, because our products are more easily accessible for existing and prospective customers. We recently debuted in Snowflake, our native applications for identity resolution. This means LiveRamp customers can seamlessly access our identity resolution and activation capabilities directly in their Snowflake data environment, eliminating the need to move or copy data and thereby reducing security and privacy risks.

Initial customer feedback has been positive. But we are committed to making everything even easier to use. We are working with the other cloud providers in a similar manner and look for this to be a meaningful contributor to our growth going forward, if it continues to scale in the coming years.

Investors understandably have been asking us what Gen AI and machine learning means for our business. First and foremost, we expect Gen AI will leave us more firmly into the data fabric of the ecosystem. At the heart of all data regulatory policy around the world, is the concept of consumer transparency and choice, and that requires the deterministic identity that LiveRamp provides.

Second, we expect Gen AI to help stimulate our long-term top-line growth. We are already using AI and machine learning in our identity products to improve the effectiveness of addressable advertising for our customers. We developed deep learning models to improve match rates and match choice, especially when match PII is limited and touch points like e-mail, phone or address are shared. We are also using machine learning models to determine who is the dominant user on shared devices like a laptop, tablet, CTV or even, in some cases, a mobile phone.

Additionally, we think generative AI will open up additional data collaboration opportunities and a potential wave of new applications such as dynamic creative, optimal media buying and precision AI targeting. We are well positioned to seize this opportunity. Because in addition to having a leading data collaboration platform, we are also the leader in deterministic foundational identity. We are interoperable across the entire ecosystem, and our network of turnkey integrations connects identity across any and every digital destination.

We also expect Gen AI to drive growth in cloud and cloud data warehouses, where we have deepened our partnerships to my earlier point. LiveRamp can harness the power of cloud data warehouses, assisting businesses and managing and analyzing their consumer data more efficiently. This in turn, facilitates better use of AI, LLMs and deep learning technologies.

Finally, we expect AI capabilities to improve our efficiency, development velocity and service capabilities. Like nearly every company, we are in the process of identifying ways we can integrate AI into our processes to improve our efficiency and productivity. An example, the most brilliant data analysts all know that one of the most time-consuming tasks in using large data sets is writing SQL queries. AI can remove much of the repetitive manual elements to this effort, thus facilitating even more query efficiency and less technical specialization needs.

Over time, we see opportunities to leverage AI to enhance our product development and engineering, customer service and employee training. While we don't expect a meaningful financial impact from AI in the current fiscal year, we do believe that AI is a long-term tailwind for our business.

In summary, when we consider the cumulative impact of all four of these megatrends as well as our ongoing tactical initiatives, we are optimistic about our ability to return to sustainable double-digit revenue growth. Top-line growth is an important lever in the Rule of 40, a goal to which we remain steadfastly committed, but the bottom line is also important. We have made consistent methodical progress over many quarters, improving our non-GAAP operating margin. This year, we expect our margin to be 14% to 15%, an improvement of 400 to 500 basis points.

Looking ahead to FY 2025, we see an opportunity for another year of significant margin expansion, driven by our new offshoring initiative which Lauren will discuss in a moment.

Our profitability improvement is also showing up at our GAAP results. Q1 was our first quarter ever with positive GAAP operating profit. And on a full year basis, we expect to post positive GAAP operating profit in FY 2024. Finally, we continue to return excess free cash flow to shareholders through our share repurchases. In Q1, we produced $26 million in free cash flow, and we repurchased $20 million in shares. On a full year basis, we expect to use a significant portion of our free cash flow this year for share repurchases. At our current valuation and given the building momentum in our business, we think repurchasing our shares is an attractive investment.

In summary, Q1 represents a good start to our fiscal year, with the top-line and bottom line coming in ahead of our expectations. The tactical moves we've made over the past year with our Salesforce channel partnership and product integrations are starting to pay off, and our business has good momentum.

Additionally, we are well positioned to benefit from the megatrends that are shaping the future of digital advertising, including retail media, CTV, cookie deprecation and AI. All of this puts us on a path to return to sustainable double-digit top-line growth. When combined with our margin trajectory, we expect to make meaningful headway toward our Rule of 40 objective over the next few years. Finally, we expect to continue returning excess free cash flow to shareholders through our share repurchase program.

Thank you again for joining us today. And a special thanks to our exceptional, exceptional customers, partners and to all LiveRampers for their ongoing hard work and support. We look forward to updating you on our progress in the coming quarters. And with that, I will now turn the call over to Lauren.

Lauren Russi Dillard

Interim Chief Financial Officer, Senior Vice President-Finance & Investor Relations, LiveRamp Holdings, Inc.

Thanks, Scott, and thank you all for joining us today. Today, I will cover three topics. First, a review of our Q1 financial results, second, an update on our offshoring initiative, and finally, our outlook for FY 2024 and Q2.

Starting with our Q1 results. In summary, results were above our expectations. Revenue came in at $154 million, which was $7 million above our guidance, and operating income was $21 million, $6 million above our guide. Operating margin expanded by 11 percentage points to 14%, and we generated $26 million in operating cash flow. Let me now fill in some additional details. Please turn to slide 5.

Unless otherwise indicated, my remarks pertain to non-GAAP results and growth is relative to the year-ago period. Total revenue was $154 million, up 8%. Subscription revenue was in line with our expectations, while Marketplace & Other was significantly ahead, driven by a stronger-than-expected digital advertising environment. Subscription revenue was $122 million, up 5%. ARR was $426 million, up 4%. Subscription net retention was 98%, and platform net retention was 102%. The sequential improvement was driven by subscription usage.

Current RPO or our next 12-month contracted backlog, was $351 million, up 19%. Total RPO including contracted backlog beyond the next 12 months was up 25% to $497 million. There is an unusually large difference between CRPO and ARR growth this quarter. As we've discussed before, the RPO is very sensitive to the timing of renewals and the contract duration. And both of these factors flattered CRPO growth this quarter. ARR normalizes for timing. And for this reason, we continue to believe it is a better leading indicator of subscription growth than trends in RPO.

Digging into subscription further, our fixed subscription revenue grew by 5%, again, in line with our expectations. Overall, the selling environment does remain challenging, although not materially different from the recent trend. Our average deal cycle in Q1 was about one quarter longer than in FY 2022 and our conversion of pipeline into sales bookings also remains below fiscal 2022 averages.

Subscription usage revenue grew 5% in the quarter and represented 13% of total subscription revenue near the midpoint of the historic 10% to 15% range. In the quarter, subscription usage benefited from improving trends in digital advertising and also some onetime items. Marketplace & Other revenue of $32 million increased 21%, driven by Data Marketplace, which represents 80% of Marketplace & Other. Data Marketplace grew by 19%, fueled by a healthy digital advertising environment and above-average campaign spending from a select number of customers.

We also continue to see growth in professional services, albeit off a smaller base. To provide a bit of additional perspective on services, services generated revenue of approximately $10 million in FY 2023. And we expect it to roughly double in FY 2024. While slightly loss-making this year, we see a path to positive margins next fiscal. Just as importantly, services is providing an ancillary benefit to our subscription revenue in the form of higher customer satisfaction that is driving above-average renewal rates and higher upsell.

Moving beyond revenue, gross margin was approximately 73%, down two points year-on-year and consistent with our guidance. The decline was due primarily to higher data hosting from customer use and parallel costs related to customer migration projects as well as continued investment in our services business. Operating expenses were down 11% to $92 million, driven by last year's cost restructuring and were also flattered by the timing of certain expense items which shifted into later quarters. Operating income was $21 million, up from $4 million a year ago, and our operating margin expanded by 11 points to 14%. Stock-based compensation was $13 million, down from $24 million a year ago due to the accelerated vesting of certain non-NEO RSUs in Q4 of last fiscal, which we did discuss on our last call.

Operating cash flow was $26 million, up from negative $33 million a year ago, due primarily to the receipt of a $29 million federal tax refund for fiscal 2021. Even without this refund, as Scott mentioned, our operating cash flow was near breakeven in a quarter that is seasonally negative. We repurchased 835,000 shares in the quarter for $20 million. There remains approximately $198 million under the current authorization that runs through December 31 of 2024. Our diluted weighted average share count in the quarter was down 3%, reflecting our repurchase activity over the past year.

In summary, Q1 represented a strong start to fiscal 2024. We beat on both the top and bottom line. Subscription revenue growth was in line with our expectations and Marketplace outperformed, driven by the ongoing strength in the digital advertising market. Our operating margin expanded by 11 percentage points. We generated $26 million in operating cash flow and repurchased $20 million in stock.

Let me now provide an update on our offshoring initiative. We recently moved into the execution phase of our offshoring efforts. We are working with a leading global outsourcer, a firm we've worked with on a smaller scale for several years to assist us in this process. Over the next two years, we will transfer roles in our engineering, customer service and business support functions to Hyderabad, India. We believe this effort will position LiveRamp for success well into the future.

In addition to improving our cost structure, it will help us be more efficient, better serve our global customers around the clock, better compete for world-class talent and accelerate our product development velocity. And lastly, we believe this initiative will unlock another meaningful improvement in operating margin expansion in FY 2025.

Finally, let me now turn to our financial outlook for FY 2024 and Q2. Please turn to slides 12 and 13. Please keep in mind our non-GAAP guidance excludes intangible amortization, stock-based compensation and restructuring-related charges.

Starting with the full year. We are increasing our total revenue guidance by $10 million and now expect revenue to be between $620 million and $630 million, up 4% to 6% year-on-year. Our outlook for subscription revenue is unchanged. We continue to expect subscription revenue to grow in the mid-single digits. We expect usage as a percentage of total subscription revenue to be near the midpoint of the historic 10% to 15% range.

We also reiterate that subscription net retention is expected to return to at least 100% like Q4, driven by improving sales productivity, benefits from our new channel partnerships and better retention. The potential offset to this benefit, in addition to our own execution, would be the macro conditions and the associated impact they have on client budgets. We now expect Marketplace & Other revenue growth to be in the mid-to-high single digits for the full year, up from our prior expectation of approximately flat.

For Q2, based on what we are seeing quarter-to-date, we expect Marketplace revenue to grow in the mid-to-high single digits. This growth rate is slower sequentially because Q1 benefited from a select number of unusually large ad campaigns that are unlikely to recur.

For the fiscal second half, we assume Marketplace revenue is flat, given our limited visibility into digital advertising that far into the future. While the risk of a US recession has receded in recent months, there remains uncertainty around economic growth. We think it is prudent, therefore, to remain cautious about the fiscal second half. Should the advertising markets remain stable or improve, then we would expect our Marketplace growth to be better. The same is naturally true on the downside.

We continue to expect gross margin to be approximately 75% with the second half slightly higher than the first half, reflecting ongoing hosting optimization initiatives as well as the timing of investment in our services business. We continue to expect non-GAAP operating income of between $90 million and $93 million, representing a margin of 14% to 15% or up 4 percentage points to 5 percentage points.

Operating income guidance remains unchanged despite the Q1 beat and the increase to our revenue guide. We do, however, remain committed to the 50% operating income growth, as we outlined on the last call. We still expect our operating expenses to decline this year in the low-single digits, but we think it is prudent to make some additional investments in areas that we believe will fuel future top line growth. This includes investments in our sales force and cloud strategy as well as some upfront investment to ensure our offshoring initiative is successful.

We expect stock-based compensation for the year to be $72 million, which benefits from the $23 million in accelerated vesting in FY 2023 and is lower than our prior guide. We now expect $7 million in restructuring charges, primarily associated with our offshoring initiative. We continue to expect GAAP operating income to be positive and to be between $2 million and $5 million for the year. And lastly, we continue to expect to return a significant amount of our FY 2024 free cash flow to shareowners through our repurchase program.

Now, moving to Q2. In Q2, we expect total revenue of $152 million, non-GAAP operating income of $19 million and an operating margin of approximately 13%.

A few other call-outs for Q2. We expect subscription net retention to be flat to Q1, give or take 1 point. We expect Marketplace & Other revenue to grow by mid-to-high single digits, as discussed earlier, and we expect gross margin to be roughly 73%.

Before opening the call to questions, I'll conclude with a few final thoughts. First, Q1 represented a strong start to the year and we're pleased with the team's execution. Next, while we like our momentum exiting the quarter, a single quarter does not make a trend. It is still early and given this, we've attempted to be balanced and conservative with respect to our outlook for the remainder of the year and see the potential for further upside if market conditions hold.

And finally, we've long talked about our aspiration to be a Rule of 40 company, with mid-teens top line growth and a 25%-plus operating margin. We're encouraged by the ongoing momentum in our sales bookings and improvements in churn and down-sell that put us on a path to return to double-digit revenue growth. And we will continue to pull on the following three levers to drive this improvement.

First, improving our sales force productivity, second, leveraging recently announced channel partnerships and adding new ones, and finally, improving customer retention led by our enhanced services offering. Faster top-line growth is the biggest margin lever we have over time, but certainly not the only one. Our cost reduction efforts, including our offshoring initiative, will unlock meaningful margin improvement in FY 2025 and beyond. And we will continue to be thoughtful about our expenses. And will prudently invest in opportunities that we believe will drive future top-line growth.

With that, on behalf of all LiveRampers, thank you again for joining us today. Operator, we will now open the call to questions.

QUESTION AND ANSWER SECTION

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

Aaron Flack
Analyst, Susquehanna Capital Management LLC

Q

Hi. This is Aaron on for Shyam. Thank you for taking our questions. We have two. First, last quarter, you talked about automotive as a new use case for your data collaboration platform. I was wondering if you could give us an update if there are any other new industries or new use cases using the data collaboration platform. And then secondly, is there any color you can give us on how to think about the net customer number over the coming quarters? Anything to call out in terms of SMBs rolling off? Or maybe some – I think on the last call, you talked about some tailwinds in the second half related to the Snowflake sales partnership. Thank you.

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

A

Yeah, Aaron, it's Scott. I'll take the first one. And I'm really glad you asked that because it's a question we've been getting from investors with increased frequency. They see the success that we've had in retail media networks. And they ask themselves, hey, how long is the cycle for that? Are you reaching a point of saturation? And my response is an emphatic no. That within the retail space, we still have a lot of room by filling in the partner networks underneath each one of the major retailers.

But more importantly, people copy what they see working. And the success that so many major retailers have had globally by collaborating with their retail media networks and their group of partners is now starting to spread to other industries. You mentioned connected cars, and we have a couple of major automotive clients. Recently, I got back from Europe. And I met with one of the largest packaged goods companies in the world. And they're using RampID to power their media network capabilities all across the globe.

I met with one of the largest travel companies in the world, just a couple of weeks ago here in the US and they're spinning up a global travel network. And they have turnkey already 150 partners that they could activate and do really interesting collaborations with. If we win that, that would be a great new logo. But we're seeing a lot of interest in travel.

And then importantly, I talked a little bit in the prepared remarks about CTV. I'll tell you who's got great data sets, the CTV companies. They have deep viewership and demographic information. And for too long, they haven't used that effectively. What a great opportunity for them to collaborate with advertisers start to share permission data in a way that is more effective for advertisers. So I think we're going to see a wave over the next five years of data collaboration across the leading companies and they'll benefit because they'll generate more value, but consumers will benefit because they'll get a better value exchange. Importantly, we think we've positioned ourselves to be right in the middle of that.

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

A

Hey, Aaron, Lauren here. I'd be happy to address your question on net customers. The first thing I mentioned is that in the quarter, gross adds were stable. And importantly, the composition of those adds was better, skewing to larger enterprise accounts, which is really a direct result of the tightened sales focus that we talked about on the last call where we continue to feel a bit of pressure is with our lower ACV customers and specifically our non-brand customers whose business models are just more economically sensitive. In addition, in the quarter, we were impacted by some unusual events in the form of M&A and account consolidations as well as a couple of bankruptcies.

Looking ahead and for modeling purposes, we would expect Q2 could look like Q1. However, based on our pipeline of new deals, we do expect to see a rebound in ads in the second half. And again, I would go back to what I started with, we feel really good about the quality of the customers we're adding. These are household names. These are larger deals, multi-year deals in many cases and customers that we believe will have a higher LTV.

Aaron Flack
Analyst, Susquehanna Capital Management LLC

Q

Great. Thank you, Lauren. Thank you, Scott.

Operator: Your next question comes from the line of Chris Quintero with Morgan Stanley. Your line is open.

Christopher Quintero
Analyst, Morgan Stanley & Co. LLC

Q

Hey. This is Chris Quintero on for Elizabeth Porter. Congrats on the strong results here. I wanted to ask around the bookings trend you saw in Q1 versus what you saw exiting last fiscal year, kind of how are you tracking versus the targets of a steady improvement throughout the year?

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

A

Chris, thanks for the question. I would characterize our Q1 bookings as solid. And there's a lot to like. I would tell you, amongst things to like, I feel like we have capacity back to where we want it to be. So if I look at our sales capacity overall versus a year ago, it's probably flat to even down. But that said, if you look at the number of ramped reps people that have been with us for longer than six months, who we would describe as just better sellers and the numbers would prove that out. Well, we are 50% higher on that measure than we were in the first half of last year. Importantly, those ramped reps, they are productive. The new folks that we've hired now that they've gotten up to speed, they are winning some really notable deals.

Second thing I really like is the state of our pipeline. And first, let me caveat because any of our sales reps who might be listening to this call are saying, I can't believe you saying that. Because internally, it's never enough. We can always do better on pipeline. But if you look at it empirically, I would tell you, we're going into Q3 in another 1.5 months here with the strongest ever qualified pipeline in LiveRamp's history. So I like that.

Now that said, now let me temper everything, which is, hey, one or two quarters does not yet a trend line make. The nature of SaaS is it's a gradual slow when your bookings are soft. We saw that last year, and we're paying for it now. It's also a gradual reacceleration when you start to rediscover that success. And so really happy with last quarter, happy with this quarter. We got to do it again next quarter. We've got to do it again throughout the back half of the year. We do that, we're going to be in a really good position to be well above 10% growth for next year, but we have to execute.

Christopher Quintero
Analyst, Morgan Stanley & Co. LLC

Q

Thanks, Scott. And Lauren, I wanted to ask around the incremental investments you're making, like anything changed in the quarter where you saw this as being a really nice opportunity you, guys, wanted to lean into?

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

A

Yeah, happy to. And I would point to a couple of areas of investment. First, our sales force, nothing new in the quarter other than as Scott mentioned, we've rebuilt capacity. We want to maintain adequate capacity as we move through the year. We don't want to find ourselves in the position we found ourselves in, in the first half of last fiscal, without adequate selling capacity. So we're going to continue to invest behind revenue-generating head count.

The second area where we've continued to see nice momentum is with our cloud and collaboration offerings. And there, we're seeing growing momentum that we like and that we're going to invest behind as we move through the year. The final area of investment, which I mentioned in my prepared remarks, is there is some upfront investment required this year to ensure the rollout of our offshoring initiative next year and through FY 2026 is successful. That was incremental in the quarter.

Christopher Quintero
Analyst, Morgan Stanley & Co. LLC

Q

Got it. Very helpful. Thank you.

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

Brian Fitzgerald
Analyst, Wells Fargo Securities LLC

Q

Thanks. Two quick questions. Any impacts from MediaMath in the quarter? Or do you anticipate any dislocations relating to the situation over the next quarter or two as some of their advertiser clients are transitioning to newer DSPs? Second question is just any dynamics to call out international versus domestic? You highlighted multiyear deals and large enterprise focus. Do you generally think you're seeing an acceleration in multiyear deals? Thanks.

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

A

Thanks, Brian. This is Lauren. I'm happy to take the first and Scott can jump in on the second. With regard to MediaMath, in short, we anticipate minimal, if any, impact as a result of their bankruptcy. And any impact has been accounted for in both our guidance and in our AR reserve. We work with all of the major DSPs and would expect other DSP partners to absorb the volume that was previously running through the MediaMath platform.

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

A

And, Brian, on your question on international, I would say that was one of the disappointments of our revenue performance. But when you look beneath the top line there, I actually think it is pretty reassuring.

So, remember, our Head of International was also our CFO when he transitioned out. So, there's always a little bit of disruption there. But I just got back from Europe. And if you peel apart our European numbers, I believe they were slightly up, not where we want to be, but over the course of two weeks, I met with the largest television companies in the UK and France, some of the largest retailers. I mentioned one of the large packaged goods companies. And it wasn't like deep in the organization. I was meeting with CMOs and CEOs and they look at LiveRamp as an important part of their future.

So, I emerged from that pretty excited about the opportunity for us in Europe. And I think I mentioned a couple wins that we had internationally, including essentially the biggest retailer and property manager in the Middle East. So, that's exciting.

Now, what's not exciting is what's happening in APAC. So, if you look at our international business, it was down materially. Well, Europe, slightly up, APAC down precipitously and that's China. And we like probably every company you cover are thinking hard about how we're going to participate in the Chinese market going forward.

I don't think I'm surprised at anybody to say, over the last 10 years, there has been a material change in the business environment. And I think a lot of companies have just pulled out entirely. You're not going to see us do that. We're hopeful that what became tighter will open back up again, because, obviously, it's a large market and a huge population base. But in the meantime, until that happens, we're taking a hard look at China, thinking about our overall investment there and I just don't expect significant growth in that market.

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

A

And, Brian, I think if I can just add on to that, you mentioned multiyear deals accelerating. This is absolutely the case and you can see this in our RPO trends. And we believe this is a real positive for our business.

Brian Fitzgerald
Analyst, Wells Fargo Securities LLC

Q

Yeah. Okay. Thank you. Thanks, guys.

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

Q

Hi, guys. This is [ph] Alex (00:51:10) on for Mark. Just a couple from me. I was curious if you could quantify the drag on subscription revenue from non-brand exposure? And what gives you the confidence that, that can start to recover towards the back half of the fiscal year, perhaps upside, of course, into 2025?

And then, separately, it sounds like the advertising market from your perspective has improved faster than expected. So, just curious what level of conservatism remains baked in to your conversion trends, especially in the back half of the fiscal year? Thank you.

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

A

Yeah. Thanks for those questions. I'm happy to take both. So, with respect to your first question, I would say that the drag from lower ACV customers probably represented a couple points drag on subscription revenue. You're seeing this also in a couple of our key growth metrics, namely net adds as well as our subscription net retention.

As we move through the year, and we talked about this on our last call, we've implemented several initiatives, both product and support and services oriented to reduce churn and down-sell with our smaller customers. And we're seeing early signs of success there. And as a result, have already pulled down our outlook for contraction in the back half. So, we feel like while there's more work to do, we're taking the right steps to address that SMB contraction I mentioned.

With regard to conservatism in our outlook, we continue to expect for bookings, specifically, we continue to expect to see an improving trend in bookings as we move through the year. As we mentioned on our last call, we're not forecasting a hockey stick nor have we forecasted a material improvement in conversion rates.

So, I think we feel pretty good about our outlook for our subscription business where we see the potential for upside in the second half would be in the Data Marketplace business. As we've mentioned, we have less forward visibility here than we do in our fixed subscription business and the last year has demonstrated this area can be a bit volatile. We had a good Q1, but it's still early in the year and Q1 did benefit from some onetime things we just don't expect to repeat.

So, relative to Marketplace, based on what we're seeing quarter-to-date, we're going to take up our outlook for Q2, but aren't yet ready to pull it up for the back half. So, if macro trends and trends in overall digital advertising hold, we would expect the potential for further upside in our Marketplace business.

Q

Got it. Thank you very much, Lauren.

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

Kirk Materne
Analyst, Evercore ISI

Q

Yeah. Thanks very much. Lauren, I was wondering if you can just expand a little bit on the year-over-year growth in current RPO. That's a pretty good lift. I assume that speaks to some of the positive bookings trends you're seeing. But I was also just wondering if you could comment on how that sort of impacts your visibility into the remainder of the year from a subscription perspective. I assume you're feeling better about visibility today than six months ago based on those trends continuing. Just wondering if you could add a little bit more on that front. Thanks

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

A

Sure. Happy to, Kirk. In short, yes, we do feel better today than we did six or even three months ago and this is a result of the recent bookings momentum that both Scott and I have talked about on the last couple of calls. With respect to CRPO specifically, as you know, both RPO and CRPO are very sensitive to the timing of renewals as well as to the length of contracts. And both of those factors benefited CRPO growth this quarter. So as an example, we had a couple of large deals closed on June 30 this year, whereas a year ago, they closed in early July. So that benefited our CRPO comp.

In addition, and this is a really positive thing for the business. We've been successful in shifting some of our largest customers to multiyear deals. So positive for the business but can create an unequal comparison that can flatter RPO and CRPO growth rates in any given quarter. So I guess, net-net, we like what we're seeing, would probably continue to point you to ARR as a better forward indicator of growth because it normalizes for some of the variables I just mentioned.

Kirk Materne
Analyst, Evercore ISI

Q

Got it. Thanks, Lauren.

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

Dean Sublett
Analyst, Stephens, Inc.

Q

Hey. Thanks for the question. This is Dean on for Nick. We were just curious – so on the Pinterest relationship, we were wondering if there's anything you could call out on how you think about the progression there? I think you started with the clean room piece and then expanded into more measurement and analytics. Does that progression capture the general strategy? And maybe any thoughts on what the long-term monetization opportunity looks like?

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

A

Yeah. Dean, thanks for asking that question. I think what you just described is a trend not just at that particular partner but indeed an opportunity we see across all major publishers. In a world where publishers are authenticating and building their own valuable first-party data sets, in some case, it could be retail purchase information. It could be audience engagement or viewership. It could be demographic information. Depending on the partner, they each have a pretty unique data set. And so it's an incredible opportunity for us to work with them in a number of ways.

Number one, to ensure that they can continue to have authenticated users and deploy targeting that is even more powerful than perhaps what they had in a world of cookies, more precise and certainly more consumer-friendly. Number two, to prove definitively especially in a market where there's still some uncertainty, ample uncertainty around where things are going from a macroeconomic perspective. It is the case that almost every CEO turns to their CMO and says, prove to me that our advertising is working. So those publishers or partners that can prove that their audiences monetize better, respond to advertisements more effectively and can make the definitive ROI case are going to attract more dollars than those that can't.

And then finally, where does that go? I think ultimately, it goes to a decade of really interesting collaborations between all these partners and advertisers and potentially other partners as well and their publisher partners. Everybody has unique data and now that it's possible to collaborate in a way that doesn't expose you to risk, doesn't expose the movement of data and is consumer-friendly. I think some really interesting things are possible. And what I like best of all, I mentioned this earlier, is we're neutral, we're agnostic. We work with everyone. And so often, we can be right in the middle of all the fun.

Dean Sublett
Analyst, Stephens, Inc.

Q

Appreciate the color. Thanks. That's it for me.

Operator: There are no further questions at this time. I will turn the call back to Lauren Dillard.

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

Thanks so much, and thanks, everyone, for joining us today. I'd love to conclude with just a few final thoughts. First, Q1 represented a strong start to the year, and we're making consistent progress against the key initiatives we've talked about on recent calls. Next, while we like our momentum exiting the quarter, a single quarter does not make a trend, it is still early. And given this, we've attempted to be balanced and conservative with respect to our outlook for the remainder of the year.

And finally, while not yet fully reflected in our results, we are encouraged by the ongoing momentum in our sales bookings and improvements in churn and down-sell that we believe put us on a path to return to double-digit revenue growth.

With that, look forward to speaking with many of you in the days and weeks ahead. Thanks again for joining.

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