

Blackbaud, Inc.

Mixed Q2 results; pricing tailwinds beginning to materialize; Reit U/P

Reiterate Rating: UNDERPERFORM | PO: 65.00 USD | Price: 74.28 USD

Mixed Q2, with cost controls driving Op Income beat

We reiterate our Underperform rating and \$65 PO, as we view 2Q23 results as mixed, with revenue coming in 1% below consensus and operating income coming in 3% higher. We believe the company is executing its pricing strategy successfully, which should drive much of its growth and free cash flow story over the medium term. However, we believe BLKB shares could lag peers given growth that is below peers, and, after a rejected a takeover offer, we think there is likely still a fair amount of takeout premium embedded within its current valuation.

Healthy retention, pricing strategy should keep working

Despite mid- to high-teens pricing increases, customer retention rates are tracking according to plan, which is a positive, in our view. Of the 35% of the contracts eligible for renewal this year, 70%+ have already been renewed, lending support to Blackbaud's value proposition. Additionally, most renewals are opting for 3-year deals, which carry mid- to high-single-digit percentage escalators each year. Since the majority of the renewals mix for 2023 are in the summer and year-end, revenue tailwinds should begin to materialize in 3Q23. We make small changes to our estimates as shown in the table above right and in Exhibit 1.

Capital allocation options expand as company de-levers

The leverage ratio at quarter-end stood at 2.7x, and the target is a 2.0x ratio by the end of 2023. Once achieved, the company should be able to choose from a broadened array of capital allocation options. On the call, management highlighted share repurchases and M&A as two potential uses of capital. We expect management to provide an update on the capital allocation framework on future earnings calls.

Reiterating the guide

The company reported revenue of \$271.0mn (+2.3% y/y), higher than our \$270.7mn estimate. Income from operations of \$74.1mn (27.4% margin) was lower than our \$75.2mn forecast. EBITDA of \$88.8mn (32.8% margin) was higher than our \$82.1mn projection. FCF of \$37mn (13.6% margin) came in below our forecast of \$50.5mn. Blackbaud reiterated the 2023 guidance of \$1,095mn-\$1,125mn in non-GAAP revenue, 30.5-31.5% adjusted EBITDA margin, \$3.63-\$3.94 non-GAAP EPS, and adjusted FCF of \$190mn-\$210mn, which is higher than our \$189.7mn estimate.

Estimates (Dec) (US\$)	2021A	2022A	2023E	2024E	2025E
EPS	3.03	2.69	3.87	4.45	4.93
GAAP EPS	0.12	(0.87)	0.57	2.52	2.93
EPS Change (YoY)	0.3%	-11.2%	43.9%	15.0%	10.8%
Consensus EPS (Bloomberg)			3.76	4.44	4.66
DPS	0	0	0	0	0
Valuation (Dec)					
P/E	24.5x	27.6x	19.2x	16.7x	15.1x
GAAP P/E	619.0x	NM	130.3x	29.5x	25.4x
Dividend Yield	0%	0%	0%	0%	0%
EV / EBITDA*	19.7x	19.1x	14.1x	12.7x	11.4x
Free Cash Flow Yield*	4.0%	3.3%	5.0%	5.9%	6.7%

* For full definitions of *IQmethod*SM measures, see page 6.

03 August 2023

Equity

Key Changes

(US\$)	Previous	Current
2023E Rev (m)	1,111.4	1,111.8
2024E Rev (m)	1,166.9	1,167.3
2025E Rev (m)	1,225.2	1,225.7
2024E EPS	4.39	4.45
2025E EPS	4.87	4.93

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Stock Data

Price	74.28 USD
Price Objective	65.00 USD
Date Established	3-May-2023
Investment Opinion	B-3-7
52-Week Range	43.54 USD - 78.71 USD
Mrkt Val (mn) / Shares Out (mn)	4,000 USD / 53.9
Average Daily Value (mn)	12.04 USD
BofA Ticker / Exchange	BLKB / NAS
Bloomberg / Reuters	BLKB US / BLKB.OQ
ROE (2023E)	29.7%
Net Dbt to Eqty (Dec-2022A)	111.2%
ESGMeter TM	High

ESGMeter is not indicative of a company's future stock price performance and is not an investment recommendation or rating. ESGMeter is independent of BofA Global Research's equity investment rating, volatility risk rating, income rating, and price objective for that company. For full details, refer to [BofA ESGMeter Methodology](#).

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Refer to important disclosures on page 7 to 9. Analyst Certification on page 4. Price Objective Basis/Risk on page 4.

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iQprofileSM Blackbaud, Inc.

iQmethodSM – Bus Performance*

(US\$ Millions)	2021A	2022A	2023E	2024E	2025E
Return on Capital Employed	11.1%	9.1%	15.7%	14.3%	13.2%
Return on Equity	25.6%	19.3%	29.7%	29.9%	24.1%
Operating Margin	21.6%	19.1%	27.2%	28.6%	30.3%
Free Cash Flow	162	133	200	237	268

iQmethodSM – Quality of Earnings*

(US\$ Millions)	2021A	2022A	2023E	2024E	2025E
Cash Realization Ratio	1.5x	1.4x	1.3x	1.2x	1.2x
Asset Replacement Ratio	0.6x	0.7x	0.7x	0.7x	0.7x
Tax Rate	19.6%	18.3%	NM	20.0%	20.0%
Net Debt-to-Equity Ratio	125.7%	111.2%	101.1%	43.8%	12.1%
Interest Cover	16.1x	8.8x	8.0x	10.4x	11.6x

Income Statement Data (Dec)

(US\$ Millions)	2021A	2022A	2023E	2024E	2025E
Sales	928	1,058	1,112	1,167	1,226
% Change	1.1%	14.1%	5.1%	5.0%	5.0%
Gross Profit	539	618	665	696	734
% Change	-0.6%	14.5%	7.6%	4.7%	5.5%
EBITDA	246	254	344	382	423
% Change	-1.3%	3.2%	35.5%	11.0%	10.9%
Net Interest & Other Income	(18)	(27)	(43)	(31)	(31)
Net Income (Adjusted)	146	141	208	243	272
% Change	-0.3%	-3.7%	47.3%	16.8%	12.3%

Free Cash Flow Data (Dec)

(US\$ Millions)	2021A	2022A	2023E	2024E	2025E
Net Income from Cont Operations (GAAP)	6	(45)	30	137	162
Depreciation & Amortization	82	102	97	88	92
Change in Working Capital	(16)	49	36	(70)	(71)
Deferred Taxation Charge	(2)	(27)	(33)	0	0
Other Adjustments, Net	144	124	138	146	153
Capital Expenditure	(52)	(71)	(68)	(64)	(67)
Free Cash Flow	162	133	200	237	268
% Change	112.2%	-17.8%	50.3%	18.7%	13.2%

Balance Sheet Data (Dec)

(US\$ Millions)	2021A	2022A	2023E	2024E	2025E
Cash & Equivalents	55	32	185	422	690
Trade Receivables	103	103	111	210	285
Other Current Assets	693	784	848	852	856
Property, Plant & Equipment	111	107	101	76	48
Other Non-Current Assets	2,003	1,967	1,057	1,070	1,085
Total Assets	2,965	2,993	2,303	2,630	2,964
Short-Term Debt	19	19	19	19	19
Other Current Liabilities	1,091	1,212	616	574	521
Long-Term Debt	937	840	827	827	827
Other Non-Current Liabilities	201	178	185	240	305
Total Liabilities	2,248	2,249	1,648	1,661	1,672
Total Equity	717	744	654	969	1,292
Total Equity & Liabilities	2,965	2,993	2,303	2,630	2,964

* For full definitions of iQmethodSM measures, see page 6.

Company Sector

Server & Enterprise Software

Company Description

Blackbaud, Inc. is a cloud-based software vendor selling fundraising and financial applications solutions to nonprofit organizations. The company sells an end-to-end suite of applications, including fundraising/CRM, financials, online and payments, and specialized vertical applications such as K-12 and art and culture segments.

Investment Rationale

We expect Blackbaud to continue investing in sales and marketing and integrate recently acquired offerings. Given planned discontinuation of several legacy offerings, revenue growth is unlikely to accelerate. With the stock trading below the small cap peer group on 2023E sales, an organic growth rate below the peer group, and still lacking margin expansion, we believe the stock is unlikely to outperform the group.

Stock Data

Average Daily Volume 162,028

Quarterly Earnings Estimates

	2022	2023
Q1	0.57A	0.72A
Q2	0.75A	0.98A
Q3	0.69A	0.94E
Q4	0.69A	1.22E

Exhibit 1: Estimate revisions

We now forecast 2023 revenue of \$1,111.8mn

	3Q23E			FY23E			FY24E			2025E		
	New Estimate	Old Estimate	Change %	New Estimate	Old Estimate	Change %	New Estimate	Old Estimate	Change %	New Estimate	Old Estimate	Change %
Total Revenue	271,384	271,384	0.0%	1,111,811	1,111,429	0.0%	1,167,341	1,166,919	0.0%	1,225,680	1,225,215	0.0%
Y/Y change %	3.9%	3.9%	0bps	5.1%	5.0%	4bps	5.0%	5.0%	0bps	5.0%	5.0%	0bps
Billings	280,147	279,479	0.2%	1,182,428	1,147,300	3.1%	1,214,665	1,210,635	0.3%	1,272,517	1,268,482	0.3%
Y/Y change %	15.9%	15.7%	28bps	11.1%	7.8%	330bps	2.7%	5.5%	(279bps)	4.8%	4.8%	(2bps)
Income from operations	76,485	77,196	(0.9%)	302,645	306,470	(1.2%)	334,231	328,756	1.7%	371,404	365,637	1.6%
Operating Margin	28.2%	28.4%	(26bps)	27.2%	27.6%	(35bps)	28.6%	28.2%	46bps	30.3%	29.8%	46bps
EBITDA adj. (non GAAP)	82,915	83,664	(0.9%)	344,036	341,928	0.6%	381,781	376,275	1.5%	423,330	417,528	1.4%
Adjusted EBITDA margin	30.6%	30.8%	(28bps)	30.9%	30.8%	18bps	32.7%	32.2%	46bps	34.5%	34.1%	46bps
EPS (Pro Forma)	\$0.94	\$0.96	(1.6%)	\$3.87	\$3.87	(0.0%)	\$4.45	\$4.39	1.4%	\$4.93	\$4.87	1.3%
Cash Flow from Operations	118,750	97,942	17.5%	267,988	259,459	3.2%	301,111	298,153	1.0%	335,637	333,910	0.5%
OCF margin	43.8%	36.1%	767bps	24.1%	23.3%	76bps	25.8%	25.6%	24bps	27.4%	27.3%	13bps
Free cash flow	101,110	80,302	20.6%	199,586	189,668	5.0%	236,907	233,972	1.2%	268,225	266,523	0.6%
FCF margin	37.3%	29.6%	767bps	18.0%	17.1%	89bps	20.3%	20.1%	24bps	21.9%	21.8%	13bps

Source: BofA Global Research estimates

BofA GLOBAL RESEARCH

Exhibit 2: Variance

Total revenue was 0.1% higher than our forecast

	\$ in millions		
	Actual	BofA Estimate	Variance
Total Revenue	271,042	270,660	0.1%
Y/Y change %	2.3%	2.2%	14bps
Billings	341,234	307,456	11.0%
Y/Y change %	4.8%	(5.5%)	1038bps
Income from operations	74,142	75,719	(2.1%)
Operating Margin	27.4%	28.0%	(62bps)
EBITDA adj. (non GAAP)	86,568	82,134	5.4%
Adjusted EBITDA margin	31.9%	30.3%	159bps
EPS (Pro Forma)	\$0.98	\$0.94	4.2%
Cash Flow from Operations	53,196	68,087	(28.0%)
OCF margin	19.6%	25.2%	(553bps)
Free cash flow	36,992	50,494	(36.5%)
FCF margin	13.6%	18.7%	(501bps)

Source: Company filings, BofA Global Research estimates

BofA GLOBAL RESEARCH

Price objective basis & risk

Blackbaud, Inc. (BLKB)

Our \$65 PO represents 3.7x EV/C24E based on our revenue estimate, representing a growth adjusted multiple of 0.74x our 5.1% growth rate. The multiple we use is a discount to the small cap SaaS peer group at 4.1x for slower growth outlook.

Downside risks to our price objective are: 1) relatively low nonprofit IT spending growth, 2) risk that acquisitions do not generate long term margin expansion from potentially lacking execution on cross selling or cost saving initiatives and 3) exposure to applications spending, which is discretionary and highly cyclical.

Upside risks are: 1) accelerating revenue growth from sales productivity selling broader suite of products, 2) better than expected development and sales productivity as the company gains traction selling an integrated product offering and 3) multiple expansion from improving macroeconomic environment and rotation into small/mid cap growth stocks.

Analyst Certification

I, Koji Ikeda, CFA, hereby certify that the views expressed in this research report accurately reflect my personal views about the subject securities and issuers. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or view expressed in this research report.

US - Enterprise Software Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
BUY				
	8x8	EGHT	EGHT US	Michael J. Funk
	Alarm.com	ALRM	ALRM US	Michael J. Funk
	Alteryx, Inc	AYX	AYX US	Koji Ikeda, CFA
	Amplitude, Inc.	AMPL	AMPL US	Koji Ikeda, CFA
	BILL	BILL	BILL US	Brad Sills
	CCC Intelligent Solutions	CCCS	CCCS US	Michael J. Funk
	Datadog, Inc	DDOG	DDOG US	Koji Ikeda, CFA
	Dropbox	DBX	DBX US	Michael J. Funk
	Dynatrace	DT	DT US	Koji Ikeda, CFA
	Elastic NV	ESTC	ESTC US	Koji Ikeda, CFA
	Expensify	EXFY	EXFY US	Koji Ikeda, CFA
	GitLab Inc.	GTLB	GTLB US	Koji Ikeda, CFA
	Global-e Online Ltd.	GLBE	GLBE US	Koji Ikeda, CFA
	HubSpot	HUBS	HUBS US	Brad Sills
	Informatica, Inc.	INFA	INFA US	Koji Ikeda, CFA
	Intapp Inc.	INTA	INTA US	Koji Ikeda, CFA
	Intuit	INTU	INTU US	Brad Sills
	JFrog Ltd	FROG	FROG US	Koji Ikeda, CFA
	MeridianLink, Inc.	MLNK	MLNK US	Koji Ikeda, CFA
	Microsoft Corporation	MSFT	MSFT US	Brad Sills
	nCino, Inc.	NCNO	NCNO US	Adam Bergere
	NICE Ltd.	NICE	NICE US	Michael J. Funk
	NICE Ltd.	NCSYF	NICE IT	Michael J. Funk
	PowerSchool Holdings, Inc.	PWSC	PWSC US	Koji Ikeda, CFA
	RingCentral	RNG	RNG US	Michael J. Funk
	Salesforce.com	CRM	CRM US	Brad Sills
	ServiceNow	NOW	NOW US	Brad Sills
	Splunk	SPLK	SPLK US	Brad Sills
	UiPath	PATH	PATH US	Brad Sills
	Weave	WEAV	WEAV US	Michael J. Funk
	Workday Inc.	WDAY	WDAY US	Brad Sills
	Zeta Global	ZETA	ZETA US	Koji Ikeda, CFA

US - Enterprise Software Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
NEUTRAL				
	Adobe	ADBE	ADBE US	Brad Sills
	Autodesk	ADSK	ADSK US	Michael J. Funk
	Bentley Systems	BSY	BSY US	Michael J. Funk
	BigCommerce Holdings, Inc.	BIGC	BIGC US	Koji Ikeda, CFA
	Confluent	CFLT	CFLT US	Brad Sills
	Copperleaf Technologies, Inc.	YCPLF	CPLF CN	Koji Ikeda, CFA
	Coveo	YCVO	CVO CN	Koji Ikeda, CFA
	DocuSign	DOCU	DOCU US	Brad Sills
	Freshworks, Inc.	FRSH	FRSH US	Adam Bergere
	HashiCorp	HCP	HCP US	Brad Sills
	Jamf	JAMF	JAMF US	Koji Ikeda, CFA
	Lightspeed Commerce Inc.	LSPD	LSPD US	Koji Ikeda, CFA
	Lightspeed Commerce Inc.	YLSPD	LSPD CN	Koji Ikeda, CFA
	LiveVox Holdings	LVOX	LVOX US	Michael J. Funk
	Oracle Corporation	ORCL	ORCL US	Brad Sills
	Shopify, Inc.	SHOP	SHOP US	Brad Sills
	Unity	U	U US	Michael J. Funk
	Veeva Systems, Inc.	VEEV	VEEV US	Brad Sills
	Zoom Video Communications	ZM	ZM US	Michael J. Funk
	ZoomInfo	ZI	ZI US	Koji Ikeda, CFA
UNDERPERFORM				
	AvidXchange, Inc.	AVDX	AVDX US	Brad Sills
	Blackbaud, Inc.	BLKB	BLKB US	Koji Ikeda, CFA
	BlackLine, Inc.	BL	BL US	Koji Ikeda, CFA
	C3.ai	AI	AI US	Brad Sills
	CS Disco, Inc.	LAW	LAW US	Koji Ikeda, CFA
	Enfusion, Inc.	ENFN	ENFN US	Koji Ikeda, CFA
	Everbridge	EVBG	EVBG US	Koji Ikeda, CFA
	Five9	FIVN	FIVN US	Michael J. Funk
	Guidewire Software, Inc.	GWRE	GWRE US	Michael J. Funk
	Kaltura, Inc.	KLTR	KLTR US	Michael J. Funk
	Twilio	TWLO	TWLO US	Michael J. Funk
	Veritone, Inc.	VERI	VERI US	Koji Ikeda, CFA
	Vertex, Inc.	VERX	VERX US	Brad Sills
RSTR				
	VMware	VMW	VMW US	Brad Sills

IQmethodSM Measures Definitions

Business Performance

Return On Capital Employed

Return On Equity
Operating Margin
Earnings Growth
Free Cash Flow

Quality of Earnings

Cash Realization Ratio
Asset Replacement Ratio
Tax Rate
Net Debt-To-Equity Ratio
Interest Cover

Valuation Toolkit

Price / Earnings Ratio
Price / Book Value
Dividend Yield
Free Cash Flow Yield
Enterprise Value / Sales

EV / EBITDA

Numerator

NOPAT = (EBIT + Interest Income) × (1 – Tax Rate) + Goodwill Amortization

Net Income
Operating Profit
Expected 5 Year CAGR From Latest Actual
Cash Flow From Operations – Total Capex

Numerator

Cash Flow From Operations
Capex
Tax Charge
Net Debt = Total Debt – Cash & Equivalents
EBIT

Numerator

Current Share Price
Current Share Price
Annualised Declared Cash Dividend
Cash Flow From Operations – Total Capex
EV = Current Share Price × Current Shares + Minority Equity + Net Debt +
Other LT Liabilities
Enterprise Value

Denominator

Total Assets – Current Liabilities + ST Debt + Accumulated Goodwill
Amortization
Shareholders' Equity
Sales
N/A
N/A

Denominator

Net Income
Depreciation
Pre-Tax Income
Total Equity
Interest Expense

Denominator

Diluted Earnings Per Share (Basis As Specified)
Shareholders' Equity / Current Basic Shares
Current Share Price
Market Cap = Current Share Price × Current Basic Shares
Sales

Basic EBIT + Depreciation + Amortization

IQmethodSM is the set of BofA Global Research standard measures that serve to maintain global consistency under three broad headings: Business Performance, Quality of Earnings, and valuations. The key features of *IQmethod* are: A consistently structured, detailed, and transparent methodology. Guidelines to maximize the effectiveness of the comparative valuation process, and to identify some common pitfalls.

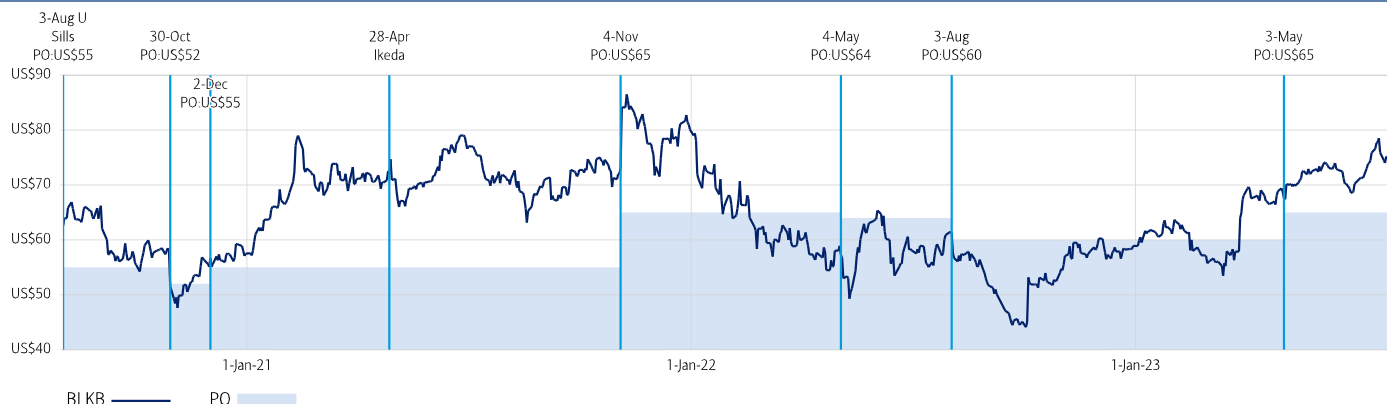
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Disclosures

Important Disclosures

Blackbaud, Inc. (BLKB) Price Chart



B: Buy, N: Neutral, U: Underperform, PO: Price Objective, NA: No longer valid, NR: No Rating

The Investment Opinion System is contained at the end of the report under the heading "Fundamental Equity Opinion Key". Dark grey shading indicates the security is restricted with the opinion suspended. Medium grey shading indicates the security is under review with the opinion withdrawn. Light grey shading indicates the security is not covered. Chart is current as of a date no more than one trading day prior to the date of the report.

Equity Investment Rating Distribution: Technology Group (as of 30 Jun 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships ^{R1}	Count	Percent
Buy	212	53.13%	Buy	103	48.58%
Hold	89	22.31%	Hold	45	50.56%
Sell	98	24.56%	Sell	30	30.61%

Equity Investment Rating Distribution: Global Group (as of 30 Jun 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships ^{R1}	Count	Percent
Buy	1877	53.28%	Buy	1040	55.41%
Hold	815	23.13%	Hold	464	56.93%
Sell	831	23.59%	Sell	385	46.33%

^{R1} Issuers that were investment banking clients of BofA Securities or one of its affiliates within the past 12 months. For purposes of this Investment Rating Distribution, the coverage universe includes only stocks. A stock rated Neutral is included as a Hold, and a stock rated Underperform is included as a Sell.

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Investment rating	Total return expectation (within 12-month period of date of initial rating)	Ratings dispersion guidelines for coverage cluster ^{R2}
Buy	≥ 10%	≤ 70%
Neutral	≥ 0%	≤ 30%
Underperform	N/A	≥ 20%

^{R2} Ratings dispersions may vary from time to time where BofA Global Research believes it better reflects the investment prospects of stocks in a Coverage Cluster.

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