

MeridianLink, Inc.

EBITDA a bright spot, though 2024 revenue growth guide below; Reit Buy

Reiterate Rating: BUY | PO: 25.00 USD | Price: 18.89 USD

Prolonged high interest rate environment clouds visibility

MeridianLink (MLNK) reported good 4Q23 results but the initial 2024 revenue guidance is below Street, pointing to a demand environment that remains challenging and low model visibility. Positively, its expense management strategy is solid, which is resulting in the ability to guide 2024 EBITDA margins to nearly 40%. Near-term demand environment is uncertain as its key revenue driver, loan volumes, are tied to interest rates which remain historically high. Nonetheless, the likely scenario that rate cuts are on the horizon should drive increased loan volumes, which should result in revenue and profitability upside. While we wait for the macro to improve, the business is focused on protecting profitability, which should provide valuation support. We update our forecast for 4Q results and guidance. Reiterate Buy and \$25 PO.

Higher logo churn pressures driving lower customer count

Total customers at quarter-end were 1,996 (down 1.8% y/y, net-loss of 27), which is from increased churn within the lower segment of the installed-base, but also means the macro continues to be challenging and the increased investments in new logo acquisition may be needed to drive future growth. Go-to-market efforts will focus on depository customers that tend to have better retention and higher customer lifetime values, which should result in better LTV/CAC and improving growth trends.

Pos: Cross-sell solid. Neg: Rev growth decelerates

Positive: Signed 9 cross-sell deals in 4Q23 (mortgage lending solution), demonstrating that the MeridianLink One value proposition is resonating with customers. Additionally, there were two multi-product MeridianLink One platform wins with ARR of \$500k and \$300k, suggesting its go-to-market strategy is ramping. **Negative:** Most growth metrics decelerated, as the macro continues to pressure demand. The mortgage related revenue grew 10.5%, decelerating from 12.8% last quarter. Consumer revenue grew 4.5%, decelerating from 4.9% last quarter.

\$25 PO based on 18.5x EV/CY24 EBITDA (was 20x)

We maintain our PO (reflecting slightly higher EBITDA and lower shares), but lower the multiple on lower growth outlook. The 18.5x EV/CY24 EBITDA multiple represents a discount to vertical peers at 28.4x EV/CY24 EBITDA, warranted for macro pressure in the mortgage origination market and a lower-than-expected growth outlook for 2024.

Estimates (Dec) (US\$)	2022A	2023A	2024E	2025E	2026E
EPS	0.02	(0.53)	(0.13)	0	0.08
GAAP EPS	0.02	(0.51)	(0.13)	0	0.08
EPS Change (YoY)	NM	NM	75.5%	NM	NA
Consensus EPS (Bloomberg)			0.31	0.42	NA
DPS	0	0	0	0	0
Valuation (Dec)					
P/E	944.5x	NM	NM	NA	236.1x
EV / EBITDA*	15.7x	15.5x	13.8x	13.1x	12.5x
Free Cash Flow Yield*	5.0%	4.5%	5.6%	6.1%	6.4%

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

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06 March 2024

Equity

Key Changes

(US\$)	Previous	Current
2024E Rev (m)	322.4	318.0
2025E Rev (m)	345.0	334.0
2026E Rev (m)	NA	350.8
2024E EPS	-0.09	-0.13
2025E EPS	0.19	0
2026E EPS	NA	0.08

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Stock Data

Price	18.89 USD
Price Objective	25.00 USD
Date Established	11-Jan-2024
Investment Opinion	B-1-9
52-Week Range	13.62 USD - 25.88 USD
Mkt Val (mn) / Shares Out (mn)	1,482 USD / 78.4
Free Float	29.5%
Average Daily Value (mn)	5.43 USD
BofA Ticker / Exchange	MLNK / NYS
Bloomberg / Reuters	MLNK US / MLNK.N
ROE (2024E)	-2.0%
Net Dbt to Eqty (Dec-2023A)	67.5%
ESGMeter TM	NLA

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".

LTV/CAC = lifetime value to customer acquisition costs

iQprofileSM MeridianLink, Inc.

iQmethodSM – Bus Performance*

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Return on Capital Employed	1.4%	1.4%	2.2%	3.1%	3.5%
Return on Equity	0.2%	-8.1%	-2.0%	0%	1.1%
Operating Margin	9.9%	5.1%	8.4%	12.0%	14.0%
Free Cash Flow	73	67	82	90	95

iQmethodSM – Quality of Earnings*

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Cash Realization Ratio	NM	NM	NM	NM	14.4x
Asset Replacement Ratio	0x	0x	0x	0x	0x
Tax Rate	76.1%	NM	25.0%	25.0%	25.0%
Net Debt-to-Equity Ratio	64.1%	67.5%	52.6%	31.7%	15.2%
Interest Cover	1.2x	0.4x	0.7x	1.0x	1.2x

Income Statement Data (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Sales	288	304	318	334	351
% Change	7.6%	5.4%	4.7%	5.0%	5.0%
Gross Profit	182	195	208	229	245
% Change	2.1%	7.4%	6.6%	10.0%	7.1%
EBITDA	111	113	127	134	140
% Change	-9.9%	1.6%	12.0%	5.6%	5.0%
Net Interest & Other Income	(23)	(34)	(40)	(40)	(40)
Net Income (Adjusted)	1	(44)	(10)	0	7
% Change	NM	NM	77.3%	NM	NM

Free Cash Flow Data (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Net Income from Cont Operations (GAAP)	1	(43)	(10)	0	7
Depreciation & Amortization	54	58	62	60	56
Change in Working Capital	(9)	(4)	(5)	(1)	(1)
Deferred Taxation Charge	NA	NA	NA	NA	NA
Other Adjustments, Net	28	56	39	34	36
Capital Expenditure	(1)	(1)	(3)	(3)	(3)
Free Cash Flow	73	67	82	90	95
% Change	-17.5%	-8.8%	23.0%	9.2%	5.2%
Share / Issue Repurchase	(3)	(61)	0	0	0
Cost of Dividends Paid	0	0	0	0	0
Change in Debt	(3)	(4)	0	0	0

Balance Sheet Data (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Cash & Equivalents	56	80	153	233	317
Trade Receivables	33	32	37	42	45
Other Current Assets	39	12	14	13	14
Property, Plant & Equipment	4	3	18	18	18
Other Non-Current Assets	927	868	759	760	761
Total Assets	1,059	996	981	1,066	1,155
Short-Term Debt	4	4	0	0	0
Other Current Liabilities	51	52	54	57	59
Long-Term Debt	423	420	420	420	420
Other Non-Current Liabilities	2	12	0	0	0
Total Liabilities	480	488	474	477	479
Total Equity	579	508	507	589	676
Total Equity & Liabilities	1,059	996	981	1,066	1,155

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

Company Sector

Server & Enterprise Software

Company Description

MeridianLink is a software vendor that sells applications enabling credit unions, financial institutions, independent mortgage banks, and credit reporting agencies to manage consumer and mortgage loan origination workflows.

Investment Rationale

We rate MeridianLink a Buy. We believe the company is positioned to take share in a \$7.8bn TAM with its platform of applications that enable its target end-market to digitally transform and to drive better engagement from the end-consumer. We believe that the business has good potential to drive low to mid-teens organic growth and 40%+ EBITDA margins, which implies a Rule of 50+ profile that is rare among its SMid cap software peers.

Stock Data

Average Daily Volume

287,263

Quarterly Earnings Estimates

	2023	2024
Q1	-0.07A	-0.05E
Q2	-0.06A	-0.04E
Q3	-0.03A	-0.03E
Q4	-0.38A	-0.01E

Key Metrics

F4Q24 Performance

- Total revenue of \$74.6mn (+5.7% y/y) was below our/Street \$75.1mn/\$75.1mn
- Adjusted EBITDA of \$31.1mn was above our/Street \$24.1mn/\$24.9mn

FY25 Guidance

- FY25 revenue guidance is \$313-323mn, as compared to our/Street \$322.4mn/\$328.6mn prior
- Adjusted EBITDA guidance is \$123-130mn, above our/Street \$120.0mn/\$120.5mn prior

Exhibit 1: Variance

Total revenue was 0.7% lower than our prior forecast

	4Q23A		
	BofA Est.	Actual	Variance
Total revenue	75,113	74,579	(0.7%)
Y/Y change %	6.5%	5.7%	(79bps)
Guidance	73-77		
PF Operating income	710	6,785	855.6%
PF operating margin	0.9%	9.1%	820bps
Adjusted EBITDA	24,057	31,102	29.3%
Adjusted EBITDA margin	32.0%	41.7%	970bps
Guidance	22-26		
GAAP EPS	(\$0.08)	(\$0.38)	(78.7%)
Free cash flow	12,359	9,636	(28.3%)
FCF margin	16.5%	12.9%	(358bps)

Source: Company filings, BofA Global Research estimates

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Exhibit 2: Estimate revisions

We now forecast 2024 revenue growth of 4.7%

	1Q24E			FY24E			FY25E			FY26E		
	New Estimate	Old Estimate	Change %	New Estimate	Old Estimate	Change %	New Estimate	Old Estimate	Change %	New Estimate	Old Estimate	Change %
Total revenue	76,266	75,960	0.4%	317,960	322,385	(1.4%)	333,991	344,963	(3.2%)	350,756	NA	NA
Y/Y change %	(1.1%)	(1.5%)	40bps	4.7%	6.0%	(127bps)	5.0%	7.0%	(196bps)	5.0%	NA	NA
Guidance	75-78			313-323								
PF Operating income	5,045	441	1044.2%	26,832	29,746	(9.8%)	40,170	60,439	(33.5%)	49,132	NA	NA
PF operating margin	6.6%	0.6%	603bps	8.4%	9.2%	(79bps)	12.0%	17.5%	(549bps)	14.0%	NA	NA
Adjusted EBITDA	29,069	21,710	33.9%	126,579	120,014	5.5%	133,687	136,331	(1.9%)	140,329	NA	NA
Adjusted EBITDA margin	38.1%	28.6%	953bps	39.8%	37.2%	258bps	40.0%	39.5%	51bps	40.0%	NA	NA
Guidance	28-31			123-130								
GAAP EPS	(\$0.05)	(\$0.09)	85.9%	(\$0.13)	(\$0.09)	(25.2%)	\$0.00	\$0.19	(42878.8%)	\$0.08	NA	NA
Free cash flow	15,676	15,358	2.0%	72,878	79,360	(8.9%)	79,940	90,822	(13.6%)	84,155	NA	NA
FCF margin	20.6%	20.2%	34bps	22.9%	24.6%	(170bps)	23.9%	26.3%	(239bps)	24.0%	NA	NA

Source: Company filings, BofA Global Research estimates

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Price objective basis & risk

MeridianLink, Inc. (MLNK)

The \$25 PO is based on 18.5x EV/C24E EBITDA, lower than its Rule-of-40+ vertical peers of 28.4x, given one of its end markets, mortgage originations, is under pressure due to the current high interest rate environment.

Risks to our PO are: 1) transactional model tied to loan volumes, 2) rising interest rates affecting refinancings, 3) consumer sentiment decreases, 4) pricing pressures from competitors, and 5) relatively high debt leverage ratio.

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
	Adobe	ADBE	ADBE US	Brad Sills
	Alarm.com	ALRM	ALRM US	Michael J. Funk
	Amplitude, Inc.	AMPL	AMPL US	Koji Ikeda, CFA
	Asana	ASAN	ASAN US	Michael J. Funk
	BILL	BILL	BILL US	Brad Sills
	CCC Intelligent Solutions	CCCS	CCCS US	Michael J. Funk
	Dynatrace	DT	DT US	Koji Ikeda, CFA
	Elastic NV	ESTC	ESTC 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
	Monday.com	MNDY	MNDY US	Michael J. Funk
	MongoDB Inc	MDB	MDB 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
	PagerDuty	PD	PD US	Koji Ikeda, CFA
	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
	UiPath	PATH	PATH US	Brad Sills
	Unity	U	U US	Michael J. Funk
	Weave	WEAV	WEAV US	Michael J. Funk
	Workday Inc.	WDAY	WDAY US	Brad Sills
	Zeta Global	ZETA	ZETA US	Koji Ikeda, CFA
	ZoomInfo	ZI	ZI US	Koji Ikeda, CFA
NEUTRAL				
	Autodesk	ADSK	ADSK US	Michael J. Funk
	Bentley Systems	BSY	BSY US	Michael J. Funk
	BigCommerce Holdings, Inc.	BIGC	BIGC US	Koji Ikeda, CFA
	Coveo	YCVO	CVO CN	Koji Ikeda, CFA
	Datadog Inc	DDOG	DDOG US	Koji Ikeda, CFA



US - Enterprise Software Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
	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
	Oracle Corporation	ORCL	ORCL US	Brad Sills
	Paycom	PAYC	PAYC US	Adam Bergere
	Paylocity	PCTY	PCTY US	Adam Bergere
	Shopify, Inc.	SHOP	SHOP US	Brad Sills
	Snowflake	SNOW	SNOW US	Brad Sills
	Veeva Systems, Inc.	VEEV	VEEV US	Brad Sills
	Vertex, Inc.	VERX	VERX US	Brad Sills
	Zoom Video Communications	ZM	ZM US	Michael J. Funk

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
	Confluent	CFLT	CFLT US	Brad Sills
	CS Disco, Inc.	LAW	LAW US	Koji Ikeda, CFA
	Dropbox	DBX	DBX US	Michael J. Funk
	Enfusion, Inc.	ENFN	ENFN US	Koji Ikeda, CFA
	Five9	FIVN	FIVN US	Michael J. Funk
	Guidewire Software, Inc.	GWRE	GWRE US	Michael J. Funk
	Smartsheet	SMAR	SMAR US	Michael J. Funk
	Twilio	TWLO	TWLO US	Michael J. Funk

RSTR

	Splunk	SPLK	SPLK US	Brad Sills
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IQmethodSM Measures Definitions**Business Performance**

Return On Capital Employed

Return On Equity

Operating Margin

Earnings Growth

Free Cash Flow

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

Denominator

Total Assets – Current Liabilities + ST Debt + Accumulated Goodwill

Amortization

Shareholders' Equity

Sales

N/A

N/A

Quality of Earnings

Cash Realization Ratio

Asset Replacement Ratio

Tax Rate

Net Debt-To-Equity Ratio

Interest Cover

Numerator

Cash Flow From Operations

Capex

Tax Charge

Net Debt = Total Debt – Cash & Equivalents

EBIT

Denominator

Net Income

Depreciation

Pre-Tax Income

Total Equity

Interest Expense

Valuation Toolkit

Price / Earnings Ratio

Price / Book Value

Dividend Yield

Free Cash Flow Yield

Enterprise Value / Sales

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

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

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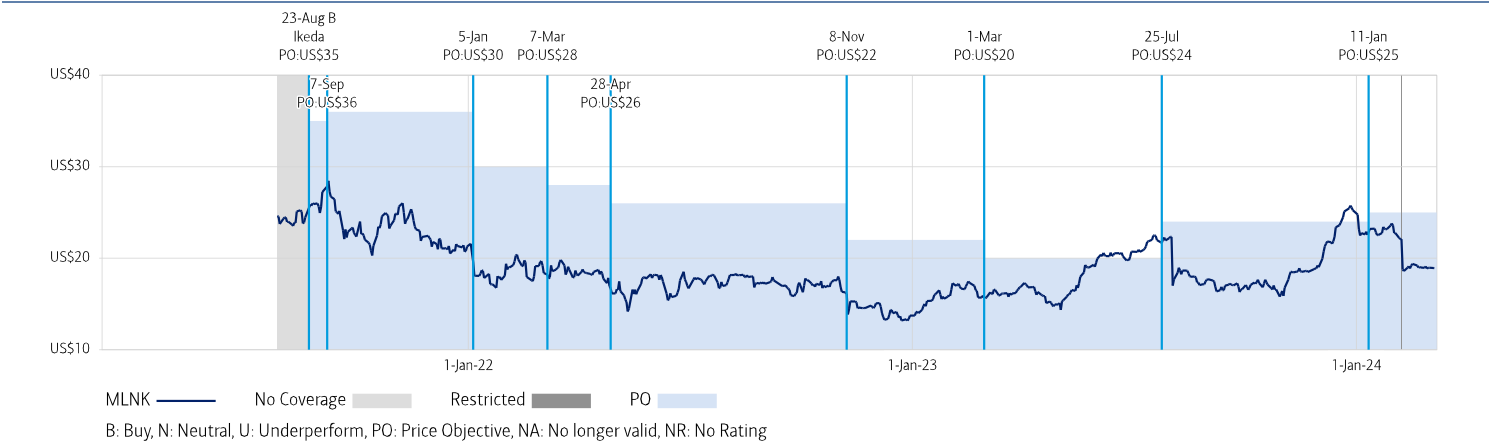
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Important Disclosures

MeridianLink (MLNK) Price Chart



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Equity Investment Rating Distribution: Technology Group (as of 31 Dec 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships ^{R1}	Count	Percent
Buy	215	53.09%	Buy	111	51.63%
Hold	97	23.95%	Hold	45	46.39%
Sell	93	22.96%	Sell	24	25.81%

Equity Investment Rating Distribution: Global Group (as of 31 Dec 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships ^{R1}	Count	Percent
Buy	1895	53.62%	Buy	1083	57.15%
Hold	832	23.54%	Hold	454	54.57%
Sell	807	22.84%	Sell	383	47.46%

^{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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