

MeridianLink, Inc.

Announces another workforce reduction, should drive higher EBITDA, Maintain Buy

Reiterate Rating: BUY | PO: 25.00 USD | Price: 23.20 USD

Could result in a slower pace of innovation

Maintain Buy, raise PO to \$25 (from \$24) for a higher EBITDA estimate. This morning, a 9% RIF was announced, which we estimate impacts approximately 65 employees. While the headcount reduction should result in higher adjusted EBITDA in 2024/25, it does put into question potential impacts to the near to medium-term growth profile and pace of new product innovation. According to the announcement, the R&D organization will see the bulk of reduction to help manage costs and focus on other strategic growth opportunities. As a reminder, this is [MLNK's second RIF \(February 2023\)](#).

Could lead to +150bps of EBITDA margin in 2024

Assuming total annual employee comp of \$250K and an 80/20 mix of cash/stock, we forecast savings of \$6.6mn in 2024, and \$13mn in 2025. Assuming a 25% reinvestment rate on headcount savings, we estimate incremental contributions to EBITDA of \$5.0mn for 2024 and \$9.8mn 2025. This equates to approximately 150bps/280bps of EBITDA margin expansion, respectively. Our EBITDA margin forecast expands to 37.2%/39.5% for 2024/25, vs our 35.7%/36.7% prior, and compares to consensus at 36.2%/37.6%.

Guidance not reiterated, increases risk for a potential miss

Giving the timing of the announcement, we find it odd that there was no reiteration of the 2023 guidance, which raises the risk for a potential guidance miss. More importantly, the RIF could signal ongoing demand headwinds, which could result in 2024 revenue guidance below our/Street forecasts of 6.0%/8.1%, which would likely be viewed negatively. Positively, the RIF should drive higher adj. EBITDA, which we believe is the key valuation metric for the stock. While its target rule-of-50 profile (revenue growth + adj EBITDA margin) may be elusive until rates begin to get cut, we believe MeridianLink should be able to display at least a rule-of-40 profile over the next 12-18 months.

Estimate approximately 65 employees affected

9% of employees is approximately 65 employees if we use an estimate of 750 total employees (was 751 as of 3/3/23). The company expects to incur \$3.3-4.3mn in one-time costs associated with the headcount reduction, completed by the end of 1Q24. We will have to wait until its upcoming 4Q23 earnings result to get further clarity on the growth and profitability strategy. No changes to our revenue estimates, but we raise our profitability forecast to account for the headcount reduction.

Estimates (Dec) (US\$)	2021A	2022A	2023E	2024E	2025E
EPS	(0.16)	0.02	(0.24)	(0.09)	0.19
GAAP EPS	(0.16)	0.02	(0.23)	(0.09)	0.19
EPS Change (YoY)	NM	NM	NM	62.5%	NM
Consensus EPS (Bloomberg)			0.04	0.21	0.47
DPS	0	0	0	0	0
Valuation (Dec)					
P/E	NM	1,160.0x	NM	NM	122.1x
EV / EBITDA*	17.3x	19.2x	20.1x	17.8x	15.7x
Free Cash Flow Yield*	4.9%	4.0%	3.9%	5.0%	5.7%

* For full definitions of *IQmethod*SM measures, see page 5.

11 January 2024

Equity

Key Changes

(US\$)	Previous	Current
Price Obj.	24.00	25.00
2024E EPS	-0.14	-0.09
2025E EPS	0.10	0.19

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Stock Data

Price	23.20 USD
Price Objective	25.00 USD
Date Established	11-Jan-2024
Investment Opinion	B-1-9
52-Week Range	13.41 USD - 25.88 USD
Mrkt Val (mn) / Shares Out (mn)	1,820 USD / 78.4
Free Float	18.7%
Average Daily Value (mn)	3.84 USD
BofA Ticker / Exchange	MLNK / NYS
Bloomberg / Reuters	MLNK US / MLNKN
ROE (2023E)	-3.9%
Net Dbt to Eqty (Dec-2022A)	64.1%
ESGMeter™	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"](#).

RIF: reduction in force

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Timestamp: 11 January 2024 06:26PM EST

iQprofileSM MeridianLink, Inc.

iQmethodSM – Bus Performance*

(US\$ Millions)	2021A	2022A	2023E	2024E	2025E
Return on Capital Employed	3.8%	1.4%	0.8%	2.5%	4.6%
Return on Equity	-3.2%	0.2%	-3.9%	-1.6%	2.7%
Operating Margin	14.1%	9.9%	3.1%	9.2%	17.5%
Free Cash Flow	89	73	70	91	103

iQmethodSM – Quality of Earnings*

(US\$ Millions)	2021A	2022A	2023E	2024E	2025E
Cash Realization Ratio	NM	NM	NM	NM	6.8x
Asset Replacement Ratio	0x	0x	0x	0x	0x
Tax Rate	NM	76.1%	23.5%	25.0%	25.0%
Net Debt-to-Equity Ratio	56.4%	64.1%	69.4%	44.6%	23.5%
Interest Cover	1.2x	1.2x	0.2x	0.7x	1.5x

Income Statement Data (Dec)

(US\$ Millions)	2021A	2022A	2023E	2024E	2025E
Sales	268	288	304	322	345
% Change	34.3%	7.6%	5.6%	6.0%	7.0%
Gross Profit	178	182	193	207	235
% Change	26.3%	2.1%	6.1%	7.6%	13.4%
EBITDA	123	111	106	120	136
% Change	17.9%	-9.9%	-4.7%	13.3%	13.6%
Net Interest & Other Income	(43)	(23)	(35)	(40)	(40)
Net Income (Adjusted)	(13)	1	(20)	(8)	15
% Change	NM	NM	NM	61.6%	NM

Free Cash Flow Data (Dec)

(US\$ Millions)	2021A	2022A	2023E	2024E	2025E
Net Income from Cont Operations (GAAP)	(10)	1	(19)	(8)	15
Depreciation & Amortization	50	54	57	52	45
Change in Working Capital	(1)	(9)	5	8	12
Deferred Taxation Charge	NA	NA	NA	NA	NA
Other Adjustments, Net	50	28	28	39	32
Capital Expenditure	(1)	(1)	0	(1)	(1)
Free Cash Flow	89	73	70	91	103
% Change	39.2%	-17.5%	-4.5%	29.3%	13.5%
Share / Issue Repurchase	(2)	(3)	(36)	0	0
Cost of Dividends Paid	0	0	0	0	0
Change in Debt	(103)	(3)	(3)	0	0

Balance Sheet Data (Dec)

(US\$ Millions)	2021A	2022A	2023E	2024E	2025E
Cash & Equivalents	114	56	110	189	280
Trade Receivables	25	33	32	31	22
Other Current Assets	9	39	12	13	13
Property, Plant & Equipment	6	4	18	18	18
Other Non-Current Assets	872	927	768	760	760
Total Assets	1,026	1,059	939	1,011	1,093
Short-Term Debt	2	4	4	0	0
Other Current Liabilities	42	51	62	70	73
Long-Term Debt	425	423	421	421	421
Other Non-Current Liabilities	0	2	0	0	0
Total Liabilities	470	480	486	491	494
Total Equity	556	579	453	520	599
Total Equity & Liabilities	1,026	1,059	939	1,011	1,093

* For full definitions of iQmethodSM measures, see page 5.

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

165,625

Quarterly Earnings Estimates

	2022	2023
Q1	0.09A	-0.07A
Q2	0.03A	-0.06A
Q3	-0.04A	-0.03A
Q4	-0.07A	-0.08E

Incremental EBITDA Assumptions and Estimate Revision

Exhibit 1: We calculate that the headcount reduction could provide incremental EBITDA of \$5.0mn and \$9.8mn for 2024 and 2025, respectively.

We anticipate 154bps margin expansion in 2024, and 283bps in 2025

\$ Thousands	2023	2024	2025
Old BofA Adjusted EBITDA Forecast	105,945	115,064	126,581
Old BofA Adjusted EBITDA Margin	34.8%	35.7%	36.7%
Old BofA Operating Expense Forecast	183,399	182,692	184,561
÷ Est. # of total employees	750		
All-in cost per employee assumption	250		
× Est. # of employees impacted by RIF	65		
Potential annual cost savings (GAAP)	16,250	16,250	16,250
× Duration adjustment		× 80% (for ~10 month impact)	× 100%
Potential savings in fiscal year		13,000	16,250
Cash component (80% cash, 20% stock assumption)		10,400	13,000
Less: One time severance costs		3,800	
Savings		6,600	13,000
Less: 25% reinvestment rate on headcount savings		1,650	3,250
Incremental contributions to EBITDA		4,950	9,750
New BofA Adjusted EBITDA Forecast		120,014	136,331
New BofA Adjusted EBITDA Margin		37.2%	39.5%
Increase in Adj. EBITDA margin from prior forecast		154bps	283bps

Source: BofA Global Research estimates, company filings

BofA GLOBAL RESEARCH

Exhibit 2: Estimate revisions

We raise our profitability estimates for 2024 and 2025 to account for the headcount savings

	FY23E			1Q24E			FY24E			FY25E		
	New Estimate	Old Estimate	Change %	New Estimate	Old Estimate	Change %	New Estimate	Old Estimate	Change %	New Estimate	Old Estimate	Change %
Subscription and support revenue	258,694	258,694	0.0%	65,624	65,624	0.0%	275,145	275,145	0.0%	294,224	294,224	0.0%
Y/Y change %	4.0%	4.0%	0bps	(1.2%)	(1.2%)	0bps	6.4%	6.4%	0bps	6.9%	6.9%	0bps
Professional services	34,892	34,892	0.0%	7,857	7,857	0.0%	35,844	35,844	0.0%	38,761	38,761	0.0%
Y/Y change %	19.0%	19.0%	0bps	(6.9%)	(6.9%)	0bps	2.7%	2.7%	0bps	8.1%	8.1%	0bps
Other revenue	10,565	10,565	0.0%	2,479	2,479	0.0%	11,396	11,396	0.0%	11,978	11,978	0.0%
Y/Y change %	7.1%	7.1%	0bps	8.0%	8.0%	0bps	7.9%	7.9%	0bps	5.1%	5.1%	0bps
Total revenue	304,151	304,151	0.0%	75,960	75,960	0.0%	322,385	322,385	0.0%	344,963	344,963	0.0%
Y/Y change %	5.6%	5.6%	0bps	(1.5%)	(1.5%)	0bps	6.0%	6.0%	0bps	7.0%	7.0%	0bps
Guidance	302,000-306,000	302,000-306,000										
PF Operating income	9,458	9,458	0.0%	441	4,429	(90.0%)	29,746	24,796	20.0%	60,439	50,689	19.2%
PF operating margin	3.1%	3.1%	0bps	0.6%	5.8%	(525bps)	9.2%	7.7%	154bps	17.5%	14.7%	283bps
Adjusted EBITDA	105,945	105,945	0.0%	21,710	25,698	(15.5%)	120,014	115,064	4.3%	136,331	126,581	7.7%
Adjusted EBITDA margin	34.8%	34.8%	0bps	28.6%	33.8%	(525bps)	37.2%	35.7%	154bps	39.5%	36.7%	283bps
Guidance	104,000-108,000	104,000-108,000										
GAAP EPS	(\$0.24)	(\$0.24)	0.0%	(\$0.09)	(\$0.05)	(41.7%)	(\$0.09)	(\$0.14)	48.3%	\$0.19	\$0.10	47.7%
Cash from operations (CFO)	70,624	70,624	0.0%	18,168	21,944	(20.8%)	91,289	86,430	5.3%	103,586	93,800	9.4%
OCF margin	23.2%	23.2%	0bps	23.9%	28.9%	(497bps)	28.3%	26.8%	151bps	30.0%	27.2%	284bps
Free cash flow	60,494	60,494	0.0%	15,358	19,133	(24.6%)	79,360	74,502	6.1%	90,822	81,036	10.8%
FCF margin	19.9%	19.9%	0bps	20.2%	25.2%	(497bps)	24.6%	23.1%	151bps	26.3%	23.5%	284bps

Source: BofA Global Research estimates, company filings

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Price objective basis & risk

MeridianLink, Inc. (MLNK)

The \$25 PO is based on 20x EV/C24E EBITDA, lower than its Rule-of-40+ vertical peers of 31x, 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
	BILL	BILL	BILL US	Brad Sills
	CCC Intelligent Solutions	CCCS	CCCS US	Michael J. Funk
	Dropbox	DBX	DBX 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
	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
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
	DocuSign	DOCU	DOCU US	Brad Sills
	Freshworks, Inc.	FRSH	FRSH US	Adam Bergere
	HashiCorp	HCP	HCP US	Brad Sills

US - Enterprise Software Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
	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
	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
	Confluent	CFLT	CFLT 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
	Twilio	TWLO	TWLO US	Michael J. Funk
	Vertex, Inc.	VERX	VERX US	Brad Sills
RSTR				
	Splunk	SPLK	SPLK US	Brad Sills

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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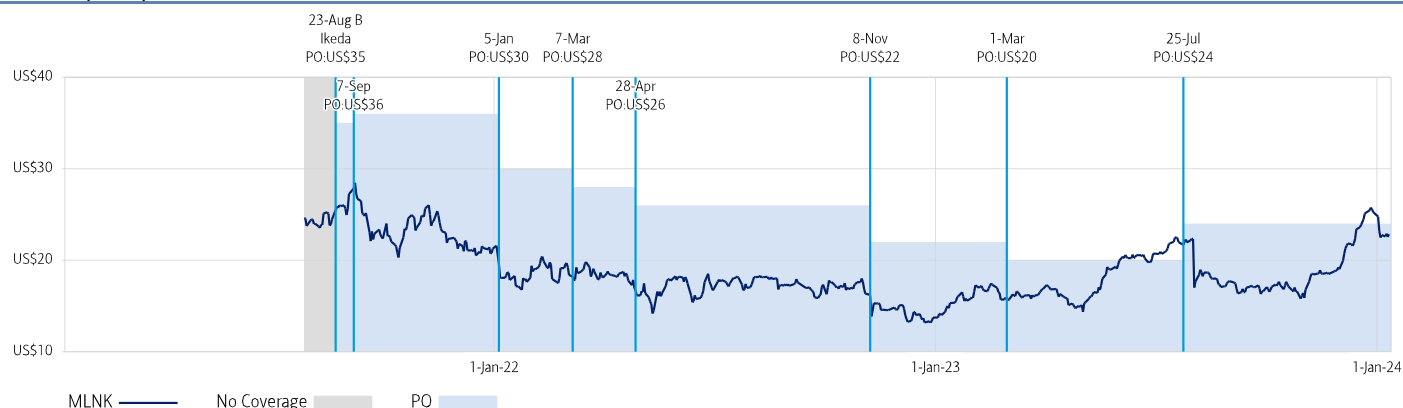
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Disclosures

Important Disclosures

MeridianLink (MLNK) 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 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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