

Blackbaud, Inc.

Mixed 4Q23 results, 2024 outlook soft; reiterate Underperform, \$70 PO

Reiterate Rating: UNDERPERFORM | PO: 70.00 USD | Price: 70.38 USD

Mixed results and outlook

We reiterate our Underperform rating and \$70 PO, as 4Q23 results were mixed (revenues missed, adj. EBITDA above Street), and 2024 guidance is a bit underwhelming, with revenue in line with Street and PF EPS below. The company appears to be executing its 5-point operating plan, which should enable the business to deliver on its attractive Rule-of-40 target profile for 2024 (mid- to high-single-digit revenue growth + mid-30s EBITDA margins). While the pricing strategy should enable the business to deliver on its growth and FCF targets over the medium term, once the bulk of the pricing uplift is over, we are less certain what organic growth would look like, which could constrain a positive shift in investor sentiment. We update our forecasts to reflect 4Q23 results and guidance. Our unchanged \$70 PO is based on 3.8x CY24 EV/revenue, a discount to SMID peers at 4.5x.

Executing pricing strategy, driving medium-term growth/FCF

Commentary suggests that retention rates remain high for its multi-year pricing uplift strategy, which should drive much of the medium-term revenue growth and FCF generation. Approximately 65% of contracts still need to flow through pricing uplifts (30% in 2024), and we expect strong execution on the pricing strategy to continue. As the demand environment improves, we also see the potential for EVERFI to become a more meaningful contributor to growth, which could drive revenue and profitability upside.

Positives: NRR improving even with new pricing model

1) The company authorized a new share buyback program of \$500mn in January 2024, following the exhaustion of its prior \$250mn program (buybacks can be used to help offset stock-based compensation dilution); 2) 35% of the installed base has gone through the renewal process and exhibited high retention rates; and 3) it closed 2 more data centers in 2023, with 2 more to go, which should drive higher operating margins.

Negatives: levers for margin may be exhausted

1) While guidance implies that adjusted EBITDA margins expand in 2024, expansion will come at a lower rate than in 2023, suggesting that much of the efficiency gains have been realized; 2) the security incident resulted in \$50mn in payments, though positively the issue has been settled and should not be an overhang going forward; and 3) EVERFI demand was softer than anticipated in 4Q, and it could take time for this segment's demand to recover.

Estimates (Dec) (US\$)	2022A	2023A	2024E	2025E	2026E
EPS	2.69	3.95	4.29	4.82	5.23
GAAP EPS	(0.87)	0.03	2.43	2.84	3.16
EPS Change (YoY)	-11.2%	46.8%	8.6%	12.4%	8.5%
Consensus EPS (Bloomberg)			4.58	5.09	4.79
DPS	0	0	0	0	0
Valuation (Dec)					
P/E	30.7x	20.9x	19.3x	17.1x	15.8x
GAAP P/E	NM	2,755.0x	34.0x	29.1x	26.2x
EV / EBITDA*	20.2x	14.8x	13.1x	11.9x	11.0x
Free Cash Flow Yield*	3.0%	3.1%	6.0%	6.7%	7.0%

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

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Timestamp: 13 February 2024 04:55PM EST

13 February 2024

Equity

Key Changes

(US\$)	Previous	Current
2024E Rev (m)	1,179.2	1,185.7
2025E Rev (m)	1,250.0	1,266.6
2026E Rev (m)	NA	1,340.9
2024E EPS	4.51	4.29
2025E EPS	5.06	4.82
2026E EPS	NA	5.23

Koji Ikeda, CFA
Research Analyst
BofAS
+1 415 913 2106
koji.ikeda@bofa.com

Natalie Howe
Research Analyst
BofAS
+1 415 436 1103
natalie.howe@bofa.com

George McGreehan
Research Analyst
BofAS
+1 415 913 4315
george.mcgreehan@bofa.com

Stock Data

Price	70.38 USD
Price Objective	70.00 USD
Date Established	5-Nov-2023
Investment Opinion	B-3-7
52-Week Range	53.39 USD - 88.56 USD
Mkt Val (mn) / Shares Out (mn)	4,432 USD / 53.6
Free Float	98.1%
Average Daily Value (mn)	14.55 USD
BofA Ticker / Exchange	BLKB / NAS
Bloomberg / Reuters	BLKB US / BLKB.OQ
ROE (2024E)	18.3%
Net Dbt to Eqty (Dec-2023A)	92.5%
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"](#).

NRR: net retention rate

PF: pro forma

PO: price objective

SMID: small and mid-cap

iQprofileSM Blackbaud, Inc.

iQmethodSM – Bus Performance*

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Return on Capital Employed	9.1%	8.4%	11.7%	9.8%	9.4%
Return on Equity	19.3%	27.5%	18.3%	13.9%	12.8%
Operating Margin	19.1%	26.6%	28.9%	29.6%	30.5%
Free Cash Flow	133	136	265	296	312

iQmethodSM – Quality of Earnings*

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Cash Realization Ratio	1.4x	0.9x	1.5x	1.4x	1.4x
Asset Replacement Ratio	0.7x	0.6x	0.8x	0.8x	0.8x
Tax Rate	18.3%	89.7%	24.5%	24.5%	24.5%
Net Debt-to-Equity Ratio	111.2%	92.5%	28.2%	9.2%	-5.2%
Interest Cover	8.8x	10.8x	9.0x	11.7x	12.8x

Income Statement Data (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Sales	1,058	1,105	1,186	1,267	1,341
% Change	14.1%	4.5%	7.3%	6.8%	5.9%
Gross Profit	618	673	711	763	812
% Change	14.5%	9.0%	5.6%	7.4%	6.4%
EBITDA	254	348	392	430	469
% Change	3.2%	37.0%	12.6%	9.8%	9.1%
Net Interest & Other Income	(27)	(27)	(37)	(31)	(31)
Net Income (Adjusted)	141	214	231	260	285
% Change	-3.7%	51.6%	8.1%	12.6%	9.7%

Free Cash Flow Data (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Net Income from Cont Operations (GAAP)	(45)	2	131	153	172
Depreciation & Amortization	102	109	89	95	101
Change in Working Capital	49	(26)	(32)	(35)	(48)
Deferred Taxation Charge	(27)	(24)	0	0	0
Other Adjustments, Net	124	139	148	158	168
Capital Expenditure	(71)	(64)	(71)	(76)	(80)
Free Cash Flow	133	136	265	296	312
% Change	-17.8%	2.0%	95.6%	11.7%	5.5%
Share / Issue Repurchase	(1)	(19)	0	0	0
Cost of Dividends Paid	0	0	0	0	0
Change in Debt	(100)	(81)	0	0	0

Balance Sheet Data (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Cash & Equivalents	32	31	296	592	905
Trade Receivables	103	102	149	162	231
Other Current Assets	784	797	801	805	809
Property, Plant & Equipment	107	99	68	33	24
Other Non-Current Assets	1,967	1,884	1,909	1,939	1,972
Total Assets	2,993	2,912	3,223	3,531	3,942
Short-Term Debt	19	19	19	19	19
Other Current Liabilities	1,212	1,178	500	441	464
Long-Term Debt	840	760	760	760	760
Other Non-Current Liabilities	178	146	227	274	281
Total Liabilities	2,249	2,104	1,506	1,495	1,525
Total Equity	744	809	1,717	2,036	2,417
Total Equity & Liabilities	2,993	2,912	3,223	3,531	3,942

* 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 176,045

Quarterly Earnings Estimates

	2023	2024
Q1	0.71A	0.84E
Q2	0.98A	1.12E
Q3	1.12A	1.04E
Q4	1.14A	1.29E

4Q23 results

- Total revenue of \$295mn was below our/Street estimates of \$302.1/299.2mn.
- Adj. EBITDA of \$97.8mn (33.1% margin) was above our/Street \$97.1mn (31.4% margin)/\$92.9mn (31.1% margin).
- PF EPS of \$1.14 was above our/Street \$1.08/1.05.
- FCF of (\$18.6mn) was below our/Street \$56.0mn/25.1mn.

FY24 guidance

- Initial guidance for FY24 total revenue for \$1,170-1,120mn compares to our/ Street \$1,179/1,191mn.
- PF adjusted EBITDA margin guidance range of 32.5-33.5% compares to our/Street 32.9/33.3%.
- PF EPS guidance of \$4.12-4.38 below our/Street \$4.51/4.57.
- FCF guidance of \$254-275mn is above our/Street \$237.8mn/241.2mn.

Exhibit 1: Variance

Total revenue missed our estimate by 2.4%

	4Q23A		
	Actual	BofA Estimate	Variance
Total Revenue	295,011	302,137	(2.4%)
Y/Y change %	7.4%	10.0%	(259bps)
Guidance			
Billings	271,106	310,514	(12.7%)
Y/Y change %	2.9%	17.9%	(1496bps)
Income from operations	83,783	86,173	(2.8%)
Operating Margin	28.4%	28.5%	(12bps)
EBITDA adj. (non GAAP)	97,760	97,104	0.7%
Adjusted EBITDA margin	33.1%	31.4%	172bps
Guidance			
EPS (Pro Forma)	\$1.14	\$1.08	5.7%
Guidance			
Cash Flow from Operations	(3,349)	74,876	(2335.8%)
OCF margin	(1.1%)	24.8%	(2592bps)
Free cash flow	(18,570)	55,993	(401.5%)
FCF margin	-6.3%	18.5%	(2483bps)
Guidance			

Source: BofA Global Research estimates, company filings

BofA GLOBAL RESEARCH



Exhibit 2: Estimate revisions

We update our forecasts to reflect results and guidance

	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	280,212	277,098	1.1%	1,185,673	1,179,244	0.5%	1,266,605	1,249,989	1.3%	1,340,863	N/A	N/A
Y/Y change %	7.1%	5.9%	119bps	7.3%	6.0%	126bps	6.8%	6.0%	83bps	5.9%	N/A	N/A
Guidance				1,170,000-1,200,000								
Billings	284,162	287,778	(1.3%)	1,205,777	1,223,594	(1.5%)	1,287,733	1,293,884	(0.5%)	1,363,066		
Y/Y change %	16.2%	17.7%	(148bps)	8.1%	6.0%	215bps	6.8%	5.7%	105bps	5.9%		
Income from operations	69,641	68,792	1.2%	342,908	339,608	1.0%	375,423	381,129	(1.5%)	408,901		
Operating Margin	24.9%	24.8%	3bps	28.9%	28.8%	12bps	29.6%	30.5%	(85bps)	30.5%		
EBITDA adj. (non GAAP)	80,656	79,575	1.4%	391,834	388,052	1.0%	430,418	434,878	(1.0%)	469,465	N/A	N/A
Adjusted EBITDA margin	28.8%	28.7%	7bps	33.0%	32.9%	14bps	34.0%	34.8%	(81bps)	35.0%	N/A	N/A
Guidance				32.5% - 33.5%								
EPS (Pro Forma)	\$0.84	\$0.90	(6.4%)	\$4.29	\$4.51	(5.1%)	\$4.82	\$5.06	(4.8%)	\$5.23	N/A	N/A
Guidance				\$4.12 - \$4.38								
Cash Flow from Operations	67,829	24,316	64.2%	336,171	302,645	10.0%	371,999	339,371	8.8%	392,750		
OCF margin	24.2%	8.8%	1543bps	28.4%	25.7%	269bps	29.4%	27.1%	222bps	29.3%		
Free cash flow	51,016	9,076	82.2%	265,030	237,786	10.3%	296,003	270,622	8.6%	312,298	N/A	N/A
FCF margin	18.2%	3.3%	1493bps	22.4%	20.2%	219bps	23.4%	21.6%	172bps	23.3%	N/A	N/A
Guidance				254,000 - 274,000								

Source: Replace this text

BofA GLOBAL RESEARCH



Price objective basis & risk

Blackbaud, Inc. (BLKB)

Our \$70 PO represents 3.8x EV/C24E based on our revenue estimate, representing a growth adjusted multiple of 0.53x our 7% growth rate. The multiple we use is a discount to the small cap SaaS peer group at 4.5x 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
	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
	ZoomInfo	ZI	ZI US	Koji Ikeda, CFA



US - Enterprise Software Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
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
	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
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
	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

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

Valuation Toolkit

Numerator

Denominator

*IQmethod*SM 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 validations. 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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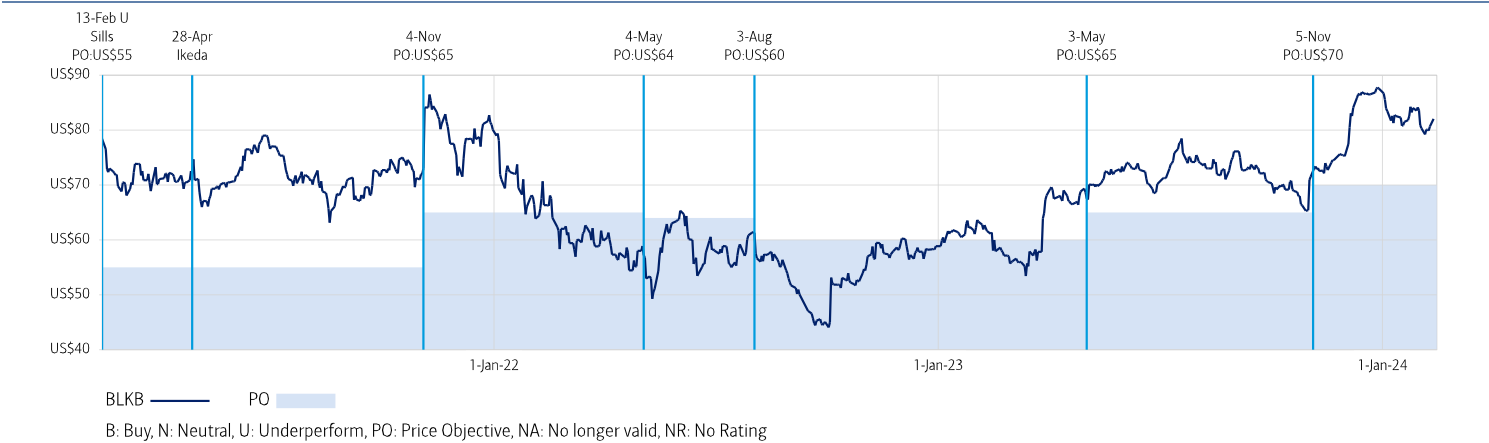
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Disclosures

Important Disclosures

Blackbaud, Inc. (BLKB) Price Chart



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.

FUNDAMENTAL EQUITY OPINION KEY: Opinions include a Volatility Risk Rating, an Investment Rating and an Income Rating. VOLATILITY RISK RATINGS, indicators of potential price fluctuation, are: A - Low, B - Medium and C - High. INVESTMENT RATINGS reflect the analyst’s assessment of both a stock’s absolute total return potential as well as its attractiveness for investment relative to other stocks within its Coverage Cluster (defined below). Our investment ratings are: 1 - Buy stocks are expected to have a total return of at least 10% and are the most attractive stocks in the coverage cluster; 2 - Neutral stocks are expected to remain flat or increase in value and are less attractive than Buy rated stocks and 3 - Underperform stocks are the least attractive stocks in a coverage cluster. An investment rating of 6 (No Rating) indicates that a stock is no longer trading on the basis of fundamentals. Analysts assign investment ratings considering, among other things, the 0-12 month total return expectation for a stock and the firm’s guidelines for ratings dispersions (shown in the table below). The current price objective for a stock should be referenced to better understand the total return expectation at any given time. The price objective reflects the analyst’s view of the potential price appreciation (depreciation).

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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