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Jan 14, 2020

Blackbaud, Inc.(BLKB)

$80.56 (As of 01/13/20)

Price Target (6-12 Months): **$87.00**

Long Term: 6-12 Months	**Zacks Recommendation:** (Since: 09/03/19) Prior Recommendation: Outperform	**Neutral**
Short Term: 1-3 Months	**Zacks Rank:** (1-5)	**3-Hold**
	Zacks Style Scores:	VGM:C
	Value: D | Growth: C | Momentum: C	

Summary

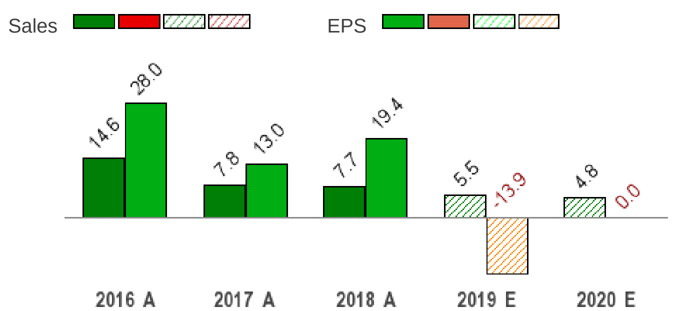
Blackbaud is benefiting from growing clout of company's Financial Edge NXT offering, expansion of product portfolio and collaborations. We believe that higher investments on emerging trends like IoT, digital marketing and cloud-based platforms presents significant growth opportunity for the company. Further, Blackbaud expanded alliance with Microsoft with Integrated Cloud Initiative for Nonprofits, which bodes well. However, the company's buyouts have negatively impacted its balance sheet. Frequent acquisitions are a distraction for management, which could impact organic growth and impose integration risks. Further, high indebtedness adds to the risk of investing in the company. Further, stiff competition in the non-profit sector and macroeconomic weakness remains potential headwinds.

Price, Consensus & Surprise

Data Overview

52 Week High-Low	**$97.35 - $65.01**
20 Day Average Volume (sh)	**222,677**
Market Cap	**$4.0 B**
YTD Price Change	**1.2%**
Beta	**1.15**
Dividend / Div Yld	**$0.48 / 0.6%**
Industry	**Computer - Software**
Zacks Industry Rank	**Top 36% (91 out of 254)**
Last EPS Surprise	**12.0%**
Last Sales Surprise	**0.8%**
EPS F1 Est- 4 week change	**0.0%**
Expected Report Date	**02/05/2020**
Earnings ESP	**0.0%**
P/E TTM	**33.9**
P/E F1	**36.1**
PEG F1	**4.3**
P/S TTM	**4.5**

Sales and EPS Growth Rates (Y/Y %)



Sales Estimates **(millions of $)**

	Q1	Q2	Q3	Q4	Annual*
2020	226 E	236 E	233 E	244 E	939 E
2019	217 A	226 A	221 A	231 E	896 E
2018	204 A	214 A	210 A	221 A	849 A

EPS Estimates

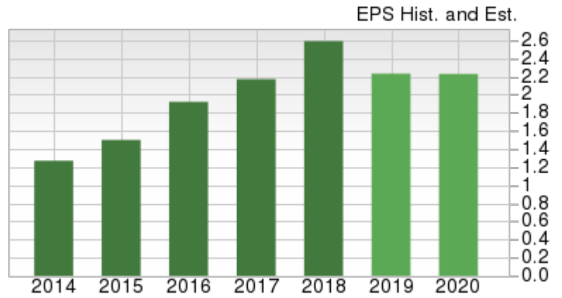
	Q1	Q2	Q3	Q4	Annual*
2020	$0.52 E	$0.64 E	$0.59 E	$0.59 E	$2.23 E
2019	$0.51 A	$0.66 A	$0.56 A	$0.50 E	$2.23 E
2018	$0.66 A	$0.69 A	$0.59 A	$0.65 A	$2.59 A

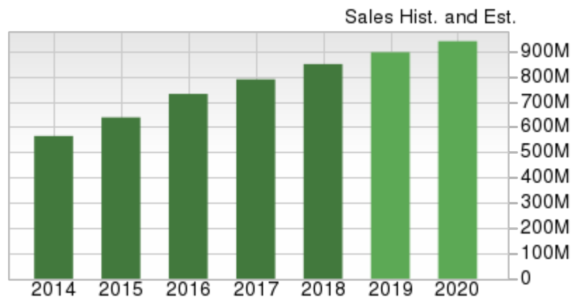
*Quarterly figures may not add up to annual.

The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 01/13/2020. The reports text is as of 01/14/2020.

Overview

Headquartered in Charleston, SC, Blackbaud Inc. is a leading cloud software company working for social causes. The company combines technology and expertise to help organizations achieve their missions. It offers a full spectrum of cloud-based and on-premise software solutions and related services for organizations of all sizes including: fundraising, eMarketing, advocacy, constituent relationship management ("CRM"), corporate social responsibility ("CSR"), financial management, payment solutions, analytics and vertical-specific solutions.





The company works with more than 45,000 customers in over 60 countries that support higher education, healthcare, human services, arts and culture, the environment, independent K-12 education, animal welfare and other charitable causes.

The company's current total addressable market ("TAM") is more than $10 billion. The company has a four-point growth strategy with an objective to integrate and Open Solutions in the Clouddrive, improve quality enhancement and financial performance along with increased operating efficiency.

Blackbaud earned non-GAAP revenues of $851 million in 2018. Non-GAAP recurring revenues came in at $764.5 million, up 11.3% year over year. Region wise, the United States contributed approximately 86% of total revenues in fiscal 2018, while Other Countries accounted for the remaining 14%.

By market group, the company generated revenues from The General Markets Group ("GMG"), the Enterprise Markets Group ("EMG"), and the International Markets Group ("IMG").

The GMG (45.7% of fiscal 2018 total revenues) focuses on sales to K-12 private schools, faith communities and arts and cultural organizations.

The EMG (44.3% of fiscal 2018 total revenues) focuses on sales to healthcare and higher education institutions as well as corporations and foundations.

The IMG (9.6% of fiscal 2018 total revenues) focuses on sales to customers outside of North America.

Blackbaud faces stiff competition from companies that provides software and related services in the non-profit sector. In the general business, the company faces competition from Salesforce.com and Oracle.

Reasons To Buy:

> Blackbaud's expanding product portfolio, acquisition synergies, higher investments in emerging markets as well as transition the cloud-based subscription-based model are the key catalysts.

- ▲ Blackbaud's cloud-based suite of applications demonstrates strong growth momentum driven by the transition of organizations from the traditional revenue-base model to the cloud-based subscription-based model. The company's growing clout in the Cloud market is evident from its year-over-year revenue growth which increased approximately 7.6% in 2018. The company has more than 45,000 customers in 2018. According to market research firm IDC's 2017 report, Blackbaud is the world's 24th largest cloud software provider. The overall growth expectation for the public cloud computing services market is very bullish. According to Gartner, the worldwide public cloud services market is expected to grow to $331.2 billion by 2022 from $182.4 billion valued in 2018 at a CAGR of 16.1%. IaaS is projected to be the highest growth service driven by improvement in PaaS along with the massive adoption of artificial intelligence (AI), analytics and the Internet of Things (IoT). IaaS is projected to grow from $30.5 billion in 2018 to $76.6 billion in 2022, at a CAGR of 25.9%. Exponential growth in the amount of data, complexity of data formats and the need to scale resources at regular intervals compelled several companies to turn to cloud computing vendors. Consequently, considering the growing need for cloud-based applications and software, we anticipate Blackbaud's investments in this space to bolster long-term growth.

- ▲ Expanding product portfolio as well as frequent product launches is a key catalyst. The company is focusing on providing cloud software solutions and data-driven decisions, powered by artificial intelligence (AI), machine learning (ML), cognitive technology, predictive analytics and other advanced technologies. The launch of SKY AI and SKY Analytics provide scalable and high-quality services and rapidly reduces the time required to introduce a semiconductor product in the market. The company is experiencing strong demand for its software particularly verification and digital design products from customers providing datacenter servers, networking products and smartphones. We believe that increasing investments on emerging trends like Internet-of-things (IoT), digital marketing and cloud-based platforms presents significant growth opportunity for the company in the long haul.

- ▲ Blackbaud remains very active on the acquisition front and chooses companies that can be easily integrated within its existing or new product lines. From time to time, Blackbaud also acquires organizations with competing technologies with the intention of killing rival products. The JustGiving acquisition helped the company to increase its TAM by expanding the peer-to-peer fundraising abilities. Buyouts like AcademicWorks and Smart Tuition helped Blackbaud in expanding its offerings in the K-12 technology sector. Over the last three years, the company has aggressively pursued acquisitions likely to boost its presence in the cloud computing and database markets. These buyouts have also expanded the company's total TAM. Recently, Blackbaud concluded YourCause buyout. The acquisition is expected to position Blackbaud as one of the industry leaders in offering solutions to non-profit organizations and for-profit companies which deal with social concerns. We believe that Blackbaud will continue to pursue strategic acquisitions to improve its market share and top-line in the long haul.

- ▲ Blackbaud regularly returns value to shareholders. In August 2010, the company approved a stock repurchase program to authorize up to $50 million shares repurchase of common stock. This program did not have any termination date. The shares can be purchased from time to time, subject to market condition. The company is also regularly in paying dividend to its shareholders in cash. In fiscal 2018, 2017, 2016 and 2015, the company paid approximately $23.3 million, $23.1 million, $22.8 million and 22.5 million, respectively as dividends. In the first quarter of 2019, the company paid $5.9 million as dividends. Further, the company generated operating cash flow of $201.4 million in fiscal 2018 compared with $176.3 million in fiscal 2017. We consider that share repurchases and dividends are a good way of returning cash to investors while at the same time bolstering the company's bottom-line.

Reasons To Sell:

Stiff competition in the non-profit sector, macroeconomic weakness, highly leveraged balance sheet and integration risk remains potential headwinds.

- Blackbaud faces stiff competition from companies that provides software and related services in the non-profit sector. In the general business, the company faces competition from Salesforce.com and Oracle. Intensifying competition negatively impacts pricing power, which keeps margins under pressure. Moreover, in order to remain competitive, the company has to increase spending on research & development, which may further negatively impact operating margin.

- Acquisitions have also negatively impacted its balance sheet, as high indebtedness adds to the risk of investing in the company. As of Sep, 2018, the company had total debt of $503.1 million, compared with $561.3 million reported at the end of previous quarter. We also note the high level of goodwill and intangible assets, which totaled $957.8 million or almost 56% of total assets at the end of third-quarter 2019. Blackbaud continues to acquire a large number of companies. While this improves revenue opportunities, business mix and profitability, it also adds to integration risks. Moreover, frequent acquisitions are a distraction for management, which could impact organic growth, going forward.

- We note that the company is trading at premium in terms of Price/Earnings (P/E). Blackbaud currently has a trailing 12-month P/E ratio of 55.18X. This level compares unfavorably with what the industry witnessed in the last year. Consequently, the valuation looks slightly stretched from P/E perspective.

Last Earnings Report

Blackbaud Q3 Earnings & Revenues Beats Estimates

Quarter Ending	09/2019
Report Date	Oct 28, 2019
Sales Surprise	0.79%
EPS Surprise	12.00%
Quarterly EPS	0.56
Annual EPS (TTM)	2.38

Blackbaud delivered third-quarter 2019 non-GAAP earnings of 56 cents per share, outpacing the Zacks Consensus Estimate of 50 cents. However, the figure declined 5.1% from the year-ago quarter.

Total non-GAAP revenues improved 5.4% year over year to $221.4 million, surpassing the Zacks Consensus Estimate of $220 million.

Quarter in Detail

Blackbaud reports maintenance and subscriptions under recurring revenues as it is shifting toward a cloud-based subscription model from the traditional revenue-based model.

Total non-GAAP recurring revenues for the reported quarter were $205.5 million, accounting for 92.8% of total non-GAAP revenues. The figure was also up 8.6% year over year.

One-time services and other revenues were $15.9 million, declining 23.9% year over year.

Non-GAAP organic revenues improved 2.7% year over year to $215.9 million. Meanwhile, non-GAAP organic recurring revenues advanced 5.6% to $199.7 million.

Margin Details

Non-GAAP gross margin contracted 100 bps to 59.5%.

Non-GAAP operating margin contracted 240 bps from the year-ago figure to 16.5%. The decrease can primarily be attributed to higher investments.

Balance Sheet & Cash Flow

As on Sep 30, 2019, Blackbaud had cash and cash equivalents of $29.1 million compared with $32.7 million at the end of the previous quarter. Total debt (including current portion) amounted to $503.1 million compared with $561.3 million reported at the end of the last reported quarter.

Cash flow from operating activities during the nine months ended Sep 30, 2019, was $122.1 million. Free cash flow during the quarter was $62.5 million.

The company recently approved a quarterly dividend payment of 12 cents per share to be paid out on Dec 13, 2019, to shareholders as of Nov 27, 2019.

Guidance

Blackbaud maintained 2019 outlook. The company anticipates revenues of $880-$910 million (mid-point $895 million) for 2019.

It anticipates non-GAAP earnings per share of $2.11-$2.28 per share (mid-point of $2.20) for 2019.

Non-GAAP operating margin is projected to be 16.7-17.2%.

Blackbaud continues to anticipate non-GAAP free cash flow of $124-$134 million for 2019.

Recent News

On **Oct 28, 2019**, Blackbaud's board of directors approved a quarterly dividend payment of 12 cents per share to be paid on Dec 13, 2019 to shareholders as on Nov 27, 2019.

Valuation

Blackbaud shares are down 5% in the past six-month period and up 23.1% over the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Computer & Technology sector are up 10.5% and 15.2% in thepast six-month period, respectively. Over the past year, the Zacks sub-industry and sector are up 38.2% and 25.7%, respectively.

The S&P 500 index is up 29.2% in the past six-month period and 10.8% in the past year.

The stock is currently trading at 35.97X forward 12-month earnings, which compares to 29.45X for the Zacks sub-industry, 22.94X for the Zacks sector and 19X for the S&P 500 index.

Over the past five years, the stock has traded as high as 73.23X and as low as 33.58X, with a 5-year median of 45.37X. Our Neutral recommendation indicates that the stock will perform in line with the market. Our $87 price target reflects 38.84X forward 12-month earnings.

The table below shows summary valuation data for BLKB

Valuation Multiples - BLKB

		Stock	Sub-Industry	Sector	S&P 500
P/E F 12M	Current	35.97	29.45	22.94	19
	5-Year High	73.23	29.45	22.94	19.34
	5-Year Low	33.58	17.61	16.87	15.17
	5-Year Median	45.37	24.13	19.24	17.44
P/S F12M	Current	4.21	7.26	3.7	3.52
	5-Year High	6.23	7.26	3.7	3.52
	5-Year Low	3.12	3.88	2.3	2.54
	5-Year Median	4.21	5.29	3.01	3
P/B TTM	Current	10.39	9.99	5.54	4.49
	5-Year High	18.02	9.99	5.54	4.49
	5-Year Low	7.85	3.87	3.13	2.85
	5-Year Median	13.63	6.25	4.22	3.61

As of 01/13/2020

Industry Analysis **Zacks Industry Rank:** Top 36% (91 out of 254)

Top Peers

ServiceNow, Inc. **(NOW)**	Outperform
Adobe Systems Incorporated **(ADBE)**	Neutral
salesforce.com, inc. **(CRM)**	Neutral
CommVault Systems, Inc. **(CVLT)**	Neutral
HubSpot, Inc. **(HUBS)**	Neutral
Oracle Corporation **(ORCL)**	Neutral
Verint Systems Inc. **(VRNT)**	Neutral
Workiva Inc. **(WK)**	Neutral

Industry Comparison Industry: Computer - Software

Industry Peers

	BLKB Neutral	X Industry	S&P 500	ADBE Neutral	CRM Neutral	ORCL Neutral
VGM Score	C	-	-	C	F	B
Market Cap	3.96 B	1.98 B	24.31 B	167.31 B	163.07 B	175.07 B
# of Analysts	6	3	13	13	16	13
Dividend Yield	0.60%	0.00%	1.76%	0.00%	0.00%	1.76%
Value Score	D	-	-	D	F	B
Cash/Price	0.07	0.10	0.04	0.03	0.04	0.16
EV/EBITDA	30.43	24.45	14.12	50.82	56.69	11.48
PEG Ratio	4.28	2.24	2.05	2.17	3.39	1.44
Price/Book (P/B)	10.39	5.55	3.34	15.89	4.90	10.82
Price/Cash Flow (P/CF)	22.99	27.88	13.66	49.17	49.44	12.38
P/E (F1)	35.87	33.31	18.82	35.27	63.56	14.04
Price/Sales (P/S)	4.48	4.68	2.64	14.98	10.29	4.42
Earnings Yield	2.77%	2.80%	5.29%	2.84%	1.57%	7.13%
Debt/Equity	1.56	0.17	0.72	0.09	0.16	3.13
Cash Flow ($/share)	3.50	1.01	6.94	7.03	3.72	4.41
Growth Score	C	-	-	B	C	D
Hist. EPS Growth (3-5 yrs)	12.03%	9.51%	10.56%	52.77%	141.24%	6.17%
Proj. EPS Growth (F1/F0)	-0.15%	12.10%	7.49%	24.51%	5.18%	10.47%
Curr. Cash Flow Growth	12.80%	7.45%	14.83%	9.54%	66.28%	-0.35%
Hist. Cash Flow Growth (3-5 yrs)	13.00%	8.09%	9.00%	37.38%	41.18%	-1.03%
Current Ratio	0.66	1.49	1.23	0.79	1.05	2.37
Debt/Capital	60.96%	18.61%	42.99%	8.59%	13.87%	75.79%
Net Margin	2.25%	6.97%	11.08%	26.42%	4.64%	27.62%
Return on Equity	18.97%	12.33%	17.16%	31.47%	5.37%	56.86%
Sales/Assets	0.51	0.64	0.55	0.56	0.43	0.37
Proj. Sales Growth (F1/F0)	4.84%	7.04%	4.23%	17.68%	27.93%	1.07%
Momentum Score	C	-	-	B	D	A
Daily Price Chg	2.34%	0.39%	0.73%	1.71%	2.03%	0.24%
1 Week Price Chg	-0.05%	1.74%	0.39%	2.41%	8.44%	1.28%
4 Week Price Chg	0.87%	4.97%	1.84%	6.74%	13.52%	1.09%
12 Week Price Chg	-7.81%	10.18%	6.48%	29.53%	27.19%	-1.00%
52 Week Price Chg	21.35%	34.14%	23.15%	47.35%	25.88%	13.28%
20 Day Average Volume	222,677	81,802	1,578,594	1,794,385	4,465,463	10,226,702
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	0.07%	0.00%	0.00%
(F1) EPS Est 4 week change	0.00%	0.00%	0.00%	0.14%	0.08%	0.03%
(F1) EPS Est 12 week change	-17.59%	-0.35%	-0.48%	0.16%	2.59%	-0.06%
(Q1) EPS Est Mthly Chg	0.00%	0.00%	0.00%	0.09%	0.00%	0.05%

Zacks Stock Rating System

We offer two rating systems that take into account investors' holding horizons: Zacks Rank and Zacks Recommendation. Each provides valuable insights into the future profitability of the stock and can be used separately or in combination with each other depending on your investment style.

Zacks Recommendation

The Zacks Recommendation aims to predict performance over the next 6 to 12 months. The foundation for the quantitatively determined Zacks Recommendation is trends in the company's estimate revisions and earnings outlook. The Zacks Recommendation is broken down into 3 Levels; Outperform, Neutral and Underperform. Unlike many Wall Street firms, we have an excellent balance between the number of Outperform and Neutral recommendations. Our team of 70 analysts are fully versed in the benefits of earnings estimate revisions and how that is harnessed through the Zacks quantitative rating system. But we have given our analysts the ability to override the Zacks Recommendation for the 1200 stocks that they follow. The reason for the analyst over-rides is that there are often factors such as valuation, industry conditions and management effectiveness that a trained investment professional can spot better than a quantitative model.

Zacks Rank

The Zacks Rank is our short-term rating system that is most effective over the one- to three-month holding horizon. The underlying driver for the quantitatively-determined Zacks Rank is the same as the Zacks Recommendation, and reflects trends in earnings estimate revisions.

Zacks Style Scores

The Zacks Style Score is as a complementary indicator to the Zacks rating system, giving investors a way to focus on the highest rated stocks that best fit their own stock picking preferences.

Academic research has proven that stocks with the best Value, Growth and Momentum characteristics outperform the market. The Zacks Style Scores rate stocks on each of these individual styles and assigns a rating of A, B, C, D and F. We also produce the VGM Score (V for Value, G for Growth and M for Momentum), which combines the weighted average of the individual Style Scores into one score. This is perfectly suited for those who want their stocks to have the best scores across the board.

Value Score	D
Growth Score	C
Momentum Score	C
VGM Score	C

As an investor, you want to buy stocks with the highest probability of success. That means buying stocks with a Zacks Recommendation of Outperform, which also has a Style Score of an A or a B.

Disclosures

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