

Blackbaud, Inc.(BLKB)

\$55.92 (As of 03/13/20)

Price Target (6-12 Months): **\$62.00**

Long Term: 6-12 Months

Zacks Recommendation:

Neutral

(Since: 09/03/19)

Prior Recommendation: Outperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

3-Hold

Zacks Style Scores:

VGM:D

Value: D

Growth: C

Momentum: F

Summary

Blackbaud is benefiting from growing cloud of its Financial Edge NXT offering, expansion of product portfolio and collaborations. We believe that increasing investments in emerging trends like IoT, digital marketing and cloud-based platforms presents significant growth opportunity for the company. The acquisition of YourCause also positions it well to become a leader in enterprise, CSR and employee engagement technology. However, high expenses on product development are likely to hurt margins at least in the near term. High indebtedness also adds to the risk of investing in the company. Further, stiff competition in the non-profit sector and macroeconomic weakness remains potential headwinds. Notably, shares of the company have underperformed the industry in the past year.

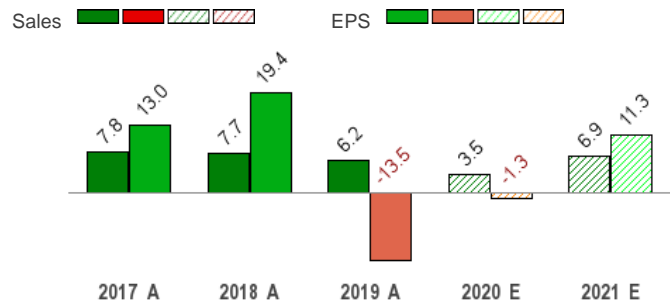
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$97.35 - \$49.30
20 Day Average Volume (sh)	415,714
Market Cap	\$2.7 B
YTD Price Change	-29.8%
Beta	1.24
Dividend / Div Yld	\$0.48 / 0.9%
Industry	Computer - Software
Zacks Industry Rank	Top 23% (57 out of 253)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	2.0%
Last Sales Surprise	2.9%
EPS F1 Est- 4 week change	-3.3%
Expected Report Date	05/05/2020
Earnings ESP	-2.4%
P/E TTM	25.0
P/E F1	25.3
PEG F1	3.0
P/S TTM	3.1

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	239 E	249 E	246 E	265 E	998 E
2020	225 E	233 E	230 E	246 E	934 E
2019	217 A	226 A	221 A	238 A	902 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021	\$0.55 E	\$0.64 E	\$0.62 E	\$0.68 E	\$2.46 E
2020	\$0.49 E	\$0.57 E	\$0.54 E	\$0.61 E	\$2.21 E
2019	\$0.51 A	\$0.66 A	\$0.56 A	\$0.51 A	\$2.24 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 03/13/2020. The reports text is as of 03/16/2020.

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.

Blackbaud's SKY platform, the company's modern cloud platform, continues to power innovation for its partners and enable them to build capabilities that look and feel like they were built by Blackbaud. With SKY AI and SKY Analytics, the company provides scalable and high-quality services and rapidly reduces the time required to introduce a product in the market.

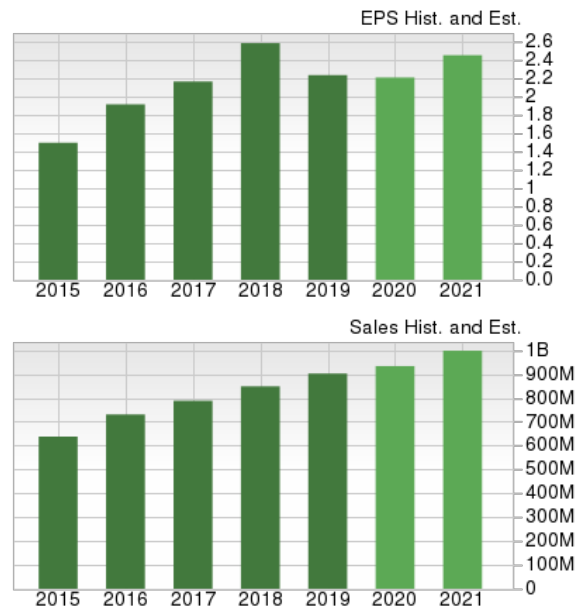
The company works with more than 45,000 customers in over 100 countries that support higher education, healthcare, human services, arts and culture, the environment, independent K-12 education, animal welfare and other charitable causes.

YourCause acquisition in January, 2019 has enabled Blackbaud to boost renewal of cloud solution contracts and sales of subscription-based retained professional services.

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 deliver innovative products cloud solutions, drive sales effectiveness, expand TAM and improve operational efficiency.

Blackbaud earned non-GAAP revenues of \$902.4 million in 2019.

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 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 of approximately 9.1% in 2019. The company has more than 45,000 customers in 2019. According to market research firm IDC's 2018 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 \$354.6 billion by 2022 from \$227.8 billion in 2019 at a CAGR of 15.9%. 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 \$40.3 billion in 2019 to \$74.1 billion in 2022 at a CAGR of 22.5%. 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. Blackbaud's SKY platform continues to power innovation for its partners and enable them to build capabilities that look and feel like they were built by Blackbaud. The launch of SKY AI and SKY Analytics provides scalable and high-quality services and rapidly reduces the time required to introduce a 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 fourth quarter of 2019, the company paid \$6 million as dividends. Further, the company generated operating cash flow of \$182.5 million in fiscal 2019 compared with \$201.4 million in fiscal 2018. 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.

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.

Reasons To Sell:

- ▼ 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 Dec, 2019, the company had total debt of \$467.1 million, compared with \$503.1 million reported at the end of previous quarter. We also note that it recorded a high level of goodwill and intangible assets, which totaled \$951.9 million or almost 47.8% of total assets at the end of fourth-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 44.38X. This level compares unfavorably with what the industry witnessed in the last year. Consequently, the valuation looks slightly stretched from P/E perspective.

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

Last Earnings Report

Blackbaud Q4 Earnings & Revenues Surpass Estimates

Blackbaud, Inc. delivered fourth-quarter 2019 non-GAAP earnings of 51 cents per share, outpacing the Zacks Consensus Estimate by 2%. However, the figure declined 21.5% from the year-ago quarter.

Total non-GAAP revenues increased 7.3% year over year to \$238.1 million, beating the consensus mark by 2.9%.

Revenue growth was driven by robust adoption of the company's solutions like Blackbaud CRM, Blackbaud Financial Edge NXT, and Blackbaud Target Analytics as well as a growing customer base for the company's faith-based offerings.

Quarter Ending **12/2019**

Report Date	Feb 10, 2020
Sales Surprise	2.88%
EPS Surprise	2.00%
Quarterly EPS	0.51
Annual EPS (TTM)	2.24

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 \$220.1 million, accounting for 92.4% of total non-GAAP revenues. The figure was also up 9.8% year over year.

One-time services and other revenues were \$18 million, down 15.4% year over year.

Non-GAAP organic revenues improved 4.6% year over year to \$231.9 million. Meanwhile, non-GAAP organic recurring revenues advanced 6.7% to \$214 million.

Operating Details

Non-GAAP gross margin contracted 280 basis points (bps) on a year-over-year basis to 56%.

Research & development expenses, as a percentage of revenues, expanded 40 bps from the year-ago quarter to 10.9%. Moreover, sales, marketing & customer success, and general & administrative expenses expanded 200 bps and 20 bps, respectively.

Increase in sales, marketing & customer success expenses was due to aggressive hiring of sales representatives to address the company's market opportunity.

Non-GAAP operating margin contracted 420 bps from the year-ago figure to 14.9%.

Balance Sheet & Cash Flow

As on Dec 31, 2019, Blackbaud had cash and cash equivalents of \$31.8 million compared with \$29.1 million as of Sep 30, 2019.

Total debt (including current portion) as of Dec 31, amounted to \$467.1 million compared with \$503.1 million as of Sep 30, 2019.

Cash flow from operating activities as of Dec 31, 2019 was \$182.5 million. Non-GAAP free cash flow during the quarter was \$46.1 million.

The company recently approved a quarterly dividend payment of 12 cents per share to be paid out on Mar 13 to shareholders of record as of Feb 28, 2020.

Guidance

For full-year 2020, the company anticipates revenues of \$930-\$955 million.

Blackbaud anticipates non-GAAP earnings of \$2.20-\$2.35 per share for 2020.

Non-GAAP operating margin is projected to be 16%-16.5%.

Non-GAAP free cash flow is expected to be in the range of \$100-\$115 million for 2020.

Recent News

On Feb 13, 2020, Blackbaud announced the availability of Blackbaud Merchant Services, its end-to-end payment processing solution, in the Asia Pacific region.

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 46.7% in the past six-month period and 35.7% over the trailing 12-month period. While stocks in the Zacks sub-industry are up 5.3%, the same in the Zacks Computer & Technology sector are down 3.4% in the past six-month period. Over the past year, the Zacks sub-industry and sector are up 15.3% and 0.5%, respectively.

The S&P 500 index is down 9.6% in the past six-month period and 5.3% in the past year.

The stock is currently trading at 24.7X forward 12-month earnings, which compares to 25.36X for the Zacks sub-industry, 18.46X for the Zacks sector and 15.72X for the S&P 500 index.

Over the past five years, the stock has traded as high as 73.23X and as low as 24.7X, with a 5-year median of 45.87X. Our Neutral recommendation indicates that the stock will perform in line with the market. Our \$62 price target reflects 27.39X 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 F12M	Current	24.70	25.36	18.46	15.72
	5-Year High	73.23	28.74	22.01	19.34
	5-Year Low	24.70	18.59	16.85	15.18
	5-Year Median	45.87	24.55	19.30	17.42
P/S F12M	Current	2.88	6.41	3.06	2.9
	5-Year High	6.23	7.22	3.58	3.43
	5-Year Low	2.81	3.88	2.3	2.54
	5-Year Median	4.22	5.34	3.06	3
P/B TTM	Current	6.93	8.71	4.45	3.64
	5-Year High	18.02	10.52	5.53	4.55
	5-Year Low	6.77	4.03	3.13	2.85
	5-Year Median	13.62	6.33	4.27	3.63

As of 03/13/2020

Industry Analysis Zacks Industry Rank: Top 23% (57 out of 253)



Top Peers

Adobe Systems Incorporated (ADBE)	Neutral
salesforce.com, inc. (CRM)	Neutral
CommVault Systems, Inc. (CVLT)	Neutral
HubSpot, Inc. (HUBS)	Neutral
ServiceNow, Inc. (NOW)	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	D	-	-	C	D	C
Market Cap	2.75 B	1.40 B	19.05 B	162.14 B	132.26 B	153.74 B
# of Analysts	5	4	13	11	15	13
Dividend Yield	0.86%	0.00%	2.31%	0.00%	0.00%	2.00%
Value Score	D	-	-	D	D	B
Cash/Price	0.18	0.11	0.05	0.03	0.05	0.18
EV/EBITDA	23.17	15.66	11.57	38.78	34.16	10.25
PEG Ratio	2.65	2.13	1.68	2.12	2.54	1.27
Price/Book (P/B)	6.93	3.95	2.56	15.42	3.90	9.50
Price/Cash Flow (P/CF)	18.64	18.69	10.18	40.97	33.78	10.87
P/E (F1)	22.24	25.26	14.94	34.42	46.66	12.35
Price/Sales (P/S)	3.05	3.54	2.02	13.90	7.74	3.87
Earnings Yield	3.95%	3.91%	6.67%	2.91%	2.15%	8.10%
Debt/Equity	1.40	0.16	0.70	0.09	0.08	3.13
Cash Flow (\$/share)	3.00	1.20	7.01	8.19	4.37	4.41
Growth Score	C	-	-	A	B	D
Hist. EPS Growth (3-5 yrs)	8.93%	11.15%	10.85%	52.77%	126.79%	6.17%
Proj. EPS Growth (F1/F0)	-1.16%	13.38%	5.99%	23.87%	5.93%	10.25%
Curr. Cash Flow Growth	-13.30%	11.19%	6.15%	27.62%	36.39%	-0.35%
Hist. Cash Flow Growth (3-5 yrs)	9.63%	8.42%	8.52%	41.64%	40.05%	-1.03%
Current Ratio	0.74	1.50	1.24	0.79	1.08	2.37
Debt/Capital	58.32%	18.56%	42.57%	8.59%	7.31%	75.79%
Net Margin	1.32%	6.55%	11.64%	27.72%	0.74%	27.06%
Return on Equity	16.12%	11.82%	16.74%	33.73%	3.61%	61.05%
Sales/Assets	0.49	0.64	0.54	0.58	0.40	0.38
Proj. Sales Growth (F1/F0)	3.46%	6.89%	3.54%	17.26%	23.20%	0.76%
Momentum Score	F	-	-	F	C	C
Daily Price Chg	2.36%	2.56%	8.21%	17.72%	5.11%	20.43%
1 Week Price Chg	-2.04%	-2.13%	-0.67%	-2.42%	-3.71%	-4.23%
4 Week Price Chg	-31.90%	-23.30%	-22.67%	-10.50%	-21.66%	-13.34%
12 Week Price Chg	-28.83%	-17.80%	-20.46%	2.40%	-9.52%	-9.97%
52 Week Price Chg	-27.76%	-5.11%	-10.79%	25.33%	-8.02%	-9.65%
20 Day Average Volume	415,714	111,427	3,061,271	4,081,338	8,080,947	15,628,618
(F1) EPS Est 1 week change	-4.31%	0.00%	0.00%	-1.08%	-1.26%	-0.26%
(F1) EPS Est 4 week change	-3.27%	0.00%	-0.32%	-1.08%	4.61%	-0.26%
(F1) EPS Est 12 week change	-4.48%	-0.06%	-0.65%	-0.88%	4.61%	-0.23%
(Q1) EPS Est Mthly Chg	-12.42%	0.00%	-0.62%	-1.31%	22.62%	-1.01%

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	F
VGM Score	D

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.

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