

Blackbaud, Inc.(BLKB)

\$59.42 (As of 06/23/20)

Price Target (6-12 Months): **\$61.00**

Long Term: 6-12 Months

Zacks Recommendation:

Neutral

(Since: 09/03/19)

Prior Recommendation: Outperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

2-Buy

Zacks Style Scores:

VGM:F

Value: D

Growth: F

Momentum: C

Summary

Blackbaud is well poised to gain from growth in recurring revenues and robust adoption of JustGiving platform. The company is also benefiting from growing cloud of its Financial Edge NXT offering, expansion of product portfolio and collaborations. Increasing investments in emerging trends like IoT, digital marketing and cloud-based platforms present significant growth opportunity. The synergies from YourCause buyout positions it well to expand presence in enterprise philanthropy market. However, increasing 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, it suspended quarterly cash dividend payouts, which is likely to impede bottom line growth. Notably, shares of the company have underperformed the industry in the year-to-date period.

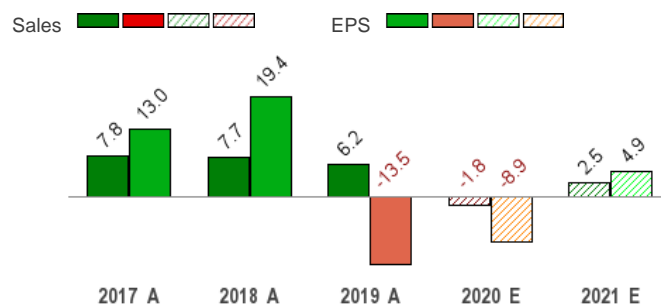
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$97.35 - \$38.22
20 Day Average Volume (sh)	426,116
Market Cap	\$2.9 B
YTD Price Change	-25.4%
Beta	1.10
Dividend / Div Yld	\$0.48 / 0.8%
Industry	Computer - Software
Zacks Industry Rank	Bottom 26% (186 out of 253)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	10.9%
Last Sales Surprise	0.1%
EPS F1 Est- 4 week change	0.0%
Expected Report Date	08/04/2020
Earnings ESP	0.0%
P/E TTM	26.5
P/E F1	29.1
PEG F1	3.5
P/S TTM	3.3

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	220 E	226 E	222 E	240 E	908 E
2020	224 A	216 E	214 E	232 E	886 E
2019	217 A	226 A	221 A	238 A	902 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021	\$0.53 E	\$0.59 E	\$0.56 E	\$0.60 E	\$2.14 E
2020	\$0.51 A	\$0.50 E	\$0.52 E	\$0.57 E	\$2.04 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 06/23/2020. The reports text is as of 06/24/2020.

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.

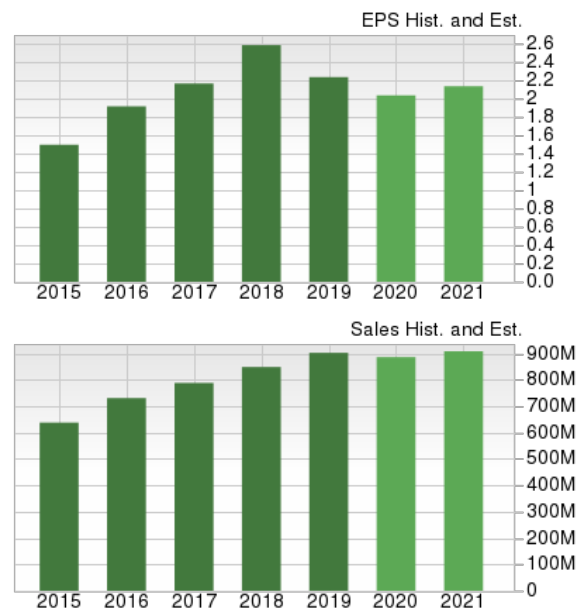
The company works with more than 45,000 customers in over 100 countries that support higher education, healthcare, human services, arts and culture, the environment, independent K-12 education, animal welfare and other charitable causes.

YourCause acquisition (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. Notably, 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 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. Moreover, YourCause acquisition is expected to position Blackbaud as one of the industry leaders in offering enterprise philanthropy solutions to non-profit organizations and for-profit companies that 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'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.
- ▼ The company continues to make acquisitions. 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. Frequent buyouts have escalated integration risks for Blackbaud. We note that the frequent acquisitions negatively impacted the company's balance sheet in the form of high level of goodwill and intangible assets, which totaled \$934.1 million or almost 55.9% of total assets as of Mar 31, 2020.
- ▼ Moreover, Blackbaud has a leveraged balance sheet, which adds to the risk of investing in the company. As of Mar 31, 2020, net debt amounted to \$505.9 million, compared with \$435.3 million as of Dec 31, 2019. Moreover, total debt to total capital of 62.1% is higher than the industry's figure of 42.9%. Further, times interest earned is 2X, compared with the industry's figure of 17.6X. The high debt level can not only jeopardize its ability to sustain dividend payout and buyback shares but also pursue accretive acquisitions. Markedly, on May 5, Blackbaud suspended quarterly cash dividend payouts to maintain near-term liquidity and financial flexibility amid the COVID-19 crisis.

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

Last Earnings Report

Blackbaud Q1 Earnings Beat Estimates, Revenues Up Y/Y

Blackbaud delivered first-quarter 2020 non-GAAP earnings of 51 cents per share, which beat the Zacks Consensus Estimate by 10.9%. The figure was flat year over year.

Total non-GAAP revenues increased 3.3% year over year to \$223.6 million, which beat the consensus mark of \$223 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.

Moreover, revenues from retained and managed service contracts that did not have a term consistent with cloud solution contracts were included in one-time services and other revenue from Jan 1. This led to a decline of \$4.3 million in recurring revenues and an increase to one-time services and other revenues during the quarter.

Total non-GAAP recurring revenues for the reported quarter were \$204.9 million, which contributed 91.6% to total non-GAAP revenues. The figure increased 3% year over year.

One-time services and other revenues were \$18.8 million, up 5.7% year over year.

Non-GAAP organic revenues rose 3.3% year over year to \$223.6 million. Non-GAAP organic revenue on constant currency (CC) basis amounted to \$223.9 million, up 3.4% year over year.

Meanwhile, non-GAAP organic recurring revenues moved up 3% year over year to \$204.9 million.

Margin Details

Non-GAAP gross margin contracted 200 basis points (bps) to 58.4%.

Sales, marketing & customer success expenses, as a percentage of revenues, expanded 60 bps from the year-ago quarter's tally to 26.3%. Research and development expenses contracted 200 bps to 11.2%, while general & administrative expenses contracted 100 bps to 11.6%.

Non-GAAP operating margin contracted 140 bps from the year-ago quarter's figure to 15.2%.

Balance Sheet & Cash Flow

As on Mar 31, 2020, Blackbaud had cash and cash equivalents of \$25 million compared with \$31.8 million as of Dec 31, 2019.

Total debt (including current portion) as of Mar 31, amounted to \$530.9 million compared with \$467.1 million as of Dec 31, 2019.

Cash used in operating activities during the quarter was \$24.5 million compared with \$182.5 million of cash generated from operating activities in the prior quarter.

Non-GAAP free cash outflow during the quarter was \$38.3 million compared with \$46.1 million of free cash flow in the last reported quarter.

Withdraws Guidance for 2020

For 2020, Blackbaud has withdrawn guidance, citing uncertainty pertaining to coronavirus crisis.

Quarter Ending **03/2020**

Report Date	May 05, 2020
Sales Surprise	0.13%
EPS Surprise	10.87%
Quarterly EPS	0.51
Annual EPS (TTM)	2.24

Recent News

On May 7, Blackbaud enhanced its solutions with new solution enhancements and features planned precisely to aid the organizations with the exclusive needs amid the coronavirus pandemic.

On May 5, Blackbaud's board of directors announced suspension of quarterly cash dividend payouts to maintain near-term liquidity and financial flexibility during the COVID-19 crisis.

On Apr 10, Blackbaud announced the launch of a platform that will support virtual small group gatherings for various religious communities amid the global coronavirus pandemic.

Valuation

Blackbaud shares are down 25.4% in the year-to-date period and 24.1% over the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Computer & Technology sector are up 21.7% and 11.5% in the year-to-date period, respectively. Over the past year, the Zacks sub-industry and sector are up 34.4% and 26.7%, respectively.

The S&P 500 index is down 2.7% in the year-to-date period but up 7.5% in the past year.

The stock is currently trading at 28.46X forward 12-month earnings, which compares to 32.27X for the Zacks sub-industry, 25.8X for the Zacks sector and 22.47X for the S&P 500 index.

Over the past five years, the stock has traded as high as 73.23X and as low as 28.46X, with a 5-year median of 46.89X. Our Neutral recommendation indicates that the stock will perform in line with the market. Our \$61 price target reflects 29.22X 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	28.46	32.27	25.8	22.47
	5-Year High	73.23	32.27	25.8	22.47
	5-Year Low	28.46	18.62	16.72	15.23
	5-Year Median	46.89	24.99	19.28	17.49
P/S F12M	Current	3.29	7.97	3.93	3.51
	5-Year High	6.23	7.97	3.93	3.51
	5-Year Low	2.09	3.88	2.32	2.53
	5-Year Median	4.22	5.57	3.12	3.02
EV/Sales TTM	Current	3.54	8.25	4.46	3.07
	5-Year High	7.14	8.25	4.46	3.46
	5-Year Low	2.07	3.19	2.58	2.14
	5-Year Median	4.99	5.78	3.61	2.84

As of 06/23/2020

Industry Analysis Zacks Industry Rank: Bottom 26% (186 out of 253)



Top Peers

Company (Ticker)	Rec	Rank
Adobe Systems Incorporated (ADBE)	Neutral	3
salesforce.com, inc. (CRM)	Neutral	3
CommVault Systems, Inc. (CVLT)	Neutral	4
HubSpot, Inc. (HUBS)	Neutral	3
ServiceNow, Inc. (NOW)	Neutral	2
Oracle Corporation (ORCL)	Neutral	3
Verint Systems Inc. (VRNT)	Neutral	3
Workiva Inc. (WK)	Neutral	3

Industry Comparison Industry: Computer - Software				Industry Peers		
	BLKB	X Industry	S&P 500	ADBE	CRM	ORCL
Zacks Recommendation (Long Term)	Neutral	-	-	Neutral	Neutral	Neutral
Zacks Rank (Short Term)	2	-	-	3	3	3
VGM Score	F	-	-	C	D	B
Market Cap	2.95 B	1.72 B	21.86 B	212.26 B	170.34 B	169.36 B
# of Analysts	5	4	14	12	13	12
Dividend Yield	0.81%	0.00%	1.92%	0.00%	0.00%	1.74%
Value Score	D	-	-	D	D	B
Cash/Price	0.09	0.09	0.07	0.02	0.06	0.25
EV/EBITDA	28.08	19.18	12.65	51.73	44.56	11.48
PEG Ratio	3.32	2.85	2.90	2.82	3.54	1.24
Price/Book (P/B)	7.75	5.40	2.99	19.51	4.93	13.32
Price/Cash Flow (P/CF)	19.81	23.26	11.61	53.80	43.22	11.80
P/E (F1)	27.82	32.57	21.08	45.11	63.77	13.64
Price/Sales (P/S)	3.25	4.61	2.25	17.62	9.35	4.34
Earnings Yield	3.43%	2.78%	4.42%	2.22%	1.57%	7.34%
Debt/Equity	1.61	0.15	0.77	0.38	0.15	5.44
Cash Flow (\$/share)	3.00	1.18	7.01	8.19	4.37	4.68
Growth Score	F	-	-	B	C	D
Hist. EPS Growth (3-5 yrs)	6.21%	9.72%	10.84%	45.00%	110.92%	9.05%
Proj. EPS Growth (F1/F0)	-8.93%	-3.27%	-10.80%	24.10%	-0.85%	5.06%
Curr. Cash Flow Growth	-13.30%	8.40%	5.46%	27.62%	36.39%	-2.42%
Hist. Cash Flow Growth (3-5 yrs)	9.63%	8.71%	8.55%	41.64%	40.05%	-0.39%
Current Ratio	0.69	1.54	1.29	1.29	1.15	3.03
Debt/Capital	61.66%	21.07%	45.14%	27.44%	12.85%	84.48%
Net Margin	1.95%	6.84%	10.53%	30.72%	-0.92%	25.94%
Return on Equity	15.99%	11.82%	16.06%	35.53%	2.45%	72.76%
Sales/Assets	0.50	0.63	0.55	0.58	0.38	0.37
Proj. Sales Growth (F1/F0)	-1.79%	0.73%	-2.66%	13.81%	17.27%	0.22%
Momentum Score	C	-	-	B	D	A
Daily Price Chg	0.75%	0.00%	0.04%	0.44%	-1.35%	0.13%
1 Week Price Chg	6.48%	2.59%	0.92%	5.28%	6.76%	4.90%
4 Week Price Chg	3.16%	6.67%	2.71%	16.97%	7.10%	4.57%
12 Week Price Chg	6.97%	27.71%	19.78%	38.43%	31.31%	14.19%
52 Week Price Chg	-24.07%	14.29%	-6.05%	52.99%	26.60%	-1.57%
20 Day Average Volume	426,116	191,453	2,819,961	3,401,207	7,573,391	14,229,243
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	0.00%	0.00%	0.67%
(F1) EPS Est 4 week change	0.00%	0.00%	0.00%	0.57%	-7.40%	-1.55%
(F1) EPS Est 12 week change	-0.30%	-7.66%	-12.72%	0.40%	-12.21%	-2.91%
(Q1) EPS Est Mthly Chg	0.00%	0.00%	0.00%	-1.13%	-29.41%	-1.59%

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	F
Momentum Score	C
VGM Score	F

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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