BlackLine, Inc. (BL)

Baird Facts

Please refer to Appendix - Important Disclosures and Analyst Certification.

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<th>Rating:</th>
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<td>52WK H-L ($) :</td>
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<td>Market Cap (mil):</td>
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<td>Shares Out (mil):</td>
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Company Description

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Revenue Profile

Source: Baird Research, Company Documents

Competition

BlackLine is believed to be the largest pure play Close Management vendor in the market. Importantly, most of the customers we have spoken to were not using a dedicated financial close solution at all before they installed BlackLine. Instead, they were using manual processes that employed Excel, Word, email, etc.. BlackLine faces a limited number of direct competitors, most often times privately held Trintech and on occasion some of Oracle’s Hyperion modules. Unlike Oracle, SAP does not have its own financial close solution choosing instead to partner with BlackLine. There has been some consolidation in the space in recent years. Two small private players, Chesapeake Systems (acquired by Trintech May 2016) and Runbook (acquired by BlackLine September 2016), had both offered competing solutions.

Quick Summary

- Blackline posted a solid 1Q20 with upside to most metrics including revenue and billings. Due to ongoing impact of COVID-19, Blackline withdrew its previous full-year guidance for 20-22% revenue growth. Commentary was guarded, pointing to tighter budgets in the face of new spending priorities, deal push-outs, and the expectation for continued weakness particularly in new customer acquisition. We believe the company is doing the right things in terms of customer and channel engagement and that, despite headwinds, Blackline will emerge stronger facing a market in substantial need of its solutions.

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BlackLine, Inc.  
May 27, 2020

- Blackline reported 1Q20 revenue/eps of $82.6M/$0.10 versus consensus for $79.3M/$0.05 and our estimate of $80.0M/$0.06. Revenue +29% yr-yr, and past five quarters has now been: +25%, +26%, +28%, +29%, +29%.
- Billings of $81.3M (+20% yr-yr) beat consensus of $80.1M (+18% yr-yr), and over the past five quarters has now been: +18%, +30%, +26%, +35%, +20%.
- TTM Currency Billings (smoothing out quarter-to-quarter lumpiness) were $336M (+28% yr-yr). Last five quarter TTM billings have been: +23%, +21%, +23%, +28%, +28%.

Key Metrics
- Customers – increased +32 to 3,056, up 13% yr/yr. Growth over the past five quarters is 18%, +17%, +15%, +15%, +13%.
- Users – added ~4,300 net new users which now sits at ~272k (+20% yr-yr). The net new user growth settled back at normal pace after jumping sharply in 4Q19.
- Net Revenue Retention – remained consistent at 110%, Gross retention of 98% remains best-in-class (on par with WDAY/NOW levels).

Investment Thesis
- Our price target is $70. This price target represents a P/Sales multiple of 12.3x 2020E and 10.5x 2021E. This multiple would put BlackLine at a premium to a comparable list of SaaS names growing 20% or faster which averages 9.5x 2020E, respectively. We believe this premium valuation is justified by BlackLine’s large and unpenetrated TAM, first-mover advantage, founder-led visionary CEO with strong management team around her, recent acceleration in revenue and billings, and top-quartile gross margins, which leads to higher earnings power as the company scales.
- Sticky solution that solves a critical pain point. BlackLine automates mission-critical accounting processes. These processes are time-intensive and error-prone. Once customers install BlackLine, it quickly becomes a “must-have” for employees.
- Large and unpenetrated TAM. The worldwide market for BlackLine’s current solutions is perhaps as large at $17B and is largely unpenetrated. Currently, many companies are using manual processes and tools (e.g., spreadsheets, emails, paper binders) or “homegrown” solutions to meet their financial close needs, providing BlackLine a number of greenfield opportunities.
- Delivers a strong and tangible ROI. By automating manual tasks, BlackLine helps to enable leaner accounting footprint and allows accountants to provide more value-added tasks with the extra time they have. The increase in accuracy driven by automation not only provides customers with peace of mind, but could also reduce the probability of a material error triggering an audit or restatement. Additionally, by providing a unified platform for financial close processes, BlackLine reduces paper costs and outside auditor expense by removing paper binders (and the need to hunt down information) from the process.
- Proven at scale, just beginning to penetrate mid-market. Similar to Workday in HRM, BlackLine began by selling to large Enterprise customers, proving their solution works at scale. BlackLine is just now beginning to penetrate the mid-market while continuing to expand in large enterprise.
- Impressive customer satisfaction metrics. BlackLine boasts best-in-class customer satisfaction metrics. Renewal rate is 98%, and the company’s Net Promoter Score (NPS) is a very impressive 78, much higher than the software industry average of 24.

Risks & Caveats
- Direct competition from ERP vendors (e.g., SAP and Oracle). Direct competition from the ERP vendors could pressure BlackLine’s ability to meet aggressive top-line growth expectations. Additional price competition could pressure margins and cash flow. We see the likelihood of the ERPs becoming competitive in the space as low due to the importance of being able to connect to multiple different ERP vendors at the same time, as many companies have multiple ERP vendors and need to consolidate information from each (i.e., only part of BlackLine’s large TAM is actually accessible to the large ERP players).
- BlackLine is currently only modestly EBIT profitable and cash-flow-positive. If growth significantly slows, BlackLine’s low profitability and cash flow could strain its cash position.
- Any security breach of BlackLine’s systems. BlackLine holds sensitive data in the cloud and does not own its own infrastructure, putting some of the risk of a security breach out of the company’s control.
Appendix - Important Disclosures and Analyst Certification

Approved on 27 May 2020 10:23EDT/ Published on 27 May 2020 10:28EDT.

Rating and Price Target History for: BlackLine, Inc. (BL) as of 05-26-2020

1 Robert W. Baird & Co. Incorporated makes a market in the securities of BL.

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