BlackLine, Inc. (BL)
Highlights from Virtual Management Meetings

Reiterate Outperform rating. We hosted Blackline management for virtual meetings with international investors this week. Meetings came on the heels of BL’s recent earnings, where they withdrew annual guidance citing a drop-off in close-rates in second half of March due to COVID-19. We came away from the meetings with the sense that BL is executing well on the things within their control (customer focus, product, sales) and will be very well positioned for a return to strong growth when the pandemic macro pressures subside.

- Speed bump on road to digital transformation. Our bullish view on BL has been predicated in part on the view that a decade of underinvestment in financial suite software at the enterprise level creates a compelling growth opportunity for the leader in accounting software. While that view is unchanged, the more discretionary nature of accounting spend (versus critical infrastructure, work-from-home, “day zero” spend) means the company will see deal pushouts in the near and perhaps medium term, a clear “speed bump” in the thesis. Our sense is management is erring on the side of conservatism given the many unknowns. With CY20 guidance having been withdrawn, investor focus has started to shift to 2021. We would expect Blackline to emerge from this stronger and likely with accelerating growth; however, timing is the key variable and remains uncertain at this point.

- Near-term COVID impact. General comments about COVID included: 1) expansion business with existing customers continues to close, while new business is more difficult; 2) have had some conversations in April with customers in stricken industries asking for reduced ACV; 3) having “a few” conversations with customers about payment relief and extending terms (impacts cash flow modestly in 2020).

- Competitive environment largely unchanged. A large majority of the time Blackline is replacing Excel/manual processes. From a point vendor perspective, TrinTech and FloQast come up most often. Oracle (Hyperion) wins on occasion in heavy Oracle shops by giving away product. Workday, OneStream, and ServiceNow have made noise but Blackline rarely if ever sees them (note: our recent checks suggest NOW getting less aggressive in this market).

- SAP partnership. Management spoke quite optimistically about the SAP impact over the medium-to-longer term. Positives here include: 1) taps into IT budgets which are multiple times larger than historical accounting/CFO budgets; 2) SAP has ~9,000 customers with $1B+ in revenue compared to Blackline only having a few hundred of those companies in its current customer base; 3) continues to represent ~25% of Blackline revenue.

- Valuation. Stock currently trades at 10.1x EV/Revenue using CY20E and 8.6x EV/Revenue using CY21E.

BlackLine, Inc. provides a cloud-based, SaaS platform that helps automate and streamline financial accounting processes.

Rob Oliver
Sr. Research Analyst
roliver@rw Baird.com
203.602.1604

Matt Lemenager, CFA
Sr. Research Associate
mlemenager@rw Baird.com
312.609.4492
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.
Company Description

BlackLine, Inc. is a provider of a cloud-based software platform that improves and automates common accounting processes like financial close, account reconciliation, intercompany accounting, and control assurance. These critical processes are usually performed outside of an organization’s general ledger and are not supported by traditional ERP systems. Companies typically rely on manual processes and tools (e.g., spreadsheets) to complete these tasks. An additional complication is that outputs from these processes are generally required periodically (i.e., monthly, quarterly, etc.), forcing accounting professionals to work long hours as they compress time-intensive tasks in a short period of time. BlackLine’s products reduce the amount of time taken to complete these tasks and increase the accuracy of those processes. The company is headquartered in Woodland Hills, CA (Los Angeles).
Appendix - Important Disclosures and Analyst Certification

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Covered Companies Mentioned
All stock prices below are the 5/5/2020 closing price.

ServiceNow, Inc. (NOW - $370.64 - Neutral)
(See recent research reports for more information)

Rating and Price Target History for: BlackLine, Inc. (BL) as of 05-04-2020

Rating and Price Target History for: ServiceNow, Inc. (NOW) as of 05-04-2020

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

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