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BLKB.OQ - Q2 2022 Blackbaud Inc Earnings Call

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PRESENTATION

Operator

Good day, and welcome to Blackbaud's Q2 2022 Earnings Call. Today's conference is being recorded.

I'll now turn the conference over to Steve Hufford. Please go ahead, sir.

Steve Hufford - *Blackbaud, Inc. - Director of IR*

Good morning, everyone. Thank you for joining us on Blackbaud's second quarter 2022 earnings call. Joining me on the call today are Mike Gianoni, Blackbaud's President and CEO; and Tony Boor, Blackbaud's Executive Vice President and CFO. Mike and Tony will make prepared comments, and then we will open up the line for your questions.

Please note that our comments today contain forward-looking statements subject to risks and uncertainties that could cause actual results to differ materially from those projected. Please refer to our most recent Form 10-K and other SEC filings for more information on those risks.

We believe that a combination of both GAAP and non-GAAP measures are more representative of how we internally measure our business. Unless otherwise specified, we will refer only to non-GAAP measures on this call.

Please note that non-GAAP financial measures should not be considered in isolation from or as a substitution for GAAP measures. A reconciliation of GAAP and non-GAAP results is available in the press release we issued last night, and a more detailed supplemental schedule is available in our presentation on our Investor Relations website.

Before I turn the call over to Mike, I'll briefly mention that during the third quarter, our team will be attending the Oppenheimer Technology, Internet & Communications Conference on August 10, and the Midwest IDEAS Conference on August 25. In addition, we will be participating in virtual investor meetings hosted by Baird on August 16. As a reminder, we're also available at ir@blackbaud.com, if you'd like to connect during the quarter.

With that, I'll turn the call over to you, Mike.

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Michael P. Gianoni - *Blackbaud, Inc. - President, CEO & Director*

Thank you, Steve. Good morning, everyone. Thank you for joining us on the call today.

Before I turn to the business and operational highlights for the quarter, I'd like to briefly address the current economic landscape and our view on Blackbaud's positioning against 5 macro factors and how this impacts the outlook for the second half of the year.

First, we remain focused on attracting, hiring and retaining top talent. We've enhanced our capabilities to attract and hire in a competitive environment, and we clearly remain a sought-out destination. We consistently have over 100,000 applicants for a few hundred job openings. Given the macro environment, we have cut back our hiring plans and have reduced staff in our one-time services revenue area.

Second, Blackbaud has no downside exposure to the conflict in Ukraine. Humanitarian organizations are leveraging our digital technology to engage supporters and raise funds for those affected by the conflict.

Third, in terms of the rising interest rate environment, I'll remind you that we took the prudent step to refinance our debt in 2020 and took advantage of the low interest rate environment to hedge some of our exposure to rising interest rates.

Fourth, on the topic of inflation and entering a technical recession, we look back at the impact on our markets and company in past recessions and the impact has been minimal. For example, Blackbaud's revenue continued to grow through the 2008 to 2010 timeframe at a time when our reoccurring revenue was a much smaller percentage of total revenue.

Today, we stand at roughly 95% recurring revenue on a much larger base. And looking at the broader market, there has been little long-term impact to philanthropy during past recessions. The big test of resiliency for our company and our end markets was the pandemic, and both fared pretty well. We remain consistent in our approach to running the business with a long-term mindset and thoughtful execution of our strategy with a track record of balancing sustainable growth and strong profitability.

And fifth, from a currency perspective, our exposure is limited given the size of our international footprint. However, we are revising our forward outlook and guidance slightly to account for the impact that we expect in the second half of the year, which Tony will cover in more detail.

Now on to our business results. We had a strong second quarter to close out the first half of the year, which paced ahead of our internal plan. In Q2, we achieved 32% on a Rule of 40 at constant currency, which paced above the midpoint of our original full year guidance expectation of roughly 30% for the full year.

We had total revenue growth of 15%, inclusive of EVERFI, and our organic recurring revenue grew 5%, which was largely driven by the continued growth in our transactional revenues and contractual recurring revenues. Through the first half of the year, our organic recurring revenue growth stands at 6%, and our adjusted EBITDA margin was 24.5% year-to-date, which sits at the high end of our original full year guidance range of 24% to 24.5%. In short, the business performed extremely well in the first half of the year.

Now shifting to our operating performance. We're executing a strategy focused on driving significant improvements as we progress on our journey to achieving Rule of 40. To start, we recently announced a series of strategic organizational updates to streamline our business operations and become even more customer centric.

I appointed Kevin Gregoire into the new role of EVP and Chief Operating Officer, he now oversee functions spanning from products and technology to customer success and retention. Bringing these functions under one leader will ensure consistency in our approach to the customer experience.

In support of this, we also named Chris Singh as the company's first Chief Customer Officer to serve in a central position focused on delivering a best-in-class experience for our customers.

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Next, David Benjamin was appointed to the new role of EVP and Chief Commercial Officer, overseeing the company's global sales efforts in addition to his responsibilities for the International Markets Group and JustGiving. This change will further streamline and simplify our go-to-market efforts to maximize our outcomes as a global company.

Also Tom Davidson, who, as a reminder, is the founder and CEO of EVERFI, will now have executive responsibility for our YourCause business in addition to EVERFI to align our YourCause and EVERFI offerings, and continue our investment in being the partner of choice for corporations focused on social responsibility and impact.

Finally, I'd like to take a moment to highlight our recent appointment of Deneen DeFiore to Blackbaud's Board of Directors. Deneen, who is currently Vice President and Global Chief Information Security Officer for United Airlines, brings over 20 years of experience in tech and cybersecurity and will be a great addition to our Board. All really great leadership changes for the company.

Also in the second quarter, we exited our first colo data center, with more scheduled to close in the coming quarters. This shift to third-party cloud infrastructure enables us to deliver secure, stable, modernized and affordable solutions to our customers while reducing our operating costs. We still have a lot of work to do, but we continue to make significant progress as we accelerate our move to third-party cloud data center environments.

Lastly, I'm inspired by the innovations our teams are driving as we've seen the SKY platform become a reality. We are transforming and accelerating how our customers connect with their users and donors by offering breakthrough improvements to accomplish outcomes and track results.

In June, we announced the launch of Prospect Insights, a new software tool within Raiser's Edge NXT that automates in-app intelligence related to major giving likelihood and capacity, and then prescribes actions related to portfolio management and solicitation. For growing organizations that need to prioritize major giving prospects, Prospect Insight offers multidimensional fundraising insights and actions within their existing software.

Also in June, we held our annual developer conference, highlighting the low-code movement and accessible technology. Nearly 90% of attendees left the conference feeling that Blackbaud empowers customers to improve usage and experience with Blackbaud solutions. With more than 7,200 third-party SKY developers now registered in our program, an increase of over 40% year-over-year, we are enabling even more customers, partners and consultants to take advantage of efficiencies in low-code or no-code technologies.

Another way we are expanding our ecosystem of goods is through our Social Good Startup Program, which supports early-stage software companies, focused on solving problems that matter to the social good community. Since launching in 2019, we have supported 33 start-ups. And just last month, we welcomed an additional six companies to our July 2022 cohort. We're excited to start working with these founders to design a unique plan that addresses their goals for growth and provides curated access to Blackbaud resources to continue their innovation efforts.

And within the last 2 weeks, we hosted both Blackbaud's K-12 conference, which brought together thousands of experts and peers in the private school sector for engaging sessions with outcomes-based content, as well as EVERFI's LearnOn Conference which brought together more than 7,000 K-12 educators, largely from the public sector, to collaborate on innovative education strategies grounded in whole-child learning.

And lastly, as we continue to advance our position as a leader in a rapidly evolving ESG and corporate social responsibility spaces, EVERFI continues to be at the forefront. For example, EVERFI is the founding partner of the Fortune Impact initiative, which will be held in Atlanta later this year, bringing together senior ESG leaders from the Fortune 1000 as they look to advance their ESG and CSR efforts.

In summary, we've had an outstanding first half of the year and are taking a prudent approach to outlook for the second half of 2022. We are uniquely positioned as a market leader in our space. We continue to monitor the macro environment and remain confident in our core business as well as our ability to execute on incremental program initiatives already underway as we look to balance operating discipline with strategic investments to drive sustainable growth. Looking to the rest of the year, aside from unfavorable to movement in foreign exchange rates, our revenue and profitability outlook would fall within our original guidance ranges. Our operational execution is sound, and we're confident in Blackbaud's positioning to drive accelerated growth and meaningful margin expansion over the next several years.

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With that, I'll turn the call over to Tony before we open it up for Q&A. Tony?

Anthony W. Boor - *Blackbaud, Inc. - Executive VP of Finance & Administration and CFO*

Thanks, Mike. Good morning, everyone. Today, I'll cover our results for the second quarter and review our outlook for full year 2020 before opening up the line for questions. Please refer to yesterday's press release and the investor materials posted to our website for the full details of our Q2 2022 financial performance.

We had another strong quarter that positions us well as we head into the back half of '22. Second quarter total revenue was $265 million, representing total revenue growth of 15% versus the prior year quarter. Organic revenue growth in the quarter was 5% when adjusted for foreign currency impacts of $2.9 million, driven by continued strength in recurring revenues.

Healthy improvements in renewal rates and sales productivity per rep continue to be bright spots with more opportunity ahead as we execute on our multiyear initiatives. Our payments business once again delivered strong growth on increasing volumes and some of the pricing initiatives underway, along with the continued mix shift towards online donations, should provide a multiyear tailwind for payments revenue.

One-time services and other revenue was roughly a 90 basis point drag on our total revenue growth in the quarter. Based on our latest projections, we no longer expect the drag from one-time services and other revenue to bottom in 2022, and it's possible it could decline further as we introduce the optionality to shift a more significant mix of professional services work to partners. Also, EVERFI contributed total revenue of roughly $27 million in the quarter and $54 million for the first half.

Moving to earnings. Our second quarter gross margin was 59%, we've generated adjusted EBITDA of $71 million, representing an adjusted EBITDA margin of 26.6% and diluted earnings per share of $0.75. Our first half adjusted, EBITDA margin of 24.5% and is at the high end of our original expectation of 24% to 24.5% and this reflects our continued progress on key growth and margin drivers like pricing initiatives, shift to third-party cloud infrastructure, go-to-market efficiencies and EVERFI integration and cost synergies that will drive significant margin expansion going forward. While we have adjusted our full year outlook, we have high confidence and a proven track record of being able to manage costs and drive operational scale in the business.

That brings me to the cash flow statement and balance sheet. Our adjusted free cash flow was $44 million in the second quarter and represented an adjusted free cash flow margin of approximately 17%. We ended the quarter with $911 million in net debt with an additional $245 million of borrowing capacity. Through Q2, we've reduced our debt-to-EBITDA ratio to 3.4x, and we remain focused on rapidly deleveraging through the remainder of '22. Given the current global market environment, it's important to reiterate that the steps we took to refinance our debt and take advantage of the low interest rate environment at the beginning of the pandemic in 2020, leave us in a strong balance sheet management position with financial flexibility. Our exposure to rising interest rates is somewhat insulated with roughly 50% of our debt hedged at very low fixed rates through the end of 2024.

With the first half behind us, we've updated our full year financial guidance primarily to account for the evolving macroeconomic conditions such as unfavorable foreign exchange movement as well as other unforeseen items like the continued drag on total revenue from our mix shift away from one-time services revenue and also updated sales projections for EVERFI.

Starting with revenue. We've slightly reduced our revenue guidance range by approximately 2% to $1.050 billion to $1.070 billion. Roughly half of this is attributed to unfavorable movement in FX rates, with the vast majority associated with the decline in British Pound, which represents nearly 2/3 of our international revenue. The remainder of the reduced range can largely tied to the continued drag in one-time services revenue, which is a positive mix shift for us over the long-term. We now expect our overall one-time services and other revenue to be roughly flat for the full year, which represents a continued decline in our core one-time services revenue when normalizing for roughly $15 million of incremental one-time revenue expected from our acquisition of EVERFI. Lastly, to a much lesser extent, our latest projections suggest some softness in our bookings plan for EVERFI, which has minimal impact on our full year 2022 revenues given ratable revenue recognition and offsetting strength in the rest of the business. We are intently focused on closing the EVERFI bookings gap as we look ahead to 2023. Given the typical seasonality of JustGiving in our services business, we expect a slight sequential quarterly decline in total revenue in the third quarter before picking up again in the fourth quarter.

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Importantly, the midpoint of our guidance continues to call for mid-single-digit organic revenue growth at constant currency, which is well aligned with our long-term goal framework.

Turning to profitability. Our original full year adjusted EBITDA margin guidance was in the range of 24% to 24.5% and excluding currency impacts, our targeted range is unchanged. We anticipate FX to reduce profitability by roughly 30 basis points, bringing our revised full year expectation for adjusted EBITDA margin to 23.7% to 24.2%. We continue to make progress on our efforts to drive efficiencies in our go-to-market and to create additional scalability in our products and infrastructure. Looking at the Rule of 40, we now anticipate roughly 28% for the full year at constant currency, and we're targeting significant improvement in 2023.

Moving to cash flow. Our original guidance anticipated adjusted free cash flow in the range of $165 million to $175 million. We now expect adjusted free cash flow in a range of $140 million to $150 million for the full year. And the difference is largely attributable to two buckets. The first which represents over half of the revision is unforeseen changes to assumptions that are mostly outside our control, such as unfavorable FX and slightly higher expectations for cash tax and interest rates. The second bucket is the lesser of the two and is attributed to the softness in EVERFI bookings, which are typically billed annually upfront. As a reminder, our guidance for adjusted free cash flow excludes cash to be spent net of insurance reimbursements related to the ongoing litigation of our previously disclosed security incident. Our most recent expectation for net cash outlays of $15 million to $25 million for ongoing legal fees related to the security spend.

In summary, we had a strong second quarter, posting double-digit total revenue growth, mid-single-digit organic recurring revenue growth and achieved 32% on a Rule of 40 at constant currency. We remain confident in the core operating performance of the business and our ability to execute on incremental program initiatives that position us well from both a growth and margin perspective. Overall, we remain confident that continued execution against our plan for '22 has us well positioned to continue progressing towards our long-term goal of achieving Rule of 40, and we remain committed to allocating capital in a way that maximizes value for our shareholders.

With that, I'd like to open up the line for your questions.

QUESTIONS AND ANSWERS

Operator

All right. (Operator Instructions) Our first question come from the line of Parker Lane with Stifel.

Jeffrey Parker Lane - *Stifel, Nicolaus & Company, Incorporated, Research Division - Associate*

Curious, if you could pinpoint exactly when some of the softness in bookings started to occur for EVERFI, and what the cause was there? Is that primarily from an integration and execution situation? Or is it macro related, with customers sort of evaluating their budgets for the remainder of the year?

Michael P. Gianoni - *Blackbaud, Inc. - President, CEO & Director*

Sure. It's Mike.

I'll start with the fact that our guidance change is mostly due to FX and one-time, not EVERFI. If we didn't have this FX impact, we'd still be within our original guidance range. EVERFI acquisition is going really well, solid growth opportunity in a big market. Quick reminder, EVERFI is about 10% of our revenue. Also, EVERFI is within $1 million of their first half revenue plan.

There is some booking softness for two reasons, to your specific question. First, we had some very large opportunities in the digital currency space that pushed. We still have opportunities in this area. And second, we had higher than we would like in sales turnover, but we're now staffed.

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I'll also remind you, we overperformed in other areas in the company like transactions and subscriptions. And with EVERFI, we did have some great deals with companies like Guardian Life, JPMorgan, Truist, Fifth Third Bank and Google, for example. So this ESG space is still really a big opportunity for us.

Jeffrey Parker Lane - *Stifel, Nicolaus & Company, Incorporated, Research Division - Associate*

Got it. Good to hear.

And then I know you said you reduced some staff and one-time services. But what are some of the other areas where you maybe reduced your hiring plans for the year? And is that just in response to the uncertain macro? Or is there anything else at play there?

Michael P. Gianoni - *Blackbaud, Inc. - President, CEO & Director*

Yes. So the one-time service is pretty straightforward. We've been managing cost and staff there for years, Parker, just because it's simply just less hours required for our solutions. And so that's been ongoing for a while, and we just continued that to just reduce our cost as the one-time revenue has gone backwards, which has been planned.

In general, we've cut back on hiring kind of across the board. No specific area. It's just really to be a bit conservative, but no really one specific area. We continue to hire in some places in the business. But in general, we're going to hire at a lower rate.

Operator

Next question comes from the line of Rob Oliver with Baird.

Robert Cooney Oliver - *Robert W. Baird & Co. Incorporated, Research Division - Senior Research Analyst*

Mike, one for you to start.

I'm just curious, you guys have talked about some of the pricing initiatives that you saw get traction over in Europe and some of those learnings, and bringing them over here to the U.S. And I know you referenced them again in your prepared remarks, and it does seem that the majority of the organic growth is coming on the transactional side.

So I'm just wondering, is it a point -- are we at a point yet where we would start to see those price initiatives start to contribute to organic growth on the software side? And maybe help us understand when that might happen and a little bit more about what's happening?

Michael P. Gianoni - *Blackbaud, Inc. - President, CEO & Director*

Yes, you bet.

So, we do have multiple initiatives as we talked about in the past related to pricing on the software side, some on the transactional side as well, Rob. And some have already been put into place. Most of the growth there still in the future. They are on the calendar to implement. And some takes contractual changes, some take some software changes and process change, but we have many initiatives underway related to that on the calendar in the future. So we'll start to see some more growth there back half of this year, all through next year as well.

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Robert Cooney Oliver - *Robert W. Baird & Co. Incorporated, Research Division - Senior Research Analyst*

Okay. Great. That's helpful.

And then, Tony, just one for you. That's a great milestone getting one of the colo data centers closed. That felt like that question has been coming up so many times over the past 1.5 years, so congrats on that.

And I just was wondering, can you just remind us how many you have left to close? And I know because of the acquisitions, the different products at different colo data centers. But can you just -- to the extent that you can maybe give us a sense for that timeline and pathway, and as we would start to see some cost benefits from that?

Anthony W. Boor - *Blackbaud, Inc. - Executive VP of Finance & Administration and CFO*

Yes, Rob, it's good.

And you know that we've been doubled up on expense for several years, if not triple in some areas as we get the cloud environments up and running and then spending money to migrate customers out of the colos to that and still paying for the old colos, plus making some added security investments on both fronts at the same time. So we do believe we'll have a very positive impact on gross margins as we migrate out of those.

We closed that first one. We have several smaller colo data centers, so those will be, in the nearer term, we'll be able to close those. So think of those over the next probably 2 to 3 years. And we have a couple of very large data centers. Those will take longer to actually shut down fully, but we will be able to consolidate within those data centers and shut down equipment and rigs and network gear, et cetera.

So I don't know that we'll see a big stair step kind of improvement. But over the next between 2 to 5 years, we should see some fairly significant improvement in gross margin come back as we get those data centers shut down and get customers moved over to the cloud environments. And we are spending a bit more actively today as well trying to accelerate some of the move to those cloud environments, because they do also enhance our security footprint at the same time. So there's a little bit of offset, unfortunately, right now to some of the savings because we're trying to accelerate those moves more quickly.

Michael P. Gianoni - *Blackbaud, Inc. - President, CEO & Director*

Rob, I'll just -- this is Mike. I'll just add.

So some of the smaller data centers will close fairly soon. And secondly, we primarily are in, like a lot of companies, AWS and Azure. I think we talk more about Azure, but we have a pretty big footprint in AWS. And EVERFI is AWS, so there was no colo drag with EVERFI. They're already in a destination environment on AWS for us.

Robert Cooney Oliver - *Robert W. Baird & Co. Incorporated, Research Division - Senior Research Analyst*

Okay. That's helpful color. Good progress. Appreciate it.

Operator

Our next question comes from the line of Kirk Materne with Evercore ISI.

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Stewart Kirk Materne - *Evercore ISI Institutional Equities, Research Division - Senior MD & Fundamental Research Analyst*

Mike, obviously, transactional has been gone off to a really good start in the first half of the year. As we go back to a little bit more normal, hopefully, way of life in terms of people taking vacations and sort of maybe a little bit slower August, how should we think it just about the shape of the back half of the year? Is it going to be -- could it be a little bit more fourth quarter weighted on the transactional side? Just any thoughts you have on that would be helpful.

Michael P. Gianoni - *Blackbaud, Inc. - President, CEO & Director*

Yes, Kirk, sure.

It has been seasonal in the back half of the year. You have things like Giving Tuesday and holidays in the fourth quarter, and so it's natural for us to have growth in the back half of the year on the transaction side.

Stewart Kirk Materne - *Evercore ISI Institutional Equities, Research Division - Senior MD & Fundamental Research Analyst*

Okay.

And just on EVERFI, and maybe I'm not doing the math right, but it seems like a lot of the growth in the first half of the year for it has been on the services side or the non-recurring side. Can you just talk about that, I guess, in context of the full year guide you guys gave? Is that sort of a precursor of revenue that's slated, then ramped on a recurring basis in the back half of the year, so that ends up being a little bit more seasonal this year?

Just -- I was wondering if you just talk about that in the context of the original guide for this year on EVERFI, because it sounds like they're on plan. So I just want to make sure I understand how they're kind of trending on that front.

Anthony W. Boor - *Blackbaud, Inc. - Executive VP of Finance & Administration and CFO*

Yes, Kirk, this is Tony. I'll take that one.

EVERFI has a large chunk of what we call one-time services, and a lot of its developing specific curated content for customers. And so it's a little different than what you think of implementation services. It's services that will be used by a customer, but not necessarily general across the customer base, and that is a fairly large number. It actually looks like now we're going to see a decline.

We didn't expect to see in our core one-time services somewhere in the $15 million range, and we think that's going to be largely offset by EVERFI's one-time services. We expect that to be about $15 million on the year. That's kind of what panned out in the quarter as well. We were short on core, EVERFI came in and kind of offset that between $3 million and $4 million.

EVERFI's plan, in the prepared comments spoke to, is -- was definitely back-end loaded. That was the deal model as was the budget. We did expect a slightly improved revenue number and significantly improved profitability in the budget versus the deal model, but definitely back-end loaded. That's kind of the nature of the beast as well with them.

There's a lot of -- if you recall, we spoke about before, kind of upsell renewal services with existing customers as they expand their offerings into other school systems or geographies or at other pieces of training and educational materials. So the plan is that we would have a more back half loaded, and hence, you see this lower growth with them being right on plan for the first half. That would be right in line with what our expectations were coming into the year.

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The softness in bookings won't hit revenue a lot this year. It will be more of an impact on the '23 expectations, but we've got some things offsetting that like improvements in our overall renewal rates, et cetera. And then really, the one impact is cash flow because they bill a year in advance, typically. So it hits cash flow a little bit this year.

Stewart Kirk Materne - *Evercore ISI Institutional Equities, Research Division - Senior MD & Fundamental Research Analyst*

That's super helpful.

Operator

Our next question comes from the line of Brian Peterson with Raymond James.

Brian Christopher Peterson - *Raymond James & Associates, Inc., Research Division - Senior Research Associate*

Tony, I wanted to follow-up on the EVERFI question. So if we think about how it typically works for them, if you're booking new business, when does that hit revenue? Is there a lag between that -- when that typically starts?

And in thinking about the growth algorithm, is it more upsell or expansion-based versus net new? I know it's a small part of the reduction, I think we're just trying to understand some of the moving parts here.

Anthony W. Boor - *Blackbaud, Inc. - Executive VP of Finance & Administration and CFO*

Yes, Brian, it depends on the deal. It's interesting, like the renewal opportunity, renewal upsells with existing customers, that can turn on very, very quickly, right? Because it already -- in many cases, it already exists and you're just taking it to other geographies or other school systems, right? So you're expanding to other states potentially, and so that can be immediate recognition.

So it's a little iffy to when it turns on. If it's a brand-new deal and you have to develop content and get it rolled out, I think that runs in the 5 to 6 months kind of for turn on, just looking at the team here. So there's a big mix there between how quickly depending on the type of transaction, and then the training will be kind of in between the curriculum build, could be a little in between. So that can take weeks, if not months, to build out if it's specific one-time services kind of revenue that we're creating or curating for a customer.

The mix is interesting. Mike spoke in his prepared comments and then in his first answer, we had some relatively large deals. Again, because this is kind of enterprise-level deals that pushed, those can be very material. We have some that were certainly multi, multimillion dollar ARR kind of transactions that pushed.

Renewals and expansions can be very large also. We have some in the works now that look very promising that are expansion. So it's kind of all over the board and going to create a little bit of splotchiness as to when they hit both in the size of the transactions and then the timing to turn on the revenue, so it's really difficult for me to give you a good read as to how the model that end.

Brian Christopher Peterson - *Raymond James & Associates, Inc., Research Division - Senior Research Associate*

No, I understand. I appreciate the color there, Tony. Sorry, go ahead, Mike.

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Michael P. Gianoni - *Blackbaud, Inc. - President, CEO & Director*

Yes. I was just going to say, just a quick add -- quick reminder. The EVERFI business is 10% of our revenue. So the bookings lumpiness on their enterprise deals isn't really material at the total Blackbaud level, but there's some big enterprise opportunities there. So they're a little lumpy because they're big enterprise-type opportunities that are there. I mentioned some deals with some of the customers I mentioned earlier.

So this whole ESG space is just an awesome opportunity for growth, and they've got a really unique footprint there. And we just put the YourCause product line together with them because there's a nice cross-sell opportunity. Not a lot of overlap with the customer base, and a nice cross-sell opportunity both ways with those platforms.

Brian Christopher Peterson - *Raymond James & Associates, Inc., Research Division - Senior Research Associate*

No, understood. I appreciate all the color there, guys.

And maybe kind of -- kind of a segue on that, Mike. You gave me a lot of color or gave a lot of color on the macro and a lot of the moving parts here. If you looked at net new deals coming to Blackbaud, I know it's different by product. Not all of it is predicated on the macro, right? So I'd be curious, what have you seen in terms of kind of the pace of net new customers that are coming to Blackbaud? And any commonality that sort of developed over the last 90 days?

Michael P. Gianoni - *Blackbaud, Inc. - President, CEO & Director*

Yes. We still see new logos coming in. The really interesting thing about what we've learned in the last two years is the resiliency of our end markets. And I mentioned this in my prepared remarks, and I'll just kind of repeat it. Our end markets, the pandemic was the ultimate test. You think about past recessions and the size of the markets that we serve; the pandemic didn't put any of our end market customers out of business really. We didn't see that.

In some of them, I'll take a sector like performing art centers and museums, were completely closed during a big chunk of the pandemic, and they're open. And so things like a recession or a slowdown in the economies of different countries and in the U.S. is much less of an impact. So we're pretty excited about new logo opportunities, the big deals that we're working with EVERFI, a cross-sell with YourCause, so we're pretty excited about the growth opportunities in our end markets and that corporation space.

Operator

Our next question comes from Matt VanVliet with BTIG.

Matthew David VanVliet - *BTIG, LLC, Research Division - VP & Application Software Analyst*

Maybe a little bit more of an extension on the last answer, Mike.

As you look at some of your end markets that are more reliant on sort of in-person events and giving on kind of an individual basis. What have you seen in past times where the stock market, in particular, has declined pretty substantially? Do you feel like that tends to have more of a correlation to reduced giving or reduced average size of gifts that you've seen in the past, maybe even more than a broader economic recession? Or how have you guys looked at maybe the sensitivity around potential one-time giving through the end of the year, given some of those other macro issues?

Michael P. Gianoni - *Blackbaud, Inc. - President, CEO & Director*

Yes, Matt.

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So as I mentioned in my prepared remarks, we actually did go back and look at giving, size of giving, the giving behavior in past recessions and Blackbaud's performance. And your question is on the giving side.

First of all, I'll remind you that in the U.S., giving is over $470 billion a year. It's massive. And you think about the fact that we actually monetize a very small percentage of it. So regardless of even how the macro works, there's still such a huge TAM for us to go after. It's significant.

Back in the '07 and '08 timeframe, giving one a little bit backwards and accelerated from there, and it's gone up a lot since then. So, it doesn't really concern us. Most of that $470 billion, around almost 70% is individuals and the averages are pretty small as far as donation size. So, we do not see an impact on giving with economy slowing down in recessions or potential recessions. It just hasn't happened in the past, number one. And number two, we monetize a small percentage of it. So in other words, even if it did go backwards, we only monetize a small percentage, which is a huge TAM for us. So it's a very resilient part of the economy, really. The non-profit sector is the third-largest employer in the U.S. So we don't see that as a big issue.

And your question on one-time gifts, large one-time gifts are not run through payment systems anyway, so we do not monetize that. We monetize the 70%, or a small part of the 70%, of the 470 and a smaller part of that, which is online. If that makes sense.

So we went back, looked at past recessions, looked at Blackbaud's performance. And back in '08, '09 timeframe, we are a much smaller company and a lot less on the recurring revenue side. So we're a much bigger base, over $1 billion and 95% recurring revenue, so we're actually in a much better position than we were in the past.

Matthew David VanVliet - *BTIG, LLC, Research Division - VP & Application Software Analyst*

Okay. Very helpful.

And then as you look at some of the newer initiatives, maybe could you provide any kind of update in terms of what the traction has been looking like or penetration rates the Church Management side?

Michael P. Gianoni - *Blackbaud, Inc. - President, CEO & Director*

Sure. Yes, we have a couple of them, Church, higher ed, EVERFI are the, I guess, the big 3. We're cross-selling a lot in the faith-based space. K-12 platform, the faith-based space is a lot of K-12 schools. We're cross-selling their new logos and cross-sell with Raiser's Edge NXT and Financial Edge NXT. The higher ed space, we've got our Blackbaud Education Management platform that we're selling to smaller colleges, and that road map is progressing well.

And I think I talked a lot about EVERFI, lots of cross-sell, upsell while we renew in the EVERFI space. And then new logos and new content that we're developing as well. We just had some recent press releases on some new content that we've built and deployed at EVERFI.

Operator

And our next question comes from the line of Koji Ikeda with Bank of America.

Tanika Mehra - *Bank Of America - Equity Research Analyst*

This is Tanika Mehra, on for Koji.

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So you called out some changes in management and I have specifically a question around your new customer officer, Chris Singh. Any changes to call out in strategy in terms of becoming more customer-centric? Is there any specific feedback that you've got from customers? Are you focusing more on retention and renewal? Just wanted some more color around any changes there. Yes.

Michael P. Gianoni - *Blackbaud, Inc. - President, CEO & Director*

Yes, sure. So yes, there's -- it's just -- it's a big opportunity for us. We've made a lot of progress in the last year on things like retention and renewals, and numbers are up nicely. And over $1 billion business with 95% reoccurring revenue, that's a great growth opportunity for us.

And so we recently named Chris Singh, as the Chief Customer Officer. He's been with us a little over a year. And Kevin Gregoire as Chief Operating Officer, we've really put together our customer success and our engineering and our IT organizations to drive automation and scale and customer retention because it's a big focus of ours, and it's a big growth opportunity for us given we're 95% recurring revenue.

So nothing that has really come from customers. It's just the next step of maturity in our organization to go after this big growth opportunity in driving up retention and renewals.

Tanika Mehra - *Bank Of America - Equity Research Analyst*

Got it.

Operator

And we have reached the end of the question-and-answer session. And I'll now turn the call back over to CEO, Mike Gianoni, for closing remarks.

Michael P. Gianoni - *Blackbaud, Inc. - President, CEO & Director*

Thank you, operator.

I'll just close by reiterating, we had an outstanding first half of the year. And looking to the rest of the year, aside from unfavorable movement in foreign exchange rates, our revenue and profitability outlook would fall within our original guidance ranges. We continue to monitor the macro environment and remain confident in our core business as well as our ability to execute on incremental program initiatives already underway as we look to balance operating discipline with strategic investments to drive sustainable growth. Overall, our plan for 2022 has us well positioned to continue progressing toward our long-term goal of achieving Rule of 40. We look forward to providing further updates on our next call. Thanks, everyone.

Operator

This concludes today's conference, and you may disconnect your lines at this time. Thank you for your participation.

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