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PRESENTATION

Operator

Good day, and welcome to Blackbaud's Fourth Quarter 2021 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. Thanks for joining us on Blackbaud's Fourth Quarter and Full Year 2021 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 financial 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 first quarter, our team will be participating in virtual investor meetings hosted by Stifel on March 2, and we will attend the Raymond James 43rd Annual Institutional Investors Conference in Orlando on March 8 and 9. Please reach out to ir@blackbaud.com if you're interested in connecting at these events.

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

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

Thanks, Steve. Welcome, everyone, and thank you for joining us on the call today.

The fourth quarter was a strong finish to what was a very successful year for Blackbaud and our customers on a much improved market backdrop. Our organic recurring revenue grew 4%. Our adjusted EBITDA margin was 24.5%. And we generated nearly $30 million of free cash flow, which was up roughly 20% over Q4 2020. We finished the year with total revenue of $928 million, exceeding not just our best estimate heading into the year, but also our original upside scenario. Adjusted EBITDA margin for the full year was 26.5% and 150 basis points above our original best estimate. And free cash flow was $162 million, which marks one of our best free cash flow years ever.

Just over a year ago, we laid out the road map for our journey to achieving Rule of 40, and we're already pacing ahead of our own expectations. We ended 2021 at 27% on a Rule of 40 basis at constant currency, a full 2 percentage points higher than our near-term expectations.

But what has me really excited is what's on the horizon. We have solid visibility into what should be another strong year in 2022 with further acceleration on a Rule of 40 basis. The midpoint of our financial guidance ranges for this year calls for total revenue growth of approximately 17%, inclusive of our recent acquisition of EVERFI; a significant acceleration in organic revenue growth to approximately 5%; and nearly 30% on a Rule of 40, which is roughly 250 basis point improvement year-over-year at constant currency.

Combined with our 2021 performance, that equates to roughly 5 percentage points of improvement on a Rule of 40 relative to our expectations in just 2 years since laying out our long-term aspirational goals. Given our strong performance and our acquisition of EVERFI at the end of last year, we're also pulling forward our timeline to achieve our long-term aspirational goals. We expect to achieve our original midterm goal of mid-single-digit organic revenue growth this year in 2022, which is a big acceleration in revenue growth and several years ahead of schedule. Additionally, we have heightened confidence that our original aspirational goal for mid- to high single-digit organic revenue growth annually is now well within reach.

With a guidance of roughly 30% on a Rule of 40 in 2022 and our accelerated expectations for future top line and adjusted EBITDA growth, we have line of sight into our ability to continue to improve on the Rule of 40 going forward. While the pandemic, inflation and the current labor market are certainly topics that we continue to monitor, we are very encouraged by the near-term and long-term growth opportunities in front of us.

Tony will cover our financials and our 2022 outlook in more detail shortly.

Our performance for the quarter and the full year is a direct result of our successful execution against the growth and margin drivers we laid out at our investor session in March of 2021. As expected, our revenue performance accelerated in the second half of 2021 as our near-term growth drivers started to take hold, with bookings improving year-over-year, pricing initiatives underway and in-person events beginning to return.

And we're confident this momentum is sustainable. Our end markets are taking the lessons learned during the pandemic and looking forward with a digital-first mindset and their technology strategy at the forefront. I'll highlight one example of many. Phillips Exeter Academy, an independent high school with a centuries-old tradition of academic excellence, recently selected Blackbaud Education Management and Raiser's Edge NXT to serve as core systems in support of a multiyear effort to build a best-of-breed set of cloud solutions. Their evaluation for education management alone included over 700 individual requirements and a comprehensive vendor review with Blackbaud emerging as a clear leader differentiated by our modern cloud architecture, the extensibility of our best-in-class solutions, our growing partner ecosystem, our vast user community and our commitment to customer success, we are uniquely positioned to serve as a key technology partner for our customers.

And we gained momentum in 2021 with fantastic wins at organizations, like the LSU Foundation, Adrian College, American Museum of Natural History, International Fund for Animal Welfare, National Parks Foundation, Alzheimer's Association and Del Monte, just to name a few.

Not only is our go-to-market motion picking up steam, but we're executing a strategy that enables us to gain efficiencies at the same time. In 2021, we drove a substantial increase in sales rep productivity while significantly improving our CAC payback period. As I said on our Q3 call, I believe we are at an inflection point for our market and our company, and there's no shortage of growth opportunities ahead.

We continue to drive industry-leading innovation, customer success, security and cloud infrastructure. I could take up the entire call highlighting examples of the innovation and determination I've seen from our teams. To highlight just a few, we released an entirely new experience for all of our Blackbaud Grantmaking customers. Also, we're transforming the entire accounts receivable experience on Financial Edge NXT. We brought JustGiving to new global markets, delivered secure contactless payments capabilities to arts and cultural organizations, and rolled out the availability of Giving Checkout in the U.S. as an easy-to-add, simple-to-use donation button that can be used by any nonprofit organization.

The ecosystem we're building in the market with offerings like Giving Checkout, JustGiving and the global network of nonprofits, charities and NGOs receiving funds through our YourCause solution is impressive and, I believe, underappreciated. There are over 150,000 organizations across the globe receiving funds, thanks to a Blackbaud solution.

We're committed to giving customers the flexibility to benefit not just for Blackbaud's innovation, but also from the Blackbaud Marketplace and our rapidly growing developer community, with more tools than ever to create new capabilities that extend Blackbaud solutions. We now have over 6,000 non-Blackbaud developers registered in our ecosystem, and we're driving substantial growth in the Blackbaud Marketplace. We've enabled roughly 6,500 organizations to find a curated app that helps them work smarter. And the number of apps available is growing rapidly, increasing nearly 90% in the last year alone. I'm really excited about the network effect we are creating here as we help our customers drive more impact.

It's clear the vision of the SKY platform that we laid out several years ago is becoming a reality. The innovation we're driving in our products and our architecture results in greater scalability and a lower-cost operating structure. For example, we're well underway on a multiyear journey to shift toward third-party cloud infrastructure providers, and by the second half of this year, we expect to begin exiting some of our co-lo data centers. This shift reduces our operating costs while enhancing our ability to deliver secure, stable, modernize and affordable solutions for our customers.

Another core component of our four-point strategy is expanding our addressable market. We closed out the year in a big way with the acquisition of EVERFI on December 31. As a reminder, we hosted a call on January 4 with EVERFI's Founder and CEO, Tom Davidson, where we covered an overview of EVERFI and the transaction details. The transcript of that call and accompanying presentation are available on our Investor Relations website. In short, EVERFI's shared mission-driven culture, world-class team, industry-leading impact-as-a-service cloud platform, large addressable market and high-growth recurring revenue model checked all the boxes that we look for in a high-quality acquisition.

This acquisition advances our position as a leader in the rapidly evolving ESG and corporate social responsibility spaces and adds roughly $10 billion in TAM, which doubles our total addressable market opportunity to $20 billion. Also significant, over half of our addressable opportunity is now in the corporate sector. As companies continue to invest more in programs to give back to their communities, together Blackbaud and EVERFI will be a leading partner to help them drive meaningful social impact across a large span of technology-enabled program areas from community education to volunteering, to grant making and philanthropy. We're also going to aggressively pursue what we believe to be substantial revenue synergies in the form of cross-selling and up-selling, given the complementary product offerings with our YourCause solutions and minimal customer overlap.

EVERFI's financial profile is highly attractive and will be immediately accretive to our revenue growth, adding an estimated $120 million in 2022 revenue. They're also profitable, with a sub-5% EBITDA margin in 2021, that we conservatively expect to be closer to 10% now just a couple of months post close. And there is significant upside potential throughout this year and going forward. The combination of sustainable double-digit revenue growth and improved margin profile as we complete future integration work means EVERFI should be accretive to Blackbaud's Rule of 40 in the coming years.

This acquisition, combined with our recent company performance and our updated outlook, allows us to significantly pull forward our timeline for achieving our long-term goal of mid- to high single-digit organic revenue growth from being a few years out to now beginning this year in 2022. I'm very confident that the combination of Blackbaud and EVERFI adds tremendous value to a very large and rapidly growing market, which will accelerate our growth, pull our long-term financial goals forward and create value for our customers and our shareholders.

2021 was also a big year for our own internal ESG efforts as well. We formalized our ESG program, joined the UN Global Compact, advanced our voluntary ESG reporting, and we're actively pursuing carbon neutrality. Our focus on employees, culture and ESG initiatives have been in our DNA since the company was founded 40 years ago. And it's a big advantage as we look to attract and retain top talent, which is even more critical in today's environment.

We're thrilled to be included on America's top companies as a corporate social responsibility and ESG leader, with external recognition, such as the U.S. Chamber of Commerce Foundation's Citizen Award and Newsweek's list of America's Most Responsible Companies and Forbes America's Best Employers List for Midsized Companies. Blackbaud is a unique company, showing that it's possible to provide exceptional products, generate shareholder value and do good in the world. By staying mission-aligned, we built not just a successful business model but an innovation engine that has played a role in driving advances on social issues of every kind.

In summary, I believe 2021 was a turning point for our market and our company. We're carrying a lot of momentum into 2022, and we just layered on a tremendous acquisition in EVERFI. I believe our plan to accelerate progress towards achieving Rule of 40 by balancing sustainable mid- to high single-digit organic revenue growth and meaningful margin expansion over the next few years is a winning combination for Blackbaud and our shareholders. Our teams are executing at a high level, and I'm confident we're well positioned to capture the opportunities in front of us.

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, and good morning, everyone.

Today, I'll cover our results for Q4 and full year 2021, our outlook for 2022 and our updated long-term financial targets. Please refer to yesterday's press release and the investor materials posted to our website for the full details of our Q4 and full year 2021 financial performance.

The continued acceleration of contractual recurring revenue growth and another strong transactional revenue performance drove Q4 recurring revenue growth of 4%. We've seen strong year-over-year improvement in sales productivity per rep, which has helped drive an increase in overall ARR bookings. We also continued to see strong positive trends in renewal rates that exceeded our plan for the full year and some of our early pricing initiatives starting to have a meaningful impact. This is a great indication of what's achievable going forward as we continue to execute against the 10 growth drivers laid out in our investor session last year.

On a full year basis, our organic recurring revenue growth was 3.5%, and one-time services and other revenue was roughly a 190 basis point drag on our total revenue growth. After several years of strategically shifting away from onetime services, we expect this drag to bottom out in '22, and we're guiding for minimal impact on full year 2022 total revenue growth.

Overall, we're very pleased with our revenue performance in Q4 and full year '21. We expected an acceleration in the second half, and not only did our results deliver, but they exceeded expectations. We're excited to carry that momentum into 2022.

Moving to earnings, our fourth quarter gross margin was 55.3%,we generated adjusted EBITDA of $61 million, representing an adjusted EBITDA margin of 24.5% and diluted earnings per share of $0.75. Please recall that the fourth quarter tends to be our seasonal low for gross margin given it includes our user conference, bbcon, which we again offered for free to our customers, and Q4 is typically our seasonal high for payments revenue, which is generally dilutive to our total gross margin.

Overall, we're laying the foundation for considerable margin expansion going forward. And for the full year 2021, we had an adjusted EBITDA margin of 26.5%. This was roughly 150 basis points ahead of our original best estimate for the full year adjusted EBITDA margin due to a combination of strong execution and timing of planned spend. As we mentioned on our last call, we continue to have good success attracting top talent in a competitive labor market. We also successfully transitioned to a remote-first workforce in '21. And going forward, we will opt for more flexible on-demand office and team space. In addition, we'll use our headquarters office in Charleston, South Carolina for customer meetings, employee gatherings and team building. This resulted in restructuring and other real estate charges of approximately $12 million for the quarter as we shuttered most of our remaining offices.

That brings me to the cash flow statement and the balance sheet. Our free cash flow was $30 million for the fourth quarter, a year-on-year increase of $5 million, or 20%, representing a free cash flow margin of approximately 12%. For the full year, we generated approximately $162 million of free cash flow, with a free cash flow margin of 17.4%, an increase of 910 basis points year-on-year. This was largely a result of our strong operating performance and was well above the original $100 million floor we set at the beginning of the year.

I'll also note that we completed another $10 million of opportunistic share repurchases during the quarter, bringing the total amount of shares repurchased in 2021 to $108 million. In December, our Board of Directors reauthorized and replenished our share repurchase program to $250 million. And we plan to continue opportunistically executing on share repurchases when our internal estimates determine that the company's shares are undervalued by the market and we have adequate availability of capital.

We ended the quarter with $901 million in net debt, with an additional $240 million of borrowing capacity following our acquisition of EVERFI. Our capital strategy calls for a debt-to-EBITDA ratio of less than 3.5x, and at the end of Q4, we stood at 3.3x. Consistent with previous acquisitions, we plan to rapidly de-lever in 2022. We also remain active in evaluating future acquisition opportunities.

Now let's turn to 2022. Our full year 2022 financial guidance is available in yesterday's press release and is inclusive of our acquisition of EVERFI. To cover the high points of our underlying assumptions for stand-alone Blackbaud excluding EVERFI, the midpoint of our guidance includes an expected acceleration to mid-single-digit organic revenue growth and adjusted EBITDA margin of roughly 26%, resulting in roughly 30% on a Rule of 40 basis, which is nearly 300 basis points of improvement year-on-year at constant currency and an anticipated adjusted free cash flow margin of 17.6%.

Also included in our guidance, we are estimating that EVERFI will generate approximately $120 million in revenue, adding roughly 13 points to our total revenue growth rate. We expect EVERFI to add approximately $13 million in adjusted EBITDA, which is dilutive to our combined EBITDA margin by roughly 160 basis points, though I'll note there is likely material margin upside as we complete our integration work and pursue both revenue and cost synergies.

From a revenue perspective, the midpoint of our guidance calls for approximately 5% organic total revenue growth at constant currency. And our organic recurring revenue growth should be similar as we're not anticipating much, if any, drag from one-time services and other on a full year basis.

Consistent with our historical definition of organic revenue growth, our acquisition of EVERFI closed on December 31, 2021; and therefore, will be included in our organic revenue growth calculation in 2022, and we will pro forma 2021 results as if we had owned them for an entire year. EVERFI constitutes roughly a point of 2022 organic revenue growth expectations. We anticipate the majority of our full year organic revenue growth in 2022 to come from accelerated contractual recurring revenue growth, continued strength in our transactional revenues, and leveling off of our one-time services and other revenue.

From a profitability and cash flow perspective, we're well underway in our efforts to drive efficiencies in our go-to-market and additional scalability in our products and infrastructure, and we're well positioned to drive substantial margin expansion beyond '22. We anticipate roughly $30 million to $33 million in interest expense, inclusive of the incremental debt associated with our acquisition of EVERFI. And we estimate our non-GAAP tax rate will remain consistent with the 2021 rate of 20%.

Moving on to cash flow, coming off a tremendous year in '21, we're expecting additional growth in our adjusted free cash flow in '22. Our estimate for combined capital expenditures is expected to be $60 million to $70 million. Please note our guidance for adjusted free cash flow excludes cash to be spent net of insurance related to the ongoing litigation of our previously disclosed security incident. We expect to exceed the limits of our insurance coverage in the first quarter of '22 and currently anticipate a net cash outlay of roughly $25 million to $35 million in the full year 2022 for ongoing legal fees related to the security incident. In line with our policy, we expense legal fees as they're incurred. Also, as of year-end 2021, we have not recorded a loss contingency related to the security incident, given the current unpredictability of the timing and magnitude of potential financial obligations that could result from the security incident.

With that said, we believe adjusted free cash flow provides a useful measure for our operating performance, but we will also continue to be transparent in our disclosures relating to the security incident and associated financial impacts. Lastly, we will also continue executing against our capital deployment strategy, which calls for ensuring access to adequate levels of capital to grow the business through balance sheet management, rigorous oversight of investments in the business, including acquisitions, and identifying and efficiently returning excess capital to shareholders, including the option for additional share repurchases.

In summary, 2021 was a strong year for Blackbaud, and '22 has us even more excited. We're executing against our strategic plan to achieve a Rule of 40 as a company, and our accelerating growth combined with our margin expansion initiatives has us well positioned to accomplish this goal sooner than we originally anticipated. We continue to execute our capital deployment strategy and 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

(Operator Instructions) Our first question comes from the line of Brian Peterson with Raymond James.

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

Congrats, gentlemen. So I wanted to start off, Mike, your comment on the inflection point was pretty loud and clear. But I'm curious, as you're thinking about pulling forward those mid- and long-term targets versus your prior expectations, what's really changed that? We heard a little bit about pricing, sales productivity. But I'd be curious how much of it is maybe Blackbaud-driven versus market-driven because you referenced some of that as well. So just looking to unpack that a little bit.

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

Sure, Brian. Thanks. Thanks for the question. It's a combination of things. The market is opening up with events coming back. We've talked about that for a while. We've also been executing quite well the last several quarters. And it's just translating into being able to pull those long-range targets forward into 2022. We've had our multiple price efforts coming into fruition. We talked about that almost a year ago now, and there are several. And they're kind of paced out as they are different types of initiatives. Increase in sales productivity is happening, good pipeline coverage and production. From that standpoint, we've got some operating improvements that are still coming.

I mentioned in my prepared remarks, finally, toward the back end of this year, we're going to close a couple of our co-lo data centers, which helps a bit. So it's the combination of the things that we really laid out at that Investor Day a year ago coming to fruition, but the company has executed all of those quite well. And then we've got an addition of a great acquisition and EVERFI coming in, driving the top line a little faster. We finished the year stronger than anticipated in Q4, including things like bookings, which translates over into '22. So it's all of those things that we've been executing on quite well coming together.

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

And Brian, this is Tony. I'd add a couple. Online giving, obviously, we've seen some significant increase there, and that gives us another revenue stream opportunity in many cases, as well as renewal rates have continued to trend very, very positively. We've put a lot of focus on customer success and getting our customers real value out of our solutions. And we've seen some positive trends on renewal rates. And those have continued into this year as well and already running well ahead of plan.

And then I think the last thing which is really not built into this yet is we still have quite a bit of work to do on the revenue and cost synergies associated with EVERFI. And as I said in my prepared comments, we expect there's some good material upside as we get through planning for those synergies on top of it.

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

Yes.

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

Understood. That's good to hear. And maybe just a follow-up. You mentioned that half the TAM is now in the corporate market. I'd be curious, what is the revenue growth? How's that look like for you guys over the last year or two? I'm assuming it's above, but I just wanted to confirm. And how do you balance the investments and kind of incremental growth opportunities in the corporate opportunity that's now half your TAM versus your existing portfolio today?

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

Yes, sure. It's been strong for us. The YourCause acquisition has performed really well. We've invested more in resources in our corporate sector, YourCause and grant platform. EVERFI is in addition to that, which is a fast grower and very accretive. And so that marketplace, that ESG and corporate social responsibility marketplace, which makes up our corporate solutions, is a fast grower. It's a big TAM. It's half our TAM now, and it's very accretive to the company as well.

So we continue to balance our investments. We're -- we've got a pretty broad product portfolio. There's really 17 core products in the company outside of EVERFI. And it's been a strong market for us, and it's performed well for several years. And EVERFI's additive to that.

Operator

Our next question comes from the line of Parker Lane with Stifel.

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

Yes. Maybe just to follow up on Brian's question there on EVERFI. What are the initial conversations looking like between the EVERFI customer base and the YourCause customer base? And what do those joint go-to-market efforts look like today? Is this a work-in-progress situation? It's obviously a fairly new deal, but how quickly should we start to see those respective sales teams coming together and start achieving some of those revenue synergies you were just talking about, Tony?

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

Yes, sure. I'll take that, Parker. It's Mike. We've been talking about that for a while, including working on due diligence last year. That's one of the synergy opportunities for us. So we've had a really good start with EVERFI post close in a couple of areas. One is the coordination of go-to-market. Our YourCause buyers are the same corporate buyers as EVERFI. There's little customer overlap, so the cross-sell is sort of just sitting there. And we've organized ourselves to go after that, both cross-selling to EVERFI customers and then EVERFI to YourCause customers.

And then also the integration operationally is going really well. We're integrating right out of the gate all the corporate functions, and that's going really well. We've got a lot of experience in that. We've got a really solid set of operating models and corporate IT systems that we're integrating them, too, and it's really going quite well. And there's a really great culture synergy between EVERFI and Blackbaud. We've come together quickly as one company. There's a clear opportunity that our larger scale is going to help them upscale faster in the back office and in go-to-market. And so I'd say super positive right out of the gate, and we're right on target of what we thought we would do from an operating plan standpoint.

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

Got it. And Mike, when I look at the improvement in the adjusted EBITDA of EVERFI in 2022 or the anticipated improvement, is it simply those operational changes that you just referenced there? Or does that come mostly in the form of really heightened levels of sales efficiency in that business because of the anticipated cross-sell opportunities?

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

Yes. I'd say that, that improvement from last year to this and their EBITDA, we basically achieved that. The view to that, it took about a month. So I would also tell you, it's early days with that EBITDA opportunity with EVERFI as well because we offer a lot of scale for that business. And so I think there's upside to that, frankly, even in the short term. And it's coming from a couple of areas, ones that I already covered: sales, back office, a few other areas.

Operator

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

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

Yes. Mike, in a couple of points or in a couple of times during your prepared remarks, you mentioned about sales productivity. And I was just sort of wondering what the focus is on for this year on that front. Just are there any changes? Just anything you could add on that basis would be great.

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

Yes, sure. I mean, we keep improving our sales productivity. Customer acquisition costs have gone up nicely last year. We plan on doing that again this year. A lot of it is coming from a bigger investment in digital tools and automation, digital lead generation and just having a better way to go to market, if you will. And we have that plan to improve this year as well. There's more opportunity there, no doubt. We also think there's opportunity on the EVERFI integration side there as well.

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

Okay. And on EVERFI, you guys are obviously forecasting about 15% growth, if I understood that correctly. Is there opportunity for you all to sort of invest more to potentially accelerate that this year? Or are you just sort of trying to take a fairly conservative approach to that to start?

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

Yes. I'd say it's a conservative approach. We anticipate that part of Blackbaud now to be a 20% grower forward. They did really well last year, above their plan in Q4. That's why we have it in there at 15%. But yes, I think there's opportunity to accelerate that as well. So it's fairly conservative.

Operator

Our next question comes from the line of Rob Oliver with Baird.

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

Two for me. One, just on the pricing initiatives, it sounds like you guys have already begun some of those pricing initiatives. I was just wondering if we could get some color on how we could expect those to roll in through the product set throughout the year. Will it be rolling across the product lines throughout '22? Is it a one time event? And what are your expectations in terms of how that contributes this year to that organic revenue guide increase? And then I had a follow-up.

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

Sure, Rob. I'll start, and maybe Tony will add to this, too. So there's multiple pricing initiatives. Frankly, the first one started in the summer of last year we put into place. So we'll basically get full year effect of that this year. Another one started in Q4-ish time frame, and that's ramping up. So we'll get most of the full year effect of that this year and in the back half. So it's 2 of them. Another one goes across the product portfolio, and that's coming in over time. And another one is a new offering, which is a pricing model that we've proven out quite well with JustGiving on a product that we've launched here in the U.S. It's going to take a longer multiyear ramp up. It's called Complete Cover, and that's underway, and that's a longer-term one. So there's multiple ones underway. All of them will be fully in place at least by the end of this year, but a couple of will get full year effect this year, starting in Q1.

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

Yes. So Rob, just from a modeling perspective, you'll get full annualized impact of one of those key ones from last year. You'll get almost full annualized impact on like YourCause and some of the areas. And the other one will come in over multi-years. So this will be contributing to that acceleration in growth that helps us get towards the high single-digit over the next several years.

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

Okay. Great. That's helpful color. And then Tony, could be for you or for Mike, either one. But just you guys historically have been a direct organization. And I think you've done a really nice job of getting that service line down. And Tony, I think you mentioned on your prepared remarks, like that will cease to be a headwind towards that growth or top line growth this year, which I think is great. Just wanted to ask about, as you get to a broader -- or have a broader TAM within organizations, 50% of the business now being on the corporate, I assume, for-profit side, services that I would assume becomes important. So what's the readiness for the external services effort? Maybe help us understand that, as we enter this kind of next couple of year period, where you're going to be much more reliant on external services, like how ready you guys are for that?

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

Yes. Rob, I'll take that. So we hired a new Global Head of Customer Success halfway through the year last year. He's driving that. In general, I would say that the Blackbaud network effect and the ecosystem has been growing a lot. And it's a couple of areas. So one is directly at your question, which is services partners, and that's growing a lot. Another one that I talked about in my prepared remarks is our marketplace, which is third-party apps. That grew, I think, over 90% last year. Thousands of customers have access to apps that are additive to the Blackbaud solutions. And the third one that's super important, we've got over 6,000 developers building code and integrating to Blackbaud solutions outside of Blackbaud. So 6,000 developers and growing outside of Blackbaud, another example of sort of this network effect in this ecosystem we're building.

Just that developer side, if you go back 5 years, that was maybe a few hundred. And so between that, the service partners, to your question, the Blackbaud Marketplace, there's a lot going on outside of Blackbaud that's making our products stickier and adding capabilities from a new sales and booking standpoint as well.

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

And Rob, just from a modeling perspective on the one-time services and others, that was about 190 basis point drag on the year to our overall growth, but in Q4, only about a 90 basis point drag. And we're saying, hopefully, for 2022, it will be 0 drag. So that's probably between 1.5 and 2 points improvement on growth just by that not pulling us backwards in '22 versus '21.

Operator

Our next question comes from the line of Matt VanVliet with BTIG.

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

Yes. I guess as you look at both the payments upside in the quarter and the strength throughout the year, wanted to sort of, I guess, look at it on two fronts. One, what percentage of the events and overall interactions with your customers throughout the year in terms of how much line of sight you have were sort of back to normal in-person versus additive from a virtual standpoint or maybe displaced in the virtual setting? And then sort of how do you think about that from an upside perspective heading into '22 and beyond?

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

Yes, Matt. It's Mike. Thanks. So a couple of things there. In the last few years, including the last year, virtual events have grown quite a bit. And depending on the institution type, they either have taken over for things or they've been additive. It depends on how our customer or institution kind of goes to market for their revenue generation. So it's been a mix.

The big thing for us going into '22, to your question, is the fact that we'll have more of a full year effect of that this year. Last year, as we said at the beginning of the year last year, we'd have a slow first half and a better second. It proved out to be accurate. Some of that is related to a couple of components. But events is some of that. And we didn't have a full year effect of events last year, and we will much more so this year. So I think that's the biggest change year-over-year. It's more of a full year effect this year compared to last.

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

Okay. And then, Tony, as we look at the gross margin, fourth quarter had a pretty decent headwind both sequentially and certainly through the year as well. Wanted to maybe better understand kind of what was impacting particularly the recurring margin given last year was a larger payments growth quarter versus this year, but it was still up this year. So maybe just what are the moving pieces there? How should we think about EVERFI as that layers in impacting gross margins into '22? And really just kind of what are some of the puts and takes as we look ahead at '22?

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

Yes, Matt. The Q4 gross margins had several factors impacting it a bit to the negative. One of the items we talked about is that one-time services drag on overall revenue growth. And that line of the business, as you know, has shrunk significantly over the last several years. And we've had frankly a tough time trying to keep up with the cost base on that side of things. And so the gross margin, I think, year-on-year, I think in 2020, we were somewhere in that 11% or 12% gross margin, and we were at negative 11% or something, I think, for '21. And so that's put some pressure on gross margins. We are focused on correcting that situation. And so I would expect by the time we head into '23, we'll be in a better position on gross margins related to one-time at that much lower revenue number, and it will no longer be a drag on overall growth either. So kind of a double positive impact on the business. Growth will be higher, and margins will improve.

And then as you stated, transactions, Q4 is typically our biggest seasonal quarter from a transaction perspective. And several of those, when you think about the standard payments business and a few of the other transactions, are actually still dilutive today to gross margins. And so with that mix being up, gross margins will be down. Now some of the new pricing initiatives that we're rolling out over this year and next should have a very positive impact on gross margins on the payment side and transaction side. So we expect to see that gross margin dilution impact mitigate as we roll out some of these new pricing opportunities that have been so successful in the JustGiving and U.K. markets.

And then we've continued to make some pretty heavy investments in security as well that's hitting gross margins. And lastly, our move to third-party cloud, which has some security components to it, but also to get out all these old co-lo data centers. So we've got all those duplicative costs, and those continue to ramp, and that's put pressure on gross margins. The good news is, in '22, we are going to start closing data centers for the first time since I've been here. And we won't see a lot of positive impact in '22 on margins, but we will start to see that positive impact, and that will be a positive trend over several years, starting in '23. And so we should see some nice impact for you to build in your models for '23 forward.

Operator

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

Koji Ikeda - *BofA Securities, Research Division - VP & Research Analyst*

A couple of questions from me. First one, how should we be thinking about the linearity of revenue growth this year from a sequential net add perspective, just given the addition of EVERFI and the pandemic headwinds dissipating? I mean, is there any sort of seasonality that we should be thinking about given these dynamics?

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

Koji, I think that we will certainly see some change in seasonality as a result of adding EVERFI. It's not something that we're guiding to, so I can't give that to you today. But it will certainly have an impact on our seasonality. I would still expect to see our typical kind of Q2 and Q4 spikes in seasonality with transactional-related giving and events. So those kind of seasonal trends should still hold. That said, I think the overall -- the addition of the $20 million that we're guiding for EVERFI will have some impact on seasonality to flatten it out a little bit.

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

I was going to say, the key thing for us is that the macro big acceleration in total growth, right? We're going to grow at the midpoint of 17% year-over-year and at the midpoint organic growth of 5%, big change over last year.

Koji Ikeda - *BofA Securities, Research Division - VP & Research Analyst*

Got it. And then I noticed in the deck, you're talking about the return to in-person events. That began in '21, and really expect it to continue in 2022. Just thinking about the guide, I mean, how do we think about the pace of the return to in-person events that you guys are incorporating within the guidance? Is that front-end loaded or back-end loaded? What are you hearing out there from your customers for the pipeline from in-person events?

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

Yes. Those are spread throughout the year, Koji, there. I'm still helping the Chair of the Heart Ball for Charleston, and that one's in April. You've got marathons already being run in-person with fundraising associated with them. So that will be spread throughout the year as organizations do their various fundraising events.

Koji Ikeda - *BofA Securities, Research Division - VP & Research Analyst*

Got it. Got it. Okay. And then last one from me, just kind of thinking about that slide with the 10 growth drivers. I guess, which ones do you think are potentially the most meaningful from a growth driver perspective in that near-term bucket? There's 4 of them there. And then also from a longer-term potential, too.

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

I would say the most impactful -- immediate impact would be the pricing initiatives because once those are put in place, they'll have an immediate positive impact on revenue. Several others are fairly significant. We've put in some new framework and controls around discounting, which is going to be very positive. The efforts on the renewal rates are fairly quick to have an impact, obviously, not losing that revenue in the first place and having to replace it. And so I think those very positive renewal trends that we saw start second half of last year and then are continuing to be very positive against plan already into this year, I think we start seeing some pretty immediate impact of that on the revenue numbers.

I think that the ongoing efforts on sales, productivity and improvements Mike spoke to there and the improvement in CAC payback and all of those things are a little longer tail. Obviously, events coming back and the increase in online giving, all of those are fairly quick. The nice thing on the revenue front is most of them are all fairly short term to get to positive impact. I think some of the cost and margin improvement opportunities take a little longer, like exiting the data centers. That will be a multiyear project to get rid of those duplicative costs and to finish moving to third-party cloud and continuing to simplify and standardize and automate things and gain efficiencies in the business will take a little longer. But most of the revenue side are much shorter term.

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

Yes. I'll just add to that, our ESG and CSR sector with YourCause and EVERFI are short-term revenue accelerators as well.

Operator

Ladies and gentlemen, that concludes our question-and-answer session. I'll turn the floor back to Mr. Gianoni for any final comments.

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

Thank you, operator. I'll just close by reiterating the second half of '21, including the fourth quarter, was a strong end of what I believe was a turning point for our markets and our company. We're accelerating up the Rule of 40 and carrying a lot of momentum into 2022, including a strong acquisition in EVERFI. I believe our plan to progress towards achieving Rule of 40 by balancing sustainable mid- to high single-digit organic revenue growth and meaningful margin expansion over the next few years is a winning combination for Blackbaud and our shareholders. Our teams are executing at a high level, and I'm confident we're well positioned to capture the opportunities in front of us. Thanks, everyone.

Operator

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

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