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PRESENTATION

Operator

Good day, and welcome to Blackbaud's Third Quarter 2023 Earnings Call. Today's conference is being recorded. I'll now turn the conference over to Kevin Mooney, Executive Vice President, Investor Relations. Please go ahead, sir.

Kevin W. Mooney ***Blackbaud, Inc. - Executive VP of Strategy & Business Development***

Good morning, everyone. Thank you for joining us on Blackbaud's Third Quarter 2023 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'll open the line up for your questions. Please note that our comments today contain certain 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. This discussion today will focus on non-GAAP results.

Please refer to our press release and the investor materials posted to our website for the full details of our financial performance, including GAAP results as well as full year guidance. 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 form or as a substitute for GAAP measures.

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

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

Thank you for joining the call today. I'm pleased to share that Blackbaud produced very strong results in the third quarter. Our performance accelerated as we continue to execute on our 5-point operating plan to improve product innovation, accelerate bookings growth, optimize transactional revenue, modernize contract pricing and improved cost management.

You may recall that on last quarter's call, I suggested that our plan would deliver a 1-2 punch. First, an improvement in profitability; and second, improved organic revenue growth. In the second quarter, the business delivered the first punch, much improved margins. This strong margin expansion continued in the third quarter with total cost again being below last year's level. We're continuing to aggressively manage our cost and margin going forward. This quarter, we also delivered the second punch with improved organic revenue growth.

For the quarter, total organic revenue grew 6.6%, that's more than twice the rate of growth in the second quarter and up almost 5 percentage points from a year ago. And our organic reoccurring revenue, which is our most strategic revenue line comprising 97% of our total revenue grew even faster at 8.3%. The combination of accelerating revenues and lower costs drove improved margins and excellent cash flow for the third quarter.

As a result of our execution on both the top and bottom line, we delivered on our commitment to become a Rule of 40 company with a result of 41.6%. We obtained this North Star goal a few years before our initial expectation in a full quarter ahead of recent expectations, and that score is up a remarkable 14 points from the third quarter of last year.

Results like these take a coordinated effort across the entire company, I'd like to thank Blackbaud's employees for their strong execution and commitment to delivering for our customers. In the quarter, our team made continued progress across all 5 points of our plan. One aspect I'd like to discuss in greater detail on today's call are the many new capabilities we are driving through innovation. During the quarter, we continued to invest in new innovations that increase the value of our products and solve customer pain points. We're investing for the intermediate and longer term with several exciting opportunities. For example, during the quarter, we placed a new optimized donation form into an early adopter program with customers across charity, education and arts and cultural organizations.

Customers appreciated our investment in a system of engagement that's designed to attain higher conversion rates with fewer clicks and therefore, drive customer revenue. So it's both more impactful and more efficient. We expect to make this generally available in the first half of next year. Also, we're hoping to solve a large customer pain point with the early introduction of a new product called Impact Edge, starting in the corporate sector. This newly-developed solution aggregates EVERFI's educational impact data with employee volunteering and giving data from our YourCause platform. It provides a single view of a corporation's social impact program and replaces labor-intensive, manually produce reports into a standardized structure. With Impact Edge, human resources and DE&I leaders are able to track and analyze performance of their programs in real time.

Current plans are to put this new solution into an early adopter program this year with a full rollout in the second half of 2024. And lastly, we continue to build on our intelligence for good strategy that we introduced last quarter that leverages the power of machine learning and artificial intelligence.

For example, recently, we introduced a new capability we call the story enhancer in JustGiving, our consumer giving platform. This generative AI capability resulted in more engagement among early adopters and is expected to have positive downstream impact on our payments revenue. We're enthusiastic about what these new features and products can do to make our customers more effective and efficient, increase the value of our offerings and add to our growth going forward. To illustrate how our products impact our customers, I'd like to share a few examples of recent customer wins. The Sarcoma Foundation of America was a new logo win for Blackbaud in the third quarter. They came to us with the goal of increasing awareness around the disease and raising funds for researchers and their advocacy efforts. They chose to replace 2 competitive products of Blackbaud's Raiser's Edge NXT donor management system and TeamRaiser for their peer-to-peer fundraising. Delaware County Christian School is a K-12 independent school in Pennsylvania.

They were running several disparate systems, one for academics, second for advancement and a third for the business office. This was a real pain point. There was no 360-degree view of students. Revenue management was challenging and communication was fragmented across departments. As part of their strategic plan, the school was looking for an innovative education technology partner while enhancing school communication and fellowship. Blackbaud is providing a total school solution to enable their strategic vision. On the corporate impact side of the business, EVERFI welcome Cisco as a new partner. Cisco Systems is partnering with EVERFI to offer mental wellness and financial literacy education for K-12 students in adults across Selma, Alabama as a part of their broader CSR program efforts in the region.

Additionally, EVERFI renewed and expanded their 9-year partnership with the National Hockey League and National Hockey League Players Association, who sponsored their Future Goals, Hockey Scholar Education course that leverages the game of hockey to teach STEM skills to students in grades 4 to 7. The third quarter was also a period of very active customer outreach with several high-touch events. For example, the annual JustGiving awards were held in London and received over 20,000 votes to celebrate 24 individuals that fund raise for causers on our peer-to-peer platform.

In Charleston, several top nonprofit CIOs convened at our Digital Innovation Summit, that cover topics ranging from AI to cybersecurity and our corporate impact team assembled some of its largest customers to its annual Impact Summit in Miami. Their leaders discussed why social impact is a business imperative and how to best drive impact to employee volunteering and giving. Finally, last week, we held bbcon in Denver with smaller pop-ups slated for Toronto, Sydney and London. This is our largest customer conference.

And this year, we held the conference in hybrid format of virtual and in-person attendees. This had a dual benefit expanding the tent of attendees, while also enabling the personal camaraderie interaction that our customers enjoy. Through these events, we reached the full spectrum of our customers, from individuals to nonprofits to corporations. In addition to strengthening our robust brand, this program of outreach affirms our position as the leading software company, singularly focused on a social impact movement.

With that, I'll turn the call over to Tony for coverage of our financial results.

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

Thanks, Mike. As Mike mentioned, we had outstanding execution in the third quarter, resulting in strong third quarter results in line with the increased guidance we communicated in May. We accelerated top line growth as envisioned, continued a tight focus on cost management, produced strong EBITDA and growing cash flow and achieved our goal of becoming a Rule of 40 company one quarter ahead of plan. Let's dive into the details. Total revenue for the quarter reached $278 million, representing an organic growth rate of 6.6% over the third quarter of '22. The third quarter marks the third consecutive quarter of increasing revenue growth rates.

Notably, this growth is more than double the growth rate of the previous quarter. During the quarter, foreign exchange had a slight dampening effect as the British pound strengthened against the dollar, such that the business grew 5.9% at constant currency. Nonstrategic onetime revenues have leveled out over the past 3 quarters and declined by $3 million year-over-year. As we've talked about in the past, this line item is mostly comprised of professional services that carry modest margins and are not a strategic focus of the company going forward. Recurring revenues grew faster at an organic rate of 8.3% or 7.5% at constant currency.

As Mike noted earlier, recurring revenues constitute 97% of total company revenues. The excellent growth in recurring revenues was driven by both our contractual and transactional recurring revenue streams. Contractual recurring revenue is generated from our software subscriptions and is at the core of what we do, accounting for about 2/3 of total revenue. For the quarter, we continued to see excellent results from modernizing our pricing model in the social sector. We also continued to extend contract terms. Last year, the majority of contract renewals were for a 1-year term. This year, the vast majority have been for a 3-year term. And recall that there are embedded mid- to high single-digit price escalations in years 2 and 3 of multiyear contracts. The power of this transformation is remarkable and is just now being felt in the business.

There are 3 additional benefits of this modernization program. First, it provides a higher degree of revenue security; second, it dramatically increases revenue visibility and predictability, which aids planning; and third, it reduces the volume of internal work effort involved in the renewal process. And given that our retention metrics have held up or are slightly improved. We're quite happy with the impact this program is generating. The remaining 1/3 of our revenues are transactional in nature and are composed of donation processing, consumer giving and tuition processing for our K-12 school clients. These revenue streams are connected to and result from our software subscriptions. They have good value for our customers, eliminate their busy work and create greater customer stickiness.

All 3 saw good volume growth this quarter. And like contractual recurring, we've had good success implementing price increases in this area of the business as well, although at more modest rates.

In summary, our revenue initiatives are progressing very well, and we are pleased by the top line performance during the quarter, which reflects progress against our 5-point plan. We're keeping a very close eye on the macro environment. But so far, we've not witnessed any additional impact on giving as we head into the fourth quarter, the largest giving season of the year. Therefore, we're reiterating our full year 2023 revenue guidance of $1.095 billion to $1.125 billion.

Now let's turn to the bottom. Cost management has been a strength of ours this year, and the third quarter was no exception. During the quarter, we reduced total costs by $13 million or approximately 6% from a year ago. When you factor in accelerating revenue growth, which was $16 million during the quarter, you see the strength of the P&L management. This performance demonstrates the scalability of our business. Our intention is to keep a tight hold on cost going forward.

However, we will be adding a few positions throughout the company and will also be increasing our investment in the area of security.

Our cost management should continue to produce results with some minor quarter-to-quarter fluctuations, owing to modest cost increases and a likely revenue mix shift to payments processing in the heavy giving [safe to say] another fourth quarter. Our adjusted EBITDA for the period came in at $97 million. That's a $30 million improvement over last year's third quarter and a 45% increase. The adjusted EBITDA margin was 35% compared to 25.6% last year. At constant currency, the EBITDA margin was 34.8%. We remain on track to attain our full year EBITDA margin guidance of 30.5% to 31.5%.

There's a lot to be satisfied within this report. However, I'm most pleased with surpassing the Rule of 40. This has been a north star for us. Just 1 year ago, we set our sights on this goal as we launched our 5-point plan. We were then at 27.3% and suggested that we'd crossed 40% in 2025. Obviously, we made progress against this goal more quickly than anticipated. This quarter, Blackbaud became a Rule of 40 company, with a result of 41.6% or 40.7% at constant currency. That's a more than 14-point improvement from the third quarter of last year, and it's even a quarter earlier than we had expected as of last quarter's earnings call.

There could be some volatility on this number from quarter-to-quarter as certain costs are lumpy. And as the fourth quarter's heavy payment volume naturally comes at lower margins. That said, we will not stop here and are working to make further improvements. Looking ahead to 2024, we expect to continue growing revenue and expanding margins to achieve Rule of 40 for the full year. We also had a very good quarter of adjusted free cash flow. The third quarter is typically our seasonally strongest quarter for cash flow production, and that held true this year. We generated adjusted free cash flow of $118 million in Q3, and that puts us on track to meet or exceed the high end of our increased guidance of $190 million to $210 million for the full year.

We ended the quarter with $712 million of net debt. And as we previously announced, we will be making aggregate payments of $49.5 million to 49 state attorneys general and the District of Colombia during the fourth quarter in settlement of the security matter. Even with these payments, we still expect to end this year at our previously announced goal of approximately 2x debt to adjusted EBITDA.

Additionally, given our strong cash flow, We expect to resume share repurchases this year under our existing $250 million board authorization. We'll be giving longer-term guidance on our capital allocation and share repurchase plans when we announce our fourth quarter results in early 2024.

Before we open the call for questions, let me summarize, Q3 was a very strong quarter for Blackbaud and represented an inflection point for revenue growth as we continue to deliver on our 5-point operating plan. Coupled with continued progress on cost management, we drove a dramatic improvement in adjusted EBITDA, which was up $30 million or 45%, and the adjusted EBITDA margin expanded to 35% from 25.6%. We delivered on our vision to become a Rule of 40 company sooner than planned, and we generated a sizable amount of adjusted free cash flow, positioning us to maintain a strong balance sheet and return capital to our shareholders in the form of share repurchases. With that, operator, please open the lines for any questions the audience may have.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) We will now take our first question from Brian Peterson from Raymond James.

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

Congrats on the quarter. So Mike, I just wanted to start off with the macro. I'd love to understand what your customer conversations have been like over the course of the year. And you also have laid out some growth targets as well even for 2024. I'd love to understand the visibility that you have into that figure? And what kind of gives you that confidence in the high single-digit growth rate.

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

Sure, Brian. Yes, we've had -- like I said in my prepared remarks, there's been a -- this time of year, there's a lot of customer interaction kind of aggregated together because we have bbcon and we've had other events in the last couple of months. So lots of customer interaction for me personally and for a lot of folks, all very positive. I mean, I think the bbcon, a lot of excitement for customers with all the product announcements, and we had a big marketplace set up with demos on new products and new capabilities. We put together couple of press releases in the last few weeks on product initiatives around generative AI and several products coming to market, a brand-new product called Impact Edge. So lots of excitement from our customers.

So I think all in all, that feedback is super positive. For me personally and for the rest of the company. Yes, from a growth standpoint, I think that was your second question. We're really happy with the quarter we just announced. I think for me, on the growth side, the most exciting part is the organic reoccurring revenue, which is 97% of the total, grew 8.3% for the quarter, which is awesome. So that we really put in place a lot of initiatives related to top line growth going forward. We feel good about the quarter -- this quarter, Q4 and next year. We do internally long-range forecast given the business is mostly a reoccurring business. So we've got pretty high confidence on the outlook on growth and margin going forward. And really excited that we hit the Rule of 40 this past quarter of Q3 and have that viewpoint going forward as well.

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

It's great to see the Rule of 40. Being out of bbcon too, you heard a lot about the innovation out there. I'd love to understand as you think about the pickup in innovation here, is that something that we'll be able to drive pricing further than you guys have kind of already announced? Or is that something that's going to be more embedded in what you guys are doing today, we'd just love to understand how we think about the innovation driving pricing over the long term?

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

Yes, sure. So it really is -- the pricing that we've started in the basically, it's a conversion of our customers to 3-year contracts with new pricing. Those contracts assume, in our cloud platforms, continued innovation in those existing new contracts. And so this new innovation is just assumed in those contracts. So some of this innovation is -- will not have new pricing. However, some of the things we announced like Impact Edge is a brand-new product. So obviously, new revenue from that.

But also some of the other innovation, like the new donation forms creates the ability for our customers to drive their revenue in their donations, which downstream will impact organic revenue growth on our payments platform from us. So there's organic revenue growth built in here from new products to driving transactions, not necessarily pricing in addition to what we're doing in our existing pricing in 3-year conversion model.

Operator

Our next question is from Rob Oliver with Baird.

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

I had two, Mike, one for you and then Tony, a follow-up for you. So Mike, just on these, obviously, a nice job, you guys are executing well on these price increases and on the contract discussions. I imagine these can always be easy discussions in this economy. I'm just curious how you guys are thinking about it. I mean switching people from 1 to 3 years. Is this an opportunity to get more product into people's hands as well to really showcase some of the other capabilities for Blackbaud as we sometimes see price increases happen with software companies, it's an opportunity to maybe negotiate around some additional use cases? Just help us understand how you're thinking about that.

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

Yes, sure. So the good thing on this move to 3-year contracts and new pricing is our retention numbers have helped, which is great. And we just had thousands of customers in Denver for bbcon, and I spoke to many customers no one's excited about getting higher pricing, but customers are excited about all the innovation coming. And so I feel like the stream of innovation is us just earning the right to have higher pricing and maintaining our retention rates. And customers are seeing that. Our platforms are very sticky.

They are systems of record. They are nondiscretionary and customers are loyal and excited about what's coming from an innovation standpoint. So it's been positive. We have some of the conversations aren't great, but customers are not leaving because of pricing. They're staying because of the impact our products have on their business and they see a stream of innovation coming. So it's been really positive.

And I have very good insight into the future related to this program. Because if you recall, when we started to talk about this program, we notified customers 5 months ahead. So we're into next year with this program now. It's not like it happens next week, right? So we have very good insight into the future of the revenue improvements that this program drives. And a lot of the innovation is to continue to earn the right to serve our customers. And so they expect that. So it's a very good program for us, Rob. It's gone extremely well and the customers are super excited with what they've seen at bbcon and the other events, we had a bunch of other events I mentioned in my prepared remarks. So it's going really well.

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

Great. Okay. That's really helpful. And then, Tony, just as a follow-up question, Mike mentioned we have some visibility here given the notice, the 5-month notice. How should we think about -- I think about half of the contracts, a very high mix of contracts up for renewal next year. So how should we think about that linearity? Is it going to be more back-end loaded? Is it going to be more even throughout the year? Any help there would be great.

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

Yes, Rob. So we had the biggest cohort this year from renewals perspective. We've got a slide in the investor materials that you can look at. I think next year is about 30% the contractual recurring base will be up for renewal, and we'll be working on the new pricing and the shift to 3-year contracts. We've got the seasonality to keep in mind as typical on those contracts. So a lot of those in the quarters, certainly in the Q2 and early part of Q3 with the school years and just typically in the years when we sold those and then some also late in the year as well.

So we'll have some lumpiness around end of Q2, start of Q3. That's not unusual. That's typical for us. So you'd expect that. And then the pricing and that uplift turns on very quickly on most of those contracts, and that's a straight line method over the 3-year contract term. So I think as long as you get that seasonality right on when the renewals come up, you can spread that revenue pretty cleanly in your model.

Operator

Our next question comes from Parker Lane with Stifel.

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

Maybe, Tony, just to pick up on that last response you had. I know you guys were pretty proactive last year in getting in front of these 2023 cohort customers, communicating the pricing change and perhaps doing early renewals. Is there any potential for early renewals for that 2024 cohort of people starting to think about that? Or is that going to come at the time of the contract ends?

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

Yes, Parker, we're already -- I think through Mike's prepared comments, you spoke to it, we're already through largely December at this point from how far in advance we're working and would be speaking with some of those customers that were renewing in that first part of 2024 already. Certainly, you have some discussions with some of the larger customers as well, well in advance, talking about upsells and all the other pieces and parts. So we would be, as normal course of business, speaking to some of those larger customers as well as anybody who has an interest.

So right now, the visibility is very good. We've got almost a full year under our belt because we've largely renewed through December. We have a really good sense of where those renewal rates are, and they're holding up very well, a little better than expected, even which is tremendous considering this increase in price and shift to 3-year. And then we'll get good visibility as well because some of those customers who chose to go with 1-year contracts, will already be renewing here over the next couple of months, even before we finish this year, we'll be working on some of those second year renewals on the folks that chose 1-year contracts. And we've got some visibility into that as well already. From working some of those for early part of '24 in late this year, and those renewal rates are looking pretty -- holding up pretty well also. So we feel very positive.

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

Yes, Parker, I'll add. So we're going to get about 35% of the total this year. We're pretty much done with this year, close to it. We noticed 5 months ahead. So we're already notifying customers in March next year. And when customers get notified, that's when the conversation starts. They don't wait till that month. So think about like the February and March customers, we've already been talking to because if everyone has already got noticed and the March ones are getting notice now, and we'll start those conversations. So this whole thing is sort of 5 months ahead of us all the time, which is really great. So we're able to manage it with very good future visibility.

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

Got it. Appreciate the color on that. And then, Mike, maybe to stick with you. I thought the Impact Edge -- is very interesting. Can you help us understand, is that primarily going to be an expansion vehicle in that corporate vertical that you're playing in today? Or does that have the potential to actually drive incremental interest in net new business through that release?

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

Yes. So that product is -- was super popular at bbcon. There was lines of people waiting to see the demo. Yes, it is announced into our corporate impact business, so it's for companies, think of like Fortune 1000 companies to be able to measure and sort of graphically display their impact around the world. But then we will move it over to large nonprofits and foundations in our other markets as well, but starting off in our corporate impact group.

Operator

Our next question comes from Kirk Materne with Evercore ISI.

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

And congrats on the nice quarter. Mike, I was wondering if you could just talk a little bit about sort of your thought process on sort of organic innovation versus acquisition at this point in time. We're at sort of a different period in terms of where interest rates are. And I was just kind of curious, when you think out 3 to 5 years, do you feel good about the ability to perhaps be a little bit more focused on organic? I know you have it, it's not like you weren't, but less dependent on M&A as you go forward. I realize that's always a balance, but just kind of curious how you're thinking about it given where rates are. Then I just have a quick follow-up for Tony.

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

Yes, sure. So we've been fairly acquisitive as a company. We made a small acquisition last year, which is a technology expansion that's worked out very, very well. We made a small equity interest in one of our startup partner businesses recently. And those are technology investments to add to our innovation pipeline. Our focus this year has been doing some things that we've already talked about and announced, frankly, related to capital such as closing out the litigation with the attorney generals and paying that, which we have, paying down debt, as Tony mentioned, we're still expecting to be around 2 -- levered at 2 by the end of the year, close to there now. We mentioned in our prepared remarks that we're going to be back in the market in our buyback program. We've got $250 million authorized by the Board that we haven't really executed on because we were focused on paying down debt and closing it out with the Attorney Generals.

So that's sort of some insight into capital thinking, if you will. And Tony also mentioned that when we announced the Q4 and the year, and the guidance for next year, we'll also talk about long-term capital allocation strategy as well. Related to M&A, we're still active in the market. We've got a really good go-forward view on really strong organic growth as well. But there are still really good acquisition opportunities out there for us to expand TAM and expand a number of products per customer as well. Like Impact Edge is new organic build that will do that, more products per customer, but there's still opportunities in M&A for the same.

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

That's helpful. And then Tony, just a quick one for you. You mentioned sort of some of the -- it seemed like a little bit onetime benefits in transactional this quarter around the Hawaii Wildfire relief and the BBMS rate change. Were those meaningful? It seemed like the performance was largely driven just by better activity levels. But I was just kind of curious how we should think about that on sort of a seasonal basis, I guess?

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

Yes, Kirk, I don't think that the viral stuff was that significant in the quarter, obviously contributes. We end up, as you are aware, you've been following us a long time. We have a lot of different drivers on the transaction side of the business that at times will cause a little bit of volatility but not meaningful material to the overall revenue numbers. We had -- continued to see good traction in BBMS and good growth on that front.

Overall, Tuition Management also has done well. The number of families at the private schools that we support is up year-on-year. We have had some price increases on both BBMS and BBTM. And then the YourCause business has some transaction components that's done well. And then JustGiving has also done well in the U.K. And that model and the take rates on the donor cover -- Complete Cover things have done really well in the U.K. business also. So we kind of see across the board steady growth in transactions, very similar to what we saw in the last couple of years. So that growth rate continues to be kind of in that high single to low double, depending on the quarter.

Operator

(Operator Instructions) Our next question comes from Matt VanVliet with BTIG.

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

I guess on the EVERFI side, it seems like it continues to gain momentum and have some strong traction there. Anything you'd point to that you've either done internally from a strategic or staffing perspective or maybe more from a macro headwind dissipation perspective. But just what's really driving the success on the EVERFI side? And how should we think about that heading into '24?

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

Yes. I'd say bookings are up year-over-year, pipeline is looking good. Structurally, yes, we put that business together with our YourCause business in the last year because there are similar customers, the job types, the buyers are the same, the customers, the target market is the same, and we do not have a lot of overlap and shared customers between EVERFI and YourCause. So there's a good cross-sell opportunity. So we've got a corporate impact group now that Tom Davidson heads up that had 5 products.

The 2 main products are EVERFI and YourCause, and we're selling those solutions to companies. So that's fairly new within the last year. So that is a new structure. It's why we changed the name -- didn't change, we actually added a name called Corporate Impact because we're focused on corporations, but we have a suite of products there and Impact Edge, which we just announced and will be coming out next year, is a product we built for that market as well. So yes, new structure in the last year some new sales leadership in there, new product and Impact Edge, a pretty good pipeline for that business. I'd say that's the summary.

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

All right. Very helpful. And then, Tony, following up on Kirk's question before, rather than looking at the onetime potential impacts on transactions. Curious as you look towards the fourth quarter and sort of the busier year-end giving season and even into the early part of next year, what have you seen of late in terms of whether it's frequency or size of transactions that gives you confidence that you're not going to have any kind of seasonal headwinds or any macro impact there? How have you looked at it on maybe a like-for-like customer base or things of that nature to ensure that the fourth quarter will continue to be strong.

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

Yes. Matt, that's a really good question coming into the end of the quarter and year-end giving and Giving Tuesday and all those related pieces. Last year, we saw a bit of decline in the average donation size in Q4 that created a little bit of softness. I think that's the impact of the economy and disposable income for individuals, giving with corporations and foundations and DAFs and stuff are actually up. So that volume has done well.

Overall transactions even last year when things turn south a little bit with the economy, the transaction volume was up at the average donation size was down slightly. We've not seen any further deterioration in that. So we keep a close eye on it. So at this point, we're assuming that, that's going to hold for us. Hard to say until we get to that and see what volume is there at the end of the year. But thus far through the year, those transaction sizes have held up pretty well.

And we've seen good transaction volume as we spoke through the first 3 quarters and some good giving with some of the viral events that we spoke about with Hawaii. So overall, we feel pretty good. We've not seen any further deterioration, really hard to project. But right now, we're expecting that to hold with that. What is slightly softer than what we saw in the prior couple of years, but a continuation of last year's kind of giving.

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

Yes. And the other part of that, Matt, is in that mix of transactions, we've seen really nice growth in the tuition platform with more families, more students and more use of the tuition platform as well and really, really strong. And that's kind of locked in as we're in the school year.

Operator

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

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

I just have one. So when I was looking through the deck this morning, and I'm on the outlook slide for 2023 and 2024, I noticed there was a slight change, and I was hoping we could walk through it a little bit. So on the 2024-plus outlook, the contractual recurring revenue and total revenue now says high single-digit growth.

And looking at some of the past decks, used to say high single-digit growth to low double-digit growth. So I was wondering maybe what's changed in the outlook this quarter versus earlier this year. And that is resulting in this moderate -- I guess, you could consider it a moderation in the 2024-plus growth outlook.

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

Yes, sure. I can take that. It's not a material change really because if you think about this quarter and what it -- and maintaining the guide kind of gives you an outlook into what we're thinking about Q4, obviously, because we maintained our guide for the year, which is still kind of 5%, 5.5% or so at the midpoint, I think. And so the growth next year, which we haven't really talked about yet is going to be quite significant because this year's results were a pretty slow start in the first 2 quarters and a ramp up on the top line in Q3 and Q4, and we guide to the year not to the quarter. And so really, that's all about what the year can look like above this year.

Operator

There are no further questions at this time. I would now like to turn the floor back over to Mike Gianoni for closing comments.

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

Great. Thank you. Thanks for joining us this morning. Just to summarize, we delivered really strong results during the third quarter. We continue to successfully execute our 5-point plan with solid expense management and accelerating organic growth and Rule of 40 attainment, we're very pleased with the quarter and excited for the future and the significant value we're confident will create for shareholders.

I'm really proud of the progress we've made and grateful for the hard work and positive spirit of our team members who continue to drive our success. We look forward to sharing more with you on our fourth quarter earnings call. Thank you.

Operator

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