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BLKB.OQ - Q2 2021 Blackbaud Inc Earnings Call

EVENT DATE/TIME: AUGUST 04, 2021 / 12:00PM GMT

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PRESENTATION

Operator

Good day, and welcome to Blackbaud's Second Quarter 2021 Earnings Call. Today's conference is being recorded. I'll now turn the conference over to Steve Hufford, Director of Investor Relations at Blackbaud. Please go ahead, sir.

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

Good morning, everyone. Thanks for joining us on Blackbaud's Second Quarter 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 the Investor Relations website.

Before I turn the call over to Mike, I'll remind you that a recording of our investor session held in March, and the full presentation are available on our Investor Relations website. I'll also mention that during the third quarter, our team will be virtually attending the Oppenheimer 24th Annual Technology Internet and Communications Conference, and Jefferies Virtual Software Conference, and we will be participating in virtual non-deal roadshows with investors, both domestically and abroad. If you're interested in connecting at one of these events, please email ir@blackbaud.com. With that, I'll turn the call over to you, Mike.

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

Thank you, Steve. Good morning, everyone. Thank you for joining our call today. Blackbaud had another strong quarter as our markets progress toward a post-pandemic recovery and the shift to a digital-first world continues to accelerate. We have so much to be excited about as a company. And given our strong performance through the first half, we're well positioned for success as we look ahead to the second half of this year and to the next several years.

Tony will cover the financials in more detail shortly, but the trends through the first half combined with our latest financial outlook suggests we could exceed our best estimate revenue scenario laid out on our Q4 earnings call with our upside scenarios continuing to look more likely.

You've heard me say in the past, the events that have taken place over the last year and a half will be catalysts for the industry to adopt digital capabilities and move even faster towards modern purpose-built cloud solutions. With the first half behind us, I believe we're seeing this take hold and I'm increasingly bullish on the outlook for our market, our customers and our company as we move through 2021.

We continue to believe Blackbaud's stock is undervalued given our outlook and thus, we continued our share buyback program in the second quarter. The impact of the pandemic manifested itself in different ways across the broker markets we serve, but we're now seeing encouraging signs of recovery across the board.

In fact, 2020 was the highest year of U.S. Charitable Giving on record, growing to over $470 billion according to Giving USA. In addition to record levels of Giving overall, the percentage of Giving done online grew by 40% year-over-year, and the total industry went from 9% to 13%. This is a trend we believe is here to stay. We're also beginning to see the return of physical events for our customers with more organizations planning for in-person events during the second half of 2021.

A great example is our arts and cultural vertical where zoos, museums and other cultural organizations were challenged with lost revenue from the absence of in-person attendance and events last year, but we can see in the data the admissions and associated payments volume are now on the rise.

And in our K-12 vertical, schools are planning for the upcoming school year having navigated from virtual to hybrid and now in-person learning and fundraising. Last month, we again virtually hosted thousands of registrants at our annual tech conference for K-12 private schools. The event featured innovation updates and deep dives around the Blackbaud education management platform as well as best practice and thought leadership sessions across all areas of school management.

We remain very well positioned as a leader in the K-12 market and overall as the best long-term partner for social good organizations across all the markets we serve.

Turning to the quarter, I'll provide a few updates in the context of our four point strategy. I'll start with our strategy to delight customers with innovative cloud solutions. Since the pandemic began last year, we've been quick to reprioritize and expedite product enhancements to support our customers' changing needs as they adopt to operate more digitally.

For example, I mentioned we're seeing arts and cultural organizations begin to open the doors. As they reopen, maintaining high standards for the safety and security of their patrons as a top priority. So just a few weeks ago, we announced the general availability of Payment Terminal. This solution allows organizations to receive secure, contactless chip and tap payments for tickets and donations to Blackbaud Altru and Blackbaud Merchant Services. Not only does this minimize staff handling of credit cards during point-of-sale, but it enables them to process payments 3x faster than with a magnetic swipe device and protects their constituents and organization from credit card fraud with EMV certified card readers that offer end-to-end encryption.

During the second quarter, we also announced general availability of Blackbaud Peer to Peer Fundraising powered by JustGiving in Australia, New Zealand and Canada. JustGiving has already proven to be a game changer for organizations across the globe, looking to raise more funds digitally, and we're thrilled to bring this turnkey solution to even more organizations with no subscription fees or sub costs.

We have a unique approach with JustGiving pricing structure away from a fixed platform fee to a voluntary contribution model, a true win-win for us and our customers. We've made tremendous progress globalizing our products in recent years and JustGiving is yet another example of this.

Additionally, YourCause is poised for globalization as we look to capture a tremendous international opportunity with forthcoming market launches in Canada, the U.K. and Australia. The return of mass participation events alongside the market launch investments we made in the U.S., Canada and Australia, plus further pricing innovation have us optimistic that we'll see strong sustained growth in our international markets in the short, medium and long-term.

And as I said before, our ability to drive innovation is no longer just about Blackbaud's engineering efforts as we continue to build out our partner programs. Just last month, we hosted our annual Developers' Conference, where attendance was up 50% year-over-year, and our investments in support for open APIs resonated with customers and partners alike.

Our vision is to power a community of developers and partners who are passionate about social good to create amazing new capabilities that evolve as the needs of their organizations evolve, and we're just beginning to scratch the surface of what's possible here.

Next, I'll cover our strategy focused on employees, culture and ESG initiatives. This year marks Blackbaud's 40th anniversary. And since day 1, our focus has been on building a better world. We just capped off a month-long celebration with our employees, some of whom have been around to watch our business grow from just one product to providing purpose-built solutions the entire social good industry.

And as we reflect on this milestone, we remain steadfast in our commitment to enable our customers to drive more social good to support our communities, both inside and outside of work; and to celebrate our people to which we all are success. Our company is made up of employees from all over the world who come from diverse backgrounds and experiences, and we're thrilled to celebrate these differences and unique contributions to honoring celebrations and observances that reflect equality, justice and further promote a higher purpose to help good take over. In June alone, we honored Pride Month and Juneteenth. Our strong corporate culture enables us to retain and attract top talent around the globe, which is even more critical in today's environment. And we're building on this strength with recent hires and the creation of new roles focused on establishing new pipelines of talent, including outreach to diverse campus programs, HBCUs and national diverse organizations.

In Q2, we also furthered our efforts to create a best-in-class candidate employee experience with the launch of our new careers site. This enables us to lift our social presence and visibility, create personalized experiences for candidates via AI, reduce the time to apply by half and accept applications start to finish all from a mobile device. It also enables us to leverage data analytics to better understand the talent marketplace and inform future investments. This is a big step, especially when combined with our workforce strategy, both key parts of our internal digital first approach.

This brings me to our strategy to lead with world-class teams and operations. As I've said, this expands upon our previous strategy to drive sales effectiveness and improve operating efficiency to include improving overall company performance as measured by the Rule of 40.

In support of our strategy during the second quarter, we merged our Enterprise Market Group and General Market Group to create one U.S. market group reporting to Kevin Gregoire, who many of you heard from an investor session in March. We did this to better align our resources towards customer retention and growth. We have a strong executive team. We're all incredibly capable leaders delivering on our mission and executing on our strategy.

As part of this recent change, Kevin Mooney, who previously led our General Markets Group, is now focusing on M&A as Executive Vice President, Strategy and Business Development.

Which brings me to our strategy to expand our total addressable market by acquiring, building and partnering into near adjacent markets and expanding within our existing markets. We have a strong historical track record of driving inorganic revenue growth through M&A, with last year being an exception given our primary focus was on our employees, our customers and preserving liquidity during the pandemic. We are now actively evaluating opportunities as acquisitions remain an important element of our growth strategy going forward. I'll remind you that with the combination of organic growth and M&A, we have a history of double-digit revenue growth.

I'll summarize by reiterating that I continue to be bullish about the opportunity ahead of us. The market is showing signs of strength, and organizations are planning for post-pandemic recovery. We continue to make investments in key areas like digital marketing, innovation, security and customer success as we look to extend our leadership position.

We have our sights set on a substantial opportunity ahead of us to drive meaningful acceleration in financial performance in the context of the Rule of 40. Blackbaud is well positioned to capture the organic and inorganic growth opportunities in front of us. Overall, we had a solid first half, and I'm excited about the coming quarters and the next several years.

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 Q2 and our latest outlook for the full year before opening up the line for your questions. You can refer to yesterday's press release and the investor materials posted to our website for the full detail of our Q2 2021 financial performance.

We had another solid quarter of execution, which has us well positioned heading into the second half of the year. Second quarter recurring revenue growth was roughly flat year-over-year, inclusive of the tough compare in our payments business, which was expected given the elevated volumes we saw at the onset of the pandemic. Our contractual recurring revenue, which is the core of our business, grew $3 million during the quarter and the trends we're seeing in bookings and renewals bode well for continued growth in the second half. One-time services and other revenue declined $3 million, which was approximately a 100 basis point drag on total revenue growth. Again, we expect this drag to bottom as soon as 2022, which should result in a lift on total revenue growth in the future. And as I said on our last call, macro-level drivers, coupled with pent-up demand and increased levels of online giving create opportunities for us to achieve low to mid-single-digit revenue growth as early as 2022.

Moving to earnings, our second quarter gross margin was 59.1%. We generated adjusted EBITDA of $66 million, representing an adjusted EBITDA margin of 28.7% and diluted earnings per share of $0.82. As you know, last year, we evolved our go-to-market strategy with a digital-first mindset, which was substantially -- which has substantially reduced our go-forward cost base in sales and marketing. I'm really pleased with the progress being made to enhance sales productivity and we remain committed to further improving our CAC payback and increasing sales velocity.

We are also continuing to make critical investments in the business related to areas like digital marketing, engineering, security, customer success and our continued shift of cloud infrastructure to third-party cloud service providers. I'll reiterate that our current plans call for the level of investment to increase in the second half, and thus our estimate of roughly 25% adjusted EBITDA margin holds as our best estimate for the full year 2021.

That brings me to the cash flow statement and balance sheet. Our Q2 free cash flow was $57 million, an increase of $8 million year-over-year and representing a free cash flow margin of approximately 25%. As Mike pointed out, the market and our customers are showing signs of recovery. And as just one example of this, we had our best cash collection month ever as a company in the month of June.

We put that strong cash performance to use and completed $30 million of opportunistic share repurchases during the quarter. We still feel that the valuation today does not fully reflect where we're heading as a company. We ended the quarter with $517 million in net debt. Our capital strategy calls for a debt-to-EBITDA ratio of less than 3.5x. And at the end of Q2, we stood at 1.8x, which is our targeted optimal leverage ratio. And we had $410 million of borrowing capacity. As of June 30, we had approximately $150 million remaining and available under our current share repurchase authorization. As we look forward, we plan to continue opportunistically executing on share repurchases when our internal estimates determined that the company's shares are undervalued by the market. Moving to our outlook for 2021, from a revenue perspective, we're encouraged by our first half performance and the durability of our recurring revenue streams. With two quarters now behind us, we have greater visibility into our second half performance. However, accurately predicting the duration magnitude, the pandemic remains a challenge. And in particular, the heightened level of variability in transactional revenue makes it difficult for us to put out definitive guidance ranges like we've done in the past.

That said, I'll again provide our latest perspective on our best estimates for 2021 in relation to the scenarios we laid out on our Q4 call. Our first half performance, combined with our latest modeling gives us additional confidence we could exceed the best estimate of $900 million in revenue and suggests we may achieve our upside scenarios of roughly $910 million to $920 million. This is inclusive of an anticipated $15 million to $20 million decline in onetime services and other revenue. Contractual recurring revenue, which is the core of our business, is expected to grow modestly in 2021, and we're optimistic that we'll set up for an acceleration in revenue growth post-pandemic. We continue to expect to see a pickup in bookings in the second half of the year and we're encouraged to see our customers schedule the in-person events, which bodes well for recovery in the associated transactional revenue beginning in the second half. At this point, the trends we're seeing through the first half combined with favorable foreign exchange rates have effectively taken our downside revenue scenario off the table.

Shifting to profitability and cash flow, we continue to progress on initiatives like the migration of our cloud infrastructure to third-party cloud service providers, which we expect to result in future gross margin improvement as we're able to reduce our own co-lo footprint and associated duplication of costs.

The enhancements we're making in our go-to-market will significantly reduce our average customer acquisition cost as well as a related payback period, while increasing sales velocity. And I do not expect our sales and marketing and customer success expense to return to pre-pandemic levels. While revenue remains somewhat variable in the near term, we're confident in our ability to manage costs and ultimately profitability. As I mentioned earlier, certain investments are expected to be more heavily weighted towards the second half of 2021, and thus, our latest modeling continues to call for an adjusted EBITDA margin of approximately 25% for the full year.

Our pivot to place a greater emphasis on profitability positions us to significantly improve on Rule of 40 in a post-pandemic environment and gives us heightened confidence in our expected future free cash flow generation. The potential for second half variability in transactional revenue and bookings makes it challenging to be precise in our free cash flow estimates for 2021.

With that said, year-to-date, we've generated roughly $74 million of free cash flow. And thus, we feel very confident we will exceed the $100 million floor we set for 2021, given our downside revenue case is now effectively off the table. Again, free cash flow could vary materially depending on the second half performance of bookings and transactional revenue. But our latest modeling suggests we could generate at least $120 million to $130 million of free cash flow this year, inclusive of heightened investments in the second half.

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, with the first half behind us, we are incrementally more positive than we were at the beginning of the year and very well positioned for a strong 2021. We have greater visibility into our near-term performance. And as we exit the pandemic, we see significant growth opportunities ahead of us. We are increasingly confident in our ability to hit our mid- and long-term growth goals with the potential to see low- to mid-single-digit revenue growth as early as next year. We're aiming to achieve the Rule of 40 as a company and accelerating growth, combined with our margin expansion initiatives puts us on that path.

And our proven capital strategy, which includes our renewed focus on M&A and our share repurchase program provides us with ample optionality to allocate capital in a way that maximizes value for our shareholders over the long term. 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 Parker Lane with Stifel.

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

If I look at the contractual recurring revenue, obviously, a much better environment this year. And also bookings and renewals have trended according to or better than planned. Has that been reckoned or seen across all the end markets that you play in, are there any particular areas of the business that have seen a little bit better strength here as you move into the back half of the year?

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

Parker, it's Mike. No, no particular area that's much stronger than the others. Bookings have come back pretty well so far this year and renewals are doing pretty well. So we're seeing sort of a slow recovery and to plan everything looks pretty good in those two areas.

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

Got it. And then you alluded to it a little bit on the script there. Some events are potentially going to be disrupted here as things seem a little uneven with opening. And obviously, there's a lot of stuff in the news around different variants of COVID. Are you seeing any real-time conversations from your customers around potentially reformatting any events that you expected to return in the back half of the year? Or is everyone sort of plotting ahead with the existing plans that they've made for the back half?

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

Yes. So far, everyone is just moving ahead, major outdoor events are still scheduled like major marathons, those are still on. There's a lot of smaller events still planned. It is different as you look around the world. The U.K. is wide open. Vaccinations are high. The delta cases are falling in the U.K. Canada is pretty good as well. But Australia is struggling. So they're having a tough time. But in general, we see the events still coming back this year and the major ones are planned. So no changes yet. So we'll watch that, obviously.

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

Yes. And I was going to note, a lot of the big runs and walks and rides and stuff will fall in the spring time as well. So we kind of missed those already for this year. And they'll be planned to kind of hit in the first half of next year as well.

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*

So I wanted to hit on some of the digital marketing investments that you made and maybe some of the other middle market investments. Is there any way to size the impact on what that's done to the overall pipeline? And have we started to see the efficiency or bookings impact of those investments? Or is that more on the comp?

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

Yes. This is Mike. Yes, we've made a lot of investments in digital marketing and lead gen. And one of the things that we point to, and I think we've mentioned this maybe on the Q1 call, which is holding true is bookings are doing pretty well to plan and year-over-year with quite a bit less headcount. So that goes towards sales productivity. Some of that is attributed to the digital investments that we've made. So the pipeline build is pretty good. And you could just see the, again, bookings to total headcount ratio is much better than it was last year.

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

Brian, that's the other thing -- this is Tony. I would add is we've got a significant focus, especially in that mid-market and down on improving velocity, and Mike kind of hit on the productivity improvements that we're seeing with heightened bookings with less headcount. But we're also simplifying the offers, trying to shrink the sales cycle, again, all comes down to velocity, moving more units with less sales heads at the end of the day. We're seeing good results. There's still a lot of opportunity, a lot of work to do over the coming periods.

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

Understood. That's good to hear. And I just maybe wanted to hit on the K-12 space. I think it's been in the news for a lot of obvious reasons. But we're also seeing federal funding that's coming into the market. And historically, that's been funded more by state and local resources. Mike, I want to get your characterization of the demand environment for K-12 as we kind of head into the 2021 school year?

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

Yes. Sure. Strong market for us, we've got a really great product portfolio there and that continues, I'll remind you that we're in the private K-12 space, not the public school space. So it's different related to funding. But all in all, it's a really solid market for us, and we continue to go after new opportunities there. And we're also getting new opportunities there in the faith-based market because there's a lot of K-12 schools in the faith-based market, and we've got a concentration on that market as well.

Operator

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

Great. I had two. Mike, one for you. And then, Tony, follow-up for you. So Mike, just emerging from the pandemic here, I think everybody be the for profit world and the not-for-profit world is kind of like taking the opportunity to kind of reimagine their investments. And Kevin McDearis laid out like a really good plan at the investor event that you guys held about calling product and cloud migration, and that all seems great.

I'm just curious, I mean, where that jibes with a few years ago, you had laid out a couple of near-term initiative -- near-term initiatives, and that was faith-based and higher ed. And I know 1/3 of Charitable Giving is still faith-based, that seems like an attractive market. But are those still the two markets where you guys still see the most opportunity?

Or has the pandemic created any change in that and not expecting you to give away exactly where that might be because I know you said you guys are in the market to buy. But just curious how you think about those two. And then I had a quick follow-up.

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

Yes, sure. So the -- I wouldn't categorize those as the tough opportunities, but there are good opportunities, and we keep moving those platforms ahead. So in the one -- in the faith area, it's our existing portfolio and then our new Church Management platform, and we still keep driving those ahead in that space, and we're now selling more of a portfolio solution in that space.

The second one is education management. We have a new platform that is being sold to smaller colleges and universities, and we're continuing to do that and build that platform out. The third area I'll mention though is corporations as well with our YourCause acquisition we made a while back. Very, very strong. We're really doubling down on investments in engineering there and some of the growth in engineering is in the YourCause space and adding a lot of capabilities, more international capabilities for that platform as well.

And so all of those are continuing to move along, and we feel pretty confident in all of them. It takes a while for the new ones to get going, but we're closing new deals and new logos all the time, and those are moving along.

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

Okay. Great. And then, Tony, you mentioned -- I think you said investments will increase a bit in the second half, if I heard that right. And is that -- I know Mike had talked a little bit about some sales changes that you guys are making, consolidating sales team. Is that the reason for that? Or could you just talk a little bit about that expense profile on the second half of this year?

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

Yes. No, Rob, that's going to be more so in core IT, security and in our R&D areas is where those investments fits. So that's continuing to innovate on NXT and SKY platforms, all that work we've been doing. We're increasing investment there to move more quickly. Hardening of our environment, security investments, those kind of things is a crazy world we live in, and that's always one that just continues to seem to take resources.

Getting out of our co-lo data centers and get to third-party cloud providers. So increasing investments, trying to get that done more quickly. Those are kind of the major buckets, but more of that RDO corporate IT security area. We don't expect sales and marketing come back to the levels it was before. We believe that the redeployment and focus on this digital marketing simplifying, streamlining and improving velocity is going to allow us to improve bookings with less net spend, I think, at the end of the day.

Operator

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

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

Sorry about that. I was on mute. Just a couple from me. Just thinking about payments, I understand it had a tough compare last year in Q2. I understand the mechanics there with the onset of pandemic. I'm just trying to think, looking forward over the next few quarters, how should we be thinking about payments in the third quarter being -- with payments being down last year, and then in the fourth quarter, with payments being up last 4Q?

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

Yes. So we do have some seasonality with payments. The fourth quarter is always a ramp-up around the holidays and GivingTuesday and just different events like that, it's just normal seasonality. For this quarter, Q3 right now, there's some changes that are coming with events coming back. We're seeing some of that. Also institutions that were closed last year like performing art centers and museums, we've got a strong presence there with our Altru platform.

We just announced some new payment capabilities with Altru, with the Payments Terminal. We sent a press release out on that about a week or 2 ago. And those institutions are opening up and Altru is the comprehensive platform that runs performing art centers, including ticketing and ticket sales, which are starting to come back. So we're starting to see that market operate again and they're pretty dormant a year ago in this quarter and in the fourth quarter last year. So some good stuff happening regarding those markets.

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

Probably the -- this is Tony, it's probably our biggest wildcard for the second half is the payments again and what's going to shake out kind of across the board. That's the hardest one to predict as we've discussed.

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

Got it. Got it. And maybe a follow-up for you, Tony. Just trying to think about the bridge from non-GAAP to GAAP, really around stock comp here. I recall there were some changes made during the pandemic last year around comp that showed up with stock comp. Could you remind us about that change? And I believe we're almost lapping that decision. I was curious if the stock comp levels that we see now is a good way to think about it going forward in our models.

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

Yes. So we had initially taken some action to discontinued merit, 401(k) promotional increases last year, just not knowing how bad the pandemic was going to be. We turned around that and moved those to be stock-based with a 1-year vest. So there's a lot of moving parts in there. So you had merit increases, promotional increases and then bonuses also moved from cash to stock comp. That also had an impact on when the timing of accruals for those items because the vesting period moved all the way into May of 2021. So it shifted expense into '21 and out of '20 a bit just because of the timing and the accruals and the vesting periods. Merit, promotional, 401(k), all of those items are back to cash base for 2021. And going forward, we currently contemplate to keep bonuses as equity going forward.

So that would have a bit of a heightened kind of stock comp run rate or GAAP to non-GAAP reconciling item going forward. And then, of course, as we stated in the prepared comments, we also did another $30 million of buyback in the quarter. I think at this point, with the buybacks we've done between Q4, Q1, Q2, we've purchased about -- I think it's 3 years or 4 years worth of comparable to the bonus being stock. And I think right now, we still believe that the stock is undervalued. So I think buybacks are still certainly in play for us in the coming quarters.

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*

Congrats on a solid quarter. I was wondering, Mike, if you could expand a little bit more on your comments just around M&A. It seems like your thought process around that has picked up a little bit. I assume that's because you guys are feeling really good about the core business. But what are you hearing from clients also just around vendor consolidation, wanting to have sort of one hand to shake.

And how are you approaching M&A maybe a little bit differently this time versus, say, 5 or 6 years ago, given the focus on Rule of 40, maybe you're not. But I was just kind of curious if that plays into your thought process about the type of deals you look at just in terms of finding that right balance between growth and margin?

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

Yes, sure. So I'll answer the second part first on Rule of 40. So from an M&A perspective and our goal of moving down the path of Rule of 40, acquisitions have to help us down that journey, not slow us down on that journey. So we'll keep that in mind when we're modeling those things out. So that's sort of one part of it.

The other part is we see a lot of opportunities out there and just moved one of our most senior executives in that role. Kevin Mooney, he's been with the company a long time. Kevin has run about half the business for a decade or so and now has moved over into strategic planning and M&A full time and so he's on that. We think there's a lot of opportunity given our balance sheet and cash flow year-to-date and going forward. Tony's point about cash flow being more like $120 million, $130 million to $100 million. we're in a good position there. There's lots of opportunities. We do have many of our markets preferred integrated solution. And so we look at adding capabilities, products from good companies that fit into our strategy of the vertical markets that we're focused on, and integrating those platforms gives us upside opportunity from a cross-sell standpoint, but also simplifies the IT environments for our customers, which is really important as well. So none of those strategies have really changed.

We took a pause last year because of the pandemic with this and we also, given the structure changes we made in the business are in a very, very different position from a cash flow standpoint. And just recall also fourth quarter or so last year, we recapitalized the company. And so we have a lot of capacity as well with that new bank group deal that we did. So between that new deal from a capacity standpoint and cash flow and opportunities in the market, I think we're in a really good spot from an M&A standpoint.

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

Super helpful, Mike. And maybe just one sort of separate question on the comments -- commentary, you mentioned that the pricing model is unique and now your customers don't have to have sort of a fixed price and it's more about donors, you're adding something which makes tons of sense. Is there any sort of comp issue on that front, meaning is that a change? Or has it always kind of been that way? As when things come back, not necessarily offset some of the growth transactional basis. So just trying to understand if that's a huge change or it's only material? I'm guessing the latter, but I just want to clarify that.

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

Yes. It was kind of hard to hear you, but I think I got what you said because you were little breaking up there. But pricing changes, if what the question was about. We have a couple of areas that we focused on there. And I would categorize those really in two general areas. One is just a bit of a catch-up because we were behind in the market in a couple of areas where the competition and other pricing models were changed and increased, and we hadn't done that in years.

And so we have implemented some of those. The second area is a new model, which we've proven out in the U.K. with our JustGiving platform. And in fact, we're rolling the JustGiving platform out globally as well, which I mentioned in my prepared remarks.

So we have a really good model there, and it's a win-win for Blackbaud and for customers where it increases our revenue and decreases our customers' cost because there's a very small percentage sort of passed on to end owners. It's a really good model for us, and it's been very, very well accepted in the U.K. the last couple of years.

We are testing that model in other markets like the U.S., not just with JustGiving, but on other platforms as well because it's a win-win model for us. And so we continue to catch that, and we think there's some good upside opportunity with these newer models. Customers like it, and it drives our revenue.

Operator

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

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

Mike, you kind of alluded to it at the very last comment you made, but wanted to understand how some of these hybrid environments or hybrid events might work, especially in the back half of the year and into early next year by offering a more, I guess, more robust platform around online giving and some more engagement with both in-person and online participants.

Does that give you a better opportunity to sort of monetize the entire event? Or do they still just kind of a stop gap until we get back into sort of fully in-person events, hopefully in the near future?

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

Yes. No, it does give us that opportunity because what happened last year is institutions want the virtual events. It's still happening. Some of them are going to be hybrid, in-person, and virtual, some will go back to fully in-person. But our platform support all of that.

So we, in the beginning of the pandemic, a year ago, kind of March, April had a ton of training and webinars for our customers and shared best practices on how to drive virtual events using our platforms. And it was really interesting because we have a lot of customers that had in-person events for a really long time. And with our same platform, the platform that they were used to using, they switched to virtual. And so we train them how to do that with a lot of examples and sort of success stories from other customers.

And so they were successful in making that shift. And now we're going to choose to either continue to stay virtual, go hybrid and go back to in-person events. All of those are available on our platforms and our customers have been super successful. The other thing is the growth in online has been massive. We've mentioned a couple of times in last year, online grew from 9% to 13% of total. And the whole market for donations is super strong. Last year in 2020, in the U.S., it grew by 5.1% to $471 billion. That's huge. And a lot of it was online. And so having virtual and in-person events is doable on our platforms and the choice of our customers.

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

Very helpful. And then I wanted to talk about maybe the corporate CSR market and how YourCause has been performing, especially as we're hearing a lot more, not only on ESG initiatives, but companies being more focused on employee engagement and understanding various social issues out there and how they can play a role both on behalf of their employees and their brands. So curious how bookings have been in that area and what your expectations are for the next couple of years in that vertical?

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

Yes, the YourCause business unit, it's rocking it. They're doing a great job. It's growing fast. They're closing household name logos. We've increased our investments in engineering there quite a bit, adding capabilities for international customers and international markets. We've got a new General Manager running that business. He's been with us for a while, who has corporate experience from the financial services industry, and he's been with Blackbaud for several years.

He's fully in place. We've got some new leaders in the air. We moved over one of our very successful sales leaders there. We moved over one of our very successful engineering leaders there. There's a new head of customer success we've hired there from outside the company a couple of months ago.

So a really solid senior team and the business is doing well. What's great about that, too, to your point is, it fits right into the S in ESG and a lot of companies are focused on ESG and they're focused on driving their culture and their brands to get back no matter what their core business is because their employees want that.

And it's a key tool to retain and attract employees to create volunteering and give back opportunities and YourCause is a great platform for that, and it's being quite successful. So we're really happy with what's happening there and in the future. As I mentioned, we've we really doubled down on adding a lot of engineers and engineering headcount because the growth is there, and we see that for the very long term as well.

Operator

Our final question this morning comes from the line of Mark Schappel with the Benchmark Company.

Mark William Schappel - *The Benchmark Company, LLC, Research Division - Director of Research & Senior Equity Research Analyst*

Tony, with respect to retention rates, that was one of the components of your growth strategy. I was wondering if you could just address where retention rates fell out in the quarter.

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

Yes. In the quarter, I think, Mark, we'll see maybe just a slight decline to 92% from 93%. You'll see that in the Q, I believe. The end of life, shutting down the everydayhero product, had an impact on the unit volume. Those are very low dollar units, but we end of life that with the replacing most of that with the JustGiving platform in Australia and New Zealand and a few other places around the world where we have some of the everydayhero products.

I think that's caused a little downtick here within the quarter. I would expect that will kind of bounce back the other direction as we get to the other side of that end of life. But all the other renewals on the core products are holding really well. We've got a big focus, as you know, on improving retention. And I think those efforts are starting to pay dividends and more hopeful over the next several years. We'll continue to see both gross and net dollar retention improvements as well as unit retention improve.

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

Yes, I'll add to that, too. We've got a new executive in the company that we sent a press release out on a couple of months ago. Chris Singh, long-term executive at SAP running our Customer Success function. He's been a really great add. And the small customers that were on everydayhero, we shut that platform down because we rolled out JustGiving globally.

And JustGiving is growing fast and have that new pricing model and it's been very, very successful. So we shut off a legacy platform that had a bunch of small customers on it. But right with it, we rolled out JustGiving globally, which is a really great replacement for that older everydayhero platform. So that was a really positive move on bringing that platform globally with that new pricing model.

Mark William Schappel - *The Benchmark Company, LLC, Research Division - Director of Research & Senior Equity Research Analyst*

Okay. Great. And then, Tony, with respect to the investments addressed in your prepared remarks, were these investments planned at the beginning of the year when the budgets were set? Or is this new spend?

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

Yes. No, these were all planned, Mark, at the beginning of the year and would have been in the budget. That timing on getting things -- so many of them are headcount related on many of those investments, so the hiring process can cause a little bit of shift, but we're largely on track with where we expected to be. I think we may have run a little slower in getting folks onboarded than we would have planned with the budget, but the overall budget largely is in line.

Operator

Thank you. Ladies and gentlemen, this 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 saying we have a lot to be excited about, and I'm really pleased with where we're tracking through the first half of this year. We're seeing a lot of positive signs of potential second half recovery as I mentioned, and I believe we're very uniquely positioned to elevate our status as a leader in the market.

Looking ahead, I'll remind you that we have multiple levers, which accelerate revenue growth and margin that are across a couple of areas. First, just the general pandemic recovery with event-driven transactional revenue and bookings returning post-pandemic. Second, as we talked about a few times, a few pricing model and price catch-up opportunities. And third, we're actively looking at M&A opportunities as well. We believe that the steady execution against the Rule of 40, financial framework and our continued commitment to disciplined capital deployment will generate substantial shareholder value. Thanks, everyone.

Operator

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