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BLKB.OQ - Q2 2023 Blackbaud Inc Earnings Call

EVENT DATE/TIME: AUGUST 02, 2023 / 12:00PM GMT

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PRESENTATION

Operator

Good day, and welcome to Blackbaud's Second Quarter 2023 Earnings Call. Today's conference is being recorded. I'll now turn the conference over to Kevin Mooney. 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 Second Quarter 2023 Earnings Call. Joining me on the call today are Mike Gianoni, Blackbaudd'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 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. The 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 from or as a substitution for GAAP measures.

Before I turn the call over to Mike, I'll briefly mention that our Investor Relations team will be participating in investor meetings with Stifel in New York City on August 14 and attending the Three Part Advisor's Midwest IDEAS Conference in Chicago on August 23. With that, I'll turn the call over to you, Mike.

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

Thank you for joining our call. I'm pleased to share that we're making measurable progress on the 5-point operating plan we introduced in May. With this plan, we essentially have a one-two punch. The first is the margin expansion that we began to realize in the second quarter. And the second punch is a new layer of revenue driven by our modernized approach to renewal pricing that will accelerate revenue growth in the second half and will have good margin flow through.

Accordingly, we're confident in the delivery of our increased financial guidance for the year. That strong operational execution produced solid financial results for the quarter. As expected, the cost actions completed in previous quarters drove a substantial increase in adjusted EBITDA.

Additionally, our modernized approach to renewal pricing and multiyear customer contracts continues to perform very well. Recall that our heaviest months for renewals are June, July and December. June and July are now completed, and we will begin to see revenue build in the second half and subsequently in future years.

From a numbers perspective, we reported total revenue of $271 million, which was up 3.2% year-over-year on an organic constant currency basis. Recurring revenue is now 97% of total revenue and grew faster at 4.8% on a constant currency basis. Adjusted EBITDA at constant currency was $89 million which was up a very meaningful $17 million or 24% over the second quarter of last year. That represented an adjusted EBITDA margin of 32.9% at constant currency, which was an increase of 5.9 percentage points above the second quarter of 2022. Taken together, Rule of 40 at constant currency was just over 36% for the quarter, just over a 4 percentage point increase year-over-year and 5 points higher sequentially. And we had another good quarter for cash flow production with adjusted free cash flow of $44 million.

Now turning to our operating plan, which focuses on five key drivers: one, product innovation and delivery that provides more value to our customers with continuous improvements sourced from internal development and a vibrant ecosystem; two, bookings growth and acceleration that results from improving sales channel efficiency; three, transactional revenue optimization and expansion; four, a modernized approach to pricing and multiyear customer contracts that reflect the value of the services we provide. With 97% of our revenue recurring, this is secure and predictable revenue; and five, keen attention on cost management. I'm excited about the significant progress we're making in each of these areas.

I'll provide an update on product delivery and innovation as well as our modernized pricing initiative. I'll also share examples about the enthusiasm we're seeing from our customers, which is driving numerous new wins and cross-selling success. Then Tony will cover the upside being realized from bookings, transactional revenues and cost management as well as a deeper review of the second quarter financial results.

Product is core at Blackbaud, and we strive to bring increased value to our customers through their software subscriptions with improved and innovative capabilities. For example, we recently released a new next-generation donation form in Raiser's Edge NXT with a goal of increasing the conversion rate and donations our customers raise. We match the new donation form with Prospect Insights, which utilizes AI to identify and qualify candidates for major gifts. It's still early days. However, the results are promising. Many customers are raising more money and that fuels the delivery of their missions and revenue growth for us.

I'd like to drill into this example a bit more to illustrate the power of our suite. We think it's unmatched in our space, and it's a strong competitive differentiator. After using our next-generation donation form and prospect insights, donations can be processed via our credit card processing service, Blackbaud Merchant Services. Those donations then get recorded in our fund accounting system, Financial Edge NXT and are logged into Raiser's Edge NXT, our donor management system of record.

All of this is enabled seamlessly and automatically. This has great value for our customers as it not only maximizes their fundraising but also minimizes their back office and administrative workloads. A great example of this is Martlets, a U.K.-based hospice provider. With their previous technology solution, donation processing required five to six distinct steps. Now donation batches are processed with a single click. That includes sending each donor an automatically generated thank you message. In their own words, "Blackbaud frees up time for our team to love our supporters more." And that enables their scarce human resources to spend more time on their mission and with donors.

Another example of the power of the suite is a win this past quarter with Grace School in Houston, Texas. After a recent strategic planning meeting, this private, faith-based, K-8 school realized their data was disconnected and had limited decision-making. They wanted a connected system not just for convenience, but because they see the power and the outcomes that connected data can drive. Our solution included five major components for managing the life cycle of the student, from enrolment, to learning management, student information, fundraising and financial management.

We also have a number of new product innovations that are underway. In early June, we announced additions to our Intelligence for good product suite. That announcement outlined initiatives and investments that we plan to implement over the next several quarters to make artificial intelligence more accessible, powerful and responsible across the social impact sector.

Much has been said about AI lately, but AI is not new to us. For years, Blackbaud has been using AI-enabled capabilities in our analytics offerings. That said, we're expanding our strategy into next-generation and generative AI technology that addresses specific challenges related to fundraising, stewardship, corporate impact and education needs.

We'll be rolling out an extensive new set of capabilities across our product portfolio, for example, AI for peer-to-peer fundraisers, AI for donor stewardship and AI for corporate impact. And these are only a few of the capabilities we have planned.

In July, we announced our newest cohort of participants in our social good start-up program. This program, which was launched in 2020 is designed to help new companies with creative solutions launch successfully. This year's cohort is focused on using generate AI to increase impact for nonprofits and companies. This cohort includes 10 start-ups that provide AI solutions for grant writing, purpose-built marketing, prospect outreach and strategy, major gift administration and content creation to name just a few.

Also, at the beginning of June, we hosted our Annual Developers Conference, with nearly 10,000 third-party developers registered and almost 4,000 customers using a third-party app, our developer community is an important component of our ecosystem. And looking more broadly at our ecosystem beyond software development and AI, we're also focusing more energy on our partner network through the Blackbaud marketplace. This is a great way to extend our joint capabilities, leverage our extensive customer base and distribution and enter into revenue share agreements.

Last but not least, we recently announced that we made a small strategic investment in Momentum, a leading AI-focused Blackbaud partner and graduate of our Social Good Startup Program. Our investment in Momentum allows us to accelerate product delivery and embed AI capabilities and solutions like RE NXT to optimize fundraising and stewardship processes.

So as you can see, there's plenty underway on the product side of our business. We look forward to sharing more about these exciting developments during our product update briefings in October at our bbcon user conference and during future quarterly earnings calls.

I'd now like to spend a bit of time updating you on the progress we've made on our initiative to modernize our pricing in contract terms. The effort is maturing nicely and is well on its way. We have already renewed customer contracts dated through mid-September, have notified customers with December 2023 contract renewals and in some cases, are already working larger strategic accounts with renewal dates into the first half of 2024. The vast majority of customers are opting for the 3-year contract option, it is higher than we expected when we launched the program late last year. And obviously, it improves future revenue security and predictability.

The pricing aspect of the program is performing equally well. For software subscriptions we renewed in the second quarter, the first year subscription price increase is up from what we experienced in the first quarter. These multiyear contracts include annual price escalations. Please keep in mind, as we reported on our last call, that our heaviest months for renewals are June, July and December. So while the June and July renewals are now completed and the December renewals are largely notified, the revenue impact has yet to be recognized in a meaningful way.

Before I turn the call over to Tony, I'd like to spend some time talking about the commitment we make every day to our employees and our customers. We're committed to strengthening the impact we make through the way we operate our business, setting the very highest standards. We continue to be the leader in helping individual change makers, universities, schools, nonprofits, charities and companies around the world drive impact for their causes.

To give you a sense of the impact our business has. Over $100 billion are donated, granted or invested through our systems every year. 60,000 teachers reached 3.4 million students with critical skills learning through EVERFI's learning modules. 900,000 individual change makers were enabled on Just Giving that benefited 23,000 charities and employees on our YourCause platform volunteered a remarkable 12 million hours last year alone. It's that kind of impact that drives our employees and our company.

And most importantly, none of this could be achievable without our exceptional team members who deliver impact every day for our customers. I personally want to thank them for the hard work, the dedication and the passion they bring to the job every day. It's their efforts that enable the strong execution on the operating plan that we reviewed with you today. With that, I'll turn the call over to Tony.

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

Thanks, Mike. Good morning, everyone. Second quarter financial results were solid and in line with the increased guidance we announced on last quarter's call. The benefit of cost actions we've been taking began to be realized this quarter, which drove a significant improvement in adjusted EBITDA, both sequentially and over last year's second quarter. And the operational progress we are making, including our modernized pricing, is leading to impressive bookings and cross-sells and has positioned us well for accelerating revenue growth through the remainder of the year and into the next.

For the second quarter, Blackbaud reported revenue of $271 million, representing organic revenue growth of 3.2% at constant currency. Organic recurring revenue grew 4.8% at constant currency and nonstrategic onetime services revenue declined by $4 million compared to the second quarter of last year.

From a bookings standpoint, we signed several notable enterprise-level contracts during the quarter. Recent examples include EVERFI's previously announced contract with the Medical University of South Carolina to provide preventative behavioral health to K-12 students as well as its expansion with JPMorgan U.K. for STEM training. And we secured a multiyear renewal and cross-sell by adding Blackbaud Merchant Services to the ALS Association's peer-to-peer solution.

Transactional revenue optimization and expansion is another key business driver in our 5-point operating plan. Transactions performed well this quarter, growing in the high single digits year-over-year. As a reminder, transactional revenues are included in the recurring revenue line. Each of the three revenue streams of transactional revenue performed well and grew in the quarter, driven by tuition management as enrollment continues to trend upward. We saw continued strong performance in the JustGiving business and began to see positive impacts from the rate change we implemented in January on Blackbaud Merchant Services.

As I mentioned earlier, our cost management program began producing sustainable results this quarter based upon actions we've previously taken. As expected, cost items are more immediately impactful to the P&L than our pricing actions. Pricing actions build each month as renewals occur.

For the second quarter, total costs were down $14 million year-on-year on higher revenue. That's good performance and represents a 6% cost reduction from a year ago, and it shows the leverage that's inherent in our business. It's our intention to keep a tight hold on cost going forward. While we may have some expense growth owing to inflationary pressures, we are managing headcount, our largest expense tightly, and we'll continue to scrutinize all other costs on an ongoing basis.

Adjusted EBITDA at constant currency was $89 million for the quarter, which was $17 million higher than the second quarter of '22 and represents a 24% growth rate. The adjusted EBITDA margin at constant currency of 32.9% was an improvement of 5.9 percentage points over the 27% recorded last year. Taken together, Rule of 40 at constant currency was 36% for the quarter, up over 4 points from last year and over 5 points sequentially. So we're tracking well against our commitment to be at a Rule of 40 run rate by year-end.

During the quarter, we recorded an additional noncash expense of $19.8 million to raise our aggregate liabilities for certain probable loss contingencies related to the security incident of $50 million. We're in active discussions with the Attorney General to settle that matter and are hopeful for resolution in the near future.

We had another solid quarter of adjusted free cash flow production and are on track to attain our increased guidance range of $190 million to $210 million for the year. For the second quarter, adjusted free cash flow was $44 million. Higher profitability and good cash collections, self-funded higher cash taxes, which were up from last year due to increased tax rates in the U.K., changes in deductibility of software development costs here in the U.S. for federal tax purposes and conclusion of tax attributes that were utilized in prior periods, all of which were already considered in our guidance range. We ended the quarter with $818 million of net debt and a debt-to-EBITDA ratio of 2.7x.

Turning to the remainder of 2023. We are reiterating the full year financial guidance, which we increased in Q1. We anticipate annual 2023 revenues of $1.95 billion to $1.125 billion. Adjusted EBITDA margin of 30.5% to 31.5%, Rule of 40 at constant currency of 34.8% to 38.6%, a nearly 7.5 point improvement year-over-year at the midpoint and adjusted free cash flow of $190 million to $210 million.

The midpoint of our free cash flow guidance is substantially higher than last year, and represents approximately $3.75 per share, which at current share price is a free cash flow yield of approximately 5%. We intend to use this year's free cash flow to retire debt and drive to our 2.0 debt-to-EBITDA target. As free cash flow per share grows into 2024, we believe it will present a great value creation opportunity for our shareholders. As we head into next year, we'll provide more guidance on our go-forward capital allocation and capital return strategy.

So to conclude our prepared comments, we're pleased by the progress we made during the second quarter. Our 5-point plan is driving strong results. We've started realizing cost benefits and margin improvements and set up well for increasing revenue gains and have strong cash flows. With that, operator, please open the lines for questions.

QUESTIONS AND ANSWERS

Operator

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

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

Congrats on the quarter. So I wanted to hit on the pricing success that you guys have had, I know it's a key topic. I'd love to understand what the feedback has been from customers? Anything on retention and how that's trended versus your expectations? Any color you can provide there?

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

Yes, sure. This is Mike. Program is going really well. We launched this last year and it started to go in effect in March. Customer retention and renewals are right where we thought they would be. Most customers are opting for a 3-year contract, which started March. So we are pretty deep into the program. We're only renewing about 35% of the total this year. And of that, about 70% of that is already done. And so the new pricing eventually takes effect in the second half of this year. So we didn't get really much revenue in Q2 builds in Q3 and Q4 just go forward. But it's going well.

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

That's great to hear, Mike. And maybe just a higher level on AI. I'd be curious, when you talk to your customers, how are they thinking about leveraging generative AI? And what do you think the early use cases will be kind of across the nonprofit landscape?

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

The early use cases for customers and our platforms are around marketing messaging, which we have a lot of folks that use our platforms outreach to donors as an example. I mean there's a lot of efficiency and opportunity using generative AI. For that, it's part of the investment we made in that company, I mentioned in my prepared remarks. So those are the -- that really is the first early use case is market and donor messaging and outreach.

Operator

Our next question comes from Rob Oliver with Baird.

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

Mike, another one on the price increases, a follow-up for you. So I appreciate that color with 35% of the total, I think you set up this year and 70% of that done. So can you just talk a little bit, I know we didn't see much of an impact at least in the numbers in Q2 from that? Is that because deals were back-end loaded in June as they tend to be in software. And then can you also talk a little bit about pricing uplift that you're getting relative to expectations? Obviously, we've got a ramp in revenue growth in the back half of the year. So I just want to get comfortable with your feeling relative to that? And then I had a quick follow-up for Tony.

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

Sure. So the program, again, started last year, but the contract renewal started in March. So with the fact that we're a reoccurring ratable rev rec business, it ramps up, and it takes a while. So you're right, we didn't get much of an impact at all in Q2 and it will start to ramp in Q3 and Q4. We added a slide to our investor deck at Slide #21. And it does a good job in showing just the 2023, so 35% of the total, just how that ramps this year quarter-by-quarter. And then obviously, we get a full year effect of just that 35% next year.

But then, of course, next year, we're going to renew another 30% on top of that 35%, and it keeps rolling every single year. We're getting the pricing we anticipated. We improved our -- increased our guidance, and we're confident in that. And so just doing the math, first half to second half of this year, it shows a nice ramp-up in organic growth.

And so I think we've really proven in the quarter, the margin opportunity is starting to happen, and it's contract renewals and realizing the pricing will also drive margin because a lot of it falls through. So we think we're going to have a really nice growth in Q3 and Q4 is a great setup for future years as well. And again, we're getting the we're getting the pricing we anticipated and program is going just really well.

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

Great. Mike, I appreciate that. And then, Tony, one for you, and it sounds like we're going to get more color on this in late Summer/Fall. But when you look at -- you guys bringing your debt ratio down nicely here, you also have some unknowns in terms of cash on the liability side from the breach. But when you look at the capital allocation strategy like looking out at some of the privates out there, we're starting to see a break in the M&A market a little bit here. Do valuations look more reasonable to you and it's been a little while since you guys made an acquisition, so we're kind of getting into the zone here where that might happen again. So any color there would be appreciated.

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

Yes, Rob, like you said, the cash flow is looking really good. Collections have been strong, overall looks very positive, obviously, with the guide -- that increased guide that we gave last quarter on track on that front. The debt pay down, assuming we don't have any material settlement, we'd expect to be close to 2x leverage by the end of the year, which is kind of as you know, our optimal level. So that opens us back up to start looking at more acquisition opportunities, reinstating potentially stock buyback really between the EVERFI acquisition now, it's been about paying down the debt and getting that leverage profile down. So we'll be in good shape. I do think the market is opening up. I think valuations have improved a bit from the highs that they were at. So I'm sure Mr. Mooney and team will be active and engaged looking at the market for new opportunities as well.

Operator

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

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

First one for you, Tony. When we look at the recurring gross margin improvement here, very solid year-over-year, quarter-over-quarter, just wondering if you could unpack that a little bit and help us understand how much of that is the result of pricing versus IT consolidation versus any other initiatives you put in place to improve that? And then as we look forward, do you think this is a sustainable level that we should build off of? Or should there be some variation along the way?

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

Yes, Parker, it's a good question. We haven't seen a significant impact from the pricing yet. And when you refer to that new chart in the investor deck, that will help you get to those numbers, but we've seen a small impact in Q2, that's going to grow substantially in Q3, Q4, as you'll see in that new chart. And then by Q1, we're getting a full quarter impact of that pricing. So that will have some ongoing improvement to the gross margin and overall margins because a lot of that will fall through.

The bigger drivers of the gross margin improvement we've seen thus far is closing 4 colo data centers last year, accelerating our move to the cloud. We renegotiated because of moving to the cloud, renegotiated those key contracts with Microsoft and AWS and got some more favorable pricing on those cloud environments. And then obviously, the cost actions we took late last year in Q1 this year, largely related to head count and other cost items are having a positive impact.

The one wildcard to your kind of follow-up on the sustainability, the one wild card that you know that we always have to look at is what happens on the transaction side. So should transaction volumes grow or shrink significantly in the future, that would have an impact on the gross margins, obviously, because the BBMS business obviously has a much different margin profile than does our subscription business. That would be the one wildcard, is the sustainability. But within the true contractual recurring revenue, I would expect this is a point that we'll see improvement upon not go backwards from as the margin expansion from pricing comes in play. And we've got a couple more colo data centers to close and some other things that will help the cost structure as well.

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

Got it. And the second one is for Mike. Mike, when you look at the corporate vertical, you obviously got deeper in there last year with the EVERFI acquisition. Just curious if you could assess the health of the demand environment around corporate right now, what you're seeing out there? And if you feel like some of those challenges that you faced from a sales standpoint and the somewhat of a reorganization there last year. If that's all in the rearview mirror, and it's all systems go now. Just what are you seeing on the corporate side of things?

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

Yes. Year-to-date bookings are pretty good, still a lot of interest out there. We've got a good pipeline. I announced a couple of deals in the last two quarters in these calls, Medical University South Carolina, Center for Audit Quality, Microsoft. So a lot of good deals that we closed year-to-date. There's -- the organization changes, to your point, were complete last year. And overall, at the company level, year-to-date bookings are pretty good. We're seeing the growth year-to-date across the whole product portfolio pretty well.

And so the exciting part of what we're doing is this sort of new layer of organic revenue with this contract and pricing, which still slides -- on Slide 20 in the deck, the investor deck showed that in '21, just as the example for this year. It's sort of a whole new layer of revenue that we have not yet experienced, and we will start to see it to Tony's point in mind earlier, Q3 and Q4 this year, given our increased guide. But remember, that's only a small part of it, too, because Again, 35% of the contracts are renewing this year.

And in Q3 and Q4, really you can get a partial impact of those. And so we'll get a full year effect of those next year but then next year, we're going to renew on top of that another 30% of the contracts. So this multiyear program then just restarts again in 2026. So that on top of good year-to-date bookings is just a new layer of organic revenue growth. That's pretty exciting, drive more margin improvement as well.

Operator

The Next question is from the line of Kirk Materne with Evercore ISI.

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

Mike, I was wondering if you could just talk about the opportunity for cross-sells as the renewal portfolio comes up? Obviously, just getting the pricing on the renewals is obviously job one, but just thoughts on the opportunities to cross-sell and upsell, other solutions as part of that process, if that's sort of the order of the day? Or is that something you think of as more of like a '24, '25 opportunity?

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

Yes. No, we constantly do that. We've got sales folks focused on cross-sell and new logo folks. And so that's a part of renewals, and it's a part of just sort of base assignments, job assignments around cross-selling into the existing base and we've got a lot of opportunity.

The other thing that's driving that is innovation as we continue to drive the integration of our platforms and making better user experiences on key products like Raiser's Edge NXT, Financial Edge NXT and our payments processing, that drives cross-sell opportunities. So cross-selling is still a big opportunity for us across the board in the corporate sector as well.

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

Okay. And then, Tony, just on the sort of leverage in the business. I was just kind of curious, can you just talk a little bit about sort of any incremental costs around gen AI as every company has to sort of evolved their platform to incorporate that. Just any thoughts in terms of is there any incremental offsets, I guess, to some of the base benefits you're getting from some of the cost actions you guys have taken already?

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

Thanks, Kirk. Not significantly overall. So we certainly reallocate, I would say, and revisit our allocation of our investment in R&D quite often on a regular basis. And so I think it's more of a reallocation of the total investment because, as you know, we spend a good chunk of our overall dollars on R&D and innovation. So any place that we've had an increase in the last few years, frankly, has been the move to the cloud. So we've had a lot of redundant costs as we still pay for the colo data centers and pay to move to the cloud and then also are paying for the new cloud environments. And then the other place is we've made a lot of investments in cyber as every company is doing, and we continue to do that. That's probably one of the few places in the business that we're seeing an increase in expense overall.

Operator

Our next question is from the line of [George Makena] with Bank of America.

Unidentified Analyst

If you could kind of comment on the recently announced changes to the partner program and kind of what your long-term expectations are for the contribution from that channel?

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

Yes, sure. This is Mike. So we have a new leader that's running that program as of kind of midyear last year, and we're really driving a couple of components there. We've got the social -- what we call social good start-up program, which basically creates new partners. And then we have new partners coming in of all types. They're either development companies, software companies, services businesses. And we've got a much higher focus on this partner ecosystem, and then we combine that with the developer network.

I talked about the fact that we've got over 10,000 registered developers in that program. And if you go back just 4, 5 years, there were maybe 500, now there's over 10,000. And so we're focused on the what we call the Blackbaud ecosystem, where it's partners, and these are, again, software companies, systems integrators, professional services firms. It's a developer network, that's important for us. And so we're building this ecosystem because, frankly, it helps our customers and it helps us. Our solutions are stickier, if you will. They're expanded through the partner network. And we're looking to drive shared revenue and some more organic growth through these partnerships.

Operator

(Operator Instructions) The next question is from the line of Matt VanVliet with BTIG.

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

I guess first on the education space, just curious maybe if you could dive in a little bit there and seeing this being kind of the key selling season, especially on the upsell, cross-sell side of it. What you're seeing there? How much appetite is there from your schools to continue to sort of use more of the platform as you've made some additions from a product standpoint?

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

Yes. I mentioned one school in my prepared remarks. This is actually a pretty heavy implementation season because the schools need to get ready for the fall. So we see a higher selling season sort of earlier in the year and the Spring/Summer is like implementation time to get the schools ready. Good cross-sell opportunities there. The K-12 space that we're in, it's really our widest product portfolio. So there's quite a few products that we sell there from tuition management to financials fundraising to running the school, SIS student enrollment systems, and we typically will go in a new logo and provide a platform that might start with the school operating system, SIS and school admissions and things or it might start with fundraising. But then we have a lot of opportunity to keep going back and adding to that, which happens quite often.

So yes, that business is doing well. We got a really good footprint there, a good partner network there as well. And so yes, it's been a really good environment for us. The payment side of that, which is the tuition management, that platform has been really strong for us year-to-date this year.

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

Matt, we're seeing good continued increase in enrollment as well in the school space, which is really helping on the tuition side.

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

Okay. Great. And then, Mike, you talked about even starting to discuss with larger enterprise-level customers on the renewals for early next year. Curious on what their feedback is in terms of the level of price increases. Are you seeing or hearing much pushback as they look at that 3-year option versus 1-year? Just curious what the feedback is on some of those very large customers.

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

No, we're not. I mean you have to remember, too, that we're not alone there. What I mean by that is these enterprise customers have lots of software providers. It could be SAP, Oracle and Microsoft and others, Workday or others, and so we're not necessarily alone there in basically requiring multiyear contracts and price increases. So that's kind of one point.

The other point is we are a system of record. So the solutions we provide for the mid-tier and enterprise is a system of record. Their revenue -- we're the revenue generator for those foundations, if you will. So we are -- it's not a discretionary choice for them. So we're a core system of record, we have great long-term relationships, and those contract renewals of customers of all sizes are going to plan and going quite well. And the way the process works, as I mentioned in my prepared remarks, we've already notified the customers through the end of this year, and we've already completed pretty much the end of July and most of August and a big part of September and October is already complete.

So our visibility to these renewals and our visibility to organic revenue growth has never been as strong because we've got this future view of renewed contracts and price increase and organic growth, which is awesome. And so the enterprise customers we're dealing with some of those discussions right now because they're into next year because we notified quite far in advance. It's all going really well.

Operator

At this time, we've reached the end of our question-and-answer session. I'll turn the call back to Mike Gianoni for closing remarks.

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

Thank you, operator. Thanks, everyone, who joined the call today. In summary, we had a solid second quarter, and we are successfully executing our 5-point plan. We're innovating products, driving bookings, optimizing transactional revenue, modernizing contractual pricing and tightening cost management.

Our operating plan has, in effect, a one-two punch. The cost initiatives are the first and have started to produce improved margins in the second quarter, and the second punch is the progress we're making on the renewal side of the business that will accelerate revenue growth in the third and fourth quarters.

By the fourth quarter of this year, we expect to achieve organic revenue growth in the high single digits as well as Rule of 40, well ahead of our prior target of 2025. And looking ahead to 2024, we expect to continue growing revenue and expanding margin to achieve a Rule of 40 for the full year.

I'm incredibly proud of the progress our team members have made and I'm confident that we will continue to build on our momentum and drive strong, sustainable growth and value creation for shareholders. Thank you.

Operator

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