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PRESENTATION

Operator

Good day, and welcome to Blackbaud's Fourth Quarter and Full Year 2022 Earnings Conference Call. Today's conference is being recorded. I'll now turn the call over to Steve Hufford. Please go ahead, sir.

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

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

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

We believe that a combination of both GAAP and non-GAAP measures are more representative of how we internally measure our business. Unless otherwise specified, we will refer only to non-GAAP financial measures on this call. Please note that non-GAAP financial measures should not be considered in isolation from or as a substitution for GAAP measures. A reconciliation of GAAP and non-GAAP results is available in the press release we issued last night, and a more detailed supplemental schedule is available in our presentation on our Investor Relations website. 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 us on the call today. I would like to take a brief moment to mention that Steve has taken an internal opportunity to further advance his career at Blackbaud and is transitioning to another role in the company. Congratulations, Steve. Thank you for leading our IR program over the last several years. Moving forward, Kevin Mooney, our Executive Vice President of Corporate Strategy and Development and his team of Alex Durkee and Jeff Kline, will take over the leadership of our Investor Relations program.

My remarks today will focus on 3 key areas: I'll start with a review of the numerous steps we took throughout the year to improve company performance. Next, I'll give a brief overview of fourth quarter and full year 2022 results versus our guidance. And then I'll end with our 2023 outlook before turning the call over to Tony to provide additional detail.

2022 was a year of substantial progress for our company. We proactively took steps to better position the company, manage it efficiently and effectively in a weakened economy and drive profitability, cash flow and improvement on Rule of 40. On the revenue front, we institutionalized our pricing approach. We increased transaction fees where warranted, set subscription prices based on contract term lengths and embedded escalators in our 2- and 3-year contract renewals. We improved our renewal and retention processes by establishing a dedicated team and remaining focused on customer success.

In the fourth quarter, we signed several new and existing enterprise customers to 6- and 7-figure ARR contracts, including the company's largest deal in 2022 closed by the EVERFI team. We were also active on the cost side of the business. We tightly managed our largest expense, which is people costs. We selectively replaced attrition, closed open requisitions and had a work force reduction late last year. As a result, we ended the year with fewer employees than we had at the end of 2021. We also maintained our lower run rate on rent expense as well as travel costs. Further, we renegotiated some of our largest vendor contracts such as Microsoft Azure and AWS and simultaneously reduced our footprint by closing 4 data centers last year.

In short, we examined every cost driver in the business with a critical eye, which took a lot of cost out of our company. We have a strong internal focus at every level of the company to generate significant value and drive substantial improvement on the Rule of 40.

Now let's turn to our financial results. We saw a strong December and overall fourth quarter bookings performance with year-over-year improvement in our social sector. In the fourth quarter, we had total revenue growth of 11%, and our organic revenue grew approximately 2% at constant currency. One-time revenue was roughly 1 point of drag on organic growth in the quarter. Adjusted EBITDA grew 12% with an adjusted EBITDA margin at constant currency of 25%. Taken together, Rule of 40 in constant currency was approximately 27% for the quarter. For the full year, our financial performance met or exceeded our guidance ranges we gave on our Q2 call last year. We achieved a significant milestone in 2022 and revenues surpassed the $1 billion mark for the first time in our history, reaching $1,058 million, a 14% increase year-over-year.

Organic revenue grew 4% at constant currency. Our renewals continue to improve throughout the year as we shifted towards multiyear contract terms, and our transactional business was a meaningful contributor to growth for the full year. Adjusted EBITDA margin at constant currency came in at 25% and exceeded the top end of our full year guidance range. And, Rule of 40 at 29% for the year at constant currency increased by 2 points over 2021.

The business generated strong adjusted free cash flow of $154 million, which exceeded the high end of our full year guidance range and enable debt repayment ahead of schedule. During the year, we also made improvements to our corporate governance by formalizing our policy on board member tenure. Most recently, Yogesh Gupta and Rupal Hollenbeck joined our Board of Directors in December replacing Tim Chou and Joyce Nelson who retired. In a little over a year, 4 of our 7 independent directors have been newly appointed. This not only provides diverse new business perspectives, but has also added important skills in cybersecurity, enterprise software, digital transformation and global operations. I couldn't be more pleased and appreciative of the Board that we have.

Turning to 2023. I'll start by reminding you that the end markets we serve are large and resilient, the U.S. nonprofit space alone, total annual giving is $485 billion. There are over 1.4 million registered nonprofits and it's the third largest employment sector in the U.S. And in the corporate market, we were greatly expanded our footprint with our EVERFI acquisition. And it's clear that this market is sustainable to choppy economic waters. In fact, charitable giving in the United States has comprised about 2% of total GDP for more than 40 years and has only fluctuated modestly downward in 1 of the past 5 recessions. That said, we remain laser-focused on improving operating performance and driving efficiencies in the company.

With that, we are reducing our workforce, starting with notifications today in the U.S. Following the planned action at the beginning of the fourth quarter to reduce overhead and rebalance our workforce, we experienced a slowdown in voluntary attrition relative to expectations, leading to a further reduction in force to achieve our original plan. We did not come to this decision lightly as we know it affects valued employees. We're taking the necessary steps to work more efficiently and effectively as a company, It's important to note that while we are eliminating positions in some areas, we'll continue to hire in other areas. Most of these reductions are in areas of the business that are not customer-facing or in sales. And when combined with the cost actions we took in Q4, we expect our total headcount will be reduced by approximately 14% since Q3 2022.

From a revenue perspective, our sales teams are fully staffed. We're starting to see less attrition, and we have strong pipeline coverage as we head into 2023. Our customer success and renewals teams are operating well, and we expect stable to slightly improve retention rates accompanied by the continued shift to multi-year contract terms. And while it's still early days on the pricing initiatives, we expect to see improving performance with each successive quarter as contracts are renewed throughout the year. Additionally, these pricing initiatives have a double benefit to Rule of 40 with much of the revenue upside falling through to profit.

Turning to profitability. We have high visibility into a step level margin expansion in 2023. The actions we've taken throughout 2022 and early this year are driving scale and efficiencies in the business. Our company is well-positioned for substantial and sustainable margin improvement over the next several years. While Tony will cover the 2023 financial guidance in more detail, I'll provide the highlights. At the midpoint of our full year financial guidance ranges, we anticipate organic revenue growth at constant currency of 4%, consistent with last year. We expect adjusted EBITDA margin of 30%, which is a 5-point increase versus 2022. And consistent with our focus on optimizing the business, we expect Rule of 40 at constant currency to expand from 29% last year to 34% this year as we march towards attaining 40%.

Further, we expect adjusted free cash flow of $180 million. Our capital allocation strategy continues to call for deleveraging in the near-term as we gain more visibility on cost related to the security incident in 2020. We're targeting a leverage ratio of approximately 2x, significantly less where we ended 2022 at 3.2x. Collectively, we expect financial performance to improve with each successive quarter starting with meaningful improvement in the second quarter as our pricing and cost initiatives take hold.

In summary, we had a strong execution in 2022. We're focused on continued improvements across the business in 2023 as we progress along our Rule of 40 journey. We're confident in our outlook with plans in place to achieve substantial performance acceleration throughout the year and deliver significant enhanced shareholder value.

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. Today, I'll cover our results for the fourth quarter and full year 2022 as well as our outlook and guidance for 2023 before opening up the line for questions. Please refer to yesterday's press release and the investor materials posted to our website for the full details of our Q4 and full year of 2022 financial performance.

2022 was a year of significant change. We started the year with a strong economy and lingering overhang from the pandemic. Conversely, we exited the year with a weakening global economy and minimal impacts related to COVID. Despite this changing environment, we remained intently focused on efficiency gains and strong execution across revenue, profitability and cash flow. Against this backdrop, we met or exceeded our full year guidance ranges we gave on our Q2 call for revenue, adjusted EBITDA margin and adjusted free cash flow.

In the fourth quarter, we reported total revenue of $275 million, adjusted EBITDA of $68 million, adjusted EBITDA margin of 24.7% and Rule of 40 of 25.1%. Revenue of $275 million represented organic growth of 0.4% and when adjusted for $4 million of negative foreign exchange impacts, organic growth at constant currency was 1.7%. Growth in the quarter was largely driven by contractual recurring revenue. We continue to see improvements in renewal rates and strong bookings in the quarter. This was partially offset by roughly 1 point of drag from onetime services and other revenue, and we experienced softness in the quarter in some payment services in the U.S. Adjusted EBITDA of $68 million grew 12% with an adjusted EBITDA margin of 24.7%. We saw some early benefits from operational actions taken at the beginning of the fourth quarter in addition to actions taken earlier in the year. Rule of 40 at constant currency in the quarter was 26.6%.

Turning to our cash and balance sheet. Our adjusted free cash flow was $8 million in the fourth quarter, largely driven by the timing of our cash collections shifting from Q4 into Q3 and a shift in cash tax payments from Q3 into Q4. Additionally, we had incremental spend in the quarter related to employee severance for those impacted by the workforce reduction late last year. We ended the quarter with $827 million in net debt with an additional $320 million of borrowing capacity. The debt-to-EBITDA ratio was 3.2x, and we remain focused on rapidly deleveraging in the near-term.

For the full year 2022, revenue of $1,058 million was a record for us and fell within our full year guidance range. Adjusted EBITDA margin at constant currency of 25% exceeded the top end of our guidance range. Taken together, Rule of 40 at constant currency of 29% was a 2-point improvement over last year and in line with our full year expectations. We generated adjusted free cash flow of $154 million, which exceeded the top end of our guidance range, and EPS of $2.69 also exceeded the high end of our guidance range.

Now let's turn to 2023. We remain focused on operational execution across our business that will generate significant improvements to profitability in the Rule of 40. As Mike mentioned, our contractual software prices increased at renewal dates throughout the year. That, combined with realizing the cost actions we announced today should lead to successive quarters of improving financial performance starting with higher acceleration beginning in the second quarter. Our full year 2023 financial guidance is available in yesterday's press release. I'll cover some of the highlights.

Starting with revenue. We see revenue in the range of $1,080 million to $1,110 million. We anticipate a negative FX impact of roughly $5 million for the full year, with most being front half loaded. This assumes no further material unfavorable movements in foreign exchange rates. At the midpoint, we anticipate organic revenue growth at constant currency of 4%. We expect an acceleration in our revenue growth as the year progresses with our pricing initiatives that are already in place as well as new pricing initiatives coming online during 2023.

At the end of last year, we rolled out new contract pricing that go into effect as contracts come up for renewal. And as a reminder, our peak renewal seasons fall in July and December. We saw strong bookings in the fourth quarter have fully staffed sales teams in place with quotas increasing and a strong opportunity pipeline to start '23. Also, we expect that one-time services and other revenue will continue to decline by 30% to 40% versus 2022 driven by our continued migration to the cloud and our core business as well as an opportunity to shift EVERFI one-time revenue to a recurring model. We anticipate between 150 to 200 basis points of drag on total revenue growth for 2023.

Shifting to profitability. We remain intently focused on managing costs and driving significant improvement to margins throughout the year. We anticipate adjusted EBITDA margin in the range of 29.5% to 30.5%, nearly a 5-point improvement year-over-year at the midpoint. As a reminder, Q1 is typically our seasonal low in profitability as certain annual costs related to employee benefits fall in the quarter. Additionally, we don't expect the reduction in force we are taking today to have a meaningful impact to margin until Q2. Taken together, we are targeting Rule of 40 at constant currency of 34%, a 5-point improvement year-over-year at the midpoint, largely driven by our margin expansion efforts.

Before I turn to cash, in the fourth quarter, we recorded an additional $18 million in aggregate liabilities for certain probable loss contingencies related to the security incident that we believe we can now reasonably estimate. There are some potentially material security incident-related matters for which we have not recorded a liability, as we're unable to reasonably estimate the possible loss at this time.

Lastly, moving to cash flow. We anticipate adjusted free cash flow in the range of $170 million to $190 million, approximately 17% growth year-over-year at the midpoint. The year-over-year increase is driven by our expected significant margin expansion, partially offset by working capital changes and higher cash taxes. As a reminder, our adjusted figure excludes cash to be spent related to the security incident. Our expectation for the full year is a net cash outlay of $25 million to $35 million for ongoing legal fees related to the security incident.

In the near-term, we remain focused on reducing our net debt with our cash generation, as we gain clear visibility into the timing and magnitude of any probable security incident costs, we will consider other alternatives to deploy our cash as well as continue to lower our debt to our targeted range. As always, we will provide updates to the investment community and regulatory bodies through appropriate disclosures in our SEC filings.

In summary, we had a strong 2022 and met or exceeded full year guidance across the board. In '23, we expect to drive further operational improvements throughout the year that deliver substantial margin expansion and earnings potential. As a result, we expect 34% at constant currency on a Rule of 40 at the midpoint of our full year guidance ranges, up 5 points versus 2022, giving further confidence in our ability to reach our goal of 40% in the next few years.

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

QUESTIONS AND ANSWERS

Operator

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

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

So I wanted to start on some of the pricing initiatives you guys have mentioned. I think the question I get a lot from investors is how do we think about the arc of those impacts? I know some of them are coming in on contracts and we get some transactional components. And any color you could provide on how much that's kind of helping or how we should think about that as kind of a durable growth tailwind going forward?

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

Sure, Brian, it's Mike. A couple of things. Price initiative on transaction has started at the beginning of this year, so has contractual. And that really is sort of aligned with contract renewals also. Those have already begun. The ramp in those though for us historically and this year is, we have some pretty big renewal seasons, if you will, in kind of June, July timeframe and then November, December timeframe. So we'll get some -- and you see that in our guidance this year, we'll get some benefit this year from those initiatives that will build in the back half of this year and more significantly in 2024 as well will get a full year impact in '24.

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

Got it. And Tony, maybe a follow-up for you or Mike, if you want to take this one. You mentioned on some of the transactional components some variability in the U.S. in particular. Any perspective on what kind of transpired over the fourth quarter? And any thoughts on how to think about the transactional growth maybe in 2023?

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

Yes, Brian, the -- we saw a little bit of softness at the end of the year, mainly in December on largely the BBMS side of the business. We did well in tuition management all year. We saw good growth, frankly, in transactions overall for the full year as well. A little bit of softness in December with year-end giving and it was actually volumes were up but the average transaction size was down a bit year-over-year. Bigger impact actually was FX. I think we had about a $2 million negative impact to FX also in the quarter on the transaction side. January is off to a good start. So we feel pretty good on the '23 number overall for transactions.

Operator

The next question is coming from Parker Lane from Stifel.

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

Just wanted to follow up on that last point there, Tony. I think you guys talked about charitable giving being relatively stable over the last 40 years. In those periods, of recessions. Is it typical to see that average transaction size come down for a sustained period of time? Or is that something that you think is sort of an anomaly year in the fourth quarter?

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

Well, I think when we look back at -- we talked about this a bit on the last call as well, when you look back at past recessions, we've held up pretty well and certainly the industry has. I think the worst impact of any that we saw to overall giving was the '08, '09 period. I think giving was down slightly in the market or in the industry for 2 to 3 years before it fully recovered. We didn't have nearly the mix of transactions back then that we do today. That said, we've had really good transaction volume all through this past year and started off January like in the JustGiving business. So that's held up really well. Again, big events can drive giving as well like we saw with the war or the pandemic, et cetera.

So there's a lot of different drivers there. But we've seen that hold up really well. I think probably the biggest thing we saw in December, maybe on giving Tuesday a little bit was potentially disposable income that, that may be driving a little bit of this dollar amount per transaction being down which is an impact, obviously, the economy. And that said, we did see higher volumes overall to finish up the year even though the economy has been tough. So kind of a little bit of a mixed bag on that front and January is off to a good start. So we feel pretty good thus far. We'll have to wait and see what shakes out there.

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

Yes, Park, it's Mike. JustGiving has been really strong, which is another part of our transaction mix. And a bigger drag really in Q4 was our one-time services and FX much more than transactions.

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

Got it. And then, Tony, when I think about the fact you guys closed 4 data centers last year, it sounds like you renegotiated some contracts with the public cloud providers. How should I think about the impact of gross margins in '23 on that step function in EBITDA? Like what does the share look like of gross margin versus OpEx?

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

Yes. We'll have some other puts and takes in there, Parker. It's very positive. We got 4 colo data centers closed. Those renegotiations are going to help because we're obviously moving more volume to those third-party cloud providers. So that's all positive. We've been capitalizing a lot of R&D because we've been spending a lot on innovation and security enhancements, so you're going to see a little more amortization of those software costs up in COGS. We've been making enhanced investments in just overall cyber, which a lot of those costs also fall in there. So I'd say you're going to have puts and takes. It is a good start, though to this longer-term improvement in gross margins that we'll see over the next several years.

We still have several more data centers to close and networks to shut down. So I would kind of spread that over the next 2 to 3 years that we'll continue to see improvements in the gross margin line. Some offsets just because of those other items I spoke to.

Operator

The next question is coming from Rob Oliver from Baird.

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

Can you hear me okay?

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

Yes.

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

Okay. Two questions for me. One, just a follow-up to Brian's question earlier on the pricing side. Clearly, you guys have made a ton of progress on the cost side yourselves and part of that is renegotiating contracts and pressuring vendors, and it's something we're hearing a lot about throughout our coverage in the software industry. So I just wanted to get a better sense of what gives you guys the confidence around these renewals summer and year-end that pricing will stick for you guys, how you think about that? And then I had a quick follow-up.

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

Sure. So I'll answer that. So the pricing initiatives have actually gone well since we started those last fall, but it ramps up. And we're very focused on multi-year contracts as well, including moving some of the historic 1-year contracts to multi-year contracts. So, so far, it's gone well. It started last fall. It's ramping up between now and, call it, June, July. And then we think it will go quite well in the fall. Also, the big deal for us too is we'll get some -- first of all, you get a nice fall through, right, with pricing increases, it impacts on a Rule of 40 top and bottom line. And the bigger deal for us is it's going to build pretty significantly in the back half of this year.

And then next year, we'll get a full year effect of those. And also next year, we'll get a full year effect of some of the cost actions that we've implemented as well. So we'll see some of that this year, mostly billing in the second half for the next year as well.

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

And Rob, this is Tony. We've got -- we've had an intense focus on renewal and customer satisfaction and obviously, have made big investments on that side of the business over the last few years. And the nice thing we're seeing thus far is renewal rates have been improving, inclusive of the price initiatives that we've rolled out. So that's where we'll keep a very close eye as we'd expect to see as pressure potential on discounting with price increases and then renewal rates are the 2 key focus areas as we watch those over the coming year.

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

Okay. Okay. Great. Yes, really appreciate it. Very helpful. My other question, Mike, is for you around EVERFI. You called out in your prepared remarks that large deal, I think you said it was the largest deal, some 6- and 7-figure ARR deals, really exciting. I mean I know street was excited when you guys made that acquisition, there were some kind of speed bumps along the way. Can you just give us an idea of where we are now with EVERFI in terms of how you feel about kind of the business relative to your expectations? And then any more color on that deal would be helpful. Was that an existing Blackbaud account? Was in -- is there a cross-sell potential? Maybe talk a little bit about that deal.

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

Yes, sure. So EVERFI throughout the year last year, we had some higher attrition, call it, the first half of the year in sales. That's all settled down. The sales team has settled in, much lower attrition on that team. We've closed some nice deals in the back half of the year with EVERFI, we announced a few of them, like One Main Financial and Center for Audit Quality. For example, the deal I referenced in my prepared remarks was a -- a lot of our customers don't like to name them, so we don't. But that deal I referenced was a multi 7-figure ARR contract, so the substantial deal that they closed with a customer. The pipeline looks good in building in Q4 and Q1 and this year. We've done a great job on integration there as well. So we've really integrated well with the departments and in functions that we wanted to translate into -- took out a lot of cost, given our scale.

It's had really good progress. Tom was driving that, the founder. We integrated the YourCause business because we're still in the same customer base. So I'd say rough start to the front half of the year, pipeline building, close some good deals in the back half of the year last year and a pretty good pipeline outlook this year as well.

Operator

The next question is coming from Kirk Materne from Evercore ISI.

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

Mike, can you just talk a little bit more in detail about just sort of the bookings strength that you noted in the fourth quarter, anything in particular in that product wise? Can you give us a little bit more color on that start?

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

Yes, sure. We saw good bookings year last year. EVERFI again slower, but them aside, the rest of the Blackbaud business, we exceeded our original sales quota for the year, finishing up the year, really strong fourth quarter. So across the product portfolio, pretty strong. And we beat the original number we set in our budget in January of '22. So we feel really good about how the year ended up. We consolidated global sales under David Benjamin, who reports to me and is driving our consolidated go-to-market. Pipeline looks good this year. So we feel really good about much lower attrition in sales, really solid leadership team, beating the full year number last year. We didn't see a slowdown in bookings, and we see a good pipeline starting off the year this year.

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

And sort of how does that factor into sort of the guide for this coming year? Obviously, you guys are going to get a nice lift from pricing. But with bookings doing better, one would think that you can -- it seems that there's room for upside potentially to that guide if bookings continues at that pace. Is that the right way of thinking about it? I'm just trying to sort of connect the dots between, obviously, the pricing lift, but also what you're seeing from a bookings momentum perspective.

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

Yes, Kirk, this is Tony. EVERFI's shortfall in bookings last year is going to have a drag on '23 revenues, unfortunately. The positive is, as Mike spoke to, we saw the bookings improve significantly in the near the end of the year, and we feel good going into '23. But by the time that revenue recognition turns on, it's going to be the latter part of the year. So as you saw in our prepared commentary, we're expecting to see a ramp throughout the year starting in Q2. So some of the cost actions as well that we took late last year and just recently will have a much bigger impact as we get to the back half of the year. And then obviously, we head into '24 at a much improved run rate. We still expect about a $5 million FX negative impact on revenue front half loaded. So you keep that in mind when you look at those growth numbers.

And then as we said in the prepared commentary, we also expect 100 to 200 basis points of drag in '23 from the one-time services. Our Blackbaud core has largely transitioned. There's a little bit there, but not much. The bigger impact is we are converting EVERFI what was one-time to recurring model in many cases and exiting in a few places. So we're going to still see a continued fairly significant drag as well from the one-time overall. I think the positive with all these things as they line up, we should see nice improvement quarter-over-quarter-over-quarter starting in Q2 and exit the year at a really nice run rate going into '24. And I would expect the compounding effect of pricing, the improvement of bookings run rates, all of those things, something like currency falls behind and then the drag of one-time services should diminish heading into '24.

So hopefully, in '24, we see both improvement in revenue growth rates and continued improvement in profitability as a result and continued improvement on Rule of 40 in '24 and '25.

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

That's super. Just one last quick one for you. You mentioned you're trying to do more multiyear deals with your clients. Does that have any impact really on the pricing, meaning do they expect more discounts upfront? I mean how do you sort of balance that out? Or is it sort of -- I assume the pricing assumptions you're making take that into consideration, obviously, that you're trying to go to more multi-year deals?

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

Yes, Kirk, the price initiatives are inclusive of the multi-year contracts and has built-in price increases on those multi-year contracts.

Operator

The next question is coming from Koji Ikeda from Bank of America.

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

I had a question. I just wanted to go back to the workforce kind of reduction rebalance news for this morning. Just wanted to fully understand exactly what you meant. You -- I jotted down 14% headcount reduction. Is that the right numbers to just kind of use the 3,600 total employees reported in the K and 14% less. Is that right? And then when you think about reallocating our resources, you did say that your sales capacity is fully staffed. So are you thinking about maybe moving some other people into sales capacity going forward? And how are you thinking about hiring this year from a timing perspective? Just trying to get a sense of the overall workforce capacity today and where it's going over the next 12 months.

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

Yes, sure. So what you're seeing is we're getting a lot more scale and efficiency in the business. That 14% is from the last year. So it's Q3 of last year to now is the 14%. And those numbers that you mentioned are right on. So we've had some reductions kind of across the board. Our onetime services revenue, as you know, is a much smaller percentage of total, and that revenue has been falling. We've taken on some partners that do implementations and one-time services for us. So we've needed less resources there with less hours. We also focused on span of control and layers and things like that throughout the year. We had some really good integration with EVERFI with corporate functions and a few other areas. Some areas we've added like in engineering, our attrition is way down.

And then go forward, we'll continue to add if we have some attrition in areas like sales. We don't plan on reducing in customer-facing roles like that. So we're just at a point where we're able to get a lot more efficiency out of the business, 4 less data centers to manage for colos. The build on AWS and Azure is getting pretty big for us, but those are single kind of data center environment platforms. And so it's less complex, having 4 less colo data centers. So I would look at it as a combination of bringing in EVERFI reduction in data centers, getting more scale and efficiency out of the business, and we're able to make that happen and continue growing the business as we plan to.

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

Got it. And just thinking about kind of 2023 here, looking at your target verticals you got a bunch. And I wanted to ask you the question of which verticals are you maybe most excited as contributors to growth for 2023 versus others that you may view as particularly more challenged this year?

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

Yes. We -- if I just look at last year's bookings, we were pretty strong across the board. And remember, we sell to a lot of verticals, but we have a lot of products that go across the verticals, the same products, right? So we have our core fundraising solutions and transaction systems, fundraising CRM platforms, online digital fundraising platforms and some others that are sold to all those verticals outside of the corporate marketplace. So we've had a pretty strong product portfolio representation in our bookings last year. We're not overly concerned about any vertical. There's still a big need in our space for modern cloud solutions.

There's still a lot of white space out there. And we've got some pretty good cross-sell opportunities in areas like K-12, in the corporate impact space between YourCause and EVERFI related to cross-sell. So we don't expect any vertical to sort of accelerate significantly, but they're all pretty healthy, and we closed deals across all of those in a pretty big way that allowed us to exceed our quota for the year last year.

Operator

The next question is coming from Matt VanVliet from BTIG.

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

I guess first question, Mike, you mentioned JustGiving performing particularly well, especially near the end of the year. Curious how that been progressing in terms of migrating to the U.S. and expanding here and maybe any other markets you're looking at for potential expansion on that platform?

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

Sure. Yes, it's amazing. Some of the campaigns on JustGiving are very much worldwide, we get folks using that platform for a particular mostly things that are sort of globally --campaign or a natural disaster or what have you. We'll get folks donating from 50, 60 countries all over the world. So it's got a pretty good global presence but still U.K.-based as far as its biggest market footprint, much lesser so in the U.S. but it's been an accelerator for us. We did a good job in getting great margins in that business and good organic growth last several years, including Q4. And this year, year-to-date, it's a really strong platform for us and really great brand recognition around the world and mostly in Europe. So it's been a really good fit for us.

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

Okay. Great. And then I guess when you look at the higher ed space, curious if there's any sort of larger impact there from the average deal size that you're seeing across the transaction platform, maybe particular impacting there or how the fundraising side is going in higher ed? And how some of the expansions of the platform can meet some of the needs outside of fundraising and higher ed are progressing?

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

Yes, we had a good year in sales bookings, higher ed last year. We've got folks on that team that made the President's Club for the year, if you will. So our presence there is still really strong. A lot of the bigger schools, our universities our customers, strong pipeline. We've got long tenured salespeople in that vertical as well. So it's been a solid presence for us for a long time. And including the bookings that we had last year as well.

Operator

We reached the end of our question-and-answer session. I'd like to turn the floor back over for any further or closing comments.

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

Thank you. Thanks, operator. I'll just close by reiterating that we had a strong execution in '22 and remain focused on improvements across the business in 2023 as we progress along our Rule of 40 journey. Our plan accelerates in the second half of '23 and carries into 2024. We expect to add at least 5 points on the Rule of 40 this year, demonstrating significant margin expansion. We're confident in our outlook with plans in place to achieve substantial performance acceleration with meaningful improvement starting in the second quarter continuing throughout the year. Thanks, everyone.

Operator

Thank you. That does conclude today's teleconference and webcast. You may disconnect your line at this time, and have a wonderful day. We thank you for your participation today.