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BLKB.OQ - Q1 2022 Blackbaud Inc Earnings Call

EVENT DATE/TIME: MAY 04, 2022 / 12:00PM GMT

CORPORATE PARTICIPANTS

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

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

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

CONFERENCE CALL PARTICIPANTS

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

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

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

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

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

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

PRESENTATION

Operator

Good day, and welcome to Blackbaud's Q1 2022 Earnings Call. Today's conference is being recorded. I'll now turn the conference over to Steve Hufford. Please go ahead, sir.

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

Good morning, everyone. Thanks for joining us on Blackbaud's First Quarter 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 result is available in the press release we issued last night, and a more detailed supplemental schedule is available in our presentation on our Investor Relations website.

Before I turn the call over to Mike, I'll briefly mention that notice of our 2022 Annual Meeting of Stockholders and proxy statement were filed on April 19, and our annual meeting materials were posted to our Investor Relations website the same day. And during the second quarter, our team will be attending the Needham 17th Annual Technology and Media Conference, May 16 and 19 virtually, the J.P. Morgan 50th Annual Global Technology Media and Communications Conference on May 24, and the Baird Global Consumer Technology & Services Conference on June 6 and the Stifel Cross Sector Insight Conference on June 7. We will also be participating in virtual investor meetings hosted by Raymond James on May 10 and 11. As a reminder, we're also available at ir@blackbaud.com, if you'd like to connect during the quarter.

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

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

Thanks, Steve. Welcome, everyone, and thank you for joining us on the call today. The first quarter was a strong start to the year. Two months ago, we provided our 2022 financial guidance that called for total revenue growth of approximately 17% at the midpoint of our guidance range, a significant acceleration in organic revenue growth to approximately 5% and nearly 30% on Rule of 40 at constant currency. We are tracking well to this guidance and remain confident in our full year outlook. In the first quarter, we had total revenue growth of 17.3%, and our organic recurring revenue grew 6.6%, which was largely driven by the strength in our transactional volumes and continued growth in our contractual recurring revenues. It's really great to see this return to growth in Q1. Our adjusted EBITDA margin was 22.2%, inclusive of anticipated spend that carry over from last year, and we achieved 28% on Rule of 40 at constant currency. A key point here, we outperformed our internal plans on each of these key metrics during the quarter.

In just a few months since our acquisition of EVERFI, we've made significant progress on our integration efforts, focusing initially on systems and team integration as well as synergy execution. Cross-selling plans with YourCause are underway, and we recently began marketing the products together. This acquisition advances our position as a leader in a rapidly evolving ESG and Corporate Social Responsibility spaces with over half of our adjustable opportunities now in the corporate sector. Last month, we recognized financial literacy month, which raises awareness and promote financial understanding and preparedness. As young people move toward financial independence, it's critically important they understand the most basic and foundational financial lessons, and EVERFI helps fulfill this need. As companies continue to invest more in these types of programs to give back to their communities and employees, we will be a leading partner to help them drive meaningful social impact across a large span of technology-enabled program areas from community education to volunteering to grant making and philanthropy. Looking to the remainder of the year, our recent company performance combined with the EVERFI acquisition allowed us to significantly pull forward our timeline for achieving our long-term goal of mid- to high single-digit organic revenue growth into 2022. We are pacing well against our full year expectations as we continue to execute on our key growth and margin drivers with solid visibility into the remainder of 2022.

Like everyone else, we're also closely monitoring the global macro environment. Blackbaud has a unique role to play in times of crisis as the need for many of our customers' services increases, and our focus is always on supporting our customers to help them achieve their missions. It has been inspiring to see how our customers have come together in response to the conflict in Ukraine to raise millions in funds for humanitarian relief. While Blackbaud does not have operations or employees based on the area of conflict, we're proud to be powering critical work that is making a real difference in the lives that have been upended by this crisis. Since the start of the conflict on February 24, organizations have leveraged Blackbaud technology to engage supporters and raise funds for humanitarian relief. For example, CARE is providing basic supplies and services for families in Ukraine with a goal of reaching 4 million people in need. Direct Relief is partnering with Ukraine's Ministry of Health and others to provide critical shipments of 164 tons of medical aid, and TiKVA Children's Home has successfully evacuated over 3,000 people and continues to care for refugees in-country.

On our JustGiving platform, more than $55 million has been raised for Ukraine-related causes through individual giving. And, with our Complete Cover model and the hard work of our teams to proactively accelerate our vetting process, we're ensuring more donated funds get to those in need even faster. Additionally, with 1 in 3 Fortune 500 companies relying on Blackbaud's YourCause CSR solution, we were able to quickly launch resources to help customers build response programs for the crisis and provide a list of verified overarching relief funds helping those affected in Ukraine. A great example of this is Wells Fargo employees who have donated more than $330,000 to the Ukraine relief effort through the YourCause portal, and those donations are making even more of an impact through their grant program. We are honored to be a key technology partner for our customers as they pursue their missions, and we will continue to delight our customers through our industry-leading innovation.

Our end markets continue to display resilience in the post-pandemic recovery with a digital-first mindset. In February, Blackbaud institute released its annual charitable giving report. Overall giving in 2021 grew 9% year-over-year with the percent of giving done online up significantly from pre-pandemic levels and holding steady in the low teens. Nearly 30% of those online donations are being made on a mobile device, which we see as a long-term tailwind as we equip organizations to process mobile donations and optimize mobile user interfaces. I'm really excited about the role Blackbaud is playing in developing innovative solutions for our customers to diversify the way they receive and process donations. Recently, we announced a new product integration in the U.S. between Blackbaud Merchant Services, our end-to-end payment processing solution, and PayPal allowing social good organizations to offer donors the option to check out with PayPal or Venmo. Through this integration, Blackbaud customers will have access to a broader audience of donors with PayPal's more than 400 million active consumer accounts, enabling a more satisfying giving experience to expand impact.

We are also driving a differentiated giving experience through our partnership with Change to provide Blackbaud's corporate customers an option to run charitable campaigns at point of sale like roundup after purchase, the ability to match customer donations and offer donation options in loyalty programs. Change is a good example of the ecosystem we're building through our social good start-up program. Their platform is already making an impact in a mission-driven commerce space, including enabling a new frontier of giving with cryptocurrency. And just last week, we held our Product Update Briefings, a semiannual event designed to share new product features and road maps. We provided updates on innovations in the pipeline for Raiser's Edge NXT, Financial Edge NXT, Grantmaking, Data Intelligence, Payment Services, Luminate Online and TeamRaiser, JustGiving and SKY Developer, to name a few. And new this year, we hosted an executive summary session that briefly highlighting our most important product enhancements and strategies, which can be accessed along with all the sessions by visiting our corporate website.

Also in just over a month, we are projecting our highest turnout ever at our developers conference designed as a learning event that brings together all levels of developers and technology enthusiasts to share best practices, collaborate with Blackbaud product experts and build relationships with peers. We continue to drive significant growth in our developer ecosystem consisting of customers, consultants, partners and individual change agents.

Additionally, we recently issued press releases welcoming two accomplished leaders to our team as we look to drive future innovation and customer delight. We recently hired Sudip Datta as Chief Product Officer to oversee our global product portfolio. Sudip is an accomplished growth-minded and outcome-driven technology executive with a stellar track record in managing large business portfolios while creating and delivering value for customers. Sudip has held executive leadership roles, leading product and engineering teams at companies such as Oracle and IBM, and most recently, Broadcom. We also recently hired Chuck Miller as Chief Information Security Officer to oversee our global trust and security program, including all elements of cybersecurity. Chuck has deep domain expertise in security and technology services gained in organizations like Truist, SunTrust, Capital One and Verizon. Both Sudip and Chuck bring over 25 years of experience, improving leadership in their respective areas.

Next, I'd like to cover some recent headway we've made on our strategy, focusing on employees, culture and ESG initiatives. We recently announced that we achieved carbon neutrality for 2021. This is a goal we have been striving towards for a while now, and our shift to remote first workforce enabled us to accelerate our timeline. Since 2019, Blackbaud has reduced its global real estate footprint by 50%, energy emissions to run office space by 63% and employee commute emissions by 75%. With a multi-pronged climate strategy, Blackbaud is focused on reducing emissions, using energy efficiently and investing in our environmental projects for a more sustainable future. And we look forward to sharing more about our ESG strategy on our corporate social responsibility website launching later this month. As I mentioned before, our mission-driven culture has been in our DNA since inception and is very attractive in a competitive labor market. We continue to foster a diverse and inclusive environment focused on employee engagement and connectedness with our remote first workforce strategy. --As just one proof point, of our more recent hires, 67% have come from historically under-represented groups. That number jumps to 74% for our incoming summer intern class, where we just received recognition from CollegeGrad.com for being a top intern and entry-level employer. We have a significant role to play in driving advances in the social good space, and I'm proud of the strong corporate culture we've built and continue to cultivate in today's environment.

In summary, we're executing well against our plan, moving quickly to integrate EVERFI and have solid visibility into the remainder of 2022 and beyond. The midpoint of our financial guidance ranges for this year calls for total revenue of approximately 17%, inclusive of our recent acquisition of EVERFI; a significant acceleration in organic revenue growth to approximately 5%; and nearly 30% on a Rule of 40, which is roughly 250 basis point improvement year-over-year at constant currency. We expect a similar improvement on the Rule of 40 in 2023 as we target our mid-term goal of roughly 35% on a Rule of 40 in the next few years. By balancing sustainable mid to high single-digit organic revenue growth and meaningful margin expansion over the next few years, we believe we can drive significant value for our customers, employees and shareholders.

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 the first quarter and review our outlook for the full year 2022 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 Q1 2022 financial performance.

We started the year with total revenue of $257 million, representing total revenue growth of 17% versus the prior year quarter. Organic recurring revenue grew 6.6%, which is a solid start to the year and has us on track to achieve our full year revenue guidance. We posted solid growth in both contractual recurring revenue and transactional revenue for several quarters in a row, and as expected, that continued in the first quarter. In fact, we exceeded our own plans for the quarter due largely to elevated transactional volume. One-time services and other revenue was roughly a 100 basis point drag on our total revenue growth in the quarter. As a reminder, we're guiding for one-time services to have a minimal impact on full year 2022 total revenue growth. EVERFI's total revenue was in line with what we had assumed in our guidance, contributing approximately $27 million in the quarter.

Moving to earnings. Our first quarter gross margin was 58.5%. We generated adjusted EBITDA of $57 million, representing an adjusted EBITDA margin of 22.2% and diluted earnings per share of $0.57. As expected and as we discussed when we issued our guidance in February, our profitability to start the year reflects the addition of EVERFI and incremental spend in areas like innovation, security and go-to-market that was originally planned to occur in 2021, but pushed into 2022. Our plan continues to call for a meaningful improvement in profitability as we progress through the year. And again, we believe that there is likely material margin upside related to EVERFI as we continue to progress on our integration work and pursue both revenue and cost synergies. To reiterate what Mike said earlier, we outperformed our internal plans in Q1, inclusive of the front-end loaded spend this year, and we have high confidence in our ability to achieve our full year financial guidance. Overall, we're pacing well against our plan, and we're well positioned for considerable margin expansion going forward.

That brings me to the cash flow statement and balance sheet. Our adjusted free cash flow was $8 million for the first quarter, year-on-year, a decrease of $10 million, representing an adjusted free cash flow margin of approximately 3%. Similar to profitability, our free cash flow, inclusive of incremental spend exceeded plan in the quarter, and we are tracking well to our full year expectations. We ended the quarter with $947 million in net debt with an additional $210 million of borrowing capacity. At the end of Q1, our debt-to-EBITDA ratio stood at 3.6x. I'll remind you, historically, we have typically been a net borrower in the first quarter, though to a lesser extent, now that we've switched more of our compensation plans to be equity-based, where our cash impact is primarily limited to payroll taxes on net share settlements. We remain intently focused on rapidly deleveraging throughout the remainder of 2022, consistent with previous acquisitions. We also remain active in evaluating future acquisition opportunities.

Turning to the remainder of 2022. We are reiterating our full year financial guidance issued just two months ago on our Q4 earnings call. We are pacing well to plan, and our full year expectations remain unchanged, including our underlying assumptions. From a revenue perspective, we anticipate $1.085 billion at the midpoint of our guidance, calling for approximately 5% organic revenue growth at a constant currency and our organic recurring revenue growth should be similar as we're anticipating minimal drag from one-time services and other revenue on a full year basis. From a profitability perspective, our over performance versus plan in the first quarter has us on track to achieve our adjusted EBITDA margin range of 24% to 24.5%. We're well underway in our efforts to drive efficiencies in our go-to-market and additional scalability in our products and infrastructure, and we're well positioned to drive substantial margin expansion beyond '22. We anticipate roughly $30 million to $33 million in interest expense for the year, inclusive of the incremental debt associated with our acquisition of EVERFI. Also, we made the decision to utilize the discrete effective tax method as we believe this is more appropriate method given our full year forecasted pre-tax income relative to our forecasted permanent differences has the potential to distort our estimated annual effective tax rate. We estimate our non-GAAP tax rate will hold at 20% for the full year. Combining our profitability expectations with our accelerated organic revenue growth, we are targeting 30% on a Rule of 40, which is roughly a 250 basis point improvement year-on-year at constant currency. Given our recent performance and our acquisition EVERFI, you'll see in our proxy that we raised our Rule of 40 performance incentive targets for '22 and '23 to 29% and 33%, respectively, as we target our midterm goal of roughly 35% on a rule of 40 in the next few years.

Moving on to cash flow. We're expecting further growth in our adjusted free cash flow in 2022, inclusive of some of the spend that pushed into the first half of this year. We anticipate our adjusted free cash flow to be in the range of $165 million to $175 million for the full year. Our estimate for combined capital expenditures of $60 million to $70 million. As a reminder, our guidance for adjusted free cash flow excludes cash to be spent net of insurance relating to the ongoing litigation of our previously disclosed security incident. We exceeded the limits of our insurance coverage in the first quarter and recorded security incident-related costs net of insurance of $7.2 million. However, the security incident-related cash flows net of insurance were $823,000 due to timing of the payments. We still anticipate a net cash outlay of roughly $25 million to $35 million for the full year 2022 for ongoing legal fees related to the security incident.

In summary, the first quarter was a solid continuation to a very strong 2021. We are executing well against our plan for '22 with a focus on achieving Rule of 40 as a company. And through our balanced approach of accelerated growth and initiatives that will generate meaningful margin expansion, we expect to drive significant earnings and adjusted free cash flow growth over the next several years. We continue to execute on our capital deployment strategy and remain committed to allocating capital in a way that maximizes value for our shareholders.

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

QUESTIONS AND ANSWERS

Operator

(Operator Instructions)

We will now take our first question from the line of Parker Lane with Stifel.

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

Mike, you mentioned that you recently began sort of co-marketing YourCause and EVERFI together. Curious to hear the initial feedback on those efforts. And anything you're hearing from the existing YourCause customer base around their potential to add EVERFI over the course of 2022 or beyond?

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

Yes. Thanks, Parker. Yes, we started to do that in the first quarter as planned. It's the same buyer, same target customer. We don't have a lot of overlap in existing customers. So there's a nice cross-sell opportunity as well. So it's early days on that, but for us, it's -- with EVERFI, we've got a much bigger footprint in that space of corporate buyers that are focused on ESG and Corporate Social Responsibility. So we're super excited about the go-to-market opportunity. It was part of the synergy case with that acquisition.

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

Yes. Got it. Okay. And then the integration between Blackbaud Merchant Services and some of these more online giving channels like PayPal and Venmo, can you give us a sense of how many Blackbaud products actually support those channels today? And then when you'll sort of achieve international availability and support for those channels?

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

Yes, a lot of our product support those channels today. It's all about customer choice, that partnership. So those products, PayPal, Venmo, others, Blackbaud Merchant Services are all out in the marketplace, and we've been hearing for a while that customers want those choices. So we made that investment. We think it's a great opening of new opportunities for us and for customers to offer that given the popularity of those platforms. So we're super excited about that partnership rolling out. And that work has been going on for a while, and we're happy to be able to announce that finally in the first quarter.

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*

Mike, can you just talk about some of the puts and takes on the organic contractual business right now? Sort of what's working on that side? Some of the -- what you see in the pipeline, just kind of interested in what you're seeing on that front?

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

Yes. Well, we're at a point where a lot of the buying behavior looks a lot post-pandemic kind of buying behavior these days. So our opportunities and our vertical markets from nonprofit to K-12. Pipeline looks pretty solid across the portfolio and the organic contractual business. And I'll add that even the transactional side of the business has picked up, too. And platforms like JustGiving and markets like arts and cultural being fully opened, is helping both sides on the organic contractual and the transaction business as well. So we see a healthy market. We see good pipeline build and big opportunities. And we've spent a lot of time in the last 18 months or so really improving our CAC as well, which we're seeing that productivity come to fruition. So we're pretty happy about the first quarter's results and the opportunity for the rest of the year as well. That's why we're keeping our guidance intact. We feel pretty good about 2022 guidance all around.

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

That's helpful. And then just one follow-up. Obviously, a lot of macro crosscurrents right now with inflation and things that would maybe be counterbalancing some of the opportunity coming out of the pandemic. How do you see that impacting your discussions with customers, if at all, right now? Can you just give us some sense of what you're seeing in terms of whether or not some of these inflation, et cetera, is having an impact on some of your customers buying decisions or thought process around that?

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

Yes, Kirk. We haven't seen that impacting buying decisions. Obviously, it's a big conversation. A lot of folks like us are driving price increases. We see that in the payments world with some of the folks that are in the payments marketplace and a few of our other platforms. We've talked about our pricing initiatives. Over the last year, we've laid out multiple pricing opportunities and initiatives to either catch up to the market or roll out new models that were actually favorable for our customers as well based on how those models work, and we don't see any of that changing. And so we still have the same pricing opportunities, which drive both our top and bottom line. So we haven't seen the impact of inflation, per se, in our buying behavior across our markets. We do see transactions growing based on activity. The giving market is super healthy. It grew a lot last year. So that drives our transaction side of our business quite well. And we're seeing that in markets in the U.S. like nonprofit and art and cultural. And we're seeing it, as I've just mentioned on the JustGiving platform 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 Mike, first off, it's great to hear the impact of what you guys are doing to help the Ukraine situation. But I'm curious, how big of an impact has that had on transaction volumes? And I realize events are coming back, but I'm just -- we did see a big pickup in kind of the transaction volumes this quarter. I'm curious how sustainable you think that is.

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

Yes, Brian, I'd say that we always -- there's always something going on. If you could just go back over the years that drives transactional improvement in revenue growth, and we see the impact of just museums and performing art centers opening again and selling tickets and things. We see some fundraising in the Ukraine. I wouldn't say that what you see from the Ukraine standpoint is material for us given the size of our business, but it's a pickup in that area. We saw in the last two years a pickup in food bank fundraising in the U.S., giving public school closures because of COVID. So if you just go back over time, I guess fortunately and unfortunately, there's always something going on in the world, a natural disaster, then those things are -- given the size of our business and our transaction business, so not really material at the Blackbaud level. It was a pickup, but I wouldn't look at it as being material for us at the total revenue level, per se.

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

Understood. Mike, maybe a higher-level question. But if you look at CSR and ESG is just in -- kind of looking at the slides, that's more than half your TAM now. You have sub 5% penetration there versus some of your other end products in markets that are a little higher. How do you think about the investment philosophy there? And what sort of required from a kind of a product and then a go-to-market perspective versus what you have today?

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

Yes. So big add with EVERFI, right, in that space. And they cover financial services quite well and just other corporations quite well. If you go on their website, you can see a list of very well-known companies and sports institutions that are customers. So for us, that was a big add there. We started with the YourCause acquisition in 2019 and adding EVERFI. And there's a big opportunity. It's a big spend. We're selling to the global 4,000 or so institutions and a big IT spend. And the interesting opportunity there is the growing importance of ESG at the Board level. You see a lot of public companies adding ESG oversight in their governance committees, at the Board. You see a lot of CEOs are driving ESG initiatives for lots of reasons. And some reasons, it's to drive their ability to improve their brand and give back. Another reason that companies are driving that is kind of a war for talent and employees are requiring the companies be good stewards of getting back. And so there's a massive push around ESG, and we happen to have platforms, SaaS products that allow our customers and prospective customers to meet their ESG initiatives at the Board and management level. So a big opportunity for us. More to do there. There's more there and organic R&D might be more there. From an M&A standpoint, we're really looking at that market. The EVERFI Executive team brings a lot of experience in the space, a lot of enterprise capabilities they bring in that space, a lot of knowledge, a lot of great relationships in that space combined with YourCause. It's just an exciting opportunity for us. It fits right well with our culture and kind of what we do in the markets we serve. So we're super excited about that, and it doubled our TAM. So for us, early days, right? It's been a quarter, but I think a long runway for Blackbaud and EVERFI to really drive that opportunity.

Operator

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

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

Just a couple for me. First question, you sounds like pretty nice performance. Very, very nice metrics here, 17% total growth. Organic growth of about 6%. It sounds like the economy appears to be opening up. You guys had some really good comments, too that you outperformed on the internal plan. So kind of a question on the guide here. Why not raise the full year growth guide? I mean is there something that you're seeing from a metrics or maybe an end market perspective that's holding you back a little bit there?

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

Koji, this is Tony. Good to talk to you this morning. No, just -- it's one quarter in on the year. And as you know, we give a guidance range of, I think, $20 million this year on the total revenue side. So it's early yet. We feel really good to carry the strength we had from '21 into '22 and to beat kind of across the board on our numbers. So it does give us, obviously, more confidence on the year to start that strong. The other thing that seemed really impressive to me is that most all of that overperformance was really on the core Blackbaud business. We've not yet really seeing the positive impact that EVERFI will have on the business. So EVERFI was actually just slightly dilutive to our recurring revenue growth. They were a bit accretive on the one-time, but all of that 6.6% organic recurring revenue growth is really driven by the core Blackbaud business, which, as Mike was just talking, as EVERFI starts to ramp up, when we start to see the impact of that should be really positive on the long term for the business.

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

Got it. Got it. And my follow-up question here kind of on the M&A front. How are you guys thinking about your M&A strategy, just given kind of the current market environment that's going on?

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

Yes, we're still active, Koji. I mean we're very active related to making sure we understand what's going on in the marketplace. Given our history of acquisitions, we're a natural buyer in the markets that we serve. So we remain active in the space. We're doing a lot more in the corporations and ESG space with EVERFI coming in. It opens a whole new world from an opportunity standpoint whether it's organic R&D build or M&A. We've, historically, I think, have done a super good job in integration and deleveraging, which we're doing. Tony mentioned that in his prepared remarks, we're at 3.6x debt to EBITDA now. We'll delever. And just -- if you look at our presentation deck in the last 8 years of M&A, we delever. We've got a lot of capacity. It's an important part of our strategy. So we'll remain active. We'll remain in the market across all of our verticals around what's going on there. We've got a really big reach into the smaller start-ups to the bigger companies. And so it remains a big part of what we do. But also having said that, we're heads down on EVERFI integration. We've had a really good quarter around integrating the corporate functions, which we started right out of the gate, but M&A is a core tenet of driving the business forward for us.

Operator

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

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

Great. Just a couple. Mike, one for you. to start, you had -- you guys had talked last year about some of the organic growth drivers in the business and pricing was one of them. You alluded to it a little bit earlier, I think, in response to Kirk's question, but I wanted to dive in on that a little bit. In some of the initiatives, you guys talked about were bringing some of the European-based pricing to the U.S. and that there were other drivers as well. Can you talk about the contribution of pricing to the organic uplift that you guys are seeing and showing, which is off to a great start this year? How those prices are going to be rolling in? Is it upon renewal? Or is it across the board? And any other color there would be appreciated. And then I have a quick follow-up for Tony.

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

Sure, I'm happy to. We don't break out that stuff on a per-item basis, but we laid out multiple price initiatives in our investor call. And so it's the categories are laid out in that deck. But I can tell you, we're executing on all of them, and they're different ones, too. So some are at the transaction level. Some are catching up the competition and some of our platforms, where we got a little bit behind, so we're executing those. And lastly, some of our model changes. We implemented a model change in JustGiving a couple of years ago, and we tested it for a long time and implemented it across that whole platform. And it's proven to be very beneficial for us and for our customers. It's a win-win model change. And we're bringing that model change from that platform into the U.S. For that, it's early days. And so we've got a couple of years of implementing and realizing these pricing changes. Some were done right away, and we're going to get a full year effect of those this year. Some are model changes, which is going to take a little bit of time to get adoption in the marketplace. But all of those price initiatives that we laid out, we are implementing across the board and it's going quite well. We're not losing customers over it because in most cases, it's either beneficial to customers or it's catch up to what's going on in the marketplace as well.

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

Okay. Great. That's helpful, Mike. And then, Tony, one for you. Just we're seeing some industries that had put off -- some cloud-related work during the pandemic start to pick up on that. And I'd just be curious, one, are you guys seeing some of your nonprofit customers obviously were not investing heavily through that period. It certainly seems from your numbers and commentary that, that is improving. And so just curious what that means for their cloud plans? What you're hearing in customer conversations? And then more to you specifically, what that means relative to your both gross and operating margin targets for the year and whether you see any more rapid move off of colo or anything else that could impact that mix?

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

Yes. Thanks, Rob. We are seeing a lot of focus on cloud. Cyber, obviously, you see it in the news every day, is a big focus, including for the nonprofit space. And then obviously, with so much of our TAM moving into the corporate side, has been and will continue to be a big investment area for all our corporate customers. So I think that's certainly a long-term big driver for us, Rob. As we continue to shift all of our stuff to public cloud as well for lots of different benefits, a lot of which are security related for us and our customers, will continue to be a driver. Our customer base is pleased with those efforts and the moves that we've made on those fronts. The colo side, as we said, I think I've spoken about that in the Q4 call. But this year will be the first year we actually start shutting down some of the colo data centers. That will be a multiyear process. Some of our data centers are very large, and we've got to move a lot of customers and a lot of products out of those, but we will start seeing some of the early benefits of shutting down colo data centers this year starting to impact our margins to the positive. And that's been a big drag. That's been a material drag on gross profit and gross margins over the last few years of all the duplicative costs. So we're finally to that point, you'll start seeing those will -- as we get better line of sight to the impact on those, I imagine we will discuss those more fully in upcoming earnings releases as those become more visible. But we're finally, to that point, we should start seeing some nice positive impacts rolling into our gross profits over '23, '24, '25 kind of time frames.

And that's kind of part of the drivers to help us get to that acceleration on the Rule of 40. We're targeting that 30% range for this year, which is, I think, 250 basis points over last year, which we overperformed last year to plan, so very positive. 33% in that obviously sets us up very well to get to that midterm target of 35% on a Rule of 40. And then if we can continue to -- with the contributions of EVERFI and some of the pricing and other sales productivity initiatives and the margin of the colo, et cetera, should allow us to get to that Rule of 40 in the not-too-distant future. So we feel really positive about where we're heading at this point.

Operator

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

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

I guess, first, on a nice start to the year on the transactional component. I wanted to dig in a little bit more around what you're seeing around not just the return of in-person events and sort of what's on the platform there, but also supporting the, I guess, the ongoing thesis that a lot of these organizations will run maybe interim virtual events or more smaller events after they've sort of picked up that skill set through the pandemic. I just wanted to see kind of the total volume of both in-person and virtual events going on in the platform, and how you're expecting that to play out through the rest of the year?

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

Yes, Matt, it's Mike. It's still a mix, but you're right in the fact that our customers learned a lot about virtual events. The online events are growing, and our customers are -- some of them are going to live in a hybrid world where we'll do in-person and virtual events. They won't just have a binary switch back to in-person only. And I think that's healthy because it improves their reach. But we are seeing in-person events pick up. The galas, the runs and walks and rides, the major marathons around the world, we're seeing all that stuff come back. And so I think it's healthy for our customers and for Blackbaud that it's going to be a mix, and the virtuals will continue while the in-person ones come back. I mean some of the institutions like schools and performing art centers who drive a lot of in-person events are coming back full time as well. And so it's healthy for our customers for their ability to drive revenue and for us.

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

And Matt, this is Tony. I'd just add that what I've seen at least in some that I participated on is that it's not just an in-person, but they're also utilizing virtual in conjunction with an in-person. So one recent one I just had a ball we went to here in Charleston. The auction portion was opened up virtually to everybody who wanted to participate, not just the 400 folks in the room. So I think you're going to see a combination of those, which helps drive more overall giving for those events. And then also keep in mind that just online giving as a percentage last year jumped up significantly, and we're seeing those percentages hold. So where we've historically seen online giving less than 10% -- in that 9% or 10% range. We're now up in those low teens. And so we're continuing to see that trend hold as well, which is positive.

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

Right. Very helpful. And then, Tony, as we look at kind of the expected costs in the plan, not only around the sort of blocking, tackling integration of EVERFI. But as you look to cross-sell that and sort of more holistically combine it with YourCause. Is there a possibility that you sort of accelerate or pull forward some of those costs, if the success is pretty apparent and you start seeing that pick up? How should we think about the total cost base built out in the plan for '22? And then how that might impact not only topline, but especially the model going into '23?

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

Yes. Matt, I think it's a good question. The Q1 run rate for sales and marketing and R&D and G&A is a pretty good run rate, I think, for the '22 year. in that, we would have some cost synergies built in later in the year as we get things integrated at EVERFI into the back end of the businesses Mike spoke to, and we spoke to in our prepared comments, But those would be offset with some planned increases in go-to-market and potentially R&D areas, but I think that run rate you saw in Q1 for all those line items below gross margin are good run rates largely for the year. I would expect, as we continue to find and define new opportunities, especially joint opportunities between the core Blackbaud business and EVERFI, you could see increased R&D and sales and marketing go-to-market efforts, probably more so weighted towards '23, '24 at this point than in '22. But I do expect, as we see heightened opportunities, that it would be a worthwhile investment and good return.

Operator

And we have reached the end of the question-and-answer session. I will now turn the call back over to Mike Gianoni for closing remarks.

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

Thank you, operator. I'll close by reiterating, the first quarter was a strong start to the year. We outperformed our internal plans on growth, profitability and adjusted free cash flow during the quarter. We're executing well against our plan, moving quickly to integrate EVERFI and remain confident in our full year outlook with solid visibility into the remainder of 2022 and beyond. The midpoint of our financial guidance ranges for this year calls for total revenue growth of approximately 17%, inclusive of our recent acquisition of EVERFI, a significant acceleration in organic revenue growth of approximately 5% and nearly 30% on a Rule of 40, which is roughly a 250 basis point improvement year-over-year at constant currency. By balancing sustainable mid- to high single-digit organic revenue growth and meaningful margin expansion over the next few years, we believe we can drive significant value for our customers, employees and shareholders. Thanks, everyone.

Operator

And this concludes today's conference call, and you may disconnect your lines at this time. Thank you for your participation.
