Software Maker BlackLine Taps Digital Transformation, SAP For Fast Growth

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Call financial software firm BlackLine (BL) an enabler in the digital transformation movement now sweeping across corporate America. Its financial automation tools replace the manual accounting processes — think Excel spreadsheets — that many businesses still rely on to close their books every month. And BlackLine stock is reaping the gains.

Still, digital transformation wasn't a Wall Street buzzword when Chief Executive Therese Tucker founded the company in 2001. Nor was that movement a reason to buy software stocks in 2016 when BlackLine launched its initial public offering.

But digital transformation projects now are viewed as the growth engine for many software stocks, whether it's related to accounting tools, speeding up internal software development or building next-generation e-commerce platforms.

"We believe that BlackLine is the partner of choice for customers undergoing digital finance transformation," Tucker said on the software maker's third-quarter conference call in early November. "We are purpose-built for accountants with a demonstrated track record of success and have earned the trust of nearly 2,900 global companies."

BlackLine counts some 36% of the Fortune 500 as customers. Its main rivals have been Trintech Group (TTPA) and privately held FloQast. Much bigger ServiceNow (NOW) also is pushing into financial software and bears watching, analysts say.

Digital Transformation And Robotic Software

In terms of digital transformation, some companies are also looking at robotic software to automate back-office operations.

UiPath, Automation Anywhere and Blue Prism Group are the three biggest makers of robotic process automation, or RPA, software.

RPA automation tools use machine learning, a basic type of artificial intelligence. The software bots are best suited for manual, high-volume, repetitive tasks in back-office operations.
Tucker views the robotic tools as complementary to Los Angeles-based BlackLine's offerings. "We've got great partnerships with the RPA vendors," she said on the earnings call. "And I know that some people kind of view them as competition, but it's a really different animal than what BlackLine does, okay? They're great at automating and making faster tasks that are at a fairly granular level in an organization."

Tucker added: "What BlackLine does, especially when we're working with customers going through a digital transformation, is to really look at the overall processes that are happening and almost do a top-down re-engineering of those that then allows for an incredible amount of automation."

Tucker has been BlackLine's only CEO. She self-funded the accounting software company after serving as the chief technology officer at Sungard Treasury Systems. Early on, Tucker went without venture capital funding.

To grow faster, BlackLine in 2013 found an investor in private equity firm Silver Lake. According to reports, Silver Lake invested around $200 million in the software company. Silver Lake has exited its stake in BlackLine.

BlackLine helps companies automate closing financial books, account reconciliation, and inter-company accounting. Its tools create audit-ready financials.

BlackLine's customers include Coca-Cola (KO), Brinks (BCO), Autodesk (ADSK), Alliance Healthcare Services and Centrica. Most customers use Oracle (ORCL) or SAP (SAP) software for general business purposes.

**SAP Distribution Deal One Key To Growth**

In late 2018, BlackLine forged a deeper partnership with SAP. The software giant resells BlackLine's cloud-based finance and accounting software to its clients through the SAP Solution Extensions, or SolEx, distribution channel.

At an analyst day in September, BlackLine said there's a growing pipeline of digital transformation deals from the new SolEx agreement. On its earnings call, the software maker said it landed a large deal in the U.K. through the SolEx partnership.

Tucker declined an interview, citing a quiet period before fourth-quarter earnings.

"The opportunity is large as SAP has about 9,000 customers globally that generate more than $1 billion in revenue including roughly 4,000 such customers in geographies where BlackLine has no presence," BlackLine stock analyst Bhavan Suri of William Blair said in a recent report to clients.
Analysts expect an update on SolEx traction when BlackLine reports earnings on Feb. 13.

International revenue accounted for 23% of total revenue in BlackLine's most recent quarter, up from 17% in 2015.

**Will Strategic Digital Transformation Products Ramp Up?**

Third-quarter revenue rose 28% to $74.9 million, due to digital transformation growth. In addition, BlackLine added 87 customers in the September quarter, giving it 2,871 overall.

Aside from SAP, BlackLine has forged alliances with global consulting firms, such as Deloitte and E&Y.

Under new Chief Operating Officer Marc Huffman, BlackLine plans to realign direct sales to companies.

BlackLine garners most revenue from its Close Process Management software. JPMorgan analyst Mark Murphy said in a note to clients that it needs more sales from new products, such as the Intercompany Hub. That product streamlines intercompany accounting.

Further, BlackLine stock analyst Christopher Merwin of Goldman Sachs said in a recent note that he is cautious.

"Management remains very focused on the sale of strategic products into the base, but given the high cost of some of these products, we believe their contribution is likely to stay within the 15% to 20% of revenue range that management has guided to in the past," he said.

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