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BL.OQ - Q2 2017 Blackline Inc Earnings Call

EVENT DATE/TIME: AUGUST 03, 2017 / 9:00PM GMT

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PRESENTATION

Operator

Good day, ladies and gentlemen, and welcome to the Q2 2017 BlackLine Earnings Conference Call. (Operator Instructions)

As a reminder, this conference is being recorded.

I'd like to introduce your host for today's conference, Ms. Christine Greany of Blueshirt Group. Ma'am?

Christine Greany

Good afternoon, and thank you for your participation today. With me on the call is Therese Tucker, Founder and Chief Executive Officer of BlackLine; and Mark Partin, Chief Financial Officer.

Before we get started, I would like to note that certain statements made during this conference call that are not historical facts, including those regarding our future plans, objectives and expected performance, are forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. These forward-looking statements represent our outlook only as of the date of this conference call. While we believe any forward-looking statements we have made are reasonable, actual results could differ materially because the statements are based on our current expectations and are subject to risks and uncertainties. We do not undertake and expressly disclaim any obligation to update or alter our forward-looking statements, whether as a result of new information, future events or otherwise, except as required by applicable law.

Also, unless otherwise stated, all financial measures discussed on this call will be non-GAAP. A discussion of why we use non-GAAP financial measures and a reconciliation schedule showing GAAP versus non-GAAP results is currently available in our press release, which may be found on our Investor Relations website at investors.blackline.com or on our Form 8-K filed with the SEC today.

Now I'd like to turn the call over to Therese to begin.

Therese Tucker - *BlackLine, Inc. - Founder, CEO and Director*

Good afternoon, everyone, and thank you for joining us today. Welcome to those of you who are new to the company and joined us as part of the secondary we completed in Q2. We are glad to have you and look forward to a long relationship.

This would not be a BlackLine earnings call if I didn't start out with a reminder that we encourage all of you to ask the CFOs that you know how they close their books and ask them to reach out to us. We've had many referrals from you since our IPO. Your evangelism is working, and it's helping us grow and it is greatly appreciated.

In our second quarter of the year, BlackLine continued to execute well on the major initiatives that we set for 2017. We are happy to report our total revenue grew 46% year-over-year to $42 million, and we achieved strong bottom line results, substantially narrowing our net loss versus a year ago.

There were several positive highlights from the quarter. We added 128 net new enterprise and mid-market companies from multiple industries and geographies. BlackLine now has close to 2,000 customers globally, and as you know, I love getting new customers.

We continued to see strong demand for all our products in the markets where we operate. In particular, we were pleased to see strong performance in EMEA, where we closed the largest initial deal in company history. This customer purchased our core platform and is now one of our top 10 customers in size and has not yet purchased our Intercompany Hub product.

Additionally, in June, our EMEA in the Black conference was held in London and was a great success with our customers and prospects.

During Q2, we saw a small but important new business in APAC and are pleased to have our first customer wins in Japan, the Philippines and Thailand. Once again, we had several large key competitive switches in the quarter, and our win rates remain high.

We had strong growth in one of our less talked about strategic products, transaction matching. This is an extension of the core platform and is becoming increasingly popular with our customers for use with our high-volume reconciliations, as it provides substantial, intelligent automation in an area where business complexity and volume often cause real pain. It is priced on volume, not users. It is appealing because the sales cycle is short, and it increases the size and strategic footprint of our mid-market and enterprise deals.

We were honored to have moved up in the Magic Quadrant by Gartner for cloud FCPM solutions. This is the second year we have been a leader in the category. However, this year, the Quadrant focused exclusively on cloud solutions, underscoring the shift that is occurring from on-prem offerings to cloud in the office of the CFO.

While these highlights from the quarter are all quite positive, there are some areas of our performance that I'm dissatisfied with. Specifically, there are 2 areas where, I think, we could have done better that we are targeting for improvement.

First is the Intercompany Hub. While the pipeline for ICH is strong, we did not close any new deals in the second quarter. I have commented to many of you in the past that ICH reminds me of the early days of account reconciliations. That is, creating a market is time-consuming, and I have been down this road before. The composition and strategic nature of ICH deals is more complex, which increases the size of the deal and extends the sales cycle. ICH is an important part of our marketing initiative and pipeline. We remain focused on honing our internal skills and working with our partner ecosystem to move these types of deals across the finish line on a faster and more predictable path. It's important that we achieved right balance of meeting the strong demand for our core platform with selling larger and strategic products. I will reiterate that we are all bullish on ICH as a strategy to build long-term value and drive growth, but expect that it will be -- continue to be inconsistent in the near term.

Number two is customer service. I think our attention and focus on the customer could have been better. This crosses a number of different areas, including communication, implementation and upsell. In scaling our sales force rapidly, our standard of customer service was impacted somewhat. In response, we're identifying where the gaps are and putting initiatives in place to ensure that the customer always comes first. First and foremost, we've communicated to our sales force the critical importance of being a customer advocate at all times.

As a result of these issues, we did not live up to our full potential for the quarter. I've said before that our success is due to our customer-centric focus, and I am absolutely committed to maintaining those high standards.

From a product perspective, in Q2, we delivered several key enhancements. Most notably, we launched our new reporting platform, which received an enthusiastic response from our customers. One customer on our community posted that they were "beyond speechless" about how good it is. Reporting rollout is going really well. We also continue to add requested enhancements and improve the look and feel of our products. For example, we are minimizing the number of clicks it takes to do common tasks, putting more items on the main page to speed up user interactions, keeping the UI fresh with a more user-friendly esthetic and, as always, reducing defects.

We are continuing to make progress with our strategic partners, and these relationships are growing. Today, many of our sales reps are actively engaged with them and our customers and prospects. In Q2, we worked with all of the big 4 consulting firms to sign up new customers. The growth in the digital finance transformation markets is creating a lot of buzz, and the big 4 can see the value in our platform to drive their practices.

Normally, at this point in our conference call, I would speak about some individual customers that BlackLine has recently gained or expanded with. Instead, I want to talk about an experience that I had last week when I went to New York for our Best Practices Summit. This is a 5-hour event that includes both customers and prospects who are there to learn about BlackLine's vision for continuous accounting. The event was notable for many reasons. We had a number of Fortune 500 companies in attendance, both customers and prospects. And we had people from multiple departments within each company, including finance, treasury, accounting, compliance and IT. We had presenters from both BlackLine and well-known consulting groups like The Hackett Group and UHY. We also had dynamic customers who talked about the innovative ways that they're using BlackLine to solve their problems. The content, the exchange of information and ideas and networking that occurred was tremendous. People came away from the summit with new ideas, new information and new business. We had large customers telling us that they learned something new and wanted to expand their usage of BlackLine's platform within the organization.

This is truly a great example of our thought leadership and the ecosystem that BlackLine has built over the last 15 years. We are thrilled to see the concept of Continuous Accounting, which we created a number of years ago, being adopted by the industry. Continuous Accounting is not just a story of technology but a story of timing as well. In the old days, data was available at period end and processed in batch. Today, data availability is either real-time, or almost real-time, and should be processed as such. We call this transformational framework Continuous Accounting, and our industry is embracing it.

Now there is actually one new customer that I want to tell you about, which is notable for multiple reasons. Number one, it's one of our first customers in the Nordic countries, which is a new region for BlackLine. Second, it's an extremely well-regarded name in consumer media and learning. And next, and this is one of the things I'm always delighted by, it's a switch from a competing product. And finally, this SAP customer also purchased our Smart Close product. They see the value in the entire BlackLine integrated platform.

Before I turn it over to Mark, I would like to comment on our guidance. We believe that we have a tremendous market opportunity ahead of us. The demand environment remains strong, and we have a solid pipeline that includes a high percentage of large and strategic deals. At this time, however, as we continue to build our sales capabilities in these areas, we believe that it's prudent to maintain our existing revenue guidance for the full year.

Now I'll ask Mark to discuss the financials, and then we'll open the call to questions.

Mark W. Partin - *BlackLine, Inc. - CFO and Treasurer*

Thanks, Therese, and good afternoon, everyone. I'll quickly mention that during my remarks today, with the exception of total revenue, all numbers are non-GAAP.

We delivered solid second quarter performance on the revenue line and once again saw accelerated improvement on the bottom line. As you heard from Therese, we have some room for improvement in a couple of areas that impacted our key metrics, so I'm going to take you through the results of the quarter and also discuss some key trends we are seeing that give us continued confidence in our business.

In the second quarter, total year-over-year revenue growth ticked up to 46%, finishing at $42 million, driven by continued strong global demand for our solutions.

Key financial highlights include the following: We added 128 net new customers globally across both enterprise and mid-market in Q2. This represents year-over-year growth of 30% and brings our total customer count to 1,978 at June 30. International revenue continued to grow in Q2, representing 19% of the total, up from 16% in the second quarter of 2016. Our win rate remains strong, and we continue to benefit from competitive switches in the quarter.

The total number of BlackLine users grew to nearly 180,000 in Q2, which represents an increase of 21% versus a year ago. While we are not entirely pleased with this level of growth, we believe this lever is becoming increasingly less important as we drive other levers of growth in our business. There are some key factors to consider here. First, it is not unusual to have some cyclical movement in the quarterly buying patterns of our base customers. While the cohorts grow predictably over the long term, their user expansion can sometimes vary month-to-month. Second, it's important to note that our product composition is increasingly less dependent on users as we sell more nonuser-based products like Transaction Matching, Smart Close and the Intercompany Hub. Therese mentioned earlier that we saw strong performance in Transaction Matching product uptake and sales for the quarter, which increased the deal size but didn't add users. In fact, nearly 20% of our sales in the first half of 2017 have been nonuser-based strategic products.

Looking ahead, we expect to see continued variability as strategic products become an increasingly bigger part of our deals. This may disrupt the pattern of our user expansion rate but will be an important driver of long-term growth.

Our net dollar retention rate was 114% this quarter, down from 117% in Q1. While this metric was lower versus prior quarters, there are a couple of underlying trends to consider. First, the retention rate metric can vary on a quarterly basis. Second, our renewal rate increased in the quarter, indicating we held on to even more of our customers than usual, which we think is the most important part of this metric and a direct result of our recent customer initiative that Therese mentioned earlier. Lastly, we have more products today to expand our strategic footprint and grow our customers globally, which can benefit our dollar retention rate in the future.

Now returning to the P&L. Gross margin remains strong, exceeding 80% and reflecting our consistent mix of high subscription revenue of 95%. In Q2, we continued to see the benefits of scale and operating leverage in the business, with total operating expense improving to 84% of revenue compared to 94% of revenue in the second quarter of 2016. We achieved this operating leverage while continuing to invest in all aspects of our business during the quarter. We expanded our global marketing and sales force capacity, invested in R&D to build our strategic product capabilities and invested in people to drive more targeted demand generation and enhance our customer engagement model.

We hired a record number of new employees in Q2. This hiring activity was planned broad-based across the enterprise and back-end loaded, which means Q2 does not reflect the full cost impact of these new hires. We'll see an impact to our Q3 operating expense, which is reflected in the net loss guidance we're providing today. Importantly, we remain confident in our ability to achieve our previously stated Q4 breakeven target.

Our strong top line growth, solid gross margin and improved operating leverage allowed us to exceed our bottom line expectations. We narrowed our second quarter net loss to $1.4 million or $0.03 per share, which compares to net loss of $4.5 million or $0.11 per share in Q2 of 2016. The weighted average common shares used to calculate second quarter EPS was 51.8 million shares in 2017 and 40.7 million shares in the 2016 period. We ended the quarter with $107 million of cash and cash equivalents and marketable securities. Free cash flow was slightly positive at $342,000 in Q2.

During the quarter, we signed a new corporate office lease amendment to add space in our existing headquarters in Woodland Hills. We will be building for the remainder of 2017 and 2018. The build-out, along with the planned expansion of our global data center facilities, will result in additional CapEx in Q3 and Q4, which are reflected in our guidance.

As we've talked about on prior calls, our cash flow has historically varied on a quarterly basis. While we expect to be cash flow negative in Q3, we remain on track to turn cash flow and operating income positive in Q4 of this year.

Now I'll turn to our guidance for the third quarter and full year 2017. For Q3, total GAAP revenue is expected to be in the range of $43.5 million to $44.5 million. This reflects a year-over-year growth rate of 35% to 38% compared to total revenue of $32.2 million in the third quarter of 2016.

We anticipate that non-GAAP net loss will be in the range of $2.5 million to $3.5 million. Utilizing fully diluted weighted average shares of 52.7 million, we expect non-GAAP net loss per share of $0.05 to $0.07.

A quick note for modeling purposes. In Q3, we are making a change to the terms of existing option agreements for a small group of our international employees that will result in a noncash, non-GAAP stock comp charge in Q3 of approximately $5 million to $7 million.

As Therese mentioned, we are reiterating our previous revenue guidance for the full year 2017 and raising our profit outlook for the year. Larger and more strategic deals have become a bigger part of our business and growth strategy and today make up more of our pipeline than 12 months ago. We are adapting to longer sales cycles, and as such, we believe it is prudent to maintain our current revenue guidance.

Total GAAP revenue is expected to be in the range of $170 million to $173 million. This reflects a growth rate of 38% to 41% over total revenue of $123.1 million in 2016.

Non-GAAP net loss in 2017 is expected to be between $8 million and $10 million. Utilizing a fully diluted weighted average share count of 52.1 million, we expect non-GAAP net loss per share to be in the range of $0.15 to $0.19.

We're pleased that the demand environment remains strong, and we believe we are well positioned to deliver solid, long-term growth.

Now Therese and I will be happy to take your questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) The first question is from Rob Oliver of Baird.

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

Therese, I was just wondering, just maybe to get this out of the way, if you could just talk a little bit more about -- or add some color around the customer service-related issues that you saw in the quarter. I know you wouldn't have called them out if they hadn't had some impact. And can you talk a little bit about what sort of impact you think they had and what steps you guys have taken to fix that? And then I have a follow-up.

Therese Tucker - *BlackLine, Inc. - Founder, CEO and Director*

Rob, thank you for bringing the one that's most on my mind first. I appreciate that. I do sincerely believe that our success has been based on our customer-centric focus. But as we've been growing so rapidly, we've done a lot of hiring, okay? And at times, there might be people that think that putting the customers' happiness before everything else is just lip service. And that is an area of focus for us to make sure that, that's not the case. Secondly, we are making some other small shifts, all right? Standard -- the standard practice for SaaS companies is to transition accounts away from the original salesperson to an account manager so that hunters remain hunters. What we learned, however, when doing that is that sometimes, the deep relationships that were being built by the account executive were being lost in that transition. So rather than making that a hard and fast rule, we're starting to make decisions based on what's the best interest for the customer. And that's a really important one because we value our customer relationships. There's another area of expansion for us, and that's around customer success. Previously, we would let our customer success people get involved with the client at the 1-year mark. And what we found is that our customers absolutely love having a customer success person. They're not trying to sell them anything. Their happiness is really the goal. And so we've actually been expanding that team so that we can have customer success people involved from day 1. And what this does is if there's a communication gap of any kind, and those do happen, right? Things don't always translate as well as you'd like. Then that customer success person being involved from the beginning can remediate those issues very, very quickly before they become a problem. And so, yes, these are important things. The results from these will happen over time. And I do think that the reason that we called them out is because of our user retention rate and our user growth. It was not where we would have liked.

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

Got it. That's great color. And then just lastly, on a more positive note, on the Transaction Matching side. I know one of your competitors that we track has historically been really strong there. So can you talk about were those competitive wins on Transaction Matching? And was it Transaction Matching alone? Or did it come with a broader suite of BlackLine products?

Therese Tucker - *BlackLine, Inc. - Founder, CEO and Director*

That's interesting, Rob. I do believe that a couple of the competitive switches did have Transaction Matching involved. I was actually more focused on the ones that have the Smart Close product. But I believe that a couple of them were full platform. So yes, they did include the Transaction Matching. Thank you.

Operator

Your next question is from Jesse Hulsing of Goldman Sachs.

Kevin Kumar - *Goldman Sachs Group Inc., Research Division - Research Analyst*

This is Kevin on for Jesse. I noticed you guys mentioned strong traction in Europe. I was hoping you could maybe talk a bit more about that, what you're seeing in terms of market demand, new product adoption and how you're thinking about sales and marketing investments in that region.

Therese Tucker - *BlackLine, Inc. - Founder, CEO and Director*

Well, overall, we see good, strong demand across all the different markets. But I'm sure, as you know, Kevin, it takes a little bit of time to build out a market. And we're now seeing the results of several years of investment in Europe. And so as the European market sort of matures with the adoption of SaaS products, that's really -- we're gaining the benefit of that. Now overall, we don't expect a huge shift in the percentage. We're simply seeing it tick up a bit. Mark, did you want to...

Mark W. Partin - *BlackLine, Inc. - CFO and Treasurer*

I would just add, our international business, as a percentage of revenue, was 16% in Q2 of last year, and it's 19% of total revenue this year. So it's on pace. It's been a fairly consistent part of our growth and growing as a percentage.

Kevin Kumar - *Goldman Sachs Group Inc., Research Division - Research Analyst*

Got it. That's helpful. And last one from me, I know you don't guide to implied billings, but could you provide some color on the impact, if any, to deferred revenue during the quarter due to Runbook?

Mark W. Partin - *BlackLine, Inc. - CFO and Treasurer*

Yes, yes, of course. Look, thanks for asking that question. I knew it was going to be on everyone's mind today, so I might as well go ahead and talk about it and get it out of the way. So as you know, we don't normally report or guide on implied billings. And we've consistently cautioned in the past that implied billings can have quarterly variability, particularly for a company our size. And it shouldn't be relied on as an indicator of future growth. That said, we want to give a little more clarity on what drove our implied billings and also on the second half of this year. The first, as we discussed in previous calls, the Runbook acquisition had a positive impact on our deferred revenue, and that really started in the second half of last year. It was related last year to annual maintenance and onetime perpetual license billings. We did not expect to sell license-based contracts in Q2 '17, nor do we expect to sell in the future. Given this, the transition of Runbook to a SaaS subscription-based model has normalized deferred revenue for Q2 and the second half of this year, and it really creates a tough compare versus the prior quarters. Second, some of the trends that Therese talked about in her prepared remarks also impact deferred revenue, particularly as we experience longer sales cycles and we push into these larger deals and more strategic deals. So we're confident that we're addressing these matters aggressively, but it doesn't happen overnight. So in the second half of this year, we are expecting the billings growth rate to be low to mid-20s. To be clear, this would equate to an approximate 30% billings growth rate on a more comparable basis when adjusting for the 2016 impact of the Runbook acquisition and license billings from the second half of last year. We do expect to see variability in the outlook between Q3 and Q4, given that our expectation for the programs that we are putting in place will take a little time. And there's also some seasonality in the second half, which means Q3 will see a little more pressure relative to Q4.

Operator

Our next question is from [Eric Remus] of SunTrust Robinson Humphrey.

Unidentified Analyst

I just wanted to make sure I found something clear with the net retention rate going down a bit. You mentioned that renewal rates were actually better this quarter. But is it on a gross customer basis? Or is there any sort of churn that was affected by customer dissatisfaction that you spoke about earlier in the call?

Mark W. Partin - *BlackLine, Inc. - CFO and Treasurer*

Yes. Thanks. So yes, Q2 was stronger, both on a customer and on a dollar renewal rate. So we're very pleased with that. And you know we have really high renewal rates anyway. Really, the impact was, as Therese mentioned, on the upsell, right, on the ability to communicate and sell and upsell that customer. So, yes.

Unidentified Analyst

Okay. That's really helpful. Okay, and my next question, can you give us some commentary around the price sensitivity of customers in the mid-market? Are they more or less price-sensitive than the enterprise market? And then secondly, are you seeing any sort of smaller entrants in the market that are more aggressive on pricing?

Mark W. Partin - *BlackLine, Inc. - CFO and Treasurer*

Yes, good question. So I -- we have really good pricing in the mid-market. We serve that market well with our cloud solution. We're able to scale up and down from a $50 million revenue company up to a very large $500 million company all within that range of mid-market. So we do see good prices. Our year-over-year growth in prices in mid-market has been solid. With respect to competition, we do see entrants, actually an entrant in the mid-market, but we feel like we're competing pretty well, particularly on the customers that we want, that are the size within our market.

Operator

Our next question is from Bhavan Suri of William Blair.

Bhavanmit Singh Suri - *William Blair & Company L.L.C., Research Division - Partner and Co-Group Head of Technology, Media, and Communications Sector*

I guess, just first, could you dig into it a little bit here, as you think through the changes you're going to make, you talked about sort of the Hunter Farmer model, which we've seen with other companies like (inaudible). But are you doing anything to leadership in the customer service organization and/or the sales organization?

Therese Tucker - *BlackLine, Inc. - Founder, CEO and Director*

No, not at this time. We have a really professional, awesome group of leaders. And I don't think that, that's the problem, to be really blunt.

Bhavanmit Singh Suri - *William Blair & Company L.L.C., Research Division - Partner and Co-Group Head of Technology, Media, and Communications Sector*

Okay, okay. I guess, if I follow that train of thought for a second then and I think about the complexity of selling in the company out into the base, a lot of the base is enterprise. You obviously have a major relationship, like I've said, with your customers, with you, Therese, and they're great. I guess, help us understand, is it a different sales person? Is IT getting more involved? Is it the different groups within finance that's adding the complexity? Or the deal of such scale that just a number of boxes that have to be checked are different? Just the process dynamic that are different than what your anticipate would be helpful.

Therese Tucker - *BlackLine, Inc. - Founder, CEO and Director*

Bhavan, I think it's all of those. I mean, one of the things about this with the Intercompany Hub, it is -- anytime you have a larger, more strategic deal, you have more parties at the table. And in particular, with the Intercompany Hub, you do have IT involved, you have tax involved, you have legal involved, you have treasury involved, you have a whole group of people. Now what we are finding is that the best way to approach those is internally with the team, but also to rely very heavily on our ecosystem partners, okay, and their experts, their tax experts and other experts around Intercompany. So we're finding that sort of collaborating is really the best approach for these larger and more complex deals. Now that being said, we still let all of our salespeople sell all products. But when they sort of find one that's maybe a little more complex than they're used to, we put resources around them to increase their chances of success.

Bhavanmit Singh Suri - *William Blair & Company L.L.C., Research Division - Partner and Co-Group Head of Technology, Media, and Communications Sector*

Got it. That's really helpful. Just a quick one, just as you follow through that thought process of the partners, obviously, Deloitte has come out publicly and sort of talked about being involved in Intercompany Hub. Those are longer-term relationships. But tell me about how you guys think about sort of those helping contribute to that sort of ecosystem to collaborate, those guys are advisers to these guys, to these customers. And their support of BlackLine in the reconciliation side should play through the Intercompany Hub side. Is that how you guys sort of see that playing, obviously not, say, a quarter, 2 quarters, but take 2 to 3 years out where the Intercompany Hub becomes a more meaningful part of the business.

Therese Tucker - *BlackLine, Inc. - Founder, CEO and Director*

Yes. I think, one thing that jumps to mind in listening to your question is, last month, we did a 1-day seminar in New York, where we had experts from Deloitte speak about the challenges and the impact of intercompany issues on various companies' results and controls and compliance programs, okay? And they can speak with an authority and expertise that we don't necessarily have because we're not consulting partners. So we find that -- what was the question, Bhavan? I'm sorry. I'm getting into telling you more about that seminar, and I need to step back a second.

Bhavanmit Singh Suri - *William Blair & Company L.L.C., Research Division - Partner and Co-Group Head of Technology, Media, and Communications Sector*

Yes, sure. It was just sort of you've got obviously a really strong relationship with these guys with the reconciliation side. You've got Deloitte talking about Intercompany Hub. When you think about when that materializes into driving these deals, you talked about ecosystem, they obviously have trusted adviser relationships. Do you think that starts being a material, as I said, not 2 or 3 quarters, but next year, the year after, what do you think of time frame is with that sort of thing sort of thriving on itself?

Therese Tucker - *BlackLine, Inc. - Founder, CEO and Director*

Well, I'm always impatient. And so anything I say, Mark is probably going to walk back. We'll start there. But I do think that as we start to get a better handle on the sales cycle for ICH and how to execute better on these bigger deals, I do think that sometime next year, we'll start to see the fruit of that.

Operator

Our next question is from Brent Bracelin of KeyBanc Capital Markets.

Brent Alan Bracelin - *KeyBanc Capital Markets Inc., Research Division - Senior Research Analyst*

A couple add-on questions, follow-on questions from my end. I guess, Therese, first, I wanted to kind of drill down a little bit more into this, the comment around lengthening sales cycles. And as you think about the business, you have new business, you have kind of expansion at existing customers. Where are you actually seeing kind of that complexity and lengthening sales cycle occur? Is it on the new business front? Is it across the board with mid-market and large enterprises? Is it isolated to just ICH? Or walk us through where you're exactly seeing a little bit of lengthening on the sales cycle side because it's a little unclear to me what part of the business you're seeing that.

Therese Tucker - *BlackLine, Inc. - Founder, CEO and Director*

Big, strategic deals. And it makes perfect sense. The large ones and the strategic ones, right? If on the strategic ones, the more complex ones, they typically involve many different parties, and they involve transformation of an organization. And our customers, as part of signing up for the software, have to commit to changing how they're running their business. And so getting everybody onboard with that process can just take longer.

Brent Alan Bracelin - *KeyBanc Capital Markets Inc., Research Division - Senior Research Analyst*

Got it. And then as you think about those strategic deals and look at the pipeline of opportunities, is there just a higher mix of strategic deals in the pipeline as you start to work closer with SAP and work closer with Deloitte, and so the mix of the pipeline is changing a little bit?

Therese Tucker - *BlackLine, Inc. - Founder, CEO and Director*

Yes. It's absolutely -- we have a larger percentage of strategic and large deals this year over last year. Substantially more.

Brent Alan Bracelin - *KeyBanc Capital Markets Inc., Research Division - Senior Research Analyst*

Got it. Very helpful color there. And then one other follow-up for Therese before I shift to Mark here. I have to ask the question. There's a teaser in my e-mail box around Oracle and this idea that the way you use Oracle is about to change here shortly. Walk us through, what are you doing with Oracle? What's that relationship like? And kind of just trying to understand, as you start to do more outreach on Oracle from a marketing perspective, what's happening there with that relationship?

Therese Tucker - *BlackLine, Inc. - Founder, CEO and Director*

We don't have much of a relationship with Oracle at this time because they do have some small portion of competitive products with us. So we don't -- and we do see them in various sales cycles now and then. And it's really interesting because during our sales -- during our different quarters, we'll see one quarter, one competitor might be more visible, and then the next quarter, a different competitor will be more visible. So we compete with them. We typically do very, very well against them when it comes to functionality. Typically, if we lose to Oracle, it will be because they have a company-wide agreement in place that they will only use Oracle products. So I think competition is always good. It keeps you sharp, right? Keeps you -- making sure that you keep building good things for your customers.

Brent Alan Bracelin - *KeyBanc Capital Markets Inc., Research Division - Senior Research Analyst*

Got it. Clear. And then for you, Mark, you have mentioned, I believe, 20% of sales in the first half of '17 were tied to kind of strategic products, decoupled from kind of seed growth. What was that metric in the first half of '16 for comparison? And then longer term, as we think about this software technology being more of an automation play, why shouldn't we expect the subscription revenue growth to continue to outpace kind of the seed or user growth metrics? Just 2 quick kind of follow-ups there.

Mark W. Partin - *BlackLine, Inc. - CFO and Treasurer*

Yes. If I understand the last part of that question, I think that's a right statement, right? It's that the different levers of growth here are that we're expanding our strategic footprint with these products that don't have users. So we can grow the price, we can grow the deal size, and then you don't necessarily see it in the user growth. I think that's been the late -- latest trend. And as we've talked to you guys over the last couple of quarters, we do expect that to continue. The year-over-year growth, we were 20% this year. It was more than last year. I can tell you that. And this year, it includes ICH, which we didn't sell the way we're selling it now last year. It includes Smart Close, which we didn't have last year at this -- in the first half of the year. And it also includes Transaction Matching, which we've been very, very excited about the progress we've seen there. So the first half of this year, that's a number that's just greater than what we've seen in previous 6-month period.

Operator

Our next question is from Pat Walravens of JMP Securities.

Patrick D. Walravens - *JMP Securities LLC, Research Division - MD, Director of Technology Research and Senior Research Analyst*

Great. So Therese, I am wondering, I mean, you guys are growing fast. There's a lot of stuff that came up on this call. What are your top couple of priorities for the rest of this year?

Therese Tucker - *BlackLine, Inc. - Founder, CEO and Director*

You know what, I honestly -- I'm sorry, I'm going to sound like a broken record here. If our customers love us, everything else will go just fine, okay? So I'm getting really militant about making sure that I don't get any unhappy customer calls. Period. I don't want anybody...

Patrick D. Walravens - *JMP Securities LLC, Research Division - MD, Director of Technology Research and Senior Research Analyst*

How do you do it?

Therese Tucker - *BlackLine, Inc. - Founder, CEO and Director*

You know what, you make it really clear that it's not lip service internally. You make sure that people understand, that they are -- if they are talking to a customer of BlackLine, they are that, and they're a BlackLine employee, they are that customer's advocate, okay? Their job is to serve that customer. And when we do that, everything else is going to be fine because here's the thing about our customers, they are reasonable business people. And they understand that we are in business, they are in business. And if we do the right thing by then, they will stick with us for a very long time. That's my main thing, more than anything else.

Patrick D. Walravens - *JMP Securities LLC, Research Division - MD, Director of Technology Research and Senior Research Analyst*

Okay, I like it. How do you communicate that message? You get everyone in a room and just tell them? How do you do it?

Therese Tucker - *BlackLine, Inc. - Founder, CEO and Director*

Well, there's a lot of different ways. I can give you a couple of examples. I've started this last -- we do a monthly kickoff to every month, okay, with all the employees. All hands. Last month, I got a beautiful e-mail from one of our customers calling out one of our employees and how absolutely service-oriented and fantastic this person was. And so this person got recognized in front of the company and got a small spot bonus, right? So I mean, you make that -- you make it a big part of every time you communicate. We've done company-wide e-mails. We have additional training for people. There's a whole bunch of different ways.

Operator

Our next question is from Mark Murphy of JPMorgan.

Matthew James Coss - *JP Morgan Chase & Co, Research Division - Analyst*

This is Matt Coss for Mark Murphy. Therese, I know you mentioned and we're asking a lot about this, when you say you didn't live up to your full potential, we went through several things like retention rate, maybe some customer satisfaction, user growth. But then when I think of Mark's comments about the billings, I know you don't normally guide to that, but it appears it's going to be lower than what is in our model. But it appears that billings guidance is lower only due to the longer sales cycles. But is that completely the reason that billings is lower for the sales cycles and the tough compare due to Runbook? Or is there some of the sort of didn't live up to the full potential that's manifesting itself in the lower -- relative to our model billing guidance that we're looking at?

Therese Tucker - *BlackLine, Inc. - Founder, CEO and Director*

I think it's both. I mean, I think that if people are unhappy, they don't buy more, okay? And I think that we've seen, in some cases, the longer cycles, the more complex deals tend to draw things out.

Matthew James Coss - *JP Morgan Chase & Co, Research Division - Analyst*

Okay. And then switching gears a little bit. Actually, a lot. What has been the uptake or interest from U.K. public sector customers since your acceptance into the G-Cloud program there? How did that impact sales cycles for public sector organizations in the U.K.? And is there, perhaps, an opportunity or a good reason to become FedRAMP certified in the U.S.?

Therese Tucker - *BlackLine, Inc. - Founder, CEO and Director*

We don't comment on some of our future initiatives, but it's certainly something that is being explored.

Matthew James Coss - *JP Morgan Chase & Co, Research Division - Analyst*

Okay. And then finally, when you add a new ecosystem partner, what's the typical time frame from the partner signing to when they are typically closing their first deal? And is there a particular type of partner that you've seen be more successful based on maybe certain characteristics?

Therese Tucker - *BlackLine, Inc. - Founder, CEO and Director*

Well, typically, the signing is almost a latter part of our relationship, okay? If you noticed, I mentioned earlier that last quarter, we actually brought in new business with all 4 of the big 4 consulting firms, okay? Yet, we only have a signed alliance with Deloitte at this point in time. So it's a relationship that gets built over time. And it's sort of like, you start dating, and then you get engaged and then the wedding. The wedding is when we signed that agreement, okay? So we've been working with a lot of different ecosystem partners for a while now. And we are also working towards more formal alliances with several. So that's -- just let me explain that process. The ones that are successful is that's a really interesting question because those will typically be people that have some dedicated resources around BlackLine. They will also have their own areas of expertise that is complementary to what we do, okay? And that's -- I find that fascinating because that's what turns them into a true value-add from a customer perspective. Does that make sense? Does that answer your question?

Matthew James Coss - *JP Morgan Chase & Co, Research Division - Analyst*

Yes, it's helpful.

Operator

Our next question is from Brian Peterson of Raymond James.

Vincent Celentano

This is Vince Celentano on for Brian. If I think about the Corporate Performance Manager market today, clearly, you're a leader in the space. If you think about the longer-term road map, to what extent are you looking to get into more financial planning or what Gartner terms the strategic portion of the market?

Therese Tucker - *BlackLine, Inc. - Founder, CEO and Director*

We typically don't comment on our future road map. We do think that there are various opportunities out there that are adjacent areas to what we do right now, that we're interested in. But we're not going to comment on specifics. I'm sorry, I can't.

Operator

At this time, I see no other questions in queue. I'll turn it back to management for closing remarks.

Therese Tucker - *BlackLine, Inc. - Founder, CEO and Director*

Thank you, everybody. We're very, very grateful for your participation and for being owners of BlackLine. We're working hard to do a good job for you.

Operator

Ladies and gentlemen, thank you for your participation in today's conference. This concludes the program. You may now disconnect. Everyone, have a great day.