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BL.OQ - Q1 2017 Blackline Inc Earnings Call

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PRESENTATION

Operator

Good day, ladies and gentlemen, and welcome to the First Quarter 2017 BlackLine Earnings Conference Call. (Operator Instructions) As a reminder, today's program is being recorded.

I would now like to introduce your host for today's program, Christine Greany of The Blue Shirt Group.

Christine Greany - *The Blue Shirt Group - Managing Director*

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 and CEO*

Good afternoon, everyone, and thank you for joining us today. Welcome to BlackLine's third official earnings call. In our first quarter of the year, BlackLine executed well on the major initiatives that we set for 2017. We are happy to report that total GAAP revenue reached $39 million, reflecting a year-over-year growth rate of 45%. This is a great start, particularly in a seasonally slower quarter when many accountants are focused on their year-end financial close rather than investing in software. They're at their busiest, closing their books for the year, completing and filing their financial reports, working through audits and frankly, doing most of it manually. BlackLine is changing the way finance and accounting works one company at a time.

In our last two earnings calls, I've asked our participants who invest in, analyze or work with other companies to think about how those companies might be helped by BlackLine. I am happy to report that several of you have taken action. We've had referrals from several investors. We even had one person send us a list of companies that had gotten into trouble with their internal controls. So I very much appreciate the evangelism, and we'd like to encourage more of you to ask the CFOs that you know how they close their books. Is the process manual and labor-intensive? Have they ever heard of BlackLine? Are they interested in efficient, accurate, cost-effective, controlled results? They can learn more about us on our website at blackline.com, and thank you so much for spreading the word and helping us grow.

Now onto the highlights. Our broad and diverse customer base grew to more than 1,800 customers around the world. We added 92 net new customers in both enterprise and mid-market across multiple industries and geographies. In Q1, we continue to attract customer switches from competitors. While this is not our core strategy and represents a small part of our logo acquisitions, I am always pleased when we get the opportunity to demonstrate our value to a new but experienced customer.

Our strong net dollar revenue retention rate of 117% in Q1 demonstrates the stickiness of our solution. Once customers begin using the product, they see the value and begin adding more products and users over time. Today, we offer more products and solutions at any other point in our history. I will talk about that in a minute when we review our 2017 strategic initiatives.

In Q1, we continue to see strong demand in the market. Let's talk about some customers who are using BlackLine solutions or have just recently made the decision to go with BlackLine.

The first example I'd like to tell you about is a large enterprise customer who has been on the Continuous Accounting journey with BlackLine for some time. This is a global manufacturing company with more than $26 billion in revenue that started with our Financial Close management solution in 2011. As the benefits and value of our solution has been proven out over time, the company has added more users and more products. In six years, their user base has grown from 30 to 700 end users worldwide, and they've reduced the time spent globally on their monthly close by 33%.

The Chief Accounting Officer tells us that they've improved their financial statement reporting accuracy and confidence in their reported results. Given their level of satisfaction and success with our core platform, this company decided to trust us to solve another very large problem. With more than 100 different legal entities, this company needed a single central source for intercompany activity. In mid-2016, they purchased BlackLine's new Intercompany Hub and went live in Q1 with their first few entities.

An exciting new customer is a large EMEA company with over 23,000 employees. This customer was previously using a competitive product for reconciliations, while other portions of the close were being performed manually in spreadsheets. They came to BlackLine looking not only to replace their current process, but also to find a cloud-based solution that would provide greater visibility into the overall close process, generate better reporting and analytics and enable more efficiency by reducing manual processes.

The biggest driver of their decision to switch to BlackLine was our unified cloud model where multiple products work together seamlessly for the end user and eliminate manual data uploads and batch processing across disparate systems. It is so encouraging to see more and more companies from around the world embrace having financial information in our secure cloud. At BlackLine, we were one of the first to offer this type of cloud solution in 2004. And to this day, we have gained the confidence and trust of many larger companies.

Previously, we highlighted our key initiatives for this year. While it is still early, we've made good progress on these goals in the first quarter, and I would like to share some of that progress with you. In 2017, we are really focusing on all aspects of the customer journey. Each customer is, at some point, on the road that we call Continuous Accounting. Perhaps we should call it the Continuous Accounting freeway. In any case, this is a transformation and process evolution whereby companies break up large period-end batch processes into smaller daily pieces that are automated wherever possible.

The results and benefits are many. Exceptions and potential problems can be identified in almost real-time and dealt with immediately. This reduces risks and allows for agile business management. By automating broken processes, more time is able to be spent upon value-added business analysis.

Our customers have told us that the overtime hours at the end of the period can be substantially reduced. Controls are inherent and documented throughout many processes. Audits can run more smoothly and in many times, can be conducted remotely. But best of all, we build software that improves the lives of accountants and transforms how they do their jobs.

We first coined the term Continuous Accounting to describe this journey back in 2014. We are delighted that analysts and other companies are starting to adopt this language in their descriptions of their own research and products. It so accurately describes the transformation that can happen when a company gets on this journey.

A very important part of the customer journey is the end-to-end customer experience. BlackLine has seen terrific success because from the very beginning, we've been focused on taking care of our customers, providing incredible value and honoring and fostering close relationships with them. You may know that last year we hired a Chief Customer Officer. She has responsibility for the entire lifecycle of the customer experience, from initial demonstration through implementation, support and customer success. This nonstandard approach gives us an opportunity to better streamline the customer experience so that go live can happen faster, adoption rates are higher and handoff between departments happens more smoothly.

In Q1, as an example, we saw improvements in implementation times and started to measure individual customer satisfaction more closely. We are improving our customer engagement model by hiring more customer success people, they are very popular with our customers; better defining the ownership of accounts and creating more alignment across sales, marketing and service teams; and reviewing our communication plans for all types of customer communications, including maintenance windows, release notes, usage metrics, et cetera. We feel we've made great progress to better serve the needs of our customers.

Another initiative in 2017 is to incorporate more strategic products into our deals. Our core platform and associated solutions will continue to be the primary engine of growth. We believe this represents the largest current market opportunity and where we have established leadership position and market awareness. We are also building capabilities around strategic products, such as the Intercompany Hub and Smart Close where we see a bright future. Our success in going to market with these products will further cement our leadership position and help drive larger deal sizes. We are happy to report that in Q1, we sold one of our largest deals in company history, which included the Intercompany Hub. We continue to see a trend of rising demand and also rising price points related to the Intercompany Hub in Q1.

Ecosystem partners play a key role in providing expertise and transformational services that pair well with BlackLine's software. We are making good progress towards having more formalized partnerships with some major consulting partners and are in the market with them now. It is still very early with these partnerships, but we remain optimistic that they will help us generate larger deals that include more strategic products.

From a product perspective, in the first quarter, we focused on platform improvements that make our customers happy. For example, we continue to make progress on the integration of our Smart Close product, enhanced reporting and dashboarding, making variance analysis a seamless part of every client's close and building out additional connectors to other ERPs. While this may not be the most exciting news for all of you, it is important to the users of the system and the customers that have asked for these enhancements. Many of our users log their enhancement requests in our community board, and we pay close attention to what they're asking for.

We're pleased that 2017 is off to a strong start. I want to thank BlackLine's employees, customers and partners for helping us achieve our successes to date. We have a tremendous market opportunity ahead of us, and we remain focused on our key initiatives to continue driving growth. We look forward to keeping you updated on our progress.

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

Mark Partin - *Blackline, Inc. - CFO*

Thank you, 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 are pleased to begin the year with strong first quarter results. Total revenue increased 45% year-over-year to $39 million, reflecting strong global demand for our solutions and solid performance against our 2017 initiatives and growth plans. We added 92 net new customers in Q1, which brings our total customer count to 1,850 at March 31. This represents year-over-year growth of 31% and includes a healthy and consistent mix of enterprise and mid-market customers.

International revenue continued to grow in Q1, representing 19% of the total, up from 15% in the first quarter of 2016. We achieved a net revenue retention rate of 117% as our existing customers are consistently expanding their footprint with BlackLine over time. This is thanks to product upsells, user expansion and continued price increases along with strong renewal rates.

We continue to add finance and accounting professionals who rely on us to make their daily lives easier. In Q1, the total number of BlackLine users grew to over 171,000. This user growth is an increase of 25% versus a year ago and came from new and existing customers that are expanding their footprint on our platform. It's important to note that we are also beginning to sell an increasing number of products that are not based on number of users, which may result in some variability in our user growth rates.

First quarter gross margins remained strong, exceeding 81% and reflecting our consistent mix of high subscription revenue of 96%. In Q1, we accelerated our investments and continued to, first, expand our global marketing and sales force capacity; second, invest in R&D to build our strategic products capabilities; and third, invest in people to drive our customer engagement model. Our investments remained disciplined and balanced and in Q1, we continued to see operating leverage in the business. Total operating expense improved to 89% of revenue compared to 99% of revenue in the first quarter of 2016.

Our strong top line growth, solid gross margin and improved operating leverage allowed us to operate more profitably and drop most of the revenue overperformance in Q1 to the bottom line. We narrowed our operating loss in the quarter to $3 million, a substantial improvement from an operating loss of $5.1 million a year ago. On a quarterly basis, our operating loss will vary, but annually, we expect to trend positively toward our target model.

First quarter net loss improved to $2.9 million or $0.06 per share, which compares to a net loss of $5.9 million or $0.14 per share in Q1 of 2016. The weighted average common shares used to calculate first quarter EPS was 51.3 million shares in 2017 and 40.7 million shares in the 2016 period.

Free cash flow was a negative $3.3 million in Q1, reflecting investments on our planned growth initiatives and the cyclicality and seasonality of our business, such as the payment of annual corporate bonuses. Our cash flow varies on a quarterly basis. But on an annual basis, we anticipate our cash flow to trend positively.

We ended the first quarter with $101 million of cash and cash equivalents and marketable securities. We remain on track to turn cash flow and operating income positive in Q4 of this year.

I wanted to take this opportunity to make one additional point about the financial impact of the Runbook acquisition. In Q1, Runbook had a positive impact to our deferred revenue for the quarter related to annual maintenance billings. In previous quarters, Runbook had sales of licenses, which created a onetime positive impact to our deferred revenue. Going forward, we do not expect to sell a material amount of license-based contracts as we continue to convert Runbook to a SaaS subscription-based model, which will normalize deferred revenue.

In our prior earnings calls, we've gotten questions about implied billings, which would be impacted by the change in deferred revenue. As you know, we do not report or guide on implied billings and do not have plans to do so in the future. We have consistently cautioned that implied billings can have quarterly variability and should not be relied upon as an indicator of future growth.

Now I'll turn to our guidance for the second quarter and full year 2017. For Q2, total GAAP revenue is expected to be in the range of $40.8 million to $41.8 million. This reflects a year-over-year growth rate of 41% to 44% compared to total revenue of $29 million in the second quarter of 2016. We anticipate that non-GAAP net loss will be in the range of $4.9 million to $5.9 million. Utilizing fully diluted weighted average shares of 52.2 million, we expect non-GAAP net loss per share of $0.09 to $0.11.

For the full year 2017, we are increasing our guidance for total GAAP revenue to a range of $170 million to $173 million. This reflects a growth rate of 38% to 41% of our total revenue of $123.1 million in 2016. Non-GAAP net loss in 2017 is expected to be between $14 million and $16 million. Utilizing a fully diluted weighted average share count of 52.8 million, we expect non-GAAP net loss per share to be in the range of $0.27 to $0.30.

We're happy to see such a strong demand environment, and we believe our market leadership position, product innovation and sales and marketing strength will lead to continued success for BlackLine in 2017.

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

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Our first question comes from the line of Jesse Hulsing from Goldman Sachs.

Jesse Hulsing - *Goldman Sachs Group Inc. - Analyst*

I wanted to drill a little bit more into Intercompany Hub. And I guess I'm curious, one, how are your expectations for that product trending versus where you started the year? And two, if you look at, I guess, deal sizes for that product, how are those coming in versus -- or shaping up versus what your expectations were, which I think was $150,000 to $250,000 per customer or something in that range?

Therese Tucker - *Blackline, Inc. - Founder and CEO*

Jesse, it's Therese. And what we mentioned in our last earnings call is that we are seeing an upward trend with the ICH price point. That continues to be so. And what we're not doing right now is releasing that number because we keep -- we haven't seen the ceiling on it yet, okay? So I'm not going to -- I will say, you asked if I'm happy with the trending and the demand, I am very happy with both the pipeline and the demand that we're seeing for ICH.

Jesse Hulsing - *Goldman Sachs Group Inc. - Analyst*

Great. Fantastic. And Mark, just really quickly on the user growth. I mean, if you look at kind of net adds quarter-over-quarter and year-over-year growth, there was some decel, but it sounds like that's because you're moving toward more consumption-based purchasing plans. So maybe -- is user growth the right metric to look at? And is that going to become increasingly detached, I guess, from underlying bookings trends and revenue growth?

Mark Partin - *Blackline, Inc. - CFO*

Yes, Jesse, thanks. I think it was more pronounced for those reasons in Q1 because we were, off the mark, pretty successful in strategic products. My view was, in talking to you guys, that we would be facing this issue beginning in 2018. I think the detachment starts occurring this year. So as we go through the year, we'll be pointing out the nature of that user growth.

Having said that, Q1 is traditionally a seasonal quarter for us, as Therese said, and we're happy with that number. We had a strong Q1 from mid-market. Mid-market traditionally has lower user counts. So I don't want to make too much out of it at this point, but it's certainly the variability we'll be looking at for the reasons that you mentioned.

Operator

Our next question comes from the line of Bhavan Suri from William Blair.

Bhavan Suri - *William Blair & Company L.L.C. - Analyst*

I just want to touch a little bit on the mid-markets here. You obviously had a solid quarter for mid-market. Do the partners have the same positive impact in the mid-market? Or is that sort of much more a direct sales approach on your side to capture those customers? Just some color on how does that market is different than obviously the large market where you got the large accounting firms up in SAP helping. How do we think about the go-to-market and the mid-market?

Therese Tucker - *Blackline, Inc. - Founder and CEO*

Bhavan, that's actually a very interesting question. It's Therese. Hi, by the way, and thank you. We actually have more than 30 or 40 different partners, and many of them actually do focus on mid-market. Now because the mid-market, in general, the deal sizes are smaller, the names are not quite as flashy, tend to be missed sometimes. But we also have a very active partner network for that particular group as well.

Bhavan Suri - *William Blair & Company L.L.C. - Analyst*

That's really helpful, Therese. And then one quick one for me. When you look at the partners and their ramp-up Intercompany Hub, and it's something that we're tracking because obviously, it's the bigger products, bigger deal sizes, you're seeing bigger wins because of it, how are the partners shaping up around that particular product?

Therese Tucker - *Blackline, Inc. - Founder and CEO*

We view the partners to be really instrumental with the intercompany product simply because the product itself is a great software but it requires a company to many times, not always, but many times transform how they operate with intercompany transactions. And partners are a perfect way to get that transformation to actually happen. So I love the partnerships that we're developing right now. And if you saw in Deloitte's press release today, they mentioned the intercompany product pretty heavily.

Operator

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

Rob Oliver - *Robert W. Baird & Co. Incorporated - Analyst*

So Therese, a question for you and then a quick follow-up for Mark. Therese, can you talk a little bit about the deal sizing environment this quarter? I know you mentioned that you had closed one of your largest deals ever. So just generally deal sizes amidst what otherwise would have been a very busy quarter for your customers and then Intercompany Hub and whether that would have been included in that sort of a deal.

Therese Tucker - *Blackline, Inc. - Founder and CEO*

Yes, Rob, they are growing very nicely. I'm watching my garden grow, and Intercompany Hub was about half of that largest deal to date.

Rob Oliver - *Robert W. Baird & Co. Incorporated - Analyst*

Okay. Great. And Mark, just on the -- just a follow-up to Jesse's question on the customer count number, not to make too much of it, but just to understand. It does sound like as Intercompany Hub, Insights and some of these new products get traction, there might be a tendency to read that new customer number is not as good, but actually, it seems to us like it might be an indicator of traction with these products. I just want to make sure we're understanding that properly.

Mark Partin - *Blackline, Inc. - CFO*

Yes, no problem, Rob. Thanks for that. So just to be clear, it's the user count that you mean. And for us in Q1, in particular, as a data point, we had really good momentum in uptake in the existing accounts on the nonuser-based strategic products, as Therese mentioned. And we have more of those today than we have had previously, and so you won't see that show up in the user count. Secondly, in Q1, we had more mid-market momentum, and mid-market isn't as user -- it's not as many users.

So as we go forward, what we're doing is triangulating the business like in Q1 where you had an uptick to 117% from the revenue retention rate. You see that being sold and driven by strategic products. Those aren't driving the user count. And you also see that customer base was up nicely, over 30% in the quarter as well in a seasonal quarter. And the user count, you can see, hangs there for the reasons that I mentioned related to strategic products that aren't based on users.

So in future quarters, when you see a number end users, we will be balancing strategic products with user-based products. And so that number will get more variable, and we'll just be drilling down on that each quarter as we go through 2017.

Operator

The next question comes from the line of Terry Tillman from Raymond James.

Terrell Tillman - *Raymond James & Associates, Inc. - Analyst*

First question is just related to maybe an update specifically on the SAP relationship. Historically, you guys have had a nice growing relationship. And so how is that playing out? And then kind of related to that though, we get a lot of questions about ERP vendors, friend versus foe. Maybe talk about kind of how that balances at this point.

Therese Tucker - *Blackline, Inc. - Founder and CEO*

Okay. We have a terrific relationship with SAP. This quarter, revenue from SAP was 18%, and it's in line with our expectations. We enjoy working with them. That continues to be the case. Now in terms of other ERPs that you mentioned, most tend to be very neutral. Of course, Oracle has had a competing product for some time now, but it really hasn't impacted our business and everybody else seems to be very neutral.

Terrell Tillman - *Raymond James & Associates, Inc. - Analyst*

Got it. And then Mark, quick question in terms of -- I know you don't guide to billings and we need to be careful with that metric. But are you suggesting that there was something outlier like from the acquired business in the first quarter and maybe you could quantify that? And then should that become more of a headwind that we should think about into the second quarter?

Mark Partin - *Blackline, Inc. - CFO*

Great. Yes, thanks, Terry. Yes, that's exactly what I was doing in my comment because I don't generally talk about implied billings. But in the last three quarters, we've had specific or unique circumstances related to the Runbook acquisition that affected deferred revenue and our implied billings calculation. In Q1 as an example, we had maintenance billing we concentrated and billed all in the first quarter as a result of their customer cycle. That added 10 points to the billing growth rate -- implied billings growth rate.

And so what I want you to know is that those -- it's for us to be completely transparent about the last several quarters in what was driven by Runbook and that those don't continue on. You'd see a more normalized billings rate going forward.

Operator

Our next question comes from the line of Mark Murphy from JPMorgan.

Matthew Coss - *JP Morgan Chase & Co - Analyst*

This is Matt Coss on for Mark Murphy. Therese, you talked about a couple of large customers you won this quarter that had been using other vendors. And is it typical that when organizations switch to BlackLine they tend to be large? And are they ever moving off of multiple products when they switch to you?

Therese Tucker - *Blackline, Inc. - Founder and CEO*

That's an interesting question, Matt. Rarely do they move from multiple products, okay, unless -- well, that could happen if they've used the competing products in different areas perhaps. Usually, it's -- they've tried it in one area and it hasn't been terribly successful. And so when they want to do a global rollout, they will typically go with BlackLine. We have switches both at the mid-market level as well as the enterprise level. Of course, the enterprise level is where you kind of get excited, but we see it across-the-board.

Matthew Coss - *JP Morgan Chase & Co - Analyst*

Sure. And then sort of just going through your 10-K, it looks like your backlog grew 61% last year as at the end of the year, although we don't have much in the way of historical backlog for comparison. How do you view that -- how would you view the current business trajectory relative to that strong growth you had last year? And should we -- does it continue? I mean, is everything you saw last year, is that sort of persisted into this year regarding your pipeline and your sales funnel and all of that?

Mark Partin - *Blackline, Inc. - CFO*

Yes, thanks, Matt. I think you are talking about the -- in the 10-K, the contract backlog for multiyear deals that aren't -- haven't been billed. And the composition of that is that we sign multiyear deals. Today, a growing percentage of our business are on multiyear-term deals. Now we bill annually and that's consistent. And so you see that rising by virtue of just growth in the business and sales, but also in growth in multiyear deals. So we don't -- I wouldn't draw any direct lines from that. I would simply focus on the guidance that we give.

Operator

(Operator Instructions) Our next question comes from the line of Brent Bracelin from Pacific Crest Securities.

Brent Bracelin - *Pacific Crest Securities, Inc. - Analyst*

Therese, let's start with Deloitte. Obviously, want to walk through some scenarios here. Is this an exclusive? Does this preclude you from working with the other big four vendors out there? And then if you look at Deloitte's just customer base, I think they have 80% of the Fortune 500, over 6,000 kind of mid-market kind of companies that they service. Have you looked at the overlap between kind of your customer base and their customer base? Just provide us a little more color on that Deloitte opportunity, is it exclusive or not, and what it means for the business.

Therese Tucker - *Blackline, Inc. - Founder and CEO*

Well, first off, Brent, we don't do exclusive partnerships, and I don't believe that Deloitte does either, right? Because if you do that, then you lose some level of independence. And so on that, we don't do exclusive partnerships.

I will say, however, that we are the only vendor in the space that Deloitte has that partnership with, okay? And so read what you might into that, and I don't think they have any other press releases out there that are quite as nice as the one that they did for us today.

So that is great. We have a great working relationship with them. We are, of course, looking at who their customers are. And where there are synergies that we can leverage across-the-board. We enjoy working with them. We also have very good partnerships in place with other big four, right? Not completely commercialized yet, but we have good working relationships with them as well.

Brent Bracelin - *Pacific Crest Securities, Inc. - Analyst*

Fair enough. And then how is the -- what's the go-to-market going to be like? Is this reference selling? Is this Deloitte going to have a bigger presence at your BlackLine events? Walk us through kind of how that relationship potentially could evolve over time.

Therese Tucker - *Blackline, Inc. - Founder and CEO*

Well, one of the nice things about this partnership is that it does now allow us to go-to-market together and that -- you are absolutely spot on when you say things like a bigger presence at our user conference, joint go-to-market activities, going out and working together to help companies transform their financial processes. That's all part of it, and that's one of the reasons that we're sort of happy about getting it actually finally down on paper.

Brent Bracelin - *Pacific Crest Securities, Inc. - Analyst*

Very helpful. And then second question for me is really around the Runbook, Smart Close product. Is that kind of tracking in line with your expectations? Any update there?

Therese Tucker - *Blackline, Inc. - Founder and CEO*

We're not breaking it out separately right now, but it is absolutely meeting my expectations. It is a super solid, really high-performing product that really brings the reality of our product process automation to our customers. They see incredible benefits from it, and it's in place in a lot of different, very large companies and working very well. So I'm very pleased with that acquisition in spite of the blurps in the financials that it keeps giving Mark.

Brent Bracelin - *Pacific Crest Securities, Inc. - Analyst*

Well, one more question for you, Therese, here. And Mark, I'd love to ask you a question, but I bet things are pretty clean on the financial front. My last question for you, Therese, really is on kind of Intercompany Hub here. I know that product has been out there. It's had fits and starts for the last kind of first year of its existence, the last two quarters. It just sounds like it's really starting to build some momentum here. So walk me through kind of why is there so much appeal for that product, what is it addressing from a pain point standpoint. And I know we don't want to get ahead of ourselves here, but it definitely feels like there's some momentum building on that product. I'm just trying to understand why. Why now?

Therese Tucker - *Blackline, Inc. - Founder and CEO*

Yes, thank you. You're almost asking me to do an Intercompany Hub commercial. I'm so excited. Okay. There are a number of initiatives that are happening right now. There's something called the BEPS initiative, and that's where there's -- how you divvy up transactions that cross borders, okay? In other words, let's say that you're England and I'm France, and we move some money back and forth because we have some services, right? If you don't have good accounting around that, both countries can claim that as income and tax it, okay?

Now if you don't even track it, if you don't even book it to the right account, then you're going to have taxing authorities from both countries going after the full amount. And the reality is most companies don't have good accounting around this. They have very, very manual processes. That's one area.

We're seeing within the United States, the IRS is revising the code to require companies to better account for intercompany loans. What does that actually mean? Let's say that you're one division and you don't have any money in your bank. Doesn't really matter. You're part of a bigger company, right? But that rolls forward more than one month or two, it suddenly becomes an intercompany loan; the IRS wants to know about it.

Again, if you've got very manual processes in place and you're not tracking this, the penalties that you can be subject to are massive. So we're seeing this across-the-board, and we're seeing it actually drop down at a fairly lower level. These types of issues are just sort of some of the risk mitigations, but there are others. There's a ton of manual labor that goes into this, okay?

Let me give you an example. Settlement process. Let's say you're a company with 100 different entities. Those 100 different entities may all be able to trade with each other. At the end of the month, you've got to manually create a matrix of who owes who what. So it gets very, very complicated and adds for a lot of manual hours. Lots of reasons. I hope that helps.

Mark Partin - *Blackline, Inc. - CFO*

Yes, and we are seeing, as Therese mentioned, this is Mark, and I'm sure you expected me to say this, but the momentum and demand and interest we see there, we're guiding to a long-term market opportunity there, a bright future and not material to this financial year on the revenue.

Operator

And this does conclude the question-and-answer session of today's program. I'd like to hand the program back to management for any further remarks.

Therese Tucker - *Blackline, Inc. - Founder and CEO*

Hey, thanks, everybody for joining, and we look forward to our next quarter's earnings call. Thank you.

Mark Partin - *Blackline, Inc. - CFO*

Thank you.

Operator

Thank you, ladies and gentlemen, for your participation in today's conference. This does conclude the program. You may now disconnect. Good day.
