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PRESENTATION

Operator

Good day, ladies and gentlemen, and welcome to the BlackLine Second Quarter 2018 Earnings Call. (Operator Instructions)

As a reminder, this conference call is being recorded. I would now like to turn the conference over to Maria Riley with Investor Relations.

Ma'am, you may begin.

Maria Riley *The Blueshirt Group, LLC - 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 will turn the call over to Therese to begin.

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

Good afternoon, everyone, and thank you for joining us today. In the second quarter, we executed well. And I am pleased with the progress we've made on our key initiatives.

This can be seen in the results, which were well balanced across markets, customers, geographies and products.



Mark will provide you with the financial details of our performance in a few minutes. It was a busy quarter for us with some important senior sales management changes and several high profile user conferences around the globe. Yet, we still managed to maintain our intense focus on the customer relationship, our key initiatives and making further progress with our partners. I give a lot of credit to our employees who continue to amaze me every day with their commitment to both our company and our customers.

I am very thankful for the approximately 800 employees, who are on this journey with us today. Some of whom have been here with me from the beginning and many who have just recently joined and are helping us serve our customers.

Speaking of customers, once again, we saw a strong demand environment, which helped us add 105 net new customers, bringing our total to approximately 2,400.

These customers are from broad and diverse industries and range from mid-market companies, financial institutions and universities to the largest global companies in the world.

I will talk about some of our new customers in just a minute. As I mentioned, we executed well and made good progress on our top initiatives for 2018 that we view as the key building blocks of our long-term growth strategy.

I'll start with the area that I believe most of you are interested in learning more about, and that is our sales effort. The core of our growth model remains a global direct sales force. They are critical to our success in educating companies on our product portfolio and building long-lasting relationships.

Over the last several months, we have been scaling up our sales leadership for the next phase of growth, beginning with our hire of Marc Huffman, as Chief Operating Officer.

We also recently made 2 new key senior sales hires. Mark Woodhams as Senior Vice President of Global Sales, and Terry Smagh as Senior Vice President of sales in the Asia-Pacific region.

Mark joins BlackLine from NetSuite, where he was responsible for the sales and operations in EMEA. There are relatively few people in the world who have Mark's level of experience, scaling cloud, accounting software sales organizations. His expertise will be extremely valuable to BlackLine as we seek to build on our success, and extend and strengthen our reach around the world.

Terry is spearheading the Asia-Pacific regional expansion in sales. Terry's deep leadership experience and proven track record helping scale organizations throughout APAC will be invaluable as we look to build on our strong presence in Australia and expand throughout the APAC region. In addition to retaining and building our 160 person sales team around the world, Marc Huffman and his team are focused on aligning the customer engagement model to maximize the opportunity to market sell and deliver more value into our customer base, targeting our [reach]end resources to help improve productivity at the top of the funnel, and of course, strengthening our back-end teams to support these efforts globally.

We had a good quarter for our strategic products, both Intercompany Hub and Smart Close, and a record quarter for Transaction Matching. We are pleased with the level of focus and overall balance we are striking between the growing demand for our strategic products and the large market opportunity for our core products. Our strategic products are on an avenue to expand our footprint within existing accounts. And we are happy to see sales increase as customers deploy, go live and grow their usage.

Leveraging our partner ecosystem is another one of our key initiatives. The partners are usually brought into our deals to work with our sales teams side-by-side throughout the sales process. They help us expand our strategic footprint and secure larger deals as companies increasingly look to digitally transform and automate the CFO's office.

This quarter, 80% of our largest deals included a strategic partner. And going forward, our partnerships will continue to be an area of focus. Our user conferences and best practices summits are important conduits to engage with customers, prospects and partners to share use cases, insights and the power of BlackLine's transformational Continuous Accounting framework.



During the quarter, we held 2 international user events in the Black Australia, held in Sydney. And in the Black EMEA, held in London.

At both of these events, we had record attendance, hosting over 500 customers and prospects in total. Additionally, building on the success of our event in Australia, we added a second user conference for the region, which was held in Singapore last month and had over 300 attendees.

Our best practices summits also continued to gain traction, and this quarter we held several regional events across the U.S., including events in Houston, Atlanta, Chicago and Boston with approximately 300 customers and prospects participating.

Client speakers from prominent organizations in the manufacturing, energy, capital goods and broadcasting industries shared stories about their BlackLine journey and collaborated on best practices.

Subject matter experts from our partners also presented these events. For example, at our summit in Chicago, EY led a discussion on upcoming taxation regulations and best practices on internal controls.

Financial and accounting leaders learned a lot during these events. And we are thrilled to be the thought leaders that connect these professionals with experts in complicated accounting issues.

You've probably heard me say before that we get some of our best product ideas from our customers. We have a rich 15-year history of customer driven innovation, which we believe has helped us build a competitive mode.

At our most recent customer advisory board that included a number of our top strategic customers, we discussed ways to enhance our customer's journeys, and ways to leverage BlackLine's automation engine to deliver functionality and insights that solve real business problems, improve financial controls and ensure compliance and reduce risk. From our discussions, it was clear that while there was much talk about the massive digital transformation wave occurring in businesses today, much of it is happening at the front end of the enterprises and it is still early days for transformation in accounting and finance.

This is the foundation for a long runway and what we believe is a large, total adjustable market that remains largely unpenetrated.

Now I would like to share with you a few new customers that are beginning their journey with BlackLine and financial transformation.

A global 500 technology company selected BlackLine to harmonize and control accounting processes across their extensive global business. Prior to BlackLine, this large multinational was relying heavily on manual spreadsheet driven processes to perform the financial close and reconcile 28,000 accounts quarterly. All of this after a 4-year investment and pilot with a competitor solution that failed to meet their business needs.

Based on a lack of control and auditability that made it difficult to identify and proactively respond to business changes. This company chose BlackLine to enhance visibility and enable more effective strategic risk management. This customer plans to use BlackLine to drive cost containment, and efficiency across their account reconciliation process.

A Fortune 100 multinational energy company selected BlackLine to execute on an enterprise-wide finance transformation initiative that included the rollout of SAP S/4HANA and automation of their account reconciliation process.

Our partnership and ability to integrate closely with SAP, along with our comprehensive solution set will help to ensure the ongoing success of this organization's key transformation initiatives. This new customer has plans to roll out the full suite of BlackLine's products to automate their high-volume reconciliations, streamline the creation and approval of journal entries, improve their ability to track and report on reconciliation status and standardize the collection and recording of transactional data and supporting documents.

Another significant client acquisition in Q2 was one of the world's largest agro businesses headquartered in Europe. This new customer



was facing challenges meeting their close calendar deadlines, which impacted their ability to report numbers to their parent company. The organization assessed a competing product offered by their ERP vendor, and chose BlackLine for the depth and breadth of automation that our solution provides.

In selecting BlackLine, the company expects to achieve a 900% increase in automation across their close process, which will enable the team to shorten the close.

In summary, in the quarter, we made good progress on all of our initiatives. The fundamentals of the business remain strong and we are pleased with our focused execution. It is still early days, but the pace of digital transformation is accelerating within the industry. And we believe we are well-positioned with our product platform, and our partner ecosystem to help guide our customers through this process.

Now, I'll turn the call over to Mark to discuss the financials.

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

Thank you, Therese, and good afternoon, everyone. As a quick reminder, unless otherwise noted, all numbers mentioned during my remarks today are non-GAAP.

Additionally, our results and guidance discussed on this call are on the new standard, ASC 606 that went into effect at the beginning of this year. We will publish a full retrospective of historical financials for a comparison purpose in our Q2 filings.

We delivered a solid second quarter, achieving better-than-expected revenue, cash and profitability.

Our Q2 results reflect the progress we are making on our initiatives, landing a record number of large new deals and strong expansion within our existing customer base.

Total second quarter GAAP revenue grew 32% year-over-year to reach \$55 million. Closing larger deals earlier in the quarter helped drive better-than-expected results.

As Therese mentioned, the growth this quarter was well balanced between products, markets, geographies and customers.

Key financial highlights include the following: We added 105 net new customers globally, across both enterprise and mid-market. This brings our total customer count to approximately 2,400, representing 21% growth year-over-year. The quality of new logos remained very high with strong expansion opportunities.

Mid-market growth was on pace and today represents 16% of revenue, in line with Q2 of last year.

Our EMEA region, once again, had a very strong quarter, which helped to drive international revenue higher, representing 21% of the total, up from 19% in the second quarter of 2017.

The total number of BlackLine users grew to over 209,000, representing 17% growth year-over-year. As we have discussed previously, growing sales of our strategic products increases our overall deal size, but does not add users and can impact this metric.

It was another good quarter for strategic products, which landed within our range of balanced expectations of 15% to 20% of sales for the quarter. The total number of deals are nominal, but we made progress selling and implementing all our products including Intercompany Hub, Smart Close and Transaction Matching.

The pipeline continues to build and mature for strategic products. And the packaging, pricing and partnering continues to help us gain traction.

Our dollar-based net revenue retention rate was 111%, up from 110% in Q1. We saw a strong underlying renewal rate and higher than



expected account growth in the quarter.

We believe this is the direct result of many of the customer focused initiatives that we began implementing last year.

In Q2, we generated net income of approximately \$0.5 million, which is our fourth quarter in a row of positive net income. We plan to continue fully invest in key areas of the business, including bringing our strategic products to market, building and growing our direct sales team and expanding our partnerships to push our advantage in market leadership.

We remain on track to hit our stated goal of making the full year 2018 a profitable year.

We ended the second quarter with approximately \$115 million of cash, cash equivalents and marketable securities. We generated approximately \$5 million in cash from operations. We invested over \$3 million in CapEx, which brings our free cash flow for the quarter to about \$1 million, and nearly break even for year-to-date.

Before I move on to our third quarter and full year 2018 outlook, I would like to walk you through the impact of adopting ASC 606 on the Q2 2017 comparative results that are also presented.

As expected, the restated Q2 2017 revenue had a \$300,000 decrease, or approximately a 1% impact. In Q2, 2017 reduction to operating expenses was \$1.3 million. And lastly, the expected trend line for the second half of 2017 remains consistent with our prior guidance.

Now let's move to our third quarter and full year 2018 outlook, which as a reminder incorporates the ASC 606 standard.

Starting with Q3, total GAAP revenue is expected to be in the range of \$57 million to \$58 million. On the bottom line, we expect to be approximately breakeven for both non-GAAP net income and EPS.

For modeling purposes, please note that if we report positive net income, our share count will be 57.9 million fully diluted shares versus 54.1 million basic shares, if it is slightly negative.

For the full year 2018, total GAAP revenue is expected to be in the range of \$224 million to \$227 million. Non-GAAP net income in 2018 is expected to be in the range of \$0.5 million to \$1.5 million.

Utilizing diluted weighted average shares of 57.5 million, we expect non-GAAP net income per share between \$0.01 and \$0.03.

And lastly, we continue to expect to be free cash flow positive for the full year.

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

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Our first question comes from Bhavan Suri of William Blair.

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

I just wanted to touch a little bit on sort of the strategic relationship your having with (inaudible). You mentioned partners, we've talked about sort of how that's trajectory is happening. And obviously, you have set of strategic products. I guess what I want to try understand is, you know when you go and sell a lot of the reconciliations sort of products, the transactionless products have been sort of departmental, financial, sale, maybe even up to CFO level. But as you look at sort of Intercompany Hub and the relationships you're



building out with whether its (inaudible) Central or whatever. I'd love to understand sort of are you seeing a shift up to sort of the CEO level, even the CFO level? And sort of coupled with your own internal moves in your strategic hires plus the channel sort of how is that trending out? Or is it still fairly departmental today?

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

Well you know, Bhavan, one of the reasons that the partnerships are so valuable to us is that as our deal sizes grow larger, they do get simply by virtue of size, they get the notice from higher people in the organization. The partners will typically have very long standing relationships at a CFO level. And so they're able to sort of explain the strategic nature of our platform at the CFO level, and introduce us and get us in the door. And so that partnership works very well.

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

So I guess Therese as a follow up -- I guess the question is, are you seeing the nature of that conversation change? Its sort of -- here's a solution to help you solve reconciliation and auditing and close processes versus, hey, here is a continuous cycle for automating the entire financial process. I guess, we've talked about that transformation for a while now. Its early stages for Smart Close, its early stage for ICH. But just wondering if that conversation has started to actually take root within these organizations because of the size (inaudible)?

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

The conversation is digital transformation. Now we're still, in many cases, in a conversational phase. But it is what CFO's are interested in.

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

Got it. Okay, And then I'll be a little bit more tactful maybe on my second question. Just competitively, obviously, you've got Oracle out there, you got sort of -- Trintech was acquired so the challenges there. And then you got sort of a couple of ankle biters, slow (inaudible) and others. Just have you seen any change in competitor environment? Or just an update on competitor wins in the quarter?

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

Our competitive environment has been pretty consistent, Bhavan. And our win rates are still very strong. I think it's due to our long-term 15-year track record in this particular market that we pioneered, okay? And I think it's been that sort of customer driven innovation that's helped us build a [mode]. So in general, we've not seen a lot of changes in the competitive environment. We certainly read a lot of the same reports that you do.

Operator

Our next question comes from Rob Oliver from Baird.

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

My question is a follow-up to Bhavan's [serious]question. So I know Therese, you have cautioned us just to not get over exuberant about the timeframe around the partnerships. But it does seem as if the numbers around partnerships showed a meaningful acceleration, at least quarter-over-quarter from last quarter. And I just wanted to kind of drill down a little bit on that 80% of the largest deals versus kind of last quarter where it was [6 and 10] on the largest and 50% on the deals over 100k. Are we starting to see this play out and now sort of as you had hoped? And then as a follow up on the new sales hires and new sales initiatives. I just wanted to get a sense from you as to kind of any key initiatives or changes that they've brought to the organization?

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

Great. Yes, thanks for the question. Rob. I'll start and then Therese can pick up from there. But in Q2, it's again sort of consistent momentum that the 80% of large deals, one of the great underlying fundamentals about that is that it was contribution really from across the board. It wasn't too concentrated in just 1 or 2 partners. But everybody seemed to be involved at -- with us in the sale process and getting deals done and that helps, of course, prime the pump in the partnership network. I think the second component about that is that even though it is large deals, they're even helping us in the mid-market. So mid-market are getting larger deals done as well with

the assistance of partners. So we like those kind of trends and the size is driven by not just the product composition, but in many of the cases, because the customer is in a digital transformation journey and that helps us of course for a long time, not just out of the gate. And then you had a question about (inaudible).

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

Yes. And you know Rob, also on these partnerships, what's really interesting about this is the partners have different go-to-market strategies and views as to how BlackLine fits in on that. And so while in some way, you might think that those are competitive, they're actually not. They're pursuing things in different ways that make us an integral part of their strategy. The other thing that's super cool about the partnerships, which I'm getting as a lot of benefit from is that they are great knowledge bases out there. And they have great insights into things that are changing in technology and in various trends and the usefulness of those trends, what they're seeing in all their customers. I love having my updates with my partners. Okay, you had a question on sales. What was that again? I got excited about partners and I forgot the sales question.

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

No, it was just -- thanks, it was on the Marks. And then I guess Terry as well. And any sort of early traction or kind of early key initiatives or changes at the margins that you have noticed?

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

I think you can always expect to see a little bit of an impact whenever you start changing things. But in general, I think everybody's focus is on just having a world-class sales organization, making sure that we build and retain these terrific people and just moving it forward. And never losing our focus on the customer. That's just -- that's everybody is on the same page on that. And by the way, with the marks, we've been picking out all kinds of interesting nicknames. We've got 3 now.

Operator

Our next question comes from Jesse Hulsing of Goldman Sachs.

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

This is Kevin on for Jesse. You had highlighted a record quarter for Transaction Matching. Can you provide some color on what's driving the higher deal activity? And what types of customers are adopting the product?

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

I can, yes, thanks. Transaction Matching, we've been selling for a long time. I think we've gotten several hundred customers using that product. In the last 1.5 year, we really put a lot of effort into helping our customers getting that implemented quickly and successfully. And as we do that and we put effort into that, I believe our sales team is picking it up as a product to sell. The demand is certainly there. So in the quarter, just from a number of transaction and \$1 sales volume, we were very pleased, because it was slightly higher than what we had seen in previous quarters. So it's a traction and momentum that we see in that product that we're happy about.

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

Got it, that's helpful. And then did currency have any material impact to the results of the quarter?

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

Yes, thank you. Not really. At the top level and billions of revenue, it's not material less than a point or around a point. We build most of our customers internationally in U.S. dollars so it has little impact. In the P&L, we -- you'll see it in the G&A line, close to \$1 million of expense that came through as part of the currency in the quarter. So that was higher, but that's really it.

Operator

Our next question comes from Mark Murphy of JP Morgan.

Pinjalim Bora *JP Morgan Chase & Co, Research Division - Analyst*

This is Pinjalim sitting in for Mark. I wanted to talk about Smart Close a little bit, which seems like an automation -- ERP automation play. What are you seeing in ESPs for Smart Close product, in general? Is it similar to the averages fee for the customers or lower? And

could you update us on how the expansion of Smart Close to ERPs other than SAP is going? How much of a herculean effort is that? I mean should we expect some kind of a material update moving on to Oracle or something like that in this year?

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

No. Okay, so I think that the -- first off, you asked about the pricing on the Smart Close, it's generally a nice size deal. Now one of the things that we do with that is it is all subscription pricing. So it is consistent with all of our other billing models. Now in terms of the changes in the sort of next-generation ERP automation engine that you're working on. One of the ways that we're approaching this is that we are actually moving certain pieces of functionality from Smart Close into our centralized cloud platform, okay? And the goal of this is to get as much of the Smart Close functionality into the cloud as possible so that what you have left is not a herculean effort to move to another ERP, okay? So as we move functionality into the cloud, things like updates and reporting and various statuses, and then configuration and so on and so forth. As we get those pieces built out in the cloud, that minimizes the amount of work that has to be done for other ERPs, and it minimizes the amount of footprint of code that will actually be on site. So rather than trying to do something herculean, we're really moving it piece-by-piece, so that when we are ready to expand to other ERPs, it's not a huge deal. Now we are not going to announce anything this year. It's simply a work in progress and no current -- no announcements right now.

Pinjalim Bora *JP Morgan Chase & Co, Research Division - Analyst*

Got it. And on the international market, obviously, you have a new Exec looking after APAC now. How should we think about the opportunity that you're seeing there, also the competition in those markets? Is it similar to America's, more or less greenfield? Any update that would be helpful.

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

I think that the APAC market is pretty sizable. At the same time, I don't want to underestimate the difficulty of doing new regions well, right? They're always -- you have to upgrade your language capabilities, you have to make sure that you've got the right partners in place. It's an effort overall. So I think there's terrific potential. I also don't want to underestimate how much it's going to take to do it really well.

Operator

(Operator Instructions) Our next question comes from Terrell Tillman of SunTrust.

Eric Carlos Lemus *SunTrust Robinson Humphrey, Inc., Research Division - Associate*

This is Eric Lemus on for Terry. It's good to hear that some of these larger deals were closing, especially with more strategic deals of ICH and Smart Close. But as we look at though the remainder of the year, how is the pipeline -- what is the make up of the pipeline relative to these strategic deals? Are there still plenty in the pipe? And how do think about that for the rest of the year?

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

Yes, great. Thanks for the question. Yes, we still really are seeing great demand for all 3 strategic products. In some cases, we've been very careful to manage the balance of that, right? We want a 80/20 split. We think that's the right healthy balance for our company right now. As 80% of the core product can drive our growth here in the near term, and then be able to manage our resources and investment and customer rollout appropriately with the other 15% to 20%. So I think that the -- long and short, the pipeline is healthy, it's strong for these 3 strategic products. And I think our sales force and our partners are all coming up to speed more and more everyday with being able to take those to market.

Eric Carlos Lemus *SunTrust Robinson Humphrey, Inc., Research Division - Associate*

Great. And then my other question is, you guys have been focused on customer success and improving customer satisfaction, and obviously, retention rate ticked up a bit in the quarter. But is there anything else quantifiable that you can talk about like changing NPS scores? Or anything anecdotally you can talk with the improvement for the customer success?

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

Well, I'll start. I think the financial metrics around this really are -- when we look at our renewal rates, they once again in Q2 have remained very healthy, very strong. It's in the high 90% for the enterprise and the renewal rate, and in the low to mid-90s for mid-market. And that's something we've seen sort of consistently. In this quarter, we saw our net dollar retention rate pick up a point



from 110 to 111. And that's a function not just of high renewal rates but of the customers -- existing customer's willingness and capability to buy. And we think that's the result of a better customer experience, happier customers, more investment and that focus. So that is certainly sort of the 2 main key metrics that we look and report on.

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

Now I'll also jump in here. We had a customer advisory board here at headquarters this last month. And we had customers fly in from all over the world to meet with us. And it was one of the most interesting days of the whole year. Because we lock ourselves in a room, and we talk with them about what's good, what's not, what can we do better, how are we being perceived, what are they doing in other areas, okay? And for me, that's a big indicator of customer health, okay? I was very pleased with the outcome of this customer advisory board.

Operator

Our next question comes from Brent Bracelin of KeyBanc.

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

Mark, just quick housekeeping. What was the SAP mix in the quarter?

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

Thanks, hey, it just picked up a bit to 23% in Q2.

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

23%, perfect. And then Therese, as you think about how this quarter kind of unfolded, you talked about landing kind of a record number of large deals. As you look at the composition of those large deals, are you seeing a richer mix of transaction matching, ICH and Smart Close really driving the deal size larger or are you seeing just a larger number of seats when you initially land with a customer. I know there's some cases you have landed small in the past and then expanded over time. But is that changing? Just any color you can provide around the context of these large deals coming in?

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

I think that we're seeing customers by the full suite of products and viewing BlackLine as a strategic platform for their digital transformation. I think that's just an important shift and that when customers switch out somebody else because they're not sort of getting the job done, they do it because of the depth and breadth of our platform.

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

Interesting. And then, as you think about those larger lands, what have you seen on the expand side. Clearly encouraging there, if you look at the uptick in that retention ratio. Is there an opportunity because people now view it as a full suite to accelerate the expand part of it? Or is that, do you think just going to be very consistent like it has been in the past?

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

Yes. Look, I think, the original purpose of guiding to the net retention rate of 108 to 110 this year was based on the fact that we're landing much larger. And if that does impact that early 1, 2-year growth. So we're anticipating that, that is the right range for that reason. And Q2 is just another demonstration of very large deals landing upfront, and a large quantity of them. So it's the near-term trade off what we think is a long-term right business decision.

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

Got it. Last question for me is really around kind of the mid-market. As you think about the opportunities there to accelerate some sales productivity, where you're at? I know there's been some changes over the last year there. What do you -- what did you see this quarter in the mid-market? As you think about kind of the opportunity to drive an improvement there as well?

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

Yes, thanks for that question. I know that our mid-market team will love the fact that you asked that, because they just had a record quarter. Q2 is very strong for them. It's a great team of people. They're hitting their stride. We see in that group really that they have a lot of room to move when you think about their market size, right? From \$50 million up to \$500 million and even above. So it's a good

quarter and the fact that they're working with partners now too has really given them some acceleration. So our goal with mid-market is to keep doing what we're doing. Investing in that team, retaining and building them. Marc Huffman is on that. So we're excited about that.

Operator

Our next question comes from Brian Peterson of Raymond James.

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

So I just want to start off on the strategic deals and maybe this is to nuance. But is there any way to bifurcate how sale cycles compare for your strategic products on partner influenced deals versus direct only deals? And have you seen any changes there over the last few quarters?

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

It's hard to bifurcate because larger deals take longer and we have more partners involved in larger deals. So it's sort of a chicken or egg thing acting, right? Are the deals larger because of the partners and therefore taking longer or larger deals taking longer, because we have partners. It's hard to sort of bare that out, but I think overall, that was something that we came to grips with over the course of the last year that larger partner influenced deals may have a longer sales cycle.

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

Got it. And the velocity of those deals to the partners. Has that Changed at all in the last couple of quarters?

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

I think it's been ticking up as we've done a better job of going to market with our partners. You know I look at the share number of partner events that we did just last quarter alone, that partners weren't involved in. We had 27 different partner events in North America. And that was across 18 different cities with 10 different partners. And their involvements been ticking up and so I think that does result in a better deal volume.

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

Got it. And Mark, maybe one for you. I know there's been a couple of question on retention. But we saw that pick up 100 basis points. We're also hearing about larger initial deals. So as we think about that retention metric, what's the right way to think about that over the next couple of quarters?

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

Yes. I understand the question. I think that is the trade-off, is we're taking the bigger bite of the apple upfront, deservedly so with partners and more strategic footprint then that customer then has a -- an implementation and ramp up, and so we think that the trade-off is that the -- what used to be early stage growth year 1, year 2, it's probably coming out in that original [land-in]and as a result, we guided down to that 108 to 110 range. The 111 was nice to have. It was a good quarter, but we still think that just in balance here in the near-term that the 108, the 110 is because we're making sort of the long-term trade-off, and we see that being the difference.

Operator

Our last question comes from Pat Walravens from JMP Securities.

Mathew Edward Spencer *JMP Securities LLC, Research Division - Associate*

This is Mathew Spencer on for Pat. First, what are some of the other key sales hires you might need to fill if any?

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

I don't think -- I think we've got some really good leaders in place right now. I don't anticipate any others at the moment. I am pretty excited about the team we've got in place, you know that?

Unidentified Analyst

Great and then -- of course. And then second, where some area that you plan to invest in the second half and beyond?



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

Yes, same places. We're putting in Q4, of course we'll have our big user customer conference that's always a big part of our marketing investment and it's growing every year. It's getting more and more important and valuable to the sales team so that'll be a big part of the second half of the year that'll come in Q4. We are continuing to work with Marc on what his initiatives are as he gets his team rolling. So in sales and marketing, we're continuing to invest. We'll just keep putting the pressure on in the places where we are now.

Operator

And I'm showing no further questions at this time. I would like to turn the call back to Therese Tucker for closing remarks.

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

I want to thank everybody for your ongoing support and evangelism of BlackLine. It continues to bring us new referrals and new customers. Please keep it up. Thank you.

Operator

Ladies and gentlemen, thank you for participating in today's conference. This does conclude the program, and you may all disconnect. Everyone, have a great day.

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