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BL.OQ - Q3 2016 Blackline Inc Earnings Call

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**Steve Ashleigh** *Robert W. Baird & Co. - Analyst*

**Bahvan Suri** *William Blair & Company - Analyst*

**Jesse Hulsing** *Goldman Sachs - Analyst*

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## PRESENTATION

### Operator

Good afternoon, ladies and gentlemen, and welcome to the Blackline third-quarter 2016 earnings call.

(Operator Instructions).

As a reminder, this conference is being recorded.

I'd now like to introduce Christine Grinney of The Blueshirt Group.

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### Christine Grinney - *The Blueshirt Group - Managing Director*

Good afternoon and thank you for your participation today, everyone. 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 during the course of today's call we will refer to certain non-GAAP financial measures. 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](http://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 - CEO*

Good afternoon, everyone, and thank you so much for joining us today. Mark and I enjoyed meeting many of you during our IPO roadshow last month and we greatly appreciate all of the interest we've received from investors.

Now for those of you that we met with I would like to remind you that you should be asking your portfolio companies if they close their books with Blackline. Accurate financial reporting doesn't just happen magically. We are very pleased to be reporting our first quarter as a public Company, which was marked by record revenue and a number of additional financial and operating achievements.

There are several highlights I would like to share from the quarter but first, since many of you are just getting to know Blackline, we thought it would be helpful to provide you with some perspective on the factors behind our strong track record of growth, the substantial market opportunity in front of us and our strategies to continue driving the business forward.

Blackline is still in the early innings of developing what we believe is a very large Greenfield market opportunity. We continue to see success because the financial accounting processes for both public and private companies are still batch-oriented, manually intensive and they need to be radically improved.

Our cloud-based platform addresses the three major issues surrounding these processes. Inefficiency, cost and risk. Macro tailwinds, like regulatory scrutiny, rising business complexity and the need for accurate real-time data are driving adoption.

Two weeks ago we had our annual user conference and the theme of that conference was blueprint for continuous accounting. As a concept, continuous accounting imbeds typical month-end tasks into daily workflow, automating wherever possible and effectively eliminating the big bubble of work that occurs in the month, quarter and year-end closes. This approach minimizes manual labor, maximizes visibility and moves organizations towards accessing real-time information that allows them to run their businesses better.

However, our customers are looking for more than just concepts. They want a blueprint for how to radically improve operations and our focus is giving them a clear path to accomplish these goals.

It is exciting because we think that we have an opportunity to shift how the entire industry of accounting and finance works. This is both at a macro organizational level, as well as at the individual level. When a person is freed up from rote repetitive work they have the bandwidth to become a value added partner to the business with true insights and analyses that are forward-looking.

Our customer base is wildly enthusiastic about these changes. We believe that virtually every company of scale in any industry and geography is a prospect. Our internal estimates, which have been validated by independent research firm Frost & Sullivan, point to a TAM of approximately \$17 billion. We are targeting enterprise businesses with over \$500 million in revenue and midmarket businesses that have between \$50 million and \$500 million in revenue.

There are more than 165,000 corporate organizations worldwide who fit that profile. Within these target companies there over 13 million finance and accounting professionals who can benefit from the Blackline platform.

For perspective, we currently have approximately 1,600 customers and 156,000 users, so this market is incredibly underpenetrated. We have multiple growth drivers to help us develop and continue to lead this market. We are executing against five key strategies.

The first is international expansion. We have already proven our ability of enter new markets and succeed and we are continuing to aggressively expand our global reach. Today we serve customers in over a 120 countries. Our plans call for International expansion, primarily in major markets within Europe and Asia.

The second area is land and expand. This strategy is enabling us to consistently drive strong growth within our existing customer base by adding more users, selling new products and cross selling into related entities. The power of this model is evidenced by our strong net revenue retention rate, which has consistently been in the range of 118% to 120% for several quarters now.

A third area of focus is the continued expansion of our sales force. We have been rapidly expanding our midmarket sales team. Our scalable cloud platform makes our solutions quick to implement and widely appealing to companies of all sizes.

Next we are continuing to extend our reach through our robust network of partners including our consulting, BPO, ERP and channel partnerships. These partners often provide complimentary services that are not a part of Blackline's core offerings, and this results in a winning combination for both our partners and clients.

The fifth strategy is continuous product innovation. Our customers trust us and they are quite vocal about the opportunities for new solutions in adjacent areas. Oftentimes they use our configurable platform to create their own solutions to problems. Because accounting and finance organizations have been typically conservative and slow to adopt new technologies, the opportunities for automation and optimization are our broad. The Blackline Intercompany Hub and Insights products are perfect examples of solutions that were created and driven by customer needs.

Now let's talk about our strong third-quarter performance. Mark will go through the numbers, but first I'd like to highlight some of our accomplishments.

Total revenue increased 49% to \$32 million, reflecting strong momentum across all aspects of the Business. We added 122 new customers across midmarket and enterprise segments and across all geographies. In fact we signed our largest initial deal in Company history this quarter.

Major wins include First Data Corporation, GoPro and British Polythene Industries. In the third quarter our user base increased to more than 156,000 users. That's up 31% from a year ago and also reflects strong sequential growth throughout 2016.

Next we expanded our European operations with the opening of an office in Frankfurt. The market opportunity in Europe along with the adoption by many large European companies already, made this a logical next step.

As we drive growth and build scale we expect to selectively add new talent to the organization. Most recently we created the position of Chief Customer Officer and brought in Karen Flathers, who has exceptional experience in both enterprise and SaaS software. Karen is responsible for solution consulting, customers success, implementations, training and support.

In fact she owns the entire customer experience from beginning into perpetuity. After just six weeks on board it is obvious that she holds the same passionate commitment to customer happiness that has driven our success to date.

Finally we completed the acquisition of Runbook, a highly respected provider of financial close automation software to the SAP market. Runbook brings a great deal to the equation: complimentary products, formidable talent and capabilities and a portfolio of marquee customers.

We invited the US-based Runbook customers to our user conference and across the board we saw excitement about the combined Blackline/Runbook integration path that we laid out. This is a strategic investment for us and a key part of our plan to have closer integration with a number of different ERP systems.

Looking ahead, we are excited about the growth we are seeing and the opportunity in front of us. We have a fantastic team across the entire organization. We work hard and we love what we do. We appreciate your interest in Blackline and look forward to reporting to you on our progress as a public Company.

Now, I'll turn the call over to Mark to review our third-quarter financial results and discuss our outlook for the remainder of the year.

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**Mark Partin** - *Blackline Inc - CFO*

Thank you, Therese, and good afternoon, everyone. I'd like to echo Therese's sentiment about how pleased we are with the level of interest we've received from analysts and investors.

We're looking forward to getting to know you in the quarters ahead and keeping you updated on our performance. Before I get into the results, please note that during my remarks, unless I specify otherwise, all numbers are non-GAAP.

I'm pleased to report that in Q3 we continued to see record revenue growth, solid gross margins and improving cash flow. As Therese mentioned, Q3 2016 was a strong topline quarter for us. Total revenue in the third quarter increased 49% to \$32 million.

As we executed on our plan to acquire new customers and retain and expand with existing customers. Our 122 new logos added in the quarter were a good balance of both enterprise and midmarket customers. Expansion within our existing accounts including more users, more products and price uplift drove our net revenue retention rate to another strong quarter of 118%.

Global demand for Blackline's platform remained strong with more than 16% of our revenue coming from international markets this quarter. Finally, our revenue mix remained relatively constant at 96% subscription revenue and 4% professional services.

Third quarter gross margin improved to 82% from 80% a year ago. The improvement is primarily attributable to efficiencies around hosting and data center cost as we gained leverage from a larger customer base and higher utilization of our existing hosting infrastructure. Going forward we expect gross margins to trend closer to our long term target model of 80% as our revenue mix changes slightly to include more services.

Turning now to operating expenses, total OpEx in the third quarter of 2016 was \$27.6 million, or 85% of revenue, versus \$22.6 million in the third quarter of last year, or 104% of revenue. While we are seeing leverage in many areas including R&D and G&A, the P&L item I would like to focus on where we are seeing significant scale benefits is sales and marketing. As you can see from Therese's opening remarks, we continue to build our sales capacity to meet the demand we see in the market and sustain our growth.

In Q3 2016 sales and marketing increased to \$17.6 from \$13.3 million a year ago. However, as a percentage of revenue, sales and marketing declined to 54% in Q3 from 61% a year ago.

The change reflects increasing productivity from the investments we have made in our sales force and ecosystem and leverage gained on scaling our global sales infrastructure. Going forward we will continue to invest in our sales capacity to drive topline growth with the anticipation that we will see improving operating leverage on an annual basis.

Even with the investments necessary to operate as a public Company third-quarter operating loss came in at \$1 million. That compares favorably to a loss of \$5 million in the third quarter of last year and reflects operating leverage in the business. We have a proven history of disciplined investing and remain committed to maintaining a strong balance between generating topline growth and driving profitability.

Going forward we plan to meet continued progress towards breakeven and beyond, but it may not be in a linear fashion. Non-GAAP net loss was \$2.2 million, or \$0.05 per share, which compares to non-GAAP net loss of \$5.9 million, or \$0.15 per share last year. The weighted average common shares used to calculate third-quarter EPS was 40.8 million shares in 2016 and 40.7 million shares in the 2015 period.

Turning now to the balance sheet, we ended Q3 with \$20 million of cash and cash equivalents.

Subsequent to the close of the quarter, we received net proceeds of \$152 million from the IPO, which allowed us to repay our term loan in full earlier this month. Cash flow from operations in Q3 of 2016 was a positive \$4 million and year to date was a positive \$1 million. As is typical with software businesses like ours, we do experience quarterly fluctuations in cash flows and expect to see some lumpiness in our cash flows over the next several quarters. On an annual basis however, we do expect to trend positively and be operating cash flow positive by Q4 of 2017.

Turning briefly to the acquisition of Runbook, which Therese mentioned, the transaction closed at the end of August. From a financial perspective, the Runbook business contributed a minimal amount to revenue and expenses for the third quarter.

The guidance we are providing today includes a nominal amount of revenue expense for the fourth quarter. Beginning next year we will be transitioning Runbook from an on-prem provider to Blackline's subscription revenue model. We believe the addition of Runbook will contribute to sustaining our long-term growth.

Now I'll discuss our guidance for the fourth quarter and full-year 2016. For Q4, total non-GAAP revenue is expected to be in the range of \$33.5 million to \$34.5 million, reflecting a year-over-year growth rate of 37% to 41%. We anticipate that non-GAAP net loss will be in the range of \$5 million to \$6 million.

Utilizing weighted average shares of \$47.6 million we expect non-GAAP net loss per share of \$0.11 to \$0.13. For full-year 2016, expect total non-GAAP revenues to be in the range of \$121.5 million to \$122.5 million reflecting a growth rate of 45% to 46%.

Non-GAAP net loss in 2016 is expected to be between \$18 million and \$19 million. Utilizing weighted average shares of \$42.4 million, we expect non-GAAP net loss per share to be in the range of \$0.42 to \$0.45. We are pleased with the solid results we're reporting today and believe we have the capacity and the resources to continue driving the business forward over the long-term.

We are excited about Blackline's new phase as a public Company and we appreciate your interest and support. Now Therese and I would be happy to take your questions.

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## QUESTIONS AND ANSWERS

### Operator

(Operator Instructions).

Mark Murphy, JPMorgan.

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### Mark Murphy - JPMorgan - Analyst

Yes, thank you very much and congratulations on the solid results. So I wanted to ask you, just given the extreme FX volatility that we've seen this year post Brexit, and now with global trade agreements some of which are being called into question after the US election cycle, could you possibly update us on the traction of your Intercompany Hub product and just how that's coming together in terms of customer demands?

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### Therese Tucker - Blackline Inc - CEO

Hello, Mark, this is Therese. You know we just had our user conference two weeks ago here in Los Angeles and with the BEPS initiative that's happening, as you've said the volatility in the FX and with some of the IRS code changes around intercompany loan accounting and that becoming more stringent, we saw terrific interest in the Intercompany Hub at our user conference.

Further, we saw a number of companies that mentioned that they actually have fines that they pay every year in substantial numbers because they don't do intercompany properly. So just came off of that user conference, so I'm feeling pretty good about that, and of course the sales cycle is always a little longer for larger projects, but I'm pretty optimistic about where we are going with the Intercompany Hub.

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### Mark Murphy - JPMorgan - Analyst

Great and as a follow-up, you had mentioned the rapid expansion of your midmarket sales teams. I heard the comment about a good balance in terms of the new bookings, but I am just wondering if you compare it year-to-year maybe to where you were six months ago? Has that expansion of the sales team resulted in any kind of higher mix for midmarket organizations within your list of new logos for Q3?



**Therese Tucker** - *Blackline Inc - CEO*

No, not really because they are both still growing. Right. They are both still growing very nicely and so there's really -- it's very much the same mix.

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**Mark Murphy** - *JPMorgan - Analyst*

Do you anticipate that mix shifting at all over time going forward?

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**Mark Partin** - *Blackline Inc - CFO*

Hello, Mark. Look, we are investing in all aspects of that so the velocity in our midmarket that we have seen over the last number of quarters is really encouraging. So our goal is to have a diversified growth strategy both domestically and international and mid to enterprise, and as long as we see the strong returns we get we plan to keep putting our foot on the pedal

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**Therese Tucker** - *Blackline Inc - CEO*

Both petals.

(Laughter)

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**Mark Murphy** - *JPMorgan - Analyst*

That's great. I had one last question if I may. You did announce pretty significant enhancements to your platform earlier this month at the user conference.

I guess I'm curious, you seem to be in the areas of reporting, navigation, SAP connectors and maybe a few other areas. Could you help us understand which of those have the best customer reception, might have the most mainstream appeal or maybe the most impact for your financial results going forward?

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**Therese Tucker** - *Blackline Inc - CEO*

I'm thinking about that. That's a good question, Mark. I would say that probably the interesting approach that we took to embedding the reporting in every grid was incredibly well received. But that's only because that's something that every single customer uses.

Certainly our SAP customers were delighted with some of these changes to the SAP connector and the availability of the Smart Close product. So I would only rank that one a little lower, simply because it only appeals to about a third of our customer base. But most of our enhancements that we released at the user conference were things that have been in process for a while based on customer suggestion, so kind of hard to really call one out more than the others.

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**Mark Murphy** - *JPMorgan - Analyst*

Okay, very good. Thank you for taking my questions.

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**Therese Tucker** - *Blackline Inc - CEO*

Thank you, Mark.

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**Operator**

Steve Ashleigh, Robert W Baird.

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**Steve Ashleigh** - *Robert W. Baird & Co. - Analyst*

Hello, thanks very much. I will echo Mark's congratulations on your inaugural quarter here. I would like to maybe ask about the international opportunity you just opened in Frankfurt.

Can you remind us what major markets do you have a physical presence in today with offices and what are some of the near-term opportunities you might see internationally? Thanks.

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**Therese Tucker** - *Blackline Inc - CEO*

Hello, Steve, it is Therese. We currently have our European headquarters in London. We also have offices in France. Obviously Frankfurt with the acquisition of Runbook we now have offices in Ada, which is outside of Amsterdam.

We also have offices in Australia that are in Melbourne and Sydney. We also have an office in Malaysia and one in Singapore. So -- and Vancouver, sorry. There so many now that I forget them sometimes.

But in terms of additional areas we see further expansion into the Doc region, into the Nordics. We see that certainly there's been some demand, quite a bit of demand from moving either -- even farther east; if I could speak it would help.

And we both have been looking at some partnerships down in South America. In all of these places, Steve, we've already got users. We've already got people logging into the application, typically a lot of times using it in languages other than English and so we look -- when we decide to move into a new region we look at where we've already got a good customer base.

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**Steve Ashleigh** - *Robert W. Baird & Co. - Analyst*

Perfect. Then I would like to ask about the largest initial deal that you landed, if you can give us a little color. I don't know if you want to disclose the size but in terms of number of skews or maybe how long that contract might've been, some color on that would be great.

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**Therese Tucker** - *Blackline Inc - CEO*

Mark and I were conferring. That was a deal that was over \$500,000 and it did include the Intercompany Hub. As well as some of the components of the financial close sweep.

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**Steve Ashleigh** - *Robert W. Baird & Co. - Analyst*

Thanks so much.

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**Therese Tucker** - *Blackline Inc - CEO*

Just to be clear, that was really an initial deal size. That was not -- some of our longer-term customers pay us more than twice that.

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**Steve Ashleigh** - *Robert W. Baird & Co. - Analyst*

Right. Thank you.

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**Therese Tucker** - *Blackline Inc - CEO*

But it is good we are getting the momentum and the reputation in the marketplace that allows us to do those sizes of deals.

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**Operator**

Thank you and our next question comes from the line of Bahvan Suri from William Blair.

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**Bahvan Suri** - *William Blair & Company - Analyst*

Hello, guys. Thank you for taking my question and nice job. And just want to touch on a couple quick things. First you talked about the net expansion rate.

And the growth, can you just maybe give a little more color, Therese and Mark, on the split between whether it was ARPU driven more or if it was seat expansion for the core offering? How should we think about that split in the expansion rate?

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**Mark Partin** - *Blackline Inc - CFO*

Hello Bahvan, thanks. Think about our net dollar revenue retention rate with three drivers. The first and the biggest has historically been user expansion through globalization and use case growth within the account.

Second is product and then third is price uplift. And the price uplift we get on an annual basis is in the 3% to 5%. I will add that we are very optimistic about the level of product that we have today to be able to sell into account and so over the long-term we think that could become a bigger part of the retention rate.

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**Bahvan Suri** - *William Blair & Company - Analyst*

Got it. Then obviously the Intercompany Hub, and I know the three of us have discussed this ad nauseum, to me seems very compelling. When you are in the early sales cycles for this and obviously the large deal speaks to it, but how receptive are customers to the new offering, do they get it, or is there still a little bit of an evangelical sale with Intercompany Hub? And is that taking a little longer, how should we think about that vis a vis expectations, but also the sales cycle for that particular offering?

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**Therese Tucker** - *Blackline Inc - CEO*

Hello Bahvan, it is Therese. Nice to hear from you. Intercompany is a slightly longer sales cycle and here is why. Because rather than replacing Excel worksheets it is more of a transformational project. Companies have to change how they are doing their business.



They also have to get number of different departments coordinated. So the tax, the legal, the Treasury, everybody ends up getting involved. By that very definition, that's going to draw out the sales cycle. Now however, what's interesting about this, very unlike when we came to market with an account reconciliation product, this people get the need right off the bat.

Nobody says we are awesome at intercompany, they say -- oh my God, this area is such a mess. And the thing that's drawing it out is the size of the mess, not that they don't get the need. I have found that to be very encouraging. The receptivity to a solution like Blackline's Intercompany Hub has been extraordinary high. But again the complexity is going to draw the sales cycle.

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**Bahvan Suri** - *William Blair & Company - Analyst*

Got it. One last one if I could squeeze it in. With Runbook you've got this agent-based approach of capturing data in almost real-time from SAP systems, but given these companies have a variety of mishmash of general ledgers and systems -- whether it's Oracle or otherwise. Is there thought process of getting an agent into the Oracle world to capture that data in real-time, or is that a capability that you guys are thinking of building, buying, how should we think what that? Thank you for taking my questions.

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**Therese Tucker** - *Blackline Inc - CEO*

Thanks, Bahvan. First off, with the connectors and a lot of the work that we are already doing we are getting real-time data from a number of different ERPs. I just want to draw that distinction there. With the smart close agent for SAP, the thought on that is that actually can control what's happening inside of the ERP in terms of various jobs being scheduled and the results causing certain dependencies and other things to happen and feeding those results into other places.

By its nature that piece is embedded inside the ERP. You asked if we had plans to extend that to other ERPs and the answer is absolutely yes. It is a concept that we've talked to a number of our customers about who are non-SAP, ERP based and that has gotten the very favorable reaction from them.

So now that is not the short term product enhancement. So I'm not making a product announcement here. Just saying.

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**Bahvan Suri** - *William Blair & Company - Analyst*

Thank you, thanks for taking my question, guys. And nice job.

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**Therese Tucker** - *Blackline Inc - CEO*

Thanks, Bahvan.

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**Operator**

Jesse Hulsing, Goldman Sachs.

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**Jesse Hulsing** - *Goldman Sachs - Analyst*

Yes, thank you and congratulations on your first quarter as a public Company. The first question is for Mark. The leverage on the sales and marketing line quarter over quarter is pretty impressive.



You mentioned sales productivity being a big driver of that. I'm wondering where you are seeing the most productivity out of your sales force, is it the mid market, is it the enterprise, is it the account teams? Or is it broad-based?

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**Mark Partin** - *Blackline Inc - CFO*

Hello Jesse, thanks for the question. It is broad-based. The acceleration in sales and marketing in 2015 that gave us the broad, diversified go to market and multiple engines really started to pay dividends and we saw it in Q3 so, it is broad-based.

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**Jesse Hulsing** - *Goldman Sachs - Analyst*

Got you, and your guidance implies on the bottom line reinvestment, is the bulk of the reinvestment going to be in sales and marketing headcount or do you have product investments that you are also planning to make?

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**Mark Partin** - *Blackline Inc - CFO*

Good question. I think it is a couple things that I can clarify. First is Q4 -- Therese mentioned the user conference that we do, that is an investment for us in our customers and in sales and marketing. And it is a big one.

Second is the acquisition of Runbook occurred in the last month of the quarter in Q3 and in Q4 we have the full three months of the Company. In some regards it's related to those two things.

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**Jesse Hulsing** - *Goldman Sachs - Analyst*

Got you. A question for Therese. Therese, the Runbook acquisition was a big one for you relative to your size. Can you walk us through the strategic and technology rationale behind the Runbook acquisition?

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**Therese Tucker** - *Blackline Inc - CEO*

Absolutely. One of the things that we found back to, I guess it was Steve's question or maybe Bahvan, on the Intercompany Hub, we found that the actual implementation projects for the Intercompany Hub were not going quite as quickly as I would have liked this last year.

Now what that was caused by is we found that we really needed a deeper level of SAP expertise. And it's a surprisingly difficult skill set. Everybody claims it very few people seem to have it. And what we found inside the Runbook team is a fairly large group of people with decades of experience interfacing with integrating with optimizing SAP interactions and I found that particular talent pool very, very appealing.

Next when we looked at their products we thought there were some things that they did really, really well. In fact when we looked at the smart close product which is not something that there's absolutely zero overlap with Blackline, we found that nobody else in their market did it nearly as well.

When you think about Blackline being a financial automation and control set of products, right? Being able to actually control the jobs that are happening inside of an ERP is kind of a fundamental piece to automating the close. So I saw that they had skills we did not. I saw that they had products that we did not. I saw that they had many customers that we did not have that were quite big names.

I saw that they were based in an area of the world where we did not have a huge presence, and I also saw that while we learned that were actually in a process, and so we met with the founders of Runbook and we found that -- even if all those things have been true and we did not think that we could work with the founders, I don't think we would have done it. But the founders were exceptionally passionate about two things.

They take care of their customers like nobody else. Add one of the things to note in our particular market, we have replaced systems against every competitor in that market with the exception of Runbook. They are the only ones that we have never been able to displace so that told me right there that they have a commitment to customers and that they had really great products. So that was one.

Then the other thing that the founders were passionate about was the opportunity that lies ahead in this market. They were just like, they really wanted to stick around and see you our destinies be fulfilled and they wanted to do that with us, and so it was really that -- I guess it was an emotional decision at the end of the day. Because they were passionate about the same things we are.

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**Jesse Hulsing** - *Goldman Sachs - Analyst*

That's super helpful, thank you both.

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**Operator**

Terry Tillman, Raymond James.

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**Terry Tillman** - *Raymond James - Analyst*

Hey, good afternoon, Therese and Mark, and congrats on the IPO and the strong third-quarter results. I've got seven questions -- no I'm kidding, I just have a few questions.

The first question relates to SAP, that's been a really a fruitful relationship for you guys. But I'm curious as the years progress, first quarter, second quarter and third quarter, how has that business been trending and is there still a lot of low-hanging fruit in productivity gains to be had out of that relationship, or are you now on the right run rate going forward in that business?

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**Therese Tucker** - *Blackline Inc - CEO*

Terry, it is a commercial arrangement with SAP and we have really appreciated and enjoyed our partnership with them. We do find that even though our share of business in terms of SAP versus other ERPs sort of mirrors the overall market very closely. We have seen our SAP share of business start to grow. That being said, we hope that we are partners in one form or another with SAP for a long time.

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**Terry Tillman** - *Raymond James - Analyst*

Okay. It was nice to hear about the largest initial transaction in your history, but what I'm curious about -- and I know you probably don't want to get into too many details -- but if we think about the color around your late-stage pipeline activity now versus maybe six months ago, does that seem like an anomaly or are you actually seeing your pipeline populated with more initial deal sizes that are that size or larger?

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**Therese Tucker** - *Blackline Inc - CEO*

You know Terry, as we start seeing more intercompany projects come into the pipeline we are seeing that those in particular are quite a bit bigger. Now, I do want to say this though, one of the beautiful things about SaaS software is that you can grow as you go.

Prove it out, add additional users, add additional products. We like that model because we know that our customers are going to find that our software works. So if somebody starts small and just wants to grow over time, that's frankly to me just as appealing as somebody who starts big.

**Terry Tillman** - *Raymond James - Analyst*

Yes. Mark, I don't want you to be lonely here, I want to give you a question if possible, and then I will end it here versus the seven I initially mentioned -- but if we think about billings in the fourth quarter is there anything to appreciate in terms of tougher comparability year over year, or is there anything seasonal wise we should think about as making our assumptions for billings? Things again and congrats.

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**Mark Partin** - *Blackline Inc - CFO*

Things, Terry. Happy to answer all seven questions if you want, but on this one it is one of the reasons we don't report on it to this group. Billings can be seasonal on a quarterly basis and that's the same for us.

The metrics that we are really focused on are dollar retention rates, customers and users on a quarterly basis and as you think about Q3 to Q4, I think it is absolutely right to say that we have fluctuation from quarter to quarter so we need to be careful about that metric.

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**Therese Tucker** - *Blackline Inc - CEO*

Terry, I'm actually disappointed that you don't have four more questions. I'm surprised.

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**Mark Partin** - *Blackline Inc - CFO*

Okay, I've got one more question, and it's going to irritate everyone else on this call, and I apologize in advance. Therese, congrats on the new executive hire on the customer success side, and I will stop it after this, I promise. But on the customer success side, what can she do that could either drive revenue retention higher or how do we think about potential metrics or objectives that she could accomplish and how we'd see it as financial analysts? Thank you.

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**Therese Tucker** - *Blackline Inc - CEO*

One of the things that I love about Karen is she is very metric-driven. In the old days when we were really small we had this philosophy of do anything to keep the customer happy, and sometimes you would have everybody in the Company running to one side of the boat. What Karen is doing is really organizing it and making sure that we don't have to run from one side of the boat to the other.

She is organizing it based on types of customers, strategic products, how does our customer success team improve the adoption of what people buy, which will certainly drive up retention over time. How does she bring down the length of time that an implementation takes. How do we just make a lot of things more efficient, but also get a much better customer experience and she's got a whole series of metrics that she's tracking right now and I have to say I'm absolutely delighted in her.

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**Terry Tillman** - *Raymond James - Analyst*

Thanks.

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**Therese Tucker** - *Blackline Inc - CEO*

Was that enough detail, Terry? I could go on for a while. Maybe we shouldn't.

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**Operator**

(Operator Instructions).



Brent Bracelin, Pacific Crest.

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**Trevor Upton** - *Pacific Crest Securities - Analyst*

This is Trevor Upton on for Brent, thanks so much for taking our questions. I was wondering if you could give more color on the international expansion and if any countries stood out this quarter?

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**Mark Partin** - *Blackline Inc - CFO*

Hello, Trevor. Thanks for joining the other call. Our International expansion was very consistent from previous quarters.

15% -- it's into 16% actually from outside the US and the demand we see and the demand that we have in our experience really is in all the markets that Therese mentioned. That's where we are putting physical presence and partners and people to go after that demand.

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**Trevor Upton** - *Pacific Crest Securities - Analyst*

Thank you, that's helpful and curious what the response from SAP has been regarding your Runbook acquisition -- the SAP shop?

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**Therese Tucker** - *Blackline Inc - CEO*

I think it is very positive. They view it as our commitment to making our SAP customers successful.

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**Trevor Upton** - *Pacific Crest Securities - Analyst*

Okay and then any change in the competitive environment in the quarter you'd want to highlight?

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**Mark Partin** - *Blackline Inc - CFO*

No. I think that's a great question and no. Our competitive landscape in Q3 was very consistent. The win loss rate very consistent so no change.

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**Trevor Upton** - *Pacific Crest Securities - Analyst*

Great, thanks so much for taking my questions.

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**Operator**

That concludes our question and answer session for today. I would like to turn the conference back over to Blackline management for any closing comments.

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**Therese Tucker** - *Blackline Inc - CEO*

Thank you for all of your sweet congratulations and your questions today. We so appreciate your interest. We look forward to speaking with you next quarter. Thanks so much.

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**Operator**

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

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