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CORPORATE PARTICIPANTS

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

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

CONFERENCE CALL PARTICIPANTS

Albert Y. Chi *JP Morgan Chase & Co, Research Division - Associate*

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

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

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

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

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

Terrell Frederick Tillman *SunTrust Robinson Humphrey, Inc., Research Division - Research Analyst*

PRESENTATION

Operator

Good day, ladies and gentlemen, and welcome to the Q4 2017 BlackLine Earnings Conference Call. (Operator Instructions)

(technical difficulty)

Unidentified Company Representative

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 Happy New Year. And thank you for joining us today. I am very pleased with the progress that we made on our initiatives in Q4 and 2017. It was a strong finish to a good year, and we were able to accomplish much of what we set out to do in the year. I am proud of our employees and their tremendous efforts in 2017, and as I look back on the year, I feel good about what we have achieved.

I would like to share with you a few key highlights. We achieved 40% revenue growth for the quarter with positive net income and positive free cash flow. For the full year 2017, revenue grew 43%, and we managed the business near breakeven for the full year. We added 117 enterprise and mid-market customers from broad and diverse industries across the globe. I am pleased to report that we now serve over 2,200 customers globally.

We continued our trend of landing larger initial deals, and in Q4, we closed the largest new core platform deal in company history. This is the fourth quarter out of the last 6 where we have seen that trend. We saw good success in the quality, strength and closure rates of our pipeline in the second half of the year thanks to our rebalancing efforts. Bringing 2 new products to market is challenging, and we feel that we are in a better position with the right attention and resources to meet core demand while still pursuing opportunities for our strategic products.

We had a very good quarter for strategic products. We have been working hard to convert the strong demand for these products into closed deals, and we saw good progress in Q4 for sales of both the Intercompany Hub and Smart Close. It is still early and a relatively small number of deals, but I am encouraged that our success and partnerships, pricing and packaging is moving the ball forward.

We were also very pleased to be recognized as a best place to work as our employees are what make us BlackLine. We were named by Fortune Magazine as the #3 Best Place to Work in Southern California and also #24 on Fortune's list of the 100 Best Medium Workplaces in the U.S.

While on that topic, I would like to welcome a new member to the BlackLine team. This afternoon, we announced the appointment of Marc Huffman as Chief Operating Officer. Marc joins us from Oracle and NetSuite and has an exceptional track record of rapidly scaling global software sales teams. In his tenure at a sizable SaaS accounting software company, he saw sales growth from $3 million to over $1 billion. In Marc's new role, he will be responsible for leading BlackLine's worldwide go-to-market and customer-facing activities. We believe that he is a strong addition to our leadership team, and we are so excited to have him join BlackLine.

Another announcement that we made today is a formal strategic alliance with E&Y. We have had a great, long-standing go-to-market relationship with E&Y for many years, and our strategic alliance extends our ongoing collaboration to help enterprises worldwide achieve successful financial transformation through BlackLine implementations. This is a fantastic achievement to kick off the year, and we already have 8 joint marketing events planned for Q1 alone.

And finally, during the quarter, we hosted our InTheBlack Conference, which we rebranded as a finance and innovation summit. This was our largest user conference to date and the first year that we streamed the event live, which enables us to bring our vision and thought leadership to even more accountants and finance professionals around the world. It was great to see so many of our customers, prospects and partners at the conference. Many of you were there, and I thank you for taking the time to come and to learn more about BlackLine. We have received overwhelming feedback that reinforce some key themes, namely our thought leadership in Continuous Accounting, and disruptive new technologies such as process automation and machine learning is resonating with our customers. It is great to see that BlackLine is increasingly being recognized as a voice at the forefront of a changing industry. Secondly, they are enthusiastic about our product direction. And third, they are appreciative of our laser focus on their needs. We value the relationships that we have with our customers and partners, and the feelings are mutual.

In addition to the highlights I shared for the quarter, I wanted to talk a little bit about the progress that we made on our 5 key initiatives for 2017. We shared these initiatives with you at the beginning of the year, and they have been the key building blocks of our long-term growth strategy.

First and foremost has been our focus on enhancing the customer journey. We have provided many data points during the year on this topic, including investing in customer success leadership, realigning customer ownership, reducing the time to go live by half, building higher product engagement and many other areas to keep our customer-centric culture. As a result of our consistent focus, we are building long-lasting relationships with our customers, driving sales for our core platform and uncovering new opportunities with our strategic products.

A few fourth quarter customer engagements that highlight our growing momentum included a Fortune 500 technology company that had recently made a large acquisition and chose BlackLine's core platform to help them standardize and modernize their global accounting practices. The key attributes of our platform that resonated with them most were our unified cloud platform and its ability to scale across multiple entities and geographies, along with the automation and completeness of our journals product. This company is coming to BlackLine after utilizing a competing product.

Our core platform was also chosen by a Fortune 50 retail company that was looking to provide visibility into key financial processes and decrease risk by enforcing controls. The BlackLine platform is helping their accounting leadership achieve their vision for a centralized, highly secure platform to manage all aspects of the financial close and operate a completely transparent process providing global auditability and management. FYI, this is also a switch.

This next customer is a great expansion story with one of the world's largest biotech companies. After being a loyal BlackLine customer for 10 years, this customer is adopting our Intercompany Hub and journals products. This highly acquisitive customer has multiple ERP systems, and our unique ability to seamlessly interface with many different systems was a key factor in their decision. Their long-term vision is to leverage a single intercompany solution that is used globally.

Our other 2017 initiatives included an expanded go-to-market approach, selling more strategic products, pursuing larger initial deal sizes and enhancing our platform and existing products to evolve with customer needs. In each case, we invested to a plan, hired and trained the teams and scaled the organization accordingly. We delivered tangible results in 2017 and made solid progress towards our longer-term goals. The pursuits of these initiatives helped us deliver on our promise to our customers and exit the year with strong momentum. Once again, in 2018, we will share with you our key initiatives for the year that we believe will extend our success and be the building blocks for our long-term growth strategy.

Taking care of our customers is number one. We want our customers to have the best user experience that they possibly can with BlackLine. We are striving to build a model that balances lavish customer support with commercial viability. Last year, we took a team approach to managing our customer relationships, and we will build on this in 2018. We will also continue to invest in our customer success teams, which helps ensure customers adopt our full suite of products.

Delivering great software continues to also be a high priority in 2018. One of the benefits of having a large customer base of over 2,200 customers is a lot of insight into what our customers really need. We will continue to add the enhancements that make our customers' lives easier. We are also focused on improved quality and performance. For example, we plan to deliver advanced multi-currency functionality, greater automation around software maintenance and administration, enhancements to our Task Management and Transaction Matching products and strengthen our interconnectivity. We will also invest development time and effort on the Intercompany Hub, focusing on supporting performance as usage scales up. We believe that these key product initiatives as well as other items on our road map will help us deliver long-term, sustainable customer value.

We have expanded our partner ecosystem and have now signed formal alliances with E&Y, Deloitte and KPMG, but this is just the beginning. We are at the start of a digital transformation wave in our industry, and many consulting companies are excited about the opportunity to help their clients deal with this disruption. We have won an increasing number of partner-influenced deals in the last 4 quarters, and BlackLine is often at the core of a much larger engagement. We are excited about our growing partner ecosystem, and this is an area where we will continue to invest.

As part of our growth initiatives, we will continue to hire and scale our direct sales teams, where we see the greatest demand across both large enterprise and mid-market sectors and globally in the major markets where we currently focus. We believe that there is a large total addressable market that remains largely unpenetrated, and our salespeople are critical in educating companies on our products and building long-lasting relationships.

We believe the market is largest today for our core platforms, and in 2018, it will be important for us to balance the growing interest in the Intercompany Hub and Smart Close with the large market opportunity for our core products. Our newly formed partnerships can help us expand the strategic product footprint and our customers where the sales and implementation cycles are longer and more complex.

Lastly, as we grow in scale, it is important to me that we maintain our people-centric culture. I want BlackLine to continue to be a great place to work, and I want the people that work here to continue to grow and learn and advance their careers. We operate globally with a rapidly expanding team of employees, and we want to make sure that our culture is retained by every one of them.

In closing, the demand environment and the fundamentals of the business remain strong and consistent in Q4. We are seeing tremendous enthusiasm for BlackLine's product and vision with our customers and partners.

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

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

Thank you, Therese, and good afternoon, everyone. As a quick reminder, all numbers mentioned during my remarks today are non-GAAP. Additionally, while we ended fiscal year '17 on the historical revenue accounting standard, ASC 605, as required, we have adopted the new revenue standard, ASC 606, effective January 1, 2018. So I'll discuss our Q4 and full year 2017 results on this call according to the historical revenue recognition standard, ASC 605, but will provide forward-looking guidance according to the new standard. We do not expect the new standard to have a material impact to our revenue results, but it will benefit our earnings going forward as ASC 606 requires capitalization of certain sales commissions. We will publish a full retrospective for comparison purposes in Q1.

Moving to our results. For the full year 2017, total non-GAAP revenue grew 43% to $177 million. Gross margins were consistent at 81%, and we delivered steady improvement in our operating loss margin, moving from a loss of 10% to 2% of revenue. Additionally, we generated over $6 million in cash from operation.

We delivered a strong fourth quarter, achieving better-than-expected revenue and bottom line results. Additionally, I'm pleased to announce that we were profitable and free cash flow positive in the quarter, which had been our stated goal since our IPO in 2016.

Total fourth quarter non-GAAP revenue grew 40% year-over-year to reach $50 million, driven by continued strong global demand for our solutions. Many factors contributed to our better-than-expected top line results, including accelerated deal timing, larger deal sizes, a pickup in strategic products and strength once again in our European markets.

Key financial highlights include the following. We added 117 net new customers globally across both enterprise and mid-market. This brings our total customer count to 2,208 at December 31, representing 26% growth year-over-year.

International revenue continued to grow nicely, representing 22% of the total, up from 18% in the fourth quarter of 2016. The total number of BlackLine users grew to approximately 197,000, representing 18% growth year-over-year. As we have discussed previously, growing sales of our strategic products like Transaction Matching, Smart Close and Intercompany Hub increased our overall deal sizes but do not add users and impacts this metric.

Our dollar-based net revenue retention rate was 112%, which was in line with our expectations. Looking into 2018, we expect this rate to be closer to a range of 108% to 110%. While we have been pleased with our ability to grow our initial deal sizes over the past year, it does have tradeoff to our expansion model and may impact our net account growth in the near term. Importantly, the underlying renewal rate remained high in Q4, and we expect to see this high level of stickiness continue in 2018 with our existing customers.

Now returning to the P&L. Our revenue mix of 95% subscription and 5% services continued to drive consistently high gross margins in 2017, and it reached just over 82% in Q4. In 2018, we anticipate gross margins will trend more towards our target model of approximately 80% as we continue to build out our services and support team.

In 2017, we saw rapidly improving operating leverage across all areas of the business as our operating expense decreased to 83% of revenue, down from 91% in 2016. We are pleased with this progress in 2017 toward our long-term target model even as we continued to invest across the business in growing our direct sales team globally, enhancing our software platform and increasing our customer engagement initiatives.

Going forward, we expect to gain overall operating leverage on an annual basis towards our long-term model. Timing of certain investments can cause our non-GAAP net income and cash flow to fluctuate on a quarterly basis.

In Q4, we reported net income of $1.8 million or $0.03 on a per share basis using 55.9 million shares. This compares to a net loss of $3.9 million or $0.08 per share using 48 million shares in Q4 of last year.

We ended the fourth quarter with approximately $113 million of cash and cash equivalents and marketable securities. We generated approximately $3 million in cash from operations. We invested just under $2 million in CapEx and completed the build-out of our expanded corporate office space under budget and on time, which brings our free cash flow for the quarter to approximately $1 million.

Now I'll turn to our guidance for the first quarter and full year 2018, which, as I mentioned previously, is based on the new ASC 606 standard. Starting with Q1. Total GAAP revenue is expected to be in the range of $49.5 million to $50.5 million. This reflects a year-over-year growth rate of 28% to 31% compared to the first quarter of 2017. On the bottom line, we expect non-GAAP net loss to be in the range of $1.1 million to $2.1 million. Utilizing weighted average shares of 53.2 million, we expect non-GAAP net loss per share in the range of $0.02 to $0.04.

Turning to our outlook for the full year 2018 year. Total GAAP revenue is expected to be in the range of $219 million to $224 million. This reflects a growth rate of 24% to 27% over last year. Non-GAAP net income in 2018 is expected to be in the range of breakeven to $1 million. Utilizing diluted weighted average shares of 56.9 million, we expect non-GAAP net income per share between breakeven and $0.02. And lastly, we 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 with William Blair.

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

Can you hear me okay?

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

Yes.

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

I guess, I just want to dive in first on the strategic partnership announced, and you've announced a couple of them. You announced one, obviously, at the user conference. You had one with another large kind of Global 4 SI accounting shop before. Therese, as you see sort of those relationships mature, I'd love to understand sort of what sort of inbound activity they're driving for you, both in the core reconciliation offerings and also on the more strategic offerings, just some sense of sort of how are those developing and sort of -- they obviously will be valuable in time. But are you starting to see some of the fruits bear today or in the pipeline at least, show up in the pipeline?

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

Well, Bhavan, that's a great question. One of the things that I mentioned today is that, already in Q1, we've got 8 marketing events set up with E&Y. I actually learned a few minutes ago that it's actually 9, okay? Now when we are able to do marketing events with our partners, there's a couple things that happen. They will typically spread the word out to their customers, their relationships, and we do as well, right? And then that collaboration together -- usually we'll add a customer in the mix as well, but that collaboration together is a very potent combination to people that are actually thinking about how they can run their finance and accounting better. And so it might be via webinars. It might be via certain in-person events. But them tapping into their network while we tap into ours has really helped us in building our pipeline. And I think one of the other things we did mention is that in Q4, 9 out of 10 of the largest deals were actually -- we were working with partners on. So we are seeing the fruit of that, and I think that there is -- I think there's still a lot more that we can do.

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

Great, great. And then a quick follow-up. Obviously, congrats on having Marc join, too, I think a great additional complement to your team. But I'd love to sort of understand, obviously, it has been processed a while, and now he's onboard. Just how is he? And how are you guys thinking about potential changes to sales territory, sales team? Has he thought about sort of restructuring? Or is he going to run status quo for a little while? How's that sort of playing out maybe near term but also more importantly sort of longer term?

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

Well, Bhavan, the thing that I like a lot about Marc is that he's a very measured individual, and I think sort of the mark of somebody who's an experienced executive is that they come in, they evaluate, they look for where things can be improved, but they don't do anything stupid or off the cuff. And I would anticipate that Marc would follow that pattern.

Operator

Our next question comes from Brent Bracelin with KeyBanc Capital.

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

One for Therese and one for Mark if I could. Therese, let's start on the product footprint side. You talked about expanding that. Obviously, you did that this year. Now you have even growing number of partners talking about expanding it further. Walk us through the philosophy on new product introductions and launches and how you're balancing that both internally. And then externally, are you also evaluating a potential add-on kind of acquisitions to help augment your internal efforts?

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

Thanks, Brent. Let's see. So we went through a process last year where we kind of got out of balance, right? We focused too much on the strategic products, and in some cases, the markets were just not mature. So around the last part of the year, I think we got much better at rebalancing, and that's really sort of a terrific lesson learned for us that our core market is massive, all right? Our largest deal to date is core platform only, largest initial deal to date is core platform only, all right? So we, as a company, are not going to make the mistake of forgetting again that our core market is huge and that we should focus most of our effort on that area. Now that being said, I always have to temper my enthusiasm for some of our strategic products, especially when we have a very nice quarter like we did in Q4. So I think that their contribution in 2018 will continue to grow, but I'll let Mark speak to numbers around that because he would kill me if I did.

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

Well, I think, yes, you have a question for me as well, Brent.

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

Exactly. Let's start with the revenue guide for '18, Mark. Obviously, it's encouraging to hear Therese talk about focusing on the core. I would tend to agree that a big, big large opportunity out there just in the core business, encouraging to buy the largest deal in the company history actually coming from the core as well. But if I just apply historical revenue retention rates, it does look like there's a healthy dose of conservatism to the

2018 kind of revenue growth guide. And I was just trying to understand, does this exclude the contribution of large deals, which are, I know, difficult to predict on the timing side? Does this bake in a more material slowdown on pro services as you ramp up some of these partners? Just trying to understand the level of conservatism around the guide for 2018. And how should we be thinking about the growth profile of this business into '19?

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

Yes. Thanks, Brent. So let me start by saying that we were actually really pleased with the Q4 results and that momentum that we saw on the initiatives. Having said that, our philosophy for guide on revenue hasn't changed. I wouldn't say conservative, Brent. I would say that we have a prudent approach to guidance. We want to guide in a range that we feel confident that we can execute on. And at this point early in the year, we believe that, that growth range, with a midpoint of around 25%, is the right 1. It's appropriate for us now. Now there's a couple of questions, I think, you've peppered in there. First is around the balance. Our view is that what we saw last year in terms of contribution with the core and the strategic products, we'd like to maintain somewhere over around or over 80% of growth this year coming from core and the remainder coming from the strategic products. So you can see that's a -- the majority coming from core, and that's the right balance, we think, in '18. And that also shows that in order to be in that range, we need to execute and continue to do so on these strategic products. I'll also add that, as Therese mentioned, we are investing in this large market where we're doing what we think is the right thing for the long term. We're investing in these ecosystems and the new products and the sales expansion just to name a few. And if we focus on those in '18 and focus on the long term, the rest will take care of itself.

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

Got it. Very helpful. Last one for me, Mark, on just the billings. If I exclude the deferred revenue contribution from Runbook last year, it does look like billings growth reaccelerated here in Q4. Was that just seasonality, contribution of the large deal? What drove that reacceleration in calculated billings growth adjusted for Runbook?

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

Yes. You're absolutely right. We are -- without the Runbook onetime headwind, it's 42%, 43%. It did reaccelerate. We were pleased with that. That came from a variety of things. We landed really larger deals. We made good traction in that -- those large deals and those strategic deals that we talked about in Q2, and we were able to move those forward with all the effort from the teams. We saw some good deal activity in Europe once again, which has been a nice trend for us. And so a combination of those things really led to a good quarter.

Operator

Our next question comes from Brian Peterson with Raymond James.

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

So I wanted to get on the partner deals. So you mentioned 9 of the largest 10 deals this quarter were partner influenced. Any help on how much the bookings or the revenue overall come from partners? And as they maybe become a bigger part of the go-to-market motion, how should we think about the cadence of bookings or deal sizes? Anything you can help with there?

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

I can take the first part of that question. Thanks for that. So what I can say is over the last 4 or 5 quarters, the acceleration of partner deals, where we've had the assistance of partners, so they've been a part of it, has really accelerated. And we used to give numbers kind of generally in the 30%, 40%. We've now gone past that. Close to half of the deals in Q4 were partner-assisted or partners were there with us. And you heard that 90% of the top deals, the big deals where, I think, they really add a lot of value for us, they were there for 90% of those.

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

Got it. And maybe, Mark, another high-level one for you. But it was interesting out at the user conference. A lot of your customers talked about the additional modules that they purchased over time. I'm just curious, if you looked at your customer base broadly and said that they have this amount of products today, how penetrated are we across the customer base into what that potential would be over time?

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

Yes, sure. It's a great question. I remember this from the Analyst Day. And when we talked about products, it's between 1 and 2. I think that's what is purchased. That's what's being used, and that's on the core platform that has 6. And that's not to mention that we have such small uptake, and we're so early in the strategic products like ICH and Smart Close. When you add those in, we believe that the penetration within the account is obviously nascent, early.

Operator

Our next question comes from Mark Murphy with JPMorgan.

Albert Y. Chi - *JP Morgan Chase & Co, Research Division - Associate*

This is Albert Chi on for Mark Murphy. So it sounds like a lot of companies have started to get over the hump of adopting ASC 606, which sounds like it's taken a lot of focus away from the accounting department. I wanted to ask, when do you think is the time when companies are going to start paying a little bit more attention to -- for buyers to start looking at account -- accounting-type solutions, BlackLine-type solutions?

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

Yes. Great question. We also talked about that at the Analyst Day. I think, at the time, we said the same thing, and I can tell you now it is really hard for us to draw a straight line between that level of effort and that regulation, even though it's massive to any particular sort of climate of buying. So we know it's on CFOs' minds. We know that accounting departments are struggling with it. We've been working and putting a ton of our own effort into it for ourselves. So I wouldn't -- we don't expect or model any particular headwind or tailwind from this.

Albert Y. Chi - *JP Morgan Chase & Co, Research Division - Associate*

And my last question is really around robotic process automation, and maybe it's something you touched on also from your Analyst Day. But when you look at areas of accounting that are ripe for RPA, what would you say they are? And when you're looking at your customers who -- it sounds like they build a lot of internal solutions, what sort of -- perhaps, they're unsustainable, and maybe you could talk a little bit about that.

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

Yes. RPA is -- I'll take this one, Mark. RPA is a super interesting area, and there are sort of different ways to approach that. We have had some of our customers take an approach where they simply did the equivalent of recording a macro of keystrokes. The difficulty with sort of that very, very low-level automation of a process is that it's the old adage garbage in, garbage out, all right? However, if you look at our Smart Close product, that is the epitome of intelligent RPA. It's actually taking the processes that companies run month-after-month, quarter-after-quarter, year-after-year, right, typically manually inside of their ERP and automating those processes. I had a Fortune 50 customer tell me that it used to take them a week or more to do a single entity close. They were able to do it in 15 minutes with the Smart Close product. So there are different approaches to RPA. I think that the kind of RPA that's being implemented with our -- with BlackLine Smart Close product is precisely the kind the company should be focusing on.

Operator

Our next question comes from Rob Oliver with Baird.

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

Therese, so 2 quick questions. Hey, Mark. First for you, Therese, and then a quick follow-up for Mark. Therese, you hinted -- and this might be more my interpretation, but you hinted at the Analyst Day that you guys might be sort of rethinking the larger ICH-type deals and maybe starting to break those apart a little bit, not to draw attention away from the strong performance in the core. But you guys did sign an ICH deal this quarter, which you cited in your prepared remarks, and I just wanted to ask, if, in fact, you guys were thinking about the go to market in ICH a little bit differently and maybe trying to get away from a much larger, clearly, more participatory type of sale where you need to get a lot more bodies to sign off on it and rather going to maybe something a little bit smaller that might help drive adoption.

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

By the way, Rob, we had multiple ICH deals in this quarter, just saying.

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

Yes? [For year-end quarter]?

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

Yes, I know. Okay. So I think there's 3 areas for ICH that have helped us get momentum. We call them the 3 Ps: packaging, pricing and partners, okay? And packaging is a bit of how we've approached it so that people can adopt a more phased approach, right? The pricing takes into account the size of the organization. And then, of course, the partner network has been very, very helpful and influential in the sales process for ICH deals. So those 3 together, I think, are the fine-tuning that we've done there, is definitely going in the right direction.

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

Great, great. That's helpful color. And then, Mark -- and I apologize if I missed it. In the past, I think you had mentioned, clearly, in our work, we've picked up that partnerships have been a real key focus for you guys, and partners want to get closer to you. I think you've broken out the SAP portion of that in the past, and I'm not sure you did this quarter, or maybe I missed it. I apologize. If you wanted to break that out.

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

Yes, you bet. Thanks for that. You did not miss it. I didn't say it yet. It's 20% for SAP in the fourth quarter, and that's up from a year ago, 18%. And as you saw sort of through the year, it ticks up about 1 point a quarter.

Operator

Our next question comes from Terry Tillman with SunTrust.

Terrell Frederick Tillman - *SunTrust Robinson Humphrey, Inc., Research Division - Research Analyst*

A lot of questions have been answered, but don't worry, I still have a lot more questions so...

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

I know. I'd be disappointed if you didn't.

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

Yes. We need 7 from you, I think was your original first quarter question, Terry.

Terrell Frederick Tillman - *SunTrust Robinson Humphrey, Inc., Research Division - Research Analyst*

Good memory. But in terms of -- it does sound very positive in terms of just all the partner influencing and ecosystem build-out. Does that change any of your strategic thinking or multi-year planning in terms of sales capacity, whether it's enterprise or the mid-market or international? Does it change kind of the pace of hiring you have to do because you do get some help from third parties? Or does it really not have an impact on how you're thinking about your sales capacity growth?

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

I don't think it has an impact, Terry, and here's why. Because even though we really appreciate the influence and the wealth of knowledge that our partners bring to the process, there is still a process, and we still have to sort of work through that. So there's still very much a sales force that's involved. I think our scaling in our plan has taken into account the partnerships that we're building.

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

Yes, that's right. I'll just add to that, too, is that our strategic philosophy has been teaming around the salesperson as we get into strategic and into large deals. So it doesn't change the fact that we need them. They just need more resources. They need customer engagement, people they need, the partners to get these larger and more complex cycles done.

Terrell Frederick Tillman - *SunTrust Robinson Humphrey, Inc., Research Division - Research Analyst*

Okay. And Mark, since I've got you there, in terms of free cash flow, you had committed previously to being free cash flow positive. It was good to see it in the quarter. But you said you'd be free cash flow positive for the full year '18. Is that also -- will you be free cash flow positive each quarter of the year? And is there anything about seasonality we should think about on how we make sure our models are accurate?

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

Yes, thanks. Great question because we still do see some -- it's -- I wouldn't say it's seasonality. It's more business-specific things that occur through the quarter, so for example, in Q1, where we have a corporate bonus; in Q4, where we have a large conference or things like that, that can move it. So our cash flow by quarter in '18 will be similar to what we saw in '17. It'll drive upward through the year. I also want to say -- I'm going to insert this here. I know it wasn't your question, but I want to talk a bit about ASC 606 as well because this is having an impact for people as they're thinking about their models. And for us, our guidance for Q1 and 2018 is based on the new standard. It does not have a meaningful impact on the revenue that we've given, but it does benefit us on the earnings going forward because it requires us to capitalize more sales commissions. And we're still working on this. We'll have more details out in our next filings. But at a high level, we expect the impact to be around $5 million to $7 million of an expense benefit in 2017 -- excuse me, in 2018 and then something very similar in 2017. And then that's approximately a $1 million to $2 million benefit in just Q1 of 2018. So it's important to keep that in mind as we go into '18 as well that, that's how we've guided.

Terrell Frederick Tillman - *SunTrust Robinson Humphrey, Inc., Research Division - Research Analyst*

But Mark, is that just -- is that an income statement dynamic with the sales and marketing and capitalizing? Or is that also like a cash flow dynamic?

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

It -- well, it changes the -- it doesn't change cash flow because we're still paying the commission.

Terrell Frederick Tillman - *SunTrust Robinson Humphrey, Inc., Research Division - Research Analyst*

Yes, I should have said -- okay. Yes, got it. Got it, okay.

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

Yes, yes, yes.

Operator

And our last question is from Pat Walravens with JMP Securities.

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

So with all that, Therese, what's your top priority for 2018?

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

Always the customer journey, making sure that our customers are using and getting value from what they're buying from us and making sure that we continue to expand our relationships there. Now I would say on the next couple, Pat, it's -- Mark and I might be slightly different. I'm always sort of interested in what we're doing with the product, and I think Mark really likes the things that we're doing with the partner ecosystem and scaling the sales. And of course, I'm, again, really focused on the people and the culture that we have here. So we've got -- there might be some small differences between us, but we've sort of managed to work it out.

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

Yes.

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

Is that it, Pat? I think that's it. That's the last question.

Okay. Well, this is Therese, and I want to thank all of you for your ongoing support and especially your evangelism of BlackLine. It continues to bring us new referrals and customers. Please keep it up. We look forward to sharing our success with you in 2018 and beyond. Thank you.

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

Thank you.

Operator

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