Blackbaud Inc. (BLKB)

Baird Facts

Please refer to Appendix - Important Disclosures and Analyst Certification.

<table>
<thead>
<tr>
<th>Price ($) (5/27/20):</th>
<th>58.69</th>
</tr>
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<tbody>
<tr>
<td>52WK H-L ($) :</td>
<td>97 - 38</td>
</tr>
<tr>
<td>Market Cap (mil):</td>
<td>2,852</td>
</tr>
<tr>
<td>Shares Out (mil):</td>
<td>48.6</td>
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<tr>
<td>Float (mil):</td>
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<tr>
<td>Avg. Daily Vol (mil):</td>
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<tr>
<td>Dividend ($) :</td>
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<td>Yield (%):</td>
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<tr>
<td>Rating:</td>
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<tr>
<td>Price Target ($) :</td>
<td>60</td>
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<tr>
<td>L-Term Rev. Gr Rate Est:</td>
<td>10%</td>
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<tr>
<td>L-Term EPS Gr Rate Est:</td>
<td>15%</td>
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<td>Debt/Cap:</td>
<td>16.7%</td>
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<tr>
<td>ROE:</td>
<td>10.0%</td>
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<tr>
<td>FY Dec</td>
<td>Q1: 0.51A, Q2: 0.66A, Q3: 0.56A, Q4: 0.51A</td>
</tr>
<tr>
<td>FY Dec</td>
<td>Total: 2.24A, 2.15E, 2.32E</td>
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<table>
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<tr>
<th>Headquartered</th>
<th>IPO/Founded</th>
<th>Dec</th>
<th>2019A</th>
<th>2020E</th>
<th>2021E</th>
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<td>Charleston, SC</td>
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<tr>
<td>Management</td>
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<td></td>
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<tr>
<td>Mike Gianoni</td>
<td>CEO</td>
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<td></td>
<td></td>
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<tr>
<td>Tony Boor</td>
<td>CFO</td>
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<tr>
<td>Mark Furlong</td>
<td>Investor Relations</td>
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<td>Steve Hufford</td>
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<tr>
<td>FY P/E</td>
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<td>26.2x</td>
<td>27.3x</td>
<td>25.3x</td>
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Company Description

Blackbaud, Inc., headquartered in Charleston, SC, is a provider of software and services that are specifically designed for customers in the nonprofit, charitable giving, and education industries. Blackbaud offers a platform with integrated solutions in the following areas: constituent relationship management (CRM), payments, financial management and accounting, K-12 school back office administration (e.g., admissions, attendance, course management), as well as a host of other solutions that help organizations with everything from ticketing to using social networks to promote a cause.

Revenue Profile

![Revenue Profile Chart](chart.png)

Source: Baird research, Company documents

Competition

While Blackbaud is the leading vendor in a highly fragmented market, Salesforce.org has increased its marketing focus on the nonprofit vertical in the past year. Blackbaud offers a more complete solution for non-profits. However, as the company cajoles customers to shift to the cloud in the coming years, it risks opening those accounts to competitive bidding against sales and marketing prowess of Salesforce, the leading cloud application vendor.

Quick Summary

- Blackbaud reported 1Q20 results slightly ahead of lowered estimates. The company's end-markets have been considerably impacted and looking forward a meaningful amount of uncertainty exists with regard to top-line revenue and bookings (hence the withdrawal of 2020 guidance). Management expects it will be difficult to grow significantly in 2021 and has taken steps to focus on...
Blackbaud Inc.
May 27, 2020

profitability and managing costs to control EBITDA and cash flow. Using our updated FCF estimates the stock is currently trading at 30x CY20 and 26x CY21.

- **Blackbaud reported 1Q20 revenue/EPS** of $224M/$0.51 versus consensus $222M/$0.46 and our estimate of $222M/$0.47.

### Growth rates

- Organic CC revenue growth was +3.4% yr-yr, last five quarters have now been: +3.1%, +3.6%, +3.4%, +4.8%, +3.4%.
- Organic recurring revenue growth was +3.0% yr-yr as reported and would have been ~130bps higher adjusted for some reclassification of revenue from Recurring to One-Time Services. Last five quarters have now been: +5.7%, +5.0%, +5.6%, +6.7%, +3.0%.

### Other 1Q20 financial metrics:

- **Gross margin** of 58.4% compared to consensus/Baird of 58.5%/59.5%.
- **EBIT margin** of 15.2% compared to consensus/Baird of 14.4%/15.2%.
- **Billings** of $198M were (-3%) yr-yr, compared to consensus $207M (+2% yr-yr).
- **TTM FCF** of $108M was (-15%) yr-yr

### Withdrawing 2020 guide. As previously announced, Blackbaud suspended 2020 guidance due to significant uncertainty that exists in non-profit market. Given all the steps to conserve its financial position and focus on profitability, management does expect EBITDA to be roughly the same level it was expected to be entering the year despite top-line headwinds.

### Top-line headwinds likely into 2021. Management noted that financial impact will likely weigh into 2021 and it will be difficult to grow significantly next year. We now model 2021 revenue flat yr-yr versus consensus +5%. Given the topline headwinds, focus will be on areas more within company control including profitability, managing costs, & FCF.

### Recurring revenue (~66% of total) typically has 3-year contract terms billed annually up-front. Roughly half of the contracted revenue comes up for renewal in 2020, with a majority of that up for renewal in 3Q20. Renewal rates have actually been tracking ahead of initial 2020 plan through April, though the expectation is some customers will downsize contracts upon renewal going forward.

### Transactional revenue (~25% of total) consists of things like online payments and tuition processing and is less predictable for remainder of the year. Blackbaud saw sharp initial declines in volumes in mid-March, but has come back through April.

### One-time services and other (~9% of total) have seen Bookings drop-off ~50% as certain non-profit end-markets have completely shut down.

### Investment Thesis

- **Valuation.** Our price target is $60. We derive our price target by applying a multiple of 28x to our 2020E FCF estimate. A 28x P/FCF multiple is equal to the average P/FCF for a set of vertical software companies we monitor. We believe this multiple is justified by Blackbaud’s evolving product offering, expanding TAM, migration of install base to subscription, and strong management team, coupled with a challenged environment for non-profits among COVID-19 concerns, go-to-market changes, and 2020 being another investment year (weighs on FCF).

### Migrating installed base. Blackbaud is currently migrating its on-premise and hosted installed base to the cloud, which has numerous benefits: 1) increased revenue over time; 2) higher quality, easier to use cloud product increases customer satisfaction; and 3) the move is largely from point products to a suite of integrated solutions. As of November 2016, 10-15% of customers had transitioned. Getting customers to move without opening the business up to competitive bid is a critical part of Blackbaud’s strategy.

### Attractive vertical market. With 1.6mil registered non-profits in the US, as well as an international opportunity, and a fragmented market that tends to run lean on staff, we see the non-profit space as an attractive vertical. We believe BLKB is well positioned to do what many legacy vendors have been unable to do - leverage its dominant position on-prem to remain the offering of choice in a cloud/hybrid cloud world.

### Expanding TAM. Blackbaud continues to expand its TAM through bolt-on and tuck-in acquisitions in core and adjacent markets (such as K-12, Higher Eduction, and Faith-Based) Blackbaud’s penetration in these adjacent markets is low, providing the company with a promising growth vector. We expect the company will continue to be acquisitive.

### Risks & Caveats

- **Cloud transition.** Blackbaud is currently migrating its on-premise and hosted installed base to the cloud, thus increasing total lifetime customer value by 1.5-2x. The inability to get clients to convert would be a meaningful headwind.

- **Competition.** While Blackbaud is the leading vendor in a highly fragmented market, Salesforce.org has increased its marketing focus on the non-profit vertical in the past year. Blackbaud offers a more complete solution for non-profits. However, as the company cajoles customers to shift to the cloud in the coming years, it risks opening those accounts to competitive bidding against sales and marketing prowess of Salesforce, the leading cloud application vendor.

- **Caters to the non-profit market.** Non-profit organizations often maintain tight operating budgets, and thus Blackbaud may have more difficulty converting existing customers, as they will pay more.

- **Macro cyclicality.** Nonprofit funding is closely tied to GDP growth, and a recession may have a more significant negative effect on Blackbaud’s growth than some other names in the software industry. Additionally, changed in the Federal Tax Bill passed late 2017 could result in fewer charitable donations due to less individuals using itemized deductions.

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Appendix - Important Disclosures and Analyst Certification

Approved on 27 May 2020 10:24EDT/ Published on 27 May 2020 10:29EDT.

1 Robert W. Baird & Co. Incorporated makes a market in the securities of BLKB.

Appendix – Important Disclosures and Analyst Certification

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