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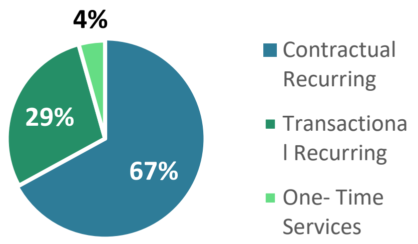
BLACKBAUD

Recommendation: Sell

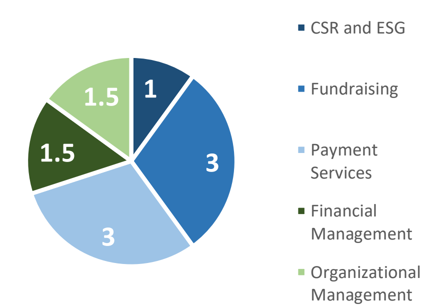
DATE:	FEB 2, 2023
TICKER:	BLKB
EXCHANGE:	NASDAQ
GICS SECTOR:	INFORMATION TECHNOLOGY
INDUSTRY:	SOFTWARE
CURRENT PRICE:	$80.34
PRICE:	$64.27
DOWNSIDE:	-19.26%

Exhibit 1: Type of Revenue Distribution



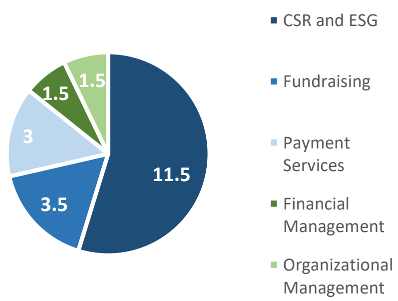
Source: Blackbaud 2023 10K

Exhibit 2: TAM Before EVERFI



Source: Blackbaud 2021 Q4 Earnings Presentation

Exhibit 3: TAM After EVERFI



Source: Blackbaud 2020 Q4 Earnings Presentation

INVESTMENT SUMMARY

We issue a SELL recommendation with a 12-month target price of $64.27, representing a -19.26% downside from the closing price of $80.34 as of February 2nd, 2024. Our target price calculation involves utilizing the Discounted Cash Flow model (DCF) and Relative Valuation. Key considerations include uncertainties regarding market penetration in specific sectors within the total addressable market and the potential vulnerability of the customer base in light of the data breach.

Economic Moat

Blackbaud has established an economic moat as a frontrunner in the nonprofit software sector. They are positioned as a mid-size player alongside industry giants, solidifying their presence in a specific social good market niche where few competitors focus.

What sets Blackbaud apart:

- 85% revenue from nonprofits, 15% corporate. Historical 7.5% CAGR; room to expand the 15% and boost CAGR.
- Specialized in a distinct niche and market.
- Revenue and market share driven by acquisition strategy and 3-year contracts.
- Stagnant total addressable market within private/public education sector.
- Uncertainty in confidence after insufficient response to extensive data breech reduces potential customer base growth.
- Customized solutions with annual price increases for sustained growth.

Adjacency Acquisitions

Blackbaud has acquired 11 companies over a decade, with EVERFI in 2021 being the largest at about $750 million. The EVERFI expansion led into an adjacent market of private and public education (K-12 clientele), which effectively doubled the total addressable market in a year. Blackbaud's commitment to ESG initiatives, emphasizing acquisitions and ambitious recurring revenue growth, may have led to overly optimistic projections on long-term benefits from the significant acquisition, potentially contributing to an inflated share price. We hold the perspective that the potential value derived from recurring revenue and corporate revenue in this new market might be limited despite the increase in total addressable market. **The mature and saturated nature of the market raises skepticism about the extent of value that can be generated.**

Multi-year Contracts Stabilized Revenue Growth

Blackbaud's turn towards multi-year contracts will allow for a stabilized revenue stream looking forward. Blackbaud noted in Q3 of 2023 that 90% of their cohorts renewed their contracts under the new three-year terms, and many other cohorts will follow suit in the coming years. These contract renewals will no doubt help to solidify the approximate 8% growth rate seen in previous years and in forecasting. Nevertheless, the current stability doesn't appear conducive to a significant year-over-year growth rate that could positively influence share prices. **The lingering risks stemming from the security incident in 2020 and the subsequent FTC Order Compliance released in early February create uncertainties regarding the level of confidence customers are willing to place in Blackbaud.**

BUSINESS DESCRIPTION

Overview

BLKB is the world leader in providing software that powers social impact, in non-profit and for-profit spaces. They provide access to cloud software, data services, and expertise to different comminutes that are dedicated to social good, to enhance influence in fundraising, digital giving, grantmaking, corporate social responsibility, and education management. Since incorporating in 1982 in New York, BLKB has dedicated 40+ years to serving the industry by offering software services that are designed to meet the needs of all types of organizations (Exhibit 4). BLKB serves over 40,000 global customers under contract and supports millions of users while connecting over 150,000 organizations and causes around the world. Currently, BLKB employs about 3,000 individuals, like the number of employees they had in 2014. However, they are twice the size of the business in 2014, proving they have made, and will continue to make, **progress in productivity and efficiency.**

Strategy

BLKB has a **four-point strategy** to maintain and extend its position in the market as the leading provider of cloud software and services for the global social impact community – **(1) Expand Total Addressable Market (TAM)** EVERFI was an industry leader in global social impact technology and as of December of 2021 was acquired by BLKB. With this acquisition, BLKB was able to double their TAM, allowing BLKB to cross-sell and upsell EVERFI with other complementary BLKB solutions such as YourCause®, and expedite ESG and CSR space evolutions. As of December 2022, BLKB had a TAM of $20 billion, with BLKB **continuing to evaluate potential acquisitions and develop current products to expand their TAM further.** **(2) Lead with World Class Teams and Operations** In recent years, BLKB has been working to increase sales effectiveness and develop operating efficiency while maintaining their customer centric mission. As an organization they have introduced three new roles in the Executive Committee, executed a reduction in their workforce, and appointed three new board of directors. These changes contributed to BLKB **receiving an award** for their team governance **(3) Delight Customers with Innovative Cloud Solutions** Over the last 40 years, Blackbaud has built and purchased many solutions for their customers. BLKB is always looking to evolve solutions and services offered to provide existing and prospective customers with a high value package of solutions that is specific to their unique demands. Solutions such as Blackbaud TeamRaiser and YourCause CSRConnect were paired with Kilter, acquired in 2022, to provide new ways to participate in fundraising and encourage employers to have a more active role in their employees' health and wellness. BLKB **provides high quality customer support and services** to ensure a positive experience after their initial interest in BLKB solutions, which are designed for each customer to efficiently achieve their mission. **(4) Focus on Employees, Culture and ESG** BLKB has a multi-pronged climate strategy that is focused on emission reduction, efficient energy use, and investment in projects that promote a more sustainable future. With their strong governance, BLKB strives to hire, develop, and retain diverse teams filled with the best employees by providing an environment that allows individuals to utilize their unique talents and encourage close collaboration in remote workforce. As the world's leading social good software provider, Blackbaud has a significant role in facilitate innovation in the social impact space, and BLKB's corporate culture incites collaboration, innovation, and passion from employees to **deliver high quality product and support** to customers.

ENVIRONMENTAL, SOCIAL & GOVERNANCE

Focusing on employees, culture, and ESG Initiatives is the fourth point of Blackbaud's 4-point strategy to drive financial performance. Blackbaud has made strides towards implementing sustainable practices and fighting climate change, which are necessary to ensure the future and stability of their business and customers. Blackbaud stands out among its peers with impressive ESG performance for the industry.

Environmental: a forward focused approach to the software industry

Blackbaud has demonstrated a forward-focused approach to environmental management, earning an **strong S&P score of 31, nearly three times the software industry's mean** (Exhibit 6). Additionally, the company's commitment to environmental responsibility has been recognized by CDP, receiving a commendable B- score for its exemplary environmental management practices. Refinitiv acknowledged Blackbaud's score of 52/100, applauding its efforts in emissions reduction and efficient resource usage, while highlighting concerns about the lack of innovation in environmental product development.

Decarbonization

In 2020, Blackbaud implemented a remote-first workplace strategy, resulting in a substantial 90% reduction in scope 1 and 2 global carbon dioxide emissions since 2019. Notably, the company **achieved carbon neutrality in 2021** by employing a combination of on-site solar power, environmental attribute certificates (EACs), and reforestation carbon offset projects. Future plans include a deliberate shift from hydrocarbons to 100% renewable energy sources.

Responsible Operations

Efforts to reduce energy and water consumption at the global HQ in Charleston showcase Blackbaud's commitment to minimizing its global footprint. Implementing LED lighting, optimized HVAC solutions, and low-flow fixtures resulted in a commendable 16% reduction in total energy consumption since 2019 (Exhibit 8). The company has also achieved a 40% reduction in water usage through initiatives such as native landscaping and optimized cooling tower controls. Collaborative partnerships with external entities further enhance Blackbaud's **commitment to reducing its carbon footprint** and progressing towards UN sustainability goals.

Strategic Partnerships

Blackbaud's proud sponsorship of Project Drawdown, a nonprofit dedicated towards solutions to climate change, represents a prime example of strategic partnerships towards sustainability. The partnership is led by the Sustainability Affinity Group, a group of employees specifically focused on advancing sustainability . The partnership is led by the Sustainability Affinity Group, a group of employees specifically focused on advancing sustainability. In November 2022, Project Drawdown announced its new world-class science team

Exhibit 5: ESG Priorities

ESG Priorities

- People and Culture
- Fueling Social Impact
- Driving Climate Solutions
- Governance & Data Responsibility

Source: Blackbaud ESG Report

Exhibit 6: ESG Scorecard

	Avg.	Enviro.		Gov.
Refinitiv	64	42	61	74
S&P Global	37	31	26	50
CDP	N/A	B-	N/A	N/A
Morningstar	Low Risk	N/A	N/A	N/A

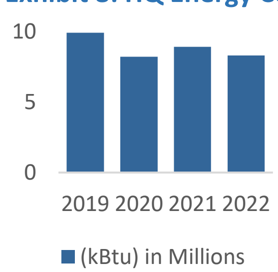
Sources: Refinitiv, S&P Global, CDP, Morningstar

Exhibit 7: Refinitiv Social Score Breakdown

Social	61
Human Rights	80
Product Responsibility	34
Workforce	82
Community	63

Source: Refinitiv

Exhibit 8: HQ Energy Consumption



Source: Blackbaud ESG Report

with renowned scientists and academics to better coordinate with leaders and philanthropists to scale climate solutions. In addition to **supporting efforts to identify research-based climate solutions,** Blackbaud has supported the Drawdown Stories Initiative which shows how people across a wide range of careers can make an impact on the climate.

An Ambitious Future

The non-profits and K-12 institutions Blackbaud serves have aways been characterized by strong altruism, but that altruism has increasingly been connected to environmental issues. This tactical emphasis, driven from the C Suite and supported by the entire organization, is evident in initiatives such as the Fortune Impact Initiative. By actively supporting executives in Fortune 100 companies to address key ESG issues, Blackbaud is not only contributing to the Green Revolution but also fostering economic growth. The company is poised to continue its **leadership role in the social responsibility software sector,** translating its goodwill into tangible returns for shareholders.

Social: Powered by Purpose

Blackbaud's social engagement results in high employee satisfaction which further **advances its financial goals of growth.**

Employee Engagement

Serving the non-profit and education industry, Blackbaud naturally attracts talent with a commitment to broader societal contributions. Even during the pandemic, almost 70% of Blackbaud employees continued to volunteer, and one in seven served on a nonprofit board or committee. This elevated level of engagement fosters leadership skills and initiative, contributing to a **culture of purpose and belonging.** This strong culture is reflected in the fact that 91% of employees feel their work at Blackbaud is important, a motivating factor for the company's robust growth.

Product Responsibility as a Pressing Concern

Refinitiv identified product responsibility as an area requiring attention during its ESG assessment of Blackbaud. Between Q1 2020 and Q1 2022, the company faced a significant data breach where criminals gained access to secured data. Although Blackbaud prevented full system access and full encryption of files, **personal data was compromised**. In 2023, Blackbaud settled claims related to the breach for $49.5 million without admitting wrongdoing. The SEC cited the company's failure to establish proper reporting procedures, **leading to a miscommunication** of the breach's extent to investors. Despite legal resolutions, the incident impacted consumer and investor confidence, convincing both customers and potential customers that Blackbaud cannot be safely trusted to protect and handle their information.

Philanthropy

Blackbaud's commitment to philanthropy is evident in its diverse initiatives. Grants provided to charities have impacted 80 cities worldwide, with 540 devices donated to non-profits and 100 team community volunteer events. Joining the U.N. Global Compact in 2021 underscores the company's dedication to tracking its impact on U.N. sustainable goals and aligning its philanthropy with these priorities. The establishment of the Blackbaud Institute, offering **innovative philanthropic research,** complements these efforts. Additionally, the Social Good Startup Program focuses on recruiting early-stage startups aiming for social impact, particularly those addressing historical inequities.

Diversity, Equity, and Inclusion Initiatives and imperfect progress

The establishment of the employee-led DEI council in 2021, co-chaired by CEO Mike Gianoni, demonstrates the company's commitment to fostering inclusivity. On-demand diversity and inclusion training, and respect at work training, have been implemented to ensure a full understanding of human rights policies and ethical commitments. The formation of affinity groups further strengthens the **fabric of inclusivity** within the company. However, despite an upward trend, challenges persist. A global median analysis of pay equity in 2022 identified areas for improvement, and the results for equity in upper management levels in 2023 are mixed. The Board's reasonable diversity with three out of eight members being women is notable, yet none of the named executive officers are women.

Governance: Award Winning

Blackbaud's robust governance practices have consistently positioned it in the highest quartile according to Refinitiv's 2022 analysis. The company's dedication to transparency and the implementation of comprehensive frameworks to meet future challenges are **key contributors to its sustained growth.**

Board of Directors

Michael P. Gianoni, serving as the CEO since January 2014, brings a wealth of experience to the role. The board, consisting of eight members, is predominantly independent at 87.5%, with only one non-independent director. While lacking a formal attendance policy, all directors attended the 2022 annual stockholders meeting, indicating a high level of engagement. The board composition strategically incorporates both fresh perspectives and long-term experience, with half of the members serving for three years or less and the other half for seven or more years. This balance allows for a **mix of rotating perspectives and historical insights.** Diversity within the board is efficacious, with three out of the eight members being women and an Asian board member. While there is room for improvement in board diversity, Blackbaud notably outperforms its peers in this regard.

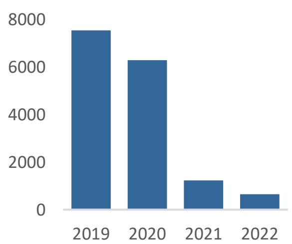
Exhibit 9: Charities and Institutes

blackbaud SOCIAL GOOD STARTUP PROGRAM

BLACKBAUD INSTITUTE

Source: Blackbaud ESG Report

Exhibit 10: Global Emissions -Scope 1 and 2



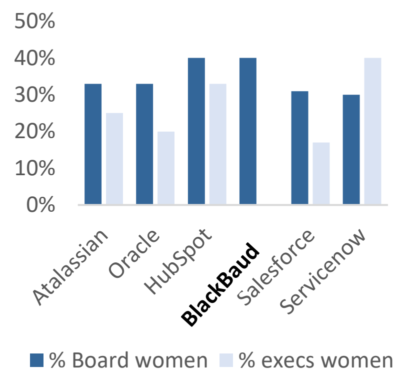
Source: Blackbaud ESG Report

Exhibit 11

Exhibit 12: UN Sustainability Goals

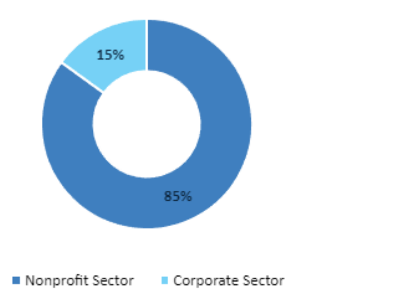
Source: Blackbaud ESG Report

Exhibit 13: Board and Executive



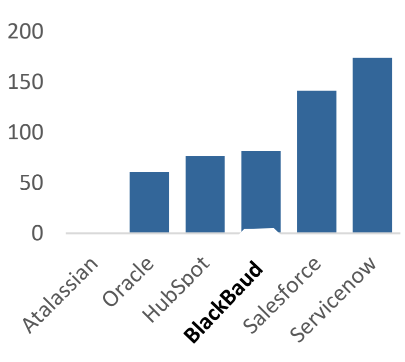
Source: 2023 Proxy Statements

Exhibit 14: Revenue Split



Source: Blackbaud Management Presentation

Exhibit 15: CEO Pay Ratio



Source: 2023 Proxy Statements

Executive Management and Compensation

The executive team, comprising five members, brings a diverse range of managerial and technical expertise to the company. Compensation is competitive, positioning the company at the 50th percentile when compared to peers with similar revenues and the 39th percentile when considering market capitalization. The compensation package for the CEO, Michael P. Gianoni, is predominantly equity-based, with 90% of his pay in equities and half of the total pay being performance-based. This model is mirrored in the compensation packages for other named executives, maintaining a 50-50 split between performance-based and non-performance-based pay. The equilibrium between performance and non-performance-based pay is designed to attract top talent while acknowledging the potential negative impact of an excessive CEO pay ratio on morale. However, the lack of executive diversity, particularly the absence of women on the board, is an area requiring attention to ensure a well-rounded leadership team.

Shareholders

The top institutional owners contribute to instilling confidence in Blackbaud's stock. Furthermore, inside ownership by Blackbaud's Board and Management, demonstrates a personal investment in the company's success, accounting for 1.7% of total stock ownership.

Industry and Competitive Analysis Overview

Industry Overview

Blackbaud is a key player in the software publishing industry, specializing in providing customer relationship software solutions. Its primary focus is serving the non-profit sector, particularly the education and healthcare markets which make up a majority of their customers. Significantly, **85% of their revenue stems from the non-profit industry,** with the remaining 15% earned from corporate companies (Exhibit 14). The software publishing industry exhibits notable growth, boasting an **impressive 7.5% Compound Annual Growth Rate (CAGR)** between 2018 and 2023.

Macroeconomic factors: Well Positioned for Macroeconomic Uncertainty

In the face of concerns regarding a potential 2023 recession, the overall economy has demonstrated resilience, achieving approximately 3% real GDP growth in the 3rd quarter. However, 2024 predictions vary, with some forecasting a limited recession in the U.S. while others anticipate slower growth.

Notably, Blackbaud finds itself well-positioned amidst this economic uncertainty due to its revenue composition. The non-profit sector revenue of 85% of total tends to be less sensitive to economic downturns. Blackbaud Management anticipates a **2-3% growth in the non-profit market,** providing a steady and consistent revenue stream. Conversely, the for-profit sector may be more susceptible to macroeconomic trends, but the sector presents substantial growth potential for the company.

Charter Schools and Private Schools: Opportunity for Growth

Blackbaud's recent focused move involved the acquisition of EVERFI, a company specializing in financial and corporate social responsibility educational programs for K-12 schools and corporations. This acquisition has allowed Blackbaud to penetrate the for-profit sector.

The company is well-positioned to **capitalize on the potential growth in charter and private schools.** Public charter schools make up a growing portion of public-school enrollment in many states, with enrollment increasing between 4%-7% between 2010 and 2021. Additionally, there is an observable trend of states expanding charter school initiatives, creating a fertile ground for Blackbaud's offerings. **This trend positively impacts revenues and cash flow.**

Global and Technological Trends: Shift to AI

The ongoing transition to cloud-based solutions stands out as one of the most prominent trends in the software industry. Blackbaud, recognizing this shift, has strategically integrated cloud software into its offerings. Collaborations with major cloud hosting partners such as Microsoft, AWS from Amazon, and Azure hosting have been instrumental in mitigating security and pricing structure risks.

Artificial Intelligence (AI) has emerged as an influential driver in the industry, contributing to enhanced software performance. Blackbaud has **actively embraced AI,** introducing AI-powered products like JustGiving and Impact Edge. JustGiving, leveraging generative AI, witnessed a remarkable 65% increase in funds raised. The beta version of Impact Edge aims to provide companies with a comprehensive view of their corporate social responsibility efforts.

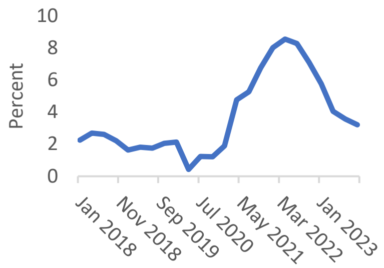
Despite these strides, Blackbaud faces challenges in navigating potential risks associated with AI, including investment costs, data usage, and accuracy. The delicate balance between innovation and aligning products with corporate values **remains a complex task.**

Regulatory Environment: Expanding

The **regulatory landscape** for the software industry is still in its infancy but is **rapidly expanding**. Regulations, which can change swiftly, often differ by country or even by state and municipality. Given the international accessibility of cloud-based software, compliance with regulations such as the General Data Protection Regulation (GDPR) is paramount for companies like Blackbaud. Regulations in the European Union have already influenced how companies handle privacy, even outside the EU's jurisdiction. Blackbaud must navigate general data privacy regulations, alongside heightened standards in the healthcare and education sectors it serves.

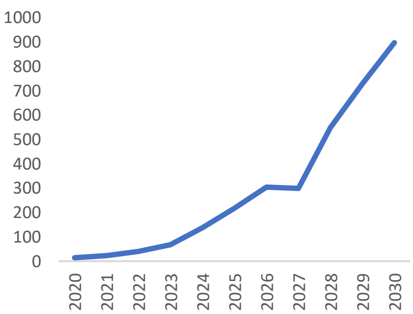
Competitive Analysis

Exhibit 16: Inflation



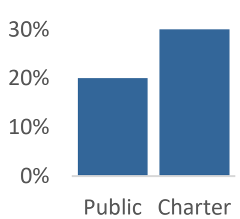
Source: FRED CPI Data; % change from last year

Exhibit 17: Generative AI Market Forecast (Billions)

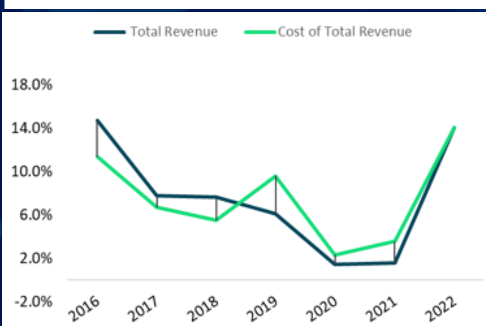


Source: Bloomberg

Exhibit 18: Online Classes Charter vs



Source: National Center for Education Statistics



Source: Team Consensus

One unique characteristic of the software publishing industry is its limited regulation, fostering an intensely competitive environment with relatively low barriers to entry. In contrast to the large business and home consumer markets, where Microsoft, Oracle, and IBM hold a near oligopoly, Blackbaud and other developers are **strategically targeting medium and small business for potential growth opportunities.**

Market Positioning

Blackbaud has carved out a niche for itself by offering Customer Relationship Management (CRM) solutions tailored to the non-profit sector, with a predominate emphasis on education and healthcare. In the education sector, Blackbaud **holds the 2nd position as the most popular alumni CRM in higher education.** This strategic positioning allows Blackbaud to deliver software that not only addresses social impact but also exhibits scalability and adaptability, meeting diverse client demands.

Few companies in the industry offer the comprehensive range of services and solutions that Blackbaud does. This unique positioning has earned Blackbaud recognition as an "All-star" by industry analysts, including IBIS World. Its dominance in the education sector is driven by the provision of purpose-built, integrated solutions, distinguishing it from competitors that often specialize in single-point solutions.

Competitive Landscape

Blackbaud faces **competition** in the CRM space, notably from large players like **Salesforce**, as well as more generalized solutions offered by Microsoft and Oracle. Salesforce excels in the general CRM space, but it lacks specialized solutions for the non-profit sector, creating **considerable barriers to entry** into that market.

As Blackbaud expands into the for-profit space, it may encounter heightened competition. However, with its recent acquisition of EVERFI and a commitment to leveraging its non-profit educational experience, Blackbaud is poised to offer highly competitive solutions.

Customer Base and Retention

Blackbaud's approach to customer retention centers around the **modernization of its pricing strategy and contract structure**. Given the scarcity of companies offering a full suite of software tailored for the non-profit sector, Blackbaud has significant room for pricing increases. The focus on multi-year contracts, extending the standard renewal period from one to three years, aims to improve the retention ratio by fostering longer-term client relationships. This shift has been positively received, indicating clients' willingness to engage with Blackbaud over extended periods. Beyond securing a **more stable revenue stream,** the strategy reflects clients' trust and satisfaction with the company's services.

Remote Work

In response to the paradigm shift towards remote work triggered by the 2020 pandemic, Blackbaud has fully embraced a remote-first work culture. This transition, accommodating over 3,000 remote employees, aligns well with the nature of a software company. Remote work not only allows for increased flexibility but also expands the talent pool to include individuals across the country, enhancing access to highly trained employees. The shift to remote work has contributed to **reduced office expenses** and aligns with Blackbaud's cost management strategy. It reflects an understanding of the changing dynamics of the modern workforce and positions the company to thrive in a more flexible and dynamic work environment.

FINANCIAL ANALYSIS

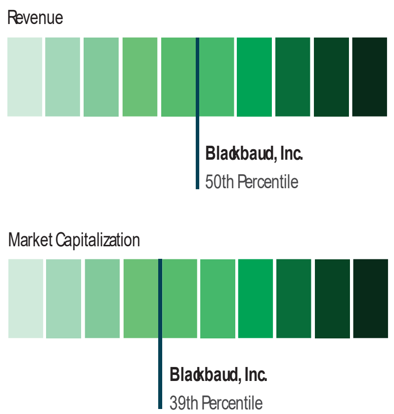
Revenue Growth

We anticipate a steady growth in total revenue, projecting a consistent CAGR of 8.1% over the next five years. This growth trajectory is influenced and underpinned by strategic acquisitions and the implementation of 3-year contracts, supplemented by transactional revenue streams and changed revenue composition.

Recurring revenue has accounted for over 90% of the total revenue, comprising of both transactional and contractual revenue. Going forward, contractual revenue is expected to experience lower levels of double-digit growth through the transition towards a model emphasizing 3-year contracts. This shift towards multi-year contracts not only fosters higher client retention rates but also enhances revenue visibility (see *Customer Base and Retention).*

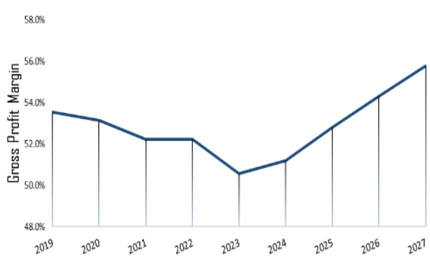
It is noteworthy that a majority, over 90%, of clients with contracts up for renewal in 2023 have opted for the 3-year contractual arrangement. This choice among the client base contributes to a heightened level of predictability and security within revenue visibility. Additionally, Blackbaud has implemented new pricing initiatives and built annual price escalations into contracts, further fortifying the revenue structure. The primary factor with the potential to impede contractual revenue growth at Blackbaud's estimated rate is the FTC Order Compliance. The aftermath of the data breach, coupled with Blackbaud's perceived mishandling of the incident**, may act as a deterrent for the acquisition of a new customer base**. Regarding transactional revenue, which is historically profitable, it has consistently constituted 29% of total revenue, playing a pivotal role in driving year-over-year revenue growth. Meanwhile, **one-time services, currently accounting for 3% of total revenue, are projected to decrease to 1.15% over the next five years.** This adjustment stems from an initiative to transition existing clientele towards cloud-based subscription models and outsourcing certain services.

Exhibit 19: Peer Executive



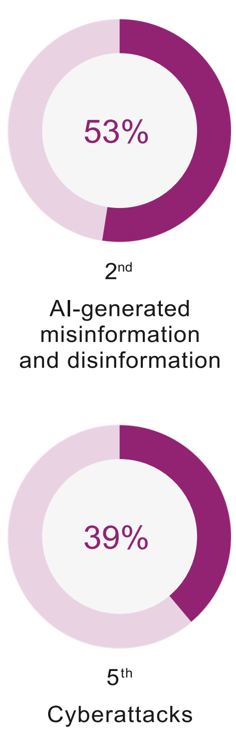
Source: 2023 Proxy Statements

Exhibit 20: Gross Marginal History and Forecast



Source: Team Consensus

Exhibit 21: WEF Global Risks Rankings



Source: World Economic Forum Global Risks Perception Survey 2023-2024.

Margins

The gross margin will remain consistent, staying in the lower half. Both gross profit and revenue are projected to increase at similar rates, keeping that margin steady through the foreseeable future.

The erosion of EBITDA margins is rooted in the phenomenon of EBITDA expansion trailing behind revenue growth, primarily stemming from an uptick in operating costs. However, the recent delibrate move to shutter offices and data centers in favor of embracing a remote-first workplace model, as outlined in the competitive analysis, is anticipated to be a mitigating force against further cost escalation. Consequently, we foresee a moderation in the pace of operating cost growth. This tactical shift underscores a commitment to operational efficiency and is **poised to positively influence EBITDA margins moving forward.**

Liquidity

Principle sources of liquidity are from operating cash flow, funds from the 2020 credit facility, and cash & cash equivalents on hand The current ratio for BLKB has consistently ranged between 0.74 and 0.8x since 2016, with a projected continuation at 0.76x. In comparison, SalesForce reported a current ratio of 1.04x as of Q3 2023, and Intuit achieved a current ratio of 1.24x during the same period. Notably, BLKB's persistent current ratio below one and its lagging position compared to industry competitors suggest a lower level of liquidity.

Despite the lower current ratio, it is essential to recognize that the credit facility discussed subsequently serves as a risk mitigation measure, addressing concerns associated with an imbalance between current liabilities and assets. While BLKB's liquidity position is not optimal in comparison to industry peers, the credit facility enhances its risk management capabilities.. The company's **liquidity position may benefit from a closer examination and potential adjustments to align more closely with industry benchmarks.**

Financing & Leverage

The target leverage for Blackbaud is set at 2.0x. At the close of 2022, the net leverage ratio was 3.22 to 1.00, exceeding the intended target. Decisive actions were taken to lower leverage, aligning it with the 2.0x target by end-2023. This aims to maintain financial flexibility for potential acquisitions and uphold a high share price. The leverage ratios can experience fluctuations, particularly in the context of mergers and acquisitions, especially substantial ones. The acquisition of EVERFI notably contributed to an increase in leverage, as did the security incident, both necessitating the assumption of additional debt. Improvement is expected, as the forecast indicates a substantial increase in free cash flow through 2028. **This growth is expected to counterbalance the previous impacts of acquiring additional debt for strategic acquisitions, thereby providing a cushion to the leverage ratio.**

Credit Facility and Debt: Blackbaud experienced volatility with their debt and moreover their net debt/EBITDA ratio through 21-22. Net debt/EBITDA is forecasted to rise to 8.5x (FY23E) and decrease by an average rate of 16% thereafter. In late 2020, Blackbaud entered into a 5-year $900 million Credit Agreement. At the end of 2022, the carrying amount of that credit facility was $799.1 million.

Looking ahead, the company anticipates a gradual increase in long-term debt, driven by potential acquisitions. Factoring in trends, our forecast indicates an average annualized increase of approximately 4%. This tactical use of debt aligns with Blackbaud's growth strategy and reflects a prudent approach to funding future acquisitions. Alongside this, **the debt/equity margin is set to decrease year-over-year,** in 2022 it sat at 1.15x but will trend downward to 0.82x by 2028. Indicates much higher shareholders' equity as compared to debt, considering debt is going to grow.

Investing

Capital expenditures will experience growth (7.7%) relative to revenue's growth rate (8.1%) with software and content development costs rising being the largest attributing factor to capex rising. Since 2017, software and content development costs have risen at an average rate of 16%. Purchase of PP&E is not expected to rise but rather stay constant with the turn towards a remote-first workplace. The company consistently evaluates opportunities to optimize its capital structure through potential debt or equity issuances, demonstrating a proactive approach.

Acquisitions: Blackbaud's history includes a delibrate focus on acquisitions to broaden its total addressable market and diversify its product line. The acquisition of EVERFI for approximately $750 million stands out. This doubles Blackbaud's total addressable market and facilitates entry into the Corporate Social Responsibility (CSR) and Environmental, Social, and Governance (ESG) market, where it now holds a little under 5% revenue penetration. The sector itself is not anticipated to witness substantial growth within its customer base. **Both the non-profit and private education segments are expected to exhibit limited expansion, characterizing a mature market with constrained growth prospects.**

Looking ahead, Blackbaud is **shifting its acquisition strategy to focus on vertical growth within the corporate sector** and steering away from a more broad horizontal integration. Evident through their divesture to NPACT of two Blackbaud products for a price of $6.4 million.

Shares Repurchase Plan

Following the cessation of regular recurring dividends due to the COVID-19 pandemic and the security incident, the company enhanced its buyback commitment to $250 million. In early 2024, Blackbaud announced a $500 million share repurchase plan, complementing the preceding $250 million initiative. The augmented free cash flow arrangement has repositioned Blackbaud in the buyback market. As of the recent week, approximately $499.4 million in funds, constituting about 11% of Blackbaud's total market capitalization of $4.5 billion, remains available for utilization under the stock buyback program. Notably, amendments to the rules of the credit facility stipulate a net leverage ratio of 3.75:1.00 or less for fiscal quarters ending March 31, 2024, and thereafter, specifically pertaining to stock repurchases.

This initiative is closely tied to Blackbaud's robust cash flow generation, aimed at increasing shareholder value, and bolstering the share price. The rationale behind this decision is based on the anticipation that, in the future, should the stock experience undervaluation, the company will consider implementing buybacks. **This measured approach aligns with the objective of avoiding the undue overpricing of the company's stock, ensuring prudent use of financial resources. The emphasis lies on maintaining a balance, wherein buybacks are employed to align with market conditions and optimize shareholder value.**

DuPont Analysis

Upon analyzing Blackbaud's DuPont Pyramid composition, it is evident that ROE and net profit margins are poised to return to pre-COVID normalcy soon. Return on Equity (ROE) has faced substantial challenges from 2019 to 2022, plummeting from 12.0% (FY18) to –6.1% (FY22) in a span of four years. This decline can be attributed to the impact of COVID-19, larger leverage due to the acquisition of EVERFI in 2021, and a security incident in 2020. Notably, Blackbaud has addressed these challenges by making large payments associated with the security incident, including a $250,000 ransom payment, $3 million in fines from the SEC, and $49.5 million pending in contingent liabilities for a multi-state settlement. Yet a new FTC Compliance Order issued on February 1st, 2024 showed that Blackbaud mishandled the security incident and may be under pressure even after settling litigation matters.

A similar trajectory is reflected in the net profit and EBIT margins. While both cost of revenue and total revenue experienced growth from 2019 to 2021, the former surpassed the latter by a significant margin relative to the year. Even during the challenging year of 2020, total revenue managed to grow only by 1.4%, highlighting the company's resilience in the face of security issues and the COVID-19 pandemic. The stagnation in revenue growth during this period, attributable to these challenges, played a pivotal role in the temporary downturn of ROE over the years.

With a substantial portion of the litigation resolved, coupled with the positive contributions from new acquisitions, Blackbaud is strategically positioned to overcome the hindrances posed by COVID-19. The ROE is anticipated to recover to average rates of 16.0% (FY2015-FY2018) by 2026. **The company's commitment to value creation is reinforced by new acquisitions to augment their vertical integrative strategy, a $500 million share repurchase plan for buybacks, and a revenue growth forecast that surpasses the growth in the cost of revenue.**

VALUATION

Recommendation: Sell BLKB Shares

Target Price: $64.27 for the next 12 months, representing a 19.26% decrease from its closing price of $80.34 as of February 2nd, 2024.

Our recommendation is based on a discounted cash flow (DCF) model and relative valuation, backed by sensitivity analyses. Our DCF model indicates a price of $62.37 per share. The multiple valuation model based on EV/EBITDA yields $66.17 per share. Using weights of 50% for the DCF and 50% for the relative valuation, we obtain a target price of $64.27.

Discounted Cash Flow (DCF)

We use the DCF model to derive the intrinsic value of BLKB based on predicted future cash flows. Given BLKB's established market presence, we utilize a five-year forecast period spanning from 2024 through 2028. Our Free Cash Flow to Firm (FCFF) DCF analysis yields a **share price estimate of $62.4, marking a 22.31% decrease from the current price.**

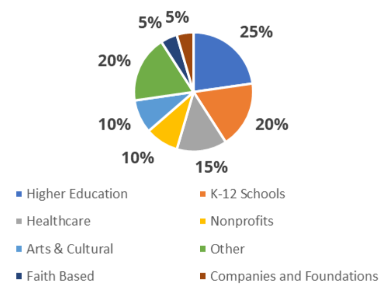
The DCF valuation reflects an upward trajectory for EBIT, growing from $105,032,000 in 2024 to $233,206,000 by 2028. Incorporating D&A and CapEx along with adjustments for changes in NWC, our inputs assume an FCFF growing from $151,697,000 in 2024 to $269,730,000 in 2028. A key component of our valuation is the terminal value of $5,051,607,000, calculated using a perpetuity growth method, for which we assume a terminal growth rate of 3% to align with anticipated GDP growth and BLKB's industry position.

In our calculations, we determine a Weighted Average Cost of Capital (WACC) of 8.5%.% (See exhibit 24) The risk-free rate is derived using the 10-year monthly average of US Treasury bond rates over the past 10 years, while beta is established through a linear regression analysis, assessing BLKB's adjusted stock returns against the S&P 500 from 2019 to 2023. To compute the cost of debt, we consider a weighted average of the effective interest rates for BLKB's debt as reported in the most recent 10-Q statement**. Based on Blackbaud's amount of debt and their market cap we derive the percentage of equity to be 83.96% and 16.04% of debt. Cost of equity is estimated at 9.46%.**

Relative Valuation

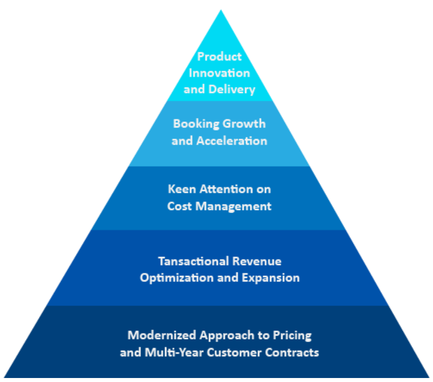
The selection of comparable companies presents a unique challenge due to Blackbaud's specialized service offerings. Blackbaud engages in sectors such as corporate social responsibility, fundraising, payment services, financial management, and organizational management while other companies in the software publishing

Exhibit 22: Revenue by Market



Source: Blackbaud 2020 Earnings Call Q4

Exhibit 2223: 5-Point Financial Initiatives



Source: Blackbaud Management Presentation

Exhibit 24: WACC

Weighted Average Cost of Capital		
Equity and Debt		
Equity (Market Cap)	$	4,326,309.00
Debt	$	826,453.00
Total	**$**	**5,152,762.00**
Weight		
% of Equity		83.96%
% of Debt		16.04%
Total		**100%**
Cost of Equity		
Risk free rate		2.32%
Beta		1.09
Equity Market Risk Premium		6.6%
Cost of Equity		**9.46%**
Cost of Debt		
Cost of Debt (pre-tax)		**4.29%**
Corporate Tax Rate		
Corporate Tax Rate		**20%**
Discount Rate (WACC)		**8.50%**

Source: Blackbaud Management Presentation industry typically offer more narrow service solutions or are privately held. This distinctive market position presents challenges for a straightforward comparison.

To approximate Blackbaud's wide variety of software offerings, we select a group of public companies that, while not exact matches, mirror Blackbaud's diversity in products and market presence. This group includes industry giants like Salesforce and Oracle, as well as other public software entities such as Intuit Inc, ZoomInfo, Intapp Inc, Atlassian, and PowerSchool Holdings which has a similar focus on non-profit (See exhibit. While companies such as Salesforce and Oracle are included to provide a spectrum of comparable companies, it is important to note that their dramatically larger revenues can skew comparative metrics such as EV/Revenue and Price/Sales. **Our valuation method using the EV/EBITDA multiple yields an implied share price of $66.17 which is in close agreement with the $62.37 figure obtained from our DCF model and represents a 17.65% decrease in the current price.**

Exhibit 25: Relative Evaluation

Statistical Distribution	Multiples
High	53.4x
75th Percentile	39.7x
Average	**-12.7x**
Median	**29.6x**
25th Percentile	-8.5x
Low	-234.3x

Blackbaud Valuation	EV/EBITDA
Implied Enterprise Value	4,390,679
Net Debt	827,352
Implied Market Value	3,563,327
Shares Outstanding	53,853
Implied Value Per Share	**66.17**

Source: Team Consensus

Sensitivity Analysis

This analysis assesses the impact of variations in WACC, EBIT, and terminal growth rate on the target share price.

2. 1 Earnings before interest within the Context of Blackbaud's Legal Challenges

We project an average annual EBIT growth rate of approximately 20.81%, increasing from $90.838 million in 2023 to $233.206 million in 2028. This growth trajectory is essential for our valuation, especially considering the uncertainties posed by the legal situation. Our sensitivity analysis, which considers varying levels of WACC and EBIT growth rates, indicates that all potential outcomes fall below Blackbaud's current market price of $80.34. The highest share price derived is $72.59, at a WACC of 7% and an EBIT growth rate of 23%, which is still below the current trading price. **Considering our current WACC estimate of 8.5%, the current price implies an EBIT growth rate of 29%, which seems overly optimistic.**

Sensitivity analysis

WACC	Earnings Before Interest Growth Rate: 17.0%	18.0%	19.0%	20.0%	20.81%	21.0%	22.0%	23.0%
7.0%	$ 59.81	$ 61.77	$ 63.79	$ 65.89	$ 67.64	$ 68.05	$ 70.28	$ 72.59
7.5%	$ 58.22	$ 60.13	$ 62.12	$ 64.16	$ 65.87	$ 66.27	$ 68.46	$ 70.71
8.0%	$ 56.67	$ 58.54	$ 60.48	$ 62.47	$ 64.15	$ 64.54	$ 66.68	$ 68.88
8.5%	$ 55.15	$ 56.99	$ 58.88	$ 60.84	$ 62.37	$ 62.86	$ 64.94	$ 67.09
9.0%	$ 53.69	$ 55.48	$ 57.33	$ 59.24	$ 60.84	$ 61.22	$ 63.26	$ 65.36
9.5%	$ 52.26	$ 54.01	$ 55.82	$ 57.69	$ 59.25	$ 59.62	$ 61.62	$ 63.68
10.0%	$ 50.86	$ 52.58	$ 54.35	$ 56.17	$ 57.70	$ 58.07	$ 60.02	$ 62.03
10.5%	$ 49.51	$ 51.18	$ 52.92	$ 54.70	$ 56.20	$ 56.55	$ 58.46	$ 60.43

Scenario 1: **Consequences of guilty verdicts**

If the court rules against Blackbaud (See Risk L1, L2, L3 in the Investment Risks section), the company may face substantial expenditures related to cybersecurity enhancements, forensic investigations, and future breach prevention. Furthermore, reputational damage could lead to the loss of customers and business partners, negatively impacting revenue. **In this scenario, our sensitivity analysis shows a share price that could drop to $55.15 given our assumed WACC of 8.5%.**

Scenario 2: **Consequences of innocent verdicts**

If BLKB is found not guilty, we expect a resurgence of customer confidence that could lead to an increase in sales and customer loyalty, positively influencing gross profit and revenue. Additionally, the company may save on legal expenses, which could have been substantial. However, even with these positive developments, the **highest projected share price based on our WACC estimate is $71.62, suggesting a downside of 10.7% compared to the current share price.**

2.2 Terminal Growth Rate Sensitivity and Its Strategic Implications

Sensitivity

Weighted Average Cost of Capital	Terminal Growth rate: 62.38	2%	2.2%	2.4%	2.6%	2.8%	3.0%	3.2%	3.4%	3.6%	3.8%	4.0%
	10%	$ 47.92	$ 49.56	$ 51.31	$ 53.17	$ 55.17	$ 57.31	$ 59.62	$ 62.10	$ 64.79	$ 67.70	$ 70.88
	9.9%	$ 48.45	$ 50.10	$ 51.86	$ 53.75	$ 55.76	$ 57.92	$ 60.25	$ 62.75	$ 65.47	$ 68.41	$ 71.61
	9.7%	$ 48.97	$ 50.64	$ 52.42	$ 54.32	$ 56.36	$ 58.54	$ 60.88	$ 63.41	$ 66.15	$ 69.12	$ 72.35
	9.5%	$ 49.51	$ 51.20	$ 52.99	$ 54.91	$ 56.96	$ 59.16	$ 61.53	$ 64.08	$ 66.84	$ 69.84	$ 73.10
	9.3%	$ 50.05	$ 51.75	$ 53.56	$ 55.50	$ 57.57	$ 59.79	$ 62.18	$ 64.76	$ 67.54	$ 70.57	$ 73.86
	9.1%	$ 50.60	$ 52.31	$ 54.14	$ 56.10	$ 58.19	$ 60.43	$ 62.84	$ 65.44	$ 68.25	$ 71.30	$ 74.63
	8.9%	$ 51.15	$ 52.88	$ 54.73	$ 56.70	$ 58.81	$ 61.07	$ 63.50	$ 66.13	$ 68.97	$ 72.05	$ 75.40
	8.7%	$ 51.71	$ 53.46	$ 55.32	$ 57.31	$ 59.44	$ 61.72	$ 64.18	$ 66.83	$ 69.69	$ 72.80	$ 76.18
	8.5%	$ 52.27	$ 54.04	$ 55.92	$ 57.92	$ 60.07	$ 62.38	$ 64.86	$ 67.53	$ 70.42	$ 73.56	$ 76.97
	8.3%	$ 52.84	$ 54.62	$ 56.52	$ 58.55	$ 60.72	$ 63.04	$ 65.54	$ 68.24	$ 71.16	$ 74.33	$ 77.77
	8.1%	$ 53.42	$ 55.22	$ 57.13	$ 59.18	$ 61.37	$ 63.71	$ 66.24	$ 68.96	$ 71.91	$ 75.10	$ 78.58
	7.9%	$ 54.00	$ 55.82	$ 57.75	$ 59.81	$ 62.02	$ 64.39	$ 66.94	$ 69.69	$ 72.66	$ 75.89	$ 79.40
	7.7%	$ 54.59	$ 56.42	$ 58.37	$ 60.46	$ 62.69	$ 65.08	$ 67.65	$ 70.43	$ 73.43	$ 76.68	$ 80.23
	7.5%	$ 55.19	$ 57.04	$ 59.01	$ 61.11	$ 63.36	$ 65.77	$ 68.37	$ 71.17	$ 74.20	$ 77.48	$ 81.06
	7.3%	$ 55.79	$ 57.66	$ 59.64	$ 61.77	$ 64.04	$ 66.47	$ 69.09	$ 71.92	$ 74.98	$ 78.29	$ 81.91
	7.1%	$ 56.40	$ 58.28	$ 60.29	$ 62.43	$ 64.72	$ 67.18	$ 69.83	$ 72.68	$ 75.77	$ 79.11	$ 82.76

The terminal growth rate represents the company's long-term growth prospects after our explicit forecast period. We use terminal growth rates ranging from 2% to 4%, reflecting varying degrees of economic optimism and Blackbaud's potential performance within its industry.

- Our analysis reveals that the valuation would only suggest a 'buy' recommendation if the terminal growth rate reaches an optimistic 4%, yielding a share price of $81.06.
- However, for Blackbaud to attain a 4% terminal growth rate, several factors would need to align favorably. Blackbaud would need to solidify its market leadership by continuously innovating and capturing a greater market share within a sector that is dominated by big companies like Salesforce and Oracle.
- The company could successfully expand into new markets or sectors by continuing their acquisition policy but would need to ensure continued improvements in operational efficiency and profitability to support higher valuation multiples over the long term.

Each of these factors carries its own set of challenges and uncertainties and developing sustainable competitive advantages in a technology-driven industry is an ongoing battle against outdatedness. **Achieving a 4% terminal growth rate, while possible, is an optimistic scenario that warrants caution. In the absence of such growth, the current market valuation is overstretched.**

INVESTMENT RISKS

[M1] Market Risks | Highly Competitive Markets

The software market is highly competitive as a result of the limited regulations, rapid prototyping of new ideas, and abundant funding opportunities. Blackbaud faces competition on two fronts: Direct competitors and Indirect Competitors. Direct competitors like Ellucian target the same demographic as Blackbaud and build software solutions that directly compete. Blackbaud has performed well in this segment steadily gaining market share in the educating non-profit sector particularly. Indirect competitors, like Microsoft and Salesforce present a challenge as they are not targeting the same demographic but may discover new technology or better solutions while targeting other demographics that allows them to break into Blackbaud's customer base. Potential Indirect competitors are numerous, preventing any attempt to prepare for or predict these threats.

Mitigant: Blackbaud has developed a **strong brand and garnered significant goodwill** which allows it to set itself apart in the non-profit space. Solutions are tailored for medium and small non-profits, allowing Blackbaud to avoid competing directly with the most dominant software solutions such as Microsoft and Salesforce.

[F1] Firm Risk | Integration of AI to Deliver Better Experiences

Blackbaud's strategic integration of AI into Impact Edge, aimed at expediting data processing for social impact initiatives, presents a pivotal move in the organization's evolution. While AI's potential to streamline operations is considerable, it raises concerns related to transparency and accountability, impacting Blackbaud's relationships with non-profit partners and shareholders.raises concerns related to transparency and accountability, impacting Blackbaud's relationships with non-profit partners and shareholders.

The innovative nature of AI introduces a layer of uncertainty, especially considering that best practices in the field are still evolving, and comprehensive research remains somewhat limited. This uncertainty is further compounded by the inherent complexity of Blackbaud's customer relationship management solutions (CRM), characterized by intricate data structures and goals that are challenging to quantify.

The rapid deployment of AI introduces risks to Blackbaud's business integrity, given the sensitive information it holds on behalf of the non-profits it serves. There are legitimate concerns about data security and confidentiality, with the potential for inaccurate records or false filings, exposing Blackbaud to legal and financial repercussions. One of the central challenges is the insufficient understanding of how and why AI may produce false data, complicating efforts to rectify such behavior.

Mitigant: In response to these challenges, Blackbaud has implemented a proactive approach by beta-testing the AI software with a select group of customers. This iterative process allows for the gathering of regular feedback, ensuring the reliability and accuracy of AI before it undergoes mainstream integration. This approach not only underscores Blackbaud's commitment to technological responsibility but also **fosters resilient relationships with clients.**

[F2] Firm Risk | Large Proportion of Transactional Revenue

As the software as a service industry has evolved, there has been a shift from one-time payments and transactional revenue to a recurring subscription model. This shift allows for more predictable payments and finances the support, updates, and maintenance, that Blackbaud's customers have come to expect. Unfortunately, 29% of Blackbaud's revenue is still transactional which presents a major risk for variability. Additionally, it is more difficult to build long term relationships with a transactional model, as the customer has to make a large bulk payment periodically, which encourages them to seek alternatives such as Ellucian or even more general CRM systems such as Salesforce.

Mitigant: Blackbaud has developed a strong 3-year recurring revenue model that they continue to roll out to their customers. As one-time services decline it is likely Blackbaud will transition more of its transactional revenue onto the **recurring revenue model.**

[L1] Legal Risk | Potential Copyright Infringement

Exhibit 22: Security Incident Expenses

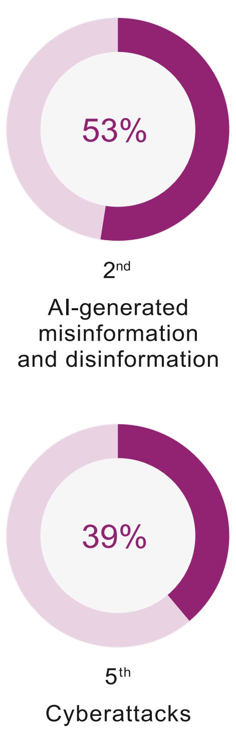
Dollars in Thousands	31-Dec-20	31-Dec-21	31-Dec-22
Gross expense	9830	40561	57614
offsetting insurance recoveries	9364	-38745	-1891
Net Expense	**19194**	**1816**	**55723**
Percentage of Revenue	**2%**	**0%**	**6%**

Source: Blackbaud 2023 10K

Exhibit 23: Porter's Five Forces

Source: Team Consensus

Exhibit 24: WEF Global Risks Rankings



Source: World Economic Forum Global Risks Perception Survey 2023-2024.

Blackbaud's legal landscape is marked by potential copyright infringement challenges, as evidenced by past lawsuits alleging that their software infringes upon the intellectual property of third parties. These legal claims, whether meritorious or not, could impose substantial expenses and inflict reputational damage, potentially hindering other critical business priorities.

In the event of a legal claim, competitors could exploit any negative outcome to emphasize their own compliance, thus bolstering their relationships with customers and vendors at Blackbaud's expense. If legal rulings go against Blackbaud, the company may face significant financial implications, including the possibility of hefty fines, mandatory licensing agreements, or even the necessity to discontinue the use of certain technologies.

Blackbaud's assurance to customers, promising compensation against third-party infringement claims related to its technology, introduces an additional layer of financial risk. Moreover, the international nature of Blackbaud's operations, representing 15% of their revenue in the U.K., Canada, Australia, and Costa Rica, exposes the company to a complex web of national statutes, EU regulations, and various trade agreements.

Mitigant 1: Blackbaud addresses these risks by being **highly selective in choosing vendors,** conducting rigorous due diligence to ensure that their intellectual property does not infringe on others.

Mitigant 2: The legal team at Blackbaud is **proactively engaged in risk management,** conducting comprehensive checks for potential intellectual property infringement both within the organization and among external vendors.

[L2] Legal Risk | Cyber security Incident

Blackbaud's role as a custodian of confidential donor, user, and transaction data, including sensitive information such as payment details and social security numbers, makes it an attractive target for cyber-attacks. In 2020, such an attack occurred, attackers stole sensitive data to include bank accounts and social security numbers and ransomed it back to Blackbaud. Blackbaud acquiesced to the ransom but did not ensure that the attackers return the data. Since the incident, Blackbaud has settled allegations from 49 states and the district of Columbia through a $50 million settlement. As of As of December 2022, Blackbaud was still a defendant in 19 putative class action cases (17 in the U.S. and 2 in Canada), with potential for additional lawsuits in the future.

The international nature of Blackbaud's operations introduces complexities in dealing with security incidents. This exposure may lead to foreign sanctions, fines, and legal penalties that may require specialized expertise to navigate, as opposed to domestic court proceedings. Blackbaud is currently subject to pending governmental investigations by the FTC, U.S. Department of Health and Human Services, the SEC, the Office for the Australian Information Commissioner, and the Office of the Privacy Commissioner of Canada.

Beyond the purely legal risks, the allegations resulting from these incidents suggest that Blackbaud may have inadequate reporting procedures, potentially exposing them to future SEC fines in the event of a similar security incident. As of December 31, 2022, Blackbaud estimates aggregate liabilities from this security incident to be approximately $23 million. Some government authorities are seeking to impose injunctive relief, consent decrees, undertakings, or penalties, which could further increase Blackbaud's

Militant: To mitigate cybersecurity and legal risks, Blackbaud has expanded its cybersecurity team since January 2020, increasing headcount by 154%. This dedicated team conducts regular assessments to ensure compliance with industry standards, including HIPAA, and works in tandem with legal counsel to proactively navigate evolving data privacy regulations, reinforcing Blackbaud's **commitment to robust security measures and legal compliance.**

[L3] Legal Risk | FTC Order Compliance

As of February 1, 2024, a three-judge panel for the FTC unanimously issued an order against Blackbaud for what they claimed was a series for unfair and deceptive security practices. The proposed order has 12 provisions and requires Blackbaud to cease misrepresenting their security situation, delete unnecessary data, mandate best practices such as multi-factor authentication, obtain third party assessments, and provide prompt notification of security incidents, among other stipulations. Shareholders should be concerned that Blackbaud's deception and misrepresentations kept shareholders in the dark and prevented shareholders form taking appropriate steps to mitigate this risk. The reputational damage will reduce their goodwill, their largest asset, impeding their ability to compete in the non-profit sector as customers and investors alike continue to lose confidence in Blackbaud.

Blackbaud should have voluntarily engaged in most of the practices the order now requires as part of good prudence to protect against cyber-attacks. Their refusal to act and their deception, presumably intended to limit security costs, contributed to the 2020 cyber-attack that has already cost the company more than $50 million and those costs will continue to rise as Blackbaud is forced to comply with this FTC order. Investors may wonder if the current leadership is willing or capable of responding proactively to prevent such incidents in the future. It is all too likely that compliance with best practices will slip the minute it is not mandated by law which could come back to hurt shareholders.

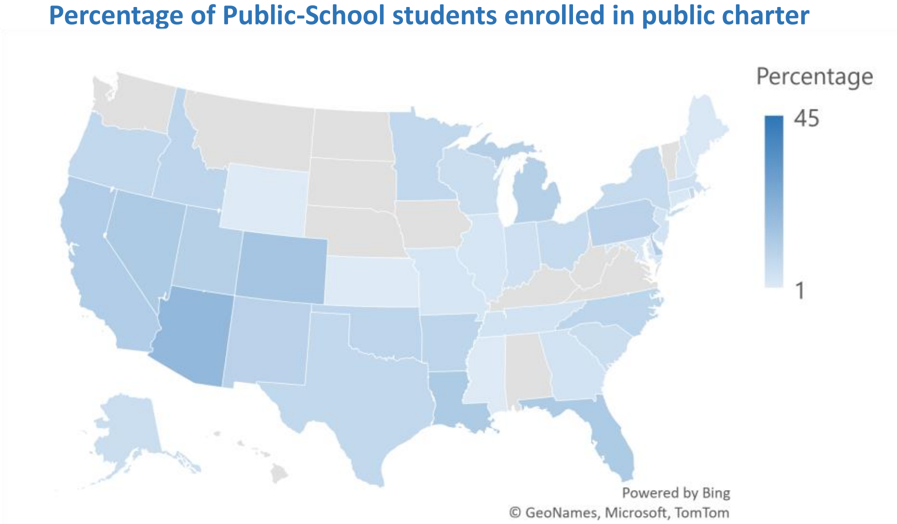
Mitigant: Blackbaud will employ the **FTC's best practices**.

APPENDIX MAP

1. Industry Dirver
2. Recent Major Acquisitions
3. ROE and Net Profit Margin
4. Macroeconomic Indicators
5. Blackbaud Solutions and Services
6. SWOT
7. Gross Margin History and Forecast
8. Forecasted EBTDA Margins
9. Year-Over-Year Revenue Growth Rate and Cost of Revenue
10. Five-Point Financial Initiatives
11. Porters 5 Forces
12. Relative Valuation
13. Income Statement
14. Common Size Income Statement
15. Balance Sheet
16. Common Size Balance Sheet
17. Cash Flows
18. Assumptions
19. Key Financial Ratios
20. Annotated Share Price History
21. Leadership in Corporate Responsibility
22. Full DCF Model
23. Executive Committee
24. Board of Directors
25. Board of Directors by Expertise

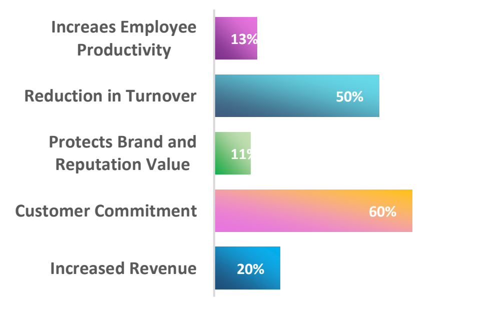
APPENDIX 1: Industry Drivers

Percentage of Public-School students enrolled in public charter



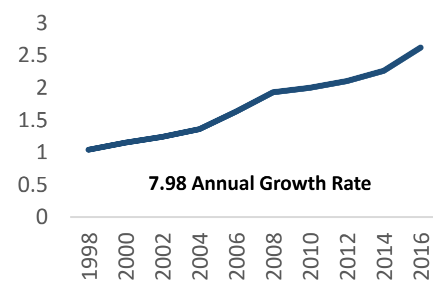
Source: National Center for Education Statistics

Corporate Responsibility Generates Strong ROI, Increasing Demand



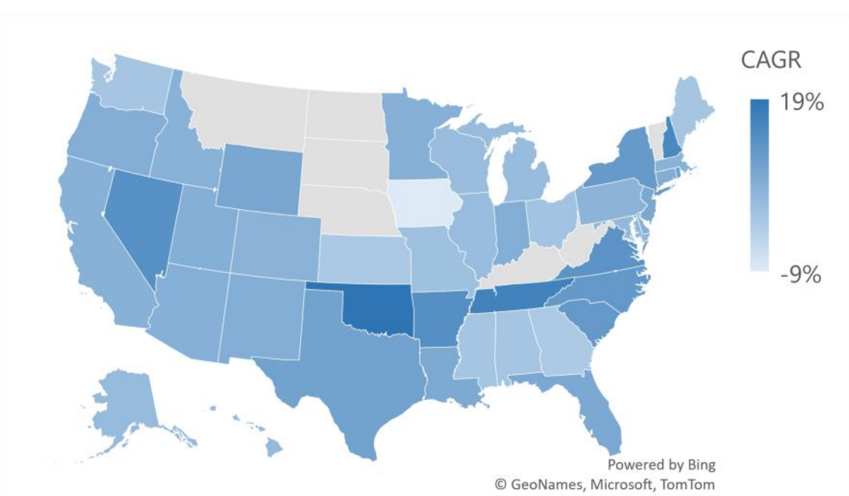
SHRM Project ROI 2015

Non-Profit Revenue Growth



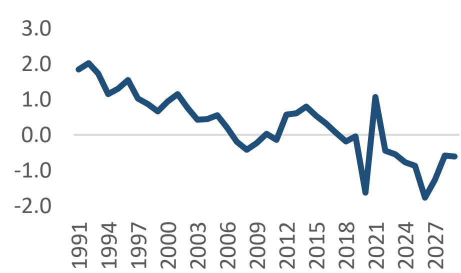
Zippia Non-Profit Statistics

Charter School Enrollment CAGR



Public Charter Schools Organization

K-12 Students Projected Growth



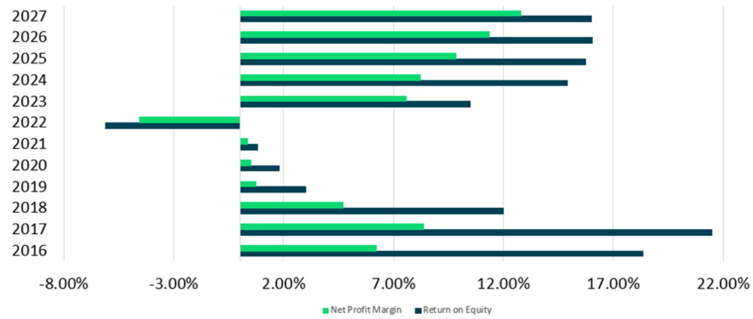
IBIS World

APPENDIX 2: Recent Major Acquisitions

Source: 2022 Q1 Earnings Presentation

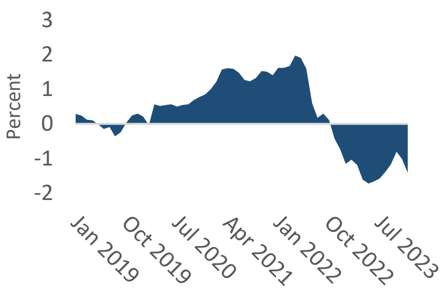
Source: Team Consensus

APPENDIX 3: ROE and Net Profit Margin



APPENDIX 4: Macroeconomic Indicators

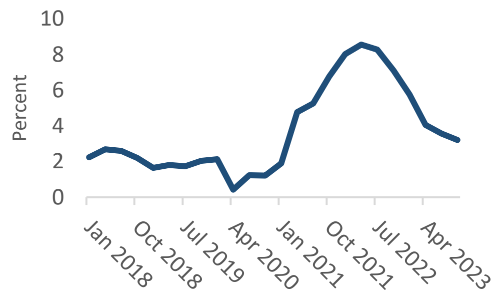
10-Year Treasury Constant Maturity Minus 3-Month



Source: FRED, Federal Reserve Bank of St. Louis

Inflation

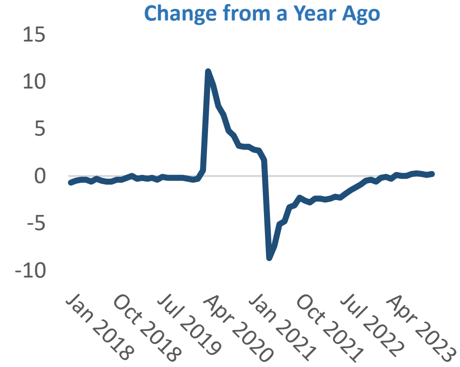
Average Percent Change from a Year Ago



Source: FRED, Federal Reserve Bank of St. Louis

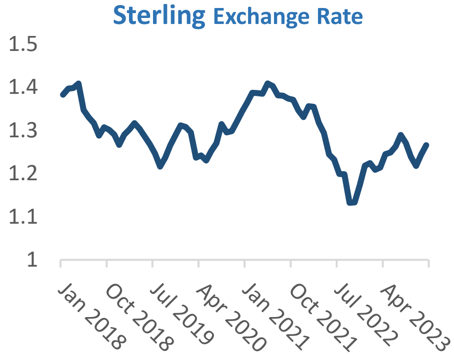
Unemployment Rate

Change from a Year Ago



Source: FRED, Federal Reserve Bank of St. Louis

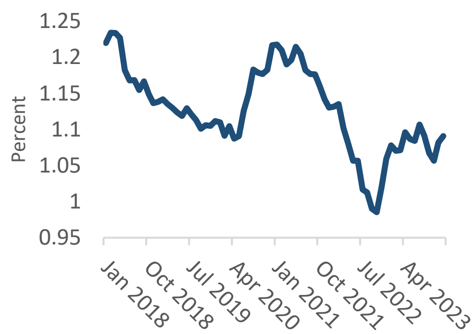
U.S. Dollars to U.K. Pound Sterling Exchange Rate



Source: FRED, Federal Reserve Bank of St. Louis

U.S. Dollars to Euro

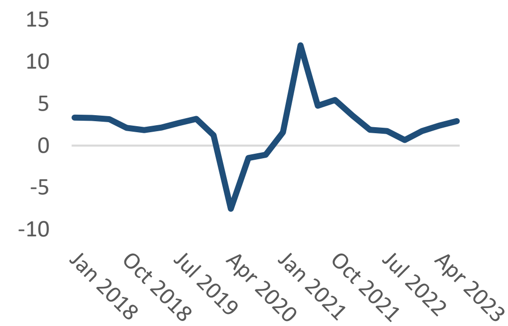
Exchange Rate



Source: FRED, Federal Reserve Bank of St. Louis

Real Gross Domestic Product

Average Percent Change from a Year Ago

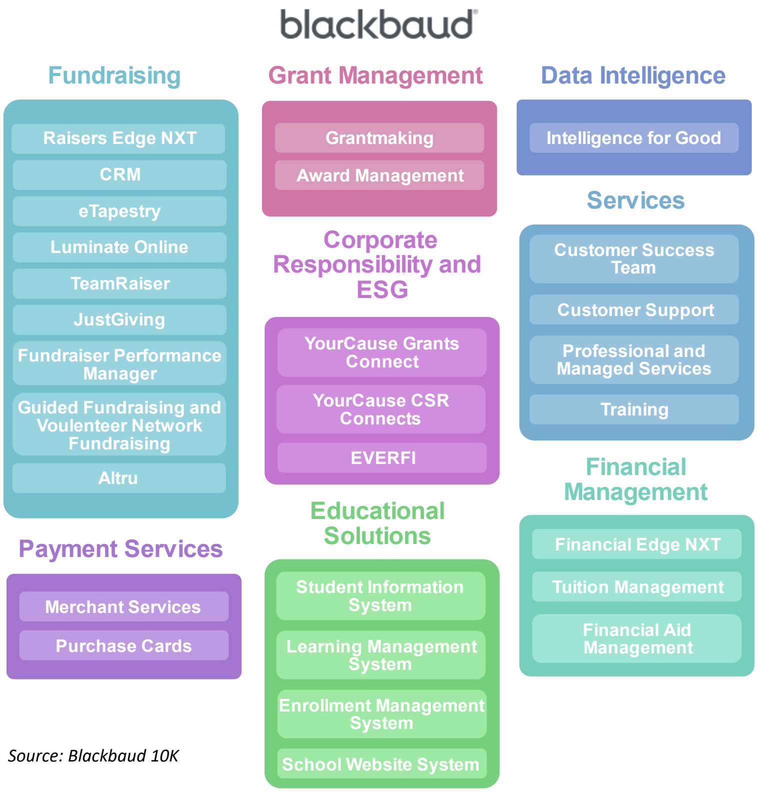


Source: FRED, Federal Reserve Bank of St. Louis

Macroeconomic Analysis

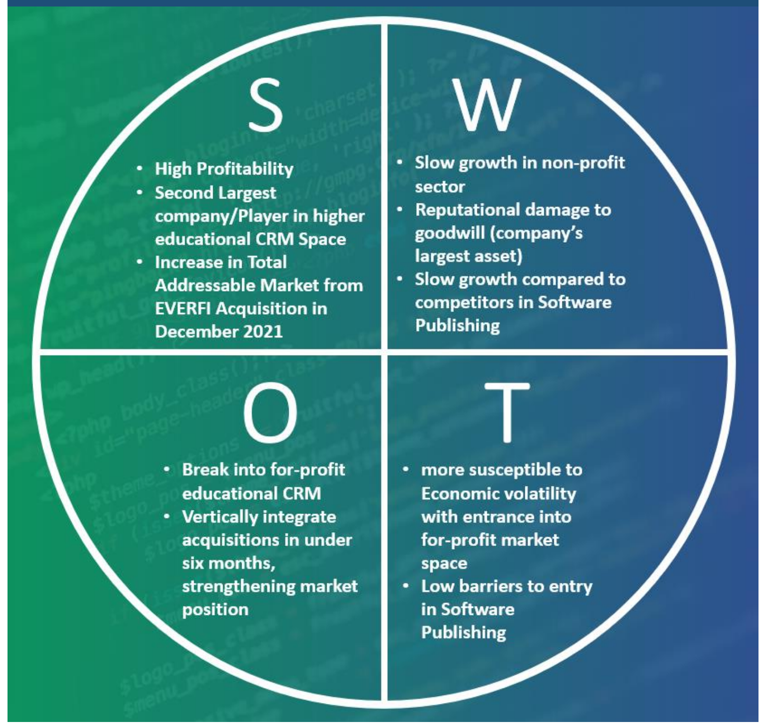
Economists are divided over the possibility of a recession entering into 2024, with some banks calling for a limited recession and others predicting a U.S. economy that avoids a recession but experiences slower growth. The FED has succeeded in curtailing inflation into the desired range, employment remains high, and real GDP growth remains consistent. This certainly appears to be the soft landing the FED has been striving towards. This view is backed by experts from Bank of America and Morgan Stanley, though they are more pessimistic about Europe's recessionary chances. However, other banks, such as Wells Fargo and even the President of the Kansas City Federal Reserve Bank, are still concerned about the risk of a recession. This view is supported by the inverted yield curve which has a strong track record of predicting a recession within a year of the curve inverting. Moreover, these banks fear that the full impact of the resign rates have not been felt yet and will continue to slow economic spending, sending us into a recession. These macroeconomic trends will not have a huge impact on the non-profit sector for Blackbaud, which composes 85% of their revenue. Conversely, these trends will likely impact the for-profit sector of Blackbaud. The soft-landing scenario would allow for continued but slightly slowed growth, whereas a recession would negatively affect for-profit clients and respective revenue. Blackbaud has some options to limit losses in the case of a recession, including limiting price hikes for Blackbaud solutions or continue to build strong relationships with its clients to maintain retention.

APPENDIX 5: Blackbaud Solutions and Services



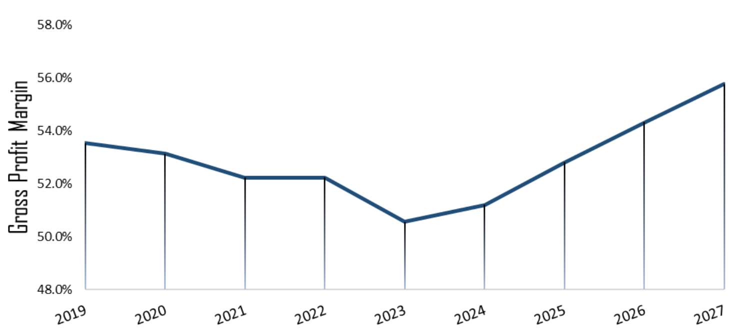
Source: Blackbaud 10K

APPENDIX 6: SWOT



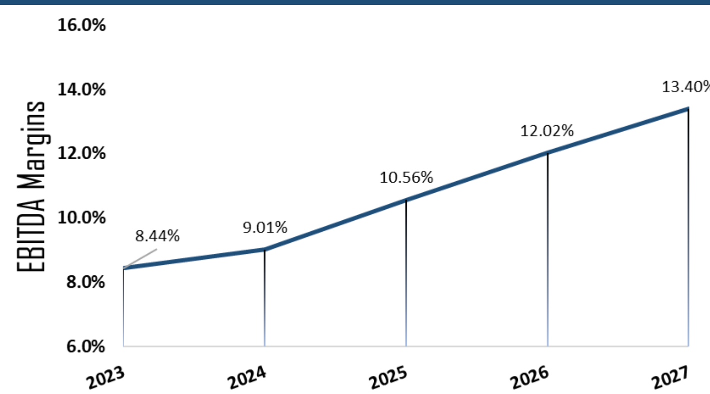
Source: Team Consensus

APPENDIX 7: Gross Margin History and Forecast

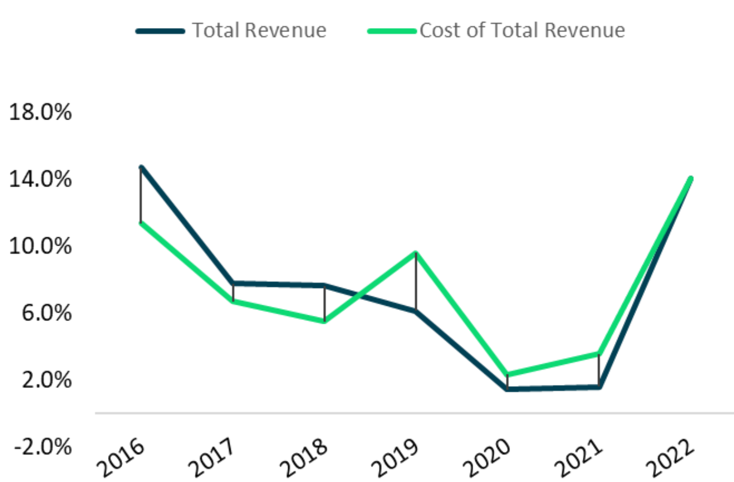


Source: Team Consensus

APPENDIX 8: Forecasted EBITDA Margins

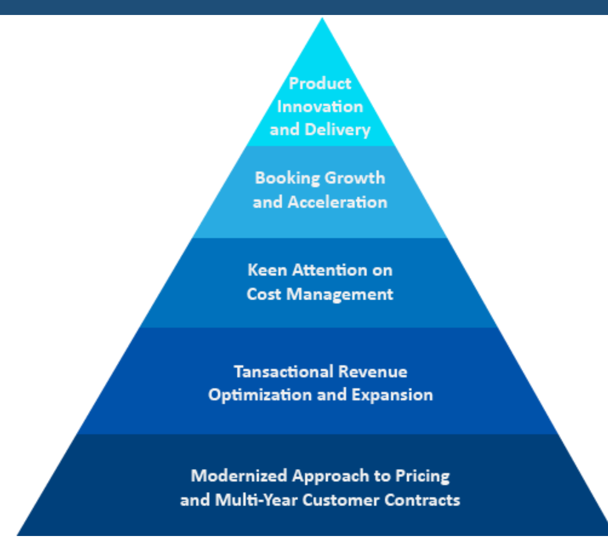


APPENDIX 9: Year-Over-Year Revenue Growth Rate and Cost of Revenue



Source: Team Consensus

APPENDIX 10: Five-Point Financial Initiatives



Source: Blackbaud Management Presentation

APPENDIX 11: Porter's 5 Forces

Threat of New Entrants:

- **Non-profit Higher Education CRM:** Regulatory Compliance and Security Standards limit new entrants to a minor degree.
- **For-profit Education Offerings:** Competitive Market with low barriers to entry

Source: Team Consensus

Threats of Substitutes:

- **Non-profit Higher Education CRM:** Largest company in the Alumni CRM, with multiple near competitors
- **For-profit Education Offerings:** Numerous online competitors offering Financial Education packages.

Customer Bargaining Power:

- **Non-profit Higher Education CRM:** limited coordination of customers with exception of federal legislation for schools and hospitals
- **For-profit Education Offerings:** no coordination and lo substantial regulations

Supplier Bargaining Power:

- **Non-profit Higher Education CRM:** Reliance on a combination of open-source software and a other CRM providers in near-oligopolistic competition
- **For-profit Education Offerings:** Similar combination of open-source software and licensed offerings as the non-profit sector

Competitive Rivalry:

- **Non-profit Higher Education CRM:** Blackbaud faces intense competition in non-profit CRM sector, contending with a significant market presence and

APPENDIX 12: Relative Valuation

Company	Ticker	Market Data (as of most recent period end date)					Financials	Valuation
		Share Price	Shares Outstanding	Equity Value	Net Debt	Enterprise Value	EBITDA	EV/EBITDA
Blackbaud	BLKB	$ 58.86	53,853	$ 3,169,787.58	$ 827,352.00	$ 3,997,139.58	$ 148,415.00	26.9x
Salesforce	CRM	$ 167.97	968,000	$ 162,594,960.00	$ 4,376,000.00	$ 166,970,960.00	$ 5,644,000.00	29.6x
Oracle	ORCL	$ 105.99	2,748,922	$ 291,358,242.78	$ 80,716,000.00	$ 372,074,242.78	$ 19,881,000.00	18.7x
Intui Inc	INTU	$ 511.83	279,936	$ 143,279,642.88	$ 817,700.00	$ 144,097,342.88	$ 3,947,000.00	36.5x
Zoominfo	ZI	$ 30.11	389,782	$ 11,736,336.02	$ (130,377.00)	$ 11,605,959.02	$ 271,000.00	42.8x
Intapp Inc	INTA	$ 41.91	69,656	$ 2,919,282.96	$ (1,102,957.00)	$ 1,816,325.96	$ (50,975.00)	-35.6x
Atlassian	TEAM	$ 167.81	258,059	$ 43,304,880.79	$ 598,903.00	$ 43,903,783.79	$ (187,401.00)	-234.3x
PowerSchool Holdings	PWSC	$ 23.08	201,941	$ 4,660,798.28	$ 3,272,000.00	$ 7,932,798.28	$ 148,599.00	53.4x
Statistical Distribution								
High								53.4x
75th Percentile								39.7x
Average								**-12.7x**
Median								**29.6x**
25th Percentile								-8.5x
Low								-234.3x
Blackbaud Valuation								
Implied Enterprise Value								4,390,679
Net Debt								827,352
Implied Market Value								3,563,327
Shares Outstanding								53,853
Implied Value Per Share								**66.17**

Source: Team Consensus

APPENDIX 13: Income Statement

In thousands $

Income Statement	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028
Revenue:											
Recurring	762,181	831,609	850,745	880,850	1,011,733	1,071,425	1,158,211	1,252,026	1,353,440	1,463,068	1,581,577
One-time services and other	86,425	68,814	62,474	46,890	46,372	37,098	35,243	29,956	25,463	21,643	18,397
Total Revenue	**848,606**	**900,423**	**913,219**	**927,740**	**1,058,105**	**1,108,523**	**1,193,453**	**1,281,982**	**1,378,903**	**1,484,712**	**1,599,974**
Expenditures											
Cost of recurring	305,481	357,988	369,681	390,803	463,449	514,428	550,438	577,960	606,858	637,201	669,061
Cost of one-time services and other	76,261	60,436	58,384	52,392	41,940	33,552	31,874	27,093	23,029	19,575	16,639
Total Expenditures	**381,742**	**418,424**	**428,065**	**443,195**	**505,389**	**547,980**	**582,313**	**605,054**	**629,888**	**656,776**	**685,700**
Gross Profit	**466,864**	**481,999**	**485,154**	**484,545**	**552,716**	**560,542**	**611,141**	**676,929**	**749,015**	**827,936**	**914,274**
Sales, marketing and customer success	192,848	224,152	209,762	186,314	221,455	232,790	250,625	269,216	289,570	311,790	335,995
Research and development	98,811	106,164	100,146	124,573	156,913	155,193	167,083	179,477	193,046	207,860	223,996
General and administrative	106,354	113,414	134,852	146,262	199,908	188,449	202,887	217,937	234,413	252,401	271,996
Amortization	4,844	5,316	2,915	2,227	2,925	2,723	2,534	2,359	2,196	2,044	2,000
Restructuring	4,590	5,808	236	263	-	-	-	-	-	-	-
EBITDA	**59,417**	**27,145**	**37,243**	**24,906**	**(28,485)**	**93,561**	**107,566**	**135,414**	**165,757**	**198,911**	**235,206**
EBIT	**54,573**	**21,829**	**34,328**	**22,679**	**(31,410)**	**90,838**	**105,032**	**133,056**	**163,562**	**196,867**	**233,206**
Interst expense, net	(15,898)	(20,618)	(17,287)	(18,003)	(35,803)	(25,062)	(25,062)	(25,062)	(25,062)	(25,062)	(25,062)
other income expense, net	1,103	4,058	1,658	180	8,713	6,099	6,099	6,099	6,099	6,099	6,099
EBT	**39,778**	**5,269**	**18,699**	**4,856**	**(58,500)**	**71,875**	**86,069**	**114,093**	**144,599**	**177,904**	**214,243**
tax expense	(219)	(1,323)	13,897	1,385	(10,168)	12,000	12,000	12,000	12,000	12,000	12,000
effective tax rate	0.6%	25.1%	74.3%	28.5%	17.4%	16.7%	13.9%	10.5%	8.3%	6.7%	5.6%
Net Income	**39,997**	**6,592**	**4,802**	**3,471**	**(48,332)**	**83,875**	**98,069**	**126,093**	**156,599**	**189,904**	**226,243**
Other comprehensive income	(4,635)	(180)	2,793	9,019	2,416	5,000	5,000	5,000	5,000	5,000	5,000
Comprehensive Income	**35,362**	**6,412**	**7,595**	**12,490**	**(45,916)**	**88,875**	**103,069**	**131,093**	**161,599**	**194,904**	**231,243**

Source: Team Consensus

APPENDIX 14: Common Size Income Statement

Income Statement	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028
Revenue:											
Recurring	90%	92%	93%	95%	96%	97%	97%	98%	98%	99%	99%
One-time services and other	10%	8%	7%	5%	4%	3%	3%	2%	2%	1%	1%
Total Revenue	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%
	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%
Expenditures	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%
Cost of recurring	36%	40%	40%	42%	44%	46%	46%	45%	44%	43%	42%
Cost of one-time services and other	9%	7%	6%	6%	4%	3%	3%	2%	2%	1%	1%
Total Expenditures	45%	46%	47%	48%	48%	49%	49%	47%	46%	44%	43%
	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%
Gross Profit	55%	54%	53%	52%	52%	51%	51%	53%	54%	56%	57%
Sales, marketing and customer success	23%	25%	23%	20%	21%	21%	21%	21%	21%	21%	21%
Research and development	12%	12%	11%	13%	15%	14%	14%	14%	14%	14%	14%
General and administrative	13%	13%	15%	16%	19%	17%	17%	17%	17%	17%	17%
Amortization	1%	1%	0%	0%	0%	0%	0%	0%	0%	0%	0%
Restructuring	1%	1%	0%	0%							
EBITDA	7%	3%	4%	3%	-3%	8%	9%	11%	12%	13%	15%
EBIT	6%	2%	4%	2%	-3%	8%	9%	10%	12%	13%	15%
Interst expense, net	-2%	-2%	-2%	-2%	-3%	-2%	-2%	-2%	-2%	-2%	-2%
other income expense, net	0%	0%	0%	0%	1%	1%	1%	0%	0%	0%	0%
EBT	5%	1%	2%	1%	-6%	6%	7%	9%	10%	12%	13%
tax expense	0%	0%	2%	0%	-1%	1%	1%	1%	1%	1%	1%
effective tax rate	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%
Net Income	5%	1%	1%	0%	-5%	8%	8%	10%	11%	13%	14%
Other comprehensive income	-1%	0%	0%	1%	0%	0%	0%	0%	0%	0%	0%
Comprehensive Income	4%	1%	1%	1%	-4%	8%	9%	10%	12%	13%	14%

Source: Team Consensus

APPENDIX 15: Balance Sheet

Year	2018	2019	2020	2021	2022	FY23E	FY24E	FY25E	FY26E	FY27E	FY28E
Assets											
Current assets:											
Cash and cash equivalents	$30,866	$31,810	$35,750	$55,146	$31,691	30,784	47,795	51,341	55,222	59,460	64,076
Restricted cash	418,980	545,485	609,219	596,616	702,240	507,326	733,595	788,012	847,587	912,626	983,476
Accounts receivable	86,595	88,868	95,404	102,726	102,809	116,677	122,472	131,557	141,503	152,361	164,189
Customer funds receivable	1,753	524	321	977	249	460	1,023	1,099	1,182	1,273	1,372
Prepaid expenses and other current asset	59,788	67,852	78,366	95,506	81,654	88,004	98,278	105,568	113,549	122,262	131,754
Deferred tax asset, current portion	–	–	–	–	–						
Total current assets	597,982	734,539	819,060	850,971	918,643	743,251	1,003,164	1,077,577	1,159,044	1,247,982	1,344,866
Property and equipment, net	40,031	35,546	105,177	111,428	107,426	105,420	101,075	108,572	116,781	125,742	135,503
Operating lease right-of-use assets	–	104,400	22,671	53,883	45,899	44,406	72,272	77,633	83,503	89,910	96,890
Software and content development costs	75,099	101,302	111,827	121,377	141,023	145,881	140,246	150,650	162,039	174,473	188,018
Goodwill	545,213	634,088	635,854	1,058,640	1,050,272	1,051,662	1,018,834	1,173,854	1,352,460	1,558,242	1,795,335
Intangible assets, net	291,617	317,895	277,506	698,052	635,136	635,552	561,699	603,365	648,981	698,780	753,028
Other assets	65,363	65,193	72,639	77,266	94,304	89,486	90,959	92,457	93,980	95,528	97,101
Total assets	$1,615,305	$1,992,963	$2,044,734	$2,971,617	$2,992,703	2,815,657	2,988,250	3,284,108	3,616,787	3,990,657	4,410,741
Liabilities and stockholders' equity											
Current liabilities:											
Trade accounts payable	$34,538	$47,676	$27,836	$22,067	$42,559	40,240	44,907	48,238	51,885	55,866	60,203
Accrued expenses and other current liabs	46,893	73,317	52,228	100,096	86,002	90,430	91,430	98,212	105,637	113,743	122,573
Due to customers	420,733	546,009	608,264	594,273	700,860	482,137	733,063	787,440	846,973	911,964	982,763
Debt, current portion	7,500	7,500	12,840	18,697	18,802	18,685	16,506	17,730	19,070	20,534	22,128
Deferred revenue, current portion	295,991	314,335	312,236	374,499	382,419	400,042	430,810	462,767	497,753	535,948	577,555
Total current liabilities	805,655	988,837	1,013,404	1,109,632	1,230,642	1,031,534	1,316,714	1,414,386	1,521,317	1,638,054	1,765,221
Debt, net of current portion	379,624	459,600	518,193	937,483	840,241	807,768	841,788	853,752	920,964	951,827	978,381
Deferred tax liability	44,291	44,594	54,086	148,465	125,759	122,086	104,982	143,601	121,295	130,603	140,742
Deferred revenue, net of current portion	2,564	1,802	4,678	4,247	2,817	4,418	4,150	4,458	4,795	5,162	5,563
Operating lease liabs, net current portion	–	95,624	17,357	53,386	44,918	44,540	53,753	57,741	62,106	66,872	72,063
Other liabilities	9,388	5,742	10,866	1,344	4,294	4,881	8,317	8,934	9,610	10,347	11,150
Total liabilities	1,241,522	1,596,199	1,618,584	2,254,557	2,248,671	2,015,228	2,329,705	2,482,872	2,640,087	2,802,865	2,973,121
Stockholders' equity:											
Preferred stock; 20,000,000 shares auth.											
Common stock, $0.001 par value; 180 mi	59	60	61	66	68	69	69	69	69	69	69
Additional paid-in capital	399,241	457,804	544,963	968,927	1,075,264	1,065,200	867,941	932,324	1,002,810	1,079,760	1,163,584
Treasury stock	-266,884	-290,665	-353,091	-500,911	-537,287	-551,086	-595,320	-643,104	-694,724	-750,487	-810,726
Accumulated other comprehensive incom	-5,110	-5,290	-2,497	6,522	8,938	7,399	8,938	8,938	8,938	8,938	8,938
Retained earnings	246,477	234,855	236,714	242,456	197,049	278,916	376,986	503,078	659,677	849,581	1,075,824
Total stockholders' equity	373,783	396,764	426,150	717,060	744,032	800,429	658,545	801,236	976,701	1,187,792	1,437,621
Total liabilities and stockholders' equity	$1,615,305	$1,992,963	$2,044,734	$2,971,617	$2,992,703	2,815,657	2,988,250	3,284,108	3,616,787	3,990,657	4,410,741

Source: Team Consensus

APPENDIX 16: Common Size Balance Sheet

Year	2018	2019	2020	2021	2022	FY23E	FY24E	FY25E	FY26E	FY27E	FY28E
Revenue (from income statement)	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%
Assets	0%	0%	0%	0%		0%	0%	0%	0%	0%	
Current assets:	0%	0%	0%	0%		0%	0%	0%	0%	0%	
Cash and cash equivalents	4%	4%	4%	6%	3%	3%	4%	4%	4%	4%	4%
Restricted cash	49%	61%	67%	64%	66%	46%	61%	61%	61%	61%	61%
Accounts receivable	10%	10%	10%	11%	10%	11%	10%	10%	10%	10%	10%
Customer funds receivable	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%
Prepaid expenses and other current asset	7%	8%	9%	10%	8%	8%	8%	8%	8%	8%	8%
Deferred tax asset, current portion						0%	0%	0%	0%	0%	
Total current assets	70%	82%	90%	92%	87%	67%	84%	84%	84%	84%	84%
Property and equipment, net	5%	4%	12%	12%	10%	10%	8%	8%	8%	8%	8%
Operating lease right-of-use assets		12%	2%	6%	4%	4%	6%	6%	6%	6%	6%
Software and content development costs	9%	11%	12%	13%	13%	13%	12%	12%	12%	12%	12%
Goodwill	64%	70%	70%	114%	99%	95%	85%	92%	98%	105%	112%
Intangible assets, net	34%	35%	30%	75%	60%	57%	47%	47%	47%	47%	47%
Other assets	8%	7%	8%	8%	9%	8%	8%	7%	7%	6%	6%
Total assets	190%	221%	224%	320%	283%	254%	250%	256%	262%	269%	276%
Liabilities and stockholders' equity	0%	0%	0%	0%		0%	0%	0%	0%	0%	
Current liabilities:	0%	0%	0%	0%		0%	0%	0%	0%	0%	
Trade accounts payable	4%	5%	3%	2%	4%	4%	4%	4%	4%	4%	4%
Accrued expenses and other current liabs	6%	8%	6%	11%	8%	8%	8%	8%	8%	8%	8%
Due to customers	50%	61%	67%	64%	66%	43%	61%	61%	61%	61%	61%
Debt, current portion	1%	1%	1%	2%	2%	2%	1%	1%	1%	1%	1%
Deferred revenue, current portion	35%	35%	34%	40%	36%	36%	36%	36%	36%	36%	36%
Total current liabilities	95%	110%	111%	120%	116%	93%	110%	110%	110%	110%	110%
Debt, net of current portion	45%	51%	57%	101%	79%	73%	71%	67%	67%	64%	61%
Deferred tax liability	5%	5%	6%	16%	12%	11%	9%	11%	9%	9%	9%
Deferred revenue, net of current portion	0%	0%	1%	0%	0%	0%	0%	0%	0%	0%	0%
Operating lease liabilities, net of current portion		11%	2%	6%	4%	4%	5%	5%	5%	5%	5%
Other liabilities	1%	1%	1%	0%	0%	0%	1%	1%	1%	1%	1%
Total liabilities	146%	177%	177%	243%	213%	182%	195%	194%	191%	189%	186%
Stockholders' equity:	0%	0%	0%	0%		0%	0%	0%	0%	0%	
Preferred stock; 20,000,000 shares auth.	0%	0%	0%	0%		0%	0%	0%	0%	0%	
Common stock, $0.001 par value; 180,00	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%
Additional paid-in capital	47%	51%	60%	104%	102%	96%	73%	73%	73%	73%	73%
Treasury stock	-31%	-32%	-39%	-54%	-51%	-50%	-50%	-50%	-50%	-51%	-51%
Accumulated other comprehensive incom	-1%	-1%	0%	1%	1%	1%	1%	1%	1%	1%	1%
Retained earnings	29%	26%	26%	26%	19%	25%	32%	39%	48%	57%	67%
Total stockholders' equity	44%	44%	47%	77%	70%	72%	55%	62%	71%	80%	90%
Total liabilities and stockholders' equity	190%	221%	224%	320%	283%	254%	250%	256%	262%	269%	276%

Source: Team Consensus

APPENDIX 17: Cash Flows

	2021	2022	FY23E	FY24E	FY25E	FY26E	FY27E	FY28E
Cash flows from operating activities								
Net (loss) income	$ 5,698	($45,407)	($83,875	($98,069	$126,093	$156,599	$189,904	$ 226,243
Adjustments to reconcile net (loss) income to net cash provided by operating activities:								
Depreciation and amortization	82,410	102,369	109,450	117,022	125,117	133,771	143,025	152,919
Provision for credit losses and sales returns	11,450	6,066	10,312	10,824	11,627	12,506	13,466	14,511
Stock-based compensation expense	120,379	110,294	105,243	111,836	116,204	120,973	126,138	131,693
Deferred taxes	(2,429)	(26,644)	(3,673)	(17,104)	38,618	(22,305)	9,308	10,139
Amortization of deferred financing costs and discount	1,570	2,364	1,845	1,630	1,751	1,884	2,028	2,186
Other non-cash adjustments	10,490	5,676	2,400	2,400	2,400	2,400	2,400	2,400
Changes in operating assets and liabilities, net of acquisition and disposal of businesses:								
Accounts receivable	(6,525)	(7,340)	(13,868)	(5,795)	(9,085)	(9,946)	(10,858)	(11,828)
Prepaid expenses and other assets	(2,048)	26,235	(6,350)	(10,274)	(7,290)	(7,981)	(8,713)	(9,492)
Trade accounts payable	(9,670)	21,607	(2,319)	4,667	3,331	3,647	3,981	4,337
Accrued expenses and other liabilities	(8,190)	(2,386)	(9,048)	(9,048)	(9,048)	(9,048)	(9,048)	(9,048)
Deferred revenue	10,526	11,059	19,225	30,499	32,265	35,323	38,563	42,008
Net cash provided by operating activities	213,661	203,893	297,091	334,727	431,983	417,823	500,193	556,067
Cash flows from investing activities								
CAPITAL EXPENDITURES	(52,153)	(71,063)	(69,309)	(74,619)	(80,154)	(86,214)	(92,829)	(100,036)
Purchase of net assets of acquired companies, net of cash and restricted cash acquired	(419,120)	(20,912)	(113,000)	(113,000)	(113,000)	(113,000)	(113,000)	(113,000)
Cash received in sale of business		6,426	-	-	-	-	-	-
Other investing activities			-	-	-	-	-	-
Net cash used in investing activities	(471,273)	(85,549)	(182,309)	(187,619)	(193,154)	(199,214)	(205,829)	(213,036)
Cash flows from financing activities	—							
Proceeds from issuance of debt	582,200	211,000	401,871	401,871	401,871	401,871	401,871	401,871
Payments on debt	(152,971)	(310,740)	(343,661)	(343,661)	(343,661)	(343,661)	(343,661)	(343,661)
Debt issuance costs	(3,106)	—	—	—	—	—	—	—
Stock issuance costs		(1,339)	—	—	—	—	—	—
Employee taxes paid for withheld shares upon equity award settlement	(39,404)	(36,376)	(26,858)	(26,858)	(26,858)	(26,858)	(26,858)	(26,858)
Proceeds from exercise of stock options	—	—	—	—	—	—	—	—
Change in due to customers	(13,464)	111,386	(218,723)	250,926	54,378	59,532	64,992	70,798
Change in customer funds receivable	(731)	380	(211)	(563)	(76)	(83)	(91)	(99)
Purchase of treasury stock	(108,416)	—						
Dividend payments to stockholders	—	—	—	—	—	—	—	—
Net cash (used in) provided by financing activities	264,108	(25,689)	(187,583)	281,714	85,653	90,801	96,253	102,051
Effect of exchange rate on cash, cash equivalents and restricted cash	297	(10,486)	(1,154)	(1,154)	(1,154)	(1,154)	(1,154)	(1,154)
Net increase in cash, cash equivalents and restricted cash	6,793	82,169	(195,821)	243,280	57,962	63,457	69,276	75,466
Cash, cash equivalents and restricted cash, beginning of year	644,969	651,762	733,931	538,110	781,390	839,352	902,809	972,086
Cash, cash equivalents and restricted cash, end of year	$651,762	$733,931	$538,110	$781,390	$839,352	$902,809	$972,086	$ 1,047,551

Source: Team Consensus

Appendix 18: Assumptions

Contractual Recurring Growth	
For-Profit Industry	Blackbaud has recently entered into the for-profit sector with the acquisition of Everfi and as such is making significant gains. The for-profit market for the small and medium sized schools that Blackbaud is targeting are not as saturated as the for-profit space with much higher growth potentials, however they only make up 15% of Blackbaud's Total Revenue. For these reasons we have forecasted for-profit revenue growth at 14% reflecting Everfi's aggressive growth potential.
Non-Profit Industry	The non-profit sector has historically driven Blackbaud's revenue growth, represnting 15% of Blackbaud's Revenue. Blackbaud continues to make strides in that sapce, but the growth is slower than its for-profit counterparts as it is a more mature and saturated market
One Time Services	
Shift to Subscription Recurring Three Year Contract Structure	As the shift from one time payments to recurring subscriptions and 3 year contracts continues to roll out, one time services will make a ever decreasing part of Blackbaud's revenue. One time payments curently account for only for 4% of their Total Revenue. It is expected to decline by 20% in 2023, then slow its decline to 5% in 2024, and increase to a 15% decline afterwards. Blackbaud expects the decline to slow as much of the shift has already occured.
Cost of Recurring	
Cost of Recurring Revenue	Blackbaud has taken extensive costs cutting measures including a shift to a remote first workplace which has allowed for staff reductions while maintaining operations. For those reasons we forecast 11% growth in cost of recurring in 2023, and then a far slower increase at 7% for 2024 and 5% for 2025, as Blackbaud continues to hone its efficiencies in reducing costs.
Operating Expenses	
Sales, Marketing and Customer Success	Sales and Marketing typically makes up around 20-25% of revenue for Blackbaud and we can expect that trend to continue. We have forecasted that sales, marketing, and customer success with account for 21% of revenue between 2023-2028
Research and Development	Research and Development has consistently accounted for 11-15% of revenue and this trend is expected to continue, however we expect it to be on the higher end of that estimate and have thus forecasted 14% for revenue for R&D expenses.
General and Administrative	General and Administrative costs have been on an upward trend, generally ranging from 13-19% of revenue, however we believe that growth was stalled and as such we have forecasted General and Administrative expenses as 17% of Revenue.

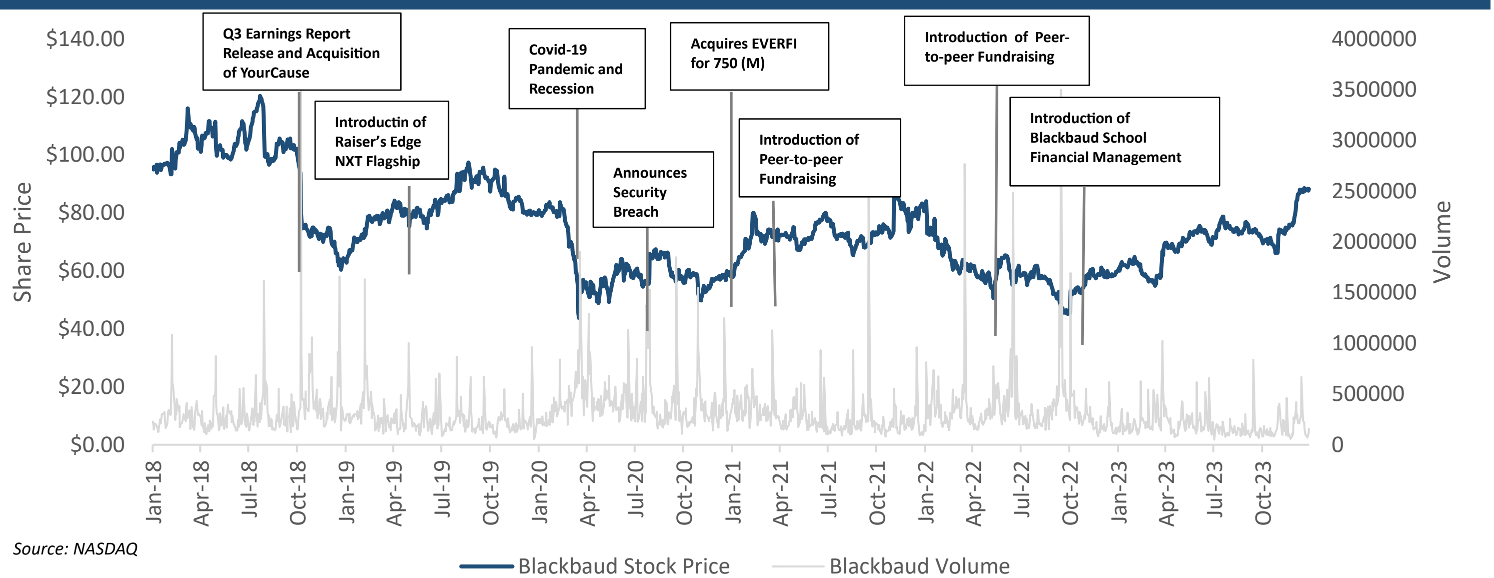
Source: Team Consensus

APPENDIX 19: Key Financial Ratios

	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027
Return on Equity		12.18%	18.34%	21.48%	12.00%	3.00%	1.81%	0.79%	-6.10%	10.48%	14.89%	15.74%	16.03%	15.99%
Net Profit Margin		4.02%	6.21%	8.36%	4.71%	0.73%	0.53%	0.37%	-4.57%	7.57%	8.22%	9.84%	11.36%	12.79%
Total Asset to Equity (leverage)		5.81x	5.29x	5.73x	4.32x	5.02x	4.80x	4.14x	4.02x	3.52x	4.54x	4.10x	3.70x	3.36x
Asset Turnover		0.52x	0.56x	0.45x	0.53x	0.45x	0.45x	0.31x	0.35x	0.39x	0.40x	0.39x	0.38x	0.37x
EBITDA Margin					7.00%	3.01%	4.08%	2.68%	-2.69%	8.44%	9.01%	10.56%	12.02%	13.40%
Gross Margin					55.02%	53.53%	53.13%	52.23%	52.24%	50.57%	51.21%	52.80%	54.32%	55.76%
Net debt/ EBITDA					6.00x	16.04x	13.30x	36.18x	-29.05x	8.50x	7.53x	6.06x	5.34x	4.59x
Current ratio		0.70x	0.75x	0.81x	0.74x	0.74x	0.81x	0.77x	0.75x	0.72x	0.76x	0.76x	0.76x	0.76x
Total debt to equity					1.04x	1.18x	1.25x	1.33x	1.15x	1.03x	1.30x	1.09x	0.96x	0.82x
Recurring revenue growth				12.4%	11.3%	9.1%	2.3%	3.5%	14.9%	8.9%				
Revenue growth	12.0%	13.0%	14.7%	7.8%	7.6%	6.1%	1.4%	1.6%	14.1%	8.7%				
Cost of Revenue growth	17.5%	11.4%	11.4%	6.7%	5.5%	9.6%	2.3%	3.5%	14.0%	9.1%				

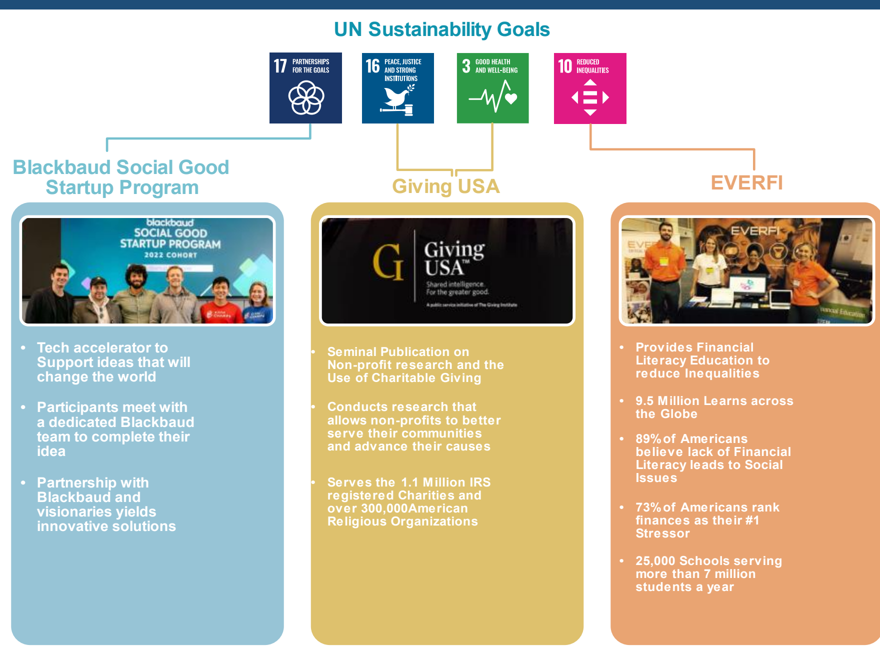
Source: Team Consensus

APPENDIX 20: Annotated Share Price History



Source: NASDAQ

APPENDIX 21: Leadership in Corporate Responsibility



Source: Blackbaud ESG Report

APPENDIX 22: Full DCF Model

Discounted Cash Flow	Entry	2024	2025	2026	2027	2028	Exit
Date	12/31/2023	12/31/2024	12/31/2025	12/31/2026	12/31/2027	12/31/2028	12/31/2028
Time Periods		1	2	3	4	5	
Year Fraction		1	1	1	1	1	
EBIT		105,032	133,056	163,562	196,867	233,206	
Less: Cash Taxes		21,006	26,611	32,712	39,373	46,641	
Plus: D&A		117,022	125,117	133,771	143,025	152,919	
Less: CapEx		74,619	80,154	86,214	92,829	100,036	
Less: Changes in NWC		-25,268	-23,259	-25,464	-27,799	-30,282	
Unlevered FCF		151,697	174,667	203,871	235,489	269,730	
(Entry)/Exit	-5,121,978						5,051,307
Transaction CF	0	151,697	174,667	203,871	235,489	269,730	5,051,307
Transaction CF	-5,121,978	151,697	174,667	203,871	235,489	269,730	5,051,307

Terminal Value	
Perpetuity Growth	5,051,307
TV WACC	8.50%

Intrinsic Value	
Enterprise Value	4,154,732
Plus: Cash	30,784
Less: Debt	826,453
Equity Value	3,359,062
Equity Value/Share	62.37813241

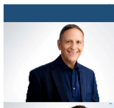
Market Value	
Market Cap	4,326,309
Plus: Debt	826,453
Less: Cash	30,784
Enterprise Value	5,121,978
Equity Value/Share	80.34

Rate of Return	
Target Price Upside	-22%
Internal Rate of Retu	4%

Market Value vs Intrinsic Value		
Market Value	$	80.34
Upside	$	(17.96)
Intrinsic Value	$	62.38

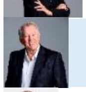
Source: Team Consensus

APPENDIX 23: Executive Committee

Picture	Name	Title	Tenure	Joined	Degree	2022 Total Compensation	Shares or RSA's Owned
	Michael P. Gianoni	President and Chief Executive Officer	10 years	2014	BS Business	$8,819,151	320,459
	Anthony W. Boor	Executive Vice President and Chief Financial Officer	13 years	2011	BA Accounting	$3,562,888	139,430
	David J. Benjamin	Executive Vice President and Chief Commercial Officer	6 years	2018	MBA	$4,093,008	63,080
	Kevin P. Gregoire	Executive Vice President and Chief Operating Officer	6 years	2018	MBA	$4,216,130	97,358
	Kevin R. McDearis	Executive Vice President and Chief Technology Officer	10 years	2014	BS	$2,744,381	80,108

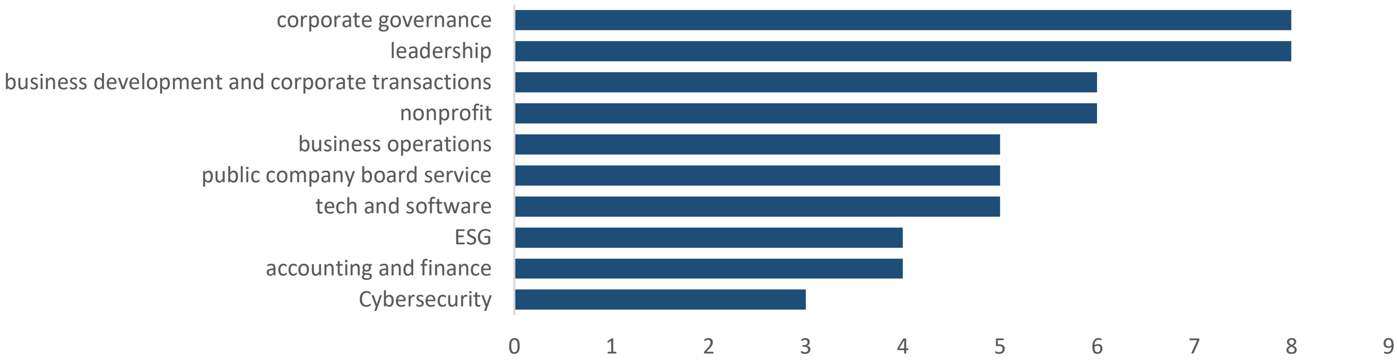
Source: SEC Proxy Statement

APPENDIX 24: Board of Directors

Picture	Name	Former Position	Tenure	Joined	Degree	2022 Total Compensation	Shares or RSA's Owned	Current Expiration
	DENEEN M. DEFIORE	VP of United Airlines	1 years, 6 months	Jul-22	BS Business	$332,703	242,091	2024
	GEORGE H. ELLIS	CFO of Accumen	17 years, 10 months	Mar-06	JD Law	$342,703	674,300	2024
	MICHAEL P. GIANONI	VP of Fiserv	10 years, 0 months	Jan-14	BS Business	$8,819,151	320,459	2025
	YOGESH K. GUPTA	CEO of Progress Software	1 years, 1 months	Dec-22	MCS	$130,654	135,967	2026
	RUPAL S. HOLLENBECK	CCO Check Point Software	1 years, 1 months	Dec-22	MBA	$130,654	135,967	2026
	ANDREW M. LEITCH	Regional Partner for Asia Deloitte & Touche	19 years, 11 months	Feb-04	CPA	$472,703	1,780,221	2024
	D. ROGER NANNEY	Senior Partner Deloitte LLP	2 years, 3 months	Oct-21	MACC	$327,703	392,184	2025
	SARAH E. NASH	CEO of Novagard	13 years, 6 months	Jul-10	BA Political Science	$347,703	1,761,091	2025

Source: SEC Proxy Statement

APPENDIX 25: Board of Directors by Expertise



Source: SEC Proxy Statement