MOODY'S
INVESTORS SERVICE

Rating Action: Moody's downgrades Blackboard's CFR to Caa1; downgrades first- and second-lien debt to B3, Caa3

20 Mar 2018

Approximately $1.43 billion of rated debt affected

New York, March 20, 2018 -- Moody's Investors Service, Inc. ("Moody's") downgraded Blackboard Inc.'s Corporate Family Rating ("CFR") by two notches to Caa1, from B2, as well as its Probability of Default Rating, to Caa1-PD, from B2-PD. Moody's also downgraded Blackboard's $135 million first-lien revolving credit facility and $920 million (remaining balance) first-lien term loan to B3, from B1, and its $378 million second-lien notes to Caa3, from Caa1. Moody's also changed Blackboard's outlook to stable, from negative.

..Issuer: Blackboard Inc.

.... Probability of Default Rating, downgraded to Caa1-PD, from B2-PD

.... Corporate Family Rating, downgraded to Caa1, from B2

.... Senior secured first-lien credit facilities maturing 2020 and 2021, downgraded to B3 (LGD3), from B1 (LGD3)

.... Senior secured second-lien notes maturing 2021, downgraded to Caa3 (LGD5), from Caa1 (LGD5)

Outlook changed to stable, from negative

RATINGS RATIONALE

The downgrade of the CFR to Caa1 reflects weak free cash flow, strained liquidity, and very high debt-to-EBITDA leverage (including Moody's standard adjustments), which Moody's expects will remain above 8.0 times through 2018. Blackboard's core North American Higher Education ("NAHE") and K-12 units, representing 56% of total revenue, continue to show weakening top line results, suggesting that the success of its new Ultra user interface is still uncertain. Blackboard's international segment, also weak, has shown modest stabilization of late. Only the campus enablement segment, consisting of recently acquired educational community communications and transaction processing services and representing a quarter of Blackboard's revenues, has shown healthy, reliable revenue growth. Some ratings support is provided by Blackboard's high level of revenue visibility, with three quarters of 2017 revenues coming from recurring products and services, and underpinned by its 90% renewal rates in 2017. Both of these measures, however, represent declines from prior years.

Blackboard's overall revenues will likely be flat to down slightly in 2018. Software renewals have been weaker than expected in the NAHE segment, as the company strives to sell its latest learning management system ("LMS") software enhancement, Ultra, into a crowded and very competitive marketplace. Given operating seasonality tied to the academic year, the behind-schedule launch of Ultra, in mid-2016, meant that measurable revenue and EBITDA contributions from it began to be realized only in the 2017 academic year. There are indications that Ultra is gaining traction relative to Canvas and Desire2Learn, and Moody's believes the packaging of Ultra with transaction- and payment-processing services may support its competitive positioning. But the success of Ultra is far from certain, and the threat from existing and possibly new competitors remains high as barriers to entry, specifically for web-based software, are relatively low. Meanwhile Blackboard, with a brand new CFO, is focusing its research, sales and marketing, and product development resources in an effort to ensure Ultra's future.

As result of a flat top line, and refocused operating expenses combined with cost-saving initiatives, Moody's expects no improvements in Blackboard's margins and slightly negative free cash flow over the next year. Given Moody's cash flow expectations, modest cash balances, and heavy reliance on a $135 million revolver that has pronounced seasonal drawings (and whose covenants were loosened in January 2018), Moody's views Blackboard's liquidity as weak. The company has focused on spending initiatives to support revenue growth that has yet to materialize. In the event that revenue and profitability do not grow, Moody's believes the company will have limited liquidity cushion relative to peak borrowing needs over the next year.

The stable outlook reflects Moody's expectation that, in the face of negligible revenue or margin improvement, Blackboard's leverage will hold within a band of roughly between 8.0 and 9.0 times over the next twelve to 18 months.

The ratings could be downgraded if Moody's anticipates that negative segment revenue trends will not be reversed or if we expect liquidity will deteriorate further. The Caa1 CFR could be upgraded if the company demonstrates sustained revenue growth, free-cash-flow turns positive, liquidity improves to an adequate level, and debt-to-EBITDA were to improve to below 8.0 times on a sustained basis.

With Moody's-projected 2018 revenues of above $700 million, Blackboard Inc. is a leading provider of learning management software applications to K-12 schools, colleges, and universities, as well as transaction-processing services for higher education institutions. Funds managed by private-equity investors Providence Equity Partners own Blackboard.

The principal methodology used in these ratings was Software Industry published in December 2015. Please see the Rating Methodologies page on www.moodys.com for a copy of this methodology.

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Kevin Stuebe
Vice President - Senior Analyst
Corporate Finance Group
Moody's Investors Service, Inc.
250 Greenwich Street
New York, NY 10007
U.S.A.
JOURNALISTS: 1 212 553 0376
Client Service: 1 212 553 1653

Lenny J. Ajzenman
Associate Managing Director
Corporate Finance Group
JOURNALISTS: 1 212 553 0376

Client Service: 1 212 553 1653

Releasing Office:
Moody's Investors Service, Inc.
250 Greenwich Street
New York, NY 10007
U.S.A.
JOURNALISTS: 1 212 553 0376
Client Service: 1 212 553 1653

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