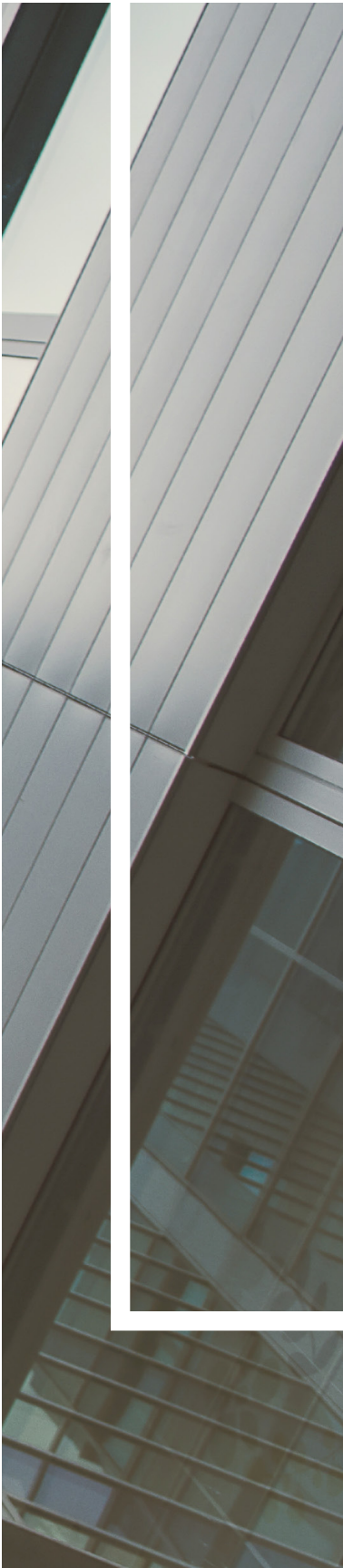
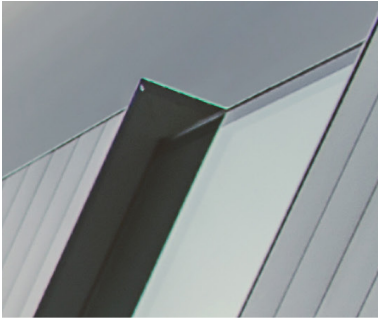


Doing Well While Doing Good: Profiting from Non-Profit Tech



Non-profit organizations (NPOs) are increasingly adopting new technology solutions as they aim to provide efficient services, spawn innovation and attract the donations that are critical to their existence.

The NPO software sector—which represents more than \$15 billion TAM—is a greenfield opportunity for private equity investors, as it is highly fragmented and under served by larger horizontal players. For several years, a single non-profit focused software provider dominated the space, but the recent emergence of PE-backed, vertically-integrated providers and Salesforce’s [acquisition](#) of Salesforce.org have introduced rapid change in the landscape.

Today, acquirers can capitalize on the underpenetrated market opportunity to build a platform that offers critical tech solutions while serving all major non-profit categories.

Software Solutions Light the Way Through COVID-19 and Beyond

With more than [1.8 million](#) NPOs in the U.S., NPO employees currently represent the [third largest](#) workforce in the country. Many non-profits operate under strict financial and human capital constraints, relying on volunteers to expand their capacity. Like many sectors, they were not immune to the economic disruption caused by COVID-19.

As the pandemic took hold, they experienced cancellations of in-person fundraisers, a reduction in volunteer participation and decreasing individual donations. According to [Independent Sector](#), 83% of NPOs reported a reduction in revenue, and 71% responded to the crisis by reducing services or available operations. While the CARES Act provided financial assistance to NPOs and incentivized donations through additional tax provisions, they continue to be resource constrained.

Nevertheless, demand for NPO services has remained steady. To sustain operations beyond the pandemic and fulfill their missions in a cost-effective manner, many NPOs are adopting software solutions that enable innovation and improve operational efficiency. As non-profits fight to survive in this difficult environment, technology solutions are no longer merely desirable—they are now mission critical.

Technology solutions can address specific NPO pain points, including:

- 1 | Transparency:** As the generations shift and millennials become a larger portion of many NPOs’ donor bases, donors are increasingly demanding transparency around how their funds are put to use within the organization. Technology platforms allow NPOs to create feedback loops and notifications to give donors updates on how donations are spent, counteracting the societal mistrust in how charities spend donations.
- 2 | Donor Engagement:** Similarly, the younger donors have adopted new ways of interacting with NPOs, with many preferring to donate via mobile phone or an app in lieu of pulling out a checkbook. To stay relevant, NPOs are using technology to optimize their targeting and curate content to different channels depending on the consumer. Additional tech tools allow for leveraging information about an NPO’s existing donor base to create personalized messaging, while ensuring marketing tactics are compliant with privacy regulations like the California Consumer Privacy Act (CCPA) and General Data Protection Regulation (GDPR).
- 3 | Retention:** Technology-enabled systems allow for regular engagement with donors and the creation of a payment platform that encourages reoccurring donations.
- 4 | Donor Identification:** Software solutions enable NPOs to court new donors through personalized marketing. By leveraging information on their potential donor base, NPOs can create messaging targeted at each individual to increase the likelihood that they make a donation.
- 5 | Organization Management:** Comprehensive organization management technology platforms help NPOs achieve the operational efficiency, regulatory compliance and other benefits of large private foundations—like tax and accounting services—for a fraction of the cost.

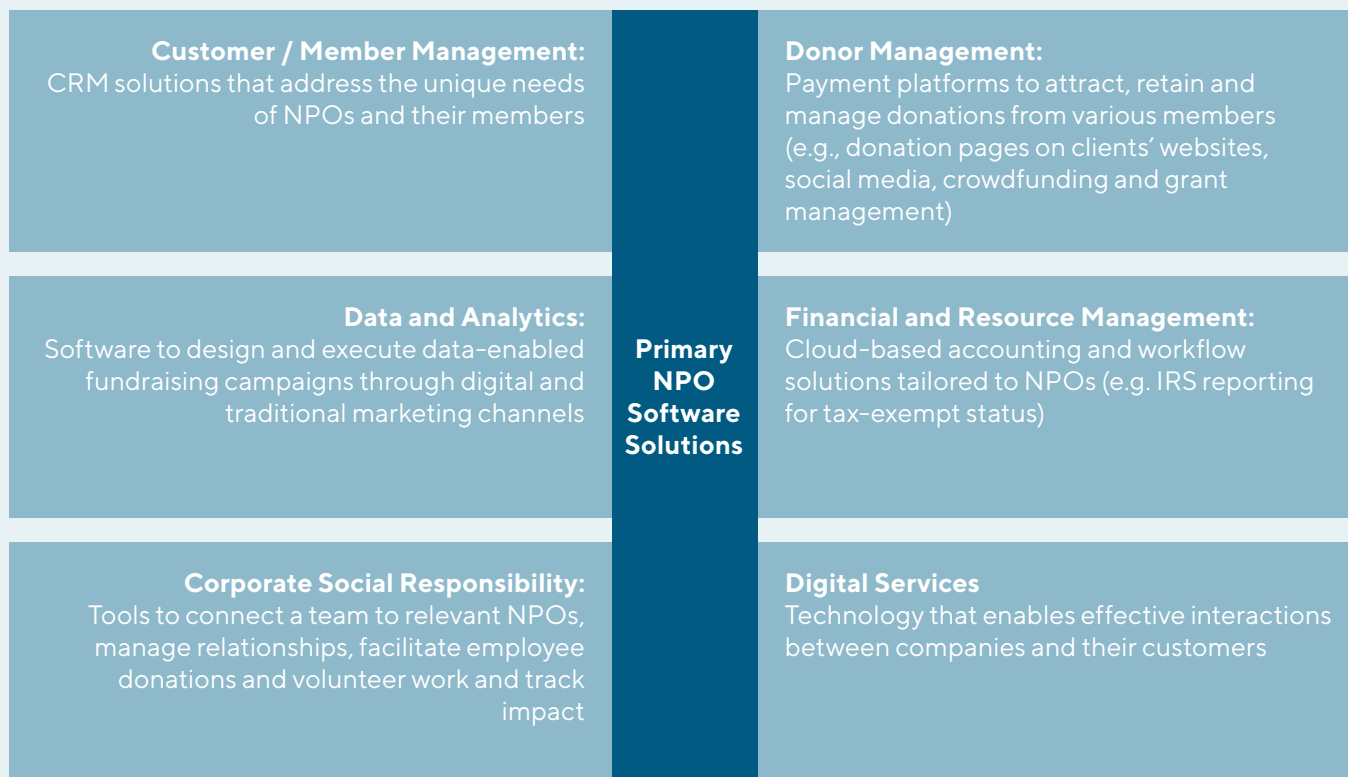
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Lincoln Perspective:

Though non-profits must adopt technology solutions to ensure their relevance and survival in the coming years, the market for NPO software remains highly fragmented. Historical underinvestment and a lack of leading brands in the sector have enabled private equity investors to engage in consolidation, looking to capitalize on the benefits that scale can bring. Recent deals in the space over the first two months of 2021 have signaled momentum in the sector, making this an ideal moment for investors to act.

For private equity investors considering entering the NPO software space, Lincoln identifies a few notable factors:

NPOs rely on cloud-based solutions: By updating and broadening their technology suites, NPOs are able to provide better aid to those they serve, improve employee efficiency and make informed, data-backed decisions on operations. Solutions to watch include:



Providers adapt business models for NPOs: As NPOs face increasing resource constraints, providers that stand apart from the crowd are developing business models that address and solve for these constraints. For example, foundation management provider [Foundation Source](#) developed a payment model in which donor fees are based on AUM.

ESG plays a part: For private equity players considering ESG factors in their portfolio, NPO software solutions also make for a prime socially responsible investment. For example, NPO software solutions may be attractive to managers of major university endowments who are increasingly answering to students and alumni who are interested in the social and environmental impact of their investments.

Buy and build strategy sees success: The highest quality PE-backed platforms seek to acquire for both scale and functionality, offering services across major non-profit categories (arts & culture, healthcare, education, religious organizations) while capturing the full range of technology tools. Customer relationship management, fundraising and payments are particular areas of interest. As PE investors evaluate additions to their platform, they should consider acquiring capabilities that larger strategics lack, positioning their offering for a sale down the line.

Software translates to other industries: Margins in the NPO software space are favorable, and the technology tools NPOs are utilizing have applications to other sectors, allowing investors to look upmarket and compete with larger strategics. In 2021, Lincoln expects additional platforms to emerge as PE-backed companies seek liquidity and sponsors new to the market aim to acquire highly scaled assets.

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