Initial Research Report

Investors should consider this report as only a single factor in making their investment decision.

Bridgeline Digital, Inc.

Rating: Speculative Buy

Howard Halpern

BLIN $1.91 — (NASDAQ)

September 24, 2020

	2018 A	2019 A	*2020 E*	*2021 E*
Total Revenue (in millions)	$13.6	$10.0	***$10.8***	***$12.5***
Earnings (loss) per share*	($89.05)	($8.16)	***($0.78)****	***$0.27***

52-Week range	$3.62 – $0.53	Fiscal year ends:	September
Shares outstanding a/o 08/10/20	4.4 million	Revenue/shares (ttm)*	$3.11
Approximate float	4.3 million	Price/Sales (ttm)	0.6X
Market Capitalization	$8.4 million	Price/Sales (2021) E	0.7X
Tangible Book value/shr	($0.52)	Price/Earnings (ttm)	NMF
Price/Book	NMF	Price/Earnings (2021) E	7.1X

**Reflects 1 for 50 reverse stock split in May 2019* ****Includes a charge of $2.3 million or approximately ($0.59) per share related to deemed preferred dividends*

Bridgeline Digital, Inc., headquartered in Woburn, Massachusetts is a digital engagement company that assists customers in maximizing the performance of their digital experience from Websites and intranets, to online stores and marketing and promotional campaigns. The company's product portfolio includes Celebros Search and the Unbound and OrchestraCMS digital experience platforms with the latter based exclusively on the Salesforce.com platform. Celebros Search is built upon an artificial intelligence algorithm that produces relevant search results in seven languages.

Key Investment Considerations:

Initiating Bridgeline Digital, Inc., with a Speculative Buy rating and 12-month price target of $3.35 per share.

Brideline Digital has substantial growth potential for its digital engagement offerings that include Celebros Search, Unbound, and OrchestraCMS. The company's Revenue360 sales and marketing program has enabled its sales organization to streamline its sales process. Analysts project the customer experience management market reaching $14.9 billion by 2025, up from an estimated $8.5 billion in 2020.

The company's Celebros Search offering is marketed through online ads and online marketplaces such as Magento, Shopify, and Salesforce. Celebros Search has the ability to sell additional Apps through its Revenue360 artificial intelligence dashboard. BLIN engaged 11 new recurring revenue Celebros Search customers from August 1, 2020 through September 3, 2020.

Supporting our forecast are enterprise platform sales for BLIN's Unbound offering that provide both digital services and subscription revenue. In September 2020, a global franchise of print and marketing services selected Bridgeline's Unbound Platform with a multi-year license and services agreement value at $650,000.

For FY20, we project total revenue growth of 9% to $10.8 million and a net loss per share of ($0.78). Our sales growth forecast reflects recurring/perpetual license revenue increasing by 28.4% to $7.5 million. Excluding a charge of approximately ($0.59) per share related to Deemed Preferred dividends, the loss per share should approximate ($0.19).

For FY21, we project total revenue growth of 14.8% to $12.5 million driven by recurring/perpetual license revenue increasing 27.4% to $9.6 million reflecting new Celebros Search, App, and enterprise platform customers. We project EPS of $0.27 reflecting gross margins of 64.9%, up from an estimated 58.8% in FY20. Our EPS forecast does not include change in the fair value of warrant liabilities.

Please view our Disclosures pages 15 - 17

Appreciation Potential

Initiating Bridgeline Digital, Inc., with a Speculative Buy rating and 12-month price target of $3.35 per share based on our FY21 revenue forecast. Our rating and price target reflects projected sales growth and a swing to an operating profit in FY21. We anticipate the company reporting a 2H20 operating profit compared to a 1H20 operating loss. Our FY21 sales and operating profit forecast should be supported by the company's ability to grow its recurring revenue and enterprise platform customer bases as its Revenue360 sales and marketing strategy continues to be implemented. The Revenue360 program is enabling BLIN to streamline its sales and marketing organization to drive increasing sales with shorter sales cycles that should grow higher margin subscription revenue.

Recurring revenue growth should be driven by sales of the company's Celebros Search offering leading to additional Apps sales through artificial intelligence dashboard marketing. In a one month period from August 1, 2020 to September 3, 2020, the company engaged 11 new recurring revenue Celebros Search customers. Enterprise platform sales for the Bridegline's Unbound offering has a longer sales cycle but provides both digital service and subscription revenue. In September 2020, a global franchise of print and marketing services selected Bridgeline to power its franchise Websites with the Unbound Platform with a multi-year license and services agreement with a minimum value of $650,000.

Our 12-month price target of $3.35 per share implies shares could appreciate approximately 75% over the next twelve months. According to finviz.com (as of 9/17/20), the average price-to-sales multiple for companies with similar market capitalizations in the Software Application/Infrastructure and Internet Content sectors is 2.8X, compared to BLIN's forward price-to-sales multiple of 0.7X. We anticipate investors are likely to accord Bridgeline Digital, Inc. a multiple approaching that of the sector given its forecasted sales growth of nearly 15% in FY21. We applied a price-to-sales multiple of 1.5X to our 2021 sales per share forecast of $2.81, discounted for execution risk, to obtain a year-ahead price target of approximately $3.35 per share.

BLIN's valuation improvement is contingent upon consistent quarterly recurring-SaaS/perpetual software revenue growth, expense leverage, cash earnings, and sustained annual operating profits. We forecast the company generating annualized recurring-SaaS/perpetual software revenue growth of nearly 28% to FY21 from FY19, and operating profits in FY21 of $1.2 million compared to an estimated loss of nearly $1.7 million in FY20. The company should produce cash earnings of $1 million in FY21, up from our FY20 cash burn projection of $725,000 and $6.7 million reported in FY19.

We believe Bridgeline Digital, Inc. is most suitable for risk tolerant investors that seek exposure to a micro cap company providing digital engagement services through recurring revenue Apps and enterprise platform models for its customers.

Overview

Bridgeline Digital, Inc., headquartered in Woburn, Massachusetts is a digital engagement company that assists customers' in maximizing the performance of their digital experience from Websites and intranets, to online stores and marketing and promotional campaigns. The company's platform integrates Web content management, eCommerce, marketing automation, site search, authenticated portals, social media management, as well as translation and Web analytics to help organizations deliver enhanced digital experiences.

The Bridgeline platform powers Websites, online stores, portals and intranets for thousands of customers that range from small and medium-sized organizations to Fortune 1000 companies. The company's primary customer verticals are franchises, healthcare, manufacturing, finance, and retail (see table on the right).

Reference Customers

Franchises | Healthcare | Manufacturing | Finance | Retail

Source: Sept. 2020 Presentation

Platform Offering

The company's primary technology has evolved over the last five years into The Bridgeline Unbound platform that has been strategically designed to bridge the gap between Web content management, eCommerce, eMarketing, and social and Web analytics by providing all of these components in one unified and deeply integrated platform. The technology platform provides professional services to customers that enable them to support their customers in driving lead generation, increased revenue, improved customer service and loyalty, as well as enhanced employee knowledge, and reduced operational costs.

The chart on the right shows the various components of The Bridgeline Unbound platform. The platform can be purchased through a cloud-based software-as-a-service (SaaS) recurring revenue model. BLIN has developed the platform with a flexible architecture that provides customers with state-of-the-art deployment, recurring maintenance, and daily technical operation and support. The offering can be purchased as a perpetual license in which the software resides on a dedicated infrastructure in either the customer's facility or managed and hosted by BLIN via a cloud-based hosted services model. Regardless of which model is used by the customer, this offering will likely require customization thus providing BLIN with digital engagement services revenue.

Recurring revenue is provided by its Unbound Franchise offering that empowers large franchises, healthcare networks, associations and chapters, as well as other multi-unit organizations to manage branded networks to unify, manage, scale and optimize a hierarchy of Web properties and marketing campaigns on a global, national and local level. The platform has been designed as an easy-to-use administrative console that enables corporate marketing to provide consistency in branding and messaging, as well as providing flexible publishing capabilities at the local-market level.

In February 2019, the company acquired its Celebros Search technology platform offering. Celebros Search is sold and delivered through a cloud-based SaaS recurring revenue model that is primarily an out of the box offering that requires very little customization. The offering is primarily a commerce site search product that provides for Natural Language Processing with artificial intelligence to present very relevant search results based on long-tail keyword (search that is usually longer as they are more specific) searches in seven languages. Long-tail keyword searches tend to get less search traffic, but usually provide a higher conversion value of search terms. Celebros Search understands which word in the search query is a product, an attribute or an expression that is related to a price or product. The internal algorithms ensure that the customers receive the best results every time no matter the length or complexity of the search query. Over the past year, the company has developed Celebros Search plug-ins so that it can be utilized by Bridgeline's Unbound Commerce offering in addition to many third-party Commerce platforms such as Magento, Shopify, Salesforce, etc.

Celebros Search customers include e-commerce retailers and merchants in eleven countries, including the US, Europe, and Asia. The customer base includes various companies in a broad range of industry segments and catalog sizes (a larger catalog tends to generate greater recurring revenue opportunities).

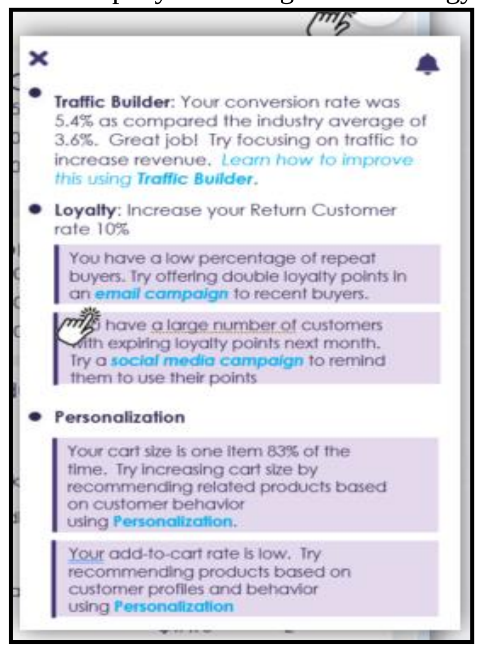
In March 2019, the company acquired OrchestraCMS, a content and digital experience platform (built to work exclusively on Salesforce.com) that assists in creating digital experiences for customers, partners, and employees. OrchestraCMS is a cloud-based SaaS recurring revenue model offering that combines content with business data, processes and applications across any channel or device including Salesforce Communities, social media, portals, intranets, Websites, applications and services.

Growth Strategy

Revenue360

In FY20, the company's growth strategy has evolved into Revenue360 in which its sales organization is a combination of telephone sales and partnerships in online marketplaces. This strategic shift is enabling BLIN to streamline its sales and marketing organization that should drive increasing sales and shorter sales cycles for higher margin subscription revenue.

The Revenue360 program, which sells and markets its Celebros Search and Apps offerings (see table above on the right), will also drive the company's research and development efforts. New offerings are likely to be based on expanding existing offerings. The overall measure of the company executing on its strategy with higher margin out-of-the-box tools will be if customers can increase site traffic, their shopper conversion rate, and average order value.

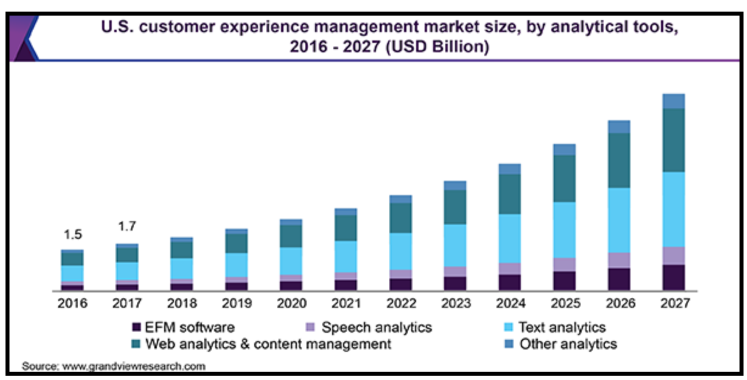


A unique feature of its offerings is the Revenue360 Dashboard powered by an artificial intelligence algorithm that provides existing customers with recommendations to purchase additional App technologies (pictured above) that can increase their return on investment. A small section of the Revenue360 Dashboard (pictured on the right) provides popups on what additional offering should be purchased in order to improve a customers' online sales, customer acquisition and retention performance.

Acquisitions

In 2019, the company's acquired Celebros Search and OrchestraCMS. The company continues to evaluating strategic merger and acquisition opportunities to enhance the growth potential of its recurring Revenue360 strategy. BLIN will target Apps that are established within an existing online marketplace, generate revenue of at least $2 million, and are accretive to operating and net income. An acquired technology will be integrated into the Revenue360 Dashboards artificial intelligence recommendation algorithm.

Industry Brief



Experience Management Market

In February 2020, consulting firm Grand View Research issued a report stating that the global customer experience management market generated revenue of $6.5 billion in 2019. Grand View Research predicts (see chart on the right) annualized revenue growth of 17.7% from 2020 to 2027 due primarily to increasing demand for personalized experiences by customers across different industries. The report observes that customer experience management represents an evolving set of practices and technologies that makes a continuous transformation within organizations in order to meet and exceed consumer expectations. Business organizations understand the importance of customer experience management (such as BLIN's Unbound platform) since it assists organizations in strengthening their brand presence, improves consumer loyalty, reduces consumer churn, and in turn, boosts business revenue.

In July 2020, Marketandmarkets published a Customer Experience Management Market report projecting 11.8% annualized growth to $14.9 billion in 2025, up from an estimated $8.5 billion in 2020. Supporting their growth forecast within the Customer Experience Management market is the continuing need to better understand customers in order to help organizations enhance their customer engagement strategies, as well as developing solutions that can reduce customer churn.

Projections

Basis of Forecast

We anticipate the primary growth drivers will be recurring revenue sales of its Celebros Search offering with additional sales coming from the company's portfolio of individual Apps to enhance each customers content management experience, as well as steady enterprise platform sales and associated digital engagement services. Recurring higher margin revenue from Celebros Search and Apps sales have a three week sales cycle. From early August 2020 to early September 2020, the company announced 11 new Celebros Search customers. In August 2020, a US drop shipping supplier selected Celebros Search to enhance the site search capabilities of its online store of more than 20,000 organic, specialty, and gourmet products and improve their customer experience. In September 2020, a leading lens manufacturer and independent pharmacy group in Ireland selected Celebros Search to enhance the site search capabilities of its ecommerce store and improve its online experience for customers.

We anticipate enterprise platform sales growth utilizing the company's Unbound Digital Experience platform. In September 2020, a global franchise of print and marketing services selected Bridgeline to power its franchise Websites with the Unbound Platform. The initial multi-year license and services agreement value is at least $650,000. BLIN will provide a complete digital experience including the customers' corporate Website, hundreds of franchisee location sites, as well as their franchise development Website.

In fiscal 2020 (ended September 30), we anticipate a significant expansion of gross margin to 58.8% compared to 46.1% in FY19. Gross margin expansion stems from the product mix shift to higher margin subscription and perpetual license revenue that should account for 69% of total sales compared to 58.6% in 2019. We forecast gross margin improving to 64.9% in FY21 due primarily to increased sales of higher margin subscription and perpetual license revenue that should account for nearly 77% of total sales by September 30, 2021.

Our forecast does not include changes in fair value of warrant liabilities or income tax expense until reported by the company. At September 30, 2019, BLIN had federal net operating loss carryforwards of approximately $34 million.

Economy

In June 2020, the International Monetary Fund (IMF) updated its economic growth estimate for the US to a decline of 8% for 2020 followed by growth of 4.5% in 2021. In April 2020, the IMF projected a decline in US growth of 5.9% for 2020 and growth of 4.7% for 2021. The revisions primarily reflect a more negative impact of the COVID-19 pandemic in 1H20 than originally anticipated and a more gradual recovery than previously forecast.

The second estimate of US GDP growth (released on August 27, 2020) showed the US economy decreased at an annual rate of 31.7% in 2Q20, greater than the 5% decline reported in 1Q19. The 2Q20 US GDP estimate primarily reflects decreases in consumer spending, exports, inventory investment, business investment, and housing investment, partially offset by an increase government spending.

Operations – FY20 (ended September 30)

We project 9% total revenue growth to $10.8 million from $10 million in FY19 due primarily to 28.4% sales growth in recurring subscription (SaaS) and perpetual licenses to $7.5 million, up from $5.8 million in FY19. Partly offsetting total sales growth is a decrease in digital engagement services revenue to $3.4 million compared to $4.1 million in FY19.

We forecast gross profit increasing 38.8% to nearly $6.4 million compared to $4.6 million in FY19 due primarily to sales growth and gross margin expanding to 58.8% from 46.1% in FY19. We project the operating loss narrowing to $1.7 million from $6.3 million in FY19 (excluding nearly $4.8 million in charges related to goodwill impairment and restructuring and acquisition related expenses in FY19). The narrowing of the operating loss reflects sales growth, gross margin expansion, and operating margin expense improving to 74% from 109% (excluding charges) in FY19. We forecast operating expenses decreasing to $8.2 million compared to $10.9 million (excluding charges) in FY19. The decrease reflects a reduced headcount and streamlining of the company's sales, marketing, and support programs that is becoming more automated. We anticipate an increase in D&A expense to $941,000 compared to $620,000 due primarily to acquisitions made within the past year.

We project non-operating income of $1.1 million compared to $1.6 million. In the current period, the primary component of non-operating income is change in fair value of warrant liabilities reported during the first nine-months of fiscal 2020. The year-ago period primarily reflects other income partly offset by interest expense and amortization of debt discount.

We project a net loss of $3 million or ($0.78) per share compared to a loss of $9.8 million or ($8.16) per share. Our forecast includes income tax expense of $9,000 and preferred and deemed dividends of $2.4 million compared to income tax expense and preferred dividends of $319,000. Excluding the change in fair value of warrant liabilities and preferred and deemed dividends the company could report a loss of approximately $488,000 compared to a loss of approximately $5 million that excludes nearly $4.8 million in goodwill, restructuring, and acquisition related expenses in FY19.

Finances – 2020

We project cash burn of $725,000 and a $602,000 decrease in working capital resulting in cash used in operations of $123,000. The decrease in working capital was due primarily to an increase in deferred revenue and decreases in receivables and prepaid expenses, partly offset by a decrease in accruals. The company received slightly more than $1 million in a government loan related to the COVID-19 pandemic, which is likely to more than offset cash used in operations, increasing cash by $973,000 to nearly $1.3 million at September 30, 2020.

Operations – FY21

We project 14.8% total revenue growth to nearly $12.5 million from an estimated $10.8 million in FY20 due primarily to 27.4% sales growth in recurring subscription (SaaS) and perpetual licenses to $9.6 million, up from an estimated $7.5 million in FY20. Partly offsetting total sales growth is a decrease in digital engagement services revenue to $2.9 million compared to an estimated $3.4 million in FY20 reflecting the ongoing shift to sales of out of the box ready recurring revenue licenses that require less customization services.

We forecast gross profit increasing 26.9% to nearly $8.1 million compared to an estimated $6.4 million in FY20 due primarily to sales growth and gross margin expanding to 64.9% from an estimated 58.8% in FY20. We project an operating profit of nearly $1.2 million compared to an operating loss of $1.7 million in FY20. Our forecast for an operating profit reflects sales growth, gross margin expansion, and operating margin expense improving to 55.3% from an estimated 74% in FY020. We forecast operating expenses decreasing to $6.9 million compared to $8 million in FY20. The decrease reflects a full year of reduced headcount and streamlining of the company's sales, marketing, and support programs that became more automated in 2H20. We anticipate sales and marketing and G&A expenses (combined) decreasing to $4.5 million compared to $5.1 million in FY20 due primarily to lower G&A costs. We anticipate a decrease in D&A expense to $740,000 compared to an estimated $941,000 in FY20. R&D expense should increase $22,000 to approximately $1.6 million. The year-ago period includes approximately $373,000 in restructuring charges compared to none in the current period.

We project no non-operating income or loss in the current period.

We project net income of nearly $1.2 million or $0.27 per share compared to a loss of $3 million or ($0.78) per share. Our FY21 forecast does not include income tax expense or preferred dividends compared to our FY20 forecast that includes income tax expense of $9,000 and preferred and deemed dividends of $2.4 million.

Finances – 2021

We project cash earnings of $1 million and a $432,000 increase in working capital resulting in cash from operations of $606,000. The increase in working capital was due primarily to a decrease in payables and an increase in receivables. Cash from operations should cover capital expenditures increasing cash by $531,000 to nearly $1.9 million at September 30, 2021.

3Q20 and 9M20 Results

<u>3Q20</u>

The company reported total net revenue decreased $61,000 to $2.6 million due to lower digital engagement services nearly offset by increased sales of subscription and perpetual licenses. Digital engagement services sales decreased by $405,000 to $713,000 due primarily to fewer implementations. Subscription and perpetual licenses sales increased 21.8% or $344,000 to $1.9 million due to a 21.8% increase in recurring revenue customers from SaaS licenses, and maintenance and hosting revenue to $1.9 million from nearly $1.6 million in the year-ago period.

Gross profit increased 29.2% to nearly $1.6 million from $1.2 million in the year-ago period. The increase reflects gross margin expansion to 59% from 44.6% in the year-ago period due primarily to a reduced headcount and decrease in the use of third-party consultants, as well as a shift in the product mix toward higher margin recurring license revenue. Operating expenses decreased to $1.4 million from $3.1 million (excludes $938,000 in restructuring and acquisition related expenses in 3Q19). Sales and marketing expense decreased to $312,000 from nearly $1.5 million due primarily to reduced headcount. General and administrative expense decreased to $464,000 from $785,000 in the year-ago period reflecting a decrease in support headcount and personnel expenses. R&D and D&A expenses were $402,000 and $224,000, respectively compared to $592,000 and $257,000, respectively in the year-ago period.

Income from operations was $150,000 compared to a loss of $2.8 in the year-ago period due to sales growth, gross margin expansion, and operating margin expense improving to 53.3% from 150% in 3Q19.

Non-operating expense was $1.8 million compared to income of $10.2 million. The decrease almost exclusively reflects swing to a loss in the change in fair value of warrant liabilities from a gain. Interest expense and other expense was $2,000 compared to income of $7,000 in the year-ago period.

The net loss was $1.7 million or ($0.44) per share compared income of $7.2 million or $3.56 per share. The current period included income tax expense of $6,000 compared to income tax expense and preferred dividends of $81,000. Excluding the change in fair value of warrant liabilities the company would have reported income of approximately $140,000 compared to a loss of approximately $2 million (excluding $938,000 in restructuring and acquisition related expenses).

<u>9M20 Results</u>

Total net revenue increased 12.9% to $8.2 million due to a $1.3 million increase in subscription and perpetual license sales to nearly $1.5 million, partly offset by a $394,000 decrease in digital engagement services sales.

Gross profit increased 51.4% to nearly $4.6 million from $3 million in the year-ago period due to sales growth and gross margin expansion to 55.8% from 41.6% in the year-ago period.

Operating expenses decreased to $6.4 million from $12.6 million. The year-ago period included nearly $5 million of charges related to goodwill impairment and restructuring and acquisition related costs. The decrease in operating expenses excluding the charges in the year-ago period reflects a reduced headcount and personnel from acquisitions, as well as decreased commission expenses, partly offset an increase in

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Total Revenue	$ 8,202	$ 7,264	12.9%
Cost of sales	3,622	4,239	(14.6%)
Gross Profit	4,580	3,025	51.4%
Total Operating Expenses	6,388	12,569	(49.2%)
Operating Income (loss)	(1,808)	(9,544)	NMF
Total Other Income (Expense)	1,075	(615)	
Pre-Tax Income (loss)	(733)	(10,159)	NMF
Income Tax Expense (Benefit)	9	7	NMF
Dividends & deemed dividends preferred	2,420	235	
Net Income (loss)	$ (3,162)	$ (10,401)	NMF
EPS (loss)	$ (0.97)	$ (12.38)	NMF
Avg Shares	3,265	840	
Margins			
Gross Margins	55.8%	41.6%	
Operating Margin	(22.0%)	(131.4%)	
Selling expense	38.7%	54.0%	
General and Administrative expense	40.8%	69.6%	
Tax Rate	(1.2%)	(0.1%)	

Source: company reports

amortization of intangible assets resulting from acquisitions. The operating loss narrowed to $1.8 million from nearly $4.6 million (excludes approximately $5 million in goodwill, restructuring, and acquisition related charges).

Non-operating income was nearly $1.1 million compared to an expense of $615,000. The improvement almost exclusively reflects swing to a gain in the change in fair value of warrant liabilities. Non-operating expense in the year-ago period includes interest expense of $316,000, amortization of debt discount of $231,000, warrant liability expense of $11.3 million and a gain in change in the fair value of warrant liabilities of $11.2 million.

The net loss was $3.2 million or ($0.97) per share compared to a loss of $10.4 million or ($12.38) per share. The current period included income tax expense of $9,000 and preferred and deemed dividends of $2.4 million compared to income tax expense and preferred dividends of $242,000. Excluding the change in fair value of warrant liabilities and preferred and deemed dividends the company would have reported income of approximately $230,000 compared to a loss of approximately $5.4 million (excluding nearly $5 million in goodwill, restructuring, and acquisition related expenses).

Finances

The company reported 9M20 cash burn of $956,000 and a $729,000 decrease in working capital resulting in cash used in operations of $227,000. The decrease in working capital was due primarily to an increase in deferred revenue and decrease in receivables. The company received slightly more than $1 million from a loan related to the US governments paycheck protection program, which more than offset cash used in operations. Cash increased $869,000 to nearly $1.2 million at June 30, 2020.

Capital Structure

At June 30, 2020 the company had total debt of slightly more than $1 million ($466,000 short-term and $582,000 long-term related to a loan received on April 17, 2020 from BNB Bank pursuant to the paycheck protection program under the Coronavirus Aid, Relief and Economic Security Act. The loan bears annual interest at a fixed rate of 1%, with the first six months of interest deferred and an initial term of two years, and is unsecured and guaranteed by the Small Business Administration. BLIN may apply to the lender for forgiveness of the loan with the amount which may be forgiven equal to the sum of payroll costs, covered rent obligations, and covered utility payments incurred during the twenty-four week period beginning on April 21, 2020.

On August 13, 2020, BLIN entered into an arrangement with an investment banking firm to sell up to approximately 3.8 million shares of common stock (an At-The-Market offering - ATM). Pursuant to the ATM offering, shares may be sold on a daily basis, at a gross sales price equal to the market price for shares of BLIN's common stock on the Nasdaq Capital Market at the time of sale of such shares. The company will pay a 2.5% fee to the manager based on the gross sales price of shares sold. The ATM offering will expire on August 13, 2021 or upon written notice of termination by either the company or the manager. If proceeds are raised using the ATM offering, they will be used for working capital and general corporate purposes.

Competitive Landscape

The markets for BLIN's products and services that include software for Web content management, eCommerce platform software, eMarketing software, Web analytics software, Apps, and digital engagement services are highly competitive, fragmented, and rapidly changing. The barriers to entry are relatively low with the markets being significantly affected by new product introductions. Competition can be intense with the introduction of new technologies and market participants. The industry is constantly evolving and competition is likely to increase in the future. The primary competitive factors within the industry include platform integration, product functionality, ease of use, scalability, open architecture, cost of ownership, integration with third-party applications and data sources, and name recognition and brand reputation.

While competitors typically offer their Web application software typically as a single point of entry type, BLIN's Unbound platform provides enterprise customers integrated software with an architecture that is flexible and capable of being deployed in either a Cloud/SaaS or dedicated server environment.

Some competitors within the industry that likely have greater financial resources than BLIN include HubSpot, Constant Contact, Shopify, SAP, Adobe, Unbxd, and Nosto.

Management

Ari Kahn – CEO since November 2015, joined the company in August 2015. He co-founded FatWire, a content management and digital engagement company where he served as General Manager and Chief Technology Officer. Served as Chairman and CEO of Great Land Holdings, a resort development company. Holds a Ph.D. in Computer Science and Artificial Intelligence from the University of Chicago.

Mark Downey – CFO and Treasurer since July 2019. Mr. Downey served in various finance and operations positions holding CFO and COO positions at several public and privately held companies in the technology, private equity, financial services, and professional services industries. His experience is in accounting, capital markets structuring, risk, treasury, and mergers and acquisition due diligence. Started as a Certified Public Accountant at Coopers & Lybrand. Holds a BBA from Iona College – Hagan School of Business.

Risks

In our view, these are the principal risks underlying the stock.

Operating Losses – Going Concern
At June 30, 2020, the company's accumulated deficit was nearly $74.7 million, up from $61.8 million in FY17 (ended September 30). Bridgeline Digital, Inc. just turned an operating profit of $150,000 in 3Q20. We anticipate small but steady growth in operating profits through our forecast period. If operating profits do not occur, it could result in the company's in ability to execute its growth strategy and diminish its operations.

In March 2020, BLIN executed a reduction in force of 15 positions for its domestic and Canadian operations aimed at improving efficiencies by combining functions, certain responsibilities and eliminating redundancies. The reduction in force was part of the company's efforts to maintain a lower cost structure. Cost control efforts along with growing sales and operating profit could eliminate the company's going concern issues.

Dilution
On August 13, 2020, BLIN entered into an At-The-Market offering (ATM) arrangement with an investment banking firm to sell up to approximately 3.8 million shares of its common stock. The company is not obligated to issue new shares under this arrangement which expires in August 2021.

The company has nearly 5 million warrants that have an exercise price of approximately $4 per share. Half of the warrants expire in March 2021 with the remainder expiring in September 2024.

Additional common shares (approximately 39,000) could be issued upon the conversion of preferred stock (series C).

COVID-19 Global Pandemic
A potential disruption of US economic conditions lies in the global spread of COVID-19. Any global disruptions of economic activity or could adversely impact corporate operating results.

Customer Concentration
For 9M20, BLIN had one customer account for approximately 12% of total revenue compared to two customers that accounted for approximately 28% of total revenue in the year-ago period. At June 30, 2020, two customers accounted for approximately 26% of accounts receivable compared to one customer accounting for more than 10% in 3Q19. At the end of FY19, three customers represented approximately 42% of receivables.

Intellectual Property
The company relies on a combination of copyright, trademark and trade secret laws, as well as licensing agreements, third-party non-disclosure agreements and other contractual measures to protect its intellectual property rights. These

protections may not be adequate to prevent competitors from copying or reverse-engineering BLIN's products or competitors independently developing technologies that are similar or superior to its technology. To protect trade secrets and other proprietary information, employees, consultants, advisors and collaborators are required to enter into confidentiality agreements.

Policing unauthorized use of the company's products may be difficult and litigation could become necessary in the future to enforce its intellectual property rights. Any litigation could be time consuming and could result in substantial diversion of management's attention and resources that could diminish operations and finances.

Hosting Services

The company hosts its cloud Software-as-a-Service and managed hosting customers via a third-party, Amazon Web Services. If upon the renewal date its third-party provider does not provide commercially reasonable terms, the company may be required to transfer its services to a new provider, such as a data center facility that could result in significant equipment costs and possible service interruptions. Any interruptions in its services might reduce revenue, as well as cause customer credits and or refunds to be issued. These issues could reduce the company's customer renewal rate.

Cyber Security

Security breaches could expose the company to a risk of loss of its customers' information, litigation and possible liability. While security measures are in place, they may be breached as a result of third-party action, including intentional misconduct by computer hackers, employee error or malfeasance and result in someone obtaining unauthorized access to BLIN's information technology systems, customers' or its own data, including intellectual property and other confidential business information.

BLIN relies on encryption and authentication technology from third parties to provide the security and authentication to effectively secure transmission of confidential information, including consumer payment card numbers. The encryption and authentication technology used may not be sufficient to protect transmission of confidential data. Any liability issues not covered by insurance or that is in excess of insurance coverage could harm BLIN's reputation, business, and operating results.

Integration of Acquisitions

Since 2000, the company has acquired multiple businesses. Future acquisitions could involve substantial investment of funds or financings by the issuance of debt or equity securities, as well as resulting in one-time charges and expenses and have the potential to either dilute the interests of existing shareholders or result in the issuance or assumption of debt. Future acquisitions may require management's time and effort to generate revenues and operating profits that could take away from existing operations.

Shareholder Control

Officers and directors collectively own approximately 10.2% of the company's outstanding voting stock (includes Michael Taglich – Director and President of Taglich Brothers, Inc.) as of the July 2020 SEC filing. Collectively this ownership could potentially greatly influence the outcome of matters requiring stockholder approval. These decisions may or may not be in the best interests of the other shareholders.

Miscellaneous Risk

The company's financial results and equity values are subject to other risks and uncertainties, including competition, operations, financial markets, regulatory risk, and/or other events. These risks may cause actual results to differ from expected results.

Trading Volume

In 2019, average daily volume was approximately 610,000. Average daily volume increased over the last three months (ending September 23, 2020) to approximately 576,000. BLIN has a float of approximately 4.3 million shares and outstanding shares of 4.4 million.

Bridgeline Digital, Inc.
Consolidated Balance Sheets
FY2018 – FY2021E
(in thousands)

	FY18A	FY19A	3Q20A	**FY20E**	**FY21E**
ASSETS					
Current assets:					
Cash and cash equivalents	$ 644	$ 296	$ 1,165	**$ 1,269**	**$ 1,870**
Accounts receivables, net	1,721	979	799	**834**	**1,045**
Prepaid expenses	452	351	267	**268**	**295**
Other current assets	21	49	18	**20**	**20**
Total current assets	2,838	1,675	2,249	**2,392**	**3,230**
Property and equipment, net	80	299	252	**252**	**255**
Operating lease assets	-	-	325	**325**	**225**
Intangible assets, net	20	3,509	2,831	**2,821**	**2,781**
Goodwill	7,782	5,557	5,557	**5,557**	**5,557**
Other assets	280	115	83	**82**	**80**
Total assets	$ 11,000	$ 11,155	$ 11,297	**$ 11,429**	**$ 12,128**
LIABILITIES AND STOCKHOLDERS' EQUITY					
Current liabilities:					
Operating lease liabilities	-	-	96	**96**	**96**
Accounts payable	1,577	1,740	1,869	**1,678**	**1,198**
Accrued liabilities	580	835	588	**537**	**522**
Debt	1,017	-	466	**466**	**-**
Deferred revenue	594	1,262	1,779	**2,000**	**2,300**
Total current liabilities	3,768	3,837	4,798	**4,777**	**4,116**
Long-term debt, net	2,574	-	582	**582**	**-**
Operating lease liabilities, net	-	-	229	**229**	**229**
Warrant liabilities	180	3,514	2,436	**2,436**	**3,436**
Other liabilities	54	8	5	**5**	**5**
Total long-term liabilities	2,808	3,522	3,252	**3,252**	**3,670**
Total liabilities	$ 6,576	$ 7,359	$ 8,050	**$ 8,029**	**$ 7,786**
Stockholders' equity:					
Preferred stock, $0.001 par value; 1,000,000 authorized					
Series C convertible preferred stock, 11,000 shares authorized	-	-	-	-	-
Series A convertible preferred stock	-	-	-	-	-
Common stock, $0.001 par value; authorized 50,000,000 shares	-	3	4	**4**	**4**
Additional paid-in capital	66,553	75,620	78,255	**78,455**	**78,537**
Retained earnings (loss)	(61,778)	(71,489)	(74,652)	**(74,499)**	**(73,829)**
Accumulated other comprehensive income (loss)	(351)	(338)	(360)	**(560)**	**(370)**
Total stockholders' equity	4,424	3,796	3,247	**3,400**	**4,342**
Total liabilities and stockholders' equity	$ 11,000	$ 11,155	$ 11,297	**$ 11,429**	**$ 12,128**
Shares Outstatnding - Common Stock	84	2,798	4,420	**4,430**	**4,435**
Series C convertible preferred stock - outstanding	-	441	355	355	355
Series A convertible preferred stock - outstanding	262,364	262,300	-	-	-

Source: Company reports and Taglich Brothers estimates

Bridgeline Digital, Inc.
Annual Income Statement
FY2018 – FY2021E
(in thousands)

	FY2018A	FY2019A	**FY2020E**	**FY2021E**
Digital engagement services	$ 6,914	$ 4,117	**$ 3,353**	**$ 2,900**
Subscription (SaaS) / Perpetual licenses	6,654	5,835	**7,494**	**9,550**
Total revenue	13,568	9,952	**10,847**	**12,450**
Cost of sales -- Web	4,473	2,261	**1,735**	**1,420**
Cost of sales -- Subscription - Licenses	2,275	3,099	**2,739**	**2,945**
Total cost of revenue	6,748	5,360	**4,474**	**4,365**
Total Gross Profit	6,820	4,592	**6,373**	**8,085**
Operating Expenses:				
Sales and Marketing	3,951	4,824	**2,689**	**2,650**
General and Administrative	2,852	3,246	**2,406**	**1,860**
Research and Development	1,604	2,185	**1,618**	**1,640**
Depreciation and amortization	356	620	**941**	**740**
Impairment of goodwill	4,859	3,732	**-**	**-**
Restructuring and acquisition related expenses	187	1,053	**373**	**-**
Total Operating Expenses	13,809	15,660	**8,027**	**6,890**
Operating Income (loss)	(6,989)	(11,068)	**(1,654)**	**1,195**
Interest expense and other , net	(265)	(304)	**(5)**	**-**
Amortization of debt discount	(129)	(231)	**-**	**-**
Warrant liability expense	-	(11,272)	**-**	**-**
Change in fair value of warrant liabilities	-	11,272	**1,078**	**-**
Other income (expense), net	161	2,133	**-**	**-**
Total Other Income (Expense)	(233)	1,598	**1,073**	**-**
Pre-Tax Income (loss)	(7,222)	(9,470)	**(581)**	**1,195**
Income Tax Expense (Benefit)	(3)	4	**9**	**-**
Net Income (loss)	$ (7,219)	$ (9,474)	**$ (590)**	**$ 1,195**
Dividends on convertible preferred stock	(310)	(315)	**(2,420)**	**-**
Net Income (loss) - to common shareholders	$ (7,529)	$ (9,789)	**$ (3,010)**	**$ 1,195**
EPS (loss) - to common shareholders	$ (89.05)	$ (8.16)	**$ (0.78)**	**$ 0.27**
Weighted Average Shares Outstanding	85	1,199	**3,877**	**4,433**
EBITDA	$ (1,226)	$ (5,353)	**$ (132)**	**$ 2,135**
Margins				
Gross Margin -- Web	35.3%	45.1%	**48.3%**	**51.0%**
Gross Margin -- Subscription - Licenses	65.8%	46.9%	**63.5%**	**69.2%**
Total Gross Margin	50.3%	46.1%	**58.8%**	**64.9%**
Operating Margin	(51.5%)	(111.2%)	**(15.2%)**	**9.6%**
Sales & Marketing	29.1%	48.5%	**24.8%**	**21.3%**
General & Administrative	21.0%	32.6%	**22.2%**	**14.9%**
Research and Development	11.8%	22.0%	**14.9%**	**13.2%**
Operating expense	101.8%	157.4%	**74.0%**	**55.3%**
Pre-Tax Margins	(53.2%)	(95.2%)	**(5.4%)**	**9.6%**
Tax rate	0.0%	(0.0%)	**(1.5%)**	**0.0%**
YEAR / YEAR GROWTH				
Total Revenues		(26.7%)	**9.0%**	**14.8%**
Subscription (SaaS) / Perpetual licenses		(12.3%)	**28.4%**	**27.4%**

Source: Company reports and Taglich Brothers estimates

Bridgeline Digital, Inc.
Income Statement Model
Quarters FY2019 – 2021E
(in thousands)

	1Q19A	2Q19A	3Q19A	4Q19A	FY2019A	1Q20A	2Q20A	3Q20A	4Q20E	**FY2020E**	1Q21E	2Q21E	3Q21E	4Q21E	**FY2021E**
Digital engagement services	$ 1,073	$ 911	$ 1,118	$ 1,015	$ 4,117	$ 1,096	$ 899	$ 713	$ 645	**$ 3,353**	$ 725	$ 725	$ 725	$ 725	**$ 2,900**
Subscription (SaaS) / Perpetual licenses	1,302	1,285	1,575	1,673	5,835	1,736	1,839	1,919	2,000	**7,494**	2,150	2,275	2,500	2,625	**9,550**
Total revenue	2,375	2,196	2,693	2,688	9,952	2,832	2,738	2,632	2,645	**10,847**	2,875	3,000	3,225	3,350	**12,450**
Cost of sales -- Web	855	571	416	419	2,261	583	457	395	300	**1,735**	355	355	355	355	**1,420**
Cost of sales -- Subscription - Licenses	486	1,036	1,075	502	3,099	728	727	684	600	**2,739**	670	715	775	785	**2,945**
Total cost of revenue	1,341	1,607	1,491	921	5,360	1,311	1,184	1,079	900	**4,474**	1,025	1,070	1,130	1,140	**4,365**
Total Gross Profit	1,034	589	1,202	1,767	4,592	1,521	1,554	1,553	1,745	**6,373**	1,850	1,930	2,095	2,210	**8,085**
Operating Expenses:															
Sales and Marketing	814	945	1,469	1,596	4,824	1,076	786	312	515	**2,689**	625	650	675	700	**2,650**
General and Administrative	778	744	785	939	3,246	754	723	464	465	**2,406**	450	460	470	480	**1,860**
Research and Development	418	489	592	686	2,185	390	426	402	400	**1,618**	410	410	410	410	**1,640**
Depreciation and amortization	26	78	257	259	620	258	249	224	210	**941**	200	190	180	170	**740**
Impairment of goodwill	3,732	-	-	-	3,732	-	-	-	-	-	-	-	-	-	-
Restructuring and acquisition related expenses	-	304	938	(189)	1,053	5	367	1	-	**373**	-	-	-	-	-
Total Operating Expenses	5,768	2,560	4,041	3,291	15,660	2,483	2,551	1,403	1,590	**8,027**	1,685	1,710	1,735	1,760	**6,890**
Operating Income (loss)	(4,734)	(1,971)	(2,839)	(1,524)	(11,068)	(962)	(997)	150	155	**(1,654)**	165	220	360	450	**1,195**
Interest expense and other , net	(79)	(104)	7	(128)	(304)	-	(1)	(2)	(2)	**(5)**	-	-	-	-	-
Amortization of debt discount	(150)	(221)	-	140	(231)	-	-	-	-	-	-	-	-	-	-
Warrant liability expense	-	(11,272)	-	-	(11,272)	-	-	-	-	-	-	-	-	-	-
Change in fair value of warrant liabilities	12	1,046	10,146	68	11,272	1,101	1,820	(1,843)	-	**1,078**	-	-	-	-	-
Other income (expense), net	-	-	-	2,133	2,133	-	-	-	-	-	-	-	-	-	-
Total Other Income (Expense)	(217)	(10,551)	10,153	2,213	1,598	1,101	1,819	(1,845)	(2)	**1,073**	-	-	-	-	-
Pre-Tax Income (loss)	(4,951)	(12,522)	7,314	689	(9,470)	139	822	(1,695)	153	**(581)**	165	220	360	450	**1,195**
Income Tax Expense (Benefit)	4	-	3	(3)	4	3	-	6	-	**9**	-	-	-	-	-
Net Income (loss)	$ (4,955)	$(12,522)	$ 7,311	$ 692	$ (9,474)	$ 136	$ 822	$ (1,701)	$ 153	**$ (590)**	$ 165	$ 220	$ 360	$ 450	**$ 1,195**
Dividends on convertible preferred stock	(79)	(78)	(78)	(80)	(315)	(2,393)	(27)	-	-	**(2,420)**	-	-	-	-	-
Net Income (loss) - to common shareholders	$ (5,034)	$(12,600)	$ 7,233	$ 612	$ (9,789)	$ (2,257)	$ 795	$ (1,701)	$ 153	**$ (3,010)**	$ 165	$ 220	$ 360	$ 450	**$ 1,195**
EPS (loss) - to common shareholders	$ (22.87)	$ (41.52)	$ 3.56	$ 0.21	$ (8.16)	$ (0.81)	$ 0.18	$ (0.44)	$ 0.03	**$ (0.78)**	$ 0.04	$ 0.05	$ 0.08	$ 0.10	**$ 0.27**
Weighted Average Shares Outstanding	220	303	2,033	2,915	1,199	2,798	4,413	3,877	4,420	**3,877**	4,425	4,430	4,435	4,440	**4,433**
EBITDA	$ (916)	$ (1,596)	$ (1,606)	$ (1,235)	$ (5,353)	$ (669)	$ (331)	$ 428	$ 440	**$ (132)**	$ 415	$ 460	$ 590	$ 670	**$ 2,135**
Margins															
Gross Margin -- Web	20.3%	37.3%	62.8%	58.7%	45.1%	46.8%	49.2%	44.6%	53.5%	**48.3%**	51.0%	51.0%	51.0%	51.0%	**51.0%**
Gross Margin -- Subscription - Licenses	62.7%	19.4%	31.7%	70.0%	46.9%	58.1%	60.5%	64.4%	70.0%	**63.5%**	68.8%	68.6%	69.0%	70.1%	**69.2%**
Total Gross Margin	43.5%	26.8%	44.6%	65.7%	46.1%	53.7%	56.8%	59.0%	66.0%	**58.8%**	64.3%	64.3%	65.0%	66.0%	**64.9%**
Operating Margin	(199.3%)	(89.8%)	(105.4%)	(56.7%)	(111.2%)	(34.0%)	(36.4%)	5.7%	5.9%	**(15.2%)**	5.7%	7.3%	11.2%	13.4%	**9.6%**
Sales & Marketing	34.3%	43.0%	54.5%	59.4%	48.5%	38.0%	28.7%	11.9%	19.5%	**24.8%**	21.7%	21.7%	20.9%	20.9%	**21.3%**
General & Administrative	32.8%	33.9%	29.1%	34.9%	32.6%	26.6%	26.4%	17.6%	17.6%	**22.2%**	15.7%	15.3%	14.6%	14.3%	**14.9%**
Research and Development	17.6%	22.3%	22.0%	25.5%	22.0%	13.8%	15.6%	15.3%	15.1%	**14.9%**	14.3%	13.7%	12.7%	12.2%	**13.2%**
Operating expense	242.9%	116.6%	150.1%	122.4%	157.4%	87.7%	93.2%	53.3%	60.1%	**74.0%**	58.6%	57.0%	53.8%	52.5%	**55.3%**
Pre-Tax Margins	(208.5%)	(570.2%)	271.6%	25.6%	(95.2%)	4.9%	30.0%	(64.4%)	5.8%	**(5.4%)**	5.7%	7.3%	11.2%	13.4%	**9.6%**
Tax rate	(0.1%)	0.0%	0.0%	(0.4%)	(0.0%)	2.2%	0.0%	(0.4%)	0.0%	**(1.5%)**	0.0%	0.0%	0.0%	0.0%	**0.0%**
YEAR / YEAR GROWTH															
Total Revenues					(26.7%)	19.2%	24.7%	(2.3%)	(1.6%)	**9.0%**	1.5%	9.6%	22.5%	26.7%	**14.8%**
Subscription (SaaS) / Perpetual licenses					(12.3%)	33.3%	43.1%	21.8%	19.5%	**28.4%**	23.8%	23.7%	30.3%	31.3%	**27.4%**

Source: Company reports and Taglich Brothers estimates

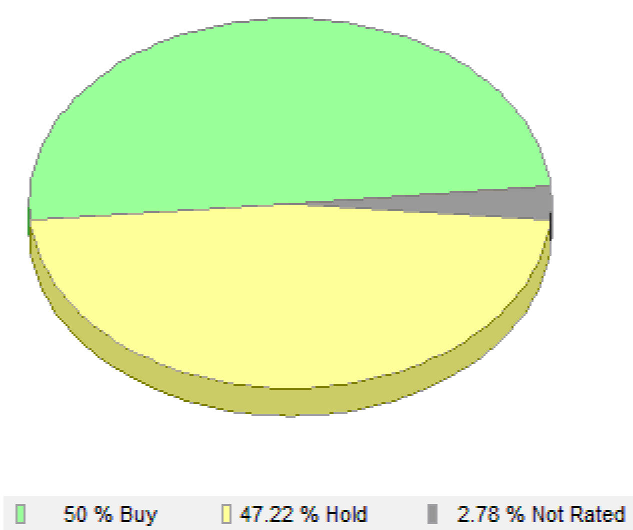
Bridgeline Digital, Inc.
Cash Flow Statement
FY2018 – FY2021E
(in thousands)

	FY2018 A	FY2019 A	9 Mos.20A	**FY2020 E**	**FY2021 E**
Cash Flows from Operating Activities					
Net Income (loss)	$ (7,219)	$ (9,474)	$ (742)	**$ (590)**	**$ 1,195**
Loss on disposal of property and equipment	60	9	-	**-**	**-**
Amortization of intangibles	242	544	678	**678**	**578**
Depreciation	105	66	40	**50**	**40**
Other amortization	66	39	13	**15**	**15**
Goodwill impairment	4,859	3,732	-	**-**	**-**
Amortization of debt discount	129	231	-	**-**	**-**
Warrant liability expense	-	11,272	-	**-**	**-**
Change in fair value of warrant liabilities	(160)	(13,404)	(1,078)	**(1,078)**	**(1,000)**
Stock-based compensation	491	249	133	**200**	**210**
Cash earnings (burn)	(1,427)	(6,736)	(956)	**(725)**	**1,038**
Changes In:					
Accounts receivables	1,305	1,306	486	**145**	**(211)**
Prepaid expenses	(74)	127	155	**83**	**(26)**
Other current assets and other assets	3	116	11	**29**	**-**
Accounts payable and accrued liabilities	(41)	448	(65)	**(360)**	**(495)**
Deferred revenue	(872)	478	174	**738**	**300**
Other liabilities	(8)	58	(32)	**(32)**	**-**
(Increase)/decrease in Working Capital	313	2,533	729	**602**	**(432)**
Net cash Provided by (Used in) Operations	(1,114)	(4,203)	(227)	**(123)**	**606**
Cash Flows from Investing Activities					
Equipment and improvements	(15)	(11)	-	**-**	**(5)**
Software development	(35)	(20)	-	**-**	**-**
Acquisition of businesses	-	(5,668)	-	**-**	**-**
Net cash used in Investing	(50)	(5,699)	-	**-**	**(5)**
Cash Flows from Financing Activities					
Proceeds from issuance of common stock, net	-	4,757	-	**-**	**-**
Proceeds from issuance of preferred stock, net	-	9,049	-	**-**	**-**
Proceeds from term notes from Montage Capital, net	953	-	-	**-**	**-**
Proceeds from promissory term notes	800	-	-	**-**	**-**
Borrowing on bank line of credit	920	75	-	**-**	**-**
Proceeds received under paycheck protection program	-	-	1,048	**1,048**	**-**
Payments on bank line of credit	(1,339)	(2,156)	-	**-**	**-**
Payments on term notes from Montage Capital	(78)	(922)	-	**-**	**-**
Payments on promissory term notes	-	(941)	-	**-**	**-**
Cash dividends paid on Series A convertible preferred stock	(195)	(315)	-	**-**	**-**
Net cash provided by Financing	1,061	9,547	1,048	**1,048**	**-**
Exchange rate	(1)	7	48	**48**	**-**
Net change in Cash	(104)	(348)	869	**973**	**601**
Cash Beginning of Period	748	644	296	**296**	**1,269**
Cash End of Period	$ 644	$ 296	$ 1,165	**$ 1,269**	**$ 1,870**

Source: Company reports and Taglich Brothers estimates

Price Chart

Taglich Brothers Current Ratings Distribution



Investment Banking Services for Companies Covered in the Past 12 Months		
Rating	#	%
Buy	2	11
Hold		
Sell		
Not Rated		

Important Disclosures

As of September 21, 2020, Taglich Brothers, Inc. and/or its affiliates own or have controlling interests in approximately 1% of BLIN common stock. Michael Taglich, President of Taglich Brothers, Inc. owns or has a controlling interest in 1,743 shares of BLIN common stock and as of July 21, 2020 owns or has a controlling interest in 248,981 shares of common stock underlying warrants and options issued and 350 shares of convertible Series C Preferred Stock (into approximately 39,000 common shares). Robert Taglich, Managing Director of Taglich Brothers, Inc., owns or has a controlling interest in 30,621 shares of BLIN common and an estimated 82,895 shares of common stock underlying warrants issued. Robert Schroeder, Vice President of Investment Banking at Taglich Brothers, Inc., owns or has a controlling interest in 2,823 shares of BLIN common stock and an estimated 7,922 shares of common stock underlying warrants issued. Doug Hailey, Director of Investment Banking at Taglich Brothers, Inc., owns or has a controlling interest in an estimated 1,654 warrants. Richard Oh, Managing Director of Taglich Brothers, Inc., owns or has a controlling interest in an estimated 1,500 warrants. Other employees at Taglich Brothers, Inc. also own or have controlling interests in 9,250 of BLIN warrants. Taglich Brothers, Inc. had an investment banking relationship with the company mentioned in this report. Prior to FY19, Taglich Brothers was the Placement Agent for many of BLIN's private offerings and debt issuances.

All research issued by Taglich Brothers, Inc. is based on public information. Bridgeline Digital, Inc. does not pay Taglich Brothers, Inc. for the creation and dissemination of research reports.

General Disclosures

The information and statistical data contained herein have been obtained from sources, which we believe to be reliable but in no way are warranted by us as to accuracy or completeness. We do not undertake to advise you as to changes in figures or our views. This is not a solicitation of any order to buy or sell. Taglich Brothers, Inc. is fully disclosed with its clearing firm, Pershing, LLC, is not a market maker and does not sell to or buy from customers on a principal basis. The above statement is the opinion of Taglich Brothers, Inc. and is not a guarantee that the target price for the stock will be met or that predicted business results for the company will occur. There may be instances when fundamental, technical and quantitative opinions contained in this report are not in concert. We, our affiliates, any officer, director or stockholder or any member of their families may from time to time purchase or sell any of the above-mentioned or related securities. Analysts and members of the Research Department are prohibited from buying or selling securities issued by the companies that Taglich Brothers, Inc. has a research relationship with, except if ownership of such securities was prior to the start of such relationship, then an Analyst or member of the Research Department may sell such securities after obtaining expressed written permission from Compliance.

Analyst Certification

I, Howard Halpern, the research analyst of this report, hereby certify that the views expressed in this report accurately reflect my personal views about the subject securities and issuers; and that no part of my compensation was, is, or will be directly or indirectly related to the specific recommendations or views contained in this report.

Public Companies mentioned in this report:

HubSpot, Inc.	(NYSE: HUBS)	Shopify Inc.	(NYSE: SHOP)
SAP SE	(NYSE: SAP)	Adobe Inc.	(NYSE: ADBE)

Meaning of Ratings

Buy – The growth prospects, degree of investment risk, and valuation make the stock attractive relative to the general market or comparable stocks.

Speculative Buy – Long-term prospects of the company are promising but investment risk is significantly higher than it is in our BUY-rated stocks. Risk-reward considerations justify purchase mainly by high risk-tolerant accounts. In the short run, the stock may be subject to high volatility and could continue to trade at a discount to its market.

Neutral – Based on our outlook the stock is adequately valued. If investment risks are within acceptable parameters, this equity could remain a holding if already owned.

Sell – Based on our outlook the stock is significantly overvalued. A weak company or sector outlook and a high degree of investment risk make it likely that the stock will underperform relative to the general market.

Discontinued – Research coverage discontinued due to the acquisition of the company, termination of research services (includes non-payment for such services), diminished investor interest, or departure of the analyst.

Some notable Risks within the Microcap Market

Stocks in the Microcap segment of the market have many risks that are not as prevalent in Large-cap, Blue Chips or even Small-cap stocks. Often it is these risks that cause Microcap stocks to trade at discounts to their peers. The most common of these risks is liquidity risk, which is typically caused by small trading floats and very low trading volume which can lead to large spreads and high volatility in stock price. In addition, Microcaps tend to have significant company-specific risks that contribute to lower valuations. Investors need to be aware of the higher probability of financial default and higher degree of financial distress inherent in the microcap segment of the market.

From time to time our analysts may choose to withhold or suspend a rating on a company. We continue to publish informational reports on such companies; however, they have no ratings or price targets. In general, we will not rate any company that has too much business or financial uncertainty for our analysts to form an investment conclusion, or that is currently in the process of being acquired.