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Research Report – Update

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

Bridgeline Digital, Inc.

Rating: Speculative Buy

Howard Halpern

BLIN $3.36 — (NASDAQ)

February 23, 2021

	2019 A	2020 A	*2021 E*	*2022 E*
Total Revenue (in millions)	$10.0	$10.9	***$12.2***	***$14.1***
Earnings (loss) per share*	($8.16)	($0.59)**	***($0.13)****	***$0.17***

52-Week range	$4.40 – $0.53	Fiscal year ends:	September
Shares outstanding a/o 02/11/21	5.3 million	Revenue/shares (ttm)*	$2.53
Approximate float	5.2 million	Price/Sales (ttm)	1.3X
Market Capitalization	$17.8 million	Price/Sales (2022) E	1.3X
Tangible Book value/shr	($1.06)	Price/Earnings (ttm)	NMF
Price/Book	NMF	Price/Earnings (2022) E	19.8X

**Reflects 1 for 50 reverse stock split in May 2019 **Includes a charge of ($0.68) per share related to preferred dividends, a $0.29 per share gain related to fair value of warrants, and $0.27 per share gain related to government grant income. ***Includes an estimated ($0.29) charge related to fair value of warrants.*

Bridgeline Digital, Inc., headquartered in Woburn, Massachusetts helps companies grow online revenues by increasing their traffic, conversion rate, and average order value with its digital engagement offerings that includes Celebros Search, Unbound, and OrchestraCMS.

Key Investment Considerations:

Maintaining Speculative Buy rating and increasing our 12-month price target to $6.75 from $3.35 per share reflecting our FY22 forecast (ending September 30, 2022) and an expanded sector valuation.

Brideline Digital has substantial growth potential for its digital engagement offerings (Celebros Search, Unbound, and OrchestraCMS) through its eCommerce360 sales and marketing strategy that enabled its sales organization to streamline the sales process. Analysts project the customer experience management market growing 12.1% annually to $14.5 billion by 2025, up from an estimated $8.2 billion in 2020.

Supporting our forecast through FY22 should be customer growth from sales of Celebros Search, which has the ability to sell additional Apps through its eCommerce360 artificial intelligence dashboard and the February 2021 acquisition of Woorank. Woorank provides its customers with audit and digital marketing software tools that should provide BLIN with incremental recurring subscription sales of at least $2 million in FY22.

In 1Q21, BLIN reported (on 02-11-21) a loss per share of ($0.26) on sales of $2.8 million (unchanged from 1Q20). In 1Q20, the loss per share was ($0.81). Excluding one-time items, EPS was approximately $0.09 per share in 1Q21 compared to a loss of ($0.34) in 1Q20.

For FY21, we project total revenue growth of 12% to $12.2 million, which includes 22.4% growth in higher margin subscription revenue to $9.2 million. Excluding an estimated ($0.29) charge related to fair value of warrant liabilities, we project EPS of $0.16 reflecting gross margins of 67.2%, up from 58.7% in FY20. Our forecast reflects 1Q21 results and integration of the February 2021 Woorank acquisition.

For FY22, we project EPS of $0.17 on total revenue growth of 15.8% to $14.1 million, driven by recurring subscription sales growth of 26.8% to $11.6%. Our EPS forecast reflects average shares outstanding increasing to nearly 5.4 million from 5 million in FY21 due to a February 2021 share offering.

Please view our Disclosures pages 14 - 16

Appreciation Potential

Maintaining Speculative Buy rating and increasing our 12-month price target to $6.75 from $3.35 per share reflecting our FY22 forecast (ending September 30, 2022) and an expanded sector valuation. Our rating and price target reflects projected sales growth and a swing to an operating profit in FY21 that should expand in FY22. Our sales growth and operating profit forecasts should be supported by the company's ability to grow its recurring revenue and enterprise platform customer bases as its eCommerce360 sales and marketing strategy continues to be implemented. The eCommerce360 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.

Supporting our forecast through FY22 should be customer growth from sales of Celebros Search, which has the ability to sell additional Apps through its eCommerce360 artificial intelligence dashboard and the February 2021 acquisition of Woorank. Woorank provides its customers with audit and digital marketing software tools that should provide BLIN with incremental recurring subscription sales of at least $2 million in FY22.

Our 12-month price target of $6.75 per share implies shares could double over the next twelve months. According to finviz.com (as of 02/23/21), the average price-to-sales multiple for companies with similar market capitalizations in the Software Application/Infrastructure and Internet Content sectors is 3.3X (prior was 2.8X), compared to BLIN's price-to-sales multiple of 1.3X. We anticipate investors are likely to accord Bridgeline Digital, Inc. a multiple approaching that of the sector given our forecasted recurring subscription sales growth of 26.8% in FY22. We applied a price-to-sales multiple of 2.9X to our FY22 sales per share forecast of $2.63, discounted for execution risk, to obtain a year-ahead price target of approximately $6.75 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 25.9% to FY22 from FY19, and operating profits in FY22 of $915,000 compared to an estimated operating profit of $794,000 in FY21, and an operating loss of $1.6 million in FY20. The company should produce cash earnings of $2.1 million in FY22, up from an estimated $1.9 million in FY21. In FY20, cash burn was $500,000.

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 primarily online retails.

Recent Developments

<u>February 2021</u>
Bridgeline offered and sold a total of 880,000 shares of its common stock to certain institutional and accredited investors at $3.10 per share in a registered direct offering for net proceeds of approximately $2.4 million. The proceeds will be used for general corporate and working capital purposes. Joseph Gunnar & Company acted as lead placement agent and Taglich Brothers, Inc. acted as co-placement agent.

The company acquired Woorank a Belgium based company that helps companies increase their online traffic, leads, and sales with an artificial intelligence system that analyzes their website relative to their competitors and partners to make intelligent recommendations for optimizing search engine organic rankings. Since 2010, Woorank analyzed 50 million Websites, had more than one million registered users in six languages and currently creates an estimated 700 new accounts each day based on one million monthly visits.

Bridgeline acquired all of the issued and outstanding shares of Woorank for approximately €1.4 million (approximately equal to US$1.7 million). Additionally, BLIN will assume approximately €1.9 million (or approximately US$2.3 million) of Woorank's debt obligations.

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 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.

The company's Celebros Search technology platform 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 that 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).

The company 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

eCommerce360

In FY20, the company's growth strategy has evolved into eCommerce360 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 eCommerce360 program, which sells and markets its Celebros Search and Apps offerings (see table 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 their site traffic, shopper conversion rate, and average order value. The February 2021 acquisition of Woorank increases BLIN's customer base as well as enhances its eCommerce360 opportunity to new customer leads drivne by Woorank's offering.

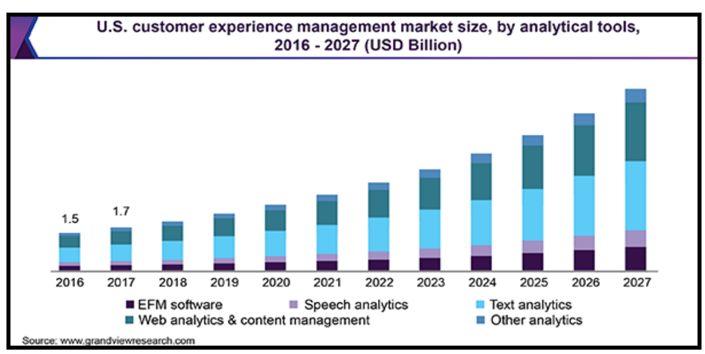
A unique feature of its offerings is the eCommerce360 Dashboard powered by an artificial intelligence algorithm that provides existing customers with recommendations to purchase additional App technologies (pictured above) that can increase their return on investment. A small section of the eCommerce360 Dashboard provides popups on what additional offerings 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 and in 2021 acquired Woorank. The company continues to evaluating strategic merger and acquisition opportunities to enhance the growth potential of its recurring eCommerce360 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 eCommerce360 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 make a continuous transformation within organizations in order to meet and exceed consumer expectations. Business organizations understand the importance of customer experience management (like 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 January 2021, Researchandmarkets published a Customer Experience Management Market report projecting 12% annualized growth to $14.5 billion in 2025, up from an estimated $8.2 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 and recurring revenue sales from its acquisition of Woorank (in 2Q21) 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.

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 FY21 (ended September 30), we anticipate a significant expansion of gross margin to 67.2% compared to 58.7% in FY20. Gross margin expansion stems from the product mix shift to higher margin subscription and perpetual license revenue that should account for 75.1% of total sales compared to 68.7% in FY20. We forecast gross margin improving to 70.4% in FY22 due primarily to increased sales of higher margin subscription and perpetual license revenue that should account for 82.3% of total sales by September 30, 2022.

Our forecast does not include changes in fair value of warrant liabilities or income tax expense until reported by the company. At September 30, 2020, BLIN had federal net operating loss carryforwards of approximately $37 million.

Economy

In January 2021, the International Monetary Fund (IMF) revised its global economic growth estimates to an increase of 5.5% for 2021 and 4.2% for 2022. In October 2020, the IMF predicted GDP growth of 5.2% for 2021 and 4.2% for 2022. The 2021 upward revision primarily reflects expectations that the COVID-19 vaccine would enable a strengthening of economic activity later in the year. Additional fiscal policy support in a few large economies is also expected to boost economic growth.

The IMF revised its economic growth estimate for the US to an increase of 5.1% for 2021 and 2.5% for 2022. In October 2020, the IMF projected US economic growth of 3.1% for 2021 and 2.9% for 2022.

Operations – FY21

We project 12% total revenue growth to $12.2 million driven by 22.4% sales growth in recurring subscription (SaaS) and perpetual licenses to $9.2 million. Partly offsetting total sales growth is a decrease in digital engagement services revenue to $3 million compared to $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 28.3% to $8.2 million compared to $6.4 million in FY20 due primarily to sales growth and gross margin expanding to 67.2% from 58.7% in FY20. We project an operating profit of $794,000 compared to an operating loss of $1.6 million in FY20. Our forecast for an operating profit reflects sales growth, gross margin expansion, and operating margin expense improving to 60.7% from 73.8% in FY020. We forecast operating expenses decreasing to $7.4 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, partly offset from costs associated with the operation of Woorank (acquired in 2Q21). 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 $902,000 compared to $968,000 in FY20. R&D expense should increase to $1.7 million compared to $1.6 million. The year-ago period includes approximately $366,000 in restructuring charges compared to $310,000 in acquisition related expenses in the current period.

We project non-operating expense of $1.4 million due primarily to change in fair value of warrant liabilities compared to income of nearly $2 million due to change in fair value of warrant liabilities and government grant income in FY20.

We project a net loss of $635,000 or ($0.13) per share compared to a loss of $2.1 million or ($0.59) per share. Excluding the fair value of warrant liabilities, restructuring and/or acquisition related expenses, as well as dividends on convertible stock, we estimate EPS of $0.16 in FY21 compared to EPS of 0.09 in FY20. Our EPS forecast reflects average shares outstanding of 5 million, up from 3.5 million in FY20.

Finances – 2021

We project cash earnings of $1.9 million and a $514,000 decrease in working capital resulting in cash from operations of $2.4 million. The decrease in working capital was due primarily to increases in deferred revenue and accruals. Cash from operations and $2.4 million of net proceeds from a common stock offering should cover capital expenditures including costs to acquire Woorank. We estimate cash increasing by $806,000 to nearly $1.7 million at September 30, 2021.

Operations – FY22

We project 15.8% total revenue growth $14.1 million from an estimated $12.2 million in FY21 due primarily to 26.8% sales growth in recurring subscription (SaaS) and perpetual licenses to $11.6 million, up from an estimated $9.2 million in FY21. Partly offsetting total sales growth is a decrease in digital engagement services revenue to $2.5 million compared to an estimated $3 million in FY21 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 21.3% to nearly $10 million compared to an estimated $8.2 million in FY21 due primarily to sales growth and gross margin expanding to 70.4% from an estimated 67.2% in FY21. We project operating profit increasing to $915,000 from an estimated $794,000 in FY21. Our operating profit growth forecast reflects sales growth and gross margin expansion, partly offset by an increase in operating margin expense to 64% from an estimated 60.7% in FY021.

We project an increase in operating expenses to $9 million compared to an estimated $7.4 million in FY21. The increase reflects costs to support sales growth primarily from the company's acquisition of Woorank in 2Q21. We anticipate sales and marketing and G&A expenses (combined) increasing to $5.7 million compared to $4.5 million in FY20 due primarily to a $1 million increase in sales and marketing expense stemming from the hiring of staff to support sales growth. We anticipate a decrease in D&A expense to $800,000 compared to an estimated $902,000 in FY21. R&D expense should increase $751,000 to $2.5 million reflecting costs associated with the integration of Woorank's software offering into the company's eCommerce360 Dashboards artificial intelligence recommendation algorithm.

We project no non-operating income or loss in the current period compared to an expense of $1.4 million due to change in fair value of warrant liabilities.

We project net income of nearly $915,000 or $0.17 per share compared to a loss of $635,000 or ($0.13) per share. Our forecast reflects average shares outstanding increasing to nearly 5.4 million compared to an estimated 5 million in FY21. In FY21, we estimate EPS of $0.16 excluding change in fair value of warrant liabilities.

Finances – 2022
We project cash earnings of $2.1 million and a $574,000 decrease in working capital resulting in cash from operations of $2.7 million. The decrease in working capital was due primarily to increases in deferred revenue. Cash from operations should cover capital expenditures and repayment of debt related to the acquisition of Woorank, increasing cash by $1.2 million to $2.9 million at September 30, 2022.

1Q21 Results

1Q21
The company reported total net revenue of $2.8 million (unchanged from the year-ago period). Subscription and perpetual license sales increased 15.1% to nearly $2 million compared to $1.7 million due primarily to new licenses for its Celebros offerings, partly offset by attrition of legacy customers. Offsetting subscription and perpetual license sales growth was a 23.6% reduction in digital engagement service sales to $837,000 from nearly $1.1 million in the year-ago period due primarily to fewer implementations.

Gross profit increased 27.5% to $1.9 million from $1.5 million in the year-ago period. The increase reflects gross margin expansion to 66.3% from 52% in the year-ago period due primarily to a reduction in the use of third-party consultants and a shift in the product mix toward higher margin recurring license revenue. Operating expenses decreased to $1.4 million (excludes $210,000 in acquisition related charges) from $2.4 million in 1Q20. Sales and marketing expense decreased to $444,000 from $1 million due to reduced headcount and reduced travel. General and administrative expense decreased to $465,000 from $751,000 in the year-ago period reflecting reduced headcount and personnel expenses. R&D and D&A expenses were $349,000 and $232,000, respectively compared to $390,000 and $258,000, respectively in the year-ago period.

BLIN swung to an operating profit of $179,000 (includes $210,000 in acquisition related charges) from a loss of $962,000 in 1Q20 due primarily to sales growth, gross margin expansion, and reduced operating expenses.

Non-operating expense was nearly $1.3 million compared to income of $1.1 million. Non-operating expense included a negative change in the fair value of warrant liabilities of $1.4 million, partly offset by government grant income of $88,000. In 1Q20, non-operating income was exclusively related to a $1.1 million gain in the change in fair value of warrant liabilities.

The net loss was nearly $1.2 million or ($0.26) per share compared to a loss of nearly $2.3 million or ($0.81) per share. The current period included an income tax benefit of $6,000 compared to an expense of $3,000. The year-ago period included preferred and deemed dividends of $2.4 million compared to none in the current period. Excluding one-time items in each period, net income was approximately $401,000 or $0.09 per share compared to a net loss of approximately $965,000 or ($0.34) per share.

Finances
1Q21 cash earnings of $474,000 and a $23,000 increase in working capital resulting in cash from in operations of $451,000. Cash from operations more than offset the cost of software development and purchase of property and equipment. Cash increased $416,000 to nearly $1.3 million at December 31, 2020.

Capital Structure
At December 31, 2020 the company had not debt and a cash balance of nearly $1.3 million

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. On December 18, 2020, BLIN provided notice to Roth Capital

Partners that it was suspending all offers and sales under the agreement, during which time the company will not make any sales of placement shares.

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 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.

Risks

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

Accumulated Deficit
At December 31, 2020, the company's accumulated deficit was nearly $74.7 million, up from $61.8 million in FY17 (ended September 30). However, Bridgeline Digital, Inc. had its first operating profits of $150,000 and $164,000 in 3Q20 and 4Q20, respectively, with an operating profit expanding to $179,000 in 1Q21. We anticipate 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.

Dilution
In August 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. On December 18, 2020, BLIN provided notice to Roth Capital Partners that it was suspending all offers and sales under the At The-Market offering agreement, during which time the company will not make any sales of placement shares.

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.

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

Customer Concentration
In FY20 and 1Q21, BLIN had one customer account for approximately 12% of total revenue in each period. At September 30, 2020, three customers accounted for approximately 39% of accounts receivable compared to three customers accounting for 42% in FY20. At December 31, 2020, two customers represented approximately 54% of accounts receivable.

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. 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.

While BLIN relies on encryption and authentication technology from third parties, the technologies 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, as well as resulting in related expenses and also 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 6.7% of the company's outstanding voting stock (includes Michael Taglich – Director and President of Taglich Brothers, Inc.) as of the December 23, 2020 from the company's 10-K 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 2020, average daily volume was approximately 524,000. Average daily volume decreased over the last three months (ending February 22, 2021) to approximately 362,000. BLIN has a float of approximately 5.2 million shares and outstanding shares of 5.3 million.

Bridgeline Digital, Inc.
Consolidated Balance Sheets – Ending September 30
FY2019 – FY2022E
(in thousands)

	FY19A	FY20A	1Q21A	**FY21E**	**FY22E**
ASSETS					
Current assets:					
Cash and cash equivalents	$ 296	$ 861	$ 1,277	**$ 1,667**	**$ 2,911**
Accounts receivables, net	979	665	863	**939**	**975**
Prepaid expenses	351	268	381	**400**	**418**
Other current assets	49	111	207	**213**	**213**
Total current assets	1,675	1,905	2,728	**3,219**	**4,517**
Property and equipment, net	299	238	234	**255**	**260**
Operating lease assets	-	294	593	**593**	**593**
Intangible assets, net	3,509	2,617	2,399	**5,745**	**4,900**
Goodwill	5,557	5,557	5,557	**5,557**	**5,557**
Other assets	115	49	92	**80**	**80**
Total assets	$ 11,155	$ 10,660	$ 11,603	**$ 15,449**	**$ 15,907**
LIABILITIES AND STOCKHOLDERS' EQUITY					
Current liabilities:					
Operating lease liabilities	-	96	163	**163**	**163**
Accounts payable	1,740	1,311	1,133	**1,334**	**1,393**
Accrued liabilities	835	599	931	**800**	**669**
Debt	-	88	-	**1,450**	**850**
Deferred revenue	1,262	1,511	1,739	**2,300**	**3,000**
Total current liabilities	3,837	3,605	3,966	**6,047**	**6,075**
Long-term debt, net	-	-	-	**850**	**-**
Operating lease liabilities, net	-	198	430	**430**	**229**
Warrant liabilities	3,514	2,486	3,927	**3,210**	**1,538**
Other liabilities	8	15	25	**25**	**25**
Total long-term liabilities	3,522	2,699	4,382	**4,515**	**1,792**
Total liabilities	$ 7,359	$ 6,304	$ 8,348	**$ 10,562**	**$ 7,867**
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**	**4**
Additional paid-in capital	75,620	78,316	78,367	**78,427**	**81,130**
Retained earnings (loss)	(71,489)	(73,583)	(74,745)	**(73,173)**	**(72,723)**
Accumulated other comprehensive income (loss)	(338)	(381)	(371)	**(371)**	**(371)**
Total stockholders' equity	3,796	4,356	3,255	**4,887**	**8,040**
Total liabilities and stockholders' equity	$ 11,155	$ 10,660	$ 11,603	**$ 15,449**	**$ 15,907**
Shares Outstatnding - Common Stock	2,798	4,420	4,420	**5,315**	**5,320**
Series C convertible preferred stock - outstanding	441	350	350	-	-
Series A convertible preferred stock - outstanding	262,300	-	-	-	-

Source: Company reports and Taglich Brothers estimates

Bridgeline Digital, Inc.
Annual Income Statement – Ending September 30
FY2019 – FY2022E
(in thousands)

	FY2019A	FY2020A	**FY2021E**	**FY2022E**
Digital engagement services	$ 4,117	$ 3,409	**$ 3,037**	**$ 2,500**
Subscription (SaaS) / Perpetual licenses	5,835	7,498	**9,174**	**11,635**
Total revenue	9,952	10,907	**12,211**	**14,135**
Cost of sales -- Web	2,261	1,831	**1,379**	**1,120**
Cost of sales -- Subscription - Licenses	3,099	2,676	**2,623**	**3,060**
Total cost of revenue	5,360	4,507	**4,002**	**4,180**
Total Gross Profit	4,592	6,400	**8,209**	**9,955**
Operating Expenses:				
Sales and Marketing	4,824	2,614	**2,554**	**3,550**
General and Administrative	3,246	2,455	**1,900**	**2,190**
Research and Development	2,185	1,641	**1,749**	**2,500**
Depreciation and amortization	620	968	**902**	**800**
Impairment of goodwill	3,732	-	**-**	**-**
Restructuring and acquisition related expenses	1,053	366	**310**	**-**
Total Operating Expenses	15,660	8,044	**7,415**	**9,040**
Operating Income (loss)	(11,068)	(1,644)	**794**	**915**
Interest expense and other , net	(304)	(7)	**6**	**-**
Amortization of debt discount	(231)	-	**-**	**-**
Warrant liability expense	(11,272)	-	**-**	**-**
Government grant income	-	960		
Change in fair value of warrant liabilities	11,272	1,028	**(1,441)**	**-**
Other income (expense), net	2,133	-	**-**	**-**
Total Other Income (Expense)	1,598	1,981	**(1,435)**	**-**
Pre-Tax Income (loss)	(9,470)	337	**(641)**	**915**
Income Tax Expense (Benefit)	4	11	**(6)**	**-**
Net Income (loss)	$ (9,474)	$ 326	**$ (635)**	**$ 915**
Dividends on convertible preferred stock	(308)	(2,420)	**-**	**-**
Net Income (loss) - to common shareholders	$ (9,782)	$ (2,094)	**$ (635)**	**$ 915**
EPS (loss) - to common shareholders	$ (8.16)	$ (0.59)	**$ (0.13)**	**$ 0.17**
Weighted Average Shares Outstanding	1,199	3,555	**5,033**	**5,373**
EBITDA	$ (5,353)	$ (116)	**$ 2,227**	**$ 1,975**
Margins				
Gross Margin -- Web	45.1%	46.3%	**54.6%**	**55.2%**
Gross Margin -- Subscription - Licenses	46.9%	64.3%	**71.4%**	**73.7%**
Total Gross Margin	46.1%	58.7%	**67.2%**	**70.4%**
Operating Margin	(111.2%)	(15.1%)	**6.5%**	**6.5%**
Sales & Marketing	48.5%	24.0%	**20.9%**	**25.1%**
General & Administrative	32.6%	22.5%	**15.6%**	**15.5%**
Research and Development	22.0%	15.0%	**14.3%**	**17.7%**
Operating expense	157.4%	73.8%	**60.7%**	**64.0%**
Pre-Tax Margins	(95.2%)	3.1%	**(5.2%)**	**6.5%**
Tax rate	(0.0%)	3.3%	**0.9%**	**0.0%**
YEAR / YEAR GROWTH				
Total Revenues	(26.7%)	9.6%	**12.0%**	**15.8%**
Subscription (SaaS) / Perpetual licenses	(12.3%)	28.5%	**22.4%**	**26.8%**

Source: Company reports and Taglich Brothers estimates

Bridgeline Digital, Inc.
Income Statement Model – Ending September 30
Quarters FY2020 – 2022E
(in thousands)

	1Q20A	2Q20A	3Q20A	4Q20A	FY2020A	1Q21A	2Q21E	3Q21E	4Q21E	FY2021E	1Q22E	2Q22E	3Q22E	4Q22E	FY2022E
Digital engagement services	$ 1,096	$ 899	$ 713	$ 701	$ 3,409	$ 837	$ 800	$ 700	$ 700	**$ 3,037**	$ 625	$ 625	$ 625	$ 625	**$ 2,500**
Subscription (SaaS) / Perpetual licenses	1,736	1,839	1,919	2,004	7,498	1,999	2,200	2,475	2,500	**9,174**	2,625	2,800	3,000	3,210	**11,635**
Total revenue	2,832	2,738	2,632	2,705	10,907	2,836	3,000	3,175	3,200	**12,211**	3,250	3,425	3,625	3,835	**14,135**
Cost of sales -- Web	568	459	400	404	1,831	374	365	320	320	**1,379**	280	280	280	280	**1,120**
Cost of sales -- Subscription - Licenses	790	740	672	474	2,676	583	635	700	705	**2,623**	735	750	775	800	**3,060**
Total cost of revenue	1,358	1,199	1,072	878	4,507	957	1,000	1,020	1,025	**4,002**	1,015	1,030	1,055	1,080	**4,180**
Total Gross Profit	1,474	1,539	1,560	1,827	6,400	1,879	2,000	2,155	2,175	**8,209**	2,235	2,395	2,570	2,755	**9,955**
Operating Expenses:															
Sales and Marketing	1,032	786	312	484	2,614	444	550	775	785	**2,554**	800	875	900	975	**3,550**
General and Administrative	751	721	464	519	2,455	465	470	475	490	**1,900**	515	535	550	590	**2,190**
Research and Development	390	426	402	423	1,641	349	450	475	475	**1,749**	505	560	685	750	**2,500**
Depreciation and amortization	258	249	224	237	968	232	230	225	215	**902**	200	200	200	200	**800**
Impairment of goodwill	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Restructuring and acquisition related expenses	5	367	1	(7)	366	210	100	-	-	**310**	-	-	-	-	-
Total Operating Expenses	2,436	2,549	1,403	1,656	8,044	1,700	1,800	1,950	1,965	**7,415**	2,020	2,170	2,335	2,515	**9,040**
Operating Income (loss)	(962)	(1,010)	157	171	(1,644)	179	200	205	210	**794**	215	225	235	240	**915**
Interest expense and other , net	-	(1)	(2)	(4)	(7)	6	-	-	-	**6**	-	-	-	-	-
Amortization of debt discount	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Warrant liability expense	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Government grant income	-	-	-	960	960	88									
Change in fair value of warrant liabilities	1,101	1,820	(1,843)	(50)	1,028	(1,441)	-	-	-	**(1,441)**	-	-	-	-	-
Other income (expense), net	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Total Other Income (Expense)	1,101	1,819	(1,845)	906	1,981	(1,347)	-	-	-	**(1,435)**	-	-	-	-	-
Pre-Tax Income (loss)	139	809	(1,688)	1,077	337	(1,168)	200	205	210	**(641)**	215	225	235	240	**915**
Income Tax Expense (Benefit)	3	-	6	2	11	(6)	-	-	-	**(6)**	-	-	-	-	-
Net Income (loss)	$ 136	$ 809	$ (1,694)	$ 1,075	$ 326	$ (1,162)	$ 200	$ 205	$ 210	**$ (635)**	$ 215	$ 225	$ 235	$ 240	**$ 915**
Dividends on convertible preferred stock	(2,393)	(27)	-	-	(2,420)	-	-	-	-	-	-	-	-	-	-
Net Income (loss) - to common shareholders	$ (2,257)	$ 782	$ (1,694)	$ 1,075	$ (2,094)	$ (1,162)	$ 200	$ 205	$ 210	**$ (635)**	$ 215	$ 225	$ 235	$ 240	**$ 915**
EPS (loss) - to common shareholders	$ (0.81)	$ 0.18	$ (0.44)	$ 0.24	$ (0.59)	$ (0.26)	$ 0.04	$ 0.04	$ 0.04	**$ (0.13)**	$ 0.04	$ 0.04	$ 0.04	$ 0.04	**$ 0.17**
Weighted Average Shares Outstanding	2,798	4,413	3,877	4,527	3,555	4,420	5,000	5,350	5,360	**5,033**	5,365	5,370	5,375	5,380	**5,373**
EBITDA	$ (669)	$ (344)	$ 435	$ 462	$ (116)	$ 672	$ 580	$ 490	$ 485	**$ 2,227**	$ 480	$ 490	$ 500	$ 505	**$ 1,975**
Margins															
Gross Margin -- Web	48.2%	48.9%	43.9%	42.4%	46.3%	55.3%	54.4%	54.3%	54.3%	**54.6%**	55.2%	55.2%	55.2%	55.2%	**55.2%**
Gross Margin -- Subscription - Licenses	54.5%	59.8%	65.0%	76.3%	64.3%	70.8%	71.1%	71.7%	71.8%	**71.4%**	72.0%	73.2%	74.2%	75.1%	**73.7%**
Total Gross Margin	52.0%	56.2%	59.3%	67.5%	58.7%	66.3%	66.7%	67.9%	68.0%	**67.2%**	68.8%	69.9%	70.9%	71.8%	**70.4%**
Operating Margin	(34.0%)	(36.9%)	6.0%	6.3%	(15.1%)	6.3%	6.7%	6.5%	6.6%	**6.5%**	6.6%	6.6%	6.5%	6.3%	**6.5%**
Sales & Marketing	36.4%	28.7%	11.9%	17.9%	24.0%	15.7%	18.3%	24.4%	24.5%	**20.9%**	24.6%	25.5%	24.8%	25.4%	**25.1%**
General & Administrative	26.5%	26.3%	17.6%	19.2%	22.5%	16.4%	15.7%	15.0%	15.3%	**15.6%**	15.8%	15.6%	15.2%	15.4%	**15.5%**
Research and Development	13.8%	15.6%	15.3%	15.6%	15.0%	12.3%	15.0%	15.0%	14.8%	**14.3%**	15.5%	16.4%	18.9%	19.6%	**17.7%**
Operating expense	86.0%	93.1%	53.3%	61.2%	73.8%	59.9%	60.0%	61.4%	61.4%	**60.7%**	62.2%	63.4%	64.4%	65.6%	**64.0%**
Pre-Tax Margins	4.9%	29.5%	(64.1%)	39.8%	3.1%	(41.2%)	6.7%	6.5%	6.6%	**(5.2%)**	6.6%	6.6%	6.5%	6.3%	**6.5%**
Tax rate	2.2%	0.0%	(0.4%)	0.2%	3.3%	0.5%	0.0%	0.0%	0.0%	**0.9%**	0.0%	0.0%	0.0%	0.0%	**0.0%**
YEAR / YEAR GROWTH															
Total Revenues	19.2%	24.7%	(2.3%)	0.6%	9.6%	0.1%	9.6%	20.6%	18.3%	**12.0%**	14.6%	14.2%	14.2%	19.8%	**15.8%**
Subscription (SaaS) / Perpetual licenses	33.3%	43.1%	21.8%	19.8%	28.5%	15.1%	19.6%	29.0%	24.8%	**22.4%**	31.3%	27.3%	21.2%	28.4%	**26.8%**

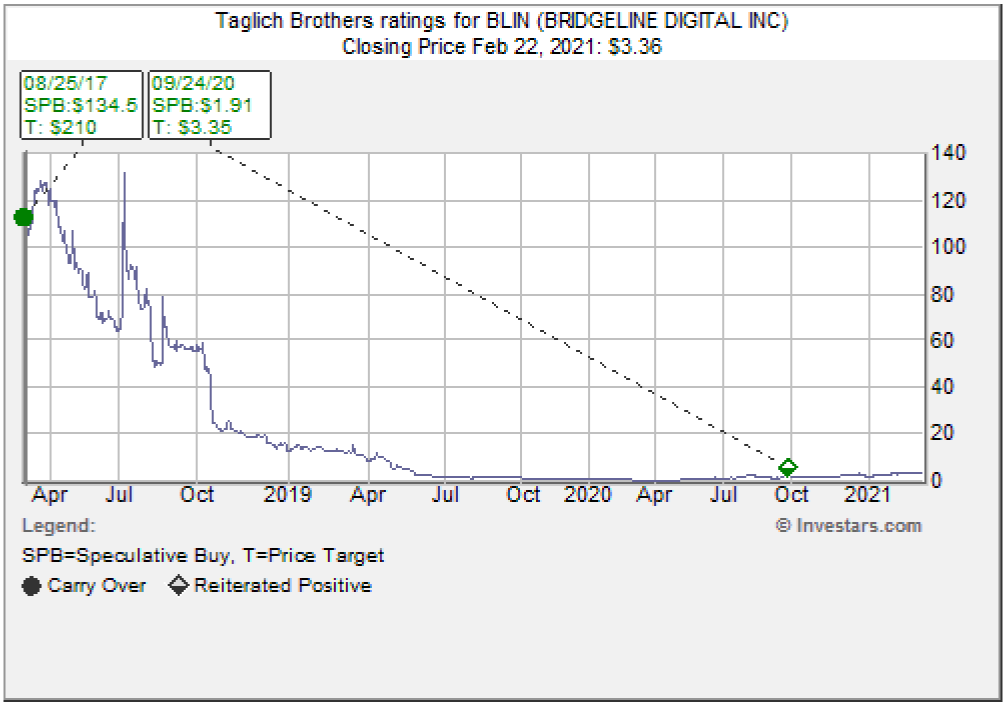
Source: Company reports and Taglich Brothers estimates

Bridgeline Digital, Inc.
Cash Flow Statement – Ending September 30
FY2019 – FY2022E
(in thousands)

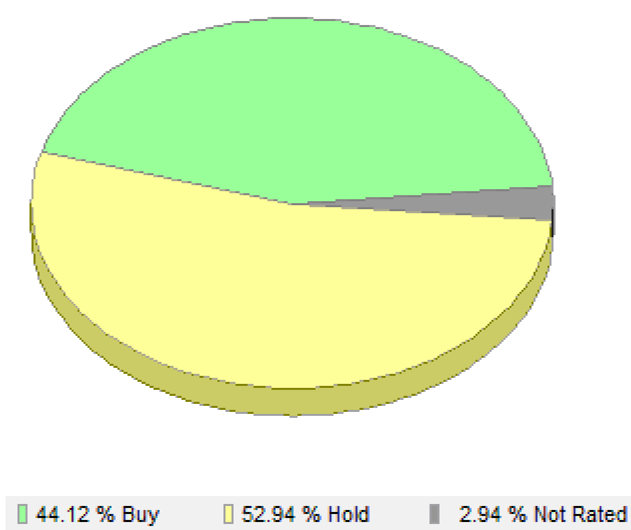
	FY2019 A	FY2020 A	1Q21A	**FY2021 E**	**FY2022 E**
Cash Flows from Operating Activities					
Net Income (loss)	$ (9,474)	$ 326	$ (1,162)	**$ (635)**	**$ 915**
Loss on disposal of property and equipment	9	-	-	**-**	**-**
Amortization of intangibles	544	891	218	**907**	**850**
Depreciation	66	61	12	**50**	**100**
Other amortization	39	16	2	**10**	**15**
Goodwill impairment	3,732	-	-	**-**	**-**
Amortization of debt discount	231	-		**-**	**-**
Warrant liability expense	11,272	-	-	**-**	**-**
Government grant income	-	(960)	(88)	**(88)**	**-**
Change in fair value of warrant liabilities	(13,404)	(1,028)	1,441	**1,441**	**-**
Stock-based compensation	249	194	51	**221**	**260**
Cash earnings (burn)	(6,736)	(500)	474	**1,906**	**2,140**
Changes In:					
Accounts receivables	1,306	630	(188)	**(274)**	**(36)**
Prepaid expenses	127	89	(111)	**(132)**	**(18)**
Other current assets and other assets	116	(21)	(110)	**(102)**	**-**
Accounts payable and accrued liabilities	448	(585)	149	**224**	**(72)**
Deferred revenue	478	(75)	228	**789**	**700**
Other liabilities	58	(36)	9	**9**	**-**
(Increase)/decrease in Working Capital	2,533	2	(23)	**514**	**574**
Net cash Provided by (Used in) Operations	(4,203)	(498)	451	**2,420**	**2,714**
Cash Flows from Investing Activities					
Purchase of property and equipment	(11)	-	(11)	**(20)**	**(20)**
Software development	(20)	-	(30)	**-**	**-**
Cash paid to acquire Woorank	-	-	-	**(1,700)**	**-**
Debt assumed to acquire Woorank	-	-	-	**(2,300)**	**-**
Acquisition of businesses, net	(5,668)	-	-	**-**	**-**
Net cash used in Investing	(5,699)	-	(41)	**(4,020)**	**(20)**
Cash Flows from Financing Activities					
Proceeds from issuance of common stock, net	4,757	-	-	**2,400**	**-**
Proceeds from issuance of preferred stock, net	9,049	-	-	**-**	**-**
Proceeds from term notes from Montage Capital, net	-	-	-	**-**	**-**
Proceeds from promissory term notes	-	-	-	**-**	**-**
Borrowing on bank line of credit	75	-	-	**-**	**-**
Proceeds received under paycheck protection program	-	1,048	-	**-**	**-**
Payment on Woorank debt	-	-	-	**-**	**(1,450)**
Payments on bank line of credit	(2,156)	-	-	**-**	**-**
Payments on term notes from Montage Capital	(922)	-	-	**-**	**-**
Payments on promissory term notes	(941)	-	-	**-**	**-**
Cash dividends paid on Series A convertible preferred stock	(315)	-	-	**-**	**-**
Net cash provided by Financing	9,547	1,048	-	**2,400**	**(1,450)**
Exchange rate	7	15	6	**6**	**-**
Net change in Cash	(348)	565	416	**806**	**1,244**
Cash Beginning of Period	644	296	861	**861**	**1,667**
Cash End of Period	$ 296	$ 861	$ 1,277	**$ 1,667**	**$ 2,911**

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	3	14
Hold		
Sell		
Not Rated		

Important Disclosures

As of February 22, 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 owns or has a controlling interest in 480,277 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 approximately 338,134 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 141,706 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 75,379 warrants. Richard Oh, Managing Director of Taglich Brothers, Inc., owns or has a controlling interest in an estimated 77,380 warrants. Other employees at Taglich Brothers, Inc. also own or have controlling interests in 182,659 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. In February 2021, Taglich Brothers Inc. acted as co-placement agent for a registered direct common stock offering for which it received a fee and placement agent warrants.

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

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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.