

## Research Report – Update

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

### Brideline Digital, Inc.

**Rating: Speculative Buy**

Howard Halpern

January 9, 2023

**BLIN \$1.09 — (NASDAQ)**

	2021 A	2022 A	2023 E	2024 E
Total Revenue (in millions)	\$13.3	\$16.8	<b>\$18.0</b>	<b>\$20.0</b>
Earnings (loss) per share	(\$0.48)*	(\$0.18)**	<b>(\$0.11)</b>	<b>(\$0.05)</b>
52-Week range	\$2.32 – \$0.97		Fiscal year ends:	September
Shares outstanding a/o 12/20/22	10.4 million		Revenue/shares (ttm)	\$1.62
Approximate float	9.6 million		Price/Sales (ttm)	0.7X
Market Capitalization	\$11.3 million		Price/Sales (2024) E	0.6X
Tangible Book value/shr	(\$0.18)		Price/Earnings (ttm)	NMF
Price/Book	NMF		Price/Earnings (2024) E	NMF

\*Excludes an estimated (\$0.99) per share of net charges after grant income. \*\*Excludes an estimated \$0.38 per share in (net) gains related to fair value of warrant liabilities and contingent consideration, partly offset by acquisition related charges.

Brideline Digital, Inc., headquartered in Woburn, Massachusetts is a marketing technology company that offers a suite of software products that help companies grow online revenue by driving more traffic to their websites, converting more visitors to purchasers, and increasing average order value.

#### Key Investment Considerations:

**Maintaining Speculative Buy rating but reducing our 12-month price target to \$2.30 per share from \$3.25 per share due to diminished sector valuation.**

**Brideline Digital has substantial growth potential for its digital engagement offerings through its sales and marketing strategy that enables a streamlined and nearly virtual sales process via an artificial intelligence (AI) dashboard. Analysts project the global customer experience management market growing 18.1% annually to approximately \$39 billion by 2030, up from \$8.8 billion in 2021.**

**BLIN's growth strategy was enhanced by acquiring Woorank and HawkSearch in FY21 and developing partnership relationships with independent software vendors and agencies that provide marketing technology solutions. The company anticipates it will increase spending on R&D and sales and marketing initiatives through our forecast period in order to support recurring subscription revenue growth.**

**BLIN reported (on 12-20-22) a 4Q22 loss per share of (\$0.05) on revenue of \$4.2 million. In 4Q21, the loss per share was (\$0.40) on revenue of \$4.1 million. Excluding items in 4Q21, we estimate the loss per share was (\$0.12). We projected a loss per share of (\$0.04) on revenue of \$4.2 million.**

**For FY23, we project a loss per share of (\$0.11) on 6.8% revenue growth to \$18 million (prior was \$18.8 million) driven by subscription growth of 8.4% to \$14.7 million (prior was \$15.5 million). We previously forecast a loss per share of (\$0.06). Our revised forecasts reflect a slower than anticipated 1H23 revenue growth and higher than anticipated sales and marketing costs.**

**For FY24, we project a loss per share of (\$0.05) on 11.2% revenue growth to \$20 million driven by subscription growth of 13.4% to \$16.7 million. Our loss per share forecast anticipates operating expense margin improving to 74.9% from an estimated 77.2% in FY23.**

**Please view our disclosures on pages 13 – 15.**

## ***Appreciation Potential***

**Maintaining Speculative Buy rating but reducing our 12-month price target to \$2.30 per share from \$3.25 per share due to diminished sector valuation.**

Our rating reflects projected recurring revenue growth from the FY21 acquisitions of Woorank and HawkSearch and the integration of their offerings into BLIN's eCommerce360 offerings. Entering FY23, the company's cash on hand of \$2.9 million provides it with the ability to pay the contingent consideration owed to the principles of Woorank and HawkSearch, as well as planned increases in R&D and sales and marketing spending on initiatives that should help drive recurring subscription revenue through our forecast period.

**Our 12-month price target of \$2.30 per share implies shares could more than double over the next twelve months.** According to finviz.com, the average trailing twelve month price-to-sales multiple for companies with similar market capitalizations in the Software Application/Infrastructure and Internet Content sectors is 1.8X (prior was 2.6X), compared to BLIN's trailing twelve month price-to-sales multiple of 0.7X (prior was 0.8X). 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 13.4% in FY24. We applied a price-to-sales multiple of 1.5X (prior was 2.1X) to our FY24 sales per share forecast of \$1.91, discounted for execution risk, to obtain a year-ahead price target of approximately \$2.30 per share.

BLIN's valuation improvement is contingent upon consistent quarterly recurring-SaaS/perpetual software revenue growth, expense leverage, and cash earnings. We forecast the company generating annualized recurring-SaaS/perpetual software revenue growth of 22.1% to FY24 from FY20 and cash earnings of \$1.4 million in FY24 compared to estimated cash earnings of \$877,000 in FY23. In FY22, cash burn was \$100,000.

**We believe Bridgeline Digital, Inc. is most suitable for risk tolerant investors that seek exposure to a microcap company providing digital engagement services through recurring subscription revenue offerings and enterprise platform software for its customers.**

## ***Overview***

Bridgeline Digital, Inc., headquartered in Woburn, Massachusetts is a marketing technology company that offers a suite of products that enables its customers to grow online revenue by driving more traffic to their Websites, converting more visitors to purchasers, and increasing average order value.

The company's primarily suite of products are HawkSearch, Celebros Search, Woorank, and TruPresence. HawkSearch is an artificial intelligence powered site search, recommendation, and personalization application, built for marketers, merchandisers, and developers to enhance, normalize, and enrich an online customer's content search and product discovery experience. Celebros Search is a commerce-oriented site search product that provides Natural Language Processing with artificial intelligence to present relevant search results based on long-tail keyword searches with support for multiple languages.

Woorank is a Search Engine Optimization (SEO) audit tool that generates an instant performance audit of the site's technical, on-page, and off-page. Woorank's provides its customers clear, actionable insights help increase their search engine ranking, while boosting Website traffic, audience engagement, conversion, and customer retention rates.

TruPresence is an offering that empowers large franchises, brand networks, and other multi-unit organizations to manage a large hierarchy of digital properties at scale. The offering provides centralized and distributed management of content and products from parent sites down to multiple child sites for consistency in branding and messaging, while also enabling both regional and local site owners to manage local messaging, products, as well as promotions specific to their local market.

The company's portfolio of offerings also includes Unbound and OrchestraCMS. Unbound is a digital experience platform that includes Web Content Management, eCommerce, Digital Marketing, and Web Analytics. OrchestraCMS is the only content and digital experience platform built 100% native on Salesforce and helps customers create Websites and intranets for their customers, partners, and employees.

The company's suite of product offerings 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.

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.

### ***Growth Strategy***

In FY22, the company enhanced its customer acquisition strategy through the engagement and development of a partner network primarily through independent software vendors and marketing agencies such as Americaneagle.com, X-engage, AB Commerce, Sitefinity, Kentico, Niteco, and Thanx Media. The overall 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. BLIN's goal is to achieve a total revenue mix of at least 85% subscriptions and 15% digital engagement services.

Entering FY23, the company announced that one of its partners BigCommerce, expanded the availability of Bridgeline's HawkSearch connector to their Multi-Storefront users, including leading brands such as Ted Baker, Vanity Group, and Airofit B2B. Also, Shopify will use BLIN's portfolio of product offering (eCommerce360) to power analytics and prescribe new revenue strategies for their base of more than 4 million users across 175 countries.

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. In 4Q22, the company announced significant customer wins that include an electrical distributor has committed to a more than \$250,000 multi-year license for Bridgeline's TruPresence and HawkSearch products, an Asia Pacific retailer with 150 brands and 2,600 locations, a plumbing supplier that committed to a more than \$60,000 license for HawkSearch, and a garden and pet supply company that committed to a more than \$80,000 license the HawkSearch offering that will power personalized recommendations and data quality enhancement capabilities.

Woorank's unique feature is a dashboard powered by an artificial intelligence algorithm that provides existing customers with recommendations to purchase additional BLIN eCommerce360 offerings that can increase their return on investment. A small section of the Dashboard provides popups on what additional offerings should be purchased in order to improve a customers' online sales, customer acquisition and retention performance. The introduction of the Woorank assistant was important since it incorporates an artificial intelligent agent that monitors a customer's global Web vitals and makes recommendations to drive site traffic and increase their Google ranking.

The company developed DataBravo, an offering that mines search engine optimization content accumulated by Woorank. This offering provides customers analytical insights in order to enhance their decision making process.

### **Acquisitions**

In FY19, the company acquired Celebros Search and OrchestraCMS. In FY21, BLIN acquired Woorank and HawkSearch. The company continues to evaluate strategic merger and acquisition opportunities to enhance the growth potential of its recurring subscription revenue strategy. BLIN will target technology offerings that are established within an existing online marketplace, generate revenue of at least \$2 million, and are accretive to cash earnings. An acquired technology will be integrated into the company's offerings and artificial intelligence recommendation dashboard algorithm.

## ***Projections***

### ***Basis of Forecast***

We anticipate BLIN's primary growth drivers will be recurring revenue from its HawkSearch technology offering that has merged with the company's own Celebros Search offering, as well as recurring revenue sales from its acquisition of Woorank with additional sales coming from the company's portfolio of individual Apps to enhance each customer's content management experience and steady enterprise platform sales and associated digital engagement services. In 4Q22, the company closed on 28 new subscription license sales of which 13 were to existing customers. The total contract value is in excess of \$1 million with \$340,000 in annual recurring revenue.

In FY23 (ended September 30), we anticipate gross margin expansion to 70.8% compared to 69.6% in FY22. Gross margin expansion stems from the product mix shift to higher margin subscription and perpetual license revenue that should account for 81.4% of total sales compared to 80.6% in FY22. We forecast gross margin improving to 72.3% in FY24 due primarily to increased sales of higher margin subscription and perpetual license revenue that should account for 83.5% of total sales by September 30, 2024.

Our forecast does not include changes in the fair value of warrant liabilities or income tax expense until reported by the company. At September 30, 2022, BLIN had federal and state net operating loss carryforwards of approximately \$27.8 million and \$46.8 million, respectively.

### ***Economy***

In October 2022, the International Monetary Fund (IMF) revised its global economic growth estimates to an increase of 3.2% for 2022 and 2.7% for 2023, down from its July 2022 projection calling for 3.2% growth in 2022 and 2.9% growth in 2023. The forecast reflects worldwide inflation that triggered tighter financial conditions (i.e. higher interest rates), an economic slowdown in China, as well as negative effects from the war in Ukraine.

The IMF revised its economic growth estimate for the US to an increase of 1.6% for 2022 and 1% for 2023. In July 2022, the IMF projected US economic growth of 2.3% and 1% for 2022 and 2023, respectively.

### ***Operations – FY23***

We project 6.8% total revenue growth to \$18 million (prior was \$18.8 million) from \$16.8 million in FY22 due primarily to 8.4% growth in recurring subscription (SaaS) and perpetual licenses revenue to \$14.7 million, up from \$13.6 million in FY22. We anticipate digital engagement services revenue flat at \$3.3 million.

We forecast gross profit increasing 8.6% to \$12.7 million compared to \$11.7 million in FY22 due to revenue growth and gross margin expanding to 70.8% from 69.6% in FY22. We project an operating loss of \$1.1 million compared to a loss of \$1.9 million in FY22. The narrowing of our operating loss forecast reflects an improvement in operating margin expense to 77.2% from 79.9% (excludes \$164,000 in restructuring and acquisition expenses) in FY22.

We project operating expenses increasing 1.9% to nearly \$13.9 million compared to \$13.4 million (excluding \$164,000 in restructuring and acquisition expenses) as increases in sales and marketing and G&A expenses are likely to be partly offset by a reduction in D&A expenses. The level of operating expenses should continue to support initiatives to grow the company's customer base. We anticipate sales and marketing expense increasing \$358,000 to \$5.6 million and G&A expense increasing \$498,000 to \$3.9 million. D&A expenses should decrease to \$1.5 million from \$1.6 million in FY22. R&D expense is likely to decrease \$317,000 to \$2.9 million.

We project non-operating expense of \$8,000 related to interest expense compared to non-operating income of \$4.1 million that includes positive changes in fair value of warrant liabilities of \$3.7 million and \$470,000 in fair value of contingent consideration, partly offset by \$53,000 in interest expense. We project a net loss of \$1.2 million or (\$0.11) per share. We previously projected a net loss of \$633,000 or (\$0.06) per share.

Finances – 2023

We project cash earnings of \$877,000 and a \$312,000 decrease in working capital resulting in cash from operations of nearly \$1.2 million. Cash from operations is could cover capital expenditures and payment of contingent consideration and debt, increasing cash by \$295,000 to \$3.2 million at September 30, 2023.

Operations – FY24

We project 11.2% total revenue growth to \$20 million from an estimated \$18 million in FY23 due primarily to 13.4% growth in recurring subscription (SaaS) and perpetual licenses revenue to nearly \$16.7 million, up from an estimated \$14.7 million in FY23. We anticipate digital engagement services revenue flat at \$3.3 million.

We forecast gross profit increasing 13.5% to \$14.4 million compared to an estimated \$12.7 million in FY23 due to revenue growth and gross margin expanding to 72.3% from an estimated 70.8% in FY23. We project an operating loss narrowing \$525,000 compared to an estimated operating loss of \$1.1 million in FY23. The narrowing of our operating loss forecast reflects an improvement in operating margin expense to 74.9% from an estimated 77.2% in FY23.

We project operating expenses increasing 7.9% to nearly \$15 million compared to \$13.49 million as increases in sales and marketing and G&A expenses are likely to be partly offset by a reduction in D&A expenses. The level of operating expenses should continue to support initiatives to grow the company's customer base. We anticipate sales and marketing expense increasing \$710,000 to \$6.3 million and G&A expense increasing \$440,000 to \$4.3 million. D&A expenses should decrease to \$1.4 million from an estimated \$1.5 million in FY23. R&D expense is likely to be flat at \$2.9 million.

We project non-operating expense to remain at \$8,000, which is related to interest expense in FY24 and FY23, respectively. We project a net loss of \$533,000 or (\$0.05) per share.

Finances – 2024

We project cash earnings of nearly \$1.4 million and a \$337,000 decrease in working capital resulting in cash from operations of \$1.7 million. Cash from operations should cover capital expenditures and debt repayment, increasing cash by \$1.3 million to nearly \$4.5 million at September 30, 2024.

***FY22 and 4Q22 Results***

**FY22 Results**

The company reported a 26.8% increase in total net revenue to \$16.8 million from \$13.3 million in FY21. Subscription and perpetual license sales increased 36.1% to \$13.6 million compared to \$10 million last year due primarily to multi-year license renewals and the inclusion of a full year of revenue from the Company's FY21 acquisitions. Digital engagement service revenue decreased \$37,000 to \$3.3 million.

Gross profit increased 34.1% to \$11.7 million from \$8.7 million in the year-ago period. The increase reflects gross margin expansion to 69.6% from 65.8% in the year-ago period due primarily to a shift in the product mix toward higher margin recurring license revenue that accounted for 80.6% of total revenue compared to 75% in FY21.

Operating expenses increased 54% to \$13.4 million (excludes \$164,000 acquisition related charges) from \$8.7 million (excludes \$1.2 million in acquisition related charges) in FY21. Sales and marketing expenses nearly doubled to \$5.2 million from \$2.7 million stemming from higher personnel costs and additional sales and marketing initiatives to support the FY21 acquisitions. G&A expense increased 43.6% to \$3.4 million from \$2.4 million due to the FY21 acquisitions of HawkSearch and Woorank. R&D expense increased 34.8% to \$2.4 million from \$2.4 million due primarily to higher personnel costs. D&A expense increased 29.7% to \$1.6 million from \$1.2 million stemming from the amortization of intangible assets related to FY21 acquisitions.

In FY22 and FY21, the company incurred acquisition related legal and investment banking expenses of \$164,000 and \$1.2 million, respectively. Excluding those charges in each period BLIN had a loss from operations \$1.7 million compared to operating income of \$52,000.

Non-operating income was \$4.1 million compared to an expense of \$6.7 million. Non-operating income included a positive change in the fair value of warrant liabilities of nearly \$3.7 million compared to a negative change of \$5.9 million. Interest expense decreased to \$53,000 from \$883,000 due to reduced level of average debt. During the current period the company recorded a \$470,000 gain related to contingent consideration. In the year-ago period, the company recognized government grant income of \$88,000 stemming from the forgiveness of PPP loans received during the COVID-19 pandemic.

The company recorded net income of \$2.1 million or \$0.20 per share compared to a net loss was \$8.7 million or (\$1.47) per share. The current period included income tax expense of \$30,000 compared to an income tax benefit of nearly \$1.2 million in FY27. We estimate excluding positive changes in fair value of warrant liabilities and contingent consideration and acquisition related expenses, a net loss per share of approximately (\$0.18). In the year-ago period, we estimate, excluding deemed dividends, change in fair value of warrant liabilities, restructuring and acquisition related expenses, and government grant income, a net loss per share of (\$0.48) per share. We projected EPS of \$0.09 on total revenue of \$16.8 million.

#### **4Q22 Results**

BLIN reported a 2.5% increase in total revenue to \$4.2 million from \$4.1 million in the year-ago period due to a 2.7% increase in subscription and perpetual license sales to \$3.4 million and a \$14,000 increase in services revenue to \$767,000.

Gross profit increased 6.8% to \$3 million from \$2.8 million in the year-ago period, reflecting gross margin expansion to 70.7% from 67.9% in 4Q21. Operating expenses increased to \$3.4 million from \$3 million (excludes \$373,000 in acquisition related charges) in the year-ago period. The increase reflects supporting the operations of two acquisition completed during 9M21.

BLIN reported an operating loss of \$409,000 compared to a loss of \$246,000 (excludes \$373,000 in acquisition related charges) in the year-ago period.

Non-operating expense was \$48,000 compared to \$741,000 compared.

The net loss was \$475,000 or (\$0.05) per share compared to \$3.4 million or (\$0.40) per share. In 4Q21, excluding deemed dividends and acquisition charges, we estimate the net loss per share should approximate (\$0.15).

#### **Finances**

In FY22, the cash burn was \$100,000 and working capital increased \$34,000 resulting in cash used in operations of \$134,000. Cash used in operations, capital expenditures, and payments made on debt and contingent consideration reduced cash by \$6 million to nearly \$2.9 million at September 30, 2022.

#### **Capital Structure**

At September 30, 2022, BLIN had total debt of \$1 million (of which \$429,000 was short-term) and a cash balance of nearly \$2.9 million. Total debt consisted of a \$292,000 vendor loan payable that accrues interest at 3% per annually that has principal and interest payable in two lump-sum installments with the loan maturing on February 1, 2023, and a \$389,000 1.3% term loan payable that matures in July 2028.

In addition, the company has a 4% \$292,000 seller's note (related to a FY21 acquisition) that is payable over five installments and matures in September 2025. Also, the company had a \$44,000 term loan that matured and was paid off in October 2022.

#### **Industry Brief**

##### **Experience Management Market**

In February 2022, consulting firm Grand View Research issued a report stating that the global customer experience management market generated revenue of nearly \$8.8 billion in 2021. Grand View Research predicts annualized revenue growth of 18.1% to approximately \$39 billion in 2030 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 eCommerce360 technology offerings) since it assists organizations in strengthening their brand presence, improves consumer loyalty, reduces consumer churn, and in turn, boosts business revenue. The report indicated that the US customer experience management market generated revenue of \$2.9 billion in 2021 with a prediction of annualized revenue growth of 15.3% reaching approximately \$9 billion by 2030.

### ***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 eCommerce360 offerings provide 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 September 30, 2022, the company's accumulated deficit was \$80.1 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 in FY21 (excluding acquisition and restructuring costs) of \$52,000. In FY22, the operating loss was \$1.7 million (excluding acquisition related charges of \$164,000), which should narrow to \$453,000 million in FY24. We forecast FY23 and FY24 cash earnings (combined) of \$2.3 million. If operating profits or cash earnings do not occur, it could result in the company's inability to execute its growth strategy and diminish its operations.

#### Dilution

The common stock offerings made in February 2021 and May 2021, as well as the exercise of common stock warrants and convertible preferred stock, increased common shares outstanding to 10.4 million at December 10, 2022 from 4.4 million at August 10, 2020.

The company has warrants and options that could be exercised into shares of common stock of 1.8 million and 239,000, respectively.

#### Global Health and Politics

A disruption of global economic conditions due to COVID-19 and/or war-like conditions in Eastern Europe that cause Western nations to impose economic sanctions against Russian banks and Oligarchs, could result in disruptions of economic activity that in turn could adversely impact the company's corporate operating results.

#### 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 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 manages 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 own approximately 14% of the company's outstanding voting stock (includes Michael Taglich – Director and President of Taglich Brothers, Inc.) based on BLIN's 10K filing on December 21, 2022. 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 2021, average daily volume was approximately 3 million. Average daily volume decreased over the last three months (ending January 6, 2023) to approximately 70,100. BLIN has a float of approximately 9.6 million shares and outstanding shares of 10.4 million.



Bridgeline Digital, Inc.  
Consolidated Balance Sheets – Ending September 30  
FY2021A – FY2024E  
(in thousands)

	FY21A	FY22A	FY23E	FY24E
<b>ASSETS</b>				
Current assets:				
Cash and cash equivalents	\$ 8,852	\$ 2,856	\$ 3,151	\$ 4,452
Accounts receivables, net	1,370	1,182	1,282	1,331
Prepaid expenses and other current assets	196	242	262	388
<b>Total current assets</b>	10,418	4,280	4,696	6,171
Property and equipment, net	252	268	270	275
Operating lease assets	481	589	585	565
Intangible assets, net	7,755	6,268	5,039	3,783
Goodwill	15,985	15,985	15,985	15,985
Other assets	76	123	151	222
<b>Total assets</b>	\$ 34,967	\$ 27,513	\$ 26,726	\$ 27,001
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>				
Current liabilities:				
Operating lease liabilities	161	199	225	250
Accounts payable	974	972	947	923
Accrued liabilities	908	995	997	1,080
Debt	732	429	188	188
Purchase price and contingent consideration payable	3,463	250	-	-
Deferred revenue	2,097	1,943	2,500	3,000
<b>Total current liabilities</b>	8,335	4,788	4,857	5,442
Long-term debt, net	1,197	588	400	212
Operating lease liabilities, net	320	390	400	414
Purchase price and contingent consideration payable	2,360	-	-	-
Warrant liabilities	4,404	749	749	613
Other liabilities	774	646	646	646
<b>Total long-term liabilities</b>	9,055	2,373	2,195	1,885
<b>Total liabilities</b>	\$ 17,390	\$ 7,161	\$ 7,052	\$ 7,327
<b>Stockholders' equity:</b>				
Preferred stock, \$0.001 par value; 1,000,000 authorized				
Series C convertible preferred stock, 11,000 shares authorized	-	-	-	-
Common stock, \$0.001 par value; authorized 50,000,000 shares	10	10	10	10
Additional paid-in capital	100,207	100,704	101,179	101,179
Retained earnings (loss)	(82,287)	(80,142)	(81,295)	(81,295)
Accumulated other comprehensive income (loss)	(353)	(220)	(220)	(220)
<b>Total stockholders' equity</b>	17,577	20,352	19,674	19,674
<b>Total liabilities and stockholders' equity</b>	\$ 34,967	\$ 27,513	\$ 26,726	\$ 27,001
Shares Outstanding - Common Stock	10,187	10,418	10,430	10,450
Series C convertible preferred stock - outstanding	350	350	350	350

Source: Company reports and Taglich Brothers estimates

Taglich Brothers, Inc.

Bridgeline Digital, Inc.  
Annual Income Statement – Ending September 30  
FY2021A – FY2024E  
(in thousands)

	FY2021A	FY2022A	FY2023E	FY2024E
Digital engagement services	\$ 3,296	\$ 3,259	\$ 3,260	\$ 3,300
Subscription (SaaS) / Perpetual licenses	9,963	13,560	14,695	16,670
Total revenue	13,259	16,819	17,955	19,970
Cost of sales -- Digital engagement services	1,743	1,759	1,730	1,720
Cost of sales -- Subscription - Licenses	2,790	3,358	3,515	3,820
Total cost of revenue	4,533	5,117	5,245	5,540
<b>Total Gross Profit</b>	8,726	11,702	12,710	14,430
Operating Expenses:				
Sales and Marketing	2,726	5,232	5,590	6,300
General and Administrative	2,359	3,387	3,885	4,325
Research and Development	2,387	3,217	2,900	2,940
Depreciation and amortization	1,202	1,599	1,480	1,390
Restructuring and acquisition related expenses	1,235	164	-	-
Total Operating Expenses	9,909	13,599	13,855	14,955
<b>Operating Income (loss)</b>	(1,183)	(1,897)	(1,145)	(525)
Interest expense and other, net	(883)	(53)	(8)	(8)
Change in fair value of contingent consideration	-	470	-	-
Government grant income	88	-	-	-
Change in fair value of warrant liabilities	(5,885)	3,655	-	-
Total Other Income (Expense)	(6,680)	4,072	(8)	(8)
<b>Pre-Tax Income (loss)</b>	(7,863)	2,175	(1,153)	(533)
Income Tax Expense (Benefit)	(1,174)	30	-	-
<b>Net Income (loss)</b>	<u>\$ (6,689)</u>	<u>\$ 2,145</u>	<u>\$ (1,153)</u>	<u>\$ (533)</u>
<b>Dividends on convertible preferred stock</b>	(2,015)	-	-	-
<b>Net Income (loss) - to common shareholders</b>	<u>\$ (8,704)</u>	<u>\$ 2,145</u>	<u>\$ (1,153)</u>	<u>\$ (533)</u>
<b>EPS (loss) - to common shareholders</b>	<u>\$ (1.47)</u>	<u>\$ 0.20</u>	<u>\$ (0.11)</u>	<u>\$ (0.05)</u>
Weighted Average Shares Outstanding	5,936	10,389	10,433	10,463
EBITDA	\$ 1,441	\$ 196	\$ 795	\$ 1,305
Margins				
Gross Margin -- Digital engagement services	47.1%	46.0%	46.9%	47.9%
Gross Margin -- Subscription - Licenses	72.0%	75.2%	76.1%	77.1%
Total Gross Margin	65.8%	69.6%	70.8%	72.3%
Operating Margin	(8.9%)	(11.3%)	(6.4%)	(2.6%)
Sales & Marketing	20.6%	31.1%	31.1%	31.5%
General & Administrative	17.8%	20.1%	21.6%	21.7%
Research and Development	18.0%	19.1%	16.2%	14.7%
Operating expense	74.7%	80.9%	77.2%	74.9%
Pre-Tax Margins	(59.3%)	12.9%	(6.4%)	(2.7%)
Tax rate	14.9%	1.4%	0.0%	0.0%
YEAR / YEAR GROWTH				
Total Revenues	21.6%	26.8%	6.8%	11.2%
Subscription (SaaS) / Perpetual licenses	32.9%	36.1%	8.4%	13.4%

Source: Company reports and Taglich Brothers estimates

Taglich Brothers, Inc.

Bridgeline Digital, Inc.  
Income Statement Model – Ending September 30  
Quarters FY2022A – 2024E  
(in thousands)

	1Q22A	2Q22A	3Q22A	4Q22A	FY2022A	1Q23E	2Q23E	3Q23E	4Q23E	FY2023E	1Q24E	2Q24E	3Q24E	4Q24E	FY2024E
Digital engagement services	\$ 869	\$ 811	\$ 812	\$ 767	\$ 3,259	\$ 785	\$ 800	\$ 885	\$ 790	\$ 3,260	\$ 825	\$ 825	\$ 825	\$ 825	\$ 3,300
Subscription (SaaS) / Perpetual licenses	3,417	3,306	3,394	3,443	13,560	3,450	3,500	3,800	3,945	14,695	3,975	4,145	4,300	4,250	16,670
<b>Total revenue</b>	<b>4,286</b>	<b>4,117</b>	<b>4,206</b>	<b>4,210</b>	<b>16,819</b>	<b>4,235</b>	<b>4,300</b>	<b>4,685</b>	<b>4,735</b>	<b>17,955</b>	<b>4,800</b>	<b>4,970</b>	<b>5,125</b>	<b>5,075</b>	<b>19,970</b>
Cost of sales -- Digital engagement services	451	466	436	406	1,759	415	425	470	420	1,730	430	430	430	430	1,720
Cost of sales -- Subscription - Licenses	829	868	835	826	3,358	835	850	900	930	3,515	935	945	975	965	3,820
<b>Total cost of revenue</b>	<b>1,280</b>	<b>1,334</b>	<b>1,271</b>	<b>1,232</b>	<b>5,117</b>	<b>1,250</b>	<b>1,275</b>	<b>1,370</b>	<b>1,350</b>	<b>5,245</b>	<b>1,365</b>	<b>1,375</b>	<b>1,405</b>	<b>1,395</b>	<b>5,540</b>
<b>Total Gross Profit</b>	<b>3,006</b>	<b>2,783</b>	<b>2,935</b>	<b>2,978</b>	<b>11,702</b>	<b>2,985</b>	<b>3,025</b>	<b>3,315</b>	<b>3,385</b>	<b>12,710</b>	<b>3,435</b>	<b>3,595</b>	<b>3,720</b>	<b>3,680</b>	<b>14,430</b>
Operating Expenses:															
Sales and Marketing	1,231	1,267	1,382	1,352	5,232	1,365	1,375	1,400	1,450	5,590	1,525	1,550	1,600	1,625	6,300
General and Administrative	873	775	812	927	3,387	950	965	975	995	3,885	1,025	1,050	1,100	1,150	4,325
Research and Development	859	865	771	722	3,217	725	725	725	725	2,900	735	735	735	735	2,940
Depreciation and amortization	424	416	373	386	1,599	380	375	365	360	1,480	355	350	345	340	1,390
Restructuring and acquisition related expenses	98	66	-	-	164	-	-	-	-	-	-	-	-	-	-
<b>Total Operating Expenses</b>	<b>3,485</b>	<b>3,389</b>	<b>3,338</b>	<b>3,387</b>	<b>13,599</b>	<b>3,420</b>	<b>3,440</b>	<b>3,465</b>	<b>3,530</b>	<b>13,855</b>	<b>3,640</b>	<b>3,685</b>	<b>3,780</b>	<b>3,850</b>	<b>14,955</b>
<b>Operating Income (loss)</b>	<b>(479)</b>	<b>(606)</b>	<b>(403)</b>	<b>(409)</b>	<b>(1,897)</b>	<b>(435)</b>	<b>(415)</b>	<b>(150)</b>	<b>(145)</b>	<b>(1,145)</b>	<b>(205)</b>	<b>(90)</b>	<b>(60)</b>	<b>(170)</b>	<b>(525)</b>
Interest expense and other, net	(87)	52	(8)	(10)	(53)	(2)	(2)	(2)	(2)	(8)	(2)	(2)	(2)	(2)	(8)
Change in fair value of contingent consideration	-	470	-	-	470	-	-	-	-	-	-	-	-	-	-
Government grant income	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Change in fair value of warrant liabilities	2,441	434	818	(38)	3,655	-	-	-	-	-	-	-	-	-	-
<b>Total Other Income (Expense)</b>	<b>2,354</b>	<b>956</b>	<b>810</b>	<b>(48)</b>	<b>4,072</b>	<b>(2)</b>	<b>(2)</b>	<b>(2)</b>	<b>(2)</b>	<b>(8)</b>	<b>(2)</b>	<b>(2)</b>	<b>(2)</b>	<b>(2)</b>	<b>(8)</b>
<b>Pre-Tax Income (loss)</b>	<b>1,875</b>	<b>350</b>	<b>407</b>	<b>(457)</b>	<b>2,175</b>	<b>(437)</b>	<b>(417)</b>	<b>(152)</b>	<b>(147)</b>	<b>(1,153)</b>	<b>(207)</b>	<b>(92)</b>	<b>(62)</b>	<b>(172)</b>	<b>(533)</b>
Income Tax Expense (Benefit)	3	5	4	18	30	-	-	-	-	-	-	-	-	-	-
<b>Net Income (loss)</b>	<b>\$ 1,872</b>	<b>\$ 345</b>	<b>\$ 403</b>	<b>\$ (475)</b>	<b>\$ 2,145</b>	<b>\$ (437)</b>	<b>\$ (417)</b>	<b>\$ (152)</b>	<b>\$ (147)</b>	<b>\$ (1,153)</b>	<b>\$ (207)</b>	<b>\$ (92)</b>	<b>\$ (62)</b>	<b>\$ (172)</b>	<b>\$ (533)</b>
<b>Dividends on convertible preferred stock</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Net Income (loss) - to common shareholders</b>	<b>\$ 1,872</b>	<b>\$ 345</b>	<b>\$ 403</b>	<b>\$ (475)</b>	<b>\$ 2,145</b>	<b>\$ (437)</b>	<b>\$ (417)</b>	<b>\$ (152)</b>	<b>\$ (147)</b>	<b>\$ (1,153)</b>	<b>\$ (207)</b>	<b>\$ (92)</b>	<b>\$ (62)</b>	<b>\$ (172)</b>	<b>\$ (533)</b>
<b>EPS (loss) - to common shareholders</b>	<b>\$ 0.18</b>	<b>\$ 0.03</b>	<b>\$ 0.04</b>	<b>\$ (0.05)</b>	<b>\$ 0.20</b>	<b>\$ (0.04)</b>	<b>\$ (0.04)</b>	<b>\$ (0.01)</b>	<b>\$ (0.01)</b>	<b>\$ (0.11)</b>	<b>\$ (0.02)</b>	<b>\$ (0.01)</b>	<b>\$ (0.01)</b>	<b>\$ (0.02)</b>	<b>\$ (0.05)</b>
Weighted Average Shares Outstanding	10,626	10,341	10,270	10,321	10,389	10,425	10,430	10,435	10,440	10,433	10,450	10,460	10,465	10,475	10,463
EBITDA	\$ 106	\$ (72)	\$ 63	\$ 100	\$ 196	\$ 60	\$ 75	\$ 330	\$ 330	\$ 795	\$ 260	\$ 370	\$ 395	\$ 280	\$ 1,305
Margins															
Gross Margin -- Digital engagement services	48.1%	42.5%	46.3%	47.1%	46.0%	47.1%	46.9%	46.9%	46.8%	46.9%	47.9%	47.9%	47.9%	47.9%	47.9%
Gross Margin -- Subscription - Licenses	75.7%	73.7%	75.4%	76.0%	75.2%	75.8%	75.7%	76.3%	76.4%	76.1%	76.5%	77.2%	77.3%	77.3%	77.1%
<b>Total Gross Margin</b>	<b>70.1%</b>	<b>67.6%</b>	<b>69.8%</b>	<b>70.7%</b>	<b>69.6%</b>	<b>70.5%</b>	<b>70.3%</b>	<b>70.8%</b>	<b>71.5%</b>	<b>70.8%</b>	<b>71.6%</b>	<b>72.3%</b>	<b>72.6%</b>	<b>72.5%</b>	<b>72.3%</b>
<b>Operating Margin</b>	<b>(11.2%)</b>	<b>(14.7%)</b>	<b>(9.6%)</b>	<b>(9.7%)</b>	<b>(11.3%)</b>	<b>(10.3%)</b>	<b>(9.7%)</b>	<b>(3.2%)</b>	<b>(3.1%)</b>	<b>(6.4%)</b>	<b>(4.3%)</b>	<b>(1.8%)</b>	<b>(1.2%)</b>	<b>(3.3%)</b>	<b>(2.6%)</b>
Sales & Marketing	28.7%	30.8%	32.9%	32.1%	31.1%	32.2%	32.0%	29.9%	30.6%	31.1%	31.8%	31.2%	31.2%	32.0%	31.5%
General & Administrative	20.4%	18.8%	19.3%	22.0%	20.1%	22.4%	20.8%	21.0%	21.0%	21.6%	21.4%	21.1%	21.5%	22.7%	21.7%
Research and Development	20.0%	21.0%	18.3%	17.1%	19.1%	17.1%	16.9%	15.5%	15.3%	16.2%	15.3%	14.8%	14.3%	14.5%	14.7%
Operating expense	81.3%	82.3%	79.4%	80.5%	80.9%	80.8%	80.0%	74.0%	74.6%	77.2%	75.8%	74.1%	73.8%	75.9%	74.9%
Pre-Tax Margins	43.7%	8.5%	9.7%	(10.9%)	12.9%	(10.3%)	(9.7%)	(3.2%)	(3.1%)	(6.4%)	(4.3%)	(1.9%)	(1.2%)	(3.4%)	(2.7%)
Tax rate	0.2%	1.4%	1.0%	(3.9%)	1.4%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
YEAR / YEAR GROWTH															
Total Revenues	51.1%	43.2%	22.1%	2.6%	26.8%	(1.2%)	4.4%	11.4%	12.5%	6.8%	13.3%	15.6%	9.4%	7.2%	11.2%
Subscription (SaaS) / Perpetual licenses	70.9%	66.2%	29.3%	2.7%	36.1%	1.0%	5.9%	12.0%	14.6%	8.4%	15.2%	18.4%	13.2%	7.7%	13.4%

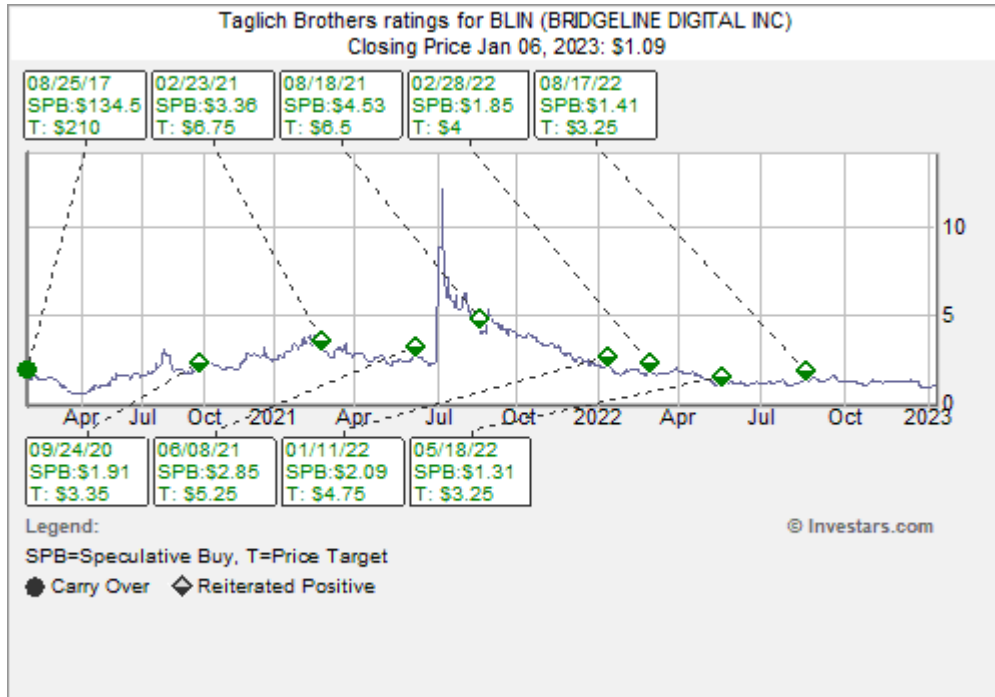
Source: Company reports and Taglich Brothers estimates

Bridgeline Digital, Inc.  
Cash Flow Statement – Ending September 30  
FY2021A – FY2024E  
(in thousands)

	FY2021 A	FY2022 A	FY2023 E	FY2024 E
<i>Cash Flows from Operating Activities</i>				
Net Income (loss)	\$ (6,689)	\$ 2,145	\$ (1,153)	\$ (533)
Loss on disposal of property and equipment	-	-	-	-
Amortization of intangibles	1,130	1,487	1,480	1,390
Depreciation and amortization	70	121	75	50
Other amortization	2	-	-	-
Deferred income taxes	(1,196)	(45)	-	-
Government grant income	(88)	-	-	-
Change in fair value of contingent consideration	170	(631)	-	-
Change in fair value of warrant liabilities	5,885	(3,655)	-	-
Stock-based compensation	607	478	475	480
Cash earnings (burn)	(109)	(100)	877	1,387
<i>Changes In:</i>				
Accounts receivables	36	159	(100)	(49)
Prepaid expenses and Other current assets	149	(20)	(100)	(49)
Other assets	99	-	(20)	(126)
Accounts payable and accrued liabilities	(920)	87	(23)	60
Deferred revenue	(613)	(223)	557	500
Other liabilities	369	(37)	-	-
(Increase)/decrease in Working Capital	(880)	(34)	312	337
<b>Net cash Provided by (Used in) Operations</b>	<b>(989)</b>	<b>(134)</b>	<b>1,189</b>	<b>1,724</b>
<i>Cash Flows from Investing Activities</i>				
Purchase of property and equipment	(79)	(78)	(80)	(85)
Software development	(30)	(117)	(135)	(150)
Purchase of business, net of cash acquired	(4,408)	-	-	-
<b>Net cash used in Investing</b>	<b>(4,517)</b>	<b>(195)</b>	<b>(215)</b>	<b>(235)</b>
<i>Cash Flows from Financing Activities</i>				
Proceeds from issuance of common stock, net	4,626	-	-	-
Proceeds from stock option and warrant exercises	7,127	19	-	-
Proceeds from convertible preferred to acquire HawkSearch, net	2,526	-	-	-
Proceeds received under paycheck protection program	-	-	-	-
Payment on long-term debt	(603)	(611)	(429)	(188)
Payments of contingent consideration and deferred cash payable	(203)	(4,891)	(250)	-
<b>Net cash provided by Financing</b>	<b>13,473</b>	<b>(5,483)</b>	<b>(679)</b>	<b>(188)</b>
Exchange rate	24	(184)	-	-
Net change in Cash	7,991	(5,996)	295	1,301
Cash Beginning of Period	861	8,852	2,856	3,151
Cash End of Period	<u>\$ 8,852</u>	<u>\$ 2,856</u>	<u>\$ 3,151</u>	<u>\$ 4,452</u>

Source: Company reports and Taglich Brothers estimates

**Price Chart**



**Taglich Brothers Current Ratings Distribution**



57.14 % Buy | 42.86 % Hold

<b>Investment Banking Services for Companies Covered in the Past 12 Months</b>		
Rating	#	%
Buy	4	20
Hold		
Sell		
Not Rated		

**Important Disclosures**

As of January 6, 2023, 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 59,973 shares of BLIN common stock and owns or has a controlling interest in 100,500 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 3,714 shares of BLIN common stock and owns or has a controlling interest in 13,000 shares of common stock underlying warrants issued. William Cooke, Vice President of Investment Banking at Taglich Brothers, Inc., owns or has a controlling interest in 1,847 shares of BLIN common stock. Doug Hailey, Director of Investment Banking at Taglich Brothers, Inc., owns or has a controlling interest in an estimated 7,929 warrants. Richard Oh, Managing Director of Taglich Brothers, Inc., owns or has a controlling interest in 2,759 share of BLIN common stock and an estimated 3,661 warrants. Other employees at Taglich Brothers, Inc. also own or have controlling interests in 4,514 shares of BLIN common stock and an 10,700 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 and May 2021, Taglich Brothers Inc. acted as co-placement agent for a registered direct common stock (convertible preferred) offerings 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**

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, Axos Clearing, 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.  
SAP SE

(NYSE: HUBS)  
(NYSE: SAP)

Shopify Inc.  
Adobe Inc.

(NYSE: SHOP)  
(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.**

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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.