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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

May 30, 2023

BLIN $1.00 — (NASDAQ)

	2021 A	2022 A	*2023 E*	*2024 E*
Total Revenue (in millions)	$13.3	$16.8	***$15.9***	***$17.8***
Earnings (loss) per share	($0.48)*	($0.18)**	***($0.18)***	***($0.08)***

52-Week range	$1.68 – $0.87	Fiscal year ends:	September
Shares outstanding a/o 5/15/23	10.4 million	Revenue/shares (ttm)	$1.61
Approximate float	8.9 million	Price/Sales (ttm)	0.6X
Market Capitalization	$10.4 million	Price/Sales (2024) E	0.6X
Tangible Book value/shr	($0.16)	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.*

Bridgeline 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 $1.75 per share from $2.00 per share due primarily to a reduction in our FY24 sales per share forecast and reduced sector valuation.

Brideline Digital has 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 approximately 15.4% annually to nearly $33.5 billion by 2030, up from nearly $10.7 billion in 2022.

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 sales and marketing initiatives through our forecast period in order to support recurring subscription revenue growth.

BLIN reported (on 5-15-23) a 2Q23 loss per share of ($0.05) on revenue of $4.1 million. In 2Q22, EPS was $0.03 on revenue of $4.1 million. Excluding items last year, we estimate the loss per share was ($0.06). We projected a loss per share of ($0.04) on revenue of $4.1 million.

For FY23, we project a loss per share of ($0.18) on a 5.4% decline in revenue to $15.9 million (prior was $16.5 million) driven by a decrease in subscription revenue of 7.1% to $13.6 million reflecting the downsizing of one customer. We previously forecast a loss per share of ($0.12). Our revised forecasts reflect 1H23 results.

For FY24, we project a loss per share of ($0.08) on 11.5% revenue growth to $17.8 million driven by subscription growth of 15.7% to $14.5 million. We previously forecast a loss per share of ($0.06) and revenues of $18.5 million. Our forecast reflects resumption of subscription revenue growth albeit from a lower than anticipated 2023 base and operating expense margin improving to 74.1% from an estimated 82.7% in FY23.

Please view our disclosures on pages 13 – 15.

Appreciation Potential

Maintaining Speculative Buy rating but reducing our 12-month price target to $1.75 per share from $2.00 per share due primarily to a reduction in our FY24 sales per share forecast and reduced sector valuation.

Our rating reflects projected recurring revenue growth resuming in FY24 as the company's Woorank and HawkSearch offering grow at an accelerated rate compared to legacy offerings. Entering 2H23, the company's cash on hand of $2.8 million should enable increases in sales and marketing spending in order to drive recurring subscription revenue growth in FY24.

Our 12-month price target of $1.75 per share implies shares could more appreciate 75% 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 1.9X), compared to BLIN's trailing twelve month price-to-sales multiple of 0.6X (prior was 0.7X). 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 14.7% in FY24. We applied a price-to-sales multiple of 1.3X (prior was 1.5X) to our FY24 sales per share forecast of $1.70 (prior was $1.77), discounted for execution risk, to obtain a year-ahead price target of approximately $1.75 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 recurring-SaaS/perpetual software revenue growth of 14.7% in FY24 after an anticipated decrease of 7.1% in FY23. We project cash earnings of $1 million in FY24 compared to estimated cash burn of $284,000 in FY23.

We believe Bridgeline Digital, Inc. is most suitable for risk tolerant investors that seek exposure to a 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 cusomters 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 on 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.

Recent Developments

On May 15, 2023, during BLIN's earning conference call it announced that its Bronco release for its HawkSearch offering is intended to increase revenue for its customers while reducing their implementation costs. This new release introduces a rapid user interface framework, which reduces the time and expense to launch new HawkSearch-powered Websites. The release also embeds WooRank search engine optimization and advanced analytics to BLIN's e360 platform for increased cross-selling opportunities.

On May 11, 2023, the company announced a strategic partnership with accessiBe, a Web accessibility company that provides an ecosystem of solutions for any business. accessiBe is trusted by over 180,000 customers, including PlayStation, Johnson & Johnson's, and NBC. The Bridgeline partnership will provide accessible digital experiences for new customers as their accessibility technology will be integrated into the BLIN platform, helping customers ensure that their Websites are ADA-compliant.

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.

In 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. In January 2023, BLIN announced a partnership with Duda, the professional Website builder for digital marketing agencies. Since January 2023, Duda has driven over 150 WooRank license sales. Bridgeline's WooRank search engine optimization (SEO) app is available over 1 million sites built on Duda's platform. Once integration is complete Duda users will be able to quickly and easily audit clients' SEO in actionable reports, identify on-page areas for improvement, perform keyword research & rank tracking, and analyze competitors' SEO.

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 recently introduced Bronco release that should provide increased revenue for its customers while reducing their implementation costs, 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 2Q23, the company signed $1.4 million in new sales that included $600,000 of licenses and $800,000 in services. Also, during the quarter BLIN had more than 200 existing customers, representing over 90% of customers and recurring revenue, were contracted for renewal.

Based on 1H23 results, we anticipate the company is likely to experience significant headwinds in terms of achieving recurring growth due primarily to diminished revenue coming in from legacy customers. We project 3Q23 should be the recurring revenue low point with sequential grow resuming in 4Q23 and year-over-year growth starting in 1Q24.

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 April 2023, the International Monetary Fund (IMF) revised its global economic growth estimates to an increase of 2.8% for 2023 and 3% for 2024. In January 2023, the IMF's prior projections called for growth of 2.9% in 2023 and 3.1% growth in 2024. The forecast reflects a rise global interest rates to fight inflation, particularly in advanced economies, 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 2023 and 1.1% for 2024. In January 2023, the IMF projected US economic growth of 1.2% and 1.4% for 2023 and 2024, respectively.

Operations – FY23
We project a 5.4% decrease in total revenue to $15.9 million (prior was $16.5 million) from $16.8 million in FY22 due primarily to a 7.1% decrease in recurring subscription (SaaS) and perpetual licenses revenue to $12.6 million, down from $13.6 million in FY22. We anticipate digital engagement services revenue flat at $3.3 million.

We forecast gross profit of $10.9 million compared to $11.7 million in FY22 due primarily to lower revenue and gross margin 68.2% compared to 69.6% in FY22. We project an operating loss of $2.3 million compared to a loss of

$1.9 million in FY22. The increase in our operating loss forecast reflects reduced revenue and gross margin, as well as an increase in operating margin expense to 82.7% from 79.9% (excludes $164,000 in restructuring and acquisition expenses) in FY22.

We project operating expenses decreasing to nearly $13.2 million compared to $13.4 million (excluding $164,000 in restructuring and acquisition expenses). The level of operating expenses should continue to support initiatives to grow the company's customer base. We anticipate sales and marketing expense to be flat at $5.2 million and D&A/R&D expenses combined decreasing $39,000 to $4.8 million. G&A expense should decrease $264,000 to $3.1 million.

We project non-operating expense of $429,000 that includes positive changes in fair value of warrant liabilities of $468,000, partly offset by $29,000 in interest expense and fair value of contingent consideration 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 $1.9 million or ($0.18) per share. We previously projected a net loss of $1.2 million or ($0.12) per share.

Finances – 2023
We project cash burn of $284,000 and a $125,000 decrease in working capital resulting in cash used in operations of $159,000. Cash used in operations, capital expenditures, and payment of contingent consideration and debt, should result in cash decreasing by $843,000 to $2 million at September 30, 2023.

Operations – FY24
We project 11.5% total revenue growth to $17.8 million (prior was $18.5 million) from an estimated $15.9 million in FY23 due primarily to 14.7% growth in recurring subscription (SaaS) and perpetual licenses revenue to $14.5 million (prior was $15.2 million), up from an estimated $12.6 million in FY23. We anticipate digital engagement services revenue flat at $3.3 million.

We forecast gross profit increasing 14% to $12.4 million compared to an estimated $10.9 million in FY23 due to revenue growth and gross margin expanding to 69.7% from an estimated 68.2% in FY23. We project an operating loss narrowing $795,000 compared to an estimated operating loss of $2.3 million in FY23. The narrowing of our operating loss forecast reflects an improvement in operating margin expense to 74.1% from an estimated 82.7% in FY23.

We project operating expenses flat at $13.2 million. We anticipate the increases in sales and marketing and G&A expenses are likely to be offset by reductions in D&A and R&D 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 $240,000 to $5.5 million and G&A expense increasing $42,000 to $3.2 million. D&A expenses should decrease to $1.4 million from an estimated $1.5 million in FY23. R&D expense in anticipated to decrease to $3.1 million from an estimated $3.3 million in FY23.

We project non-operating expense $20,000. We project a net loss of $795,000 or ($0.08) per share. We previously projected a net loss of $595,000 or ($0.06) per share.

Finances – 2024
We project cash earnings of $1 million and a $50,000 increase in working capital resulting in cash from operations of $985,000. Cash from operations should cover capital expenditures and debt repayment, increasing cash by $757,000 to nearly $2.8 million at September 30, 2024.

2Q23 and 1H23 Results

2Q23
The company reported total net revenue flat at $4.1 million. Subscription and perpetual license sales remained at $3.3 million and digital engagement service revenue increased $10,000 to $821,000.

Gross profit increased $49,000 to $2.8 million due to gross margin improving to 69.4% from 67.6% in the year-ago period. Operating expenses increased to nearly $3.5 million from nearly $3.4 million in 2Q22. Sales and marketing expense increased $119,000 to nearly $1.4 million due primarily to an increase in personnel to support marketing programs to drive future sales growth. While G&A expense decreased to $756,000 from $775,000, R&D expense increased to $926,000 from $865,000. D&A expense decreased to $381,000 from $416,000 in the year-ago period.

The company reported an operating loss of $662,000 from $606,000 in 2Q22.

Non-operating income was $161,000 compared to $957,000. Non-operating income included a positive change in the fair value of warrant liabilities to $171,000 compared to a positive change of $434,000 in the year-ago period. Interest and change in fair value of contingent consideration was a negative $10,000 compared to a positive $523,000 last year.

The net loss was $511,000 or ($0.05) per share compared to net income of $346,000 or $0.03 per share in 2Q22. In the year-ago period, excluding the change in fair value of contingent consideration and change in fair value of warrant liabilities, the net loss per share was approximately ($0.06). We projected a loss per share of ($0.04) on sales of $4 million.

1H23 Results

The company reported a 2.7% decrease in total net revenue to $8.2 million from $8.4 million in 1H22. The revenue decline was driven by a $221,000 decline in subscription and perpetual license sales to $6.5 million due primarily to older customers reducing their subscription contract value.

Gross profit decreased to$5.6 million from nearly $5.8 million. The decrease reflects lower total revenue as gross margin was flat at 68.9%. Operating expenses decreased to $6.7 million from $6.9 million.

The company reported operating loss improved by $61,000 to $1 million.

Non-operating income was $449,000 compared to $3.3 million. The current period included a positive change of $468,000 in warrant liabilities, partly offset by a negative $19,000 change in interest and change in fair value of contingent consideration. The year-ago period included a positive change in the fair value of warrant liabilities to $2.4 million and interest and change in fair value of contingent consideration was a positive $435,000.

in thousands $	6 Mos. 2023	6 Mos. 2022	% D
Total Revenue	$ 8,177	$ 8,403	(2.7%)
Cost of sales	2,541	2,614	(2.8%)
Gross Profit	5,636	5,789	(2.6%)
Total Operating Expenses	6,660	6,874	(3.1%)
Operating Income (loss)	(1,024)	(1,085)	NMF
Total Other Income (Expense)	449	3,310	
Pre-Tax Income (loss)	(575)	2,225	NMF
Income Tax Expense (Benefit)	16	8	NMF
Net Income (loss)	$ (591)	$ 2,217	NMF
EPS (loss)*	$ (0.06)	$ 0.22	NMF
Avg Shares	10,418	10,197	
Margins			
Gross Margins	68.9%	68.9%	
Operating Margin	(12.5%)	(12.9%)	
Tax Rate	(2.8%)	0.4%	

* Includes $0.12 per share change in fair value of in-the-money warrant derivative liabilities that occurred in 1Q22

Source: company reports

Net loss was $591,000 or ($0.06) per share compared to net income of $2.2 million or $0.21 per share. In the year-ago period, excluding items, the loss per share was approximately ($0.11) in 1H22.

Finances

In 1H23, the cash burn was $109,000 and working capital decreased $640,000 resulting in cash from operations of $531,000. Cash from operations did not cover capital expenditures, repayment of debt, and payment of contingent consideration. Cash decreased by $37,000 to $2.8 million at March 31, 2023.

Capital Structure

At March 31, 2023, BLIN had total debt of $762,000 (of which $210,000 was short-term) and a cash balance of $2.8 million. Total debt consisted of a $435,000 1.3% term loan payable that matures in July 2028.

In addition, the company has a 4% $327,000 seller's note (related to a FY21 acquisition) that is payable over five installments and matures in September 2025.

Industry Brief

Experience Management Market
Consulting firm Grand View Research issued a report stating that the global customer experience management market generated revenue of nearly $10.7 billion in 2022. Grand View Research predicts annualized revenue growth of 15.4% to approximately $33.5 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.

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 March 31, 2023, the company's accumulated deficit was $80.7 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 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 $265,000 million in FY24. We forecast FY23 and FY24 cash earnings (combined) of nearly $1.8 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.

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. As of May 2023, one shareholder owns approximately 5.8% of the company's outstanding voting stock according to SC 13G/A 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 2021, average daily volume was approximately 3 million. Average daily volume decreased over the last three months (ending May 26, 2023) to approximately 33,400. 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	2Q23A	**FY23E**	**FY24E**
ASSETS					
Current assets:					
Cash and cash equivalents	$ 8,852	$ 2,856	$ 2,819	**$ 2,013**	**$ 2,770**
Accounts receivables, net	1,370	1,182	1,148	**1,273**	**1,365**
Prepaid expenses and other current assets	196	242	463	**480**	**510**
Total current assets	10,418	4,280	4,430	**3,767**	**4,645**
Property and equipment, net	252	268	214	**210**	**205**
Operating lease assets	481	589	489	**489**	**489**
Intangible assets, net	7,755	6,268	5,582	**4,824**	**3,500**
Goodwill	15,985	15,985	15,985	**15,985**	**15,985**
Other assets	76	123	106	**106**	**106**
Total assets	$ 34,967	$ 27,513	$ 26,806	**$ 25,381**	**$ 24,930**
LIABILITIES AND STOCKHOLDERS' EQUITY					
Current liabilities:					
Operating lease liabilities	161	199	186	**186**	**186**
Accounts payable	974	972	1,250	**1,053**	**970**
Accrued liabilities	908	995	1,060	**1,011**	**967**
Debt	732	429	210	**188**	**-**
Purchase price and contingent consideration payable	3,463	250	-	**-**	**-**
Deferred revenue	2,097	1,943	2,420	**2,300**	**2,500**
Total current liabilities	8,335	4,788	5,126	**4,739**	**4,622**
Long-term debt, net	1,197	588	552	**400**	**212**
Operating lease liabilities, net	320	390	303	**303**	**303**
Purchase price and contingent consideration payable	2,360	-	-	**-**	**-**
Warrant liabilities	4,404	749	281	**281**	**281**
Other liabilities	774	646	672	**858**	**712**
Total long-term liabilities	9,055	2,373	1,808	**1,842**	**1,508**
Total liabilities	$ 17,390	$ 7,161	$ 6,934	**$ 6,581**	**$ 6,130**
Stockholders' equity:					
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**	**10**
Additional paid-in capital	100,207	100,704	100,881	**101,104**	**101,104**
Retained earnings (loss)	(82,287)	(80,142)	(80,733)	**(82,033)**	**(82,033)**
Accumulated other comprehensive income (loss)	(353)	(220)	(286)	**(281)**	**(281)**
Total stockholders' equity	17,577	20,352	19,872	**18,800**	**18,800**
Total liabilities and stockholders' equity	$ 34,967	$ 27,513	$ 26,806	**$ 25,381**	**$ 24,930**
Shares Outstatnding - Common Stock	10,187	10,418	10,418	**10,430**	**10,450**
Series C convertible preferred stock - outstanding	350	350	350	350	350

Source: Company reports and Taglich Brothers estimates

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

	FY2021A	FY2022A	**FY2023E**	**FY2024E**
Digital engagement services	$ 3,296	$ 3,259	**$ 3,315**	**$ 3,300**
Subscription (SaaS) / Perpetual licenses	9,963	13,560	**12,602**	**14,450**
Total revenue	13,259	16,819	**15,917**	**17,750**
Cost of sales -- Digital engagement services	1,743	1,759	**1,680**	**1,640**
Cost of sales -- Subscription - Licenses	2,790	3,358	**3,376**	**3,730**
Total cost of revenue	4,533	5,117	**5,056**	**5,370**
Total Gross Profit	8,726	11,702	**10,861**	**12,380**
Operating Expenses:				
Sales and Marketing	2,726	5,232	**5,220**	**5,460**
General and Administrative	2,359	3,387	**3,123**	**3,165**
Research and Development	2,387	3,217	**3,273**	**3,100**
Depreciation and amortization	1,202	1,599	**1,504**	**1,430**
Restructuring and acquisition related expenses	1,235	164	**45**	**-**
Total Operating Expenses	9,909	13,599	**13,165**	**13,155**
Operating Income (loss)	(1,183)	(1,897)	**(2,304)**	**(775)**
Interest expense, change in fair value of contingent	(883)	417	**(39)**	**(20)**
Government grant income	88	-	**-**	**-**
Change in fair value of warrant liabilities	(5,885)	3,655	**468**	**-**
Total Other Income (Expense)	(6,680)	4,072	**429**	**(20)**
Pre-Tax Income (loss)	(7,863)	2,175	**(1,875)**	**(795)**
Income Tax Expense (Benefit)	(1,174)	30	**16**	**-**
Net Income (loss)	$ (6,689)	$ 2,145	**$ (1,891)**	**$ (795)**
Dividends on convertible preferred stock	(2,015)	-	**-**	**-**
Net Income (loss) - to common shareholders	$ (8,704)	$ 2,145	**$ (1,891)**	**$ (795)**
EPS (loss) - to common shareholders	$ (1.47)	$ 0.20	**$ (0.18)**	**$ (0.08)**
Weighted Average Shares Outstanding	5,936	10,389	**10,431**	**10,463**
EBITDA	$ 1,441	$ 196	**$ (364)**	**$ 1,055**
Margins				
Gross Margin -- Digital engagement services	47.1%	46.0%	**49.3%**	**50.3%**
Gross Margin -- Subscription - Licenses	72.0%	75.2%	**73.2%**	**74.2%**
Total Gross Margin	65.8%	69.6%	**68.2%**	**69.7%**
Operating Margin	(8.9%)	(11.3%)	**(14.5%)**	**(4.4%)**
Sales & Marketing	20.6%	31.1%	**32.8%**	**30.8%**
General & Administrative	17.8%	20.1%	**19.6%**	**17.8%**
Research and Development	18.0%	19.1%	**20.6%**	**17.5%**
Operating expense	74.7%	80.9%	**82.7%**	**74.1%**
Pre-Tax Margins	(59.3%)	12.9%	**(11.8%)**	**(4.5%)**
Tax rate	14.9%	1.4%	**(0.9%)**	**0.0%**
YEAR / YEAR GROWTH				
Total Revenues	21.6%	26.8%	**(5.4%)**	**11.5%**
Subscription (SaaS) / Perpetual licenses	32.9%	36.1%	**(7.1%)**	**14.7%**

Source: Company reports and Taglich Brothers estimates

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

	1Q22A	2Q22A	3Q22A	4Q22A	FY2022A	1Q23A	2Q23A	3Q23E	4Q23E	FY2023E	1Q24E	2Q24E	3Q24E	4Q24E	FY2024E
Digital engagement services	$ 869	$ 811	$ 812	$ 767	$ 3,259	$ 854	$ 821	$ 820	$ 820	**$ 3,315**	$ 825	$ 825	$ 825	$ 825	**$ 3,300**
Subscription (SaaS) / Perpetual licenses	3,417	3,306	3,394	3,443	13,560	3,229	3,273	3,000	3,100	**12,602**	3,300	3,600	3,750	3,800	**14,450**
Total revenue	4,286	4,117	4,206	4,210	16,819	4,083	4,094	3,820	3,920	**15,917**	4,125	4,425	4,575	4,625	**17,750**
Cost of sales -- Digital engagement services	451	466	436	406	1,759	418	422	420	420	**1,680**	410	410	410	410	**1,640**
Cost of sales -- Subscription - Licenses	829	868	835	826	3,358	861	840	825	850	**3,376**	880	935	950	965	**3,730**
Total cost of revenue	1,280	1,334	1,271	1,232	5,117	1,279	1,262	1,245	1,270	**5,056**	1,290	1,345	1,360	1,375	**5,370**
Total Gross Profit	3,006	2,783	2,935	2,978	11,702	2,804	2,832	2,575	2,650	**10,861**	2,835	3,080	3,215	3,250	**12,380**
Operating Expenses:															
Sales and Marketing	1,231	1,267	1,382	1,352	5,232	1,209	1,386	1,325	1,300	**5,220**	1,335	1,350	1,375	1,400	**5,460**
General and Administrative	873	775	812	927	3,387	832	756	765	770	**3,123**	775	785	795	810	**3,165**
Research and Development	859	865	771	722	3,217	747	926	800	800	**3,273**	775	775	775	775	**3,100**
Depreciation and amortization	424	416	373	386	1,599	378	381	375	370	**1,504**	365	360	355	350	**1,430**
Restructuring and acquisition related expenses	98	66	-	-	164	-	45	-	-	**45**	-	-	-	-	-
Total Operating Expenses	3,485	3,389	3,338	3,387	13,599	3,166	3,494	3,265	3,240	**13,165**	3,250	3,270	3,300	3,335	**13,155**
Operating Income (loss)	(479)	(606)	(403)	(409)	(1,897)	(362)	(662)	(690)	(590)	**(2,304)**	(415)	(190)	(85)	(85)	**(775)**
Interest expense, change in fair value of contingent	(87)	522	(8)	(10)	417	(9)	(10)	(10)	(10)	**(39)**	(5)	(5)	(5)	(5)	**(20)**
Government grant income	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Change in fair value of warrant liabilities	2,441	434	818	(38)	3,655	297	171	-	-	**468**	-	-	-	-	-
Total Other Income (Expense)	2,354	956	810	(48)	4,072	288	161	(10)	(10)	**429**	(5)	(5)	(5)	(5)	**(20)**
Pre-Tax Income (loss)	1,875	350	407	(457)	2,175	(74)	(501)	(700)	(600)	**(1,875)**	(420)	(195)	(90)	(90)	**(795)**
Income Tax Expense (Benefit)	3	5	4	18	30	6	10	-	-	**16**	-	-	-	-	-
Net Income (loss)	$ 1,872	$ 345	$ 403	$ (475)	$ 2,145	$ (80)	$ (511)	$ (700)	$ (600)	**$ (1,891)**	$ (420)	$ (195)	$ (90)	$ (90)	**$ (795)**
Dividends on convertible preferred stock	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Net Income (loss) - to common shareholders	$ 1,872	$ 345	$ 403	$ (475)	$ 2,145	$ (80)	$ (511)	$ (700)	$ (600)	**$ (1,891)**	$ (420)	$ (195)	$ (90)	$ (90)	**$ (795)**
EPS (loss) - to common shareholders	$ 0.18	$ 0.03	$ 0.04	$ (0.05)	$ 0.20	$ (0.01)	$ (0.05)	$ (0.07)	$ (0.06)	**$ (0.18)**	$ (0.04)	$ (0.02)	$ (0.01)	$ (0.01)	**$ (0.08)**
Weighted Average Shares Outstanding	10,626	10,341	10,270	10,321	10,389	10,418	10,431	10,435	10,440	**10,431**	10,450	10,460	10,465	10,475	**10,463**
EBITDA	$ 106	$ (72)	$ 63	$ 100	$ 196	$ 115	$ (144)	$ (215)	$ (120)	**$ (364)**	$ 50	$ 270	$ 370	$ 365	**$ 1,055**
Margins															
Gross Margin -- Digital engagement services	48.1%	42.5%	46.3%	47.1%	46.0%	51.1%	48.6%	48.8%	48.8%	**49.3%**	50.3%	50.3%	50.3%	50.3%	**50.3%**
Gross Margin -- Subscription - Licenses	75.7%	73.7%	75.4%	76.0%	75.2%	73.3%	74.3%	72.5%	72.6%	**73.2%**	73.3%	74.0%	74.7%	74.6%	**74.2%**
Total Gross Margin	70.1%	67.6%	69.8%	70.7%	69.6%	68.7%	69.2%	67.4%	67.6%	**68.2%**	68.7%	69.6%	70.3%	70.3%	**69.7%**
Operating Margin	(11.2%)	(14.7%)	(9.6%)	(9.7%)	(11.3%)	(8.9%)	(16.2%)	(18.1%)	(15.1%)	**(14.5%)**	(10.1%)	(4.3%)	(1.9%)	(1.8%)	**(4.4%)**
Sales & Marketing	28.7%	30.8%	32.9%	32.1%	31.1%	29.6%	33.9%	34.7%	33.2%	**32.8%**	32.4%	30.5%	30.1%	30.3%	**30.8%**
General & Administrative	20.4%	18.8%	19.3%	22.0%	20.1%	20.4%	18.5%	20.0%	19.6%	**19.6%**	18.8%	17.7%	17.4%	17.5%	**17.8%**
Research and Development	20.0%	21.0%	18.3%	17.1%	19.1%	18.3%	22.6%	20.9%	20.4%	**20.6%**	18.8%	17.5%	16.9%	16.8%	**17.5%**
Operating expense	81.3%	82.3%	79.4%	80.5%	80.9%	77.5%	85.3%	85.5%	82.7%	**82.7%**	78.8%	73.9%	72.1%	72.1%	**74.1%**
Pre-Tax Margins	43.7%	8.5%	9.7%	(10.9%)	12.9%	(1.8%)	(12.2%)	(18.3%)	(15.3%)	**(11.8%)**	(10.2%)	(4.4%)	(2.0%)	(1.9%)	**(4.5%)**
Tax rate	0.2%	1.4%	1.0%	(3.9%)	1.4%	(8.1%)	(2.0%)	0.0%	0.0%	**(0.9%)**	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%	(4.7%)	(0.6%)	(9.2%)	(6.9%)	**(5.4%)**	1.0%	8.1%	19.8%	18.0%	**11.5%**
Subscription (SaaS) / Perpetual licenses	70.9%	66.2%	29.3%	2.7%	36.1%	(5.5%)	(1.0%)	(11.6%)	(10.0%)	**(7.1%)**	2.2%	10.0%	25.0%	22.6%	**14.7%**

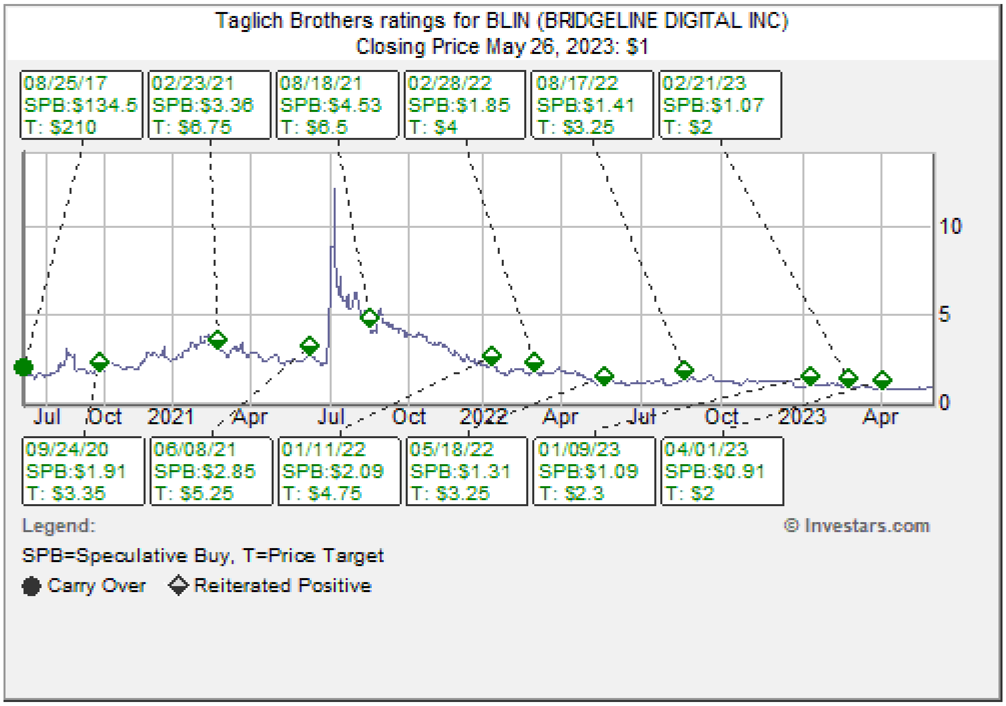
Source: Company reports and Taglich Brothers estimates

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

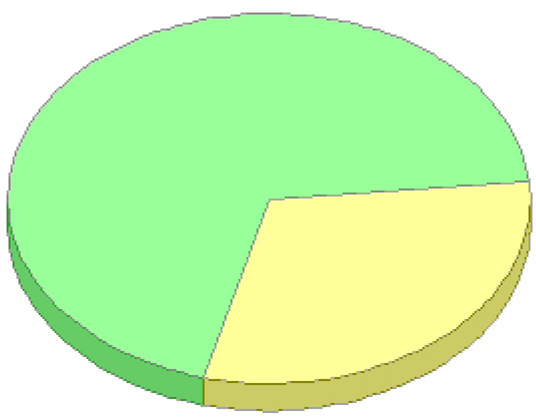
	FY2021 A	FY2022 A	6 Mos. 23A	**FY2023 E**	**FY2024 E**
Cash Flows from Operating Activities					
Net Income (loss)	$ (6,689)	$ 2,145	$ (591)	**$ (1,891)**	**$ (795)**
Loss on disposal of property and equipment	-	-	-	-	-
Amortization of intangibles	1,130	1,487	-	-	-
Depreciation and amortization	70	121	686	**1,504**	**1,430**
Other amortization	2	-	87	-	-
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)	(468)	**(297)**	-
Stock-based compensation	607	478	177	**400**	**400**
Cash earnings (burn)	(109)	(100)	(109)	**(284)**	**1,035**
Changes In:					
Accounts receivables	36	159	33	**(91)**	**(92)**
Prepaid expenses and Other current assets	149	(20)	(221)	**(238)**	**(30)**
Other assets	99	-	-	-	-
Accounts payable and accrued liabilities	(920)	87	322	**98**	**(128)**
Deferred revenue	(613)	(223)	544	**357**	**200**
Other liabilities	369	(37)	(38)	-	-
(Increase)/decrease in Working Capital	(880)	(34)	640	**125**	**(50)**
Net cash Provided by (Used in) Operations	(989)	(134)	531	**(159)**	**985**
Cash Flows from Investing Activities					
Purchase of property and equipment	(79)	(78)	(16)	**(32)**	**(40)**
Software development	(30)	(117)	-	-	-
Purchase of business, net of cash acquired	(4,408)	-	-	-	-
Net cash used in Investing	(4,517)	(195)	(16)	**(32)**	**(40)**
Cash Flows from Financing Activities					
Proceeds from issuance of common stock, net	4,626	-	-	-	-
Proceeds from stock option and warrant excercises	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)	(329)	**(429)**	**(188)**
Payments of contingent consideration and deferred cash payable	(203)	(4,891)	(250)	**(250)**	-
Net cash provided by Financing	13,473	(5,483)	(579)	**(679)**	**(188)**
Exchange rate	24	(184)	27	**27**	-
Net change in Cash	7,991	(5,996)	(37)	**(843)**	**757**
Cash Beginning of Period	861	8,852	2,856	**2,856**	**2,013**
Cash End of Period	$ 8,852	$ 2,856	$ 2,819	**$ 2,013**	**$ 2,770**

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	4	20
Hold		
Sell		
Not Rated		

Important Disclosures

As of May 26, 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 59,933 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 7,033 shares of BLIN common stock and 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.

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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.