

Research Note

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

Brideline Digital, Inc.

Rating: Speculative Buy

Howard Halpern

September 14, 2023

BLIN \$0.89 — (NASDAQ)

	2021 A	2022 A	2023 E	2024 E
Total Revenue (in millions)	\$13.3	\$16.8	\$15.9	\$16.7
Earnings (loss) per share	(\$0.48)*	(\$0.18)**	(\$0.20)	(\$0.16)
52-Week range	\$1.68 – \$0.85	Fiscal year ends:		September
Shares outstanding a/o 8/10/23	10.4 million	Revenue/shares (ttm)		\$1.57
Approximate float	8.8 million	Price/Sales (ttm)		0.6X
Market Capitalization	\$9.3 million	Price/Sales (2024) E		0.6X
Tangible Book value/shr	(\$0.19)	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 \$1.50 per share from \$1.75 per share due to a reduction in our FY24 sales per share forecast.

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 and developing partnership relationships with independent software vendors and agencies that provide marketing technology solutions. The most prominent relationships are with BigCommerce, Salesforce, and Optimizely that should drive core revenue growth that should filter to year-over-year quarterly revenue growth in 2H24.

BLIN reported (on 8-14-23) a 3Q23 loss per share of (\$0.07) on revenue of \$3.9 million. In 3Q22, EPS was \$0.04 on revenue of \$4.2 million. Excluding items last year, we estimate the loss per share was (\$0.04). We projected a loss per share of (\$0.07) on revenue of \$3.8 million.

For FY23, we project a loss per share of (\$0.20) on a 5.4% decline in revenue to \$15.9 million (unchanged) driven by a decrease in subscription revenue of 6.2% to \$12.7 million reflecting the downsizing of legacy customers. We previously forecast a loss per share of (\$0.18). Our revised forecasts reflect 3Q23 results.

For FY24, we project a loss per share of (\$0.16) on 5% revenue growth to \$16.7 million driven by subscription growth of 6.1% to \$13.5 million. We previously forecast a loss per share of (\$0.08) and revenues of \$17.8 million. Our forecast reflects resumption of quarterly year-over-year subscription revenue growth albeit two quarters later than previously anticipated.

Please view our disclosures on pages 11 – 13.

Appreciation Potential

Maintaining Speculative Buy rating but reducing our 12-month price target to \$1.50 per share from \$1.75 per share due primarily to a reduction in our FY24 sales per share forecast.

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 4Q23, the company's cash on hand of \$2.6 million should enable sales and marketing spending levels to remain at \$5 million annually in order to drive recurring subscription revenue growth in FY24.

Our 12-month price target of \$1.50 per share implies shares could appreciate more than 65% 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 (unchanged), compared to BLIN's trailing twelve month price-to-sales multiple of 0.6X (unchanged). 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 6.1% (prior was 14.7%) in FY24. We applied a price-to-sales multiple of 1.1X (prior was 1.3X) to our FY24 sales per share forecast of \$1.60 (prior was \$1.70), discounted for execution risk, to obtain a year-ahead price target of approximately \$1.50 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 6.1% in FY24 after an anticipated decrease of 6.2% in FY23. We project cash earnings of \$200,000 in FY24 compared to estimated cash burn of \$575,000 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 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. Customers are provided with clear, actionable insights to 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 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.

In 3Q23, BLIN released a new offering called Bronco, for its HawkSearch offering that 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.

Recent Developments

On August 2023, during BLIN's earning conference call it announced that a native integration with Optimizely configured commerce will be launched in October 2023. This integration should enable touchless sales to over 1,000 Optimizely customers where they can upgrade to HawkSearch with a click of a button. BLIN has eight pre-signed customers.

In 3Q23, the company announced it sold over 500 WooRank licenses to Repli, a property technology company, to power search engine optimization for 500 new Websites in order to improve their keyword tracking, to analyze competitors and report on core Web statistics.

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. In 3Q23, the company signed \$1.2 million in new sales that included \$200,000 in recurring revenues and \$600,000 in services. Also, during the quarter over 200 of Bridgeline's customers whose subscription was eligible for renewal, renewed totaling over \$1 million in licenses with core product customers renewing at a rate of over 98%.

Based on 9M23 results, we anticipate the company is likely to experience significant headwinds in terms of achieving total revenue growth due primarily to diminished revenue coming in from legacy customers. We project 4Q23 should be the recurring revenue low point with sequential grow resuming 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.

Operations – FY23

We project a 5.4% decrease in total revenue to \$15.9 million (unchanged) from \$16.8 million in FY22 due primarily to a 6.2% decrease in recurring subscription (SaaS) and perpetual licenses revenue to \$12.7 million, down from \$13.6 million in FY22. We anticipate digital engagement services revenue decreasing \$67,000 to \$3.2 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 \$2.4 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 83.4% from 79.9% (excludes \$164,000 in restructuring and acquisition expenses) in FY22.

We project operating expenses decreasing to \$13.3 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 of \$5 million compared to \$5.2 million and D&A/R&D expenses combined increasing \$246,000 to \$5.1 million. G&A expense should decrease \$235,000 to \$3.2 million.

We project non-operating income of \$342,000 that includes positive changes in fair value of warrant liabilities of \$361,000, partly offset by \$19,000 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 \$2.1 million or (\$0.20) per share. We previously projected a net loss of \$1.9 million or (\$0.18) per share.

Finances – 2023

We project cash burn of \$575,000 and a \$606,000 decrease in working capital resulting in cash from operations of \$31,000. Cash from operations is unlikely to cover capital expenditures, payment of contingent consideration, and debt. Cash should decrease by \$653,000 to \$2.2 million at September 30, 2023.

Operations – FY24

We project 5% total revenue growth to \$16.7 million (prior was \$17.8 million) from an estimated \$15.9 million in FY23 due primarily to 6.1% growth in recurring subscription (SaaS) and perpetual licenses revenue to \$13.5 million (prior was \$14.5 million), up from an estimated \$12.7 million in FY23. We anticipate digital engagement services revenue flat at \$3.2 million. The decrease in our forecast reflects continued headwinds from legacy operations in 1H24 that should abate in 2H24.

We forecast gross profit increasing 6.3% to \$11.5 million compared to an estimated \$10.9 million in FY23 due to revenue growth and gross margin expanding to 69.1% from an estimated 68.2% in FY23. We project an operating loss narrowing to \$1.6 million from an estimated operating loss of \$2.4 million in FY23. The narrowing of our operating loss forecast reflects revenue growth, gross margin expansion, and improvement in operating expense margin to 78.9% from an estimated 83.4% in FY23.

We project operating expenses decreasing \$93,000 to \$13.2 million due primarily to reduced D&A and R&D expenses, partly offset by higher G&A expense. We anticipate sales and marketing expense flat at \$5 million.

We project non-operating expense \$20,000. We project a net loss of \$1.6 million or (\$0.16) per share. We previously projected a net loss of \$795,000 or (\$0.08) per share.

Finances – 2024

We project cash earnings of \$200,000 and a \$46,000 decrease in working capital resulting in cash from operations of \$246,000. Cash from operations should cover capital expenditures and debt repayment, increasing cash by \$18,000 to \$2.2 million at September 30, 2024.

3Q23 and 9M23 Results

3Q23

The company reported total net revenue decreased 7% to \$3.9 million from \$4.2 million in 3Q22. Subscription and perpetual license sales decreased to \$3.2 million from \$3.4 million and digital engagement service revenue decreased \$70,000 to \$742,000. The reduction in subscription and perpetual license sales stems from a legacy customer reducing the size of their renewal and the sale of a perpetual license last year that did not reoccur in the current period.

Gross profit decreased \$292,000 to \$2.6 million from \$2.9 million in 3Q22 due to lower sales and gross margin compression to 67.6% from 69.8% in the year-ago period. Operating expenses decreased \$30,000 to \$3.3 million. Sales and marketing expense decreased \$185,000 to \$1.2 million and G&A expense decreased \$33,000 to \$779,000. R&D expense increased \$165,000 to \$936,000 and D&A expense increased \$11,000 to \$384,000. The current period included restructuring and acquisition related charges of \$12,000 compared to none in the year-ago period.

The company reported an operating loss of \$665,000 from an operating loss of \$403,000 in 3Q22.

Non-operating expense was \$107,000 compared to income of \$810,000. Non-operating expense included a negative change in the fair value of warrant liabilities to \$107,000 compared to a positive change of \$818,000 in the year-ago period. Interest and change in fair value of contingent consideration was none in the current period compared to an expense of \$8,000 last year.

Bridgeline Digital, Inc.

The net loss was \$781,000 or (\$0.07) per share compared to net income of \$403,000 or \$0.04 per share in 3Q22. In the year-ago period, excluding the positive change in fair value of warrant liabilities, the net loss per share was approximately (\$0.04). We projected a loss per share of (\$0.07) on sales of \$3.8 million.

9M23 Results

The company reported a 4.1% decrease in total net revenue to \$12.1 million from \$12.6 million in 9M22. The revenue decline was driven by a \$447,000 decline in subscription and perpetual license sales to \$9.7 million due primarily to legacy customers reducing their subscription contract value.

Gross profit decreased 5.1% to \$8.3 million from \$8.7 million. The decrease reflects lower total revenue and gross margin contracting to 68.5% from 69.2% in the year-ago period. Operating expenses decreased to \$10 million from \$19.2 million last year.

The company reported its operating loss increased to nearly \$1.7 million from nearly \$1.5 million last year due to lower revenues and gross margin, partly offset by a \$244,000 decrease in operating expenses.

	in thousands \$		9 Mos. 2023	9 Mos. 2022	% D
Total Revenue	\$	12,087	\$	12,609	(4.1%)
Cost of sales		3,808		3,885	(2.0%)
Gross Profit		8,279		8,724	(5.1%)
Total Operating Expenses		9,968		10,212	(2.4%)
Operating Income (loss)		(1,689)		(1,488)	NMF
Total Other Income (Expense)		342		4,120	
Pre-Tax Income (loss)		(1,347)		2,632	NMF
Income Tax Expense (Benefit)		25		12	NMF
Net Income (loss)	\$	(1,372)	\$	2,620	NMF
EPS (loss)*	\$	(0.13)	\$	0.25	NMF
Avg Shares		10,418		10,355	
Margins					
Gross Margins		68.5%		69.2%	
Operating Margin		(14.0%)		(11.8%)	
Tax Rate		(1.9%)		0.5%	
* Includes \$0.36 per share change in fair value of in-the-money warrant derivative liabilities that occurred last year					
Source: company reports					

Non-operating income was \$342,000 compared to \$4.1 million. The current period included a positive change of \$362,000 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 \$3.7 million and interest and change in fair value of contingent consideration was a positive \$427,000.

Net loss was \$1.3 million or (\$0.13) per share compared to net income of \$2.6 million or \$0.25 per share. In the year-ago period, excluding items, the loss per share was approximately (\$0.11) in 9M22.

Finances

In 9M23, the cash burn was \$293,000 and working capital decreased \$646,000 resulting in cash from operations of \$349,000. Cash from operations did not cover capital expenditures, repayment of debt, and payment of contingent consideration. Cash decreased by \$249,000 to \$2.6 million at June 30, 2023.

Capital Structure

At June 30, 2023, BLIN had total debt of \$743,000 (of which \$210,000 was short-term) and a cash balance of \$2.6 million. Total debt consisted of a \$416,000 1.3% term loan payable that matures in July 2028 and a 4% \$327,000 seller's note (related to a FY21 acquisition) that is payable over five installments and matures in September 2025.

Risks

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

Accumulated Deficit

At June 30, 2023, the company's accumulated deficit was \$81.5 million, up from \$61.8 million in FY17 (ended September 30). 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 \$1.6 million in FY24. 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.

Competitive Environment

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

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. 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.

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 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.

Shareholder Control

Officers and directors own approximately 15.6% of the company's outstanding voting stock (includes Michael Taglich – Director and President of Taglich Brothers, Inc.) based on BLIN's April 2023 proxy filing. One shareholder owns or has controlling interest in approximately 6.3% of the company's outstanding voting stock according to SC 13G/A filing in August 2023. 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 September 13, 2023) to approximately 50,000. BLIN has a float of approximately 8.8 million shares and outstanding shares of 10.4 million.

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

	FY21A	FY22A	3Q23A	FY23E	FY24E
ASSETS					
Current assets:					
Cash and cash equivalents	\$ 8,852	\$ 2,856	\$ 2,607	\$ 2,203	\$ 2,221
Accounts receivables, net	1,370	1,182	1,005	1,105	1,160
Prepaid expenses and other current assets	196	242	400	430	361
Total current assets	<u>10,418</u>	<u>4,280</u>	<u>4,012</u>	<u>3,738</u>	<u>3,742</u>
Property and equipment, net	252	268	185	185	180
Operating lease assets	481	589	439	439	439
Intangible assets, net	7,755	6,268	5,236	4,804	4,020
Goodwill	15,985	15,985	15,985	15,985	15,985
Other assets	76	123	87	89	337
Total assets	<u>\$ 34,967</u>	<u>\$ 27,513</u>	<u>\$ 25,944</u>	<u>\$ 25,240</u>	<u>\$ 24,703</u>
LIABILITIES AND STOCKHOLDERS' EQUITY					
Current liabilities:					
Operating lease liabilities	161	199	167	167	167
Accounts payable	974	972	1,138	1,193	931
Accrued liabilities	908	995	862	834	928
Debt	732	429	210	188	-
Purchase price and contingent consideration payable	3,463	250	-	-	-
Deferred revenue	2,097	1,943	2,512	2,600	2,800
Total current liabilities	<u>8,335</u>	<u>4,788</u>	<u>4,889</u>	<u>4,982</u>	<u>4,826</u>
Long-term debt, net	1,197	588	533	400	212
Operating lease liabilities, net	320	390	272	272	150
Purchase price and contingent consideration payable	2,360	-	-	-	-
Warrant liabilities	4,404	749	388	388	263
Other liabilities	774	646	644	621	675
Total long-term liabilities	<u>9,055</u>	<u>2,373</u>	<u>1,837</u>	<u>1,681</u>	<u>1,300</u>
Total liabilities	<u>\$ 17,390</u>	<u>\$ 7,161</u>	<u>\$ 6,726</u>	<u>\$ 6,663</u>	<u>\$ 6,126</u>
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	100,980	101,054	101,054
Retained earnings (loss)	(82,287)	(80,142)	(81,514)	(82,229)	(82,229)
Accumulated other comprehensive income (loss)	(353)	(220)	(258)	(258)	(258)
Total stockholders' equity	<u>17,577</u>	<u>20,352</u>	<u>19,218</u>	<u>18,577</u>	<u>18,577</u>
Total liabilities and stockholders' equity	<u>\$ 34,967</u>	<u>\$ 27,513</u>	<u>\$ 25,944</u>	<u>\$ 25,240</u>	<u>\$ 24,703</u>
Shares Outstanding - 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

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	\$ 3,192	\$ 3,200
Subscription (SaaS) / Perpetual licenses	9,963	13,560	12,720	13,500
Total revenue	13,259	16,819	15,912	16,700
Cost of sales -- Digital engagement services	1,743	1,759	1,679	1,640
Cost of sales -- Subscription - Licenses	2,790	3,358	3,374	3,515
Total cost of revenue	4,533	5,117	5,053	5,155
Total Gross Profit	8,726	11,702	10,859	11,545
Operating Expenses:				
Sales and Marketing	2,726	5,232	4,992	4,995
General and Administrative	2,359	3,387	3,152	3,205
Research and Development	2,387	3,217	3,539	3,500
Depreciation and amortization	1,202	1,599	1,523	1,470
Restructuring and acquisition related expenses	1,235	164	57	-
Total Operating Expenses	9,909	13,599	13,263	13,170
Operating Income (loss)	(1,183)	(1,897)	(2,404)	(1,625)
Interest expense, change in fair value of contingent	(883)	417	(19)	(20)
Government grant income	88	-	-	-
Change in fair value of warrant liabilities	(5,885)	3,655	361	-
Total Other Income (Expense)	(6,680)	4,072	342	(20)
Pre-Tax Income (loss)	(7,863)	2,175	(2,062)	(1,645)
Income Tax Expense (Benefit)	(1,174)	30	25	-
Net Income (loss)	<u>\$ (6,689)</u>	<u>\$ 2,145</u>	<u>\$ (2,087)</u>	<u>\$ (1,645)</u>
Dividends on convertible preferred stock	(2,015)	-	-	-
Net Income (loss) - to common shareholders	<u>\$ (8,704)</u>	<u>\$ 2,145</u>	<u>\$ (2,087)</u>	<u>\$ (1,645)</u>
EPS (loss) - to common shareholders	<u>\$ (1.47)</u>	<u>\$ 0.20</u>	<u>\$ (0.20)</u>	<u>\$ (0.16)</u>
Weighted Average Shares Outstanding	5,936	10,389	10,426	10,463
EBITDA	\$ 1,441	\$ 196	\$ (412)	\$ 245
Margins				
Gross Margin -- Digital engagement services	47.1%	46.0%	47.4%	48.8%
Gross Margin -- Subscription - Licenses	72.0%	75.2%	73.5%	74.0%
Total Gross Margin	65.8%	69.6%	68.2%	69.1%
Operating Margin	(8.9%)	(11.3%)	(15.1%)	(9.7%)
Sales & Marketing	20.6%	31.1%	31.4%	29.9%
General & Administrative	17.8%	20.1%	19.8%	19.2%
Research and Development	18.0%	19.1%	22.2%	21.0%
Operating expense	74.7%	80.9%	83.4%	78.9%
Pre-Tax Margins	(59.3%)	12.9%	(13.0%)	(9.9%)
Tax rate	14.9%	1.4%	(1.2%)	0.0%
YEAR / YEAR GROWTH				
Total Revenues	21.6%	26.8%	(5.4%)	5.0%
Subscription (SaaS) / Perpetual licenses	32.9%	36.1%	(6.2%)	6.1%

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	3Q23A	4Q23E	FY2023E	1Q24E	2Q24E	3Q24E	4Q24E	FY2024E
Digital engagement services	\$ 869	\$ 811	\$ 812	\$ 767	\$ 3,259	\$ 854	\$ 821	\$ 742	\$ 775	\$ 3,192	\$ 800	\$ 800	\$ 800	\$ 800	\$ 3,200
Subscription (SaaS) / Perpetual licenses	3,417	3,306	3,394	3,443	13,560	3,229	3,273	3,168	3,050	12,720	3,165	3,250	3,485	3,600	13,500
Total revenue	4,286	4,117	4,206	4,210	16,819	4,083	4,094	3,910	3,825	15,912	3,965	4,050	4,285	4,400	16,700
Cost of sales -- Digital engagement services	451	466	436	406	1,759	418	422	419	420	1,679	410	410	410	410	1,640
Cost of sales -- Subscription - Licenses	829	868	835	826	3,358	861	840	848	825	3,374	840	850	900	925	3,515
Total cost of revenue	1,280	1,334	1,271	1,232	5,117	1,279	1,262	1,267	1,245	5,053	1,250	1,260	1,310	1,335	5,155
Total Gross Profit	3,006	2,783	2,935	2,978	11,702	2,804	2,832	2,643	2,580	10,859	2,715	2,790	2,975	3,065	11,545
Operating Expenses:															
Sales and Marketing	1,231	1,267	1,382	1,352	5,232	1,209	1,386	1,197	1,200	4,992	1,215	1,230	1,250	1,300	4,995
General and Administrative	873	775	812	927	3,387	832	756	779	785	3,152	790	795	805	815	3,205
Research and Development	859	865	771	722	3,217	747	926	936	930	3,539	875	875	875	875	3,500
Depreciation and amortization	424	416	373	386	1,599	378	381	384	380	1,523	375	370	365	360	1,470
Restructuring and acquisition related expenses	98	66	-	-	164	-	45	12	-	57	-	-	-	-	-
Total Operating Expenses	3,485	3,389	3,338	3,387	13,599	3,166	3,494	3,308	3,295	13,263	3,255	3,270	3,295	3,350	13,170
Operating Income (loss)	(479)	(606)	(403)	(409)	(1,897)	(362)	(662)	(665)	(715)	(2,404)	(540)	(480)	(320)	(285)	(1,625)
Interest expense, change in fair value of contingent Government grant income	(87)	522	(8)	(10)	417	(9)	(10)	-	-	(19)	(5)	(5)	(5)	(5)	(20)
Change in fair value of warrant liabilities	2,441	434	818	(38)	3,655	297	171	(107)	-	361	-	-	-	-	-
Total Other Income (Expense)	2,354	956	810	(48)	4,072	288	161	(107)	-	342	(5)	(5)	(5)	(5)	(20)
Pre-Tax Income (loss)	1,875	350	407	(457)	2,175	(74)	(501)	(772)	(715)	(2,062)	(545)	(485)	(325)	(290)	(1,645)
Income Tax Expense (Benefit)	3	5	4	18	30	6	10	9	-	25	-	-	-	-	-
Net Income (loss)	\$ 1,872	\$ 345	\$ 403	\$ (475)	\$ 2,145	\$ (80)	\$ (511)	\$ (781)	\$ (715)	\$ (2,087)	\$ (545)	\$ (485)	\$ (325)	\$ (290)	\$ (1,645)
Dividends on convertible preferred stock	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Net Income (loss) - to common shareholders	\$ 1,872	\$ 345	\$ 403	\$ (475)	\$ 2,145	\$ (80)	\$ (511)	\$ (781)	\$ (715)	\$ (2,087)	\$ (545)	\$ (485)	\$ (325)	\$ (290)	\$ (1,645)
EPS (loss) - to common shareholders	\$ 0.18	\$ 0.03	\$ 0.04	\$ (0.05)	\$ 0.20	\$ (0.01)	\$ (0.05)	\$ (0.07)	\$ (0.07)	\$ (0.20)	\$ (0.05)	\$ (0.05)	\$ (0.03)	\$ (0.03)	\$ (0.16)
Weighted Average Shares Outstanding	10,626	10,341	10,270	10,321	10,389	10,418	10,431	10,418	10,440	10,426	10,450	10,460	10,465	10,475	10,463
EBITDA	\$ 106	\$ (72)	\$ 63	\$ 100	\$ 196	\$ 115	\$ (144)	\$ (163)	\$ (220)	\$ (412)	\$ (65)	\$ (10)	\$ 145	\$ 175	\$ 245
Margins															
Gross Margin -- Digital engagement services	48.1%	42.5%	46.3%	47.1%	46.0%	51.1%	48.6%	43.5%	45.8%	47.4%	48.8%	48.8%	48.8%	48.8%	48.8%
Gross Margin -- Subscription - Licenses	75.7%	73.7%	75.4%	76.0%	75.2%	73.3%	74.3%	73.2%	73.0%	73.5%	73.5%	73.8%	74.2%	74.3%	74.0%
Total Gross Margin	70.1%	67.6%	69.8%	70.7%	69.6%	68.7%	69.2%	67.6%	67.5%	68.2%	68.5%	68.9%	69.4%	69.7%	69.1%
Operating Margin	(11.2%)	(14.7%)	(9.6%)	(9.7%)	(11.3%)	(8.9%)	(16.2%)	(17.0%)	(18.7%)	(15.1%)	(13.6%)	(11.9%)	(7.5%)	(6.5%)	(9.7%)
Sales & Marketing	28.7%	30.8%	32.9%	32.1%	31.1%	29.6%	33.9%	30.6%	31.4%	31.4%	30.6%	30.4%	29.2%	29.5%	29.9%
General & Administrative	20.4%	18.8%	19.3%	22.0%	20.1%	20.4%	18.5%	19.9%	20.5%	19.8%	19.9%	19.6%	18.8%	18.5%	19.2%
Research and Development	20.0%	21.0%	18.3%	17.1%	19.1%	18.3%	22.6%	23.9%	24.3%	22.2%	22.1%	21.6%	20.4%	19.9%	21.0%
Operating expense	81.3%	82.3%	79.4%	80.5%	80.9%	77.5%	85.3%	84.6%	86.1%	83.4%	82.1%	80.7%	76.9%	76.1%	78.9%
Pre-Tax Margins	43.7%	8.5%	9.7%	(10.9%)	12.9%	(1.8%)	(12.2%)	(19.7%)	(18.7%)	(13.0%)	(13.7%)	(12.0%)	(7.6%)	(6.6%)	(9.9%)
Tax rate	0.2%	1.4%	1.0%	(3.9%)	1.4%	(8.1%)	(2.0%)	(1.2%)	0.0%	(1.2%)	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%)	(7.0%)	(9.1%)	(5.4%)	(2.9%)	(1.1%)	9.6%	15.0%	5.0%
Subscription (SaaS) / Perpetual licenses	70.9%	66.2%	29.3%	2.7%	36.1%	(5.5%)	(1.0%)	(6.7%)	(11.4%)	(6.2%)	(2.0%)	(0.7%)	10.0%	18.0%	6.1%

Source: Company reports and Taglich Brothers estimates

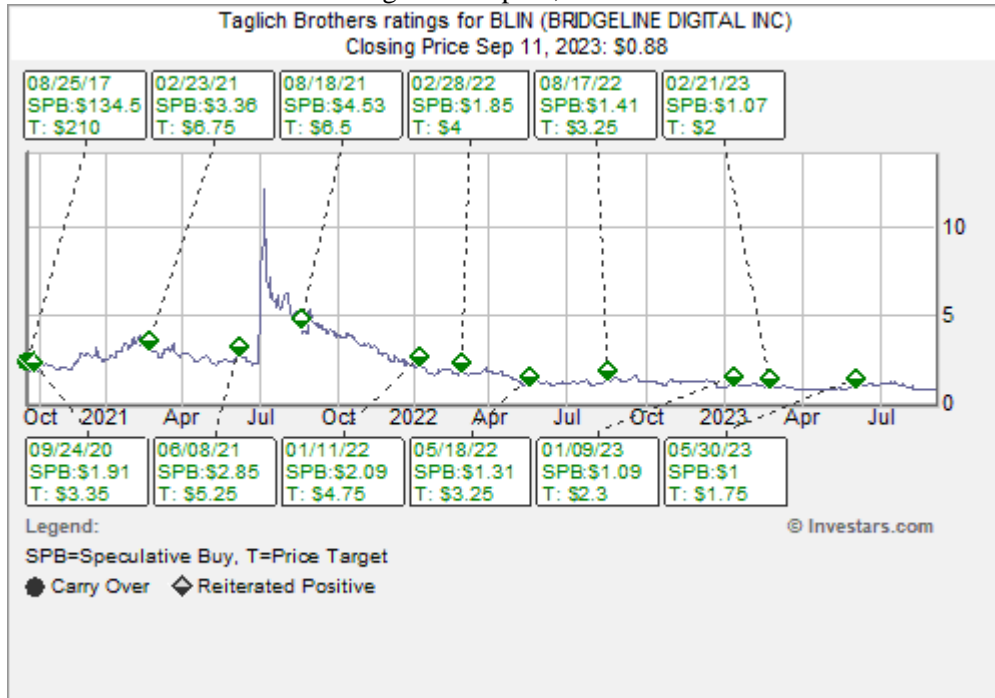
Bridgeline Digital, Inc.
Cash Flow Statement – Ending September 30
FY2021A – FY2024E
(in thousands)

	FY2021 A	FY2022 A	9 Mos.23A	FY2023 E	FY2024 E
<i>Cash Flows from Operating Activities</i>					
Net Income (loss)	\$ (6,689)	\$ 2,145	\$ (1,372)	\$ (2,087)	\$ (1,645)
Loss on disposal of property and equipment	-	-	-	-	-
Amortization of intangibles	1,130	1,487	1,032	1,347	1,320
Depreciation and amortization	70	121	132	176	150
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)	(361)	(361)	-
Stock-based compensation	607	478	276	350	375
Cash earnings (burn)	(109)	(100)	(293)	(575)	200
<i>Changes In:</i>					
Accounts receivables	36	159	186	77	(55)
Prepaid expenses and Other current assets	149	(20)	(162)	(188)	69
Other assets	99	-	10	-	-
Accounts payable and accrued liabilities	(920)	87	7	60	(168)
Deferred revenue	(613)	(223)	636	657	200
Other liabilities	369	(37)	(35)	-	-
(Increase)/decrease in Working Capital	(880)	(34)	642	606	46
Net cash Provided by (Used in) Operations	(989)	(134)	349	31	246
<i>Cash Flows from Investing Activities</i>					
Purchase of property and equipment	(79)	(78)	(23)	(32)	(40)
Software development	(30)	(117)	-	-	-
Purchase of business, net of cash acquired	(4,408)	-	-	-	-
Net cash used in Investing	(4,517)	(195)	(23)	(32)	(40)
<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)	(385)	(429)	(188)
Payments of contingent consideration and deferred cash payable	(203)	(4,891)	(250)	(250)	-
Net cash provided by Financing	13,473	(5,483)	(635)	(679)	(188)
Exchange rate	24	(184)	60	27	-
Net change in Cash	7,991	(5,996)	(249)	(653)	18
Cash Beginning of Period	861	8,852	2,856	2,856	2,203
Cash End of Period	<u>\$ 8,852</u>	<u>\$ 2,856</u>	<u>\$ 2,607</u>	<u>\$ 2,203</u>	<u>\$ 2,221</u>

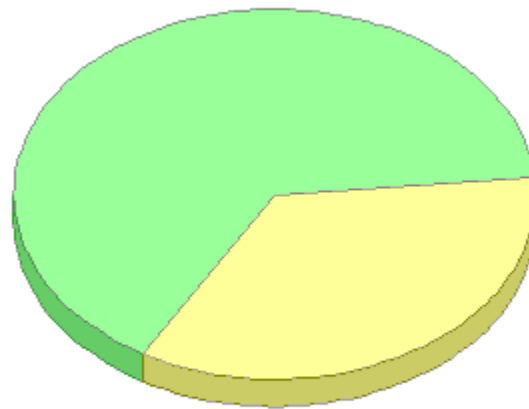
Source: Company reports and Taglich Brothers estimates

Price Chart

Closing Price Sep 13, 2023: \$0.89



Taglich Brothers Current Ratings Distribution



65.22 % Buy | 34.78 % Hold

Investment Banking Services for Companies Covered in the Past 12 Months		
Rating	#	%
Buy	4	22
Hold		
Sell		
Not Rated		

Important Disclosures

As of September 13, 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 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.

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.	(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.