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Research Note

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

Bridgeline Digital, Inc.

Speculative Buy

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BLIN $1.19 — (NASDAQ)

	2022 A	2023 A	*2024 E*	*2025 E*
Total Revenue (in millions)	$16.8	$15.9	***$15.1***	***$15.9***
Earnings (loss) per share	($0.18)*	($0.19)**	***($0.22)***	***($0.16)***

52-Week range	$1.43 – $0.70	Fiscal year ends:	September
Shares outstanding a/o 5/14/24	10.4 million	Revenue/shares (ttm)	$1.47
Approximate float	8.6 million	Price/Sales (ttm)	0.8X
Market Capitalization	$12.5 million	Price/Sales (2025) E	0.8X
Tangible Book value/shr	($0.22)	Price/Earnings (ttm)	NMF
Price/Book	NMF	Price/Earnings (2025) E	NMF

**Excludes an ~ $0.38 per share in (net) gains - fair value of warrant liabilities and contingent consideration, partly offset by acquisition related charges.*
*** Excludes an ~ ($0.72) goodwill impairment charge*

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 and 12-month price target of $1.65 per share.

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 is developing partnership relationships with companies such as BigCommerce, Salesforce, and Optimizely, and launching new offerings such as its AI based module called Smart Search.

In May 2024, the company's HawkSearch offering was included in Gartner's first Search & Product Discover Magic Quadrant report. This should provide enhanced visibility, lead generation, and win ratio for the HawkSearch offering as it was recognized as a top rated business-to-business search vendor.

BLIN reported (on 4-14-24) a 2Q24 loss per share of ($0.06) on revenue of $3.8 million. In 2Q23, after excluding warrant liabilities the loss per share was ($0.07) on revenue of $4.1 million. We projected a loss per share of ($0.06) on revenue of $3.8 million.

For FY24, we project a loss per share of ($0.22) on revenue of $15.1 million. We previously forecast a loss per share of ($0.20) and revenues of $15.9 million. Our forecast reflects 1H24 results and continued headwinds as legacy product sales diminish compared to sales growth for the HawkSearch and Smart Search offerings.

For FY25, we project a loss per share of ($0.16) on revenue growth of 5% to $15.9 million. We previously forecast a loss per share of ($0.15) and revenues of $17.2 million. Our forecast anticipates legacy customer and product attrition through 1H25 with meaningful growth in 2H25 as the company's HawkSearch and the Smart Search module gain traction through new customer deployments through partnership relationships.

Please view our disclosures on pages 11 – 13.

Appreciation Potential

Maintaining Speculative Buy rating and 12-month price target of $1.65 per share.

Our rating reflects BLIN's long-term growth strategy of developing partnership relationships with companies such as BigCommerce, Salesforce, and Optimizely, and launching new offerings such as its AI based module called Smart Search. Also, supporting the company's growth objective was the May 2024 publication by Gartner's of its first Search & Product Discover Magic Quadrant report, which recognized the company's HawkSearch offering as a top rated business-to-business search vendor. Being included in the Gartner report should provide this offering enhanced visibility, lead generation, and win ratio.

Our 12-month price target of $1.65 per share implies shares could appreciate more than 35% 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 2.5X (prior was 2.1X), compared to BLIN's trailing twelve month price-to-sales multiple of 0.8X (prior was 0.06X). We anticipate investors are likely to accord Bridgeline Digital, Inc. a multiple approaching that of the sector. We applied a price-to-sales multiple of 1.4X (prior was 1.3X) to our FY25 sales per share forecast of $1.52 (prior was $1.64), discounted for execution risk, to obtain a year-ahead price target of approximately $1.65 per share.

BLIN's valuation improvement is contingent upon consistent quarterly recurring-SaaS/perpetual software revenue growth, expense leverage, and narrowing of cash burn. We forecast the company generating recurring-SaaS/perpetual software revenue growth of 6.9% in FY25 after an anticipated decrease of 4.6% in FY24. We project cash burn of $120,000 in FY25 compared to an estimated cash burn of $407,000 in FY24. Cash burn was $430,000 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, Smart 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 on 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 Web Content Management, eCommerce, Digital Marketing, and Web Analytics.

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.

In 1Q24, Bridgeline introduced Zeus, its artificial intelligence powered Smart Search offering This new offering leverages advanced AI algorithms, vector databases, natural language processing, and large language models that provides an unparalleled search experience by offering intuitive and highly accurate search results. The Smart Search offering enables customers to have two new ways to find products through concept and image search, where the AI algorithms can discern the intent behind search terms, providing accurate results for ambiguous queries and allowing image searches that provides efficiencies for eCommerce sites.

Projections

Basis of Forecast
We anticipate BLIN's primary growth drivers will be recurring revenue from its HawkSearch technology offering that includes enhanced rapid user interface technology and Smart Search releases that should provide increased revenue for its customers while reducing their implementation costs. In 1H24, the company sold approximately 50 licenses worth more than $4 million in total contract value.

Entering 2H24, the company's revenue mix is just beginning to trend to its core product lines, which includes the Smart Search offering. The company anticipates launching at least one new customer every week, which mean that more references and recognition as a leader within the site search sector. That leadership position for the company's HawkSearch offering was recognized in Gartner's May 2024 publication of its first Magic Quadrant report for the Search & Product Discover sector.

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, 2023, BLIN had federal and state net operating loss carryforwards of approximately $37.3 million and $45.4 million, respectively.

Operations – FY24
We project total revenue of $15.1 million (prior was $15.9 million) compared to $15.9 million in FY23. We anticipate recurring subscription (SaaS) and perpetual licenses revenue of $12.1 million (prior was $13.1 million), down from $12.7 million in FY23. We anticipate digital engagement services revenue of $3 million compared to $3.1 million last year. The decrease in our forecast reflects continued stronger than anticipated headwinds and attrition from legacy customers and offerings throughout the balance of FY24.

We forecast gross profit of $10.3 million compared to $10.9 million last year reflecting lower sales and gross margin of 67.8% from 68.4% in FY23. We project an operating loss narrowing to $2.2 million from an operating loss of $2.3 million (excludes $7.6 million impairment and restructuring charges) in FY23. The narrowing of our operating loss forecast reflects an improvement in operating expense margin to 82.1% from 82.7% (excluding charges) in FY23.

We project operating expenses (excludes charges last year) decreasing by $707,000 to $12.4 million due primarily to reduced sales and marketing and G&A expenses, partly offset by higher R&D expenses.

We project non-operating expense of $155,000 and a net loss of $2.3 million or ($0.22) per share. Our prior forecast was for non-operating expense of $18,000 and a net loss of $2.1 million or ($0.20) per share.

Finances – 2024
We project cash burn of $407,000 and a $517,000 increase in working capital resulting in cash used in operations of $924,000. Cash used in operations, capital expenditures and debt repayment should result in cash decreasing by $1.2 million to $1.2 million at September 30, 2024.

Operations – FY25

We project 5% total revenue growth to $15.9 million (prior was $17.2 million) from an estimated $15.1 million in FY24 due primarily to 6.9% growth in recurring subscription (SaaS) and perpetual licenses revenue to $13 million (prior was $14.6 million), up from an estimated $12.1 million in FY24. We anticipate a decrease in digital engagement services to $2.9 million from an estimated $3 million in FY23. Our forecast reflects anticipated customer growth for the company's HawkSearch product offering along with the Smart Search module to its already established customer base. The reduction in our forecast stems from continued headwinds and attrition from legacy customers and offerings during the 1H25 that was previously not anticipated.

We forecast gross profit increasing 7.3% to $11 million compared to an estimated $10.3 million in FY24 due to total revenue growth and gross margin expanding to 69.3% from an estimated 67.8% in FY24. We project the operating loss narrowing to $1.5 million from an estimated operating loss of $2.2 million in FY24. The narrowing of our operating loss forecast reflects revenue growth, gross margin expansion, and improvement in operating expense margin to 78.7% from an estimated 82.1% in FY24.

We project operating expenses increasing by $90,000 to $12.5 million to support revenue growth. We anticipate sales and marketing and G&A expenses increasing to $4 million and $3.2 million, respectively, compared to $3.8 million and $3.1 million, respectively that we estimate for FY24. R&D expense is likely to be flat at $4.2 million, while D&A should decrease by $159,000 to $1.1 million.

We are maintaining our net loss projection of $1.6 million or ($0.15) per share. We previously forecast a loss per share of ($0.16).

Finances – 2025

We project cash burn of $120,000 and a $369,000 decrease in working capital resulting in cash from operations of $249,000. Cash from operations should cover capital expenditures and debt repayment, increasing cash by $30,000 to $1.2 million at September 30, 2025.

2Q24 and 1H24 Results

2Q24

The company reported a 7.1% decrease in total net revenue to $3.8 million from $4.1 million in 2Q23. Subscription and perpetual license sales decreased 8% to $3 million compared to nearly $3.2 million last year due primarily to a reduction in subscriptions on legacy products, partly offset by increased sales of the company's HawkSearch offering. Digital engagement service revenue decreased $27,000 to $794,000 reflecting a reduction in implementation and retainer-related services.

Gross profit decreased 10.9% to $2.5 million from $2.8 million in the year-ago period. The decrease reflects lower net revenue and gross margin compression to 66.4% from 69.2% in the year-ago period. The gross margin compression reflects higher costs related to the digital engagement services segment.

Operating expenses decreased to $3 million from nearly $3.5 million in 2Q23. Sales and marketing expenses decreased by $445,000 to $941,000 from nearly $1.4 million reflecting lower personnel costs and reduced marketing spending on leads and conferences. G&A expense increased by $10,000 to $766,000 from $756,000 in the year-ago period. R&D expense increased by $111,000 to $1 million due primarily to personnel costs related to the development of new product offerings. D&A expense decreased $85,000 to $299,000 in the current period.

Non-operating expense was $78,000 compared to income of $161,000 in 2Q23. Non-operating expense included a negative change in the fair value of warrant liabilities of $25,000 compared to a positive change of $171,000 last year. Interest expense, change in fair value of contingent consideration and other was $53,000 compared to $10,000 in the year-ago period.

The company reported a net loss of $602,000 or ($0.06) per share compared to a net loss of $511,000 or ($0.05) per share. The current period included income tax expense of $5,000 compared to income tax expense of $10,000 in

2Q23. In the year-ago period, excluding change in fair value of warrant liabilities the loss per share was ($0.06). We projected a loss per share of ($0.06) on total revenue of $3.8 million.

1H24 Results

The company reported a 7.6% decrease in total net revenue to $7.6 million from $8.2 million in 1H23. The revenue decline was driven by a $406,000 decline in subscription and perpetual license sales to $6.1 million due primarily to older customers reducing their subscription contract value.

Gross profit decreased to $5.1 million from $5.6 million. The decrease reflects lower total revenue and gross margin decreasing to 67.2% from 68.9% last year. Operating expenses decreased to $6.2 million from $6.7 million.

The company reported operating loss increased to$1.2 million from $1 million in 1H23.

Non-operating expense was $60,000 compared income of $449,000. The current period included $53,000 interest expense and a negative change of $7,000 in warrant liabilities. The year-ago period included a positive change in the fair value of warrant liabilities of $468,000, partly offset by interest and change in fair value of contingent consideration of $19,000.

in thousands $	6 Mos. 2024	6 Mos. 2023	% D
Total Revenue	$ 7,559	$ 8,177	(7.6%)
Cost of sales	2,483	2,541	(2.3%)
Gross Profit	5,076	5,636	(9.9%)
Total Operating Expenses	6,230	6,660	(6.5%)
Operating Income (loss)	(1,154)	(1,024)	NMF
Total Other Income (Expense)	(60)	449	
Pre-Tax Income (loss)	(1,214)	(575)	NMF
Income Tax Expense (Benefit)	10	16	NMF
Net Income (loss)	$ (1,224)	$ (591)	NMF
EPS (loss)*	$ (0.12)	$ (0.06)	NMF
Avg Shares	10,418	10,418	
Margins			
Gross Margins	67.2%	68.9%	
Operating Margin	(15.3%)	(12.5%)	
Tax Rate	(0.8%)	(2.8%)	

Source: company reports

Net loss was $1.2 million or ($0.12) per share compared to a net loss of $591,000 or ($0.06) per share. In the year-ago period, excluding items, the loss per share was approximately ($0.10) in 1H23.

Finances

In 1H24, the cash burn was $225,000 and working capital increased $757,000 resulting in cash used in operations of $982,000. Cash used in operations and payments made on debt reduced cash by $1.1 million to $1.3 million at March 31, 2024.

Capital Structure

At March 31, 2024, BLIN had total debt of $612,000 (of which $273,000 was short-term) and a cash balance of $1.3 million. Total debt consisted of a $353,000 1.3% term loan payable that matures in July 2028 and a 4% $259,000 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 March 31, 2024, the company's accumulated deficit was $90.8 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 FY23, the operating loss was $2.4 million (excluding charges of $7.6 million), which should narrow to $1.6 million in FY25. 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. Warrants and options could be exercised into shares of common stock of 1.7 million and 1.8 million, respectively. However, warrants could expire prior to being exercised as 900,000 have an exercise price of $4 expiring in September 2024. Also, approximately 800,000 warrants, primarily including 180,000 warrants with a $2.85 exercise price expire in May 2026 with 592,000 warrants with a $2.51 exercise price expire in November 2026.

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 18.8% of the company's outstanding voting stock (includes Michael Taglich – Director and President of Taglich Brothers, Inc.) based on BLIN's FY23 10-K filing. One shareholder owns or has controlling interest in approximately 7.7% of the company's outstanding voting stock according to SC 13G/A filing in April 2024. 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

Average daily volume over the last three months (ending May 22, 2024) was approximately 66,100. BLIN has a float of approximately 8.6 million shares and outstanding shares of 10.4 million.

Bridgeline Digital, Inc.
Consolidated Balance Sheets – Ending September 30
FY2022A – FY2025E
(in thousands)

	FY22A	FY23A	2Q24A	**FY24E**	**FY25E**
ASSETS					
Current assets:					
Cash and cash equivalents	$ 2,856	$ 2,377	$ 1,302	**$ 1,193**	**$ 1,222**
Accounts receivables, net	1,182	1,005	1,462	**1,473**	**1,546**
Prepaid expenses and other current assets	242	278	388	**390**	**415**
Total current assets	4,280	3,659	3,152	**3,056**	**3,183**
Property and equipment, net	268	151	84	**84**	**80**
Operating lease assets	589	390	246	**246**	**346**
Intangible assets, net	6,268	4,890	4,278	**3,666**	**2,442**
Goodwill	15,985	8,468	8,468	**8,468**	**8,468**
Other assets	123	73	54	**54**	**87**
Total assets	$ 27,513	$ 17,631	$ 16,282	**$ 15,574**	**$ 14,606**
LIABILITIES AND STOCKHOLDERS' EQUITY					
Current liabilities:					
Operating lease liabilities	199	148	165	**165**	**165**
Accounts payable	972	1,255	1,204	**1,220**	**1,288**
Accrued liabilities	995	995	796	**878**	**976**
Debt	429	267	273	**204**	**77**
Purchase price and contingent consideration payable	250	-	-	-	-
Deferred revenue	1,943	2,084	2,161	**2,300**	**2,600**
Total current liabilities	4,788	4,749	4,599	**4,767**	**5,106**
Long-term debt, net	588	435	339	**231**	**154**
Operating lease liabilities, net	390	241	81	**81**	**81**
Warrant liabilities	749	174	181	**181**	**181**
Other liabilities	646	572	577	**683**	**683**
Total long-term liabilities	2,373	1,422	1,178	**1,176**	**1,099**
Total liabilities	$ 7,161	$ 6,171	$ 5,777	**$ 5,943**	**$ 6,205**
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	100,704	101,275	101,569	**101,789**	**102,189**
Retained earnings (loss)	(80,142)	(89,577)	(90,801)	**(91,901)**	**(93,531)**
Accumulated other comprehensive income (loss)	(220)	(248)	(273)	**(267)**	**(267)**
Total stockholders' equity	20,352	11,460	10,505	**9,631**	**8,401**
Total liabilities and stockholders' equity	$ 27,513	$ 17,631	$ 16,282	**$ 15,574**	**$ 14,606**
Shares Outstatnding - Common Stock	10,418	10,418	10,418	**10,420**	**10,425**
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
FY2022A – FY2025E
(in thousands)

	FY2022A	FY2023A	**FY2024E**	**FY2025E**
Digital engagement services	$ 3,259	$ 3,143	**$ 2,988**	**$ 2,900**
Subscription (SaaS) / Perpetual licenses	13,560	12,742	**12,161**	**13,000**
Total revenue	16,819	15,885	**15,149**	**15,900**
Cost of sales -- Digital engagement services	1,759	1,650	**1,586**	**1,500**
Cost of sales -- Subscription - Licenses	3,358	3,364	**3,292**	**3,380**
Total cost of revenue	5,117	5,014	**4,878**	**4,880**
Total Gross Profit	11,702	10,871	**10,271**	**11,020**
Operating Expenses:				
Sales and Marketing	5,232	4,757	**3,809**	**3,970**
General and Administrative	3,387	3,173	**3,107**	**3,240**
Research and Development	3,217	3,679	**4,230**	**4,200**
Depreciation and amortization	1,599	1,528	**1,269**	**1,110**
Impairment, restructuring and acquisition charges	164	7,649	**15**	**-**
Total Operating Expenses	13,599	20,786	**12,430**	**12,520**
Operating Income (loss)	(1,897)	(9,915)	**(2,159)**	**(1,500)**
Interest expense, change in fair value of contingent	417	(189)	**(148)**	**(130)**
Change in fair value of warrant liabilities	3,655	575	**(7)**	**-**
Total Other Income (Expense)	4,072	386	**(155)**	**(130)**
Pre-Tax Income (loss)	2,175	(9,529)	**(2,314)**	**(1,630)**
Income Tax Expense (Benefit)	30	(94)	**10**	**-**
Net Income (loss) - to common shareholders	$ 2,145	$ (9,435)	**$ (2,324)**	**$ (1,630)**
EPS (loss) - to common shareholders	$ 0.20	$ (0.91)	**$ (0.22)**	**$ (0.16)**
Weighted Average Shares Outstanding	10,389	10,418	**10,423**	**10,443**
EBITDA	$ 196	$ (309)	**$ (400)**	**$ 10**
Margins				
Gross Margin -- Digital engagement services	46.0%	47.5%	**46.9%**	**48.3%**
Gross Margin -- Subscription - Licenses	75.2%	73.6%	**72.9%**	**74.0%**
Total Gross Margin	69.6%	68.4%	**67.8%**	**69.3%**
Operating Margin	(11.3%)	(62.4%)	**(14.3%)**	**(9.4%)**
Sales & Marketing	31.1%	29.9%	**25.1%**	**25.0%**
General & Administrative	20.1%	20.0%	**20.5%**	**20.4%**
Research and Development	19.1%	23.2%	**27.9%**	**26.4%**
Operating expense	80.9%	130.9%	**82.1%**	**78.7%**
Pre-Tax Margins	12.9%	(60.0%)	**(15.3%)**	**(10.3%)**
Tax rate	1.4%	1.0%	**(0.4%)**	**0.0%**
YEAR / YEAR GROWTH				
Total Revenues	26.8%	(5.6%)	**(4.6%)**	**5.0%**
Subscription (SaaS) / Perpetual licenses	36.1%	(6.0%)	**(4.6%)**	**6.9%**

Source: Company reports and Taglich Brothers estimates

Bridgeline Digital, Inc.
Income Statement Model – Ending September 30
Quarters FY2023A – 2025E
(in thousands)

	1Q23A	2Q23A	3Q23A	4Q23A	FY2023A	1Q24A	2Q24A	3Q24E	4Q24E	**FY2024E**	1Q25E	2Q25E	3Q25E	4Q25E	**FY2025E**
Digital engagement services	$ 854	$ 821	$ 742	$ 726	$ 3,143	$ 669	$ 794	$ 775	$ 750	**$ 2,988**	$ 725	$ 725	$ 725	$ 725	**$ 2,900**
Subscription (SaaS) / Perpetual licenses	3,229	3,273	3,168	3,072	12,742	3,086	3,010	3,030	3,035	**12,161**	3,100	3,200	3,300	3,400	**13,000**
Total revenue	4,083	4,094	3,910	3,798	15,885	3,755	3,804	3,805	3,785	**15,149**	3,825	3,925	4,025	4,125	**15,900**
Cost of sales -- Digital engagement services	418	422	419	391	1,650	376	420	400	390	**1,586**	375	375	375	375	**1,500**
Cost of sales -- Subscription - Licenses	861	840	848	815	3,364	827	860	800	805	**3,292**	805	830	860	885	**3,380**
Total cost of revenue	1,279	1,262	1,267	1,206	5,014	1,203	1,280	1,200	1,195	**4,878**	1,180	1,205	1,235	1,260	**4,880**
Total Gross Profit	2,804	2,832	2,643	2,592	10,871	2,552	2,524	2,605	2,590	**10,271**	2,645	2,720	2,790	2,865	**11,020**
Operating Expenses:															
Sales and Marketing	1,209	1,386	1,197	965	4,757	913	941	975	980	**3,809**	985	995	1,000	990	**3,970**
General and Administrative	832	756	779	806	3,173	781	766	775	785	**3,107**	790	795	810	845	**3,240**
Research and Development	747	926	936	1,070	3,679	1,093	1,037	1,050	1,050	**4,230**	1,050	1,050	1,050	1,050	**4,200**
Depreciation and amortization	378	381	384	385	1,528	385	299	295	290	**1,269**	285	280	275	270	**1,110**
Impairment, restructuring and acquisition charges	-	45	12	7,592	7,649	15	-	-	-	**15**	-	-	-	-	**-**
Total Operating Expenses	3,166	3,494	3,308	10,818	20,786	3,187	3,043	3,095	3,105	**12,430**	3,110	3,120	3,135	3,155	**12,520**
Operating Income (loss)	(362)	(662)	(665)	(8,226)	(9,915)	(635)	(519)	(490)	(515)	**(2,159)**	(465)	(400)	(345)	(290)	**(1,500)**
Interest expense, change in fair value of contingent	(9)	(10)	-	(170)	(189)	-	(53)	(50)	(45)	**(148)**	(40)	(35)	(30)	(25)	**(130)**
Change in fair value of warrant liabilities	297	171	(107)	214	575	18	(25)	-	-	**(7)**	-	-	-	-	-
Total Other Income (Expense)	288	161	(107)	44	386	18	(78)	(50)	(45)	**(155)**	(40)	(35)	(30)	(25)	**(130)**
Pre-Tax Income (loss)	(74)	(501)	(772)	(8,182)	(9,529)	(617)	(597)	(540)	(560)	**(2,314)**	(505)	(435)	(375)	(315)	**(1,630)**
Income Tax Expense (Benefit)	6	10	9	(119)	(94)	5	5	-	-	**10**	-	-	-	-	-
Net Income (loss) - to common shareholders	$ (80)	$ (511)	$ (781)	$ (8,063)	$ (9,435)	$ (622)	$ (602)	$ (540)	$ (560)	**$ (2,324)**	$ (505)	$ (435)	$ (375)	$ (315)	**$ (1,630)**
EPS (loss) - to common shareholders	$ (0.01)	$ (0.05)	$ (0.07)	$ (0.77)	$ (0.91)	$ (0.06)	$ (0.06)	$ (0.05)	$ (0.05)	**$ (0.22)**	$ (0.05)	$ (0.04)	$ (0.04)	$ (0.03)	**$ (0.16)**
Weighted Average Shares Outstanding	10,418	10,431	10,418	10,418	10,418	10,418	10,418	10,425	10,430	**10,423**	10,435	10,440	10,445	10,450	**10,443**
EBITDA	$ 115	$ (144)	$ (163)	$ (117)	$ (309)	$ (117)	$ (83)	$ (85)	$ (115)	**$ (400)**	$ (80)	$ (20)	$ 30	$ 80	**$ 10**
Margins															
Gross Margin -- Digital engagement services	51.1%	48.6%	43.5%	46.1%	47.5%	43.8%	47.1%	48.4%	48.0%	**46.9%**	48.3%	48.3%	48.3%	48.3%	**48.3%**
Gross Margin -- Subscription - Licenses	73.3%	74.3%	73.2%	73.5%	73.6%	73.2%	71.4%	73.6%	73.5%	**72.9%**	74.0%	74.1%	73.9%	74.0%	**74.0%**
Total Gross Margin	68.7%	69.2%	67.6%	68.2%	68.4%	68.0%	66.4%	68.5%	68.4%	**67.8%**	69.2%	69.3%	69.3%	69.5%	**69.3%**
Operating Margin	(8.9%)	(16.2%)	(17.0%)	(216.6%)	(62.4%)	(16.9%)	(13.6%)	(12.9%)	(13.6%)	**(14.3%)**	(12.2%)	(10.2%)	(8.6%)	(7.0%)	**(9.4%)**
Sales & Marketing	29.6%	33.9%	30.6%	25.4%	29.9%	24.3%	24.7%	25.6%	25.9%	**25.1%**	25.8%	25.4%	24.8%	24.0%	**25.0%**
General & Administrative	20.4%	18.5%	19.9%	21.2%	20.0%	20.8%	20.1%	20.4%	20.7%	**20.5%**	20.7%	20.3%	20.1%	20.5%	**20.4%**
Research and Development	18.3%	22.6%	23.9%	28.2%	23.2%	29.1%	27.3%	27.6%	27.7%	**27.9%**	27.5%	26.8%	26.1%	25.5%	**26.4%**
Operating expense	77.5%	85.3%	84.6%	284.8%	130.9%	84.9%	80.0%	81.3%	82.0%	**82.1%**	81.3%	79.5%	77.9%	76.5%	**78.7%**
Pre-Tax Margins	(1.8%)	(12.2%)	(19.7%)	(215.4%)	(60.0%)	(16.4%)	(15.7%)	(14.2%)	(14.8%)	**(15.3%)**	(13.2%)	(11.1%)	(9.3%)	(7.6%)	**(10.3%)**
Tax rate	(8.1%)	(2.0%)	(1.2%)	1.5%	1.0%	(0.8%)	(0.8%)	0.0%	0.0%	**(0.4%)**	0.0%	0.0%	0.0%	0.0%	**0.0%**
YEAR / YEAR GROWTH															
Total Revenues	(4.7%)	(0.6%)	(7.0%)	(9.8%)	(5.6%)	(8.0%)	(7.1%)	(2.7%)	(0.3%)	**(4.6%)**	1.9%	3.2%	5.8%	9.0%	**5.0%**
Subscription (SaaS) / Perpetual licenses	(5.5%)	(1.0%)	(6.7%)	(10.8%)	(6.0%)	(4.4%)	(8.0%)	(4.4%)	(1.2%)	**(4.6%)**	0.5%	6.3%	8.9%	12.0%	**6.9%**

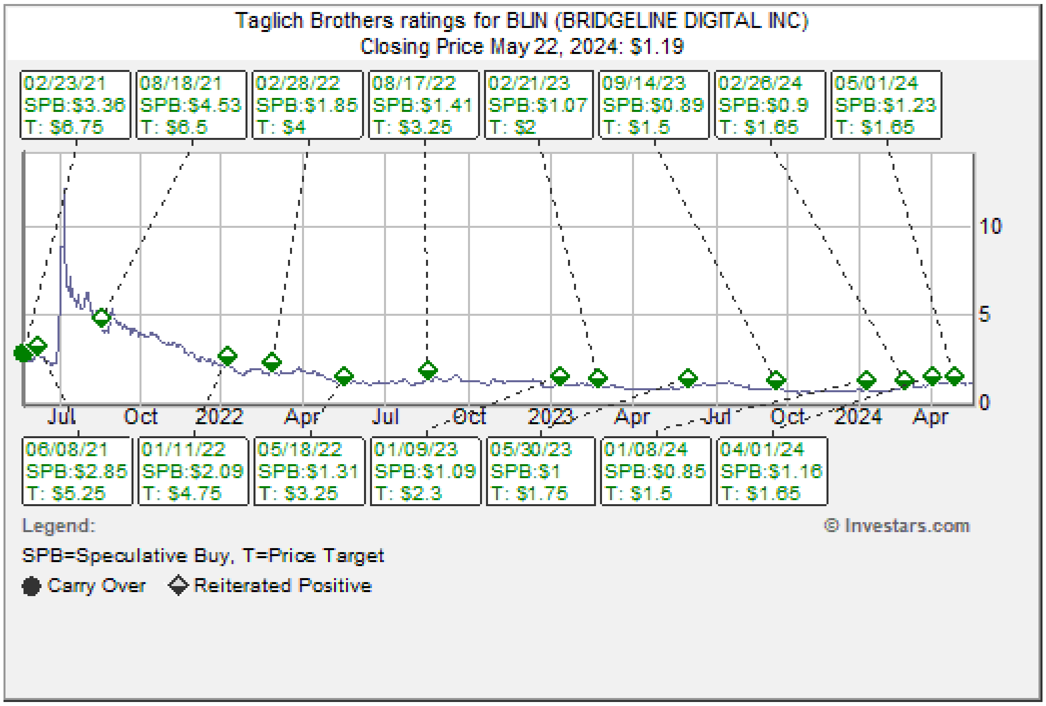
Source: Company reports and Taglich Brothers estimates

Bridgeline Digital, Inc.
Cash Flow Statement – Ending September 30
FY2022A – FY2025E
(in thousands)

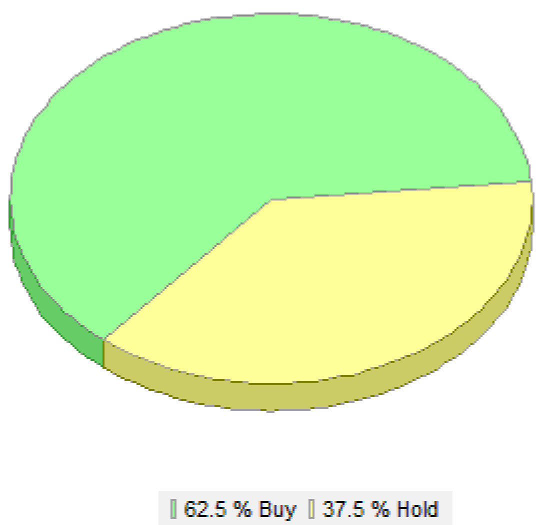
	FY2022 A	FY2023 A	6 Mos. 24A	**FY2024 E**	**FY2025 E**
Cash Flows from Operating Activities					
Net Income (loss)	$ 2,145	$ (9,435)	$ (1,224)	**$ (2,324)**	**$ (1,630)**
Amortization of intangibles	1,487	1,378	612	**1,224**	**985**
Depreciation and amortization	121	177	86	**172**	**125**
Deferred income taxes	(45)	(63)	-	-	-
Goodwill impairment	-	7,517	-	-	-
Change in fair value of contingent consideration	(631)	-	-	-	-
Change in fair value of warrant liabilities	(3,655)	(575)	7	**7**	-
Stock-based compensation	478	571	294	**514**	**400**
Cash earnings (burn)	(100)	(430)	(225)	**(407)**	**(120)**
Changes In:					
Accounts receivables	159	184	(457)	**(468)**	**(73)**
Prepaid expenses and Other current assets	(20)	(39)	(111)	**(112)**	**(25)**
Other assets	-	33	(10)	-	-
Accounts payable and accrued liabilities	87	264	(250)	**(153)**	**166**
Deferred revenue	(223)	194	71	**216**	**300**
Other liabilities	(37)	71	-	-	-
(Increase)/decrease in Working Capital	(34)	707	(757)	**(517)**	**369**
Net cash Provided by (Used in) Operations	(134)	277	(982)	**(924)**	**249**
Cash Flows from Investing Activities					
Purchase of property and equipment	(117)	(25)	(5)	**(10)**	**(15)**
Software development	(78)	-	-	-	-
Net cash used in Investing	(195)	(25)	(5)	**(10)**	**(15)**
Cash Flows from Financing Activities					
Proceeds from stock option and warrant excercises	19	-	-	-	-
Payment on long-term debt	(611)	(399)	(105)	**(267)**	**(204)**
Payments of contingent consideration and deferred cash payable	(4,891)	(250)	-	-	-
Net cash provided by Financing	(5,483)	(649)	(105)	**(267)**	**(204)**
Exchange rate	(184)	(82)	17	**17**	-
Net change in Cash	(5,996)	(479)	(1,075)	**(1,184)**	**30**
Cash Beginning of Period	8,852	2,856	2,377	**2,377**	**1,193**
Cash End of Period	$ 2,856	$ 2,377	$ 1,302	**$ 1,193**	**$ 1,222**

Source: Company reports and Taglich Brothers estimates

Price Chart



Taglich Brothers Current Ratings Distribution



Investment Banking Services for Companies Covered in the Past 12 Months

Rating	#	%
Buy	3	18
Hold		
Sell		
Not Rated		

Important Disclosures

As of May 22, 2024, 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 8,714 shares of BLIN common stock and owns or has a controlling interest in 13,000 shares of common stock underlying warrants issued. Doug Hailey, Director of Investment Banking at Taglich Brothers, Inc., owns or has a controlling interest in an estimated 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.