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BLIN.OQ - Q4 2020 Bridgeline Digital Inc Earnings Call

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## CORPORATE PARTICIPANTS

**Mark Gerard Downey** *Bridgeline Digital, Inc. - Executive VP, CFO & Treasurer*

**Roger E. Kahn** *Bridgeline Digital, Inc. - President, CEO & Director*

## CONFERENCE CALL PARTICIPANTS

**Howard Allen Halpern** *Taglich Brothers, Inc., Research Division - Senior Equity Analyst*

## PRESENTATION

### Operator

Good morning, ladies and gentlemen, and welcome to the Bridgeline Digital Fourth Quarter 2020 Earnings Conference Call. (Operator Instructions) As a reminder, this conference call is being recorded.

I would now like to turn the conference over to your host, Mr. Mark Downey, Chief Financial Officer of Bridgeline. Please go ahead.

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**Mark Gerard Downey** - *Bridgeline Digital, Inc. - Executive VP, CFO & Treasurer*

Thank you, and good morning, everyone. I hope everyone is safe and healthy and getting ready for a great holiday week. My name is Mark Downey, and I am the Chief Financial Officer for Bridgeline Digital. I am pleased to welcome you to our fiscal 2020 fourth quarter conference call. On the call this morning is Ari Kahn, Bridgeline Digital, President and CEO, who will begin with a discussion of our business highlights. I'll then update you on our financial results for the quarter, and we'll conclude by taking questions.

On October 2, 2020, Bridgeline issued an end of year corporate update press release, outlining our business highlights and financial results for the fourth quarter 2020 and potential for continued growth in fiscal 2021. If you would like a copy of this press release, you can access it on our website at [www.bridgeline.com](http://www.bridgeline.com).

Before we begin, I would like to remind listeners that during this conference call, comments that we make regarding Bridgeline that are not historical facts are forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Act of 1934 and are subject to risks and uncertainties that could cause such statements to differ materially from actual future events or results.

These statements are made pursuant to the safe harbor provisions of the Private Securities Litigation Reform Act of 1995. The internal projections and beliefs upon which we base our expectations today may change over time and we expressly disclaim and assume no obligation to inform you if they do. Results that we report today should not be considered as an indication of future performance. Changes in economic, business, competitive, technological, regulatory and other factors, such as the impact of the COVID-19 pandemic and related public health measures could cause Bridgeline's actual results to differ materially from those expressed or implied by the projections or forward-looking statements made today.

For more detailed information about these factors and other risks that may impact our business, please review the reports and documents filed from time to time by Bridgeline Digital with the Securities and Exchange Commission. Also, please note that on the call this morning, we will discuss some non-GAAP financial measures when discussing the company's financial performance. We provide a reconciliation of these non-GAAP measures to our GAAP financials in our earnings release. You can obtain a copy of our earnings release by visiting our website.

I would now like to turn the call over to Ari Kahn, our President and CEO.

**Roger E. Kahn** - *Bridgeline Digital, Inc. - President, CEO & Director*

Thank you, Mark, and good morning, everyone. This quarter, we delivered 20% growth in subscription and license revenue at a 75% gross margin. This is the company's 8th consecutive quarter of subscription and license growth. We grew while delivering another quarter of strong profit, net income, operating income and adjusted EBITDA increased. We ended this quarter with strong cash and less than \$100,000 in debt. The company is positioned for continued profitability and growth. Bridgeline acquired more customers in its fourth quarter than in its previous 3 quarters combined. It won more enterprise customers, including a franchise who signed a multiyear agreement valued at more than \$650,000. Our Celebros Search app led sales with new customer wins in North America, Europe and Asia. Our partnership with Salesforce produced new customers for our Orchestra product line. Not only do we have strong new customer wins, existing customer renewals grew with some of our largest customers renewing their license subscription. December and January are particularly strong renewal and collection months for Bridgeline. In fact, this very month, we received a \$1 million deposit from a single customer renewing with us, which further grows our cash position going forward.

The company does not intend to raise capital for operating purposes, but could do so for an acquisition. In our August earnings call, we discussed our revenue 360 strategy, where Bridgeline will expand its out of the box product line with software to help our customers grow their e-commerce revenues. Revenue 360 brings us a touchless sales process that has allowed us to win new customers more quickly, grow subscription revenue and deliver stronger profits. Revenue 360 is not only a sales strategy, it also guides R&D efforts, partnerships and mergers and acquisitions.

In Q4, we announced Unbound Pages to help franchises increase online and in-store traffic with out of the box store locator pages. Unbound Pages makes it easy to share locator maps, store hours and contact information with your customers. Unbound Pages is unique in that it includes e-mail marketing and online commerce out of the box. Bridgeline will continue evaluating strategic growth opportunities through acquisitions, with revenue 360 guiding our focus towards SaaS companies whose products help their customers grow online revenues with efficient sales cycles.

The companies we evaluate have \$2 million to \$4 million in annual recurring revenue with compatible plug-and-play apps in the marketing technology software sector. We have a strong pipeline of target companies and are carefully evaluating them to find the right strategic fit to preserve our profitability, boost revenue and provide us with new software that delivers even more value to our customers. We have sales momentum, happy customers, positive bottom line, strong cash, strong balance sheet and a clean cap table. This is the foundation for an exciting software company and revenue 360 strategy has proven to win new customers while delivering even greater value to our existing customer base.

At this time, I'd like to turn the call over to our Chief Financial Officer, Mark Downey.

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**Mark Gerard Downey** - *Bridgeline Digital, Inc. - Executive VP, CFO & Treasurer*

Thanks, Ari. I'm very excited to share the positive financial results for the fourth quarter of fiscal 2020 ended September 30, 2020, with you this morning. Total revenue for the quarter ended September 30, 2020, which is comprised of license and services revenue was consistent at \$2.7 million for the quarters ended September 30, 2020 and 2019. The following are the various components of revenue. Subscription and license revenue, which is comprised of SaaS licenses, maintenance and hosting revenue and perpetual license revenue increased 20% for the quarter ended September 30, 2020, to \$2 million or \$1.7 million for the same period in 2019. As a percentage of total revenue, subscription and perpetual license revenue increased 12% to 74% of total revenue for the quarter ended September 30, 2020, compared to 62% for the same period in 2019. This increase is attributed to multiple renewals across the diverse portfolio of customers, including retail, health care, financial services, franchisee, education, manufacturing, and multiyear license renewals from pharmaceutical, industrial manufacturing and global energy companies.

Services revenue decreased \$314,000 to \$701,000 for the quarter ended September 30, 2020, as compared to \$1 million for the same period in 2019. As a percentage of total revenue, services revenue accounts for 26% of total revenue for the quarter ended September 30, 2020 compared to 38% of total revenue for the same period in 2019. Bridgeline's overall focus is on increasing license revenue with out of the box apps that require a little or no services to implement. This focus and continued growth in subscription revenue is expected to further increase our license to service ratio. Gross profit increased 16% or \$253,000 to \$1.8 million for the quarter ended September 30, 2020, as compared to \$1.6 million for the same period of 2019.

The cost of revenue decreased 21% or \$236,000 to \$885,000 for the quarter ended September 30, 2020, compared to \$1.1 million for the same period in 2019. Gross profit margin increased to 67% for the quarter ended September 30, 2020, compared to 58% for the same period in 2019. Subscription and perpetual licenses gross margin were 76% for the 3 months ended September 30, 2020, as compared to 59% for the same period in 2019. Services gross margin were 43% for the 3 months ended September 30, 2020 as compared to 57% for the same period of 2019.

Operating expenses decreased 46% or \$1.4 million to \$1.7 million for the quarter ended September 30, 2020 from \$3.1 million for the same period in 2019. Included within the quarterly totals as of September 30, 2020, of the net benefits in overall efficiencies of the previously announced reduction of our U.S. and Canada operations by eliminating redundancies and combining certain responsibilities and functions. Included within the quarter ended September 2019 results are acquisition charges of \$35,000 related to the acquisition of Stantive and Celebros, respectively.

Due to fair value derivative accounting rules, the warrant liability on our balance sheet are independent to revalue on a quarterly basis. For the quarter ended September 30, 2020, this revaluation, which considers the overall change in our market share price from the previous quarter resulted in a \$50,000 noncash loss to change in fair value of warrant liabilities as compared to \$2.2 million noncash gain for the same period in 2019. Offsetting the warrant liability loss for the quarter ended September 30, 2020, is \$960,000 of government grant income related to the forgiveness of the PPP loan, respectively.

Operating income for the quarter ended September 30, 2020 is \$164,000 as compared to an operating loss of \$1.5 million for the same period in 2019. Net income applicable to common shareholders for the first quarter for the fiscal quarter ended September 30, 2020, is \$1.1 million compared to net income of \$619,000 for the same period in 2019.

Adjusted EBITDA for the quarter ended September 30, 2020, is a gain of \$455,000 or \$0.10 per diluted share compared to a loss of \$1.1 million or \$0.41 per diluted share for the same period in 2019. Our non-GAAP adjusted net income for the quarter ended September 30, 2020, is \$1.3 million or \$0.29 per diluted share compared to \$1 million or \$0.34 per diluted share for the same period in 2019.

At September 30, 2020, the company had cash of \$861,000 and accounts receivable net of \$665,000 as compared to September 30, 2019, where the company had cash of \$296,000 and accounts receivable net of \$979,000. Total days sales outstanding for the quarter ended September 30, 2020, is 44.6 days. Total days sales outstanding for the quarter ended September 30, 2019 was 48 days. The primary reason for these improvements can be attributed to our exceptional strong customer relationships and consistent conversion of accounts receivable into cash.

On April 17, 2020, the company entered into a loan with BNB Bank as a lender and an aggregate principal amount of \$1,047,500 persuaded to the Paycheck Protection Program under the CARES Act. The PPP loans is evidenced by a promissory note. Subject to the terms of the note, the PPP loan bears interest at a fixed rate of 1% per annum with the first 6 months of interest deferred and an initial term of 2 years and subsequently increased to 5 years and is unsecured and guaranteed by the SBA. The company will apply to the lender for forgiveness of the PPP loan with the amount which may be forgiven equal to the sum of payroll costs, covered rent obligations and utility payments incurred by the company during the 24-week period beginning on May 1, 2020, calculated in accordance with terms of the CARES Act.

As of September 30, 2020, based on SBA requirements, we have calculated our forgiveness and recorded as government grant income on the income statement, \$960,000 or 92% of the applicable PPP loan drawdown. The remaining PPP loan balance of \$87,500 will be recorded as government grant income effective first quarter 2021.

As of September 30, 2020, we have 350 shares of the Series C convertible preferred stock, when converted equals 38,889 shares of common stock. We anticipate being able to convert all remaining Series C convertible preferred stock during the first half of 2021. Our total assets are \$10.7 million and total liabilities of \$6.3 million. We have 4,420,170 issued and outstanding shares of common stock as of September 30, 2020, as compared to 2,798,475 issued and outstanding shares of common stock as of September 30, 2019. Bridgeline looks forward to continued success in 2021 by delivering shareholder value and expanding customer success, both exciting technical innovations.

Thank you all for listening. And at this time, we would like to open the call up to Q&A.

## QUESTIONS AND ANSWERS

### Operator

Your first question comes from Howard Halpern with Taglich Brothers.

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**Howard Allen Halpern** - *Taglich Brothers, Inc., Research Division - Senior Equity Analyst*

Congratulations on a solid quarter and a great year. In terms of customer base, how many customers did you end the year with? And how many new customers have you gotten so far in 1Q '21?

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**Roger E. Kahn** - *Bridgeline Digital, Inc. - President, CEO & Director*

So we ended 2020 with about 200 customers, all in. And 1Q '21, this quarter, we've added about 10.

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**Howard Allen Halpern** - *Taglich Brothers, Inc., Research Division - Senior Equity Analyst*

Okay. And in terms of what you've seen so far with renewals, have you seen the renewals increase in revenue value. (inaudible) sales that you're trying to obtain?

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**Roger E. Kahn** - *Bridgeline Digital, Inc. - President, CEO & Director*

Yes. In general, we increased our license on renewals at between 5% and 10%. Our customers, depending on the length of their original contract, typically, it's a 3-year contract. That length will impact how much we increase it by. So if you're on a 3-year contract, you're probably more in the 10% increase on the renewal range.

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**Howard Allen Halpern** - *Taglich Brothers, Inc., Research Division - Senior Equity Analyst*

Okay. And just a little bit of a broad overview. What are you seeing in the industry and how it's evolving, especially during the pandemic environment that has seemed to accelerate this online environment for consumers, companies, et cetera?

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**Roger E. Kahn** - *Bridgeline Digital, Inc. - President, CEO & Director*

Yes. Yes. What we're seeing is that our customer within our customer, who is often the VP of Marketing, his budget has held steady. So it has not been decreased, but it shifted towards online. So they're redirecting their budget from the stores to their online presence. And as we led up to the holiday this year, we saw several customers expand their projects to create new features before the holiday season.

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**Howard Allen Halpern** - *Taglich Brothers, Inc., Research Division - Senior Equity Analyst*

Okay. And could you, I guess, talk just a little bit about the pipeline that you're seeing in terms of both enterprise and the Celebros product?

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**Roger E. Kahn** - *Bridgeline Digital, Inc. - President, CEO & Director*

Right, right. Well, the Celebros growth line is where most of our pipeline is growing. And specifically, Celebros, in the revenue 360 mindset is focused on helping customers increase their online revenue. And we're seeing customers that are, on the smaller side, probably between \$100 million and \$1 billion in annual sales coming to us for Celebros. And we're also seeing a lot of that business, almost half of it in Europe. I'm not sure exactly why.

And on the platform side, both for our Unbound platform and for our Orchestra platform, we are seeing business as well. The Orchestra generated business is often coming as referrals from Salesforce.com. And on the Unbound side, that is direct business where people are coming to us because they know our name.

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**Howard Allen Halpern** - *Taglich Brothers, Inc., Research Division - Senior Equity Analyst*

Okay. And since we're sort of coming to a close in 1Q, you care to offer any kind of perspective as what we should see on the top line revenue?

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**Roger E. Kahn** - *Bridgeline Digital, Inc. - President, CEO & Director*

Yes. We expect to see growth on the top line. We're going to -- in 1Q, have an even stronger cash balance position than we had at the end of our previous quarter. So this month and next month happen to be large collection months for Bridgeline. And we're still focusing on positive operating income as well.

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**Howard Allen Halpern** - *Taglich Brothers, Inc., Research Division - Senior Equity Analyst*

Okay. Okay. Well, congratulations again, and keep up the good work.

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**Operator**

(Operator Instructions) At this time, I would like to turn it back to the speakers for any closing comments.

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**Roger E. Kahn** - *Bridgeline Digital, Inc. - President, CEO & Director*

We appreciate your support and patience. All of our shareholders' guess has been great. It's our goal to continue building a scalable business model, which in turn will build shareholder value. Thank you for joining us today. Happy holidays. We look forward to speaking to you again on our Q1 fiscal '21 conference call. Stay healthy and well.

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**Operator**

Ladies and gentlemen, this concludes today's conference. Thank you for your participation. Happy holidays to everyone. You may all disconnect.

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