

BLIN Earnings Call Transcript

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Operator: Greetings. Welcome to the Bridgeline Digital Fourth Quarter 2025 Earnings Call. [Operator Instructions] Please note, this conference is being recorded. I will now turn the conference over to your host, Thomas Windhausen. You may begin.

Thomas Windhausen: Thank you, and good afternoon, everyone. Thank you for joining us today. My name is Thomas Windhausen, and I'm the Chief Financial Officer of Bridgeline Digital. I'm pleased to welcome you to our fiscal 2025 fourth quarter conference call. On the call with us today is Ari Kahn, Bridgeline's President and CEO, who will begin the call with a discussion of our business highlights. I will then update you on our financial results for the quarter, and we will conclude by taking questions. Before we begin, I'd like to remind listeners that during the conference call, comments that are made 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 our 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. The 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 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 the factors and other risks that may have an impact on our business, please review the reports and documents as filed from time to time by Bridgeline Digital with the Securities and Exchange Commission. Also, please note that on the call this afternoon, we will discuss some non-GAAP financial measures when commenting on the company's financial performance. We provide a reconciliation of our GAAP financials to these non-GAAP measures in our earnings release. You can obtain a copy of our earnings release from our website. I'd now like to turn the call over to Ari Kahn, Bridgeline's President and CEO. Ari?

Roger Kahn: Thank you, Tom. Good afternoon, everyone. It's been a transformative year for Bridgeline with our core products, led by HawkSearch Suite and its AI products, reaching 58% of our total revenue or \$8.9 million and over 60% of our subscription revenue, \$7.4 million with 75% gross margin. Validating our dominance in the B2B segment, Gartner ranked HawkSearch #1 for the B2B search use case in their 2025 Critical Capabilities report. HawkSearch customers voted with their pocketbooks by renewing their subscription, expanding their license limits and investing in our AI products. Together, this resulted in 117% net revenue retention and 16% CAGR for our core products. HawkSearch's average sales cycle reduced from 160 days in fiscal 2024 to just 92 days in fiscal 2025, and our average ARR per sale grew by 35% from \$18,500 to \$25,000. This year, we sold 83 licenses with \$6.9 million in total contract value for \$2.4 million in ARR. This is an 18% increase over fiscal 2024, which itself was a 74% increase over fiscal 2023. 2024, 74% increase was hard to top, but we did it. We start fiscal 2026 with 65% larger sales pipeline, a shorter sales cycle, a higher average sales size and top analyst recognition from Gartner compared to the beginning of fiscal 2025. Of course, we want cumulative growth for the total whole company, and it's been a long haul with our core product growth

being dampened by the decline of our legacy products. This dampening is expected to end in 2026 with continued and accelerated growth for HawkSearch, driving growth to significantly more than 60% of the total revenue. I'm very proud of our customer satisfaction, proven by our customers expanding their investment in HawkSearch products. Net revenue retention of 117% is outstanding, and we achieved 117% NRR because higher renewal rates, less than 4% churn, upgrades by customers to increase usage limits and customers adding new products like our AI-powered Smart Search. Techo-Bloc is a great example. They're in the manufacturing and distribution segment for hardscaping products. They're a happy customer who added Smart Search and Smart Response this year, which analyzes Techo-Bloc's technical documents so their customers can ask complex questions to HawkSearch and quickly make purchasing decisions without having to do time-consuming research on their own. Do it Best is a long-standing HawkSearch customer. And with their recent acquisition of True Value Hardware, they're making substantial investments in HawkSearch. Do it Best now powers search for 170,000 products with real-time inventory in the search and real-time pricing for 3,000 locations and is planned to grow to over 9,000 stores in 2026 as the True Value stores are added. Like HP, this is a great example of HawkSearch at enterprise scale. Another example of expansion within our customer base is a national distributor for foodservice and industrial packaging, who implemented HawkSearch AI recommendations across their product categories to help their customers buy products that they otherwise may have forgotten to purchase. The distributor is now seeing 5x greater revenue from their homepage and 7x more revenue on their checkout screen. Just imagine that. Results like this are why HawkSearch customers renew and expand their investment. Core revenue not only grew from existing customers expanding their investment, but it also grew from new customer wins. In fiscal 2025, we added 28 new logos. These are customers with whom we had no prior relationship to our customer base. The new logos added \$2 million in total contract value with \$700,000 in annual recurring revenue, and we expect them to buy additional products and expand their license usage limits just as our existing customers do as they start to see the success on their sites with HawkSearch. One of our new customers is Culligan, a brand providing water softening, filtration and drinking solutions to 140 million customers globally. Culligan has both SmartSearch and SmartResponse and recently told us that their site engagement is up 30% since launching HawkSearch. Another one of our new customers is ADENTRA, a multibillion-dollar distributor of architectural building products with 6 brands across 83 regions and 60,000 customers. ADENTRA is using Smart Search and HawkSearch's out-of-the-box unit of measure to drive revenues in an industry where there are several methods of describing and measuring products. This year, we injected \$2 million of capital into the company, including investments from our executive team and Board with the expressed purpose of expanding our marketing budget to get the word out about how great HawkSearch is and how happy our customers are. As a result of this investment, we have a 65% larger pipeline at the end of fiscal 2025 than we did at the beginning of the year. We have a 40% more efficient sales cycle, and we have a 35% larger average sales size with industry recognition from Gartner ranking us HawkSearch #1 in the B2B search space. The primary challenge will continue to be our marketing budget. We are great on product, great on customer satisfaction, great with analyst approval. We need to be in every deal by continuing to market the HawkSearch brand. We've doubled our ad spend to \$500,000 per quarter, and we'll continue this level of marketing throughout 2026, at which time we'll assess our marketing budget and cash reserves as well as our profitability for continued growth. Another important part of our growth is our partnerships. HawkSearch lends itself to both agency and platform partners. These are partners that generate sales. An important partnership that was established in fiscal 2025 is with Unilog. Unilog offers a SaaS platform for B2B e-commerce and product management, helping businesses streamline operations and enhance digital storefronts. Unilog has embedded HawkSearch into their platform so that their 500 customers can easily choose to add HawkSearch to their website. This partnership will expand our total addressable market and further accelerate our sales cycle. Salesforce customers can now access HawkSearch directly through the AppExchange to drive quick improvements in their revenue. This is another very important partnership for us, and it further expands our TAM to an ecosystem of tens of thousands of prospective customers. Our sales and partnership advances were largely driven by product innovations, especially in the field of artificial intelligence. We released 6 new products this year, all of which are powered by neural networks. Our new products allowed us to

expand sales within our existing customers, win new customers and create general industry recognition as the leader in AI product discovery with Gartner ranking us #1. We released Smart Search, our large language model foundation for AI, Smart Response, Gen AI technology to drive revenue conversationally. Smart Agents, MCP agentic artificial intelligence to automate and integrate with third parties. We released multisite management, which is our franchise and chain system that allows centralized management of thousands of online stores like the example I gave you with Do it Best. We released Rapid UI. Rapid UI reduces implementation effort for customers and expands our TAM to include mid-market and SMB. We also released advanced analytics, a data lake to improve intelligence and reporting for our customers and their AI agents. Agentic AI and analytics will be an important focus for 2026 as our customers move towards a more automated sales cycle, sometimes even selling to agents rather than people, and our HawkSearch platform is uniquely positioned to help them beat their competition to the evolution in our market with AI. 2025 was indeed a transformative year, 6 new product launches, customers voting with their pocketbooks, renewing and expanding licenses for 117% NRR, 18% increase in sales over 2024, which was a 74% increase over 2023, sales efficiency accelerating from 160 days to 92 days, 35% increase in average revenue per sale and ending the year with a 65% larger sales pipeline than we started the year with. Core product revenue is the focus, and we have the marketing budget to continue this trajectory. We expect the decline of legacy products to reduce in 2026 and our cumulative financials to show the strength of our core products and their leadership in AI product discovery. Now I'll turn the call over to our Chief Financial Officer, Tom Windhausen, to share additional details. Tom?

Thomas Windhausen: Thanks, Ari. I'll provide an update of our financial results for the fourth quarter of fiscal 2025, which ended September 30, 2025. Total revenue for the quarter ended September 30, 2025, was \$3.9 million compared to \$3.9 million in the prior year period. And looking at the components of revenue, our subscription revenue, which is comprised of SaaS licenses, maintenance and hosting revenue for the quarter ended September 2025 was \$3.1 million as compared to \$3 million in the prior year period. And as a percentage of total revenue, subscription revenue was 81% of total for the quarter ended September '25. Our services revenue was \$700,000 for the quarter ended September '25 compared to \$800,000 in the prior year period for a percentage of total revenue of services accounting for 19% of total revenue. Our cost of revenue was \$1.3 million for the quarter ended September 30, '25 compared to \$1.2 million in the prior year period. And as a result, our gross profit was \$2.5 million for the quarter ended September 30, '25. Our overall gross profit margin was 66% for the quarter ended September '25, with subscription gross margin at 69% and services gross margin at 50%. Our operating expenses were \$3 million for the quarter ended September 30, a decrease from \$3.1 million in the prior year period, and our net loss was \$400,000 for the fiscal quarter ended September '25 compared to a net loss of \$400,000 in the prior year. Finally, our adjusted EBITDA for the quarter ended September '25 was minus \$169,000 compared to \$5,000 positive in the prior year comparable 3-month period. Moving to our balance sheet. On September 30, '25, we had cash of \$1.6 million and accounts receivable of \$1.5 million. Our total debt outstanding as of September 30 was EUR 278,000, approximately USD 326,000 with a weighted average interest rate of currently 3.4% and principal payments due evenly through 2028. We have no other debt or remaining earn-outs from any previous acquisitions. And at September 30, we had total assets of \$15 million and total liabilities of \$5.8 million. Finally, I'll give a quick update on our cap table, which at September 30, '25 included 12.2 million outstanding shares, 862,000 warrants and just under 2 million stock options outstanding. The 852,000 warrants consist primarily of 167,000 with a \$2.85 exercise price expiring in May '26 and \$592,000 with an exercise price of \$2.51 expiring in November 2026. Bridgeline looks forward to continued growth and success in fiscal '26 and beyond as we continue our focus on revenue, product innovation, customer success and delivering shareholder value. We want to thank you all for joining us on the call today. And at this time, we'd like to open the call to questions and answers. Moderator, can you help us with that process?

Operator: [Operator Instructions] First question comes from Casey Ryan with WestPark Capital.

Casey Ryan: I wanted to ask about this ARR number that you are sharing with us. It looks like that's the first time you've done that or the first time in a while. And I just wanted to clarify that that's across all customers and all products or maybe that was a HawkSearch-focused metric?

Roger Kahn: So for the \$8.9 million in ARR, that is HawkSearch. And so the -- our total cumulative revenue of \$15.4 million includes \$12.4 million in ARR and, I guess, subscription revenue, of which \$8.9 million is HawkSearch is core. We like to use the term core because HawkSearch is a suite and there's other products in there. And then there's another \$3 million in services. We've not broken out the services detail. It actually does find it though because \$8.9 million minus, I don't know maybe...

Casey Ryan: Right. Well, so I'll just say this ARR number is excellent, right, and tremendous growth year-over-year. But also, is it one that you believe you can continue to share with us as we move through the year? Or will this kind of be an annual number that you put out at the end of the day?

Roger Kahn: That's a really important point. And this right here, we're essentially telling you and the market that, that is our intention. We believe that the future of Bridgeline is HawkSearch, the core products. That's what to really watch, and we're going to continue to share every quarter that growth. Our expectation is that as we go through 2026 that, that is going to dominate our overall financials and the characteristics that we're seeing right now on that core component itself will be the characteristics that we have in the long term for the business as a whole.

Casey Ryan: Okay. Well, terrific. I'm happy for the addition of this metric. And obviously, it's showing very strong performance, which is really good. I also wanted to ask about on HawkSearch, if there had been any meaningful changes or trends with -- in regards to sort of contract length or what levels people were committing to in terms of time, dollars are clearly going up.

Roger Kahn: Yes. Yes. Dollars are going up. The contract length itself has not changed. And we've heard in adjacent industries of contract lengths actually reducing as people became a little bit less committed. We've not seen that. So our average contract length, we shoot for 3 years when we have initial engagements, and that's negotiated to 2. And the average is going to be somewhere between 2 and 3 in 2025. That was consistent with what we saw in '24 and in '23. The big things that we saw change in 2025 were, first of all, how decisive prospective customers were. I mean, going from 160 days to 92 days. And frankly, I don't know if 92 days is the right average to expect going forward for -- when I say 90 days, that's from the first second that we meet someone to the point that they either say yes or no to doing business with us including lost sales, incredibly fast. So people become more decisive. Also, they're making a higher initial investment where last year, we would see \$18,500 as our average in terms of the annual recurring revenue, not the total contract value, but the ARR. Going to 25 shows a much stronger level of confidence that this is going to be a meaningful product for them and they're willing to go in a deeper level on day 1. Because our price didn't go up by 35%. I mean our list price went up by, I don't know, 4% or 5%. And then we also have additional products. So they're buying more components on day 1 than they might have bought the year before, too.

Casey Ryan: Yes. Well, I mean, all these metrics are really quite impressive, to be perfectly honest. And so we've been challenged with some sort of shedding of legacy businesses or older products that you've sort of talked about over the course of this fiscal year. That remainder sort of non-HawkSearch revenue, it sounds like you have more confidence in that base that you have today being stable to up potentially in FY '26.

Roger Kahn: Absolutely. And our HawkSearch customers have less than 4% churn rate. So we've got really excellent stickiness. And the ones that do churn are probably, I don't know, 5 or 6 years old even pre the acquisition in Bridgeline. So that's a super stable customer base. The reality is that when I came into this business and over the years, we had some old products that although the products themselves were good, we're in areas that other companies were making exponentially higher investments than Bridgeline, long sales cycles and not a good place for the company. So we looked hard over really 2018, 2019, 2020, found HawkSearch in 2019, did that acquisition, and that was the heart of the transformation. We picked up Cellebrite, which is another search product before that. But all along, it was about finding a product that delivered true value to customers that had an efficient sales cycle. and high-quality revenue. And then we got lucky because AI hit and search is in the sweet spot for the particular types of AI technologies that are rapidly maturing. So we were able to quickly add 6 new products to the HawkSearch suite because it was really well fitted for the latest technologies. And I think that's really exciting. I think that analysts, especially Gartner love what we did. Our customers certainly love it, and a lot of the innovation was driven by them, and it's getting proven.

Casey Ryan: Yes. Well, it certainly does seem like it's showing up here in the metrics for this quarter for sure. So just 2 more questions. I mean there's a lot to sort of unpack here, I think, in this quarter, which has been really exciting. You mentioned the ability for customers to sort of turn on the product, HawkSearch through the Salesforce AppExchange. I just wanted to ask if that was live and impactful to the September quarter or if that's really something that's going to -- in terms of revenue and sort of activations sort of hit for the first time more in the December quarter and then moving forward?

Roger Kahn: It's really just hitting for the first time. I think we had a sale in the September quarter, but we've got a couple in the pipe this quarter and then it's going to accelerate from there. So that's further growth. And the Unilog, even though obviously way smaller business than Salesforce, almost every small business than Salesforce, but is one that is, I think, going to be a really good partnership for us. Their customers are all in the manufacturing and distribution B2B space. They're a specialty platform for that specific market. That is our #1 market. We sell all over the place, and we've got Hewlett Packard in the B2C world. But when it comes to B2B for distributors and manufacturers, there are very unique problems that they have that no one else can solve like we do, the ability to easily find products by their SKU to be able to have agents upload complex shopping lists and auto negotiate and add those to their cart and other capabilities that we do and the Unilog customers are going to love us.

Casey Ryan: Okay. Good. Well, that's helpful to understand that how that specialization could be even more impactful even though Unilog might not be a name that would jump off the screen initially for someone like myself.

Roger Kahn: Exactly. Yes.

Casey Ryan: One last question. This has all been really helpful. The sales and marketing spend was nominally \$1.1 million in the September quarter. And I think you said that, that's sort of the rate to expect moving forward and that you'd reevaluate at the end of '26. But that's a good level that's up from what it had been previous. And so I just want to confirm and talk about your comfort with that spend level as we move forward.

Roger Kahn: Yes. I think that's the right level for us in 2026. So what that level includes is \$500,000 in what we call ad spend. So that's conferences and webinars and online ads and stuff like that, nonpersonnel. And that includes personnel and commissions and then includes subscriptions to our information systems like Salesforce and so on. So the -- we doubled the ad spend component of that with the goal of completely saturating our salespeople with leads and hey, I want them to be the highest paid people in the company. So we have -- our lead flow is that -- so ad spend goes out the door, \$500,000 a quarter, goes into 2 BDRs. So we have 2 BDRs. They do the initial contact. If it's a very small deal, they also have the ability to earn a commission and close deals themselves. But for the most part, the deals then flow to a team of 2 BDEs, executive salespeople plus a working VP of Sales. So those 3 people close the deals. Then we have a customer success team whose job is to educate existing customers on our new products so they can buy those. Look for opportunities from a professional services perspective to add value to our customers and to get renewals. And that is a working manager and 2 people. So you've got on the direct sales side, 2 BDRs, 2 BDEs plus working manager, on the customer success side, 2 CSDs plus working manager. And then in the sales, in the marketing team itself, we have 3 full time and some consultants. And that right there is, I think, a good team for our current ability to invest in sales. I definitely want to find a way to get more money because I think that we're -- have a lot of growth potential, but we have to be very cognizant, obviously, of the stock price and not diluting anybody, especially me because my wife will kill me, but that's -- so there you go, there's a lot of details.

Casey Ryan: Yes. Well, that is tremendous detail and tremendously helpful. Well, look, it feels like '26 is really setting up very strongly with some optionality with Unilog and Salesforce and some of these automated channels potentially driving even more upside if people adopt the product faster than maybe what you've modeled so far. So tremendous quarter.

Roger Kahn: Thank you, Casey.

Operator: We have reached the end of the question-and-answer session, and I will now turn the call over to management for closing remarks.

Roger Kahn: Thank you, John. Thank you, everybody, for joining us today. We so much appreciate the

continued support of all of our investors, of our customers, of our partners, great stakeholders in this business. We're excited about the business, ongoing growth prospects, and we look forward to speaking with you again in our first quarter fiscal 2026 conference call, which will be in February of 2026. Until then, be well.

Operator: This concludes today's conference, and you may disconnect your lines at this time. Thank you for your participation.