# Blackline Safety Corp.
# Fourth Quarter 2023 Results
# Conference Call Transcript

**Date:** January 18, 2024

**Time:** 9:00 AM MT / 11:00 AM ET

**Speakers:**

**Cody Slater**
Chief Executive Officer, Chairman of the Board

**Sean Stinson**
President, Chief Growth Officer

**Shane Grennan**
Chief Financial Officer

**Scott Boston**
Vice President of Finance

**Operator:**
Welcome to the Blackline Safety Corp. Fourth Quarter 2023 Results Conference Call.

As a reminder, all participants are in listen-only mode and the conference is being recorded. After the presentation, there will be an opportunity for analysts to ask questions. To join the question queue, you may press star, then one on your telephone keypad. Should you need assistance during the conference call, you may signal an Operator by pressing star then zero.

I would now like to turn the conference over to Scott Boston, Vice President of Finance. Please go ahead.

**Scott Boston:**
Welcome, and thank you for joining us. Today we will be discussing our fiscal results for the fourth quarter and year ended October 31, 2023, which were issued before market opening this morning. With me today is Cody Slater, CEO and Chair of Blackline Safety Corp., as well as our CFO, Shane Grennan.

I will turn the call over to Cody in just a moment for an overview of our fourth quarter. Following that, Shane will discuss the financial highlights of the quarter in greater detail. Cody will close with our outlook and some additional commentary before we take questions.

I'd like to remind everyone that an archive of this webcast will made available on the Investors section of our website. I would like to note that some of the information discussed in this call is based on information as of today and contains forward-looking statements that involve risks and uncertainties. Actual results may differ materially from those set forth in such statements. For a discussion of these risks and uncertainties, please review the forward-looking statements disclosure in the earnings news release, as well as the Company's SEDAR+ filings.

During this call, there will be a discussion of IFRS results, non-GAAP financial measures, non-GAAP ratios, and supplementary financial measures. A reconciliation between IFRS results and non-GAAP financial measures is available on the Company's earnings news release and MD&A, both of which can be found on our website, blacklinesafety.com and on SEDAR+. All dollar amounts are reported in Canadian dollars unless otherwise noted.

With that, I will hand the call over to Mr. Slater.

**Cody Slater:**

Thank you Scott. Good morning everyone and welcome to Blackline Safety's fourth quarter 2023 conference call. I'm pleased to share today Blackline's fiscal fourth quarter results, our 27th consecutive quarter of year-over-year revenue growth and the milestone achievement of $100 million of revenue for the fiscal year.

Our $30 million in total revenue for the fourth quarter was also a record for the Company and is a 36% increase over the prior year. We saw our annual recurring revenue, or ARR surpass $51 million, up 40% year-over-year, driven by new hardware sales as well as our industry-leading net dollar retention of 129%. We continue to achieve greater scale with our service revenue, which grew 38% overall to $15 million for the quarter, and with more customers adopting more value-added services, our service margin hit a new high of 77%, generating $11.6 million of gross profit.

Our hardware segment generated a record $4.9 million gross profit, up 66% year-over-year, driven by increased sales and margins of 32%, our highest in three years. Improvements in our pricing, supply chain management and manufacturing automation will continue to push our margins higher and unlock even greater profitability. With our improving margins, growing ARR, and a step change decrease in cash burn, we exited the quarter in the strongest financial position ever with total liquidity of $29.2 million in our cash, short term investments and operating facility, and $50 million available on our lease securitization facility.

Five quarters ago, we set out to work towards turning Blackline into a profitable business. I'd like to highlight the dramatic progress we have made since that time. In that quarter, our EBITDA loss represented 78% of our $18.6 million of total revenue, and our cash used in operating activities was 105%. Today, we reported an EBITDA loss of less than 5% of our total revenue, an improvement of 82%, with cash used in operating activities dropping to just 7%, an improvement of 90%, all while achieving revenue growth of 36%, finishing with a record $30 million in the quarter. Though we did not hit our ambitious goal of reaching positive EBITDA yet, it is clear Blackline has been transformed into an engine that could continue to deliver strong top line growth with significant profitability in the long run.

I'll now turn the call over to our CFO, Shane Grennan to discuss our fiscal fourth quarter results and financial position in more detail.

**Shane Grennan:**
Thank you Cody, and good morning all. As Cody mentioned, we achieved our 27th consecutive quarter of year-over-year revenue growth of 36%, generating total revenue of $30 million. This includes $15 million in product revenue, which increased 35% year-over-year. The increase in the current year reflects the efforts of Blackline's strong global sales team and distribution network, as well as continued targeted demand generation and sales development activities.

Product gross margin of $4.9 million improved 66% in the fourth quarter thanks to the growth in revenue and an increase in gross margin percentage to 32% from 26% in the prior year period. Product margin increased every quarter during 2023 as we saw benefits from our increased scale, manufacturing automation, enhanced pricing, and improved supply chain management. We expect to continue our incremental improvements to this gross margin level during fiscal 2024.

Service revenue during the quarter increased 38% to $15 million, our sixth consecutive quarter with greater than 30% growth in this segment. Software services were a major contributor to this growth, up 36% year-over-year, which also drove ARR growth of 40 % to $51.1 million. Newly activated devices contributed to year-over-year growth of $1 million in the quarter, and net service increases within our existing customer base contributed $2.5 million. This resulted in a net dollar retention of 129% as we continue to raise the bar on this key metric.

Our pricing increase combined with customer device count expansions and the efforts of our client success team to increase the penetration of higher value services, such as Blackline's safety operations centre, personnel monitoring, two-way voice, and push-to-talk all contributed to this impressive number.

Our rental business also continues to generate robust growth, setting a new record of $1.8 million in revenue in the seasonally strong fourth fiscal quarter, a 69% improvement over last year's quarter. We expect continued strong year-on-year growth in the rental business in fiscal 2024 with the rental team having expanded to cover Europe and the Middle East regions, where there is huge demand for our connected area and wearable monitors for three to nine-month projects.

Our service gross margin percentage set a new benchmark at 77%, generating over $11.6 million of gross margin for the quarter. We believe this is a stable margin percentage throughout fiscal 2024 as we continue our penetration of value-add data and communications services for our customers. Our total gross margin percentage came in at 55%, yielding $16.5 million, setting another quarterly record for total gross margin. The growth in total gross margin is due to revenue mix, cost optimization efforts across our business, and our increased scale.

In terms of our geographic growth mix, we are pleased with our performance as each one of our key geographic markets improved from the year ago comparable period. The U.S. market represented our largest growth region, improving 89% from last year's Q4, and their sales team secured several major wins across the region. Our rest-of-world market also saw strong growth of 14% compared to the prior year quarter and is primed to provide significant growth in fiscal 2024. Additionally, our Canadian and European markets were able to see year-over-year increases of 12% and 1% respectively as we continue to have excellent pilot wins and customer loyalty across these regions.

Shifting now to operating expenses, our total expenses for the quarter were $19.8 million, which was down $0.5 million or 3% compared to our expenses of $20.3 million in the prior year quarter. Excluding impacts of foreign exchange, this was the seventh consecutive quarter where Blackline has reduced its total expenses as a percentage of revenue.

General and administrative expenses increased just 2% from the prior year quarter to $5.8 million, which represented 19% of revenue compared to 26% in the prior year. The slight increase was due to an increase in salary cost, which was offset by lower consulting and professional service fees.

Sales and marketing expenses increased 24% from the prior year quarter to $11.2 million, which represented 37% of revenue compared to 41% to the prior year's period. The increase was due to higher commissions resulting from higher hardware sales in the quarter and bad debt expense arising from a bad debt recovery in the prior year, which was not present in the current year. It is important to note that the 36% increase in annual revenue for fiscal 2023 was achieved while keeping total annual sales and marketing expenses flat.

Product research and development costs decreased 35% from the prior year quarter to $3.6 million and decreased as a percentage of revenue to 12% from 25% in the prior year period. Salaries, consulting and contractor costs were all lower following the workforce reduction in the current and prior year. Our development teams remain focused on the next generations of our core products and services, and we look forward to the impact these innovations will make as these products begin to launch in late 2024.

Moving onto capital expenditures, these totaled $1.9 million for the quarter, primarily for additions of revenue-generating sensor cartridges being used by customers and rental equipment to support the continued growth of that service line.

Inventory totalled $17.1 million at the quarter end compared to $18.7 million at the end of the prior year, with inventory turnover improving significantly as our sales continue to grow. We see inventory continuing to be a source of cash for us over the next several quarters.

Our lease program had a total of $39.6 million in future contracted cash flow as at October 31, 2023, up from $36 million at October 31, 2022. During the quarter, we received proceeds from our lease securitization facility with CWB Maxium of $0.6 million and made scheduled repayments of $1.5 million. The lease facility continues to be an important part of our cash management strategy and we will leverage this throughout 2024. At the end of the year, we had over CA $50 million equivalent of availability on this facility.

At quarter end, we had total cash and short-term investments on hand of $16 million with over $13 million of availability on our two-year senior secured operating facility with ATB Financial that was renewed and expanded to a maximum capacity of $25 million in October. We remain confident that we have the resources required to execute our business strategy of achieving sustainable growth, innovation, and disciplined cost management so that Blackline can generate positive free cash flow in fiscal 2024.

I will hand it back to Cody to discuss our outlook and to provide closing remarks. Cody?

**Cody Slater:**
Thank you Shane.

In 2017, Blackline introduced the industrial world to the idea of connected safety as we brought the G7 connected wearable to market. We believe that the market would adopt and pay for the added values from this innovative approach to protecting their people. Clearly our customers agreed with us as at $100 million of annual revenue, we are now one of the most significant players in the gas detection industry and by far the fastest growing.

Over the last fiscal year, we not only bolstered our financial strength, we also realized numerous corporate achievements and milestones. To keep pace with increasing customer demand for our solutions, we doubled our manufacturing capacity while maintaining the same physical footprint of our production facilities in Calgary, Canada. We secured numerous multi-year contracts with prominent global customers, including multi-million dollar deals in the Middle East and a $3.2 million deal in the Permian Basin protecting over 1,000 workers with our connected devices.

We continued the expansion of our global reseller network. We now partner with over 260 distributors around the world and our commitment to product innovation was yet again recognized by health and safety professionals as Blackline secured our tenth new product award from Occupational Health and Safety.

As we look to fiscal 2024, we remain committed to a balanced approach of top and bottom line growth, as well as product innovation. I see this driving us towards the gold standard for SAAS companies and exiting 2024 as a Rule of 40 company, where the combination of our top line growth and EBITDA margin equal or exceed 40%. To put our progress towards this goal in perspective, a year ago our Rule of 40 calculation was negative 37%, and this Q4 saw the Company reach positive 31% - clearly on the right path.

I'm proud of the dramatically stronger company that we are today than we were 18 months ago, when we first embarked on our path to profitability. We are well positioned to accelerate along this path while becoming the dominant player in the multi-billion dollar gas detection and connected safety industry. The way forward is clear for us:  to drive growth in our top and bottom lines, generating significant shareholder value over the coming years as we continue to lead the way to a connected safety future.

I want to thank the Blackline team across the globe for their commitment to our purpose and for the incredible results they have collectively delivered. I speak for all Blackline employees when I say that we are grateful to our customers for their continued trust in Blackline to protect their people around the world.

Thank you for your attention this morning, and I'll now turn it over to the Operator for questions.

**Operator:**

Thank you. To join the question queue, you may press star, then one on your telephone keypad. You will hear a tone acknowledging your request. If you are using a speakerphone, please pick up your handset before pressing any keys. To withdraw your question, please press star, then two.

The first question comes from John Shao with National Bank. Please go ahead.

**John Shao:**

Hey, good morning, and thanks for taking my question. First of all, solid progress on the cost reduction front on a year-over-year basis, so my question is when we benchmark this quarter's EBITDA loss to the breakeven expectation at the beginning of the year, what is the delta here? Is it because there were some deals that were delayed in Q4, or just because the OpEx was higher than expected?

**Cody Slater:**

Hey John, it's Cody here. I'd say the biggest delta would be a few larger deals that were expected to see in Q4, that were shifted out. A few of the cost reductions we were looking to see, you know, we made great progress on our—on moving our margin forward on our hardware. We were looking for a few additional cost reductions to take place there, that have been delayed due to supply quality issues that have pushed that out a little bit. But again, as you can point to, the trend is all there, of course the other thing being the FX impact when you looked at that adjusted number overall. But the core things would be just a little bit light on some of the hardware revenue side and a little light on the hardware margin from where we had anticipated to be.

**John Shao:**

Okay, got it. Maybe help us to understand the road map to the updated breakeven timelines, which are supposedly going to be the second half of the year. How much operating leverage do you think the business has, given the current cost structure and the current pull OpEx?

**Cody Slater:**

Well, again, you're right - we're talking—the second half, as you know, as I think you're aware, John, our sales cycle tends to be that we'll see growth up to Q4 and then a drop in sales back in Q1 and Q2, while Q3 tends to be back where we were as far as—again, we're talking solely hardware here, service revenues just keep growing on a quarterly basis. You're going to see pretty stable cost control across the board. There were some elevated costs in Q4 here for one-time elements from our sales mix and our distribution - commissions, etc., that elevated that a little bit. You'll see that drop back down in Q1. All of that just provides the leverage going forward to see that strong EBITDA growth, driven as well by—you know, year-over-year, you'll see improvements in the hardware margins, John. Part of that is volume driven, part of that is some of getting in some of the supplier changes that we're looking towards, and small margin increases on the service side as well too, also driven by really the price increases we've put in place and seeing customers—contracts cycle through those renewals and renew at that higher price point. So, slightly stronger margins, good product mix, good strong top line growth, and continued management of the cost control will just drive that in that second half.

**John Shao:**

Okay, and lastly, Cody, you mentioned 40% product margins that go over 2024?

**Cody Slater:**

We're looking really, John, at about high 30s, very high 30s, just under 40%, yes, towards the—at the end of the year. Again, a few more—just a bit more cost reductions based on the scale, based on some supply aspects, and then really the rest being driven by just the increased scale that that margin improves, and as well, a now-annual cycle of price increases which you'll see come again June this year.

**John Shao:**

Okay, appreciate the colour. I'll pass the line.

**Cody Slater:**

Thanks very much.

**Operator:**

The next question comes from Martin Toner from ATB Capital Markets. Please go ahead.

**Martin Toner:**
Thanks for taking my question, and congrats on a good number. Just wondering about the sequential increase in sales and marketing expense. Can you give us some more colour on the drivers there? Was it in part a function of revenue growth over the past four quarters that are some compensation annual—annually paid, and what's the rationale for increasing that sequentially in terms of what's going to happen—what you think will happen in 2024?

**Cody Slater:**
Sure, Martin. A couple of things. One is Q4 always has a bump for us in the context that there's the larger trade shows - the NFC, the A+A drive a pretty significant variance from Q3 to Q4. One of the other sort of, I would say less predictable elements of what happened in—what we saw in Q4 was a larger percentage of our lease business going through distribution channels. If our distributors are selling a product, they purchased the product at a discount, but if they sell the product to a lease opportunity, then we wind up paying the distributor a commission, so that drove a significantly higher increase in commissions during that quarter, and we see that normalizing. That was really driven by one or two very major deals in the quarter. We see that going down as we go forward, so you should look to see in Q1, a lot of those single time elements that were driving some of those numbers higher dropped back down. There still will be impacts as we go forward from growth from commissions, but as a percentage of revenue, we'll see that number drop down.

**Martin Toner:**
Super. Can you walk us through the impact that a strengthening C-dollar has on your P&L? I presume a substantial portion of COGS and fixed costs are in C-dollar.

**Shane Grennan:**
Martin, this is Shane here. Thanks for the question.

Of the different foreign currencies that we have, Martin, our U.S. dollar, GDP, EUR, Australian dollars, and the U.S. dollar vis-a-vis the Canadian dollar has the biggest impact as we do our realized and unrealized calculations each period. As you know, the Canadian dollar did strengthen against all the currencies, in particular the U.S. dollar, as their proportion of our accounts receivable. We have a lot larger receivables balance denominated in U.S. dollars at the end of the year, for example compared to last year, and we also have our finance leases and the financing equivalent with CWB denominated in U.S. dollars, that we didn't have last year. So, there's a bigger base that the recalculation is getting done over, and that strengthening of the Canadian dollar has a more exaggerated effect now than it would have had in the past on our numbers.

**Martin Toner:**
Super. One of my preconceived notions is that a lot of enterprises, many of whom are your customers, were rationing spending in anticipation of a recession that's not yet come. Are you seeing any impact of customers releasing some of those budgets, and do you think that could be a positive impact in 2024?

**Sean Stinson:**
Sorry Martin, this is Sean Stinson here. You know, we haven't seen much in terms of restricting spend from our customers. It's something that we can keep a really close eye on. We look at deal velocity and things like that to tell us if there's something in the market that's coming up, and typically when that happens, we would see that on both sides of the ocean - we'd see that in the European business and the North American business. But frankly, I haven't seen any of that yet. So, in our customer base, still strong. Our pipeline for Q1 is strong, so no, I haven't seen either the restriction or the release, frankly.

**Martin Toner:**
Okay, thank you very much. I'll pass the line.

**Operator:**
The next question comes from Jason Zandberg with PI Financial. Please go ahead.

**Jason Zandberg:**
Thanks very much. Just a couple questions. First, in the latter part of the year, you introduced several new features for G6, G7 and EXO. Just wondering if you could comment on customer feedback and whether these features are converting to sales, if you can quantify that at all.

**Sean Stinson:**
Yes, Sean here again. Really great feedback so far. These really—these features really did target the—you know, primarily I'd say they targeted the top end of the market for us, and that's where

they were very well received. They're not resulting in closed deals yet - there is a bit of a lag between the time you introduce a feature and you see the results of that, but the initial feedback has been very strong and we see the associated growth in the pipeline due to those features.

**Jason Zandberg:**
Okay, perfect. My second question, gross margins have now improved, I think it's seven consecutive quarters, which is just a fantastic trend that you've built here. Just wondering if you could talk about when you'd expect to see peak margins and how long can you continue this improvement on your gross margin line?

**Cody Slater:**
Yes, it's Cody here, Jason. Just a couple of points around that. If you're looking at the overall gross margin, still one of the biggest drivers for that is the product—is the mix between product and service. It can be a misleading - we can see that number drive up with our hardware numbers a little lower, but the real drivers behind both being the core margin for hardware and service. I see really that we're going to hit peak on those early 2025, but continue to see slow growth through 2024 on the percentage margin from both our hardware and our service, and stabilize out really in 2025.

**Jason Zandberg:**
Okay, great. Thanks very much.

**Operator:**
The next question comes from Doug Taylor with Canaccord Genuity. Please go ahead.

**Doug Taylor:**
Yes, thank you. Good morning. A lot of revenue growth highlights to talk about here. I'd like to focus on the net dollar retention rate, which was again impressive, almost 130% in the quarter. Pricing increases obviously is a big factor there. I believe, Shane, in your prepared remarks, you mentioned a number of other factors, including increased feature uptake and expanded devices within existing customers. My question is, can you expand a little bit on what the relative contributions are from some of these factors, with the goal of better visualizing the durability of this net dollar retention performance after the effect of the pricing increases you put through subsides here?

**Sean Stinson:**
Yes, thanks Doug, this is Sean again. I think the durability is strong. I forecast higher net dollar retention for the next year. I think we still have a lot of room to grow there.

The pricing increases, because we have a lot of contracts that are multi-year, the pricing increases actually take a few years to roll through the entire thing, so there are still more gains to be made based on the pricing increases. Feature uptake is—I'd probably say if you had to rank these in order, I'd say expansion of devices into existing large clients is number one, pricing increases is number two, and feature uptake is the third largest contributor. From an expansion standpoint, we have a lot of great logos, a lot of great businesses we do business with, and in many of those, we don't have full penetration yet. A big part of this, and a big part of the reason we're going to be able to grow the NDR over the next year is just continued penetration of those large clients.

**Doug Taylor:**
That's fantastic colour. Just to put a finer point on that, are you saying you're expecting the NDRs to continue in the same range as they are, or to actually even potentially increase further from the levels we've seen in the last couple quarters?

**Sean Stinson:**
You know, I think we'd say very modest growth. The rate of increase will decline. I think we've made significant advances in how we run this part of the business over the past year, so I'll say—I want to temper expectations a little bit, I'd say modest growth on that.

**Doug Taylor:**
Thanks for that.

I'll ask another question on the G6 ramp, which we've been anticipating, you've spoken about the pipeline building, pent-up demand in previous quarters particularly with the features that you've added. Could you maybe just discuss the contributions you've seen to date and whether some of the previous targets in terms of the number of devices you expect to have live and active in the market are still relevant from where you sit today?

**Sean Stinson:**
Yes, contribution to date has been very modest. I'd say, frankly, we're behind where we thought we would be on this, but the product is very strong and we are seeing that uptake. We had our first couple of large wins with the G6 this last quarter, so that really again cements the value proposition here and it's all just about delivering on that value proposition as we go forward.

We'll see higher contribution throughout the year, but the primary products for us will still continue to be the G7 and the EXO in terms of revenue mix.

**Doug Taylor:**
Okay. One last question from me. The securitization facility, you've been pretty static with the amount that's been taken up of that, or used of that facility. I believe at the outset, you expected to use that closer to $20 million, I think it's at $10 million right now. Is there anything we should take away from that?  Is anything deliberate there in terms of your use of that facility or the uptake of lease space purchasing versus outright purchases?

**Shane Grennan:**
Hi Doug, it's Shane here. Yes, you are correct - this is a key part of our cash management strategy at Blackline and will continue through next year to be that. In terms of the uptake in the periods, it does vary period to period. I would say the only thing I would add there is our lease customers, whether they come on as new lease customers or whether they're renewing, there's different paperwork, different—these are contractual obligations that they go through and that we have to satisfy with our securitization partners at CWB Maximum, so that is one of the criteria that we navigate as we go through the funding requirements.

Our strategy is to optimize that to the fullest that we can each period, but there is fluctuations period-on-period based on some of the contractual paperwork that is involved between our customers, ourselves and our banking partners.

**Doug Taylor:**
Thank you Shane and everyone else. I'll pass the line.

**Shane Grennan:**
Thanks.

**Operator:**

The next question comes from David Kwan with TD Securities. Please go ahead.

**David Kwan:**

Hey, morning guys. I just want to clarify a couple of the questions asked earlier on the call. I guess first off, you guys alluded to a few larger deals that you were expecting in Q4, that got pushed out. I assume they're still in the pipeline and they haven't been lost - first question, and then secondly, just as it relates to customer buying behavior, it sounds like there hasn't been any changes there, there's still some strong demand. Have you seen, though, any changes in particular as it relates to your energy customers, just given the softening pricing environment?

**Sean Stinson:**

Thanks for the question, David. We haven't seen any softening. Again, we keep an eye open for that because there may be ways we need to react when we start to see that come, so we do keep a close eye on that. We haven't seen any of that softening yet.

Frankly, I've been kind of expecting this for six quarters. I think I've been really vigilant about watching for signs of recession for a while, but we're still not seeing that in our customer base. Not entirely sure what Q2 and Q3 hold as the price of oil might go up or down.

Then to your question about the deal that moved from the pipeline in Q4, they primarily moved into quarters one and two, so we'll see some of that land in Q1 here and then some of those did move into Q2, and that's not—I wouldn't say that that's an economic softening. That was things that have come up late in the sales process with specific large clients that are just taking a little bit longer to close, but still strong demand.

**Cody Slater:**

I think I'd add just one thing. A couple of those orders that got pushed out, they actually are being—part of the time delay is that the orders are looking to be larger than we were anticipating them to be initially. When something gets larger, it gets more complicated. You'll see some of that, I think, in some of our international world as we go forward here, but nothing that indicates anything but a strong—to Sean's point, a really strong working pipeline for the year here.

**David Kwan:**

Great. One other clarification, just—you commented as it related to the elevated—or increased sales and marketing expenses, commissions being paid to distributors for, it sounded like a couple of large leasing deals. Can you quantify that?

**Cody Slater:**

Yes, there was a—I mean, if you look at it quarter-on-quarter, the increase in distributor commissions was close to $400,000 from Q3 to Q4.

**David Kwan:**

Great - yes, that's good, Cody. I appreciate the colour.

Last question, interesting you talked about the Rule of 40 target exiting this year, which I think would be pretty impressive, particularly given your hardware mix. Can you maybe talk about how you see that balance between organic growth versus margins? Are you—do you think you can maintain your north of 30% organic growth this year?

**Cody Slater:**

Yes, that's really—we really wanted to focus on that Rule of 40 internally here. You're right - it's a big goal from a software standpoint; if you're looking at hardware-enabled SAAS, maybe even more so, but we've highlighted the growth we've already done towards that. But, it is that point and that balanced growth—it's the point that we're looking at both that increased revenue growth going forward in that 30% range, and moving into the high positive—you know, the strong positive EBITDA numbers, and that gives us the opportunity to balance that focus between our costs and our growth, getting towards what is a pretty significant target for the Company.

**David Kwan:**

So, I assume that you're forecasting north of 30%—to get to that target, you're forecasting north of 30% organic growth and EBITDA margins somewhere in the single digits?

**Cody Slater:**

Yes. You know, the nice thing about the Rule of 40 is that you can look at a range there. Revenue growth can be from 30% to 35% and EBITDA from 5% to 10%, kind of thing, so, when you're in that Rule of 40 base, and that's sort of one of the reasons we want to focus on that, not just so much as single point numbers but, really, I think it's a better metric for looking at the performance of the Company.

**David Kwan:**
Yes, I'm just trying to get a sense of exiting the year. I know Q4 is seasonally stronger, but did you think you could get to double digit EBITDA margins exiting the quarter, understanding that Q1 of, I guess, 2025 might come in below that, just because of seasonality?

**Cody Slater:**
Yes, I mean, again, when we're talking about the Rule of 40, we're really talking about exiting with that, so we're talking about Q4. Again, I'd say those Q4 EBITDA numbers we're talking about will be between that mid single to low double, and the growth will be from the high 20s to the high 30s, kind of thing.

**David Kwan:**
Okay, great. That's it for me.

**Cody Slater:**
Thanks.

**Operator:**
The next question comes from Frederic Bastien with Raymond James. Please go ahead.

**Frederic Bastien:**
Good morning, and congrats for steering Blackline on the right path to profitability last year.

Lots of info to digest from this call already, but Cody, as you look forward to the next 12 months, what would you say are the three priorities that would rank highest on your list, be they financial, operational or strategic?

**Cody Slater:**
Yes, interesting question. I think to me, it starts with that context of balanced growth. We use that term internally maybe a little differently than other people, because balanced growth for us still means pretty high—you know, we're still talking high targets for growth but balancing that against

really strong cost controls going forward, a little bit more investment as we get towards the end of 2024 into driving that 2025. Inside the Company, that comes across all the aspects of what we're doing.

If you go back a few years, our biggest—one of our biggest goals was always exposure and getting people to understand what the business was. When we launched the G7 product, we were doing $11.7 million a year in revenue, nobody knew who we were, nobody knew what the G7 was, nobody knew what connected safety was. Today at $100 million, we're one of the biggest players in the industry, so that shifts that focus and it really becomes much more business operational metrics that we're really looking at here - again, that balanced top line growth, balanced cost base.

We have some very significant new product introductions that are happening towards the end of the year. From a competitive standpoint, we don't want to get into real details there, but there is some interesting new drivers that are really—you know, this year there is a focus not only on where are we going to wind up in 2024, but what's the trajectory into 2025.

**Frederic Bastien:**
Great, that's super helpful. I'll leave it at that. Thank you.

**Operator:**
The next question comes from Raj Sharma with B. Riley. Please go ahead.

**Raj Sharma:**
Yes, thank you for taking the questions, and congratulations on your solid progress. I have a question on—I just wanted to clarify in terms of the top line growth. You expect top line growth from the year in product and services both, and if I understand correctly, your margins would likely keep rising on the product side, and there is some room in services as well to peak in '25. Did I hear it correctly, that you think EBITDA profitability would be in second half only, and about 5% to 10% for the overall, or EBITDA margins are in Q4, the second half? I want to understand—yes, go ahead?

**Cody Slater:**
It's Cody here. A couple things, some background there. Yes, we do expect margin expansion to continue - you know, there will be some variability in that, depending on product mix, etc. on the

hardware side, but again peaking at that high end of the 30s or getting—you know, in 2024, and then a little bit more movement up into 2025. Service will see a little bit more increase through the year - again, there's some potential for variability in that, but really as those price increases roll through, to Sean's point, on those multi-year contracts, that alone will help drive some of those numbers.

When we're talking the EBITDA positive numbers in that 5% to 10% range, that is Q4, not the year, so we're looking at a positive year overall. But really, the real impacts you're going to see is as the Company scales towards its traditionally stronger second half there.

**Raj Sharma:**
Right, thank you for that. In terms of the infrastructure build and related OpEx, do you expect more increases, or is there more of a sales infrastructure to be built out in different parts, or are you pretty much done there?

**Cody Slater:**
Really, I mean, the growth you're going to see, there is some movement inside in different aspects, but there will be inflationary growth across the board, and then from a sales and marketing standpoint, the drivers you're going to see are increased revenue drives an increased commission line, and there will be a point where we're starting to invest. We'll go more into that as far as adding people down the line, but nothing significant—nothing that's dramatic in any context.

**Raj Sharma:**
Got it, and then geographically, I know Canada and the U.S. did really well, Europe was kind of flat. Do you expect growth in that area, and also any specific industries that are kind of not experiencing this continued growth, or are slowing down? I hear there's not much of a slowdown, but any specific areas you see that are less growth-y?

**Sean Stinson:**
No, not right now. I'd say—you know, we see growth in a lot of the different markets that we serve. One thing that we are focused on is when we have success in a vertical market in one region, we're getting better at taking that success and rolling it into that same vertical that's in a different region. There will be changes in buying patterns, like for example the—you know, we've been successful in the water business in Europe for a long time, but in North America, the business

looks completely different in the water and wastewater processing, so we try to take the learnings into North America, but fundamentally it's a very different business here. We are seeing some new successes in natural gas transmission around the world, so I think that will become another really strong market for us. That's been strong in North America for a while, and we'll see that growth in the rest of the world.

To the question about regional growth, the United States had 89% growth - that's phenomenal growth over this past year. Europe was a bit softer, but we also—you know, the sales team in Europe was a bit smaller this past year than it was before, so you'll see some rebuilding of the sales team in Europe, and then that should drive strong growth again over fiscal '24.

**Raj Sharma:**
Got it, and then my last question is on the G6. Can you talk about the contribution to the overall sales mix—you know, can you quantify that?  Is that less than 5%, less than 2%, and then how are the margins handing out, and do you—and also about the outlook for G6, could you quantify that possibly for the year?

**Cody Slater:**
Sure. Raj, we don't give exact product breakdowns - as we said earlier, the G6, we got off to—it took a lot longer to get this started rolling than what we thought, the launch of that Protect Plus and the Protect versions of the 6's started to get the revenues onto track, and as Sean mentioned, starting to see some of the real kinds of orders we'd want to see in that, the north of 1,000-unit orders, this last year, phenomenal impact. In 2024, it will become one of the stable products for the Company. Again, it's price point, a quarter of what G7 is, it's a 15th what an EXO is, so as a dollar contributor it's always going to be light, but the really nice thing about the 6's is it rounds out that customer base, so that we're able to serve every aspect of that customer's gas detection needs. Again, that's where the 6 is going to be truly successful in 2024.

**Raj Sharma:**
Thank you for answering my questions, and I'll take it offline. Thanks.

**Operator:**
The next question comes from Martin Toner with ATB Capital Markets. Please go ahead.

**Martin Toner:**

My questions have all been answered. Thank you very much.

**Cody Slater:**

Thanks Martin.

**Operator:**

This concludes the question-and-answer session. I would like to turn the conference back over to Cody Slater for any closing remarks. Please go ahead.

**Cody Slater:**

Thank you Operator, and again I would just like to thank everybody for their attention today and their support through the year. This has been a pretty fundamental year for the Company, which has driven us into a position that looks—makes us look very, very forward to 2024 and having an even more exciting call a year from now.

Thank you very much, everyone.

**Operator:**

This concludes today's conference call. You may disconnect your lines. Thank you for participating and have a pleasant day.