Blackline Safety Corp.
First Quarter 2024 Results
Conference Call Transcript

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Speakers:

Elisa Khuong
Vice President, Accounting and Finance, Corporate Controller

Cody Slater
Chief Executive Officer and Chairman of the Board

Shane Grennan
Chief Financial Officer

Sean Stinson
President and Chief Growth Officer

Operator:

Welcome to the Blackline Safety's Fiscal First Quarter Results Conference Call.

The conference is being recorded.

I would now like to turn the conference over to Elisa Khuong, Vice President, Accounting and Finance, Corporate Controller. Please go ahead.

Elisa Khuong:

Welcome, and thank you for joining us.

Today, we will be discussing our fiscal results for the first quarter ended January 31, 2024, 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 first 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 be 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 Statement disclosure in the earnings news release, as well as in 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 in 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 now hand the call over to Mr. Slater.

Cody Slater:
Thank you, Elisa. Good morning, everyone, and welcome to Blackline Safety's First Quarter 2024 Conference Call.

After a strong end to our fiscal 2023 year, that saw us achieve the milestone of $100 million of total revenue and a Q4 Adjusted EBITDA improvement of 76% from the prior year quarter, we continued our momentum into Q1 of fiscal 2024.

I'm pleased to share today Blackline's first fiscal quarter results. It was our 28th consecutive quarter of year-over-year revenue growth, with total revenue of $26.3 million, a 25% increase over the same quarter last year, and gross profit of $14.6 million, up 40% from the prior year. Whilst Q1 is traditionally our slowest quarter of the year, with hardware sales in the seasonal period being below those of Q4, we still saw the Company achieve its second highest quarterly revenue ever, at $26.3 million. Lower hardware sales do not, however, mean lower service revenue. Q1 saw our service revenue continue to grow, with our annual recurring revenue surpassing $54.2 million, up 37% year-over-year. This increase was driven by new hardware sales, as well as our record net dollar retention of 130%. This strong NDR demonstrates the powerful value customers see in our connected safety solutions.

We continue to achieve greater scale with our service revenue, which grew 28%, overall, to $14.9 million for the quarter. Excluding our rental segment, which was flat year-on-year in the period, the service line grew 31% over the prior year as more customers adopt value-added service plans and devices sold in Q4 begin to come online. Our service margin hit 76%, generating $11.3 million of gross profit, versus $8.4 million in the prior year. Our hardware segment generated $3.3 million gross profit, up 69% year-over-year, driving our product margin up to 29%, from 21% in the prior year quarter. This boost stems from increased volume, operational efficiency with our manufacturing and our pricing strategy. With strong contributions from both hardware and services, we were able to maintain our gross margin of 55%, from the particularly strong fourth quarter of fiscal 2023.

We're particularly pleased we ended the quarter with total cash and short-term investments on hand of $15.9 million, the same as that on hand at our October 31, 2023, year-end. We saw a significant improvement in our cash flows from operating activities. We used only $0.4 million of cash, compared to $7.6 million in the prior year's quarter, a 94% improvement in cash used from the period only one year ago.

With our improving margins, growing ARR and a major decrease in the cash burn, we exited the quarter in an extremely strong financial position. With $26.2 million total liquidity and cash, short-term investments, and availability on our operating facility, plus $52.9 million available on our lease securitization facility, we are well on the path to a sustainable free cash flow generating business.

The disciplined focus we have demonstrated over the last 18 months has transformed Blackline into a profitable growth business and will show its real results later in the year. Having said that, Q1 has set the stage for the rest of fiscal 2024. With hardware sales set to ramp through the year, services continuing their strong trajectory, including a return to growth in our rental segment and continued cost discipline, the Company is well positioned to cross into positive Adjusted EBITDA in 2024. With cash used in operating activities dropping to just $400,000 and total liquidity of over $26 million, it is clear that the Company has the resources it needs to reach this goal and continue to grow beyond. We have transformed into an engine that delivers consistent top line growth and disciplined cost management to fuel profitability over the long term.

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

Shane Grennan:
Thank you, Cody, and good morning, all.

As Cody mentioned, we achieved our 28th consecutive quarter of year-over-year revenue growth of 25%, generating total revenue of $26.3 million. This includes $11.4 million of product revenue, which increased 21% year-over-year. The increase in the current year reflects the efforts and past investments in Blackline's Global Sales Team and channel distribution network, as well as continued targeted demand generation on sales development activities.

Product gross profit of $3.3 million improved 69% in the first quarter as a result of the growth in product revenue, which increased our gross margin percentage to 29%, from 21% in the prior year period. Consistent with the prior fiscal year, we expect additional improvements in our product margin through fiscal 2024, in line with the Company's traditionally stronger second half of the fiscal year, with the Company benefiting from increased volume of product sales, enhanced pricing strategy and manufacturing line efficiency, which will continue to push our product margin higher and unlock even greater profitability.

Service revenue during the quarter increased 28% to $14.9 million, our seventh consecutive quarter with greater than 25% growth in this segment. Software services revenues were a major contributor to this growth, up 31% year-over-year, which also drove ARR growth of 37% to $54.2 million. Newly activated devices contributed year-over-year growth of $0.8 million in the quarter and net service increases within our existing customer base contributed $2.8 million. This resulted in net dollar retention of 130%, 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 Safety Operation Centre, personnel monitoring, two-way voice, and push-to-talk, all contributed to this impressive number.

Our rental business remained consistent with the prior year comparable quarter, generating revenues of $1 million. With some of its planned rental projects delayed, we expect to return to strong year-on-year growth in remaining fiscal 2024 quarters, 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 of 76% generated over $11.3 million of gross profit for the quarter, representing a 34% year-over-year increase. We believe this margin percentage will strengthen throughout fiscal 2024, as we continue our penetration of value-added data and communications services for our customers. Our total gross margin percentage came in at 55%, yielding $14.6 million of gross profit, our fifth consecutive quarter of 40% year-over-year growth. 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. Our European market represented our largest growth region, improving 39% from last year's Q1, as our Sales Team took advantage of a strengthening industrial safety sector. Our U.S. market also saw strong growth at 29%, compared to the prior year quarter, securing a $2.7 million contract with a major upstream energy company to protect over 800 workers. Additionally, our Canadian and rest of world markets were able to see year-over-year increases, as we continue to have excellent product wins and customer loyalty across these regions.

Shifting now to operating expenses, our total expenses for the quarter were $19.9 million, which was up $1.8 million, or 10%, compared to our expenses of $18.2 million in the prior year's comparable quarter. Despite a year-over-year increase, the Company's total expenses were flat with our Q4 2023.

General and administrative expenses increased 14% from the prior year quarter to $6.2 million, which represented 24% of revenue, compared to 26% in the prior year. The increase was due to higher salaries, subscriptions, and licenses, and building operation costs incurred in the current year, compared to the prior year quarter.

Sales and marketing expenses increased 17% from the prior year quarter to $9.2 million. A major contributor to the increase was distributor commissions, as some of our larger lease sales are realized through our distribution channel. However, it should be noted that sales and marketing expenses decreased by 19% from the immediately preceding fourth quarter of fiscal 2023. Excluding commissions, sales and marketing costs were down 8% from Q4, because of reduced trade shows and a reclassification of our Data Science Team.

Product research and developments costs decreased 15% from the prior year quarter to $4.7 million and decreased as a percentage of total revenue to 18% from 27% in the prior year period. Overall, salaries and benefits were lower, as the Company continued to review its team composition and made changes, as necessary, throughout the past 12 months. Part of the increase from Q4 was a reclassification of our Data Science Team, from Sales to Development, as the shift focused from sales support to productizing our advanced data solutions. Our Development Teams remain focused on the next generation 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.

Capital expenditures in the quarter totaled $1.4 million and were focused primarily on property and equipment additions of rental equipment, revenue-generating cartridges and manufacturing equipment.

Inventory totaled $16.9 million at quarter end, compared to $17.1 million at the end of the prior year, with inventory turns being a continued area of focus as our sales continue to grow.

Our lease program had a total of $41.8 million in future contracted cash flows at January 31, 2024, up from $39.6 million at October 31, 2023. 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 securitization facility continues to be an important part of our cash management strategy and we will leverage this throughout fiscal 2024, as we look to expand the number of leases qualifying to be utilized through this facility. At the end of the quarter, we had over $52.9 million Canadian dollar equivalent of availability on this facility.

At quarter end, we had total cash and short-term investments on hand of $15.9 million, with over $10.3 million of borrowing base availability on our two-year senior secured operating facility with ATB Financial. This facility, based on the Company's monthly recurring revenue, was renewed and expanded in October 2023 to a capacity of $25 million, of which the Company had access to $21.2 million at the end of Q1. As our monthly recurring revenues continue to grow, we should have access to the full $25 million by the end of the year.

We saw significant improvements in our cash flows from operating activities, where we used $0.4 million of cash, compared to $7.6 million in the prior year's quarter, an improvement of 94%. This improvement included positive changes in the balance of trade accounts receivables held and an expansion of our deferred revenues. 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 a positive cash flow following the Company's seasonally stronger latter half of the year 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.

With the seasonality of our hardware business, Q1 is always the most challenging quarter of the year. I'm proud to say that in 2024, Blackline met this challenge, demonstrating strong revenue growth and gross profit, all while maintaining cost discipline, driving a dramatic improvement in all of our metrics. In fact, one of the strongest metrics for the Company was cash used in operations, which improved 94%, dropping from $7.6 million in Q1 2023 to only $400,000 in Q1 2024. With total liquidity of $26 million, this means that our balance sheet is the strongest it's been in the Company's history.

Our hardware-enabled SaaS business model continued to drive Blackline's year-over-year growth in Q1, as we saw our annual recurring revenue reach $54.2 million, up 37%, compared to the prior year quarter, and an 83% growth over the last eight quarters. The strength and scalability of our business model is evident in our Q1 revenue at the end of what is traditionally our softest quarter, at $26.3 million, representing our Company's second highest ever quarterly revenue figure. These results further cement Blackline as one of the most significant players in the connected gas detection and lone worker industries, and, by far, the fastest growing.

As we look to the remainder of fiscal 2024, we remain committed to a balanced approach of top and bottom-line growth. Fiscal 2024 will see the Company achieve growth through all of its geographies and verticals, based on the foundation we have laid to date. We will continue to see our growth driven by both hardware and service segments through Q2 and into the stronger quarters of the latter half of the year. This growth, along with our focus on costs and scalability, puts us on track to exit fiscal 2024 with positive Adjusted EBITDA and as a Rule-of-40 company.

Looking beyond this, the impact of our research and development efforts will see us launch new products that will extend our product offering, widening our competitive moat, as we drive towards dominating the connected industrial safety market.

It is truly an exciting time for Blackline, and I want to thank all of our customers around the globe for their loyalty to the Company and thank the entire Blackline Team for their dedication to our purpose and for their ongoing efforts in delivering strong results. Our continued success will play a significant role in the transformation of the industrial workplace into a connected safer future, where every worker has the confidence to get the job done and return home safe.

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

Operator:
Thank you. We will now begin the analyst question-and-answer session. 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. We will pause for a moment as callers join the queue.

Our first question comes from John Shao of National Bank. Please go ahead.

John Shao:
Good morning, and thanks for taking my question. I just wanted to ask about the European business. It's great to see this 39% year-over-year growth there. When I look back, Europe was a major growth driver about two years ago and then it kind of took a pause there. Just based on this quarter's result, is it fair to say that things are getting normalized in that region, and we can kind of expect a steady and more consistent growth in Europe?

Sean Stinson:
Hi, John. This is Sean Stinson here. Yes, that's definitely fair to say, Europe did experience some slow growth for a while. I am seeing a lot more strength in the pipeline, and the execution of the team, I think we've seen improvement there, so I do expect them to be a significant driver throughout the rest of the year.

John Shao:
Okay thanks for the color. I know it's still a bit early, but, Cody, you mentioned new products in the lineup in past calls, so how should we think about the production capacity associated with those new products? Is it coming from the expansion of your facility or is it coming from the changing product mix to be manufactured?

Cody Slater:

Yes, John, really, to your point there, the capacity is something we expanded over the last year, about 50%, with new—you know, taking up more of our facility for our manufacturing lines, more efficiencies in how we're building the products, and each product line, as we mature in it, we get better efficiencies, better outputs from the teams there, so we're well positioned for both the growth of our current products and for the new products we're going to see launched.

John Shao:

Okay, and, lastly, could you give us an update in terms of the G6, about the shipment this quarter and outlook of this product demand in the remainder of the year?

Cody Slater:

Sure, John. We don't give exact detailed numbers on an individual product base, but we've started to see now some of the more significant orders that we wanted to see with the G6 coming in. We're starting to see, since we launched, the Protect and Protect Plus modes on the product, the acceptance in the market has been much stronger, and we see a good, strong pipeline to get to the kinds of numbers we were looking for with the G6 as we go forward.

John Shao:

Thanks for the color. I'll pass the line.

Cody Slater:

Thanks, John.

Operator:

Our next question comes from Doug Taylor of Canaccord Genuity. Please go ahead.

Doug Taylor:

Yes, thanks. Good morning. If I wind back the clock, last quarter, you alluded to some larger deals had slipped out of Q4 and were expected to end up closing in Q1 or Q2, and perhaps at a higher scope. Can you update us on where that phenomenon stands, and should we think of the $2.7 million order you announced last month as being connected to that?

Cody Slater:

Yes, definitely, that order was one of the ones that we were looking towards, that's the total value of the order, and that was a very strong order with a U.S. oil and gas company. As we discussed before, some of these orders we felt would slip to Q1, some to Q2, and you'll see a couple of more announcements over the next while into Q2. But the real strength comes from not those big, lumpy orders, let's say, but the overall growth across the different regions, Doug. But, yes, one of those was one of the ones we announced, and you'll see some other interesting ones coming up down the pipe here.

Doug Taylor:

I completely agree with that statement, but I'm going to press on with some of the larger, chunkier orders here. You'd spoken at a couple of points about some substantial opportunities, in the Middle East region, some of the NOCs. Perhaps, that's related to the first question, but maybe you can refresh us on the status of some of these opportunities and the potential for them to contribute meaningfully to revenue in the current fiscal year.

Sean Stinson:

Yes, I'll continue on with that one, Doug. It's Sean here. We're seeing strength in the—like, a lot of strength in the pipeline in the Middle East right now. That is moving a little bit slower than maybe what we had anticipated nine months ago, but there is very good strength there, so you will see some of that probably more towards Q4 of this year, and then definitely into early 2025. But, like Cody said, we do have a nice international one that we'll be announcing here soon.

Doug Taylor:

I'll look forward to that. I'll pass the line. Thank you.

Cody Slater:

Thanks, Doug.

Operator:

Our next question comes from David Kwan of TD Securities. Please go ahead.

David Kwan:

Hi, guys. I think, Shane, you had mentioned that there were some delays in rental projects this quarter. If that's the case, could you quantify how much that was, and maybe how we should be looking at the rental revenue line for this year?

Shane Grennan:

Good morning, David. I'm just going to pass that question, from the sales perspective, over to Sean.

Sean Stinson:

Yes. So, our rentals came in—it came in about $400,000 less than we had expected this quarter. Rentals is definitely a seasonal thing for us. The projects in rentals are dependent on the weather in a lot of cases. So, what we see is a strong Q2, moderate Q3, strong Q4, as turnaround projects are executed and just different projects globally. We had a lot of cold weather in Q1 here in Canada, that was part of that.

Cody Slater:

David, is there a follow-up there? We're not …

David Kwan:

Oh, maybe there's some audio issues. Sean kind of tailed off, I lost audio, I guess, so I didn't hear the end of the comment.

Cody Slater:

David, really, the quarter, the cold weather we had in Q1 here in Alberta delayed a number of projects, and one of the things that the rental side is, once you've built that pipeline, it's committed, your equipment to those particular projects. If the project gets delayed, it's hard to refill that pipeline in that short of a notice. So, we did see a drop of, as Sean said, $400,000, $500,000 from what we expected, from what we had booked within Q1, that slipped, and we'll see a pickup in that element in Q2 here.

David Kwan:

Right. No, thanks for that color. On the gross margin side, service gross margin was down a bit from Q4, and I know there was a pretty solid jump in Q4 from Q3. I can't remember, was there anything in particular that led to the jump in Q4, or maybe was there anything that negatively impacted Q1? I'm just trying to get a better sense of how to model out that line for at least the balance of this year.

Shane Grennan:

Hi, David. It's Shane here. To answer your question, there aren't any major or particular items in relation to that. From Q3 to Q4, as you say, there was a 2%, as opposed to a 1%, movement. It's back in the 76% range for Q1. But there's no particular items there to highlight in terms of that.

David Kwan:

Okay, and on the product gross margin side, are you still expecting to—I think you previously talked about getting into the high-30s exiting this year. Is that still kind of the target for you guys?

Shane Grennan:

Yes, that's still the target. The movement you saw down in Q1 is really just volume-related from Q4, and so, as you see those volumes pick back up through the latter half of the year, and some of the other efficiencies we've brought into place, our goal is still to see those margins in the high 30% range.

David Kwan:

Okay, great. Thanks, guys.

Cody Slater:

Thanks, David.

Operator:

The next question is from Jason Zandberg with PI Financial. Please go ahead.

Jason Zandberg:

Hi, guys, and congrats on a great quarter. I just wanted to ask a question, just in terms of—you know, your net dollar retention has been absolutely fantastic, 130% this quarter. I'm just wondering, in terms of new customers, now that you've achieved $100 million in annual sales here a couple quarters in a row—I know, in years past, you may have been the small, innovative player that maybe a new customer maybe wanting to dip their toes in, but not dive right in given your size. Now that you've achieved this $100 million run rate, has this changed the conversations with new customers at all, have you seen that happening, or what color can you give on that?

Sean Stinson:

Again, Sean here. I would say, yes. I'd say that this also has changed throughout the years, as we established more of a brand presence, and we do see a shift in the industry, there's a lot more people that are talking about connected safety. It seems to be—I would say the due diligence bar, definitely, a shift is well underway in the market. So, this is much more of an accepted technology versus a conceptual thing that leading companies are trying out. We're seeing this move more into the mainstream. Five years ago, it was really early adopters, visionary companies doing business with us, and now we're seeing more of the mainstream pick it up. I think things like the $100 million help. I don't know if that is on everyone's radar, but, definitely, just the presence we have has a big impact on what we're seeing in the sales realm.

Jason Zandberg:

Okay, no, that's great, and then in terms of—Blackline's had fantastic success in the North American oil and gas sector, you've made some inroads into the Middle East, and you've talked about potentially some bigger contracts may be announced later this year and early into fiscal '25, but just an over sort of a big picture comment, are these two geographic—similar markets, but different geographics—are they similar enough that you would expect to be able to have similar growth long term in the Middle East, you know, they have the same sort of success, duplicate that success in the Middle East that you had in North America?

Sean Stinson:

Yes, very close to it. The North American market is definitely still larger than the Middle East market, but I think we'll see very similar growth rates out of the Middle East that we would have seen in the U.S. over the past couple of years. It'll be a tremendous growth area for us, not just in oil and gas, but utilities, and globally, I think what you're going to see from the Company in the next two years is really strong growth in utilities globally, but in the Middle East, particularly, that is largely focused on energy plays.

Jason Zandberg:

Okay, great. Thanks very much.

Operator:

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

Martin Toner:

Thanks for taking my question, two for me. Can you walk us through working capital changes and if there's anything noteworthy there. Question number two. The cost impact of more revenue going through distributors repeated in the second quarter. Is that going to be a persistent thing or transient?

Shane Grennan:

Martin, Shane here. I'll just touch on the first question. From the working capital side of things, a couple of items I'd highlight there is our trade receivables, and we've talked about this before. From our year end, we improved from a trade receivables side, a $2.2 million improvement there; from a deferred revenue side of things, on a net basis, we were $2.3 million improved from our year end. So, those are the two key items there. Our inventories were marginally down from our year end. Our payables, similar numbers. Those were the key improvements that we made from a working capital point of view.

Cody Slater:

Cody here. Just on the lease side, two things vary on the lease: one is the percentage of customers that actually choose the lease as their purchase option, and we've had as low as 7% in a quarter and as high as 37% over the last couple of years, and then you also have to model within that what number of leases get sold through the distribution channel. I think you will see that—that was an impact in the last two quarters, where we saw the large order that was announced last quarter went through a distribution channel. More of our leases tend to go through our direct sales channel. You might see the odd number like that one quarter and not the next, but I wouldn't see it being—I wouldn't see a number that is going to scale there to a great degree, Martin.

Martin Toner:

That's great, thank you very much.

Cody Slater:

Thanks.

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

Raj Sharma:
Hi, and thank you for taking my questions. Again, really good improvements in gross margins, revenue mix, and I wanted to understand if, going forward, is it fair to assume that further operating leverage comes from Opex staying relatively constant going forward? I know there's going to be margin improvement, as well, on the product side, but do we expect the Opex to stay consistent?

Cody Slater:
You're definitely going to see improvement both in—and, again, the volumes will help drive those margin numbers to even better as we go forward, Raj. If you look at the Opex, you're definitely going to see that the growth in the Opex is going to be significantly less than the growth on the revenue side. We'll see some growth, it won't be flat, but there's going to be inflationary growth, there's a few areas we might invest in, but you're going to see, again, that revenue growth far outstripping Opex growth.

Raj Sharma:
Great. Then, just any sort of impact in particular geographies or industry that could be attributed to a slowdown in the economy anywhere, or sales cycles stretching out, are you seeing any signs of that?

Sean Stinson:
No, I don't see that, Raj. I really started looking for that a few years ago, obviously, as people were wondering if we were going to have a soft landing, so that's definitely something that we pay very close attention to. When we've seen that in the past—again, I've been here for 11 years, so I've seen a few of these cycles—when we've seen that in the past, we typically tend to see that across all regions simultaneously, and I don't see any evidence of that happening at all.

Q1, maybe this isn't exactly what you asked, but Q1 can be a challenging quarter for us because of U.S. Thanksgiving, Christmas, New Year's, so what you see in Q1 is always this reduction, and we did feel like there was an extra week kind of in Christmas that felt across the board, but by mid-

January, the Sales Team was saying not everybody's back at work yet. Yes, Q1 is a bit softer this year than what we've seen in the past, but I don't attribute to that any financial macroeconomic issues, it just felt like a bit of a longer Christmas season this year.

Raj Sharma:
Got it, and then could you—just lastly, could you comment on this growth in the industrial safety sector? In Europe, where are you seeing this, particularly, which sort of industries or sectors, and do you expect that to continue for the rest of the year?

Sean Stinson:
Yes, growth in Europe is really across the board. Like I said, I think the team there is doing a really great job. Over the past year, there's been real improvements in how the team's executing over there. The market is very strong in Europe for us. This is really the team capitalizing on the opportunities and, like I said, I think we're going to see continued growth from that team throughout the rest of the year in all sectors, particularly the utilities market.

Raj Sharma:
Great, thank you. I'll take it offline. Thank you again, and congratulations.

Cody Slater:
Thanks, Raj.

Operator:
The next question is from Sean Jack with Raymond James. Please go ahead.

Sean Jack:
Hey, good morning, guys. Just looking at sales and marketing costs, it sounds like, net of commissions, things are actually working more efficiently from a sales perspective on that. I know this has a lot to do with the increase in service revenue, but I just wanted to ask about how net new customer acquisition costs are trending, and do you expect that to kind of keep lowering down throughout the year?

Sean Stinson:

Yes, the efficiency of the teams globally is increasing. I think that's due to people being in the Company longer, that's brand awareness, that's—there's a lot of factors that contribute to that, and we'll continue to see that as we move forward. In all areas, the teams are just getting more effective at doing what they're doing.

Sean Jack:
Great, okay, perfect. Switching gears, I just want to drill into the contract win from <*redacted*>. You guys spoke about how you guys replaced an incumbent there. Can you guys just detail a little bit about how you guys were successful, how you guys' kind of pushed off that past incumbent, and kind of what brought you guys over the line on that?

Sean Stinson:
It's just probably a combination of the persistence that our team has, as well as just really the superiority of the solution in the market. This competitor had a high degree of loyalty from its customers and this was a—I think we consider this to be a bit of a stronghold, but it's a big customer in the market, so we were—we stayed close to them and we wanted to really understand their needs and watch that over time, so the Sales Team stayed very close to that opportunity, really didn't give on it up, and, ultimately, this is just a shift in the mentality in the market. They moved from a non-connected solution into a connected solution, and that's what we're seeing across the board in the market, and as customers look to make that change into connected, we're really the only significant player in that, so, when it comes down to trialing the product, Blackline versus competitors, we have an extremely high win rate in those scenarios, upwards of 90% easily.

Sean Jack:
Okay, perfect. Thanks, guys.

Operator:
This concludes the question-and-answer session. I'd like to turn the conference back over to Cody Slater for any closing remarks.

Cody Slater:
Thank you, Operator. We'd just like to thank everybody for their attention today and wish you a good day, and we'll look forward to talking to you again in another quarter with even better news.

Operator:

This brings to an end today’s conference call; you may disconnect your lines. Thank you for participating and have a pleasant day.