blacklinesafety

Blackline Safety Corp.
Fourth Quarter 2024 Results
Conference Call Transcript

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Speakers:

Cody Slater
Chief Executive Officer, Chairman

Robin Kooyman
Chief Financial Officer

Sean Stinson
President, Chief Growth Officer

Elisa Khuong
Vice President – Accounting & Finance, Corporate Controller

Operator:
Good morning and welcome to the Blackline Safety Fourth Quarter 2024 Results Conference Call.

All participants will be in listen-only mode. Should you need assistance, please signal a conference specialist by pressing the star key followed by zero. After today's presentation, there will be an opportunity to ask questions. To ask a question, you may press star, then one on your telephone keypad. To withdraw your question, please press star then two.

Please note this event is being recorded.

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

Elisa Kuong:
Welcome and thank you for joining us. On this call today, we will be discussing our fiscal results for the fourth quarter ending October 31, 2024, which were released earlier this morning.

With me today is Cody Slater, CEO and Chair of Blackline Safety Corp.; Blackline's CFO, Robin Kooyman; and Sean Stinson, President and Chief Growth Officer. I will turn the call over to Cody for an overview of our fourth quarter and fiscal 2024 results and Robin will then discuss the financial highlights.

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 these 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 Q4 2024 conference call. I'm proud to provide an update on our progress as we continue to build on our past successes and drive Blackline Safety's growth as a global leader in connected safety devices. I'm especially honoured to share that this quarter, we achieved several record highs, including a significant jump in EBITDA and record free cash flow generation during the fourth quarter.

Blackline Safety achieved another record quarter for revenue at $35.7 million in Q4 and $127.3 million for fiscal 2024. For the year, our service revenue was up 31% to $69.5 million, while product revenue grew 23% to $57.8 million. At Blackline, we have consistently delivered strong top line growth, and looking at the bottom line this quarter, I am pleased to announce we've reached a record $2.5 million in EBITDA in Q4, building on our positive results in Q3. The results were even more impressive when you look at the year-over-year improvement from a loss of $1.5 million for EBITDA reported in Q4 last year. This progress signals we are reaching scale as a business while still having significant growth opportunities ahead of us. Net loss has also significantly decreased as the fourth quarter net loss was $68,000 compared to a loss of $4.5 million in Q4 2023.

This quarter, we reached a record annual recurring revenue of $66.4 million, up from $51.1 million last year, a 30% increase, a testament to the strength of the hardware-enable SaaS business we have built. Net dollar retention was 127% during Q4 as our clients continued to see value in our services and expand their business with Blackline. We are proud to note that our NDR has been 125% or higher in six consecutive quarters.

We are also pleased to report our highest product gross margin ever in Q4 at 41%, topping the previous gross margin record in Q3 of 38%. This record gross margin is ahead of the 40% target margin that the Company had mentioned on previous earnings calls. The year-over-year improvement in Q4 represents a 900 basis point increase and is well over double the product gross margin in fiscal 2022, when it was 17%. Service gross margins maintained a record level of

77% established earlier this year, supported by high value services and optimized connectivity costs.

Blackline also generated $2.3 million in cash during the fourth quarter as cash and short-term investments grew to $43.1 million from $40.8 million in Q3. The Company generated $3 million in free cash flow, which is a significant milestone and validation of our business model. The Company also has $12.3 million available on its senior secured operating facility, which together with the large cash position and the $11.2 million available on its securitization facility provides $66.6 million in total available liquidity as of November 1st.

During 2024, we secured several large contracts with new and existing customers, and in the fourth quarter we continued that momentum with contracts that included:

- A $2.3 million North American energy customer, which included a mix of G7 devices and EXO units and a four-year service agreement;
- A $3.2 million North American energy customer who purchased over 1,000 G7 units with a 27-month service agreement;
- As well as a $1.5 million order from a major first responder customer that ordered approximately 1,000 G7 units along with a 52-month service agreement.

We are pleased with the many customers that chose Blackline for their safety needs this quarter; however, we did experience some delays in deals that moved out of Q4 and into fiscal 2025. We believe this is reflective of geopolitical uncertainty at the time in some of our markets, as well as M&A activities for some of our larger U.S. customers, and we expect this to stabilize and these orders to close throughout this fiscal year.

Our profitability metrics are strong as we reported record EBITDA margins and strong free cash flow generation. Had the timing of some contracts been different, we would have scored better on our Rule of 40 metric. That said, our ARR growth has been consistently at or above 30%, and we anticipate continuing to build our EBITDA momentum in 2025, although quarter by quarter fluctuations are likely to occur along the way. Blackline is committed to continual innovation as we efficiently expand our product line while enhancing the capabilities of the current revenue generating hardware and services. In the fourth quarter, we introduced the new generation EXO 8 area monitor, which is equipped to detect up to eight gases simultaneously and offer gamma radiation detection capabilities. This product is ideally suited for large industrial organizations in the oil and gas, petrochemical, mining, water and wastewater, as well as fire and hazmat sectors alongside Homeland Security associations.

Looking ahead, we at Blackline remain focused on disciplined execution of our proven business model. With our strong financial foundation, dedicated team and award-winning solutions, we are well positioned to capitalize on growing market demand for our connected safety solutions while delivering sustained value to our shareholders.

I would like to now turn the call over to our CFO, Robin Kooyman to go over the financial details for the annual and quarterly results.

Robin Kooyman:
Thank you, Cody.

I am thrilled to have joined Blackline Safety and would like to take a moment to reflect on my first four months with the Company. During this time, I've had the privilege and engaging with customers, investors and employees from around the globe. My experiences have only reinforced my initial impressions. Blackline Safety is a company with a truly unique approach to industrial safety and a highly engaged workforce. I am inspired by the opportunities ahead and look forward to contributing to our continued success.

Blackline Safety reported annual revenue of $127.3 million, a 27% increase from the previous year. This growth was driven by strong performance in service revenues, which grew by 31% and accounted for 55% of total revenue, and product revenues which increased by 23% and accounted for 45% of total revenue.

The increase in service revenue reflects both new customer activations and expanded contracts with existing customers, as well as growth in rental revenue particularly in industrial construction and maintenance markets. Product revenue growth reflects the Company's expanded sales network and past investments in our global sales team through their targeted demand generation and sales development activities.

Fourth quarter revenue increased 19% to $35.7 million, driven by strong growth of service revenue. The United States and European markets showed substantial growth in 2024 as revenue grew 30% and 42% respectively. Growth in rest of world, including regions like Asia and the Middle East, demonstrated a robust increase of 75%, highlighting our successful regional sales strategy. Rest of world has an especially strong second half of 2024 as revenue grew 114% to $7.3 million in the last six months of the year.

Gross margins in fiscal 2024 were 58% compared to 53% last year. Gross profit for the year was $74.2 million, up an impressive 41% from the prior year. To put this in perspective, this year's gross profit is almost equal to the gross profit of the previous two years combined.

The cost discipline demonstrated by our entire Company is commendable. Total expenses as a percentage of revenue have decreased from 92% in Q4 2022 to just 60% in the fourth quarter of this year. This improvement is evidence of our ongoing efforts to optimize costs while maintaining growth.

During the fourth quarter, general and administrative expenses declined 17% as a percentage of revenue from 19% last year. Sales and marketing declined 32% from 37%, while product development increased as a percentage of revenue, rising to 14% from 12%.

Blackline Safety continued investing in product innovation during fiscal 2024 with research and development expenses growing by 6% compared to last year. Efforts focused on enhancing existing products, and developing new capabilities, such as the recently introduced EXO 8 area monitor.

For fiscal 2024, the Company significantly reduced its net loss by 51% from $25.5 million to $12.6 million, driven by increased revenue and gross profit. EBITDA also improved notably as the EBITDA loss for the year was just $2.7 million compared to $17 million in 2023. EBITDA for Q4 reached $2.5 million, while the net loss was just $68 thousand this quarter.

Cash flow generation was particularly strong as the Company generated $4.8 million in operating cash flow and $3 million in free cash flow in the fourth quarter. Both of these cash flow figures are the highest ever reported for Blackline.

The Company improved its financial position with cash and short term investments totaling $43.1 million, up 170% year-over-year. After year end, Blackline signed an amendment to our securitization facility agreement to reduce the available capacity from CA $15 million and US $30 million to CA $5 million and US $10 million, to better align with our usage of the facility. Following that change, the Company continues to have available capacity on its senior secured operating facility of $12.3 million plus a $5 million accordion, and $11.2 million on its securitization facility. We are focused on having flexible, cost effective capital to support continued growth of the business.

With that, I will turn it back over to Cody to discuss our outlook and provide closing remarks.

Cody Slater:
Thank you, Robin.

I am proud of the accomplishments that Blackline has achieved over the years. In 2017, the Company launched the G7 wearable which introduced the idea of connected safety to the industrial world, and today we are the fastest growing and one of the most significant players in the gas detection industry. With our ever-expanding and improving suite of products, we are well positioned to become the dominant player in the multi-billion dollar gas detection and connected safety industry.

Our corporate focus towards profitability began two and a half years ago and today we have reported two consecutive quarters of positive EBITDA. We generated positive free cash flow in Q4, and Blackline reported earnings that were principally breakeven.

Looking forward, Blackline is in an enviable positive as we continue our global expansion and add new products and services to better serve our growing customer base. We defined the connected industrial safety market, and our success reflects our dedication to protecting workers and delivering value to our customers in more than 75 countries. 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 this market.

Our connected safety technology creates a data-rich environment, as we have collected over 265 billion data points. This vast source of information will enable us to leverage the power of artificial intelligence, which will further enhance the value we provide to our customers.

Our business model strength and scalability are clearly reflected in our performance. In Q4, we achieved our highest ever quarterly revenue of $35.7 million, our highest ever gross margins of 61%, including our highest ever product margins at 41%, highest ever gross profit of $21.8 million, and maintained our milestone of positive EBITDA with our highest ever EBITDA of $2.5 million. The Blackline platform has been a key driver of this growth with our annual recurring revenue reaching $66.4 million, an impressive 30% increase compared to the prior year quarter driven by a remarkable 127% net dollar retention.

I want to extend my gratitude to our customers for their loyalty and trust, and to the entire Blackline team for their unwavering dedication to our mission. Your contributions are vital to ensuring every worker has the confidence to get the job done and return home safe at the end of the day. Together, we are driving meaningful progress in connected safety and reshaping the future of the industrial workforce.

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

Operator:
We will now begin the question and answer session. To ask a question, you may press star then one on your telephone keypad. If you are using a speakerphone, please pick up your handset before pressing the keys. To withdraw your question, please press star then two. At this time, we will pause momentarily to assemble our roster.

Mr. Amr Ezzat, your line is open on our end. Perhaps it's muted on yours?

Amr Ezzat:
No, I didn't hear you. Good morning. Thanks for taking my questions, and congrats on an impressive quarter.

Cody, can we go back to your comments in the prepared remarks on hardware sales? I think you mentioned clients' M&A, as well as geopolitical uncertainty causing some slippage, did I hear that correctly? When you guys speak of slippage, are we seeing these contracts being shifted to Q1? Do you guys have timing?

Cody Slater:

Yes, thanks for the question. The contracts we're talking about were primarily U.S.-based ones. I'd say revenue moving more towards the latter part of the year. One of the contracts was actually a lease that we expected to be renewed, but they just extended it for a year, so that pushes out a fair way. But as we are indicating, really just a few individual elements that moved some of those along, but I wouldn't expect them to impact Q1.

Amr Ezzat:
Okay, understood. It seems like these factors that you've outlined are broader market dynamics, I guess. From where you stand, is it fair to assume that fiscal 2025 is a slower year for product sales? I understand there's also the EXO 8 that we need to sort of think about, but I'm interested in your thoughts and just the macro environment.

Cody Slater:
We're looking at a similar kind of product growth rate in 2025 as we saw in 2024 overall. I think the only thing I'd call out on Q4 was if you look at 2023, Q4 was a bit of a banner quarter for hardware, dramatic pick-up from the prior quarter, so a little bit less—we saw a little bit less lumpy progress through 2024, but we still—none of the forward dynamics out there say that there's any less interest in the product adoption, and we'll see a similar kind of growth in 2025 that we did in 2024.

Amr Ezzat:
Fantastic. That's very helpful, and indeed it was less pronounced, I guess, the seasonality this year. Can you help us understand how you guys are thinking about the potential tariffs? Have you guys evaluated the potential for shifting parts of your manufacturing to the U.S., or is maintaining your current base critical to the overall strategy? Just some high level thoughts, I'm not sure how far along are you guys in formulating some sort of contingency plan.

Cody Slater:
Yes, sure. I mean obviously, like everyone, we're sort of watching what's happening and we do anticipate to see tariffs being put in place to some measure. Lots of moving parts as to how that could impact the Company. The core thing about Blackline is we're in control of our own destiny there, we do manufacture our own products, as you were mentioning. We're already looking at an expansion of our core manufacturing lines, our surface mount lines. Depending on where all this lands, it may mean that we're looking at doing that expansion in a U.S. location to get—to move the destination of manufacturing and remove that tariff threat. That's options we're already looking

at as we go forward, and we'll just see what—like everybody, we're waiting to see how this all lands. But yes, long term, I would see no real impact from that for Blackline.

Amr Ezzat:
Okay, so for the time being, if I understand correctly, you're evaluating options, but it's wait and see where this lands before taking a decision, as opposed to let's just move ahead with expanding into the U.S.?

Cody Slater:
Yes, that would be a good summary of that. I think I'd maybe clarify, we're already—we are in the process of looking at the expansion. We need to expand our surface mount lines and our manufacturing facilities simply because of the demand we see for our products, and that will be happening later this year. Right now, it's just a determination of where that location becomes, and the tariffs may shift—yes, shift the location to a U.S. base.

Amr Ezzat:
Fantastic. Maybe on the EXO 8, like, we saw the press release obviously that you had last week, but can you tell us what your response has been and the uptake, if you compare it maybe to the G7 launch in 2020? How does it compare?

Sean Stinson:
Yes Amr, this is Sean Stinson here. The response has been very strong so far. As we've mentioned before, the EXO 8, there are really two key variants to that product line. In addition to what the G7 was capable of, the EXO 8 features eight gas capability, and that's going to be very popular and valuable in the refining space. That's been an area that for Blackline has been—I think we've underperformed to date in the refining space, so we have a lot of room to grow there. We're seeing a lot of early interest there.

The other one is the gamma EXO, and that's proving to be a very strong launch out of the gate so far. The marketing team here has done an excellent job preparing the pre-launch materials, and we've already seen an order come through for the gamma EXO. We're not shipping until Q2 of this year, but we've got pre-orders in hand already, so that's a really strong sign to see.

Amr Ezzat:

Okay, and on the gamma, that's not part of the Total Safety contract?

Sean Stinson:
No, the total safety contract does not include gamma EXO.

Amr Ezzat:
Okay, fantastic. Congrats again on the quarter, and I'll pass the line.

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

Doug Taylor:
Yes, thanks. Good morning, and congrats on closing out an impressive year at Blackline.

I'll start with a bigger picture question, probably for Cody. We've got a new administration coming in the U.S. next week. I'm not sure if what you referenced in your prepared remarks around geopolitical events has to do with that; but there's a couple things that this administration appears to be focused on. You've talked about the tariffs, so we can park that; but they're also interested in attracting heavy industry jobs back into North America. There's also some talk of reduced government and regulatory burden, to the extent regulatory compliance is a driver of investment in your solution, so a lot to consider there, and a longwinded question. But Cody, I guess I'll just ask you to maybe provide your view on the environment there, whether that was a part of the reason for any slippage in the quarter, and maybe talk about the buyer behavior as it relates to that.

Cody Slater:
Sure Doug. I think the comments around the uncertainty were more about the lead-up into the election. I do think that was causing some delays just as people were trying to understand what the dynamic was going to be going forward. If you look at the policies that the new administration in the United States is looking at putting in place, the core - when you talk about regulations, the core drivers for us are safety regulations, and those aren't something that anybody sees changing. We also think they're just endemic within companies and our customers, so don't really see any risks there.

On the potential focus on additional manufacturing, additional heavy industry in the United States, that's a longer term element that we would see again as neither realistically moving positive or negative for us at the end of the day.

Doug Taylor:
Okay, so not a substantial impact, and now that the election's complete.

Cody Slater:
Yes.

Doug Taylor:
Okay. One of the items that definitely has impacted has been currency. I guess I'd like to ask a question—your product gross margins were standout in the quarter. The question is to what degree can we attribute that to, one, currency, the impact positive or negative versus reducing the bill of materials or gaining leverage over suppliers or automation and other sources of margin expansion, and then the product mix. Can you help us kind of decompose that and understand how sustainable the margins we saw this quarter are into 2025?

Cody Slater:
Sure. The core drivers for that margin expansion through the year have been manufacturing efficiency, supply chain management that has impacted that, as well as better control on the discounting on the order base. That shows more the maturity, I think, of the product in the market, that you no longer have to discount to the same degree. All of those are things that will continue forward into the next year. When you look at 2025, again there will be some investments in our manufacturing, you might see the margins slip a little bit, a few points in the beginning but finishing into a similar kind of number, so that 40% range is a good range as a go-forward.

Doug Taylor:
Okay, and so currency not - you don't see that as being a material factor one way or the other here?

Cody Slater:
Not really material. It impacts in some aspects, but maybe manufacturing is in the U.S., you can look at it a little differently. But at this point, no, I think it would be primarily the shift in the

discounting of the order base, and a lot of work on our manufacturing teams over the last, really, two years to bring up the work with suppliers, work with efficiencies, and just that scale. We've talked about that before, the absorption of the facility, the floor manufacturing, that's where, as I say, you'll expand the manufacturing a little bit, you might see a little bit of the absorption slip, but the core margins are looking very strong. And Q4 was interesting in that it wasn't really driven by product mix. The product mix was more heavily weighted to our portable G7 line, which carries a slightly lower margin than our EXO line, so it was just showing the strength of the strength of that business unit.

Doug Taylor:
Last question for me, services revenue growth metrics and the KPIs around that remain very strong. Question is, what proportion of your installed base is now seeing the pricing increases that you started putting through, I think a bit over a year, maybe 18 months ago, now flow through in renewals? What I'm getting at is the ability to sustain that near 130% NDRs here and what's needed in terms of feature uptake and fleet expansion, versus that pricing lift that you've been enjoying over the last couple years.

Sean Stinson:
Yes Doug, Sean here. I would estimate that about half of the installed base is now seeing that price lift. Because of the multi-year contracts, because of the four-year lease contract, it does take time to roll through. In some cases, you can't necessarily lift the entire amount in one year. In some cases, we might have had a four-year-old contract that was previously discounted and we're trying to make a pretty big lift on price in one year. That sometimes does stretch over two or three renewal periods; but I'd say about half is recognizing that right now.

Then in terms of continuing the net dollar retention growth, we're always getting better at how we serve our customers. Our client success team's mission is to really ensure that our customers really truly get—receive the value proposition that we talk about. When we see that, we do see them expanding. We see them expanding more rapidly, we see them taking on more services, and we're still—I would say we're still halfway through that adventure in getting to what we would consider to be best-in-class team, so I think we can still continue to get better at that.

The target for this year is even more aggressive than the 130, so I think we're going to continue to see that roll through for a couple more years.

Doug Taylor:

That's great colour. I'll pass the line. Thank you very much.

Operator:

The next question is from John Shao with National Bank Financial. Please go ahead.

John Shao:

Good morning. Thanks for taking my question. Maybe one more on the tariffs. We understand it's going to be overall negative in the next year, but in the near term, do you think it's going to potentially accelerate some of your sales in the U.S., given customers might way to avoid higher costs in the future?

Cody Slater:

I wouldn't really see there being any—to be blunt, I wouldn't see there being any positives around the tariffs. I don't see it from a customer standpoint. The U.S. customers won't really be looking at that as an element they—our competitors are primarily U.S. based, so I think it'd be more a question of what kind of impacts are there on our U.S. competitors on tariffs that are going to be put in place on imports from China, from some of their materials, etc. that may well be driving up their cost base. Usually, these programs are driven by safety programs, by renewal rates, by a lot of inertia behind them, so I don't think there will be any big push towards early purchase because of what's happening under the tariff standpoint.

John Shao:

Got it. In terms of the business seasonality, based on what we saw this quarter, do you think in future quarters, especially the quarterly variance is going to be more driven by the timing of certain large orders instead of the typical seasonality with strong summer quarters?

Cody Slater:

We still expect to see similar seasonality this year, so our Q1 will be lower than our Q4 and then building through the year, but look at strong year-on-year growth. I think the balance is a little better—certainly the balance last year was a little better as you look at those quarterly dynamics, and so you'll see that similar this year. There's certain portions of our business that are a bit more seasonal than others, rentals as an example, the Q1 for them is definitely their slowest quarter, just based on their customer applications. Then the service revenue itself is of course consistent both quarter-on-quarter, but certainly you'll see that as highest at the end. But expect to see similar seasonality dropping Q1 and then—but continued growth from there through to our strongest quarter, again being that Q4 quarter.

John Shao:
Okay, and on the international market, remember about three years ago, Europe was the relatively small part of their business, but that doesn't seem to be the case any longer. On that note, do you think the Middle East and Asian markets are going to potentially follow a similar track, becoming the next growth driver for the Company, and does that require incremental investments?

Sean Stinson:
The Middle East will certainly become a larger portion of our business in time. We're going to see that grow quite aggressively this year, and that does require some investment on the Company's behalf. That's all modeled into our 2025 budget. Asia, not as strong as the Middle East growth. What you'll continue to see is stronger growth in Europe, over time a higher service portion coming from Europe than today with very strong product growth in the next year from the Middle East, and then the service numbers will follow that. I think probably in two to three years, we'll start to see much stronger growth in Asia.

Cody Slater:
It's Cody here. I'll just add to that that your comment on investing, we are investing in expanding our sales force in the European space, and expanding really our whole infrastructure in the Middle East space. We'll be opening an office within this space, we'll be putting in people to ensure that we're able to better serve our customers going forward. There will be some front-end costs at the beginning of the year into those markets.

John Shao:
Okay, thanks for the colour. I'll pass the line.

Operator:
The next question is from David Kwan with TD Securities. Please go ahead.

Jonathan:

Hi, this is Jonathan on the line. Good morning, on behalf of David. Just my first question, you've indicated that deal slippage and M&A for your customers is more related to the U.S. Just wondering if you can provide more colour on the weakness in Canada.

Sean Stinson:

The Canadian market is—I never say it's saturated, but it is the closest to saturation that we have in our global market. We grew up here, this is where a lot of our initial customers were, and what we see in the product growth in Canada is typically a lot of lease renewals. This was—I guess it's a bit of an anomaly; I think we just had a lot of timing elements line up and so we saw a bit of a contraction year-over-year here, but our investment in Canada is also very limited. I really only have two salespeople that cover all of Canada, so not concerned about it.

It will come back to a normalized pace, so I'd say it was really more timing driven and then in the future when we look to expand, we're invested really in other markets, other than Canada. It's still a good market here, but it's not the most aggressively growing market in the globe for us.

Jonathan:

Thanks, and then just one more for me before I pass the line, how is the uptake on the G6 going, and how do we see it progressing?

Sean Stinson:

You know, it's continuing to be a strong part of the portfolio. I would call it more of an enabling product than a standalone product, so it's not necessarily the one that our teams lead with in all conversations. But when we are approaching a large client with a very diverse risk profile, we do find that they will need a certain portion of G6s. That's really where its strength lies, is that it allows us to be able to cost effectively serve a large customer who may need thousands of gas detectors and a portion of that needs to be lower cost single gas units, and that's where we're seeing the strength.

We're going to continue to see that. It's going to continue to enable us to sell more G7s and more EXOs, but we'll never see it be sort of our flagship product because it's more of a - it's in more of a supporting role than a lead role.

Jonathan:

Thanks for answering my questions.

Operator:

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

Martin Toner:

Good morning, thanks for taking my question. Can you remind us how much of your COGS are U.S. denominated?

Robin Kooyman:

I think we want to be—first of all, it's Robin, good morning, Martin. If we want to be that granular, I think it makes sense just to circle back after the call, Martin.

Martin Toner:

Yes, okay. No problem. The only other one for me, can you talk a little bit about the plan for OpEx growth? I suspect it's in part a function of how revenue comes in, but just wondering how we should think about it for 2025. Will it—I'm guessing it starts with it's going to grow at a slower rate than revenue.

Cody Slater:

Yes, it's Cody here. It will continue to be growing slower than revenue. I would expect, though, so see a little bit more pick-up in OpEx in the early quarters as we're investing in, really as Sean mentioned, a couple of the new markets, particularly the Middle East and some expansion within Europe, but also a real focus internally on some scalability programs that are going to allow us really to position ourselves for 2026. They do require some investment in software and systems to enable us to be a more rapid—more scalable company as we go forward. A little more investment than we've done in the prior year, and—but still at a lower rate than revenue growth, for sure.

Martin Toner:

Perfect, thanks Cody. Last one from me, when you look at your pipeline, how key will the Middle East region be in 2025 for Blackline?

Sean Stinson:

I’m just thinking, Martin. I’m trying to put this into numbers. It’s probably around 5%, I would say, of the total product pipeline, I’d say it in numbers. I think it’s a strategically critical region for us and we’re on the verge of doing business with some Tier 1 clients there, and that’s been our strategy—that’s been our growth strategy in markets around the world, is to try to sign Tier 1 clients and then they tend to influence the market around them. Although it’s not a very large proportion of our financial results in the coming year, it is a critical strategic element.

Martin Toner:
Perfect. Thank you very much, and congrats on a nice year.

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

Sean Jack:
Hey, good morning, guys, and congrats on the awesome results. Most of my questions have already been asked, but just a quick one from the prepared remarks, just asking about the reduction in the revolving line. I understand that there’s a want to best preserve expenses, but the impacts historically on the income statement has been pretty negligible on that finance line. Should we be reading that there’s a lot of confidence on stronger cash flow generation and really kind of meeting that cycle perfectly, or are you just expecting to have to kind of less invest in inventory going forward?

Robin Kooyman:
Morning Sean, thanks for the question. We’re focused on having flexible cost effective capital to fund our business, and at Blackline there’s three legs to that strategy: our cash and short-term investments, our senior secured credit facility, and our securitization facility. In the quarter we reduced—or subsequent to the quarter, we reduced the capacity on the securitization facility, and that’s just better reflecting our usage of the securitization facility. That’s where we were using that to finance the leases that we would sell. We haven’t made any changes to our senior secured credit facility, and now looking forward we have strong available liquidity across all three of those legs at over $65 million, so really this is just better reflecting how we’re thinking about funding the business going forward.

Sean Jack:
Ah, okay. Appreciate the detail there, my mistake. Okay, perfect. That's all from me. Thanks.

Operator:
The next question is from Gabriel Leung with Beacon Securities. Please go ahead.

Gabriel Leung:
Morning, and thanks for taking my questions, and congrats on all the progress. I just had two follow-up questions for Sean. Just on a previous question, you talked about the Middle East team being on the cusp of signing a couple of Tier 1 deals there. I'm just curious what are some of the variables that might tip the scale there? Is it around pricing, is it around just completing proof of concepts or pilots? Just want to get some of your thoughts there.

Sean Stinson:
We're really into the—in terms of the way we talk about our sales process, the very last step in the process is where we are going back and forth on the contractual elements with a client, so we've already proven the solution, and we've talked pricing, and we've agreed to that. We've talked roll-out planning, we understand their needs, we understand roughly what we're going to be doing with them. Right now, we're really just going back and forth on the contract, and that has proven to be a long process not because there's latent risk in it, but it just seems to be a very chewy process. I'll leave it there.

I think really the risk here is really just timing risk. I don't see any inherent risk in the deal, but we've been going back and forth with this already for a few months, and I can see it being another month to month and a half before we get that finalized, and then expect orders to come in. I do expect to see some early orders from this near the end of Q2 our time.

Gabriel Leung:
That's perfect, thanks for that. For my follow-up question, for Robin actually, having had the opportunity to do a deep dive on the Company, I'm curious if you found any areas where you feel could be improved upon from an operational perspective. Maybe I'll ask the same question to Sean as well, just from a sales and marketing perspective, whether there's any improvements you'd like to see from an execution perspective as we go into fiscal 2025. Thank you.

Robin Kooyman:

Thanks for the question, Gabriel. As I said in my prepared remarks, I'm thrilled to be here, and what I've found really is customers that are excited to have our solutions and then a highly engaged workforce. In terms of the outlook for 2025, I've been really impressed with what the team here is doing. There's always opportunities for continuous improvement and we'll definitely be looking at a myriad of different things on that front, but I wouldn't point my finger at any one large thing that I'm suggesting we're making any changes on.

Sean Stinson:

Yes, and I can speak for the revenue generation side of this. We're constantly trying to improve everything that we can. Right now, I'd say there's no singular large deficit in capability or motivation or anything within the revenue generating teams, but what we focus on—the front end of the funnel is always one of the most critical things, and it's the hardest one to move. Given that I would say our average sales velocity here, or the average timeline is probably about eight months, we run between three and 15 months on for a sale cycle, so that top of funnel is really crucial, and the marketing team does a great job, and then within the revenue generation team itself, prospecting is really critical for us over the next year. That's probably our top focus.

But really, we focus on every aspect and every phase of the sales cycle, and then we focus on the client success team, that helps drive our net dollar retention. The new hardware team itself, I would say the most critical thing there is prospecting, and that really should be the answer from just about any company that's focused on growth, is prospecting is always one of the most critical things to focus on.

Cody Slater:

Yes, it's Cody here, Gabriel. I'd just add, when you look at the whole business, there's opportunity across the board for us to look at better systems, better investment into everything from order entry to processing. There's impacts we can make, as every company can, with utilizing AI to improve some of our efficiencies and some of our different structures, and that's something that the Company will definitely be looking at throughout this year. I really look at 2025 as—in 2024 you saw the impact of the Company reaching scale, and 2025 we're really positioning the Company for that future growth for the next few years, as we look three years down the road to being truly the dominant player in this space.

Gabriel Leung:

Got you. Cody, Robin and Sean, thanks for the feedback, and congrats on the progress.

Operator:

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

Cody Slater:

Thank you, Operator, and just like to thank everyone for their attention today, and we look forward to talking to you again after our Q1 as we go through 2025 here. We wish you all a good day.

Operator:

The conference has now concluded. Thank you for attending today's presentation. You may now disconnect.