

Blackline Safety Corp.

Strong Margins on Cost Cutting Initiatives, Alleviating Liquidity Concerns to Drive Stock Performance.

BLN-TSX: \$2.22
Speculative Buy
\$3.50 Target

Bottom line: Blackline Safety Corp.'s ("Blackline", "BLN" or "the Company") FQ123 results saw sales come in line with estimates while EBITDA losses were slightly narrower on the Company's cost-cutting initiatives. While both top-line growth and cost execution impressed, the quarter continues to reflect meaningful cash outflows, with free cash flow coming in at -\$8.3M for the quarter following last quarter's -\$16.5M outflow. We are encouraged by the Company's initiatives to transition into a positive EBITDA and cash flow generator and keep a close eye on the heightened liquidity requirements as we continue into the seasonally softer first half of the year. Although the Company is currently in a positive net cash position (\$15.5M, down from \$22.6M last quarter), we expect cash burn to continue (albeit at a more modest pace), leaving little wiggle room for any unforeseen headwinds. As such, we are maintaining our Speculative Buy rating as well as our target price of \$3.50/shr. We believe a much more aggressive return profile is possible beyond our target price should the Company successfully transition into a positive cash flow generator.

Projected Total Return: 57.7%
Valuation: DCF (13.0% discount,
3.5% GRIP)

(in \$M unless otherwise specified)

Market Data	
Market Capitalization	160.1
+ Debt	8.0
- Cash	-23.5
Net Debt	-15.5
Enterprise Value	144.6
Basic Shares O/S	72.1
Fully Diluted Shares O/S	72.1
Avg. Daily Volume (K)	39.6
52 Week Range	\$1.53 - \$6.35
Dividend Yield	0.0%

Revisions	Current	Old
2023E Revenue	104.9	105.1
2023E Adj. EBITDA	(13.5)	(15.0)

Financial Metrics				
FYE - Oct 31	2021A	2022A	2023E	2024E
Revenue	54.3	72.9	104.9	141.0
Adj EBITDA	(23.9)	(44.2)	(13.5)	6.9
EPS	(\$0.61)	(\$0.86)	(\$0.25)	(\$0.06)

Valuation Data				
FYE - Oct 31	2021A	2022A	2023E	2024E
EV/Sales	2.7x	2.0x	1.4x	1.0x
EV/EBITDA	NMF	NMF	NMF	21.0x
P/E	NMF	NMF	NMF	NMF

Quarterly Data				
	Q1	Q2	Q3	Q4
Rev. '22	15.7	16.7	18.6	22.0
Rev. '23	21.0	23.0	27.0	33.9
Adj. EBITDA '22	-11.5	-12.3	-12.8	-7.7
Adj. EBITDA '23	-6.2	-5.5	-2.6	0.8
EPS '22	(\$0.21)	(\$0.24)	(\$0.27)	(\$0.15)
EPS '23	(\$0.11)	(\$0.07)	(\$0.05)	(\$0.02)

Company Description
Blackline Safety Corp. is a hardware-enabled SaaS technology company that develops, manufactures, and markets worker safety monitoring products and services. Blackline Safety Corp. was formerly known as Blackline GPS Corp. and changed its name to Blackline Safety Corp. in July 2015. The Company was founded in 2004 and is headquartered in Calgary, Canada.



Source: Historical Data - Company Filings, Forecasts/estimates - Echelon Capital Markets

Details:

- Revenues came in at \$21.0M (EWP: \$20.5M, Street: \$20.9M) versus last quarter's \$22.0M and last year's \$15.7M, equating to -4.5% sequential and 34.3% y/y growth.
 - Product revenues growth (+28.7% y/y to \$9.4M) reflects the Company's expanded sales network and investment in a global sales team with continued strong demand generation and sales development activities. Sequentially, product revenues are down -15.3% from the seasonally strong FQ4.
 - Service revenues growth (+39.3% y/y to \$11.6M) was driven by new activations of the devices sold to end-users over the past year for customers utilizing the Company's monitoring, software, and data services.
- EBITDA came in at -\$6.2M (EWP: -\$7.7M, Street: -\$6.3M) reflecting better gross margin and opex performance.
 - GM% of 49.3% compares to last year's 40.8% on sales mix. Product GM% of 20.7% compares to 9.6% last year and Services GM% of 72.5% compares to 68.1% last year. Recently announced price increases on both products and services should see margins improve in F2023.
 - Opex (ex-FX) is down -1.0% y/y or -\$0.2M to \$18.9M on cost-cutting initiatives, in particular, G&A expenses as a percentage of total revenue decreased to 26% from 31% last year, while sales and marketing expenses as a percentage of total revenue decreased to 37% from 57% last year. We note opex (ex-FX) is sequentially down \$1.4M.
- FCF came in at -\$8.3M for the quarter (-2.2M in working capital drag). BLN closed out the quarter with a net cash position of \$15.5M, down from \$22.6M last quarter. We note the Company had \$8.0M of borrowings on its senior secured operating facility during the quarter (\$15.0M capacity, \$7.0M available).

Estimate revisions: Our sales/adjusted EBITDA for F2023 and F2024 are unchanged. We maintain our Speculative Buy rating as well as our target price of \$3.50/shr.

Blackline Safety Corp. (BLN-TSX, \$2.22)

SPECULATIVE BUY | PT: \$3.50

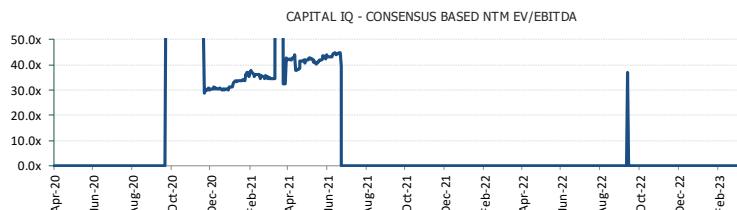
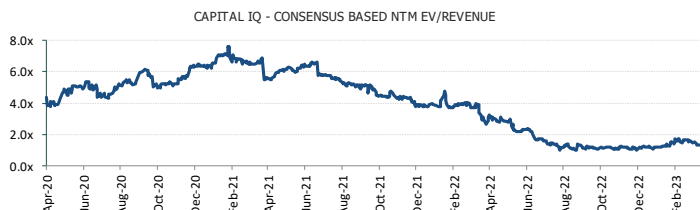


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Consensus	3 Mths Ago	Current	Return
Rating:	Buy	Outperform	
Target:	\$4.88	\$4.64	109%
Median:	\$4.75	\$4.50	103%
High:	\$6.75	\$6.00	170%
Low:	\$3.00	\$2.75	24%

Consensus Distribution	
Sector Outperform/Buy	8
Sector Perform/Hold	1
Sector Underperform/Sell	0
# Estimates	9

Historical Valuation



Key Financial Metrics

Financial Summary	2021A	2022A	Q123A	Q223E	Q323E	Q423E	2023E	2024E
Revenue	54.3	72.9	21.0	23.0	27.0	33.9	104.9	141.0
Growth y/y	41.5%	34.3%	34.3%	37.7%	45.3%	53.8%	43.8%	34.4%
Cons.	51.4	74.0	20.9	23.9	26.7	31.0	103.5	133.0
Cons. 3 Mths. Ago	51.4	74.1	23.0	25.7	28.8	35.9	110.8	158.1
Adjusted EBITDA⁽¹⁾	-23.9	-44.2	-6.2	-5.5	-2.6	0.8	-13.5	6.9
Margin	-44.0%	-60.7%	-29.6%	-24.1%	-9.5%	2.5%	-12.9%	4.9%
Cons. ⁽¹⁾	-10.0	-46.0	-6.3	-4.9	-3.8	-1.6	-14.8	1.1
Cons. 3 Mths. Ago ⁽¹⁾	-10.0	-46.0	-6.3	-4.9	-3.8	-1.6	-14.8	1.1
Diluted EPS	-0.61	-0.86	-0.11	-0.07	-0.05	-0.02	-0.25	-0.06
Growth y/y	NA	NA	NA	NA	NA	NA	NA	NA
Cons.	-0.59	-0.83	-0.11	-0.09	-0.07	-0.03	-0.30	-0.09
Cons. 3 Mths. Ago	-0.59	-0.83	-0.11	-0.09	-0.07	0.01	-0.36	-0.20

Key Statistics	Value
52-Week High	\$6.35
52-Week Low	\$1.53
Avg Vol (3-Mo)	40k
Shares Outstanding	72.1
Market Cap	\$160.1
+ Debt	\$8.0
- Cash	-\$23.5
Net Debt	-\$15.5
Enterprise Value	\$144.6
Net Debt / LTM EBITDA	NA
Div Yield	0.0%
FYE	31-Oct
Employees	~350

Segmented Revenues	2021A	2022A	Q123A	Q223E	Q323E	Q423E	2023E	2024E
Product Revenues	24.8	35.2	9.4	10.2	12.5	18.9	51.0	60.0
Growth y/y	92.7%	42.2%	28.7%	30.0%	40.0%	70.0%	44.9%	17.5%
% of Total Revenues	45.6%	48.3%	44.8%	44.5%	46.3%	55.8%	48.7%	42.5%
Service Revenues	29.5	37.7	11.6	12.7	14.5	15.0	53.8	81.0
Growth y/y	15.7%	27.7%	39.3%	44.6%	50.1%	37.3%	42.7%	50.5%
% of Total Revenues	54.4%	51.7%	55.2%	55.5%	53.7%	44.2%	51.3%	57.5%

Top Ownership	M Shares	Δ 6 Mths	% Held
Dak Capital Inc	18.35	5.45	25.4%
Rbc Global Asset Managem	2.93	0.00	4.1%
Penderfurn Capital Manag	1.90	0.00	2.6%
Slater, Cody Z.	1.72	0.23	2.4%
Impax Asset Management	1.15	1.15	1.6%
Finbow, John	0.89	(0.04)	1.2%
Forge First Asset Managem	0.88	0.00	1.2%

(1) EBITDA definition revised in FQ422. Street estimates may not reflect new definition.

Comparables and Peer Analysis	Return					Mkt Cap C\$ 000	EV C\$ 000	EV / Revenues		EV / EBITDA		Price / Earnings		LTM EBITDA Margin	2-Year CAGR	
	1 Week	1 Month	3 Month	YTD	1 Year			LTM	NTM	LTM	NTM	LTM	NTM		Sales	EBITDA
Industrial Safety and Protection Companies																
Honeywell International Inc.	(2.5%)	(5.6%)	(10.3%)	(12.2%)	(1.5%)	173,445	188,702	3.9x	3.7x	15.9x	20.8x	25.9x	20.8x	23.3%	4.5%	4.2%
Advanced Energy Industries, Inc.	(0.1%)	(2.9%)	6.3%	10.1%	9.9%	4,885	4,917	1.9x	2.1x	10.7x	20.5x	17.7x	20.5x	16.5%	(0.5%)	(8.9%)
3M Company	(2.6%)	(8.2%)	(15.5%)	(14.3%)	(29.4%)	78,078	96,046	2.0x	2.2x	8.8x	11.9x	10.1x	11.9x	21.7%	(2.0%)	(2.4%)
Motorola Solutions, Inc.	(2.4%)	(3.2%)	2.5%	0.4%	14.1%	59,711	66,944	5.3x	5.0x	18.2x	23.1x	32.6x	23.1x	27.5%	6.3%	10.7%
Fortive Corporation	(2.7%)	(6.3%)	0.8%	0.2%	8.1%	31,378	35,127	4.4x	4.2x	16.4x	19.2x	30.7x	19.2x	25.6%	4.3%	7.1%
Halma plc	(4.5%)	(9.4%)	(1.0%)	3.7%	(15.3%)	12,838	13,668	4.9x	4.5x	21.6x	26.4x	34.7x	26.4x	22.0%	11.8%	10.9%
MSA Safety Incorporated	(3.5%)	(5.9%)	0.9%	(9.0%)	(3.0%)	7,097	7,715	3.7x	3.5x	14.6x	23.8x	28.8x	23.8x	24.1%	5.8%	10.6%
Drägerwerk AG & Co. KGaA	(0.5%)	(2.0%)	5.8%	0.4%	(23.3%)	1,094	1,231	0.3x	0.3x	50.7x	NM	0.0x	NM	(0.8%)	(2.1%)	(26.4%)
Median	(2.5%)	(5.8%)	0.9%	0.3%	(2.2%)			3.8x	3.6x	16.2x	20.8x	27.3x	20.8x	22.7%	4.4%	5.6%
Canadian High-Visibility Tech Companies																
Lightspeed Commerce Inc.	(1.8%)	(13.8%)	0.8%	3.2%	(33.8%)	3,011	1,912	2.0x	1.6x	NM	NM	NM	NM	(35.2%)	27.9%	-
The Descartes Systems Group Inc.	1.0%	3.8%	11.7%	11.5%	8.8%	8,924	8,565	13.2x	11.2x	31.2x	44.8x	NM	44.8x	41.4%	11.7%	12.6%
Kinaxis Inc.	0.6%	4.2%	12.8%	11.4%	2.2%	4,747	4,518	9.1x	7.7x	NM	NM	NM	NM	12.2%	18.1%	5.4%
Enghouse Systems Limited	(13.0%)	(11.3%)	8.2%	5.3%	(7.3%)	2,094	1,861	4.4x	4.0x	16.4x	24.2x	23.4x	24.2x	25.0%	6.8%	6.5%
Dye & Durham Limited	(3.6%)	(13.3%)	51.6%	11.0%	(35.6%)	1,010	2,177	4.5x	4.8x	13.0x	NM	NM	NM	33.9%	1.1%	1.6%
Docebo Inc.	3.7%	2.4%	13.9%	17.7%	(9.3%)	1,734	1,445	7.5x	5.7x	NM	NM	NM	NM	(3.9%)	26.8%	365.6%
Tecsys Inc.	(5.6%)	3.7%	(6.1%)	3.2%	(15.7%)	399	377	2.6x	2.4x	NM	NM	NM	NM	3.2%	9.2%	13.0%
Computer Modelling Group Ltd.	(7.2%)	(4.9%)	20.0%	17.3%	33.3%	551	530	7.3x	6.9x	17.2x	20.9x	28.5x	20.9x	39.3%	9.1%	12.1%
Sylogist Ltd.	(9.7%)	(13.3%)	(17.8%)	(16.6%)	(49.1%)	123	130	2.4x	2.4x	8.4x	32.1x	42.8x	32.1x	28.4%	24.8%	(4.9%)
Median	(3.6%)	(4.9%)	11.7%	11.0%	(9.3%)			4.5x	4.8x	16.4x	28.2x	28.5x	28.2x	25.0%	11.7%	6.5%
Blackline Safety (Street)	(2.6%)	(17.8%)	22.7%	22.7%	(63.9%)	160	145	1.9x	1.4x	NM	NM	NM	NM	(62.9%)	35.1%	NA

Source: Consensus data - CapitalIQ, Historical Data - Company Filings, Forecasts/estimates - Echelon Capital Markets

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Company: Blackline Safety Corp. | BLN:TSX

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Has the Analyst received any compensation from the subject company in the past 12 months?	No
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RATING DEFINITIONS

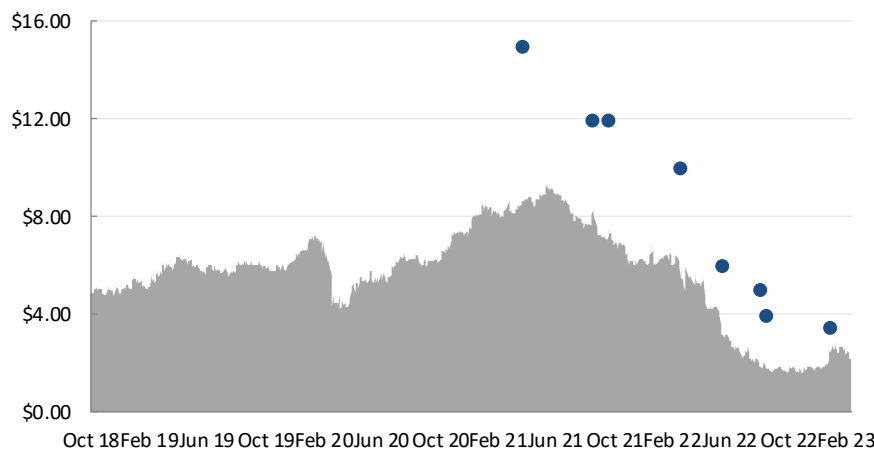
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RATINGS DISTRIBUTION

Recommendation Hierarchy	Buy	Speculative Buy	Hold	Sell	Under Review	Restricted	Tender
Number of recommendations	33	41	4	0	8	3	2
% of Total (excluding Restricted)	38%	48%	5%	0%	9%		
Number of investment banking relationships	15	23	0	0	4	3	1
% of Total (excluding Restricted)	36%	55%	0%	0%	10%		

PRICE CHART, RATING & PRICE TARGET HISTORY

Blackline Safety Corp. (TSX:BLN)



Date	Target (C\$)	Rating
21 Apr 2021	\$15.00	Buy
15 Sep 2021	\$12.00	Buy
27 Sep 2021	Restricted	Restricted
19 Oct 2021	\$12.00	Buy
16 Mar 2022	\$10.00	Buy
14 Jun 2022	\$6.00	Buy
10 Aug 2022	Restricted	Restricted
1 Sep 2022	\$5.00	Buy
14 Sep 2022	\$4.00	Buy
24 Jan 2023	\$3.50	Speculative Buy

Coverage Initiated: Apr 21, 2021

Data sourced from: Capital IQ

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