

Black Pearl Group Limited - **Quarter Three Report**

Quarterly Investor Update

Quarter Three report for the three-month period to 31 December 2024



Contents:

- 04** Foreword from the CEO
- 06** Highlights
- 08** Commentary from the CFO
- 12** Future Outlook

Contents

Dear Shareholders,

We are in the fastest evolving market in human history. Growth of AI is exponential, a word that is commonly used and yet almost impossible for the human mind to fathom. The only thing we know for sure is mass disruption is guaranteed – just look at Nvidia, Microsoft, and Meta getting shaken by DeepSeek – an app built for only US\$6m.

The winners and losers in this new world will be defined by those that can continually innovate at hyper-speed.

That is what we did last quarter at Blackpearl: we aggressively evolved. Some might say we bit off more than we could chew. I hate that saying. My mantra is 'bite it all off and chew like [insert you know what]. It might not appear elegant, but you get things done, fast.

Over the last quarter, we took on two big initiatives:

Evolving Pearl Diver

We started a major evolution of Pearl Diver, introducing new data sets and refining our ideal customer profile (ICP). This is to ultimately reduce churn, increase average revenue per customer, and create additional technical resilience (removing over-reliance on singular data sets).

Pearl Diver's growth over the last 12 months has been undeniable, but many shareholders had challenged us to reduce its churn. To do this, we identified the lowest-churning segment of customers on the service and decisively recalibrated all aspects of Pearl Diver – product, marketing, sales, and support – to serve this customer segment. These customers are still small to medium-sized businesses in the USA but have existing Meta and/or Google paid advertising spend. Their utilisation of Pearl Diver is significantly higher, with some achieving a 25–30% reduction in paid ad spend through using Pearl Diver. For Blackpearl Group, these clients are of higher value, with the lowest price tier generating over \$18,000 in ARR..

Conversely, lower-value customers have consumed a disproportionate amount of support resources and incurred higher supply costs (see Jean's comments that follow). To scale efficiently, we need to ensure time and resources are not allocated to this segment. As such, we are transitioning customers to the higher-value features of Pearl Diver, now supported by our new data supplier, which reduces supply costs by replacing the previous provider. Customers who choose not to migrate are receiving reduced technical and support service levels, contributing to the short-term increase in churn this quarter.

We chose to implement these changes aggressively in Q3, a period traditionally challenging for sales in the US due to Thanksgiving and Christmas. These holidays not only disrupt business activity but also drive up advertising costs as we compete with heightened consumer product spending.

Market Testing New Product

As we discussed in the Q2 FY25 report, Blackpearl Group is in the final stages of developing a new product, which we will beta-launch in February. This advanced AI-powered conversational platform is designed to create tailored, company-specific sales and revenue strategies. It specialises in prospect identification, outreach optimisation, and delivering actionable market intelligence for B2B businesses targeting the US market. Think of it as ChatGPT, but purpose-built for driving business growth and revenue. The product will be fully self-service and aggressively priced.

This new product operates on new and proprietary data sets, which further increases our technical resilience and deepens our competitive moat.

As you'll understand, we're keeping details under wraps to maintain a competitive edge. Additionally, since it's not yet launched, we're managing expectations and avoiding unnecessary hype.

That said, let me call a spade a spade: we took on too much at once to achieve a seamless ARR increase and customer migration. This resulted in a moderate ARR lift and a short-term spike in churn. And guess what? I'd do it all again exactly the same way. This is the fastest and most efficient path to our goal of \$20 million ARR within 10–15 months – and, more importantly, to the larger milestones beyond.

Ad Astra.



Kind regards,
Nick Lisette
CEO, Blackpearl Group



Highlights

1 October 2024

31 December 2024

Annual Recurring Revenue

\$11.1m 

As of 31 December 2024.
Up 7% from the previous quarter Q2 FY25.
100% increase YoY

Subscription Revenue

\$2.1m 

For Q3 FY25.
Up 24% from the previous quarter Q2 FY25.
79% increase YoY

Annual Recurring Revenue Per Employee

\$271k

As of 31 December 2024.
Down 4% from the previous quarter Q2 FY25.
47% increase YoY

Revenue Churn

9.4%

As of 31 December 2024.
Churn has increased 5.7ppt YoY and increased 5.4ppt from the previous quarter.

Gross Profit Margin

72%

Was 73% in Q3 FY24 and 73% in the previous quarter Q2 FY25.

Top 10 Customers % of Revenue

18%

As of 31 December 2024.
A 7ppt increase YoY and a 8ppt decrease on previous quarter Q2 FY25.

Note:

- Comparative figures relate to Q3 FY24 unless otherwise stated
- Figures are in NZD\$ unless otherwise stated
- ppt stands for percentage points

Commentary from the CFO

When I joined Blackpearl Group, the company had access to capital and a clear commitment to delivering value for shareholders. My goal is to prepare the business for sustainable growth and to support our CEO, Nick, in driving the organisation towards its next milestone of \$20 million in Annual Recurring Revenue (ARR). Achieving this milestone requires operational readiness and disciplined execution.

With only 41 people in the company, including the recent necessary hires, we have agreed to scale using the resources available to us. This includes making critical decisions to position ourselves for sustainable growth.

The lowest-tier offering of our Pearl Diver product previously strained our operations due to manual onboarding and labour-intensive enablement, which targeted the lowest end of the SMB market in the US. Transitioning away from these customers has been essential to align with our goals and deliver increased shareholder value.

This strategic focus is already delivering measurable outcomes. Blackpearl Group's Q3 FY25 results demonstrate the strength of our realigned approach and the resilience of our business model. Even within a challenging quarter, while addressing non-ICP customers, ARR has increased by 100% year-on-year to \$11.1 million, with subscription revenue rising 79% year-on-year to \$2.1 million. These figures highlight robust market demand and the effectiveness of our pricing strategies in capturing value.

As part of our strategy to focus on higher-value customers, we have seen significant growth in Average Order Value (AOV), which increased 91% year-on-year. This showcases the effectiveness of our efforts to drive greater value from our customer base while maintaining a strong ARR per employee of \$271,000, well above industry benchmarks.

The strategic refinement of our ICP has resulted in an increase in churn to 9.4% for this time period. Moving away from lower-tier offerings towards a self-service model designed for a more sophisticated ICP within the US SMB market aligns with our long-term vision. Enhanced product functionality now provides automated time to value, reducing operational strain and creating a foundation for sustainable growth.

Looking ahead, Blackpearl Group remains focused on achieving our goal of \$20 million ARR while enhancing operational efficiency. These priorities will support long-term growth and reinforce the company's position as a leader in the market, ultimately delivering greater value for shareholders.



Jean Arlove
Chief Financial Officer

Key Commentary

Annual Recurring Revenue (ARR)

\$11.1m 

Achieving growth even during our most challenging quarter, ARR doubled year-over-year to \$11.1m, demonstrating consistent customer acquisition. This shows strong team execution and the growing appeal of our AI-driven solutions in the USA SME market as we continue to refine and evolve our ICP.

Subscription Revenue

\$2.1m 

Subscription revenue increased 79% year-over-year, reaching \$2.1m for this quarter. The initiatives implemented to address the lag between subscription revenue recognition and ARR growth have started to show results, demonstrating improved alignment and efficiency in revenue realisation.

Gross Profit Margin

72%

Gross profit margin held steady at 72%, demonstrating the scalability of our platform and its ability to deliver strong results with minimal cost increases. As we continue to grow, maintaining operational efficiency remains a key focus to support growth and future investments.

Revenue Churn

9.4%

Revenue churn rose to 9.4% for this period, reflecting a strategic decision to phase out non-ideal customer accounts. This deliberate optimisation aligns with our focus on profitability and long-term growth, ensuring resources are directed toward high-value customers who align with our tighter ICP.

Annual Recurring Revenue Per Employee

\$271k

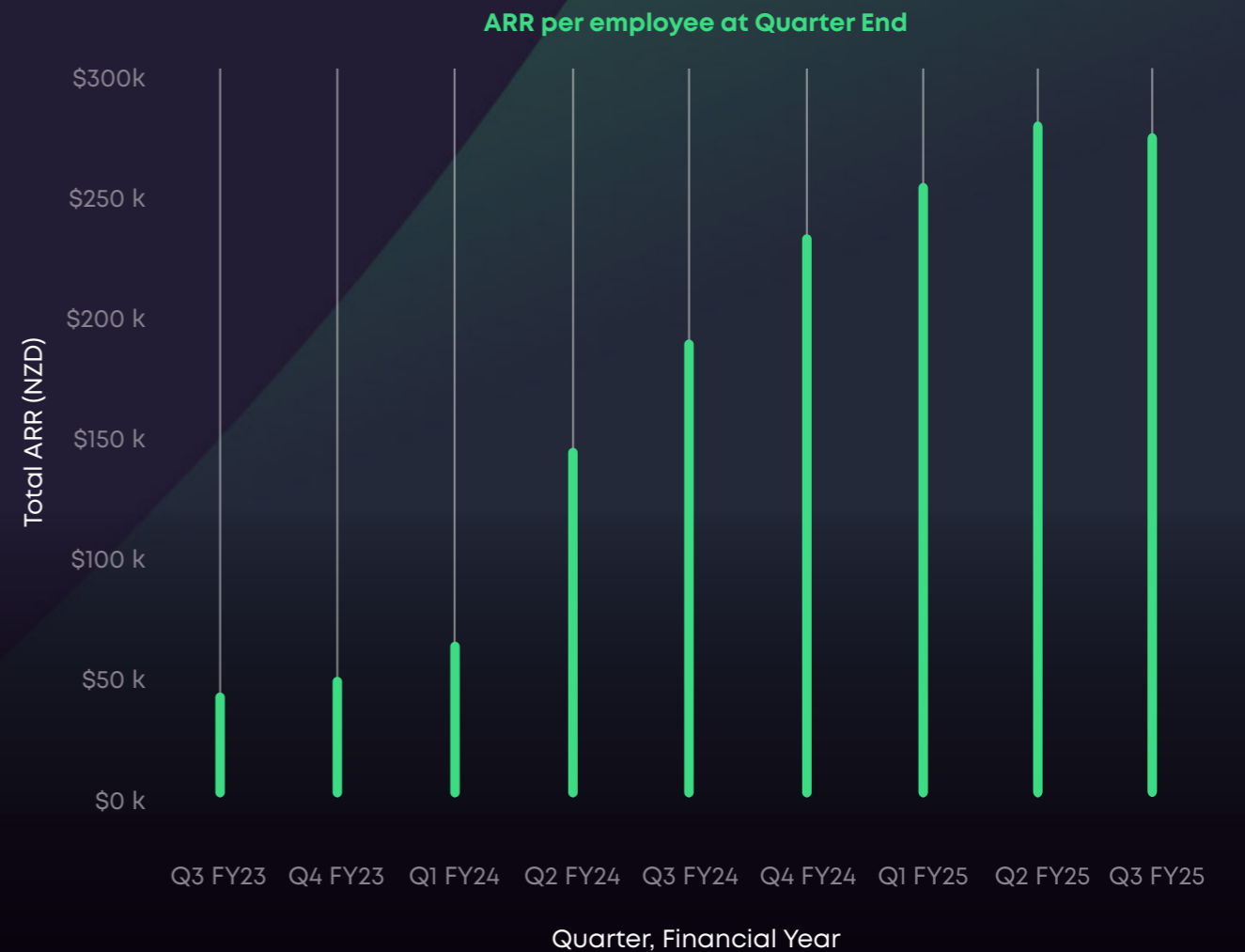
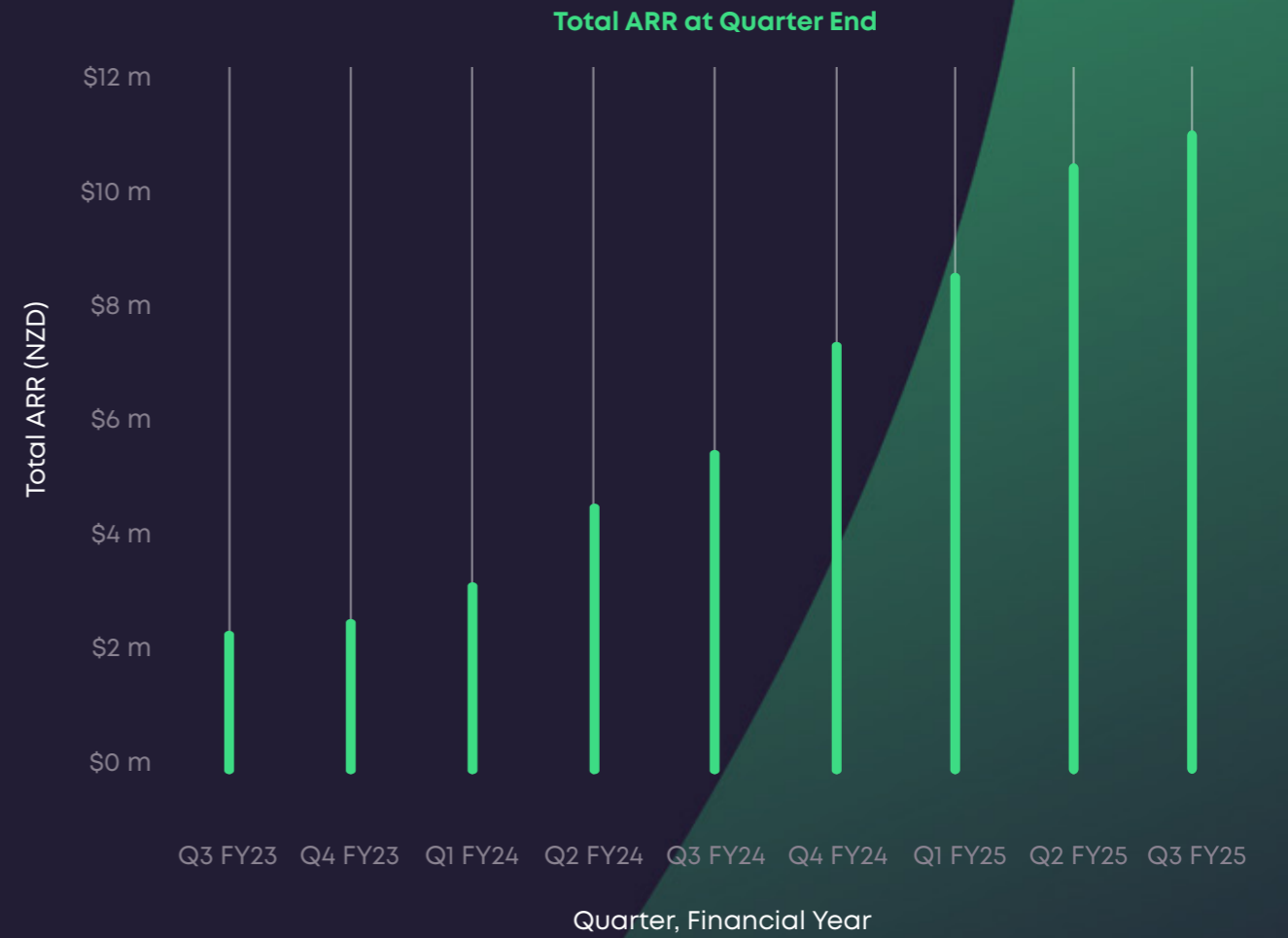
ARR per employee decreased slightly to \$271k due to planned team expansion. Despite this, it remains well above the industry median*, reflecting the efficiency and scalability of Blackpearl Group's operations. This highlights our ability to grow while maintaining strong performance relative to industry standards, supporting our long-term goals.

Top 10 Customers: % of Revenue

18%

Top 10 customers contributed 18% of total revenue, an increase reflecting deeper engagements and opportunities with key accounts. This growth aligns with our strategy to target higher-value customers, better suited to our product offering, and drive longer customer lifetime value.

Source: High Alpha and OpenView, "2024 SaaS Benchmarks Report"



Future Outlook

The exponential growth of AI technology demands relentless speed and innovation. To thrive, businesses must embrace disruption: disrupt the industry, disrupt themselves, and move swiftly to stay ahead.

As the adage goes, “If you’re not breaking things, you’re not going fast enough.” This mindset drove us to make bold changes last quarter – strengthening our technical resilience, fortifying our competitive advantage, and optimising long-term efficiency.

We are particularly excited about the new service we will beta-launch in February. This platform enables Blackpearl Group to enter the US small-to-medium business market from a different vector – individual users. With potential global applications, its self-service and zero-touch design opens entirely new markets and opportunities.

Alongside this, our strategic focus on high-value customer segments and optimising Pearl Diver’s features continues to deliver results. By prioritising these segments, we are driving profitability while reducing supply costs.

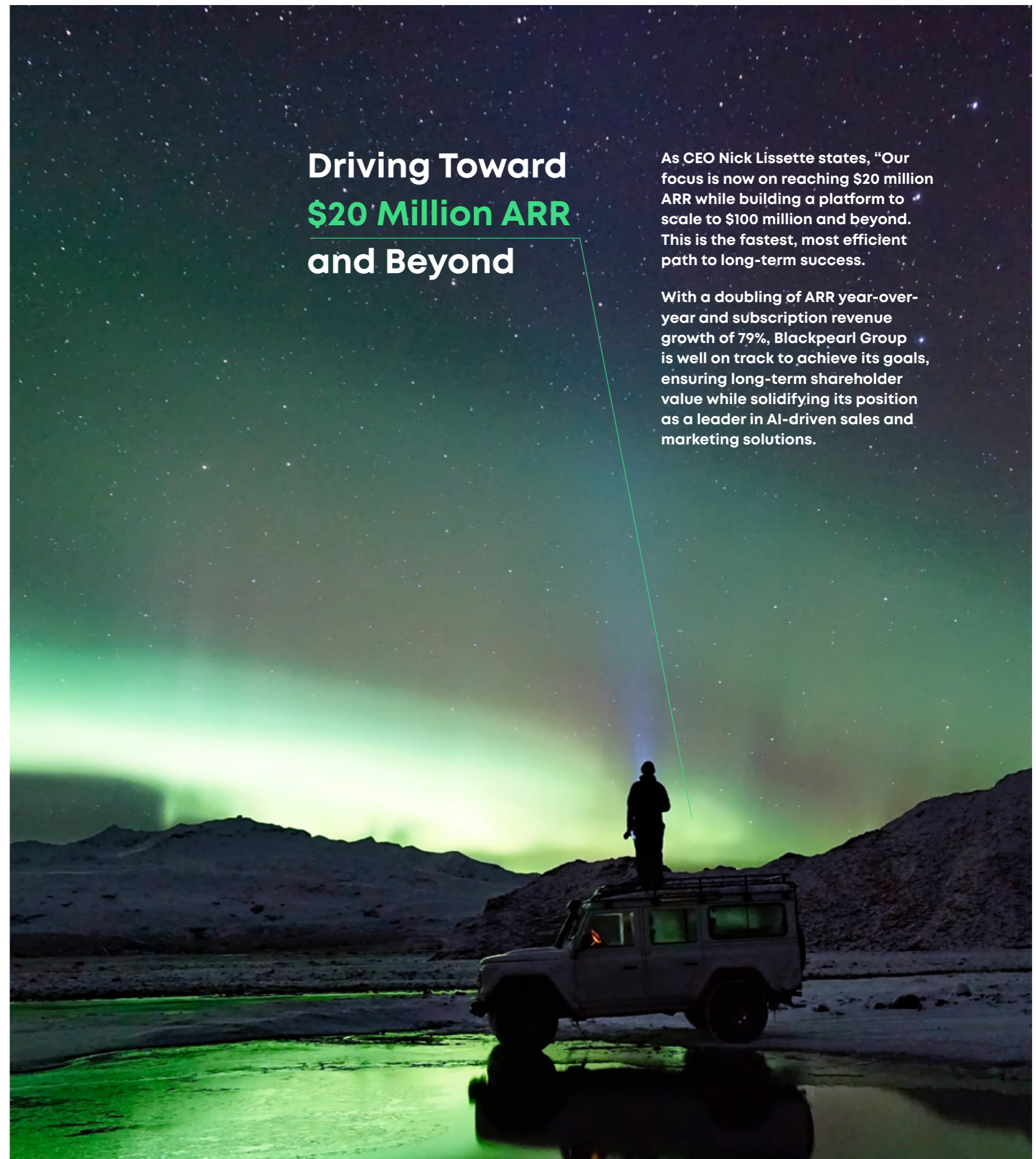
The future of AI is transformative and limitless. By staying agile, taking calculated risks, and fostering innovation, we are well-positioned to lead in this era of exponential growth and deliver sustained success for all stakeholders.

With a clear path forward, we remain committed to achieving \$20 million ARR within the next 10-15 months while building a platform for even greater milestones beyond.

Driving Toward **\$20 Million ARR** and Beyond

As CEO Nick Lissette states, “Our focus is now on reaching \$20 million ARR while building a platform to scale to \$100 million and beyond. This is the fastest, most efficient path to long-term success.

With a doubling of ARR year-over-year and subscription revenue growth of 79%, Blackpearl Group is well on track to achieve its goals, ensuring long-term shareholder value while solidifying its position as a leader in AI-driven sales and marketing solutions.



About Blackpearl Group

Blackpearl Group is a market-leading data technology company that pioneers AI-driven, sales and marketing solutions for the US market.

Specifically engineered for small-medium-sized businesses (SMEs), Blackpearl Group consistently delivers exceptional value to its customers. Our mantra is simple: **'Creating Motivating Opportunities.'**

Blackpearl creates the opportunities that motivate action. We create high-impact products that pivot at speed to serve what businesses really need, kick-starting action – turning data into dollars.

Founded in 2012, Blackpearl Group is based in Wellington, New Zealand, and Phoenix, Arizona.

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