

\$1.2m contract win & upgraded forecasts

1st May 2019

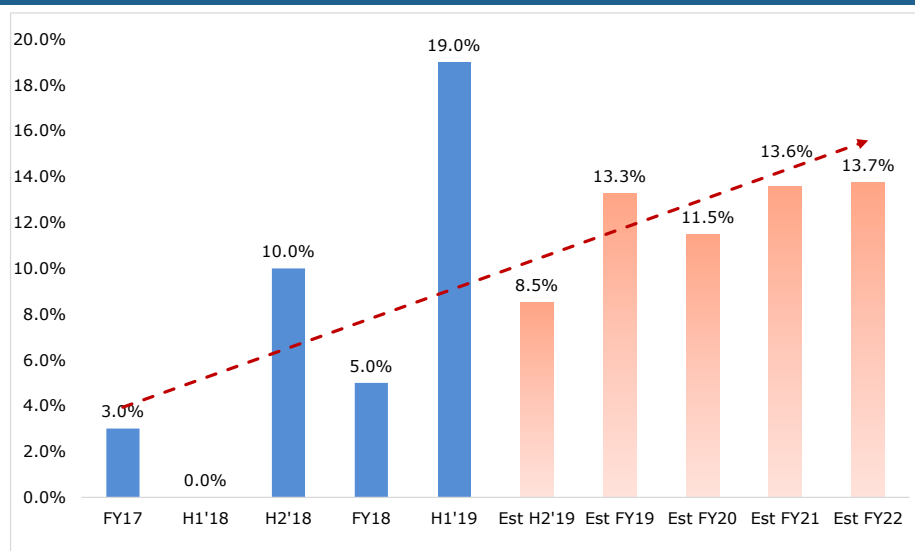
Beating expectations and securing large contracts with blue chip clients are two of the best ways of building a world class company. This morning Blancco achieved both.

Not only **landing a new 3 year \$1.2m expansion agreement** with an existing Fortune 500 software group to provide its Drive Erasure solution across their worldwide data centre footprint. But also saying that **FY19 sales would be "marginally" and adjusted EBIT "comfortably" ahead of consensus**. Driven by a whole host of macro trends – not least concerns over ID theft / cybercrime, tightening regulation (eg EU GDPR & PCI DSS, 2018 California Consumer Privacy Act, etc), the re-provisioning of 100ms of smartphones/servers every year and the desire to reduce corporate IT costs without compromising security.

Forecasts remain conservatively pitched

What's more, these themes are gaining traction with politicians, corporates, environmentalists and consumers everywhere. In turn enhancing momentum at Blancco, where **we have revised upwards our FY19 turnover, EBIT (pre SBPs) and net debt estimates** to £30.5m (from £30.0m), £3.2m (£2.7m) and £1.8m (£2.0m) respectively. Illustrating the **positive operating leverage**, since **most of the incremental revenue falls straight to the bottom line**. For FY20-21 though, the forecasts have been prudently left unchanged, leaving plenty of scope for further upgrades as the next 12-24 months unfold.

Estimated LFL sales growth rates



Source: Equity Development

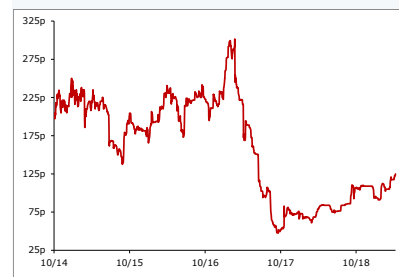
Raising valuation to 160p/share vs 150p before

Better still for patient investors - if we're right, then **this positive setup has all the hallmarks of a 'multi-year, multi-bagger'**. Exactly over what timeframe and the magnitude is anyone's guess, albeit **we are sufficiently confident to lift our valuation once again** - this time from 150p to 160p/share.

Company Data

EPIC	AIM:BLTG
Price (prior close)	125p
52 week Hi/Lo	125p/67p
Market cap	£81.5m
ED valuation / share	160p
Net debt (Est. Jun'19)	£1.8m
Share count	65.2m
Avg. daily volume	60k

Share Price, p



Source: Share cast

Description

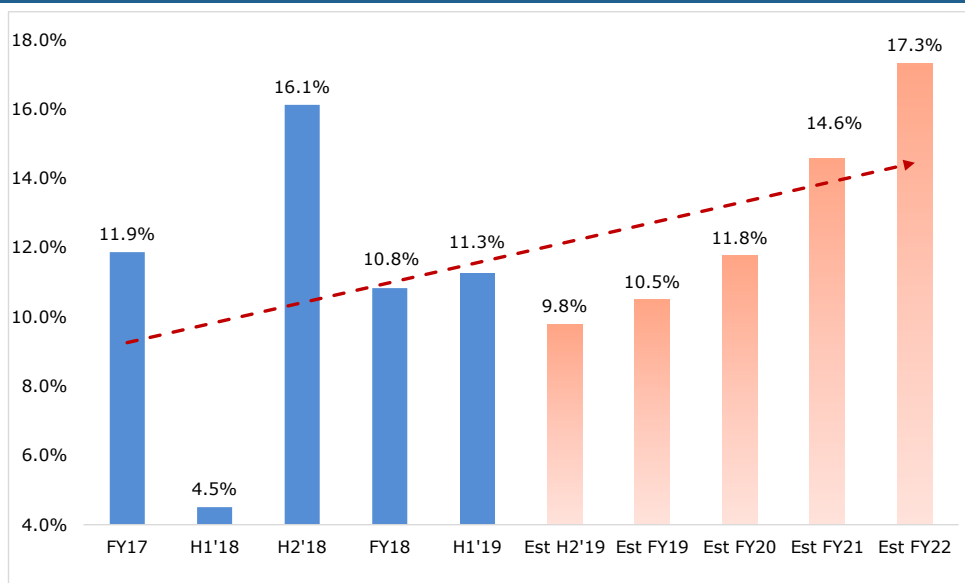
Blancco is the world's leading developer of 'data erasure' software, used to protect governments and corporates from ID/data theft, ransomware and cyber-crime, along with being a pioneer in mobile device diagnostics. The business is materially larger than its closest competitor, and led by CEO Matt Jones, CFO Adam Moloney and non-exec Chairman Rob Woodward.

More than 95% of turnover relates to 'repeat/subscription' orders (performing >50,000 erasures/day), thus providing excellent visibility. With regards to overseas exposure, only ~10% is denominated in £ compared to \$ (47%), € (18%), Yen (18%) and other (7%). Headcount as at Dec'18 was 265 (+11% vs 239 LY).

Next news: Capital Markets day 3rd June

Paul Hill (Analyst)
0207 065 2690
paul.hill@equitydevelopment.co.uk

Forecast EBIT margins (pre share based payments, SBPs)



Source: Equity Development

Data centre space alone could be worth >\$100m

Sure nothing is guaranteed in life, but it would take a pretty brave man to bet against the ongoing proliferation of digital data, cloud adoption, increased regulatory scrutiny and cybercrime. All strong secular stories that are set to power Blanco's growth for many years ahead.

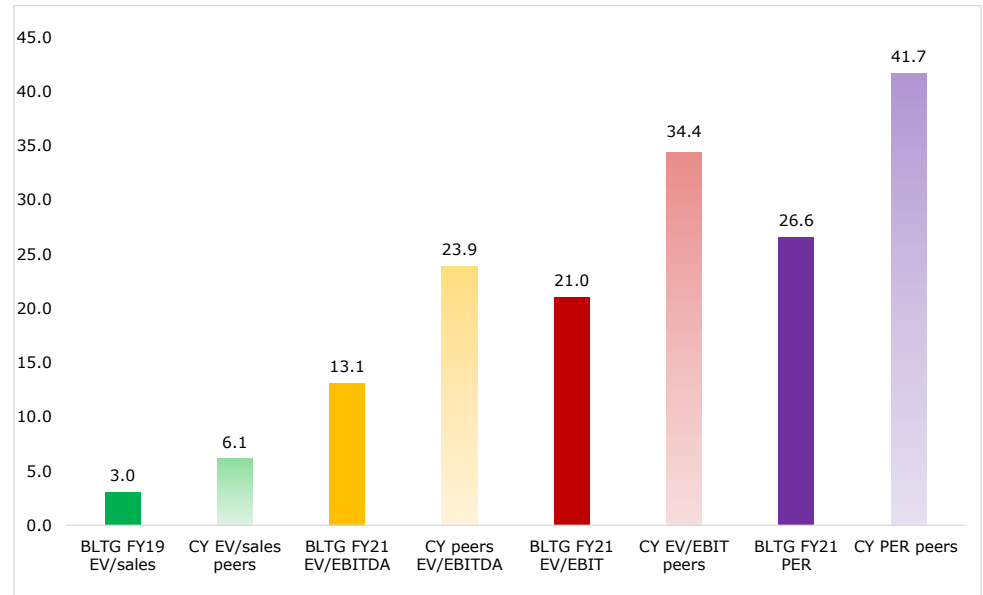
Plus, as a bit of fun. If 1 Fortune 500 enterprise can generate \$500k of annualised revenues, then just think how much the other 499 might contribute. In theory, **significantly >\$100m pa, in a sector where Blanco is presently the 'category killer'**. And that's without factoring in the firm's other \$100m+ addressable markets in mobile, ITAD and diagnostics.

Elsewhere, Blanco is making **good progress too in establishing its Channel distribution** strategy in order to capture a substantial piece of the rapidly expanding Data Centre / Enterprise pie. Whilst at the same time, **renewing/signing numerous deals with international organisations across all main geographies** – along with continuing to invest in mobile, and cementing its position as a diagnostics leader.

Stock trades at an undeserved discount to peers

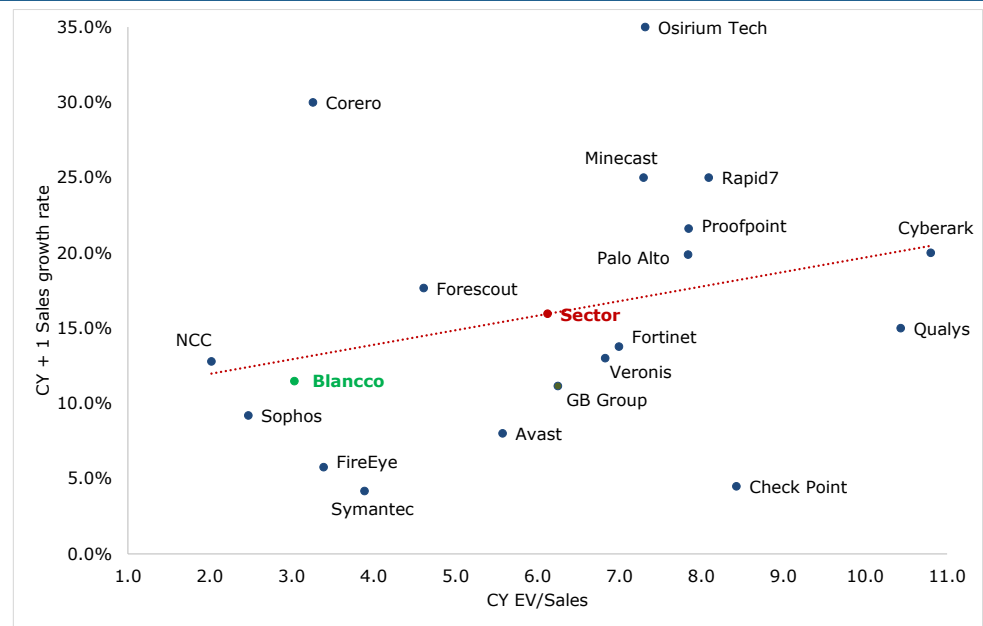
The good news is we're only at the start of the journey, with the stock trading at an unjustified discount the broader cyber-security sector (see below), particularly in respect of EV/sales.

Blanco valuation multiples vs cyber security peers



Source: Equity Development. Blanco adjusted for estimated impact of JVs and SBPs

Current year EV/sales multiples vs CY+1 revenue growth



Source: Equity Development. Blanco adjusted for estimated impact of JVs

Increasing sales visibility aided by channel partners

CEO Matt Jones concluding **“We are delighted to see Blanco’s strong operational progress driving profitable growth for the Group and that our strategy of focusing on the three core markets of Mobile, Data Centre / Enterprise and ITAD is delivering new contracts across the business, providing the Group with enhanced earnings visibility. The impressive performance from our team and our continued expansion of relationships with blue-chip Channel partners continues to support our confidence in the Group’s ability to deliver long term sustainable growth. We look forward to hosting our Capital Markets event in London on 3 June.”**

Lastly, the majority of the expected turnover from the aforementioned \$1.2m contract will be recognised in FY20 & FY21. Additionally there is "potential for the [amount] to increase as the customer scales".

Summary projections

Blancco Technology Group (June year end) - continuing	2015 Act £'000s	2016 Act £'000s	2017 Act £'000s	2018 Act £'000s	2019 Est £'000s	2020 Est £'000s	2021 Est £'000s	2022 Est £'000s	2023 Est £'000s	2024 Est £'000s
				Restated						
Data centre / Enterprise				8,600	10,353	12,145	14,477	17,257	20,570	24,519
ITAD				8,600	9,550	10,410	11,555	12,826	14,236	15,802
Mobile				9,723	10,597	11,445	12,590	13,849	15,233	16,757
Turnover	15,014	21,196	26,914	26,923	30,500	34,000	38,621	43,931	50,040	57,078
Growth rate %		41.2%	27.0%	0.0%	13.3%	11.5%	13.6%	13.7%	13.9%	14.1%
Adjusted EBITDA (pre SBPs)		5,379	4,965	5,450	6,070	7,219	9,101	11,446	14,049	17,202
Margin %		25.4%	18.4%	20.2%	19.9%	21.2%	23.6%	26.1%	28.1%	30.1%
Adjusted amortisation & depreciation		-781	-1,770	-2,534	-2,870	-3,219	-3,471	-3,838	-4,044	-4,302
Adjusted EBIT (pre SBPs)	4,023	4,598	3,195	2,916	3,200	4,000	5,629	7,608	10,004	12,900
EBIT margin %	26.8%	21.7%	11.9%	10.8%	10.5%	11.8%	14.6%	17.3%	20.0%	22.6%
Share based payments (SBPs)	-371	-1,167	-675	255	-1,000	-1,038	-1,085	-1,135	-1,188	-1,243
Adjusted EBIT (post SBPs)	3,652	3,431	2,520	3,171	2,200	2,961	4,544	6,473	8,817	11,657
Margin %	24.3%	16.2%	9.4%	11.8%	7.2%	8.7%	11.8%	14.7%	17.6%	20.4%
Underlying net interest	-624	-348	-305	-263	-450	-200	50	0	0	0
Adjusted PBT (pre SBPs)	2,653	4,095	2,890	2,653	2,750	3,800	5,679	7,608	10,004	12,900
Adjusted PBT (post SBPs)	2,282	2,928	2,215	2,908	1,750	2,761	4,594	6,473	8,817	11,657
JV minorities (Japan 51% & APAC 70%)		-238	-448	-67	-378	-425	-454	-485	-519	-555
Implied corporate tax rate	-16.9%	-21.6%	-15.5%	-2.5%	-22.0%	-22.0%	-22.0%	-22.0%	-22.0%	-22.0%
Adjusted EPS (p) - Pre SBPs	2.8	4.2	2.8	3.6	2.8	3.9	6.0	8.1	10.7	13.9
EPS growth rate		46.2%	-33.1%	27.8%	-21.6%	38.5%	55.1%	35.7%	32.4%	29.2%
Adjusted EPS (p) - post SBPs	2.4	2.9	1.8	4.0	1.6	2.6	4.7	6.8	9.4	12.5
EPS growth rate		17.7%	-36.6%	116.6%	-60.7%	68.8%	79.2%	44.4%	37.9%	32.9%
Dividend (p)	5.0	2.0	0.7	0.0	0.0	0.0	1.0	1.4	1.9	2.5
Yield	4.0%	1.6%	0.6%	0.0%	0.0%	0.0%	0.8%	1.1%	1.5%	2.0%
Dividend cover		2.1	3.8				6.0	6.0	5.7	5.6
Valuation benchmarks										
P/E ratio (pre SBPs)	44.0	30.1	45.0	35.2	44.9	32.4	20.9	15.4	11.6	9.0
PER (post SBPs)	51.1	43.4	68.5	31.6	80.4	47.6	26.6	18.4	13.3	10.0
EV/Sales (adjusted for Est minority JVs)			3.3	3.5	3.0	2.7	2.4	2.1	1.8	1.6
EV/EBIT (pre SBPs)		18.1	26.1	28.6	26.0	20.8	14.8	10.9	8.3	6.5
EV/EBIT (post SBPs & adjusted for Est minority JVs)		26.6	41.9	26.9	48.6	34.5	21.0	14.2	10.2	7.6
EV/EBITDA (post SBPs & adjusted for Est minority JV)		30.4	27.0	14.1	23.2	18.1	13.1	9.7	7.6	5.9
PEG ratio (post SBPs)					0.69	0.34	0.41	0.35	0.30	0.30
EBITDA drop through rates			21.5%	19.3%	20.1%	20.6%	22.5%	24.9%	27.1%	29.2%
Capitalised R&D as % of sales			9.8%	8.5%	11.0%	11.0%	9.0%	8.0%	8.0%	8.0%
Cash flow yield (OCF/MrkCap post R&D cap)			2.9%	1.8%	2.7%	2.7%	5.2%	7.4%	9.3%	11.7%
Sharecount (000s - incl EBT from FY18)	77,550	71,537	56,668	61,714	63,456	65,850	66,508	67,173	67,845	68,523
Net cash/(debt)	7,786	1,042	1,732	-2,710	-1,800	-391	2,907	7,721	13,683	21,069
Shareprice (p)	125									

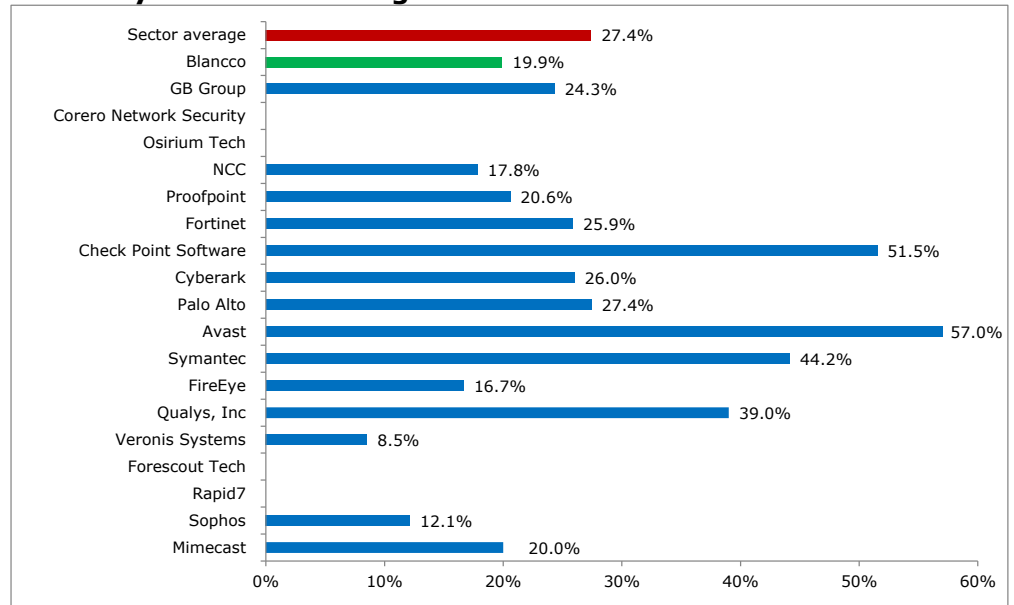
Source: ED estimates, Company historic data. . Note: Adjusted EBITA, PBTA and EPS excludes non-recurring items, share based payments and the amortisation of 'purchased goodwill' but is stated after capitalised internal R&D.

Key risks

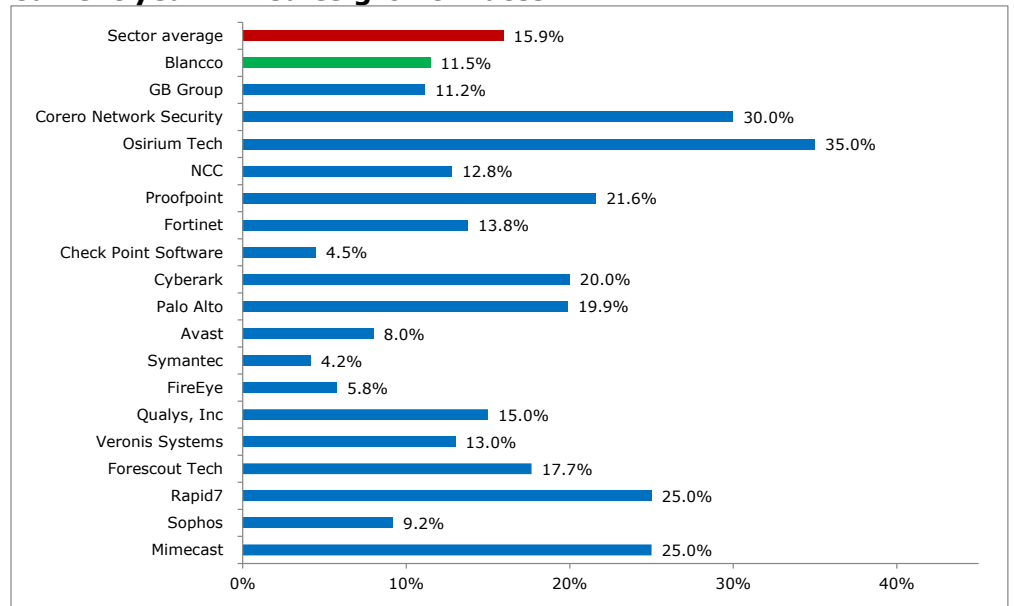
- Unforeseen events, such as severe economic downturn, potentially delaying client IT investments.
- Anticipated growth/profitability may take longer than originally envisaged, cost more or not be fully realised.
- Larger software deals can lead to more lumpy revenues.
- Foreign exchange fluctuations, albeit this is primarily a translation risk with 90% of Blanco's turnover being generated outside of the UK.
- Regulatory and tax changes.
- Competition may intensify due to new/existing players.

Appendix - Valuation benchmarks & industry KPIs

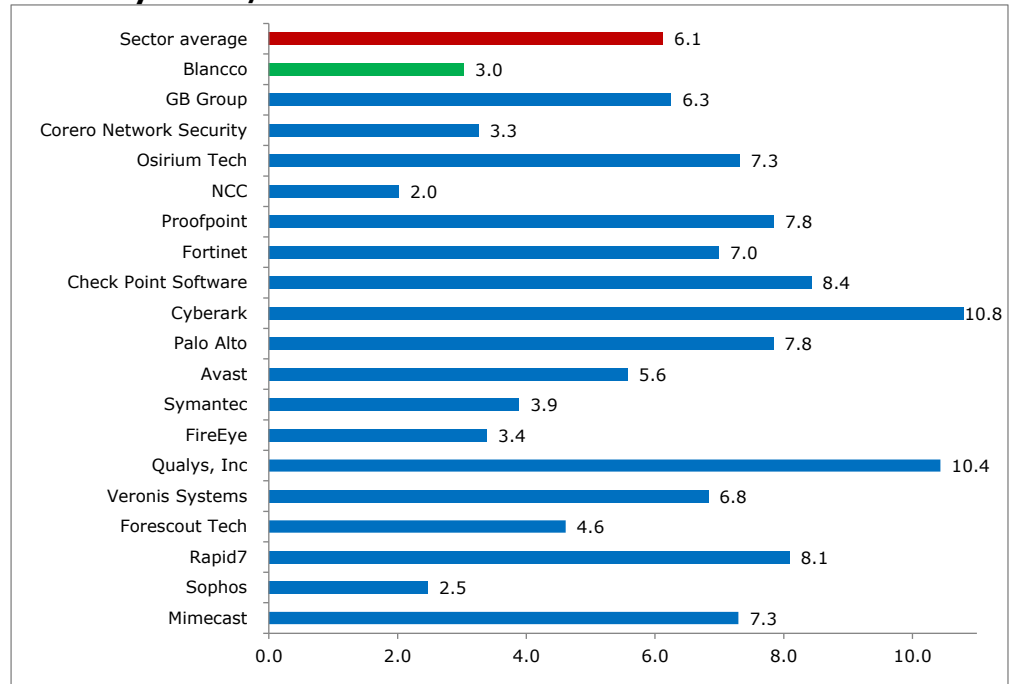
Current year EBITDA margins



Current year + 1 sales growth rates

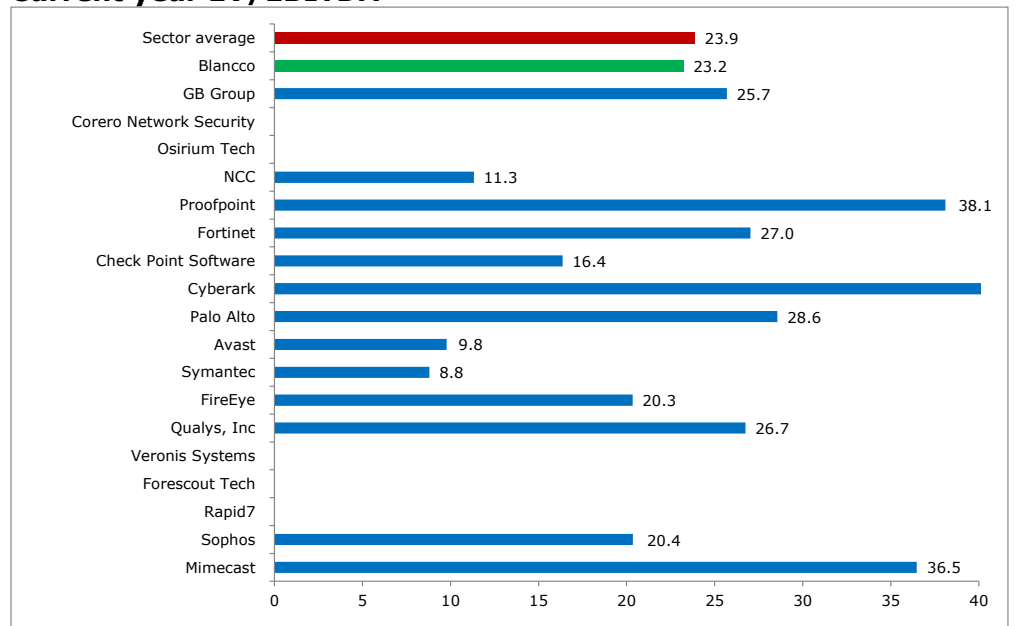


Current year EV/sales

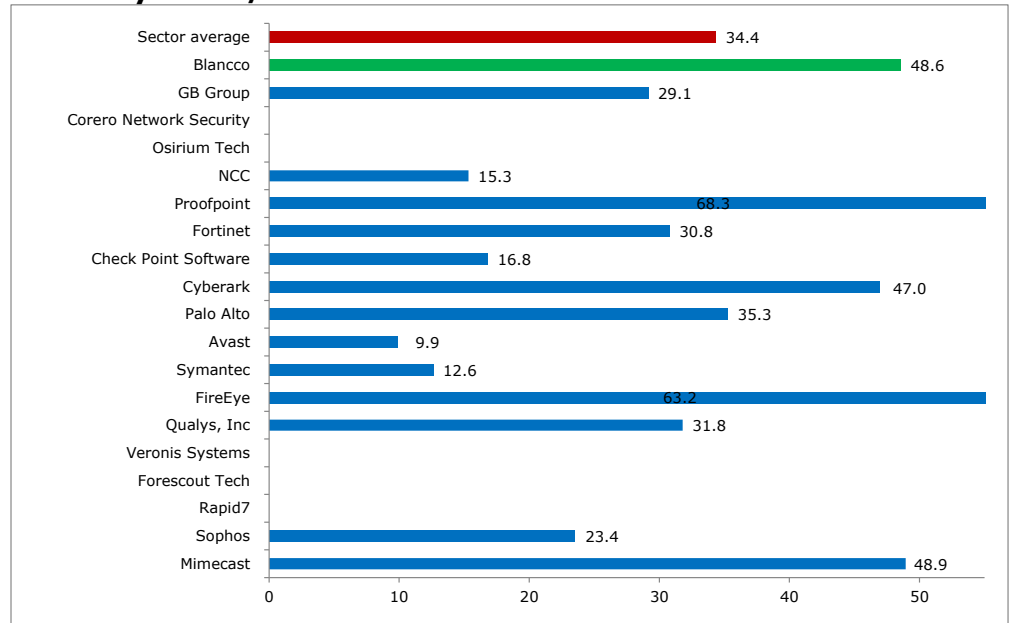


Note: Blanco multiples adjusted for JVs (eg Japan)

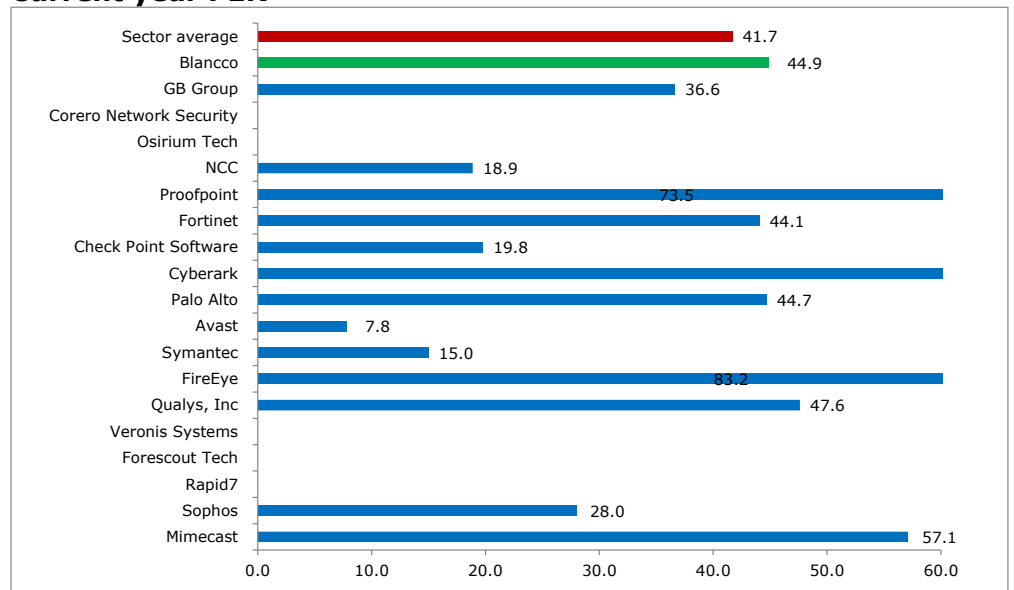
Current year EV/EBITDA



Current year EV/EBIT



Current year PER





Investor Access

Hannah Crowe

Direct: 0207 065 2692

Tel: 0207 065 2690

hannah@equitydevelopment.co.uk

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