

## Blancco is back & beating expectations

11th July 2019

Watershed events by their very nature have the power to reshape entire industries. Take cyber-security, which this week saw the UK's data privacy regulator (ICO) slap fines of £183.4m & £99.2m for GDPR breaches on British Airways & Marriott Hotels respectively. Enormous sums of money that will surely send shivers down the spines of Boardrooms worldwide.

Indeed these penalties dwarf anything witnessed before. Potentially triggering a mass clear-out of old, redundant information, alongside a tsunami of new orders for data erasure specialists. Not that Blancco needs any more help, since it is already **lifting the competitive bar in terms of innovation**, as evidenced by this morning's **positive y/e trading update**.

### 13.3% LFL sales growth with plenty more to come

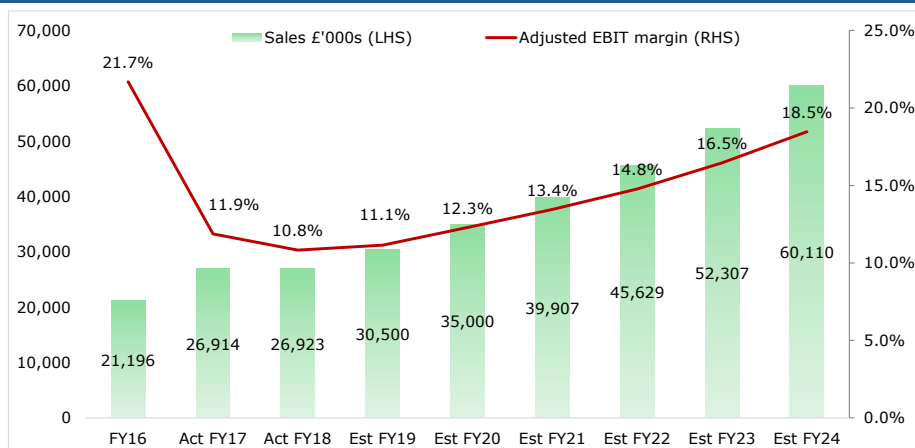
Here, **FY19 profits and cashflows both exceeded consensus**, on turnover that was in line with previously raised expectations (ED £30.5m, +13.3% organic, vs £26.9m LY). **Net funds closed June at £0.1m** (vs our -£1.8m figure & -£2.7m LY), despite investing heavily in new product development.

Similarly, we estimate that **FY19 adjusted EBIT** (pre share based payments, SBPs) rose to **£3.4m** (£2.9m LY), aided by favourable mix, tight cost control and (as yet) unspent R&D. Whilst **underlying cash conversion came in at c. 117%** (123% LY), reflecting healthy upfront subscription payments, and after reversing the one-off \$1.5m joint IP project with ZroBlack.

### Turbo charging the mobile product suite

This initiative aims to create a 'game-changing' firmware solution that will **halve the time it takes to erase handsets**. A significant advance for the sector, and scheduled for rollout by the end of Sept'19. In return, ZroBlack will receive 14.5% of the associated revenue from new clients that incorporate this technology up until Apr'22.

### Revenues and adjusted EBIT (pre SBPs) projections

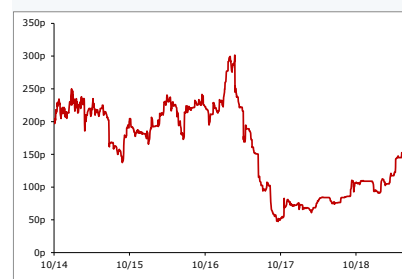


Source: Equity Development

#### Company Data

EPIC	AIM:BLTG
Price (prior close)	127p
52 week Hi/Lo	154p/74p
Market cap (post placing)	£94.6m
ED valuation / share	174p
Proforma net cash	£6.0m
Share count	74.5m
Avg. daily volume	50k

#### 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:** Prelims sept'19

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## Highly synergistic €5.25m acquisition

Elsewhere, Blanco also announced the €5.25m acquisition (split €3.25m cash & €2m equity, or 1.31m new shares) of YouGetItBack Ltd (trading as Inhance), which we believe (like ZroBlack) **will materially enrich the group’s IP portfolio**.

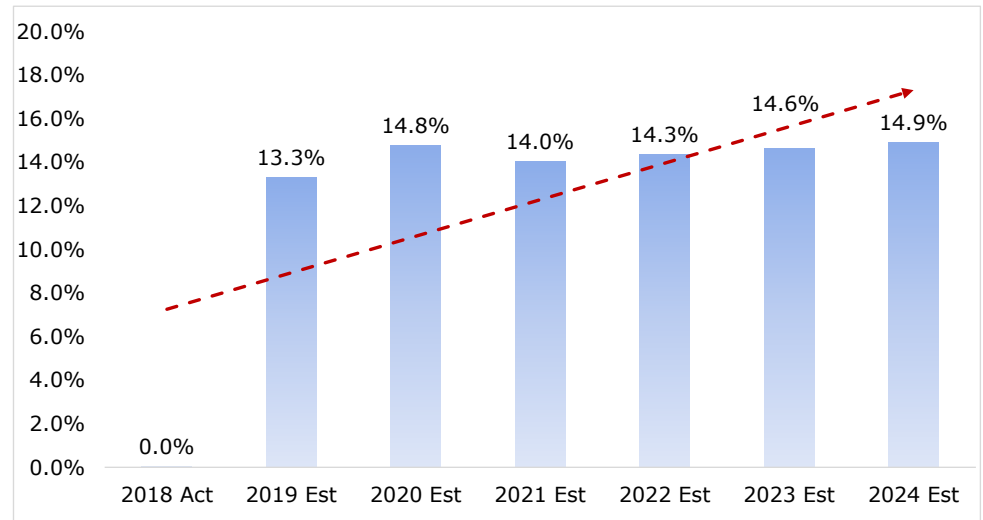
Inhance was founded in 2005, employs 18 staff (mostly software engineers) and is based in Cork, Ireland. It initially developed security tagging applications, but pivoted into mobile diagnostics. Recently launching a retail focussed, mobile app that enables a consumer to easily calculate the trade-in-value of their old handset, and sell the device without having to visit a store. Importantly too, we understand **the product can detect screen damage** – something that is often critical for many of customers, such as network operators.

## Deal is earnings enhancing in year 1

With regards to the numbers, Inhance reported a €1.0m LBIT in 2018 on turnover of €1.2m. In May, it **secured its first large (\$50k/month) contract**, and we reckon will **deliver £1m of revenues in FY20, and be profitable**. Meaning that the transaction is not only **earnings enhancing**, but should also **enable Blanco to create a ‘1<sup>st</sup> of its kind’, fully integrated, ‘end-to-end’ mobile diagnostics & data erasure suite for users/retailers**.

What’s more, the software will be sold across the firm’s geographical footprint - where IDC anticipates that the global volume of handsets being traded-in should increase from 140m units in 2017 to 290m by 2022 (15.6% CAGR).

### Sales growth rates set to accelerate



Source: Equity Development

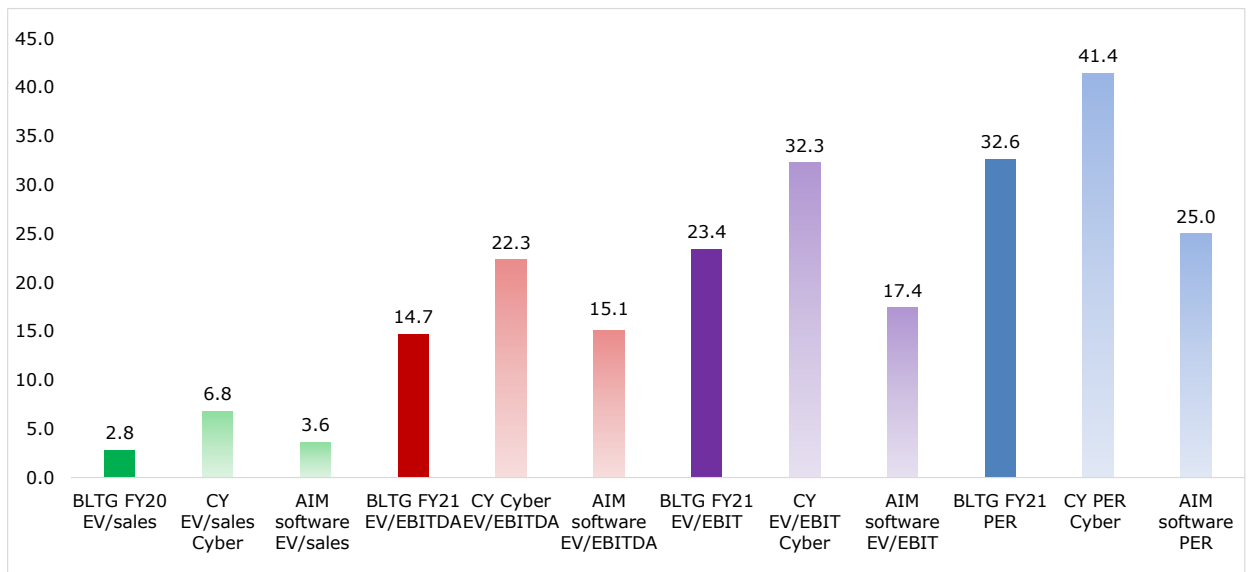
## £10m raised in over-subscribed placing at 125p

That said, in order to finance the deal and provide further growth capital, the company has raised £10m (gross) by issuing 8.0m new shares at 125p each (representing a 2% discount to last night’s closing price). Better still, given the buoyant market backdrop, tightening regulatory environment, increasing concerns over cyber-crime/warfare (eg recent Iran and US offensives), forthcoming introduction of 5G (re-IOT) and continuing proliferation of all things "smart", we think Blanco has the ideal conditions to churn out mid teen LFLs for many years ahead.

Moreover, the vast majority of its **income is derived from high volume, low cost, 'everyday repeat' services**. Hence providing robust forward visibility, downside resilience and substantially **de-risking our upwardly revised FY20 sales and adjusted EBIT (pre SBPs) forecasts of £35.0m and £4.3** respectively. Likewise, we have **lifted our valuation from 160p to 174p/share**.

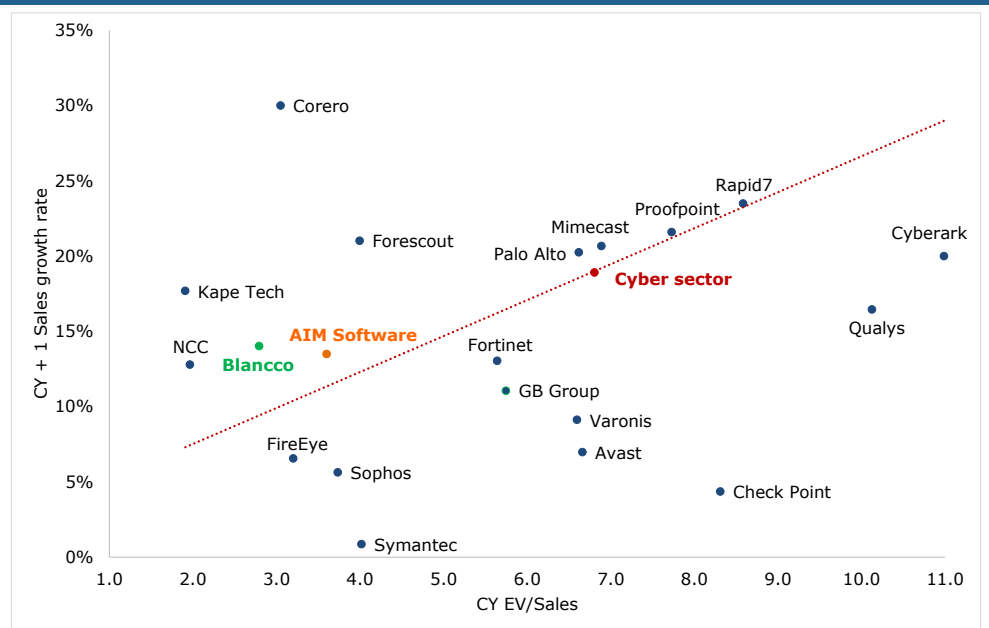
Acknowledging too, there is scope for upgrades as the year progresses, and we look forward in hearing more at the prelims in late September. **At 127p, the stock appears undervalued, trading on 2.8x EV/sales vs 6.8x for peers** (see below).

**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

## > 175% upside possible for patient investors

**Longer term**, Blancco should be able to achieve 25%+ EBITDA margins and sustainable LFLs of >14% pa. More than justifying an **EV/sales multiple of 4x by FY25** (adjusted for JVs) - **equivalent to a theoretical stock price of c.350p/share**, and a compound 18% RoI, or 2.75x fold return. With approx 90% of revenues generated overseas, **there is also a natural hedge for UK investors** against additional currency depreciation (£:\$1.25 spot), say in the event of a 'no-deal' Brexit.

## Growing rapidly, improving margins & enriching IPR

CEO Matt Jones adding "The acquisition of Inhance and the development of the IP relating to the ZroBlack Consulting Agreement provides Blancco with a full suite of products for diagnostic and erasure solutions in the mobile sector and [cements the Group's] position as a market leader. **We are confident that the initiatives that we have laid out today will make a meaningful contribution to Blancco's future growth, further accelerating rates of revenue and profit growth, over and above those increases that we have announced today and earlier this year.**"

### 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	2025 Est £'000s
				Restated							
Data centre / Enterprise				8,600	10,400	11,960	14,113	16,653	19,651	23,188	27,362
ITAD				8,600	10,200	10,710	11,246	11,808	12,398	13,018	13,669
Mobile				9,723	9,900	12,330	14,549	17,168	20,258	23,904	28,207
<b>Turnover</b>	<b>15,014</b>	<b>21,196</b>	<b>26,914</b>	<b>26,923</b>	<b>30,500</b>	<b>35,000</b>	<b>39,907</b>	<b>45,629</b>	<b>52,307</b>	<b>60,110</b>	<b>69,238</b>
Growth rate %		41.2%	27.0%	0.0%	13.3%	14.8%	14.0%	14.3%	14.6%	14.9%	15.2%
<b>Adjusted EBITDA (pre SBPs)</b>	<b>5,379</b>	<b>4,965</b>	<b>4,965</b>	<b>5,450</b>	<b>6,200</b>	<b>7,252</b>	<b>8,600</b>	<b>10,300</b>	<b>12,550</b>	<b>15,491</b>	<b>19,290</b>
Margin %		25.4%	18.4%	20.2%	20.3%	20.7%	21.6%	22.6%	24.0%	25.8%	27.9%
<b>Adjusted EBITDA (post SBPs)</b>	<b>4,212</b>	<b>4,290</b>	<b>4,290</b>	<b>5,705</b>	<b>5,300</b>	<b>6,308</b>	<b>7,612</b>	<b>9,264</b>	<b>11,464</b>	<b>14,351</b>	<b>18,092</b>
Margin %		19.9%	15.9%	21.2%	17.4%	18.0%	19.1%	20.3%	21.9%	23.9%	26.1%
Adjusted amortisation & depreciation		-781	-1,770	-2,534	-2,800	-2,952	-3,233	-3,561	-3,943	-4,389	-4,911
<b>Adjusted EBIT (pre SBPs)</b>	<b>4,023</b>	<b>4,598</b>	<b>3,195</b>	<b>2,916</b>	<b>3,400</b>	<b>4,300</b>	<b>5,367</b>	<b>6,739</b>	<b>8,607</b>	<b>11,102</b>	<b>14,379</b>
EBIT margin %	26.8%	21.7%	11.9%	10.8%	11.1%	12.3%	13.4%	14.8%	16.5%	18.5%	20.8%
Share based payments (SBPs)	-371	-1,167	-675	255	-900	-944	-988	-1,036	-1,086	-1,140	-1,198
<b>Adjusted EBIT (post SBPs)</b>	<b>3,652</b>	<b>3,431</b>	<b>2,520</b>	<b>3,171</b>	<b>2,500</b>	<b>3,355</b>	<b>4,379</b>	<b>5,704</b>	<b>7,521</b>	<b>9,962</b>	<b>13,181</b>
Margin %	24.3%	16.2%	9.4%	11.8%	8.2%	9.6%	11.0%	12.5%	14.4%	16.6%	19.0%
Underlying net interest	-624	-348	-305	-263	-450	-50	0	0	0	0	0
<b>Adjusted PBT (pre SBPs)</b>	<b>2,653</b>	<b>4,095</b>	<b>2,890</b>	<b>2,653</b>	<b>2,950</b>	<b>4,250</b>	<b>5,367</b>	<b>6,739</b>	<b>8,607</b>	<b>11,102</b>	<b>14,379</b>
<b>Adjusted PBT (post SBPs)</b>	<b>2,282</b>	<b>2,928</b>	<b>2,215</b>	<b>2,908</b>	<b>2,050</b>	<b>3,305</b>	<b>4,379</b>	<b>5,704</b>	<b>7,521</b>	<b>9,962</b>	<b>13,181</b>
JV minorities (Japan 51% & APAC 70%)		-238	-448	-67	-378	-432	-462	-495	-531	-571	-614
Implied corporate tax rate	-16.9%	-21.6%	-15.5%	-2.5%	-22.0%	-22.0%	-22.0%	-22.0%	-22.0%	-22.0%	-22.0%
<b>Adjusted EPS (p) - Pre SBPs</b>	<b>2.8</b>	<b>4.2</b>	<b>2.8</b>	<b>3.6</b>	<b>2.8</b>	<b>3.8</b>	<b>4.9</b>	<b>6.2</b>	<b>8.0</b>	<b>10.3</b>	<b>13.4</b>
EPS growth rate		46.2%	-33.1%	27.8%	-20.5%	35.9%	27.9%	26.6%	28.6%	29.5%	29.8%
<b>Adjusted EPS (p) - post SBPs</b>	<b>2.4</b>	<b>2.9</b>	<b>1.8</b>	<b>4.0</b>	<b>1.8</b>	<b>2.9</b>	<b>3.9</b>	<b>5.2</b>	<b>6.9</b>	<b>9.2</b>	<b>12.2</b>
EPS growth rate		17.7%	-36.6%	116.6%	-54.7%	59.4%	36.2%	32.5%	33.6%	33.6%	32.9%
<b>Dividend (p)</b>	<b>5.0</b>	<b>2.0</b>	<b>0.7</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>1.0</b>	<b>1.0</b>	<b>1.4</b>	<b>1.8</b>	<b>2.4</b>
Yield	3.9%	1.6%	0.6%	0.0%	0.0%	0.0%	0.8%	0.8%	1.1%	1.4%	1.9%
Dividend cover		2.1	3.8				4.9	6.0	5.8	5.6	5.5
<b>Valuation benchmarks</b>											
P/E ratio (pre SBPs)	44.7	30.5	45.7	35.8	45.0	33.1	25.9	20.4	15.9	12.3	9.5
PER (post SBPs)	51.9	44.1	69.6	32.1	70.9	44.5	32.6	24.6	18.4	13.8	10.4
EV/Sales (adjusted for Est minority JVs)			3.6	3.7	3.2	2.8	2.4	2.1	1.8	1.6	1.4
EV/EBIT (pre SBPs)		19.3	27.7	30.4	26.1	20.6	16.5	13.2	10.3	8.0	6.2
EV/EBIT (post SBPs & adjusted for Est minority JVs)		28.3	44.5	28.6	44.0	31.6	23.4	17.5	13.0	9.6	7.2
EV/EBITDA (post SBPs & adjusted for Est minority JV)		32.3	28.7	15.0	22.6	18.4	14.7	11.7	9.1	7.1	5.5
PEG ratio (post SBPs)				0.75	0.90	0.76	0.55	0.41	0.32		
EBITDA drop through rates			21.5%	19.3%	20.3%	20.5%	21.2%	22.1%	23.3%	24.9%	26.9%
Capitalised R&D as % of sales			9.8%	8.5%	11.0%	11.0%	9.0%	8.0%	8.0%	8.0%	8.0%
Cash flow yield (OCF/MrkCap post R&D cap)				2.5%	1.6%	3.3%	4.2%	5.3%	6.8%	8.8%	11.5%
Sharecount (000s - incl EBT from FY18)	77,550	71,537	56,668	61,714	68,111	75,161	75,912	76,672	77,438	78,213	78,995
<b>Net cash/(debt)</b>	<b>7,786</b>	<b>1,042</b>	<b>1,732</b>	<b>-2,710</b>	<b>100</b>	<b>8,500</b>	<b>11,436</b>	<b>15,330</b>	<b>20,309</b>	<b>26,748</b>	<b>35,117</b>
Shareprice (p)	127										

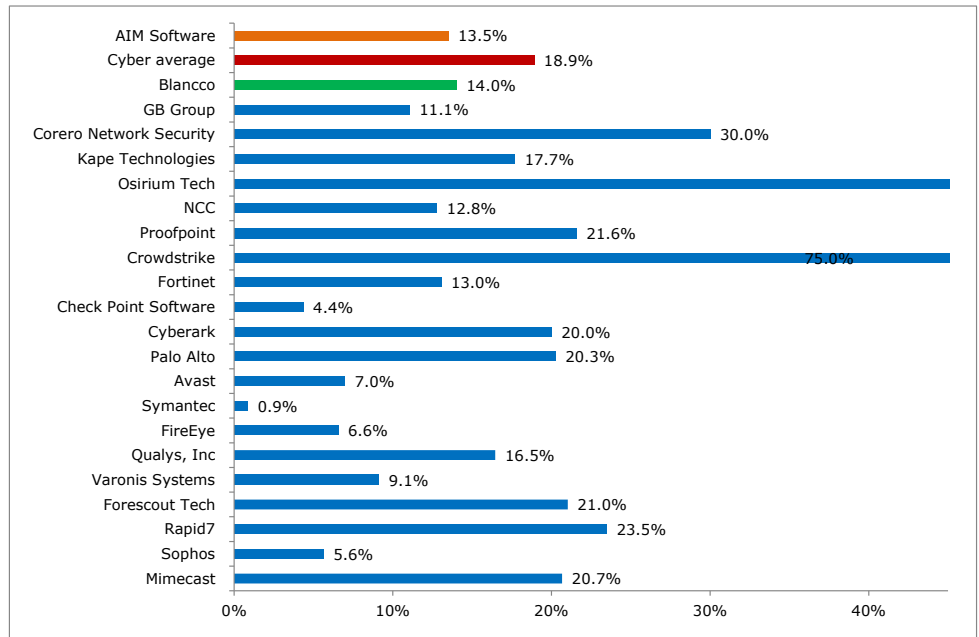
Source: ED estimates, Company historic data. . Note: Adjusted EBITA, PBT and EPS excludes non-recurring items, share based payments and the amortisation of 'purchased goodwill' but is stated after capitalised internal R&D.

## 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.

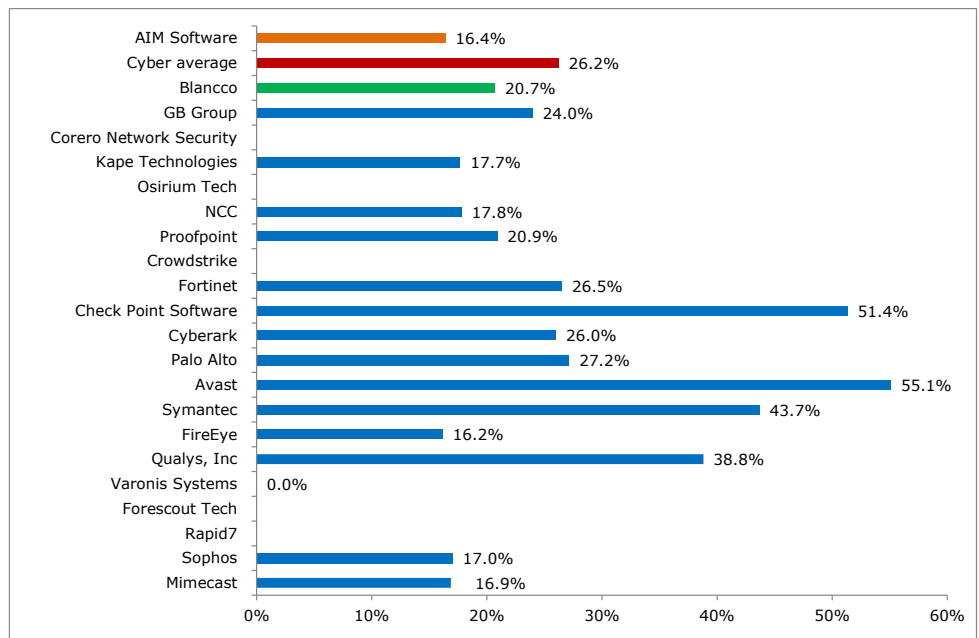
## Appendix - Valuation benchmarks & industry KPIs

### Current year + 1 sales growth rates



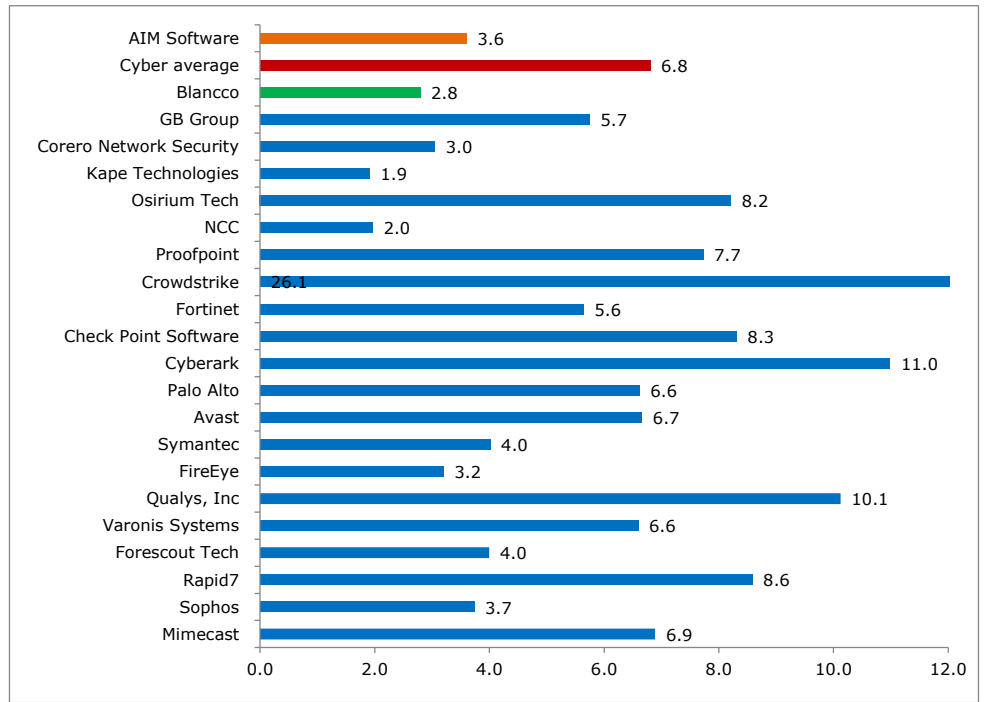
Source: Equity Development

### Current year EBITDA margins



Source: Equity Development

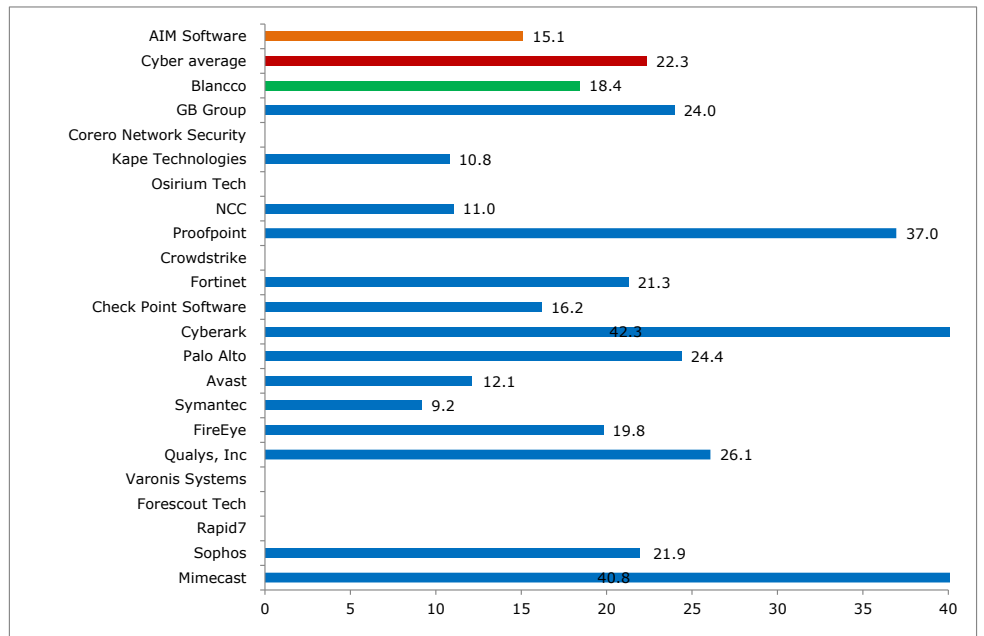
**Current year EV/sales**



Source: Equity Development

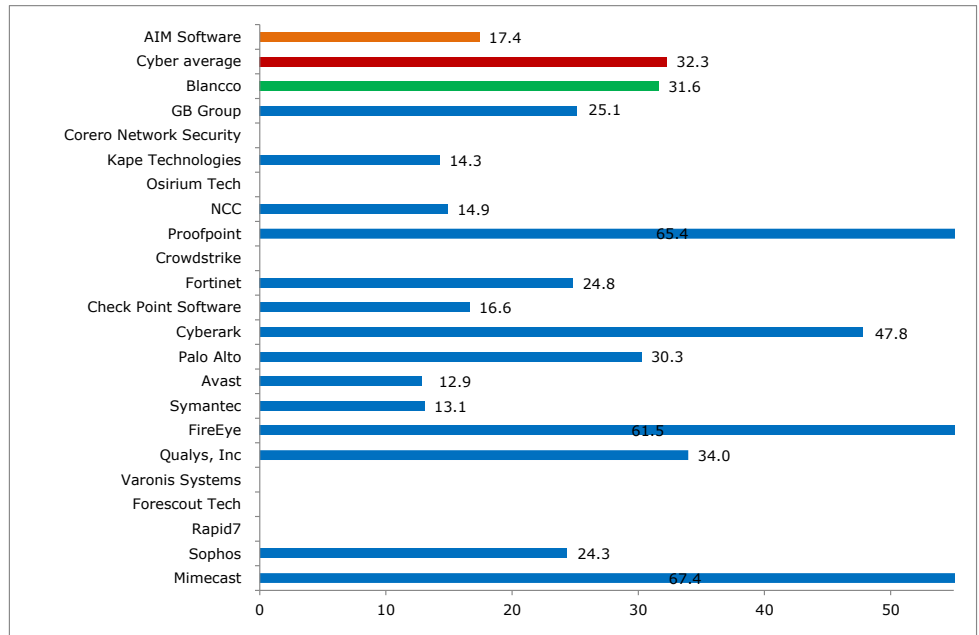
Note: Blanco multiples adjusted for JVs (eg Japan)

**Current year EV/EBITDA**



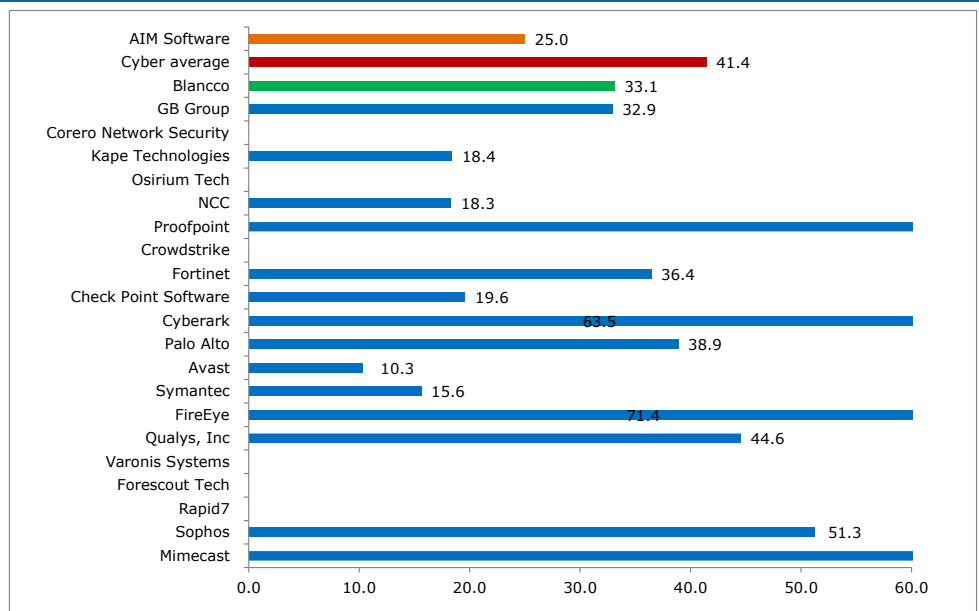
Source: Equity Development

### Current year EV/EBIT



Source: Equity Development

### Current year PER



Source: Equity Development





## Investor Access

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