

## EPS enhancing purchases of minority stakes

12th December 2019

Corporate life is full of tricky decisions, often having to weigh up various scenarios, each perhaps involving numerous competing forces and associated risks. Therefore it is nice when occasionally a 'no-brainer' comes along.

Earlier today, Blancco announced that it had **lifted its stake in its Japanese JV** (FY19 PAT +£1.2m) **from 51% to 80%** by issuing 813,253 new shares at 132.8p (or £1.08m) to its local 'mobile reseller / ITAD' partner Aucnet (Ticker: 3964, Tokyo Stock Exchange, £271m market cap). Here **Aucnet** is 44.3% owned by Flex Corporation (Singapore based contract electronics manufacturer), and **will continue to act as an important route to market** in Japan, Asia and other parts of the world, retaining its 20% stake in the JV.

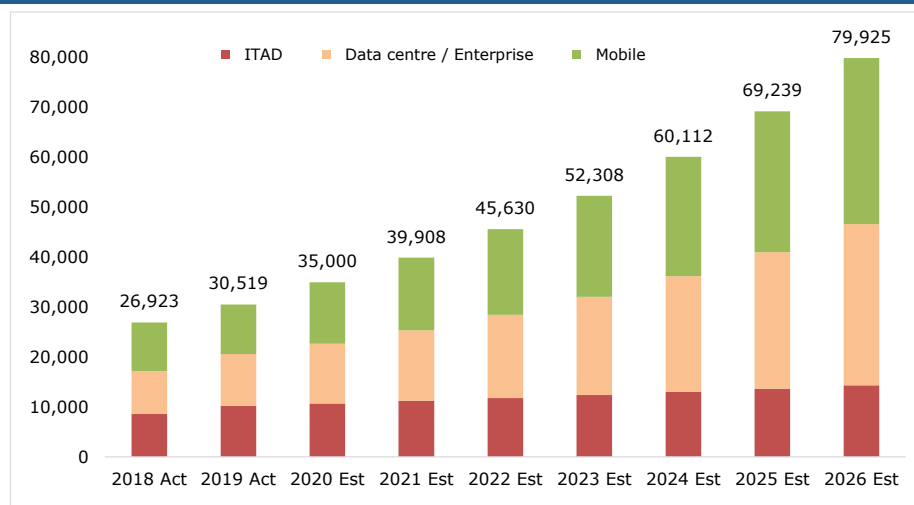
## Boost economies of scale & simplify structure

Granted this acquisition may seem relatively small beer, yet it enables Blancco have full operational control, include the subsidiary within its transfer pricing policy, and leverage the JV's cash (previously locked) across the wider organisation. Not only **facilitating the x-fertilisation of innovative new ideas** (eg mobile & enterprise) **and best practice**, but also **simplifying the whole corporate structure** and **allowing new products to be scaled far more rapidly**. A 'Win-Win' for both parties.

Elsewhere, Blancco has also mopped up the 30% stake that it did not already own in its other APAC JV (FY19 PAT -£0.5m), from both Aucnet (for \$1 cash) and Alan Puah (41,686 BLTG shares at 155p, or £64.6k).

So what does this all mean? Well taken together, we calculate the **transactions will be immediately EPS enhancing** – now 4.1p for FY20 vs 3.8p B4 - **and deliver further strategic benefits overtime** (see below). Plus, at a combined price of £1.265m, the acquisitions represent **an undemanding 5.78x FY19 PER**.

## Sales projections by division (£'000s)

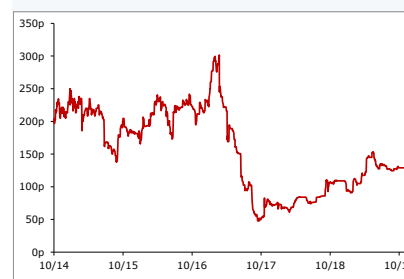


Source: Equity Development

### Company Data

	AIM:BLTG
EPIC	
Price (prior close)	160p
52 week Hi/Lo	154p/86p
Market cap	£120.6m
ED valuation / share	180p
Est June 2020 net cash	£7.1m
Share count	75.4m
Avg. daily volume	60,000

### 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.

Approx 75% of turnover relates to 'repeat/subscription' orders, 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 June 2019 was 272 (+12% vs 243 LY).

**Next news:** Trading update mid Jan'20

**Paul Hill (Analyst)\***  
**0207 065 2690**  
[paul.hill@equitydevelopment.co.uk](mailto:paul.hill@equitydevelopment.co.uk)

\*Paul Hill is a shareholder in BLTG

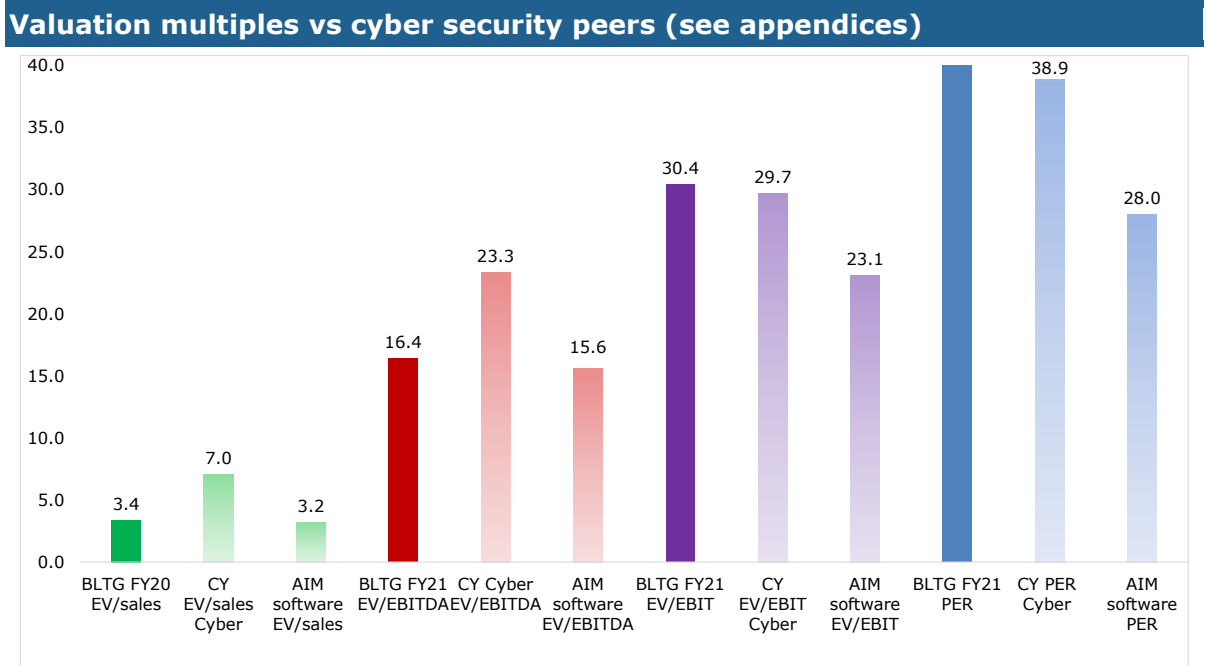
## No change to FY20 sales and EBIT forecasts

In terms of the numbers, we make no change to our FY20 revenue or adjusted EBIT (post SBPs) forecasts of £35.0m (+14.7%) and £3.05m respectively (margin 8.7%). Net cash is anticipated to close Jun'20 at £7.1m, following Jul'19's £10m placing (at 125p) and continued positive cash generation.

Further out, in light of the tightening regulatory climate (eg social media, Adtech), rising concerns over cyber-crime/warfare (eg recent Iran and US offensives), forthcoming introduction of 5G (re-IOT) and ongoing proliferation of all things 'smart', **Blanco should be able to deliver mid-teens % LFL growth for many years ahead.** We're not the only ones who think so either, with consultants Transparency Market Research, predicting the global data erasure solutions space will surge 19.6% CAGR between 2018 to 2026.

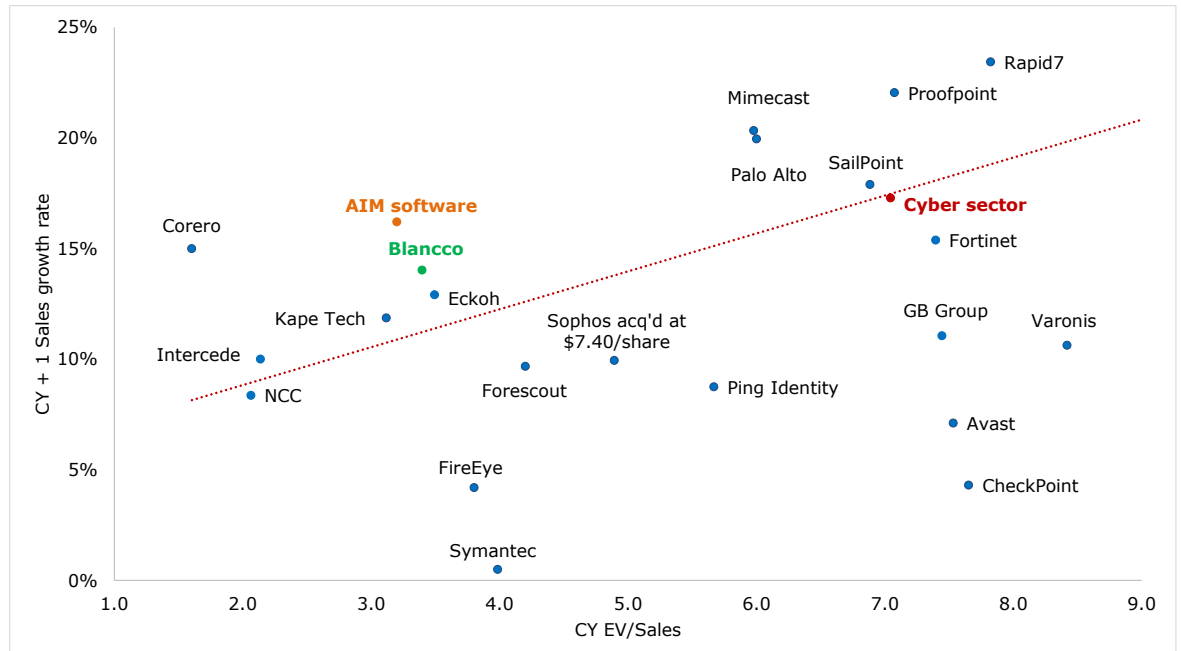
## Valuation raised from 175p to 180p/share

Finally, the vast majority of Blanco's **income is derived from high volume, low cost, 'everyday repeat' services** – generating excellent forward visibility and downside resilience. Consequently, our **valuation ticks up from 175p to 180p/share** – albeit the stock continues to look undervalued vs peers, especially in context of EV/sales multiples (see below).



Source: Equity Development. Blanco multiples adjusted for Japanese minority and after deducting share based payments (SBPs)

### CY EV/sales multiple vs CY+1 growth rates



Source: Equity Development. Blancco multiples adjusted for Japanese minority

### 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 Blancco's turnover being generated outside of the UK.
- Regulatory and tax changes.
- Competition may intensify due to new/existing players.

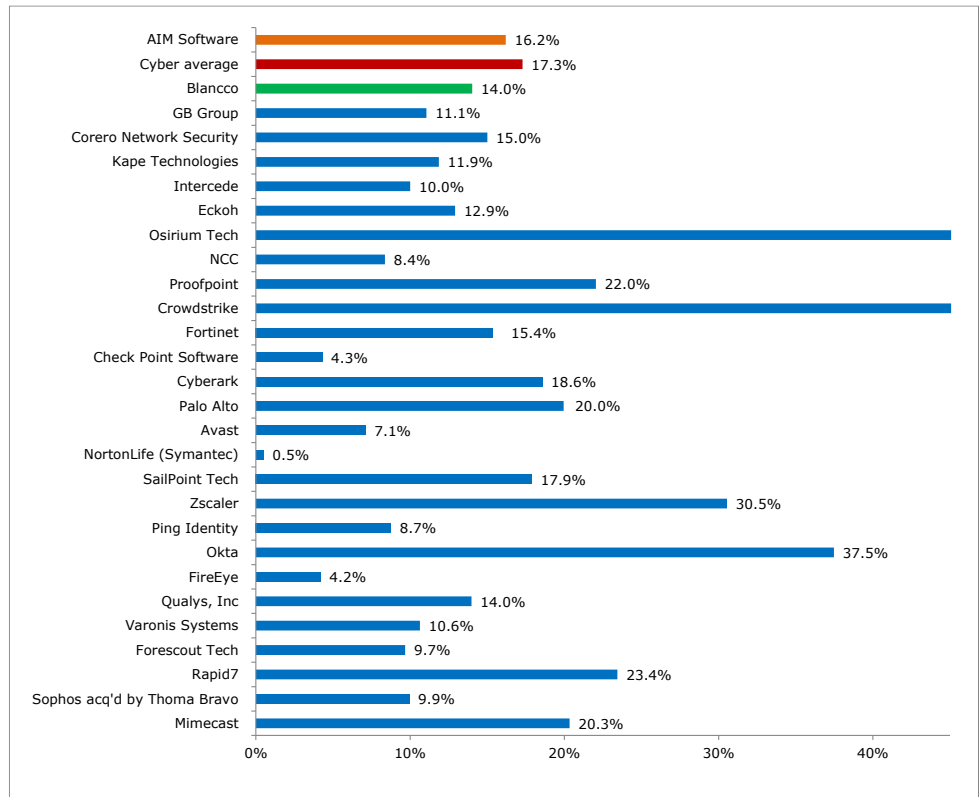
**Summary projections**

Blanco Technology Group (June year end) - continuing	2018 Act £'000s	2019 Act £'000s	2020 Est £'000s	2021 Est £'000s	2022 Est £'000s	2023 Est £'000s	2024 Est £'000s	2025 Est £'000s	2026 Est £'000s
	Restated								
Data centre / Enterprise	8,600	10,400	11,960	14,113	16,653	19,651	23,188	27,362	32,287
ITAD	8,600	10,200	10,710	11,246	11,808	12,398	13,018	13,669	14,352
Mobile	9,723	9,919	12,330	14,550	17,169	20,259	23,906	28,209	33,286
<b>Turnover</b>	<b>26,923</b>	<b>30,519</b>	<b>35,000</b>	<b>39,908</b>	<b>45,630</b>	<b>52,308</b>	<b>60,112</b>	<b>69,239</b>	<b>79,925</b>
Data centre / Enterprise		20.9%	15.0%	18.0%	18.0%	18.0%	18.0%	18.0%	18.0%
ITAD		18.6%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%
Mobile		2.0%	24.3%	18.0%	18.0%	18.0%	18.0%	18.0%	18.0%
<b>Growth rate %</b>	<b>0.0%</b>	<b>13.4%</b>	<b>14.7%</b>	<b>14.0%</b>	<b>14.3%</b>	<b>14.6%</b>	<b>14.9%</b>	<b>15.2%</b>	<b>15.4%</b>
<b>Gross profit</b>	<b>25,839</b>	<b>28,986</b>	<b>33,242</b>	<b>37,903</b>	<b>43,338</b>	<b>49,680</b>	<b>57,092</b>	<b>65,761</b>	<b>75,911</b>
Margin %	96.0%	95.0%	95.0%	95.0%	95.0%	95.0%	95.0%	95.0%	95.0%
<b>Adjusted EBITDA (pre SBPs)</b>	<b>5,450</b>	<b>6,146</b>	<b>7,207</b>	<b>8,554</b>	<b>10,254</b>	<b>12,508</b>	<b>15,457</b>	<b>19,270</b>	<b>23,925</b>
Margin %	20.2%	20.1%	20.6%	21.4%	22.5%	23.9%	25.7%	27.8%	29.9%
<b>Adjusted EBITDA (post SBPs)</b>	<b>5,705</b>	<b>5,211</b>	<b>5,957</b>	<b>7,260</b>	<b>8,914</b>	<b>11,119</b>	<b>14,016</b>	<b>17,775</b>	<b>22,372</b>
Margin %	21.2%	17.1%	17.0%	18.2%	19.5%	21.3%	23.3%	25.7%	28.0%
Adjusted amortisation & depreciation	-2,534	-2,688	-2,906	-3,181	-3,501	-3,874	-4,310	-4,820	-5,418
<b>Adjusted EBIT (pre SBPs)</b>	<b>2,916</b>	<b>3,458</b>	<b>4,300</b>	<b>5,373</b>	<b>6,754</b>	<b>8,635</b>	<b>11,147</b>	<b>14,450</b>	<b>18,508</b>
EBIT margin %	10.8%	11.3%	12.3%	13.5%	14.8%	16.5%	18.5%	20.9%	23.2%
Share based payments (SBPs)	255	-935	-1,250	-1,294	-1,340	-1,389	-1,441	-1,496	-1,553
<b>Adjusted EBIT (post SBPs)</b>	<b>3,171</b>	<b>2,523</b>	<b>3,050</b>	<b>4,079</b>	<b>5,413</b>	<b>7,245</b>	<b>9,706</b>	<b>12,954</b>	<b>16,954</b>
Margin %	11.8%	8.3%	8.7%	10.2%	11.9%	13.9%	16.1%	18.7%	21.2%
Underlying net interest	-263	-295	-100	0	0	0	0	0	0
<b>Adjusted PBT (pre SBPs)</b>	<b>2,653</b>	<b>3,163</b>	<b>4,200</b>	<b>5,373</b>	<b>6,754</b>	<b>8,635</b>	<b>11,147</b>	<b>14,450</b>	<b>18,508</b>
<b>Adjusted PBT (post SBPs)</b>	<b>2,908</b>	<b>2,228</b>	<b>2,950</b>	<b>4,079</b>	<b>5,413</b>	<b>7,245</b>	<b>9,706</b>	<b>12,954</b>	<b>16,954</b>
JV minorities (Japan 20%)	-88	-221	-220	-264	-290	-319	-351	-387	-425
Implied corporate tax rate	-14.9%	-20.7%	-22.0%	-22.0%	-22.0%	-22.0%	-22.0%	-22.0%	-22.0%
<b>Adjusted EPS (p) - Pre SBPs</b>	<b>3.6</b>	<b>3.7</b>	<b>4.1</b>	<b>5.2</b>	<b>6.5</b>	<b>8.3</b>	<b>10.6</b>	<b>13.7</b>	<b>17.5</b>
EPS growth rate	27.8%	3.1%	10.7%	27.2%	25.5%	27.6%	28.8%	29.2%	27.4%
<b>Adjusted EPS (p) - post SBPs</b>	<b>3.9</b>	<b>2.6</b>	<b>2.8</b>	<b>3.9</b>	<b>5.2</b>	<b>7.0</b>	<b>9.3</b>	<b>12.4</b>	<b>16.1</b>
EPS growth rate	96.3%	-33.3%	10.7%	37.8%	32.8%	33.7%	33.7%	33.0%	30.2%
<b>Dividend (p)</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>1.9</b>	<b>2.5</b>	<b>3.2</b>
Yield	0.0%	0.0%	0.0%	0.6%	0.7%	0.9%	1.2%	1.5%	2.0%
Dividend cover				5.2	6.2	5.9	5.7	5.6	5.4
<b>Valuation benchmarks &amp; KPIs</b>									
P/E ratio (pre SBPs)	45.0	43.7	39.5	31.0	24.7	19.4	15.0	11.6	9.1
PER (post SBPs)	41.5	62.3	56.3	40.8	30.8	23.0	17.2	12.9	9.9
EV/Sales (adjusted for Est minority JVs)	4.7	4.2	3.4	3.0	2.6	2.3	2.0	1.7	1.5
EV/EBIT (pre SBPs)	38.9	32.8	26.4	21.1	16.8	13.1	10.2	7.9	6.1
EV/EBIT (post SBPs & adjusted for Est minority JVs)	37.0	50.6	41.1	30.4	22.6	16.6	12.3	9.1	6.9
EV/EBITDA (post SBPs & adjusted for Est minority JV)	20.3	23.0	20.0	16.4	13.3	10.6	8.4	6.6	5.2
PEG ratio (post SBPs)			5.25	1.08	0.94	0.68	0.51	0.39	0.33
Cash flow yield (OCF/MrkCap post R&D cap)	1.6%	0.6%	1.2%	2.7%	3.6%	4.8%	6.4%	8.3%	10.7%
EBITDA drop through rates (pre SBPs)		19.4%	23.7%	27.5%	29.7%	33.8%	37.8%	41.8%	43.6%
Cash conversion: (OCF - w/cap - capex)/EBIT	48%	114%	46%	79%	83%	90%	93%	93%	93%
Capitalised R&D as % of sales	10.4%	14.4%	13.1%	10.0%	9.5%	9.0%	8.5%	8.5%	8.5%
Yearend headcount	243	272	320	360	404	454	508	567	635
Sales (£ks) / employee	110.8	112.2	109.4	111.0	112.8	115.3	118.3	122.0	125.9
Sharecount (000s - incl EBT from FY18)	61,714	62,450	75,364	76,117	76,879	77,647	78,424	79,208	80,000
<b>Net cash/(debt)</b>	<b>-2,710</b>	<b>142</b>	<b>7,127</b>	<b>9,426</b>	<b>12,740</b>	<b>17,561</b>	<b>23,998</b>	<b>32,246</b>	<b>42,731</b>
Shareprice (p)	<b>160</b>								

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 the amortisation of internal R&D / intangibles.

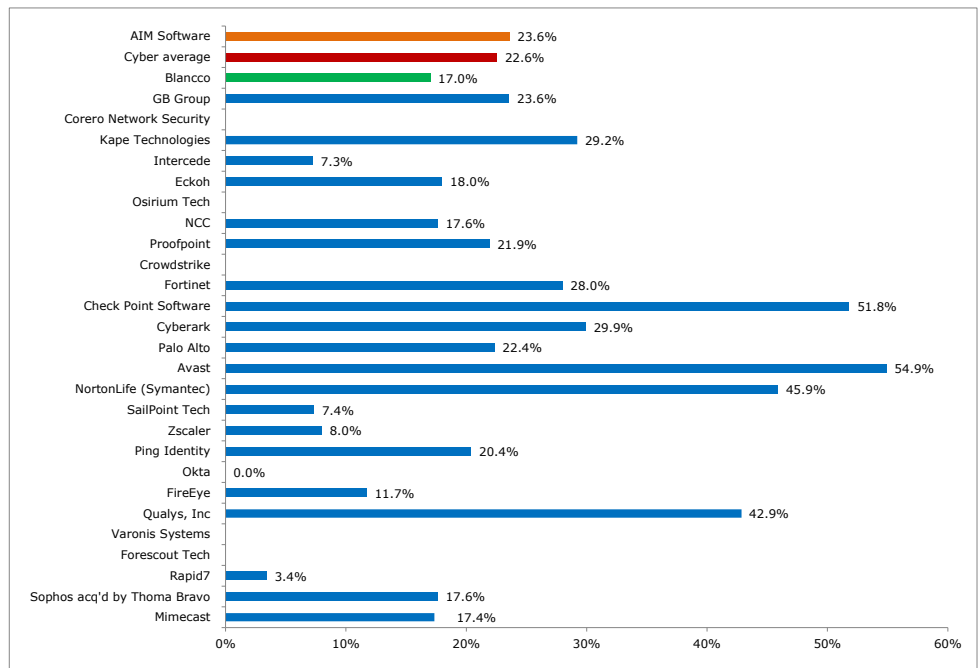
## Appendix - Valuation benchmarks & KPIs

### Current year + 1 sales growth rates



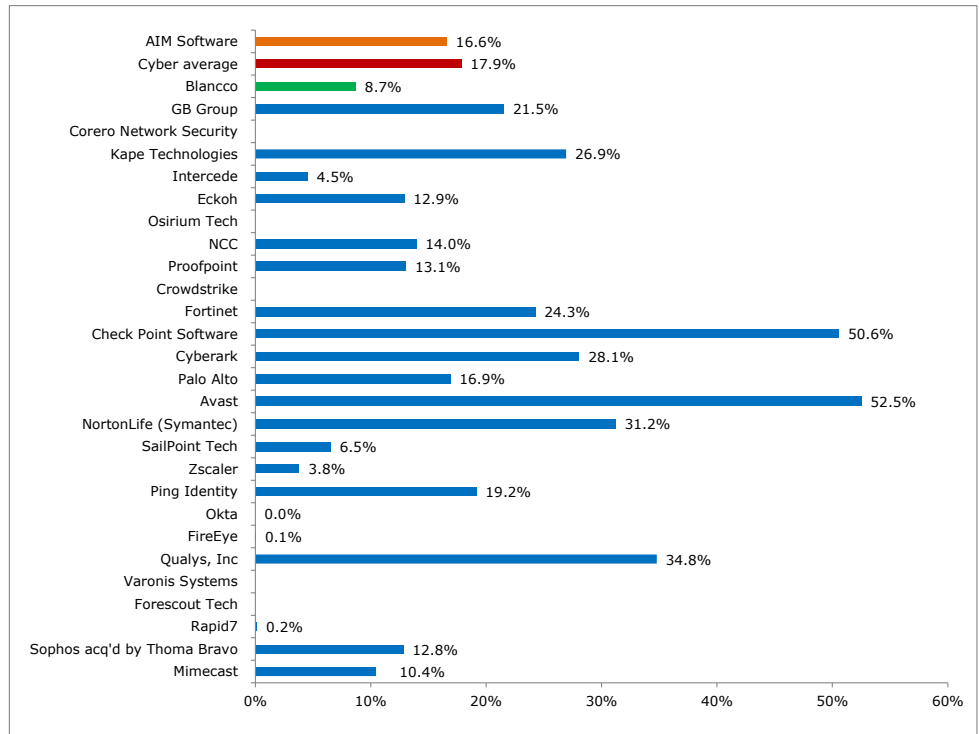
Source: Equity Development

### Current year EBITDA margins (post SBPs)



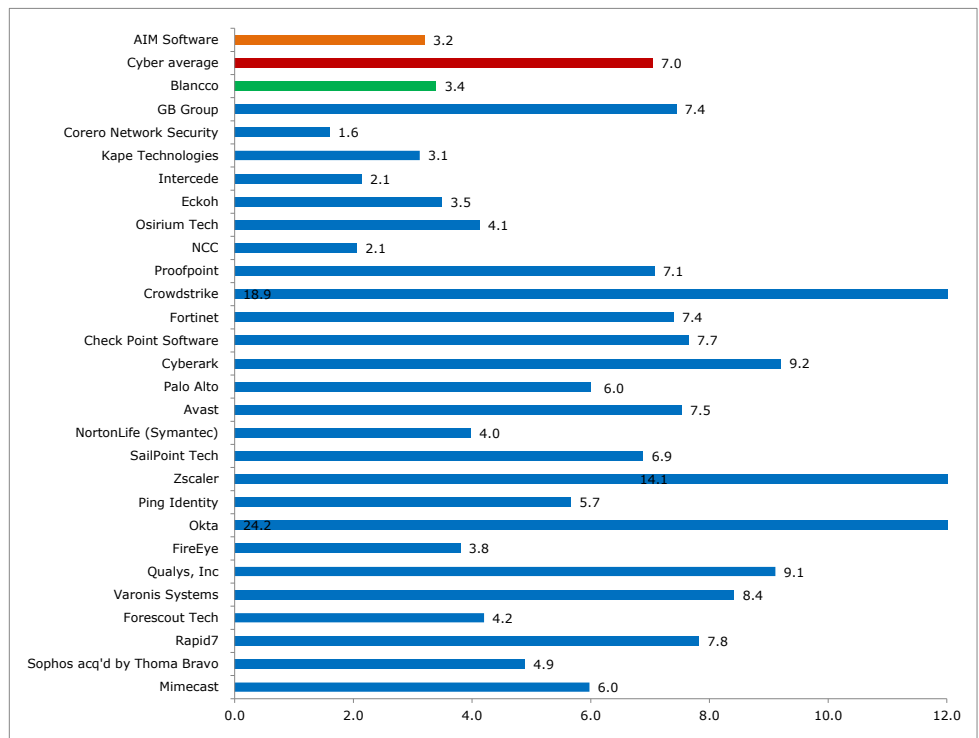
Source: Equity Development

**Current year EBIT margins (post SBPs)**



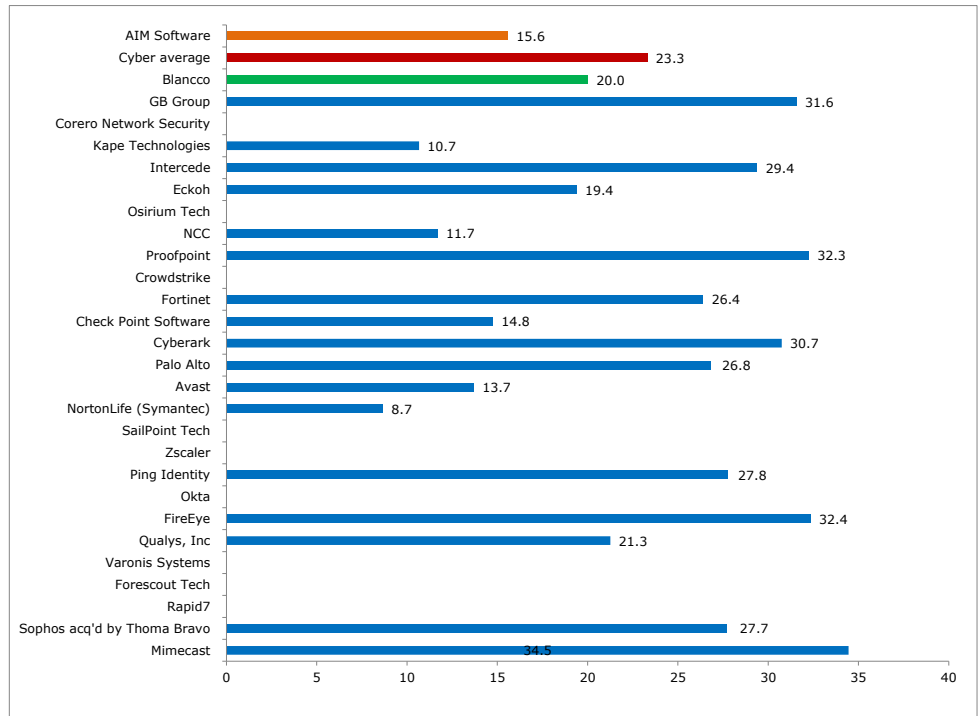
Source: Equity Development

**Current year EV/sales**



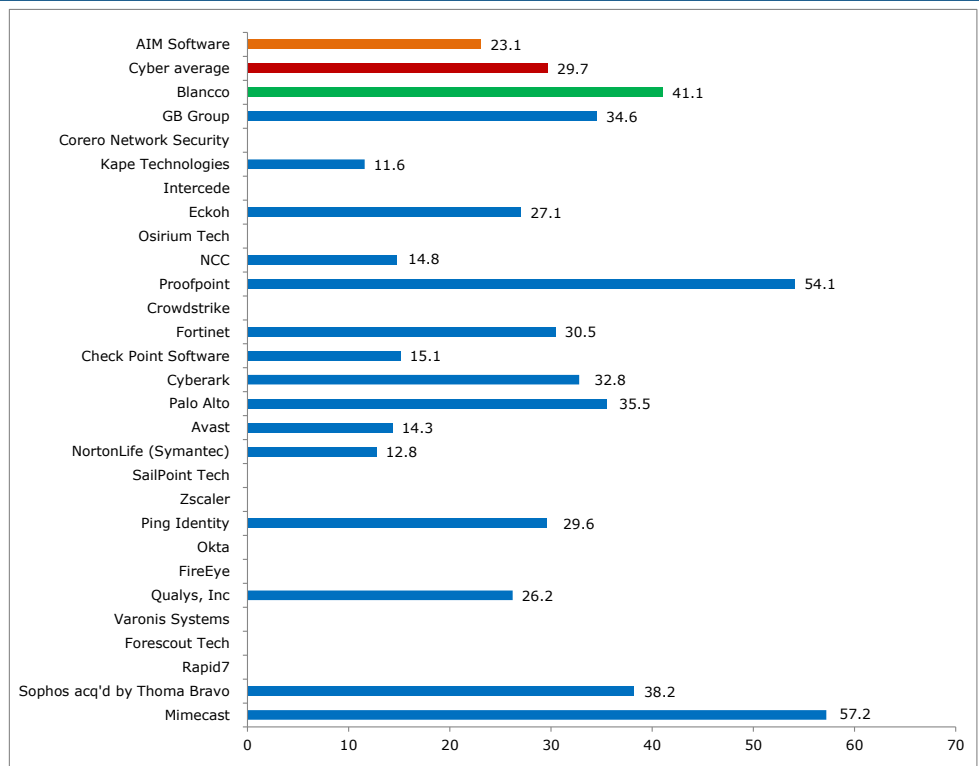
Source: Equity Development. Blanco multiples adjusted for Japanese minority

**Current year EV/EBITDA**



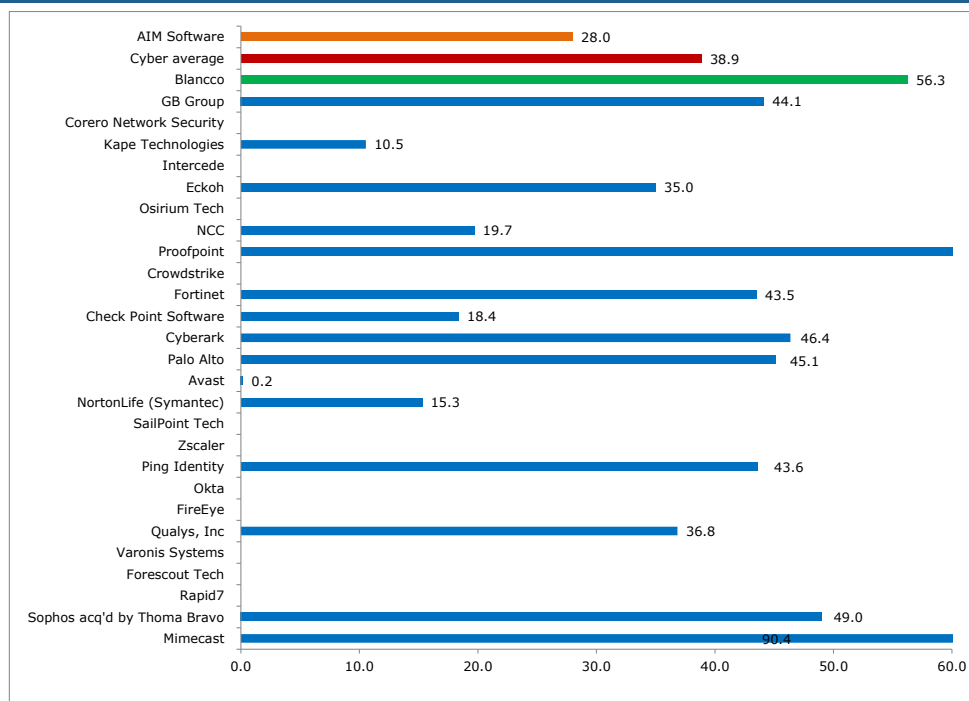
Source: Equity Development. Blanco multiples adjusted for Japanese minority & post SBPs

**Current year EV/EBIT**



Source: Equity Development. Blanco multiples adjusted for Japanese minority & post SBPs

### Current year PER



Source: Equity Development. Blanco PER shown post SBPs

### Market capitalisation of peers

	Shareprice	Mrk Cap (Millions)	CY net cash / (debt) Millions	Enterprise Value (Millions)
Rapid7	\$52.8	\$2,577	\$73	\$2,504
Forescout Tech	\$33.5	\$1,508	\$75	\$1,433
Varonis Systems	\$74.5	\$2,272	\$134	\$2,138
Qualys, Inc	\$84.0	\$3,259	\$325	\$2,934
FireEye	\$16.2	\$3,402	\$53	\$3,349
Okta	\$116.0	\$13,804	\$185	\$13,619
Ping Identity	\$20.5	\$1,353	-\$8	\$1,361
Zscaler	\$45.0	\$6,120	\$384	\$5,736
SailPoint Tech	\$23.5	\$2,115	\$153	\$1,962
NortonLife (Symantec)	\$26.0	\$16,380	-\$2,729	\$19,109
Avast	\$5.72	\$5,658	-\$910	\$6,569
Palo Alto	\$225	\$23,175	\$2,271	\$20,904
Cyberark	\$121	\$4,550	\$583	\$3,967
Check Point Software	\$113	\$16,950	\$1,683	\$15,267
Fortinet	\$104.0	\$17,888	\$2,015	\$15,873
Crowdstrike	\$47.5	\$9,690	\$732	\$8,958
Proofpoint	\$112	\$6,496	\$270	\$6,226
NCC	200p	£556	£-12	£568
Mimecast	\$42.5	\$2,635	\$106	\$2,529
Sophos acq'd by Thoma Bravo	\$7.40	\$3,634	-\$55	\$3,689
Osirium Tech	28.0p	£5.5	£0.3	£5.2
Eckoh	49.0p	£128.9	£12.5	£116.4
Intercede	45.0p	£22.7	£-0.8	£23.5
Kape Technologies	\$1.940	\$359	-\$22	\$381
Corero Network Security	\$0.046	\$18.6	-\$0.5	\$19.1
GB Group	715p	£1,386	£-48	£1,434
Blanco Tech	160p	£120.6	£7.1	£113.5

Source: Equity Development





## Investor Access

**Hannah Crowe**

Direct: 0207 065 2692

Tel: 0207 065 2690

[hannah@equitydevelopment.co.uk](mailto:hannah@equitydevelopment.co.uk)

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Equity Development, 15 Eldon Street, London, EC2M 7LD. Contact: [info@equitydevelopment.co.uk](mailto:info@equitydevelopment.co.uk) 0207 065 2690