

A new paradigm in technical innovation

24th September 2019

In the world of corporate branding, you know you've cracked it when people start using your name as a 'verb' in everyday life. Google has achieved this in 'Search', Skype for video calls, Airbnb in house-sharing & Uber for 'ride hailing'. Similarly 'Blancco-ing' a hard-drive, smartphone, server or PC is rapidly becoming engrained in the lexicon of IT professionals, who need to delete confidential files.

In fact, Blancco is already the global #1 and 'de facto' standard for data erasure by some distance, and is further enhancing this position through its 'thought leadership' & marketing initiatives, augmented by **transformational investments in software, IPR** (7 patents filed in FY19) **and R&D** (c.17% FY19 sales), especially relating to mobile.

10ks of gadgets are being *Blancco'd* everyday

Here in July, funded by a £10m placing at 125p, the company announced the **synergistic £5.25m purchase of 'Inhance'**. The acquisition has bedded down well, is set to be **earnings accretive in FY20** and will enable the group to create a '1st of its kind', end-to-end mobile application suite for users/retailers.

Simultaneously, the firm also sealed a '**ground breaking**' **\$1.5m joint development agreement with ZroBlack** in order to create a firmware solution that will significantly reduce the time it takes to erase handsets. The 1st product has already been released, and X-sold into one major mobile carrier.

Turbo charging the mobile portfolio

CEO Matt Jones adding "We now believe that we have the most complete proposition for diagnostic and erasure solutions for resold mobile handsets. **Growth has continued in [FY20], and [we have] great confidence in another period of strong progress, operationally and financially, in line with expectations.**"

Mobile diagnostics, data erasure and 'trade-in' software



Source: Equity Development

Company Data

EPIC	AIM:BLTG
Price (prior close)	125p
52 week Hi/Lo	154p/86p
Market cap	£93.1m
ED valuation / share	175p
Est June 2020 net cash	£7.1m
Share count	74.5m
Avg. daily volume	80k

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: AGM December 2019

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Ok, so what about the FY19 headline numbers?

Turnover (see below) **climbed 13.4% LFL** (12.2% constant currency) - split 19.0% H1 vs 8.6% H2 - **to £30.5m** (vs £26.9m LY), with adjusted (post SBPs) EBITDA, EBITA and EPS coming in at £5.2m, £2.5m and 2.6p respectively.

Summary financials			
£'000s	FY18	FY19	Est FY20
Turnover	26,923	30,519	35,000
% growth	0.0%	13.4%	14.7%
Gross Profit	25,839	28,986	33,242
% Margin	96.0%	95.0%	95.0%
Overheads (ex SBPs, deprec & amortisation)	-20,389	-22,840	-26,036
Opex as % revenues	-75.7%	-74.8%	-74.4%
Adjusted EBITDA (pre SBPs)	5,450	6,146	7,207
% Margin	20.2%	20.1%	20.6%
Share based payments	255	-935	-1,250
Adjusted EBITDA (post SBPs)	5,705	5,211	5,957
% Margin	21.2%	17.1%	17.0%
Depreciation & Amortisation	-2,534	-2,688	-2,906
Adjusted EBIT (pre SBPs)	2,916	3,458	4,300
% margin	10.8%	11.3%	12.3%
Adjusted EBIT (post SBPs)	3,171	2,523	3,050
% margin	12.3%	8.7%	9.2%
Adjusted EPS (pre SBPs)	3.55p	3.66p	3.85p
Adjusted EPS (post SBPs)	3.85p	2.57p	2.63p
Cash conversion: (OCF-w/cap-capex)/EBIT	48%	114%	46%
Headcount	243	272	320
Sales (£ks)/employee	111	112	109
Net cash / (debt)	-2,710	142	7,127

Source: Equity Development

Double digit growth achieved across all territories

All 3 regions delivered 13%-14% LFL growth, with **standout performances from Data Centres / Enterprise** (+20% to £10.4m) and **ITAD** (+18%, £10.2m). Driven by increased channel sales, macro data/cyber concerns, 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 client IT costs without compromising security. Plus, and in what we understand could be an industry first, a substantial cloud customer recently ['Blancco'd' 4,000 servers overnight in one of its data centres](#).

Perfect ESG and Brexit resilient stock

Encouragingly too for ESG investors (re last Friday's World Climate Day), is that Blancco's technology allows millions of electronic gadgets each year to be environmentally re-deployed or recycled. Thus, not only saving the planet from having to dump the corresponding equipment into landfill, but also avoiding the need to manufacture new ones.

Better still, **around 90% of turnover is derived overseas** – meaning there should be negligible affect from Brexit. Rather, if held within a diversified portfolio, we believe the stock can act as **a natural hedge for UK shareholders against future £ weakness** – say in the event Britain crashed out the EU.

Robust balance sheet with ample cash resources

In terms of the balance sheet, **net cash closed Jun'19 at £0.1m**, despite investing in both headcount (June 272 vs 243 LY) and new product development (split £0.9m opex & £4.4m capex vs £2.5m amortisation of internal R&D). **Underlying cash conversion** (post capex) **came in at a healthy 114%**, reflecting the receipt of upfront subscription payments (including a \$1.2m 3 year data centre deal) offset by the \$1.5m joint IP project with ZroBlack. In return, ZroBlack will receive 8.0% of the associated revenue from new accounts that deploy this functionality until Apr'22.

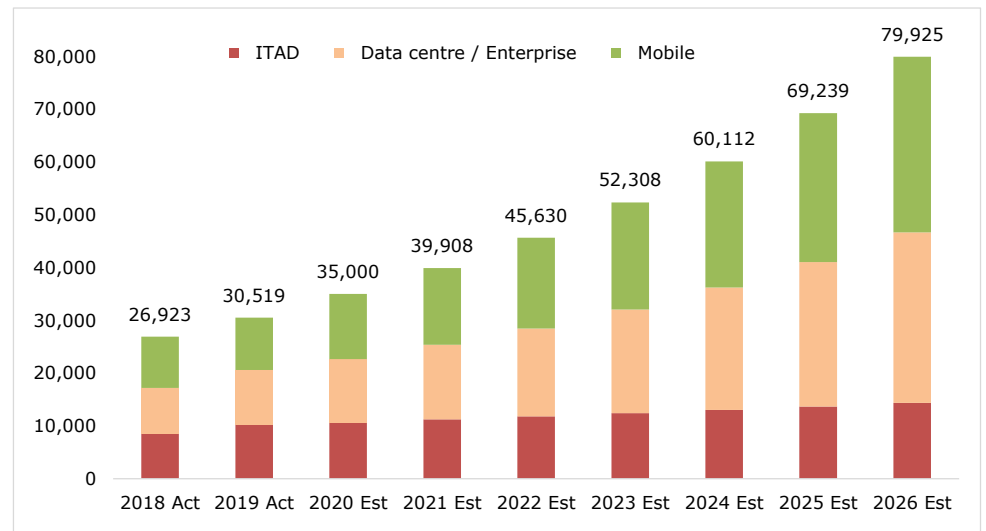
Scalable business, sporting 95% gross profit margins

Going forward, **we believe momentum will continue, thanks primarily to strong demand for Data centre, Enterprise and Mobile** (see below). Moreover, given the favourable operating leverage (95% GP margins), this should feed through into greater economies of scale, faster growth, superior returns and (eventually) a much higher shareprice.

Elsewhere in May, Inhance secured its first large (\$50k/month) contract, which should deliver £1m of revenues in FY20, and be profitable. The software will be sold across the organisation's entire geographical footprint - where Counterpoint Research calculates that the global volume of handsets being traded-in will jump from 140m units in 2017 to 290m by 2022 (15.6% CAGR). Plus, to further take advantage of this demand, an extra £1.0m of capex is being invested to extend/upgrade Inhance's applications in FY20.

Mobile, data centre & enterprise driving growth

Sales projections by division (£'000s)



Source: Equity Development

FY20 trading has started well

In terms of FY20, **we’ve broadly held our adjusted EBIT (post SBPs) at £3.05m (+20.8% YoY), on revenues up 14.8% to £35.0m (margin 8.7%)**. Whilst, **net cash is anticipated to close Jun’20 at £7.1m**, following the recent £10m placing (£6.3m net proceeds, post acqn & fees) and continued robust cashflow - albeit temporarily impacted by the unwinding of the \$1.2m client payment at y/e and the £1m of incremental capitalised R&D for Inhance.

Data erasure solutions set to climb by 19.6% pa

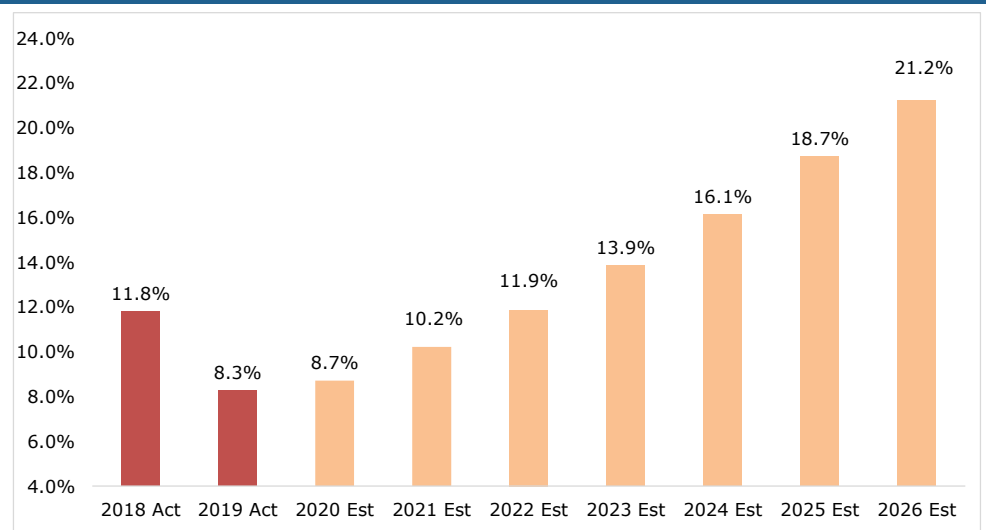
Longer term, in light of the closing regulatory net (eg social media, Adtech), increasing concerns over cyber-crime/warfare (eg recent Iran and US offensives), forthcoming introduction of 5G (re-IOT) and ongoing proliferation of all things ‘smart’, we think **Blancco has the ideal conditions to churn out mid teen LFLs for many years ahead.**

We’re not the only ones either, with consultants Transparency Market Research, predicting the global data erasure solutions space will surge 19.6% CAGR between 2018 to 2026.

To date [there are 107 countries](#) who have enacted some form of data privacy legislation (Source: United Nations). With another being added over the weekend - after Ecuador rushed through a bill in response to a massive data breach involving 20m people - more than its entire population. Existing laws are **becoming more stringent too**, with a noticeable uptick in the size of fines being meted out – such as £183.4m for British Airways & £99.2m Marriott Hotels in July, relating alleged GDPR breaches.

CFO Adam Moloney commenting: **“The Board is confident in the Group’s ability to drive strong levels of organic revenue growth and, combined with the operating leverage of the business, convert this into increasingly profitable performance in line with expectations.”**

Estimated EBIT margins (post SBPs)

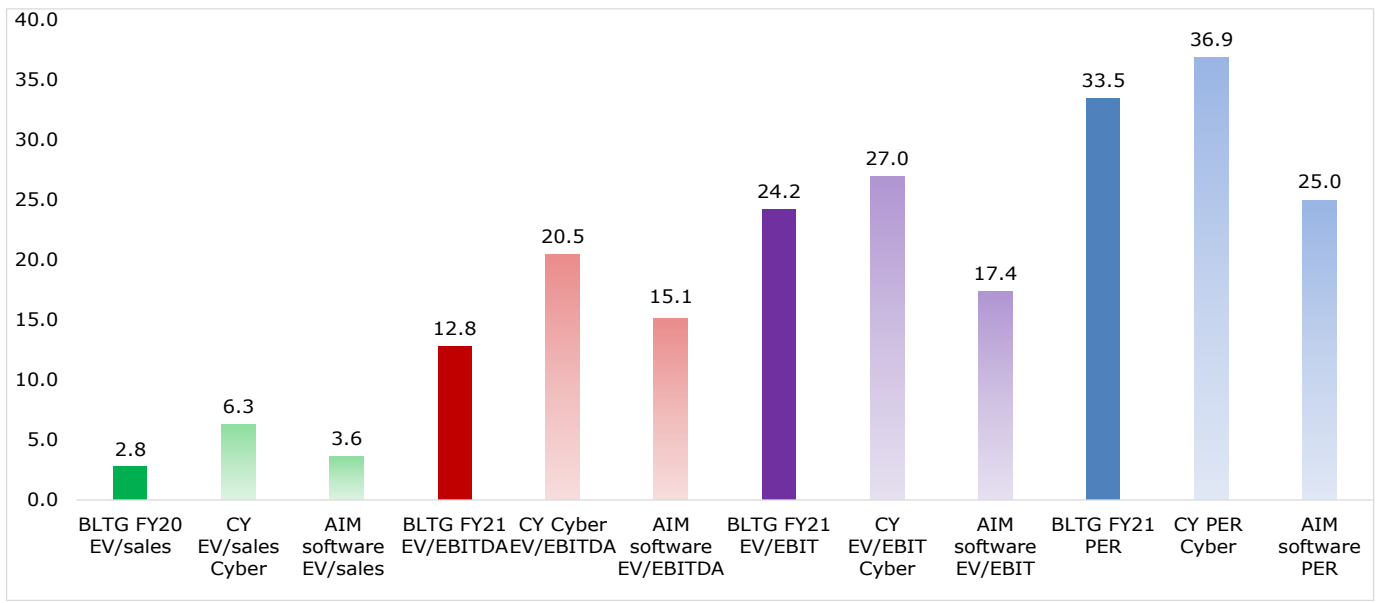


Source: Equity Development

No change to FY20 forecasts or 175p/share valuation

Additionally, the vast majority of Blanco’s **income is derived from high volume, low cost, ‘everyday repeat’ services** – generating excellent forward visibility and downside resilience. Our **FY20 estimates and 175p/share valuation remain unchanged**, and the stock continues to look undervalued vs peers, especially in respect of EV/sales (see below).

Valuation multiples vs cyber security peers (see appendices for detailed breakdowns)

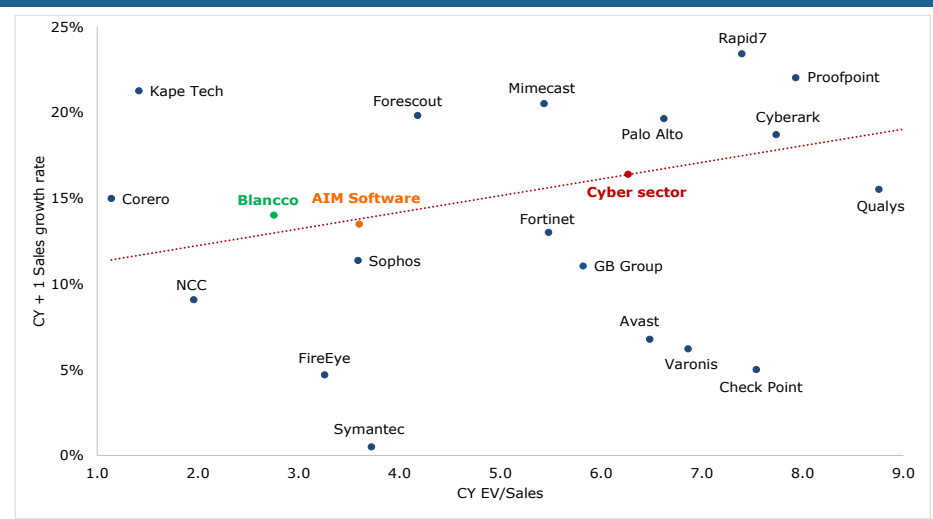


Source: Equity Development. Blanco multiples adjusted for JVs/minorities and after deducting share based payments (SBPs)

Patient investors should be richly rewarded

Ultimately, we believe Blanco can achieve **20%+ EBIT margins** (post SBPs) - justifying an **EV/turnover multiple of (at least) 4x** (see below) by FY23. Equivalent to a **theoretical price of c. 265p/share**, and offering a **21% compound RoI**. These KPIs are consistent with the sector, and were achieved by BLTG prior to 2015.

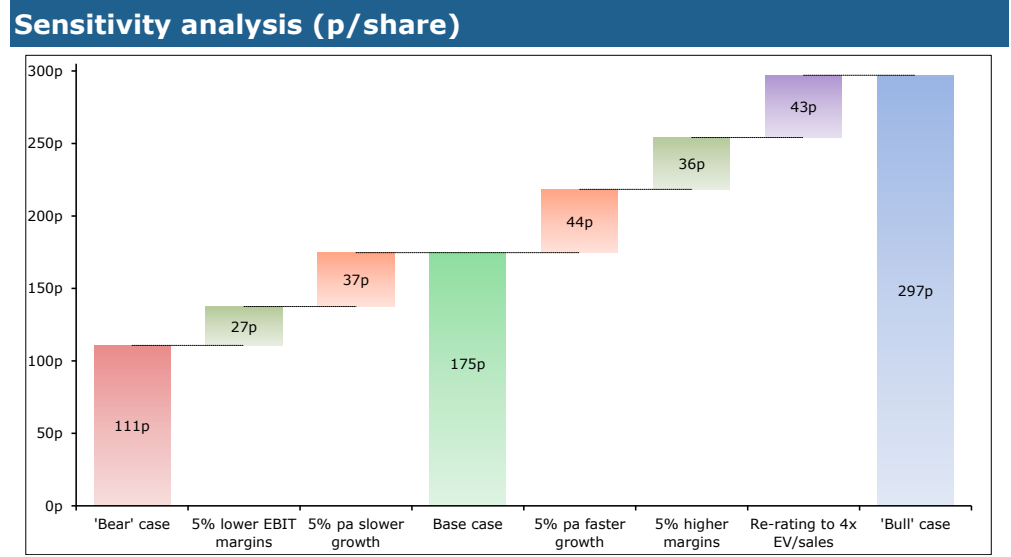
CY EV/sales multiple vs CY+1 growth rates



Source: Equity Development. Blanco multiples adjusted for JVs (eg Japan)

Positive risk-reward profile

Finally, our 'Bear' and 'Bull' scenarios of **111p** and **297p** (see below) indicate there is also a nice cushion for investors, say in the event things do not quite to plan.



Source: Equity Development

Possible future takeover candidate to boot

Indeed at present levels, **we suspect Blanco could even become a takeover target**, given the voracious appetite of overseas buyers for UK assets (re £ weakness). For instance, both Proactis and Statpro have recently received predatory interest. Whilst there has been a slew of other AIM names that have been acquired so far this year – eg Telford Homes, Premier Technical Services, easyHotel, Sanderson, EU Supply, WYG, Tarsus, Manx Telecom, Laura Ashley & Tax Systems.

Buoyant pipeline & “great confidence” in future

CEO Matt Jones concluding: “We have continued to strengthen our management team and implemented a strategy to focus on our three key markets of Data Centre / Enterprise, Mobile and ITAD. We have already seen that this strategic focus has generated **good revenue growth** in the year, which has also seen **strong conversion into profit despite the costs of making investments in the business which will underpin continued growth**.”

*In the coming periods we anticipate that regulatory and environmental factors will drive further growth in Data Centre / Enterprise. The investments made in the Mobile offering over the past year, and particularly the recent acquisition of Inhance and Consulting Agreement with ZroBlack, will position Blanco to be a **clear leader in the provision of a full-suite of diagnostic and erasure solutions for the fast-growing, used mobile device [sector]**.*

*We therefore look forward with **great confidence to another year of further growth of the business.**”*

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
Turnover	26,923	30,519	35,000	39,908	45,630	52,308	60,112	69,239	79,925
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%
Growth rate %	0.0%	13.4%	14.7%	14.0%	14.3%	14.6%	14.9%	15.2%	15.4%
Gross profit	25,839	28,986	33,242	37,903	43,338	49,680	57,092	65,761	75,911
Margin %	96.0%	95.0%	95.0%	95.0%	95.0%	95.0%	95.0%	95.0%	95.0%
Adjusted EBITDA (pre SBPs)	5,450	6,146	7,207	8,554	10,254	12,508	15,457	19,270	23,925
Margin %	20.2%	20.1%	20.6%	21.4%	22.5%	23.9%	25.7%	27.8%	29.9%
Adjusted EBITDA (post SBPs)	5,705	5,211	5,957	7,260	8,914	11,119	14,016	17,775	22,372
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
Adjusted EBIT (pre SBPs)	2,916	3,458	4,300	5,373	6,754	8,635	11,147	14,450	18,508
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
Adjusted EBIT (post SBPs)	3,171	2,523	3,050	4,079	5,413	7,245	9,706	12,954	16,954
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
Adjusted PBT (pre SBPs)	2,653	3,163	4,200	5,373	6,754	8,635	11,147	14,450	18,508
Adjusted PBT (post SBPs)	2,908	2,228	2,950	4,079	5,413	7,245	9,706	12,954	16,954
JV minorities (Japan 51% & APAC 70%)	-88	-221	-381	-408	-437	-469	-504	-542	-584
Implied corporate tax rate	-14.9%	-20.7%	-22.0%	-22.0%	-22.0%	-22.0%	-22.0%	-22.0%	-22.0%
Adjusted EPS (p) - Pre SBPs	3.6	3.7	3.8	5.0	6.3	8.1	10.5	13.6	17.3
EPS growth rate	27.8%	3.1%	5.1%	29.4%	26.4%	28.4%	29.4%	29.7%	27.8%
Adjusted EPS (p) - post SBPs	3.9	2.6	2.6	3.7	5.0	6.8	9.1	12.2	15.9
EPS growth rate	96.3%	-33.3%	2.6%	41.8%	34.4%	35.0%	34.6%	33.7%	30.7%
Dividend (p)	0.0	0.0	0.0	1.0	1.0	1.4	1.8	2.4	3.2
Yield	0.0%	0.0%	0.0%	0.8%	0.8%	1.1%	1.5%	1.9%	2.5%
Dividend cover				5.0	6.3	6.0	5.7	5.6	5.4
Valuation benchmarks & KPIs									
P/E ratio (pre SBPs)	35.2	34.1	32.5	25.1	19.9	15.5	12.0	9.2	7.2
PER (post SBPs)	32.4	48.7	47.4	33.5	24.9	18.5	13.7	10.3	7.9
EV/Sales (adjusted for Est minority JVs)	3.6	3.2	2.8	2.4	2.1	1.8	1.6	1.3	1.2
EV/EBIT (pre SBPs)	29.5	24.9	20.0	16.0	12.7	10.0	7.7	6.0	4.6
EV/EBIT (post SBPs & adjusted for Est minority JVs)	28.0	38.3	33.6	24.2	17.7	12.9	9.5	7.0	5.3
EV/EBITDA (post SBPs & adjusted for Est minority JV)	15.4	17.4	15.7	12.8	10.3	8.2	6.4	5.0	4.0
PEG ratio (post SBPs)			18.58	0.80	0.72	0.53	0.40	0.30	0.26
Cash flow yield (OCF/MrkCap post R&D cap)	2.1%	0.8%	1.5%	3.4%	4.5%	6.1%	8.2%	10.7%	13.7%
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	75,254	76,007	76,767	77,534	78,310	79,093	79,884
Net cash/(debt)	-2,710	142	7,127	9,428	12,771	17,621	24,089	32,368	42,884
Shareprice (p)									125

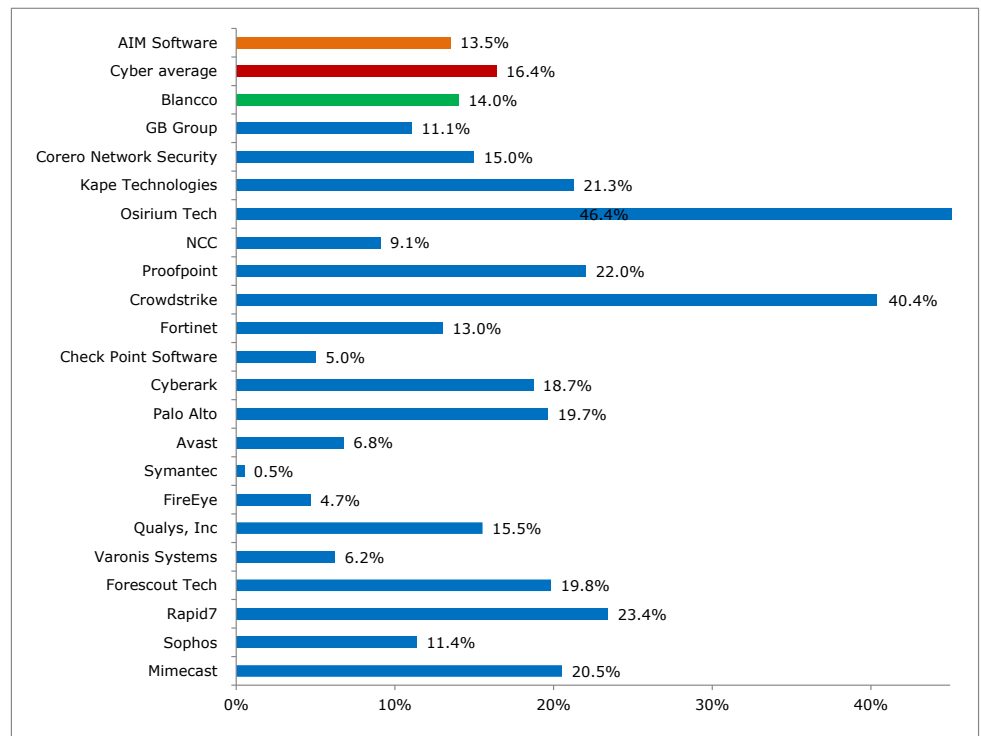
Source: ED estimates, Company historic data. . Note: Adjusted EBITA, PBTA and EPS excludes non-recurring items, share based payments and the amortisation of "purchased goodwill" but is stated after the amortisation of internal R&D / intangibles.

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.

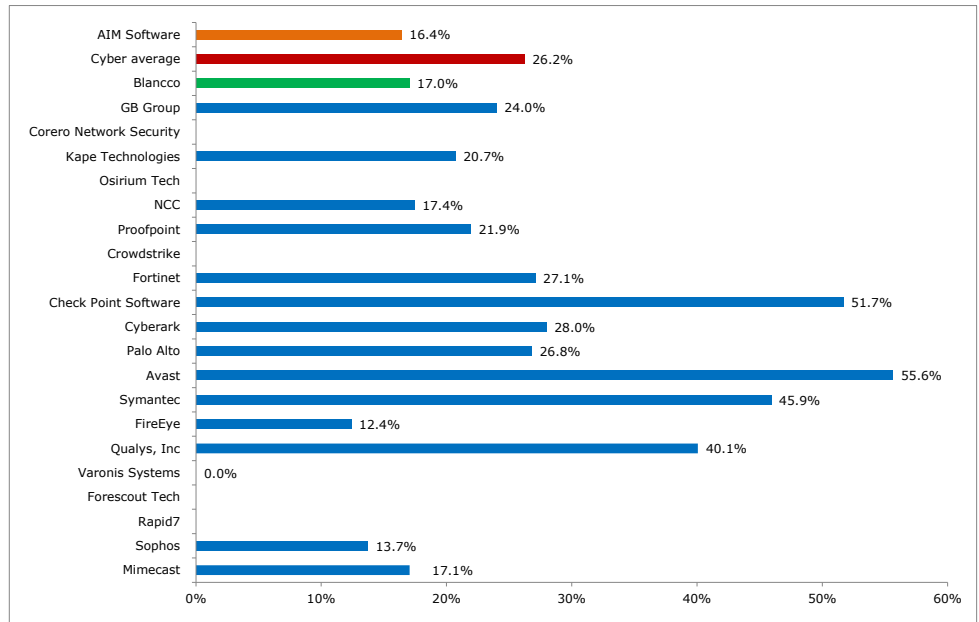
Appendix - Valuation benchmarks & KPIs

Current year + 1 sales growth rates



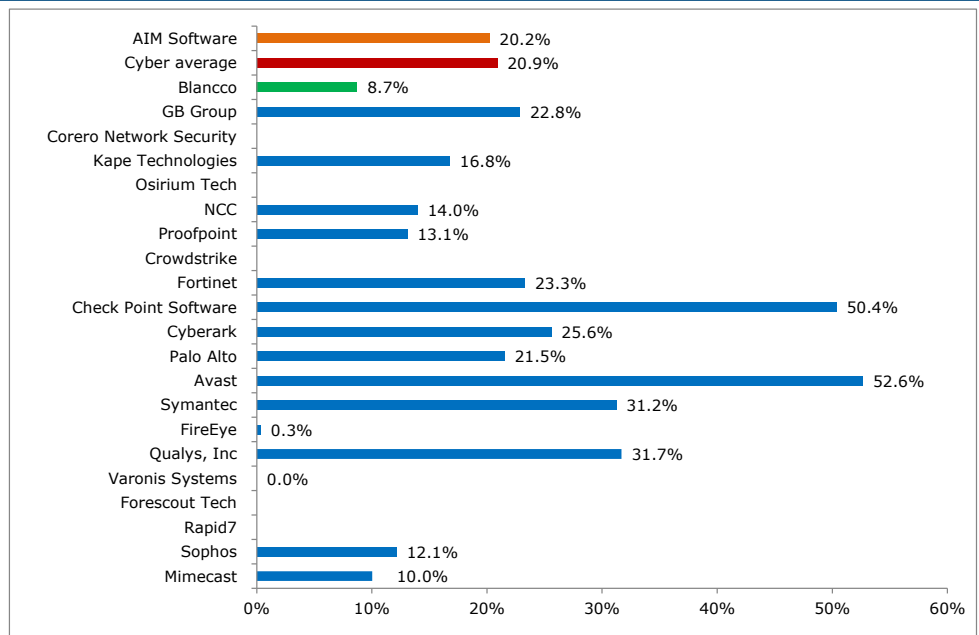
Source: Equity Development

Current year EBITDA margins (post SBPs)



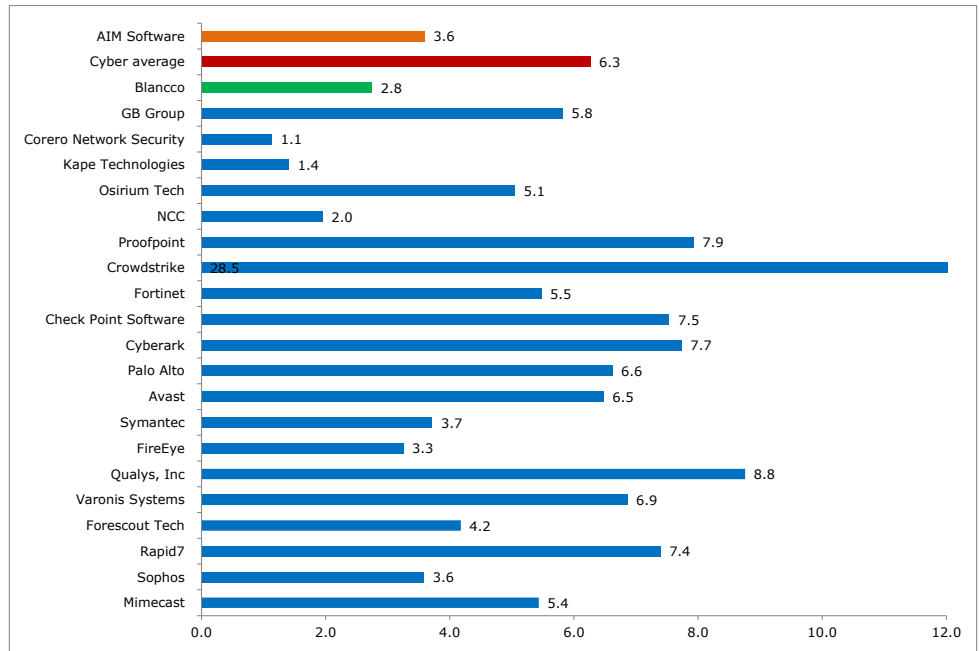
Source: Equity Development

Current year EBIT margins (post SBPs)



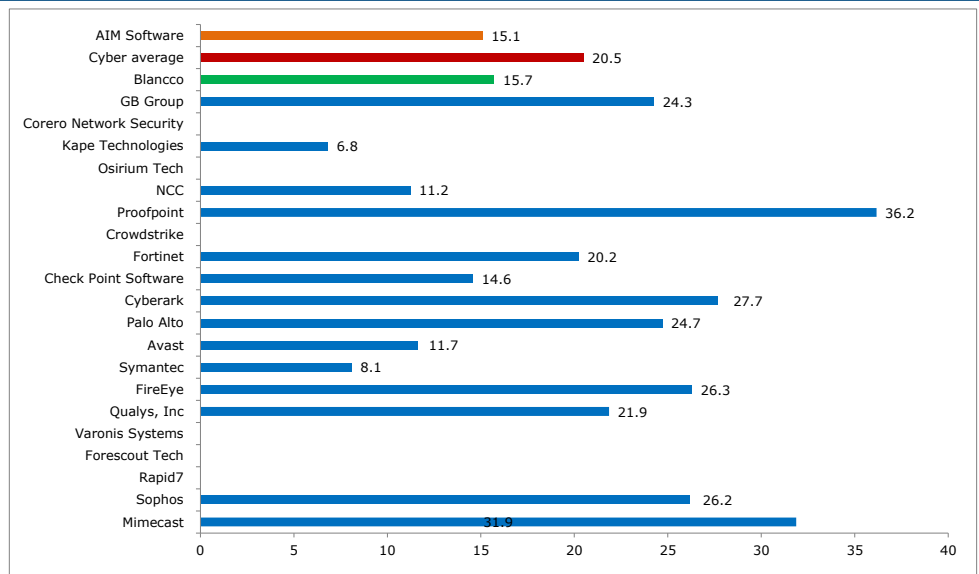
Source: Equity Development

Current year EV/sales



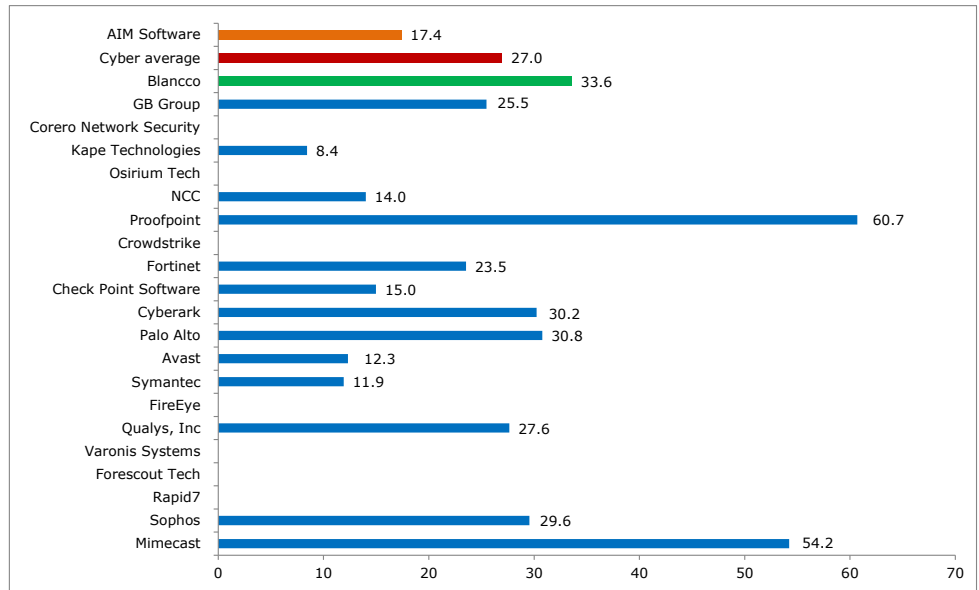
Source: Equity Development. Blanco multiples adjusted for JVs (eg Japan)

Current year EV/EBITDA



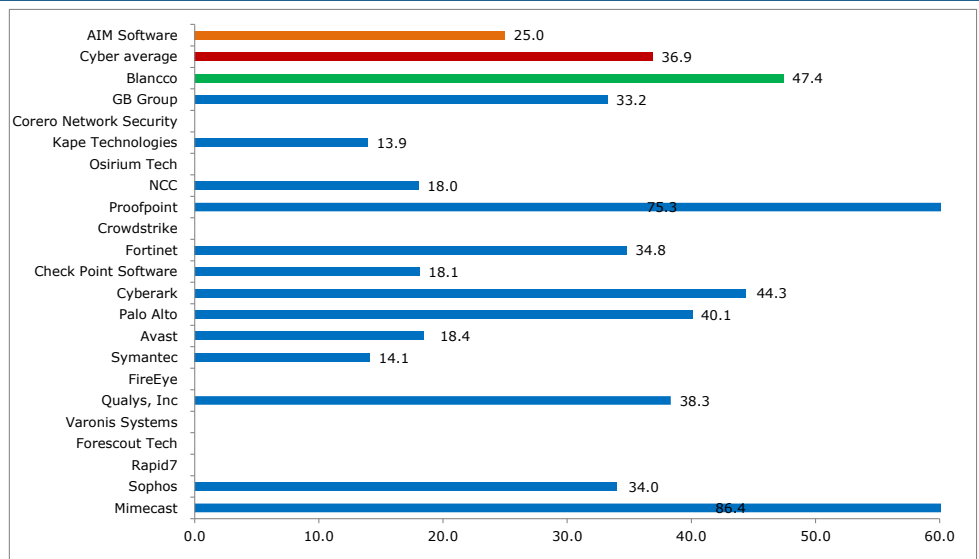
Source: Equity Development. Blanco multiples adjusted for JVs (eg Japan) & post SBPs

Current year EV/EBIT



Source: Equity Development. Blanco multiples adjusted for JVs (eg Japan) & 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	\$50.0	\$2,440	\$73	\$2,367
Forescout Tech	\$36.0	\$1,638	\$79	\$1,559
Varonis Systems	\$63.0	\$1,909	\$145	\$1,764
Qualys, Inc	\$79.0	\$3,097	\$277	\$2,820
FireEye	\$14.0	\$2,940	\$100	\$2,840
Symantec	\$24.0	\$15,120	-\$2,729	\$17,849
Avast	\$4.63	\$4,535	-\$1,105	\$5,640
Palo Alto	\$210	\$20,580	\$1,373	\$19,207
Cyberark	\$102	\$3,835	\$570	\$3,265
Check Point Software	\$110	\$16,500	\$1,465	\$15,035
Fortinet	\$79.0	\$13,588	\$2,013	\$11,575
Crowdstrike	\$68.0	\$13,600	\$753	\$12,847
Proofpoint	\$125	\$7,250	\$270	\$6,980
NCC	185p	£518	-£20	£538
Mimecast	\$38.0	\$2,356	\$106	\$2,250
Sophos	506p	£2,658	-£55	£2,713
Osirium Tech	45p	£6.1	-£0.2	£6.3
Kape Technologies	\$0.963	\$138	\$41	\$97
Corero Network Security	\$0.033	\$13.1	-\$0.5	\$13.6
GB Group	555p	£1,071	-£50	£1,121
Blanco Tech	125p	£93.1	£7.1	£86.0

Source: Equity Development



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