Blancco

Driving Sustainable Growth and Value

Interim results for the six months ending 31 December 2018

Agenda

- Operational Highlights of H1 FY19
- Financial Review of H1 FY19
- Market Review
- Summary & Outlook

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Operational Highlights H1 FY19

Blancco Strategic Vision

Become the market leading company for eraser and diagnostic software

- Focus on three markets –Enterprise, Mobile, ITAD
- Sustainable growth in the long term will come from Mobile and Enterprise whilst the ITAD market remains attractive
- Further investment in product innovation and marketing this year will help drive further growth in 2020 and beyond

Focus will deliver growth

- The 3 market segments all have immediate needs to buy Blancco's software today
- Favourable trends from regulation, security risks and technology change
- Inherent synergies between the market segments
- Leadership in these markets positions Blancco to fully leverage future opportunities

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H1 FY19 Highlights:

Financial

- Good revenue growth across all regions and market segments
- Strong profitability growth in H1 and better than expected cash generation
- Confidence in the full year expectations and longer term prospects

Operational

- Increased resources in R&D
  - 11% increase in headcount to 265 at the end of January
- Increased marketing spend focused on Enterprise and Mobile
  - Increased support for Channel
- ISO 27001 and 9001 accreditations gained for main development centres
- Encouraging pipeline; continues to increase in breadth and visibility of opportunity

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Financial Highlights
H1 FY19

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Income Statement

£'m	H1 FY19	H1 FY18 restated	Growth	FY18 restated
Revenue	**14.6**	**12.3**	*+19%*	**26.9**
Gross profit	**13.7**	**11.8**	*+16%*	**25.8**
Admin Expenses	(13.1)	(13.3)		(26.6)
Operating Profit/(Loss)	**0.6**	**(1.5)**		**(0.8)**
Exceptional and Acquisition (income)/costs	(0.7)	1.2		1.4
Amort. of acquired intangibles	1.3	1.3		2.6
Share based payments	0.4	(0.4)		(0.3)
Adjusted administrative expenses	(12.1)	(11.2)	*+7%*	(22.9)
Adjusted Operating Profit	**1.6**	**0.6**		**2.9**
Depreciation	*0.1*	*0.1*		*0.2*
Amort of non acquired intangibles	*1.3*	*1.1*		*2.3*
Adjusted EBITDA	***3.0***	***1.8***	*+71%*	***5.5***
Adjusted Operating Profit margin	*11.3%*	*4.5%*		*10.8%*
Adjusted EBITDA margin	*20.7%*	*14.4%*		*20.2%*

- Revenue growth of 19% with similar growth in constant currency terms
- Administrative expenses increased in the year due to investment in marketing and R&D
- Significant AOP and AEBITDA growth driven from strong revenue performance in the period
- Exceptional income from the release of provisions related to prior Tabernus acquisition no longer required

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Balance Sheet

£'m	H1 FY19	FY18 restated
Non current assets	**69.5**	**69.7**
Current assets / (liabilities)		
Inventory	0.1	0.1
Debtors	7.7	7.0
Trade & other payables	(7.1)	(7.4)
Contingent consideration	(0.7)	(2.0)
Other net current asset/(liabilities)	0.1	-
	0.1	**(2.3)**
Net debt	**(2.3)**	**(2.7)**
Non current liabilities		
Contingent consideration	-	(0.2)
Provisions	(1.6)	(2.0)
Deferred tax	(3.8)	(4.0)
Other non-current liabilities	(0.3)	(0.3)
	(5.7)	**(6.5)**
Net assets	**61.6**	**58.2**

- Restatement of prior year balance sheet for IFRS15 and IFRS9 conversion
- Facility drawn of £9.5m of a total available cash facility of £12.0m
  - Cash, net of overdraft, of £5.7m
  - £1m repayment of borrowings
- Net debt reduced due to
  - Strong underlying cash generation from our core operations of £2.5m, offset by investing and financing activities
- Tabernus contingent consideration settled in equity. Remaining contingent consideration to be settled by July 2019

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Cashflow

£'m	H1 FY19	H1 FY18
Adjusted EBITDA	**3.0**	**1.8**
(Increase)/decrease in debtors	(0.6)	0.4
Increase/(decrease) in creditors/stock	0.1	(1.3)
Adjusted Operating Cashflow	**2.5**	**0.9**
Capex	(1.4)	(1.4)
Interest and tax	(0.3)	(1.6)
Dividends to minority interest	(0.2)	(0.2)
Adjusted Cashflow after Interest, Tax & Dividend	**0.6**	**(2.3)**
Acquisition earn out payments	(0.4)	(0.7)
Acquisition of minority interests & related items	-	(0.4)
Payment of exceptional items	(0.1)	(1.1)
Discontinued operations	0.1	(0.4)
Movement in Cash in the year	**0.2**	**(4.9)**
Opening Net (Debt)/Cash	(2.7)	1.7
Movement in cash	0.2	(4.9)
Other Movements	0.2	(0.2)
Closing Net Debt	**(2.3)**	**(3.4)**

- Adjusted operating cashflow of £2.5m (H1 FY18: £0.9m) = 83% of Adjusted EBITDA
- Increase in debtors due to increased revenue and longer credit terms offered to a small number of large established customers
- £1.4m capex for ongoing investment in R&D.
- £0.4m acquisition earn out payments in the period in relation to Xcaliber.

Product & Geographical revenues

Revenue	H1 FY19 £'m	H1 FY18 restated £'m	Growth %	*% of Revenue*
Enterprise & Data Centre	4.7	3.6	30%	*32%*
Mobile	5.0	4.6	10%	*34%*
ITAD	4.9	4.1	20%	*34%*
Group total	**14.6**	**12.3**	**19%**	

Revenue	H1 FY19 £'m	H1 FY18 restated £'m	Growth %	*% of Revenue*
North America	5.3	4.4	23%	*37%*
Europe	5.6	4.6	22%	*38%*
Asia and ROW	3.7	3.3	10%	*25%*
Group total	**14.6**	**12.3**	**19%**	

- Strong performance in all regions, in particular North America, where there was a large number of Enterprise & Data Centre deals closed in H1
- Mobile – growth anticipated to accelerate in future periods following strategic investments
- 48% growth in channel revenue year on year, now representing approximately half of Enterprise & Data Centre revenues

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Market Opportunity

Enterprise & Data Centre Market

Strong growth in H1

- Revenue grew by 30% to £4.7m (H1 FY18: £3.6m)
- Channel revenues grew by 48% to £2.4m (H1 FY18: £1.6m) and now represents approximately 50% of all Enterprise and Data Centre revenue
- Regulatory drivers such as GDPR, PCI DSS and California Consumer Privacy Act influencing data privacy awareness

Customer Use Case

- Data centre deal with listed biotechnology company through Ingram Micro distributor
- A new corporate security policy required all assets with a hard drive that have failed or reached end of life require data erasure
- Company bought hardware appliance in 4 main data centers around the globe and a software solution for their remote sites

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Mobile Market

H1 a period of investment

- Large market, high growth with a diverse set of small competitors
- R&D efforts focused on Mobile in H1, with benefit to come from improved product set focused on quality and speed of solutions
- Revenue grew by 10% to £5.0m (H1 FY18: £4.6m)

Customer Use Case

- Mobile Retail deal with major mobile device repairer with over 500 franchise locations primarily in USA
- Blancco is developing a custom wireless device app to facilitate the registration and replacement process for customer devices
- 3 year contract signed with upfront NRE and ongoing license costs per franchise store

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ITAD Market

Good period of growth

- Revenue grew by 20% from £4.1m to £4.9m
- Demand driven by the underlying performance of the IT recycle market
- Working with our largest ITADs to penetrate the enterprise market

Customer Use Case

- Major US based ITAD purchasing licenses for on site erasure at their enterprise customer locations
- 3 year contract with attractive margins
- Signed new Partner Service agreement for “Erasure as a Service” product

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Investment for Future Growth

R&D

- Expanded development team to focus on Mobile Diagnostics solutions, including the Diagnostics SDK
- Established a new development team to focus on Enterprise Data Center solutions
- Filed 2 new patents, including technology on erasure of high-speed devices typically found in the Data Center and technology on automating Mobile diagnostics
- Achieved ISO 9001 and 27001 certification for development offices in Finland and India
- Technical Support team achieved HDI certification

Marketing

- Increased marketing spend on lead generation, focusing on Enterprise and Mobile markets
- Created and released market studies on data center and second hand mobile phone markets
- Substantially increased marketing support for channel partners (MDF funds)

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Summary & Outlook

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- Successful strategic initiatives leading to a strong period of growth in all regions and revenue streams
- Strong cash generation enabled further investments
- Management team fully formed following recent recruitment
- Mobile growth to accelerate, driven by the full implementation of R&D and marketing initiatives
- Data Centre and Enterprise to be supported by continued channel growth
- The Board reiterates its confidence in full year market expectations, and longer term prospects of the Group

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