

Blancco Technology Group

Trading update

Cleaning house

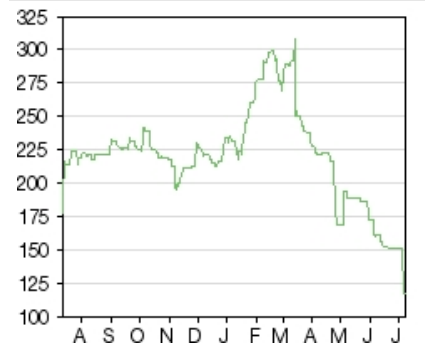
Software & comp services

10 July 2017

Price **116.5p**
Market cap **£75m**

Net debt (£m) at end H117	5.9
Shares in issue	64.0m
Free float	95.6%
Code	BLTG
Primary exchange	AIM
Secondary exchange	N/A

Share price performance



%	1m	3m	12m
Abs	(27.6)	(47.4)	(32.3)
Rel (local)	(26.5)	(47.5)	(40.8)
52-week high/low		308p	116.5p

Business description

Blancco Technology Group develops and sells data erasure and mobile diagnostics software. It is headquartered in the US and has sales offices in 15 countries around the world.

Next events

FY17 results	3 October 2017
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Analysts

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 Investment Research Limited**

Blancco expects to report FY17 revenue growth of 40%, in line with our forecast. After providing for a previously flagged late payer, adjusted operating profit is expected to be c £5.5m. We have revised our forecasts to reflect the bad debt provision and slightly higher operating expenses, as well as reflecting the recent fund raise. We reduce our FY17e normalised EPS by 42% and FY18e and FY19e by 12%. We forecast net cash of £1.5m at the end of FY17.

Year end	Revenue (£m)	Adjusted operating profit* (£m)	EPS* (p)	DPS (p)	P/E (x)	Yield (%)
06/15	15.0	4.0	2.84	5.00	41.0	4.3
06/16	22.4	6.1	5.63	2.00	20.7	1.7
06/17e	31.4	5.5**	4.89**	2.10	23.8	1.8
06/18e	37.9	9.6	9.73	2.21	12.0	1.9

Note: *Adjusted operating profit and EPS are normalised, excluding amortisation of acquired intangibles, exceptional items and share-based payments. **After £2.2m bad debt provision.

FY17 revenues in line; bad debt provision hits profit

Blancco expects to report FY17 revenue growth of c 40% (+30% constant currency), which is in line with our forecast. The company has decided to provide against a large debtor (previously flagged as overdue). Of the £3.5m receivable, £2.2m had been recognised as revenue and the remainder was in deferred income. Taking into account the £2.2m cost of the provision, the company expects to report adjusted operating profit (AOP) of at least £5.5m and EBITDA of at least £7.0m.

Revising forecasts to reflect trading and fundraise

We have revised our forecasts to reflect the £2.2m provision cost. We have also increased our operating expense forecast by £0.2m to arrive at the £5.5m AOP – this also flows through to slightly higher expenses in FY18 and FY19. We factor in the net cash proceeds of £9.5m from the May placing of 5.8m shares at 169p per share. Overall, this reduces our normalised EPS forecasts by 42% in FY17, 12% in FY18 and 12% in FY19. Taking into account the fund raise and the outstanding receivable, we forecast a net cash position of £1.5m at the end of FY17.

Valuation: Rebuilding confidence in growth prospects

The stock has declined 46% since the cash shortfall was announced in April. Blancco now trades at a discount to its UK-based, high-growth software peer group and its global cybersecurity software peer group, despite earnings growth forecasts from FY18 at the top end of the range. The recent fund raise has strengthened the balance sheet and provided breathing space while the company deals with overdue receivables. Over the next six months, events that should improve investor confidence include the appointment of a new chairman, an update on the underlying growth trends for each business line and any repayment of overdue receivables. In the longer term, evidence that the wider market accepts the need for secure data erasure should provide support to our growth forecasts and position the company for a multi-year growth phase.

Exhibit 1: Financial summary

	£'m	2015	2016	2017e	2018e	2019e
		IFRS	IFRS	IFRS	IFRS	IFRS
30-June						
INCOME STATEMENT						
Revenue		15.0	22.4	31.4	37.9	43.8
Cost of Sales		(0.5)	(1.5)	(1.8)	(2.7)	(3.1)
Gross Profit		14.6	20.8	29.6	35.2	40.8
EBITDA		4.2	6.9	7.1	11.4	13.8
Normalised operating profit		4.0	6.1	5.5	9.6	11.6
Amortisation of acquired intangibles		(2.0)	(2.5)	(2.8)	(2.8)	(2.8)
Exceptionals		(2.5)	(2.7)	(2.2)	0.0	0.0
Share-based payments		(0.4)	(1.2)	(1.7)	(2.0)	(2.2)
Reported operating profit		(0.9)	(0.2)	(1.2)	4.8	6.6
Net Interest		(0.5)	(0.3)	(0.7)	(0.6)	(0.6)
Joint ventures & associates (post tax)		(0.7)	(0.2)	0.0	0.0	0.0
Exceptionals		(0.3)	(0.6)	(0.3)	(0.3)	(0.3)
Profit Before Tax (norm)		2.8	5.6	4.9	9.0	11.0
Profit Before Tax (reported)		(2.4)	(1.3)	(2.1)	3.9	5.7
Reported tax		(0.9)	(0.6)	(0.9)	(1.0)	(1.4)
Profit After Tax (norm)		1.9	4.7	4.1	7.6	9.3
Profit After Tax (reported)		(3.3)	(2.0)	(3.1)	2.9	4.3
Minority interests		0.3	(0.7)	(1.0)	(1.1)	(1.2)
Discontinued operations		8.4	(22.2)	(2.4)	0.0	0.0
Net income (normalised)		2.2	4.0	3.2	6.6	8.1
Net income (reported)		5.4	(24.8)	(6.4)	1.8	3.0
Basic average number of shares outstanding (m)		78	72	59	62	62
EPS - basic normalised (p)		2.84	5.63	5.35	10.61	13.12
EPS - diluted normalised (p)		2.84	5.63	4.89	9.73	12.03
EPS - basic reported (p)		6.97	(34.72)	(10.84)	2.97	4.91
Dividend (p)		5.00	2.00	2.10	2.21	2.32
Revenue growth (%)			49.1	40.3	20.6	15.6
Gross Margin (%)		96.9	93.1	94.4	93.0	93.0
EBITDA Margin (%)		28.3	30.7	22.7	30.1	31.6
Normalised Operating Margin		26.8	27.2	17.6	25.2	26.4
BALANCE SHEET						
Fixed Assets		119.1	67.3	65.8	63.9	61.6
Intangible Assets		110.2	66.9	65.3	63.4	61.1
Tangible Assets		6.4	0.4	0.5	0.5	0.5
Investments & other		2.5	0.0	0.0	0.0	0.0
Current Assets		56.2	18.6	20.3	22.3	26.6
Stocks		9.5	0.1	0.2	0.2	0.2
Debtors		34.6	8.9	11.9	14.3	16.6
Cash & cash equivalents		12.1	4.8	8.2	7.7	9.8
Other		0.0	4.8	0.0	0.0	0.0
Current Liabilities		(43.2)	(23.3)	(20.9)	(22.7)	(22.3)
Creditors		(40.5)	(14.2)	(15.0)	(16.3)	(18.5)
Tax and social security		(0.6)	(2.3)	(2.3)	(2.3)	(2.3)
Short term borrowings		0.0	0.0	0.0	0.0	0.0
Other		(2.1)	(6.8)	(3.7)	(4.1)	(1.6)
Long Term Liabilities		(9.4)	(13.5)	(15.8)	(10.3)	(7.3)
Long term borrowings		(4.4)	(3.7)	(6.7)	(3.7)	(0.7)
Other long term liabilities		(5.0)	(9.8)	(9.1)	(6.6)	(6.6)
Net Assets		122.7	49.1	49.4	53.2	58.5
Minority interests		(0.2)	(1.0)	(0.1)	(1.2)	(2.4)
Shareholders' equity		122.4	48.1	49.2	52.0	56.1
CASH FLOW						
Op Cash Flow before WC and tax		4.2	6.9	7.1	11.4	13.8
Working capital		0.8	(0.6)	(3.6)	(1.1)	(0.1)
Exceptional & other		2.8	(12.2)	(4.1)	0.0	0.0
Tax		(0.6)	(0.6)	(0.9)	(1.0)	(1.4)
Net operating cash flow		7.3	(6.6)	(1.5)	9.3	12.3
Capex		(1.8)	(2.5)	(2.9)	(2.8)	(2.8)
Acquisitions/disposals		(2.5)	(7.5)	(1.1)	(1.0)	(2.5)
Net interest		(0.4)	(0.2)	(0.7)	(0.6)	(0.6)
Equity financing		(3.6)	(50.7)	9.5	0.0	0.0
Dividends		(3.4)	(3.1)	(1.5)	(1.4)	(1.4)
Other		(6.5)	65.1	(1.4)	(1.1)	0.0
Net Cash Flow		(10.8)	(5.6)	0.48	2.5	5.0
Opening net debt/(cash)		(20.6)	(7.8)	(1.0)	(1.5)	(4.0)
FX		(1.9)	(1.2)	0.0	0.0	0.0
Other non-cash movements		(0.1)	0.0	0.0	0.0	0.0
Closing net debt/(cash)		(7.8)	(1.0)	(1.5)	(4.0)	(9.1)

Source: Blanco, Edison Investment Research

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