

Blancco Technology Group

Trading update

Encouraging finish to a difficult year

Blancco's FY18 trading update confirms that despite weaker than expected revenue growth, work on reducing the cost base resulted in a better than expected operating margin of 11%. Positive cash flow in H2 reduced the net debt position to below our forecast. We have revised our forecasts to reflect lower revenues but stronger profitability, resulting in an upgrade to our normalised EPS forecasts of 49% for FY18e and 10% for FY19e. With the appointment of a permanent CFO, the new management team is now complete, and we expect more detail on strategy when the company reports FY18 results in September.

Year end	Revenue (£m)	Adj. operating profit* (£m)	EPS* (p)	DPS (p)	P/E (x)	Yield (%)
06/16	21.2	4.6	4.16	2.0	17.8	2.7
06/17	26.9	3.2	2.60	0.7	28.5	0.9
06/18e	27.2	3.0	2.89	0.0	25.6	N/A
06/19e	30.0	3.3	3.00	0.0	24.6	N/A

Note: *Adjusted operating profit (AOP) and EPS are normalised, excluding amortisation of acquired intangibles, exceptional items and share-based payments.

FY18 operating profit ahead despite weaker revenues

Blancco expects to report modest revenue growth for FY18 (our forecast +5.6%). The rate of growth was not as strong as management expected (previous guidance was for reported growth at the lower end of the 6-16% range), and was negatively affected by the weaker pound during the period. For H218, the company saw a good rate of contract wins, with revenue growth of 7% y-o-y on a constant currency basis (our forecast +12% reported). Despite the weaker than expected revenues for the year, due to good cost control Blancco expects to report an adjusted operating margin of 11%, well ahead of our 8% forecast, towards the top end of the 8-12% guidance range, and significantly higher than the 6.6% reported in H118. Combined with good cash collection, this generated positive cash flow for H218 and net debt at year-end of £2.8m, below our £3.5m forecast.

Estimates raised; new CFO appointed

We have reduced our FY18 revenue growth forecast to 1% and maintain the 10% growth rate for FY19. On an 11% operating margin for both years (FY19 previously at 10%), this results in an upgrade to our normalised EPS forecasts of 49% for FY18 and 10% for FY19. The company has appointed a permanent CFO, Adam Moloney, to start on 23 July. We expect to hear more detail on group strategy when the company reports FY18 results on 25 September.

Valuation: Reinvigorating sales is key to upside

Blancco is trading on a P/E multiple of 25.6x in FY18e and 24.6x in FY19e, which is at a discount to UK and global cybersecurity peers. Upside to the share price from this point will depend on the company demonstrating progress in reinvigorating revenue growth, with a recovery in the end-of-life business a key factor in this. One-off licence deals could add materially to profitability.

Software & comp services

11 July 2018

Price **74p**
Market cap **£47m**

\$1.32:£1

Net debt (£m) at end FY18 2.8

Shares in issue 64.0m

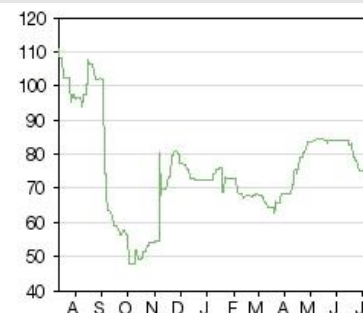
Free float 95.6%

Code BLTG

Primary exchange AIM

Secondary exchange N/A

Share price performance



%	1m	3m	12m
Abs	(11.9)	4.2	(36.5)
Rel (local)	(11.8)	(1.5)	(39.5)
52-week high/low		116p	48p

Business description

Blancco Technology Group develops and sells data erasure and mobile diagnostics software. Its headquarters are in the US and it has sales offices in 15 countries around the world.

Next events

FY18 results 25 September

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Exhibit 1: Financial summary

	£'m	2015	2016	2017	2018e	2019e
		IFRS	IFRS	IFRS	IFRS	IFRS
30-June						
INCOME STATEMENT						
Revenue		15.0	21.2	26.9	27.2	30.0
Cost of Sales		(0.5)	(1.9)	(1.1)	(1.2)	(1.5)
Gross Profit		14.6	19.3	25.8	25.9	28.5
EBITDA		4.2	5.4	5.0	5.5	6.5
Normalised operating profit		4.0	4.6	3.2	3.0	3.3
Amortisation of acquired intangibles		(2.0)	(2.5)	(2.5)	(2.5)	(2.5)
Exceptionals		(2.5)	(2.7)	(2.6)	(1.2)	0.0
Share-based payments		(0.4)	(1.2)	(0.7)	0.4	(1.0)
Reported operating profit		(0.9)	(1.7)	(2.6)	(0.2)	(0.2)
Net Interest		(0.5)	(0.3)	(0.3)	(0.3)	(0.4)
Joint ventures & associates (post tax)		(0.7)	(0.2)	0.0	0.0	0.0
Exceptionals		(0.3)	(0.6)	1.1	(0.0)	(0.2)
Profit Before Tax (norm)		2.8	4.1	2.9	2.8	2.9
Profit Before Tax (reported)		(2.4)	(2.8)	(1.8)	(0.5)	(0.8)
Reported tax		(0.9)	(0.6)	(0.7)	(0.0)	(0.1)
Profit After Tax (norm)		1.9	3.2	2.0	2.1	2.3
Profit After Tax (reported)		(3.3)	(3.5)	(2.5)	(0.5)	(0.9)
Minority interests		0.3	(0.2)	(0.6)	(0.3)	(0.4)
Discontinued operations		8.4	(22.2)	(1.9)	0.0	0.0
Net income (normalised)		2.2	3.0	1.5	1.8	1.9
Net income (reported)		5.4	(25.9)	(4.9)	(0.8)	(1.3)
Basic average number of shares outstanding (m)		78	72	57	62	62
EPS - basic normalised (p)		2.84	4.16	2.60	2.89	3.00
EPS - diluted normalised (p)		2.84	4.16	2.60	2.89	3.00
EPS - basic reported (p)		6.97	(36.20)	(8.59)	(1.31)	(2.07)
Dividend (p)		5.00	2.00	0.70	0.00	0.00
Revenue growth (%)			41.2	27.0	1.0	10.6
Gross Margin (%)		96.9	91.1	95.9	95.5	95.0
EBITDA Margin (%)		28.3	25.4	18.7	20.4	21.7
Normalised Operating Margin		26.8	21.7	11.9	11.2	11.1
BALANCE SHEET						
Fixed Assets		119.1	67.3	66.6	64.9	62.5
Intangible Assets		110.2	66.9	66.2	64.4	62.0
Tangible Assets		6.4	0.4	0.4	0.5	0.6
Investments & other		2.5	0.0	0.0	0.0	0.0
Current Assets		56.2	16.2	20.2	14.6	16.7
Stocks		9.5	0.1	0.1	0.1	0.2
Debtors		34.6	6.6	8.4	8.5	9.4
Cash & cash equivalents		12.1	4.8	11.6	6.0	7.1
Other		0.0	4.8	0.0	0.0	0.0
Current Liabilities		(43.2)	(22.5)	(17.5)	(15.5)	(15.1)
Creditors		(40.5)	(13.4)	(14.0)	(11.0)	(12.9)
Tax and social security		(0.6)	(2.3)	(1.5)	(1.5)	(1.5)
Short term borrowings		0.0	0.0	0.0	0.0	0.0
Other		(2.1)	(6.8)	(2.1)	(3.1)	(0.8)
Long Term Liabilities		(9.4)	(13.5)	(18.7)	(14.0)	(14.0)
Long term borrowings		(4.4)	(3.7)	(9.9)	(8.9)	(8.9)
Other long term liabilities		(5.0)	(9.8)	(8.7)	(5.1)	(5.1)
Net Assets		122.7	47.6	50.6	49.9	50.1
Minority interests		(0.2)	(0.5)	(1.0)	(1.1)	(1.5)
Shareholders' equity		122.4	47.1	49.6	48.8	48.6
CASH FLOW						
Op Cash Flow before WC and tax		4.2	5.4	5.0	5.5	6.5
Working capital		0.8	0.9	(1.6)	(2.2)	0.9
Exceptional & other		2.8	(12.2)	(5.1)	(1.2)	0.0
Tax		(0.6)	(0.6)	(0.7)	(1.2)	(0.1)
Net operating cash flow		7.3	(6.6)	(2.5)	1.0	7.3
Capex		(1.8)	(2.5)	(3.4)	(3.3)	(3.4)
Acquisitions/disposals		(2.5)	(7.5)	(0.7)	(1.1)	(2.5)
Net interest		(0.4)	(0.2)	(0.3)	(0.3)	(0.4)
Equity financing		(3.6)	(50.7)	9.5	0.0	0.0
Dividends		(3.4)	(3.1)	(1.4)	(0.2)	0.0
Other		(6.5)	65.1	(0.4)	(0.8)	0.0
Net Cash Flow		(10.8)	(5.6)	0.84	(4.7)	1.1
Opening net debt/(cash)		(20.6)	(7.8)	(1.0)	(1.7)	2.9
FX		(1.9)	(1.2)	(0.1)	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)	(1.7)	2.9	1.8

Source: Blancco Technology Group, Edison Investment Research

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