

Blanco Technology Group

Trading update

FY17 revenues hit by contract reversals

Software & comp services

Issues with revenue recognition have led to the reversal of two contracts worth £2.9m in FY17, reducing expected growth from 40% to 29%. We have revised our FY17 estimates accordingly, resulting in a 76% cut to our FY17 EPS forecast. We have withdrawn our FY18 and FY19 forecasts pending clarity on underlying growth rates. The CEO has resigned; interim CFO Simon Herrick will also take on the CEO role until a new CEO is appointed.

Year end	Revenue (£m)	Adj. operating profit* (£m)	EPS* (p)	DPS (p)	P/E (x)	Yield (%)
06/15	15.0	4.0	2.84	5.00	22.0	8.0
06/16	22.4	6.1	5.63	2.00	11.1	3.2
06/17e	28.8	2.6	1.19	2.10	52.4	3.4

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

Contracts worth £2.9m reversed

Blanco has announced that it has reversed two contracts worth £2.9m that were booked in FY17. It now expects to report revenue growth of 29% for FY17 (15% constant currency), EBITDA of at least £4.1m and adjusted operating profit of at least £2.6m. We have reduced our revenue forecast for FY17 by 8.5% to £28.8m, resulting in adjusted operating profit of £2.6m and normalised EPS of 1.19p. The company does not expect this to have an impact on the year-end cash balance, although we expect it to reduce operating cash flow in FY18. It has been difficult to assess underlying organic growth rates due to acquisitions, currency effects, the recent provision against overdue receivables and now these contract reversals. We have therefore withdrawn our FY18 and FY19 forecasts pending further information on underlying growth rates when FY17 results are released on 3 October.

CEO resignation

In light of the discovery of the incorrect contract recognition, CEO Pat Clawson has resigned. Interim CFO Simon Herrick will take over the CEO role until a replacement can be found. Chairman Rob Woodward, who had previously announced his intention to step down, has agreed to stay on. The key focus in the short term will be to ensure the smooth running of the business as it currently stands and to verify that revenue on all existing contracts is correctly recognised. In the longer term, it will be important to build a business with sustainable growth and profitable, cash-generative contracts. We would expect a new management team to reassess the cost base in order to match it to the revenue potential.

Valuation: Reflects uncertainty around growth

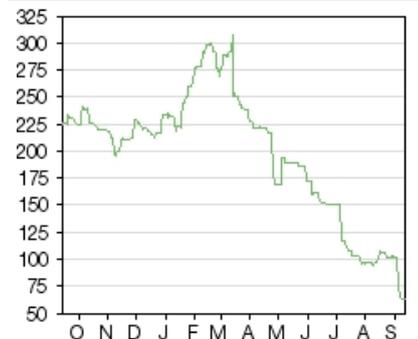
The stock is down 40% on this news and is now trading at 52x our revised EPS forecast for FY17e. To restore investor confidence in the business, the company needs to clarify underlying revenue growth rates (by business line, and split between recurring and one-off revenues) and how this will affect the cash position over FY18 and FY19. In addition, management appointments for the CEO and CFO roles need to be made. Any repayment of previously provided-for receivables would provide a boost to cash flows.

12 September 2017

Price **62.5p**
Market cap **£40m**

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	(35.9)	(61.2)	(72.4)
Rel (local)	(36.7)	(60.7)	(74.9)
52-week high/low		308.0p	62.5p

Business description

Blanco 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

FY17 results	3 October
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Exhibit 1: Financial summary

	£m	2015	2016	2017e
Year end 30 June		IFRS	IFRS	IFRS
INCOME STATEMENT				
Revenue		15.0	22.4	28.8
Cost of Sales		(0.5)	(1.5)	(2.0)
Gross Profit		14.6	20.8	26.7
EBITDA		4.2	6.9	4.2
Normalised operating profit		4.0	6.1	2.6
Amortisation of acquired intangibles		(2.0)	(2.5)	(2.8)
Exceptionals		(2.5)	(2.7)	(2.2)
Share-based payments		(0.4)	(1.2)	(1.7)
Reported operating profit		(0.9)	(0.2)	(4.1)
Net Interest		(0.5)	(0.3)	(0.7)
Joint ventures & associates (post tax)		(0.7)	(0.2)	0.0
Exceptionals		(0.3)	(0.6)	(0.3)
Profit Before Tax (norm)		2.8	5.6	2.0
Profit Before Tax (reported)		(2.4)	(1.3)	(5.1)
Reported tax		(0.9)	(0.6)	(0.9)
Profit After Tax (norm)		1.9	4.7	1.7
Profit After Tax (reported)		(3.3)	(2.0)	(6.0)
Minority interests		0.3	(0.7)	(0.9)
Discontinued operations		8.4	(22.2)	(2.4)
Net income (normalised)		2.2	4.0	0.8
Net income (reported)		5.4	(24.8)	(9.2)
Basic average number of shares outstanding (m)		78	72	59
EPS - basic normalised (p)		2.84	5.63	1.30
EPS - diluted normalised (p)		2.84	5.63	1.19
EPS - basic reported (p)		6.97	(34.72)	(15.62)
Dividend (p)		5.00	2.00	2.10
Revenue growth (%)			49.1	28.5
Gross Margin (%)		96.9	93.1	93.0
EBITDA Margin (%)		28.3	30.7	14.6
Normalised Operating Margin		26.8	27.2	9.1
BALANCE SHEET				
Fixed Assets		119.1	67.3	65.8
Intangible Assets		110.2	66.9	65.3
Tangible Assets		6.4	0.4	0.5
Investments & other		2.5	0.0	0.0
Current Assets		56.2	18.6	17.5
Stocks		9.5	0.1	0.1
Debtors		34.6	8.9	9.1
Cash & cash equivalents		12.1	4.8	8.2
Other		0.0	4.8	0.0
Current Liabilities		(43.2)	(23.3)	(21.1)
Creditors		(40.5)	(14.2)	(15.1)
Tax and social security		(0.6)	(2.3)	(2.3)
Short term borrowings		0.0	0.0	0.0
Other		(2.1)	(6.8)	(3.7)
Long Term Liabilities		(9.4)	(13.5)	(15.8)
Long term borrowings		(4.4)	(3.7)	(6.7)
Other long term liabilities		(5.0)	(9.8)	(9.1)
Net Assets		122.7	49.1	46.4
Minority interests		(0.2)	(1.0)	(0.0)
Shareholders' equity		122.4	48.1	46.4
CASH FLOW				
Op Cash Flow before WC and tax		4.2	6.9	4.2
Working capital		0.8	(0.6)	(0.7)
Exceptional & other		2.8	(12.2)	(4.1)
Tax		(0.6)	(0.6)	(0.9)
Net operating cash flow		7.3	(6.6)	(1.5)
Capex		(1.8)	(2.5)	(2.9)
Acquisitions/disposals		(2.5)	(7.5)	(1.1)
Net interest		(0.4)	(0.2)	(0.7)
Equity financing		(3.6)	(50.7)	9.5
Dividends		(3.4)	(3.1)	(1.5)
Other		(6.5)	65.1	(1.4)
Net Cash Flow		(10.8)	(5.6)	0.47
Opening net debt/(cash)		(20.6)	(7.8)	(1.0)
FX		(1.9)	(1.2)	0.0
Other non-cash movements		(0.1)	0.0	0.0
Closing net debt/(cash)		(7.8)	(1.0)	(1.5)

Source: Blancco Technology Group accounts, Edison Investment Research

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