

Chief Executive's Report



Matt Jones | Chief Executive Officer

Business overview

I am pleased to be able to report another year of good financial and operational performance despite the challenging conditions seen since the onset of the COVID-19 pandemic in the second half of the year. The fundamental growth drivers in the business have continued to gain momentum over the course of the year:

- Sustainability – the alternative to using data sanitisation software on IT assets is the physical destruction of those assets which will ultimately end up in landfill sites and cause harm to the environment. The Executive management teams that are leading organisations, from multinational blue chip companies to SMEs, are becoming increasingly aware of the sustainability impact of their operations which is driving greater awareness and use of Blancco's solutions.
- Governance – all organisations have an obligation to ensure that the data held on their assets is not accessed by unauthorised persons. This has become a greater challenge in recent months as employees are increasingly working from remote locations and the volume of IT assets in circulation has increased sharply to allow employees to work remotely.

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These drivers continue to give us great confidence in the continued and increasing adoption of Blancco's solutions and the outlook for the continued financial growth of the business in the medium term.

Enterprise

Blancco continued to see good momentum in the year as revenue grew by 13% to £11.7m (FY 2019: £10.3m). Revenue from channel partners grew by 3% to £5.1m (FY 2019: £4.9m) and this is expected to accelerate as new channel relationships develop. The relatively low levels of market penetration of the use of data sanitisation coupled with our strong proposition give us confidence that the revenue growth opportunity in the Enterprise market is significant as companies become increasingly aware that there is an alternative to the physical destruction of assets.

All organisations continue to be challenged with how to manage obsolete data or assets which contain data and now need to be repurposed. The challenge has been exacerbated in recent months with many employees being required to work from home. Companies are understandably reluctant to ask employees to use personal devices to process company data so many companies have had to buy additional devices for issue to these employees. The revenue opportunity for Blancco can be directly linked to the number of IT assets that are being used for work purposes. As these employees return to work,

they will either continue to use the new asset rendering their previous desktop PC redundant or they will return the device to the IT team who will need to sanitise the asset before it can be reused.

In either scenario, the employer will need to make sure that the device doesn't store data which can be accessed by unauthorised

persons before it can be repurposed, recycled or resold. Data Sanitisation solutions such as those provided by Blancco are the only way of making sure that data can be permanently erased before an asset is repurposed, recycled or resold. Blancco has over twenty years' experience in providing data erasure solutions, supported by a long list of third-party security accreditations and IP portfolio that has led to a market leading position.

According to the World Economic Forum and the UN E-Waste Coalition, 50 million metric tons of e-waste are produced each year. The physical destruction of assets has long been viewed as the most secure method of IT asset disposition. However, the physical destruction of assets often requires companies to allow third parties to remove assets from their

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sites before data is erased meaning there is no way of knowing whether the assets have been destroyed. Data Erasure software can resolve this problem by performing a full erasure at the premises of the company which owns the asset before it leaves their IT environment, producing an audit certificate detailing the

serial number of the asset and date and time that the erasure took place. The physical destruction of assets cannot generate a similar audit trail. Blancco’s ability to enable organisations to recycle equipment led to Blancco being awarded the London Stock Exchange Green Economy Mark in October 2019. This accreditation recognises companies and investment funds on all segments of the Main Market and AIM that derive 50% or more of their total annual revenues from products and services that contribute to the global green economy.

Gartner reports that Data Sanitisation is at the early stages of mainstream adoption and Blancco believes that the best way to accelerate demand is through the development of a channel network of resellers. Over the course of the year Blancco has looked to develop significant new channel partnership opportunities. We were able to achieve Advanced Technology Partner status with Amazon Web Services (“AWS”) Partner Network (“APN”) in December 2019. The critical phase of developing that relationship was to enable customers to acquire Blancco’s solutions through the use of the AWS marketplace platform, increasing visibility of our solutions and making it a simple process to complete a transaction. The solution offered to AWS customers will enable them to permanently remove data from legacy assets once there has been a migration of data to the AWS cloud.



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We continue to develop additional relationships with blue chip organisations on both a global and regional basis. The most recent example was our announcement of a Reseller Agreement with Deloitte India. The agreement allows Deloitte to add data erasure to their cybersecurity advisory expertise at a time when COVID-19 has hastened Indian public cloud adoption as organisations have transitioned to work from home processes.

Mobile

The financial year commenced with the acquisition of Inhance Technology which has been fully integrated within the Group and has been renamed Blancco Technology Group Ireland ("Blancco Ireland"). The Blancco Ireland R&D team has worked alongside our existing R&D team and has made a big contribution to the filing of nine new patents in the financial year, all of which related to the Mobile proposition. The Company now holds a portfolio of 36 patents across its three market segments which are either granted or pending.

The market for used smartphones continues to grow strongly with a January 2020 report from IDC stating that 206.7 million used handsets were sold globally in 2019, up 17.6% on the 2018 data. The forecast is for growth to continue at a rate of 13.6% CAGR resulting in an estimated 332.9 million used handsets to be sold in 2023. The global growth in this market is attributed to the difficulty that OEMs face in being able to produce new models that strike a balance between desirable new features and a price that is seen as reasonable. IDC also believe that the introduction of 5G will encourage smartphone owners to trade in 4G devices to offset the cost of a new 5G device. The used handset market will be looking for increasing levels of technology such as those produced by Blancco to support trade-in programmes and enable devices to be resold securely.

Blancco Ireland was acquired for its solution that allows diagnostic tests to be run on a mobile handset through the use of an easily downloadable mobile app. This initiative allows retailers to offer their customers the capability to run tests on their devices without the need to visit a store as well as the ability to offer customers a trade-in value for their handset in the event that they wish to upgrade it.

In our interim results in February 2020, we disclosed that the ability to run diagnostic tests through the use of a mobile app would also open an opportunity to develop a new revenue stream in the mobile insurance market. An important step in this initiative was the announcement in June 2020 of the Master Services Agreement secured with leading global professional

services firm, Aon. Aon is now able to offer the Blancco Ireland capability as part of its insurance platform, allowing diagnostic tests to be run on prospective policyholders' phones thus detecting any defects on the phone prior to the insurance policy being taken out. This eliminates fraudulent claims for phones that are already damaged before the policy is taken out, thereby reducing claim rates and policy premiums. Aon is now actively selling the platform into mobile carriers and retailers with the first implementations now having been secured in Asia & Europe.

Revenue in the mobile segment grew by 8% to £10.8m (FY 2019: £10.0m) in the year. On an organic basis, adjusting for £1.2m of revenue from the newly acquired Blancco Ireland subsidiary, revenue in the mobile market segment shrank by 4%.

Organic Growth rates were affected by:

- The change in contractual terms with a mobile retailer, as disclosed in the interim results in February, who has changed from a model of providing diagnostic services in store to providing these services in third-party warehouses. While Blancco continues to provide these services to the third-party warehouses, the value of the contracts is significantly less.
- New mobile processor contracts announced in the interim results have had implementations delayed by COVID-19. These are now fully operational.

Mobile market segment revenue growth in the new financial year will be depressed in the first half while the change in the above contractual arrangements with the major retailer works through the comparator period but it is fully expected that growth rates will accelerate from the second half and beyond.

IT Asset Disposition ("ITAD")

Our ITAD customers expect similar growth trends to those in the Enterprise market segment. ITADs are third parties who manage the IT assets of companies who don't have sufficient IT resources to manage assets in-house. Many ITADs have been prevented from accessing company sites during the COVID-19 pandemic. However, the growth drivers around sustainability and governance that apply in the Enterprise market segment apply equally here. ITADs have seen their customers purchase increasing amounts of IT equipment in recent months and expect an increase in disposition activity once the disruption caused by COVID-19 passes.

Despite a modest slowing of growth in the second half of the year, ITAD revenue grew by 7% to £10.9m (FY 2019: £10.2m).

Summary and Outlook

While the impact of COVID-19 has undoubtedly been disruptive and slowed growth, the business model has proven to be extremely resilient with financial performance in line with the market expectations originally set 12 months ago, pre COVID-19.

As global lockdown measures have gradually eased in recent months, trading is in the process of returning to pre COVID-19 levels and we are confident in the future prospects for growth as the environmental and governance aspects of the solutions provided by Blancco become increasingly attractive for prospective customers.

The increase in the volume of IT hardware assets purchased in recent months along with the move to remote working will increase the use cases for Data Sanitisation and will lead to growth in the value of customer contracts. We also believe that the ongoing development of channel partnerships such as those with AWS, Deloitte and Aon will start to generate revenue in the current financial year.

In the Mobile market segment, significant growth in the number of handsets being sold in the second-hand mobile market continues to be forecast and Blancco has a market leading proposition in this area. This will be supplemented by the new revenue stream opportunity presented by the Blancco Ireland solution in the insurance market.

Overall, we remain cautious while there is global uncertainty around the COVID-19 pandemic and particularly in the first half of the financial year when the comparator period was unaffected by COVID-19. However, with a strong balance sheet, no debt and a business which has continued to generate cash through the most challenging months of the pandemic, we are confident that the Company remains very well placed to deliver returns to shareholders in the medium term and beyond.

Matt Jones

Chief Executive Officer

