

Chief Executive's Report



Matt Jones
Chief
Executive
Officer

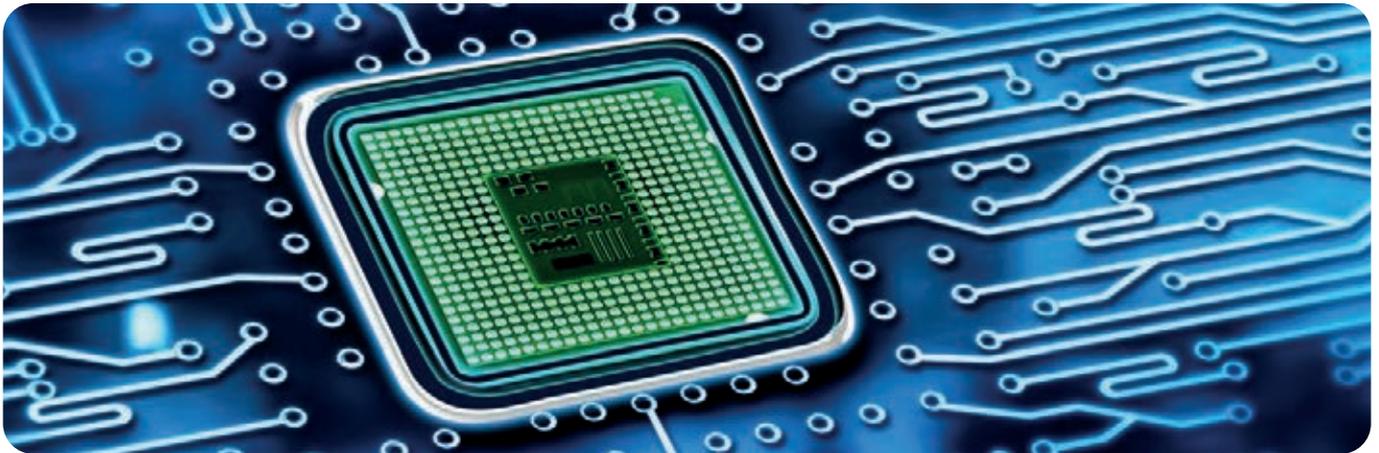


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Business Overview

We are pleased to report on a period of strong growth in revenue, profit and cash generation, particularly in the second half of the year, as sales cycles returned to pre-COVID levels, and we started to see the impact of the return of employees to offices accelerate corporate decision making. The key growth drivers in the business remain unchanged:

- **Sustainability** – The United Nation’s Global E-Waste Statistics Partnership estimates that 53 million tonnes of electronics waste (e-waste) was produced in 2019. In the financial year ending 30 June 2021, we estimate that Blancco erased data from 54.5 million (2020: 36.2 million) data storing devices. The total weight of these devices is estimated to be 68 million kilograms (2020: 61 million kilograms) and the estimated carbon emissions consumed in manufacturing these devices is 5.6 billion kilograms (2020: 4.6 billion kilograms). Whilst these numbers are significant, we still believe that the vast majority of data storing devices are destroyed at the end of life and placed in landfill where harmful chemicals can be released. Growing governmental and societal pressures on companies to conduct business in a much more environmentally friendly manner is expected to lead to greater numbers of IT assets entering the circular economy. We have aligned our business model to the United Nations Sustainable Development Goals (UN SDGs) to increase investor access to this data.
- **Governance** – The most recent Gartner report on Data Privacy (13 July 2021) has been prepared with the expectation that 75% of the world’s population will have its personal data protected by modern privacy regulations by the end of 2023, up from 25% today. The disposition of assets storing data can only be managed through the destruction of those assets through shredding and landfill or through the use of strictly regulatory compliant data sanitisation software. Whilst there was already a growing focus on data sanitisation to fulfil corporate compliance requirements, the majority of assets are still destroyed, but that will be impacted by the shift to a more remote workforce in the aftermath of the pandemic. Organising the mass destruction of assets is easier when the assets are all kept within an office environment but much more



difficult when the assets are spread to various locations while employees work at home. It will be important that any data stored on these assets is completely erased before they are returned to IT departments.

With limited competition in the markets that it addresses and a strong list of competitive advantages, including a growing portfolio of 38 patents, we are confident that Blancco is well placed for near-term and sustainable growth.

Enterprise

Enterprise continues to be our strongest growth market with revenue in the year growing by 21% to £14.1 million (2020: £11.7 million). Growth was 24% when adjusted for currency movements. Enterprise customers are typically very large companies with IT departments who will take direct responsibility for the IT assets in their organisation, particularly the disposal of those assets, rather than outsource that responsibility to a third party, typically an IT Asset Disposition (ITAD) company. These companies will usually be the companies that are storing the most data and, therefore, see data security as a high priority risk item. These companies will also often be those who will be increasingly aware of their ESG responsibilities. Governance and Sustainability are the key drivers for growth of Blancco's revenue in this market.

The combination of a sector-leading technology, and the quality of our services and team, has led to large (£100k+) customer retention rates of 98.4% across the Group, giving us high levels of revenue visibility.

With customers in this market being among the largest companies in the world, it is increasingly important that Blancco continues to develop strong channel partner relationships. During the period, revenue in Enterprise from channel partners grew by 27% to £6.5 million (2020: £5.1 million). Over the course of the year, we have given considerable focus to expanding our network of channel partners that we work with.

In May 2021, we were pleased to announce our integration with ServiceNow to provide innovative and secure *data sanitisation* capabilities directly from the Now Platform. Despite the short period of time that the relationship has been established, we are pleased to report that it is already driving revenue. Many organisations rely heavily on ServiceNow when

managing their IT assets and our integration with that platform makes a transition to using Blancco very smooth. We were also delighted to recently secure ISV Accelerate status for our partnership with AWS. There are currently approximately only 200 ISV Accelerate partners who receive co-sell support and benefits to gain access to the AWS customer base. In addition, we have also secured partnerships with Infosys, Lenovo and a global technology company who have all begun generating revenue in the period. We are starting to see good traction from these larger channel partners and look forward to them making a more meaningful contribution in the short term.

Revenue has increased in Enterprise from £8.6 million in FY18 to £14.1 million in FY21, a compound annual growth rate of 18%. With the pent-up demand of many assets that have been sat redundant in offices for 18 months during the pandemic helping the growth drivers of Governance and Sustainability that we have already discussed, we are confident that Enterprise will remain the strongest growth area in the Group.

Data sanitisation for a remote or hybrid workforce

Data security concerns have become more elevated in recent periods, with companies trying to secure data stored on devices held by employees outside the office environment as the world has transitioned to an increasingly remote workforce – a trend that is widely expected to be here to stay. Gartner's recently published report on Data Privacy stated that "Growing concerns about data privacy and security, leakage, regulatory compliance, and the ever-expanding capacity of storage media and volume of edge computing and IoT devices make robust, consistent and pervasive *data sanitisation* a core C-level requirement for all IT organisations...to minimise chain-of-custody security risks (such as loss in transit to the ITAD vendor's facility), many ITAD managers (especially in the financial and healthcare sectors) require that some form of *data sanitisation be performed on-site.*"

The capability for Blancco's software to erase data remotely becomes increasingly important when employees are spending increasing amounts of time outside of the office environment. Whereas before an employee could leave the IT team to take a device from their desk if they were having a device upgraded, or perhaps leaving the company, employees will now often have a device collected by a courier and will want to ensure that no sensitive data is stored on the device before it is handed to a third party.

Chief Executive's Report continued

Higher financial penalties for data breaches

Along with growing levels of data privacy regulations, we are also seeing a steep increase in the size of penalties for companies that fail to comply with these regulations. In July 2021, a global technology behemoth was fined a record €746 million for breaching GDPR regulations.

A sustainable solution for data management

The biggest competition to Blancco's software is the physical destruction of assets and this remains by far the most common way that IT assets are dealt with at the end of life. It is clear that the destruction of these assets is an unsustainable practice that releases many harmful chemicals into the earth. However, this is also an almost impossible process to manage when employees are working increasingly from home, because previously companies organising the destruction would do so by collection from company offices.

Mobile

Blancco's mobile solutions offer consumers and businesses the ability to sanitise or run diagnostics on handsets. Over the course of the year, we have seen a significant increase in the number of mobile phones that have been erased using Blancco software, from 20.1 million devices in FY20 to 35.6 million in FY21. This is a reflection of the continuing growth in global sales for used mobile phones. In January 2021, IDC released a report projecting that sales of used smartphones would increase from 225.4 million in 2020 to 351.6 million in 2024, a compound growth rate of 11.7%. Blancco has invested heavily in developing a high-quality solution for customers that allows those customers to process large numbers of handsets in the most efficient manner. Whilst there is some direct competition in this market, it tends to be from smaller companies that cannot make similar technology investments. During the pandemic period, large mobile phone suppliers have been reluctant to review their technology partners, but we believe there will be opportunities to increase market share as trading conditions return to normal.

Over the year, we have seen consumers become more willing to trade in used handsets to offset the cost of the latest generation of smartphones. Previously, the value of a used handset was modest, which, along with security concerns about the data stored on the device, prompted consumers to retain the handset in the event they needed an emergency handset. However, the higher values now attributable to such handsets together with sophisticated insurance programmes that enable consumers to obtain refurbished replacement phones swiftly, has encouraged consumers to exploit the value to be obtained from their old device.

Whilst the number of handsets being erased by Blancco software has increased significantly, revenue grew only marginally to £10.9 million (2020: £10.8 million), 4% growth when adjusted for movements in foreign currency. As reported in results statements previously, underlying growth has been distorted by a contract with a mobile handset and airtime retailer that made the decision to run mobile handset diagnostics at a logistics centre from 1 January 2020 rather than in its own store network. This customer represented £1.4 million of revenue in the first half of the FY20 financial year and, whilst the customer continues to work with Blancco, it generates a significantly reduced amount of revenue from the new contractual terms. Excluding the impact of this one customer, revenue growth in mobile would have been 15%. This contract was only for diagnostic solutions and therefore hasn't impacted on the number of handsets erased in each year. This contract will no longer be reported in future comparative periods. No remaining customer represents more than 6% of Group revenue. Mobile revenue has grown from £9.7 million in FY18 to £10.9 million in FY21, representing compound annual growth of 4%.

IT Asset Disposition (ITAD)

As reported in our half year results, the ITAD market has been the most impacted by the pandemic, with our ITAD clients often unable to access their customers' premises to manage their IT assets. However, we have seen a strong rebound in the second half of the year as trading conditions gradually return to normal. Revenue for the full year grew by 6% to £11.5 million (2020: £10.9 million). However, the growth in the second half of the financial year was 19% compared to the same period of the previous year.

As global economies continue to reopen, our ITAD clients are starting to see the release of pent-up demand from their customers who have been unable to effectively manage their IT inventories over the past 18 months. Our ITAD customers tend to service companies that do not have the IT resources to manage their own inventory but which are under the same obligations to protect sensitive data that we see among our Enterprise customers. Whilst these smaller companies may not currently be under the same pressure from their stakeholders to protect the environment that we see for large companies, these pressures are rapidly filtering down to companies of all sizes.

Blancco has a large market share among ITAD customers, which may mean that growth will be slower than that seen in Enterprise. However, revenue has grown from £8.6 million in FY18 to £11.5 million in FY21, representing compound annual growth of 10%.

Summary and Outlook

We are delighted with the progress reported in these results. Our interim results reported in February 2021 showed that the pandemic had slowed revenue growth and therefore revenue in the first half of the year was very similar to the prior year. However, the second half of the year has seen a return to strong growth with revenue increasing by 19% in that six-month period.

We enter the new financial year with confidence and with a strong pipeline of new business opportunities. The growth will primarily continue to be driven by Enterprise with the structural tailwinds of Governance and Sustainability pushing the business forward. The new channel relationships announced over the past couple of years are expected to gain traction over the course of the next 12 months and contribute significantly to revenue growth.

Blancco is ideally placed to increase sales momentum in the coming years given our high-quality service offering, sector leading reputation and broad geographic reach. As some costs return to our business as travel restrictions ease, operating margins are likely to revert closer to pre-COVID level in FY22, before continuing an upward trajectory in subsequent years.

Since I joined the Company in March 2018, appointed a first-class management team and implemented a strategic focus, we have consistently delivered strong annual growth in revenue, profit, and cash generation despite some challenging macro-economic conditions. As we look ahead, we believe that a combination of sector-leading technology and service delivery, a growing global reputation and network of blue-chip channel partners, combined with the sustainability and governance pressures on organisations will continue to drive Blancco's growth.

Matt Jones

Chief Executive Officer

