Open Letter to all shareholders in Blancco Technology Group

Dear Shareholder,

Francisco Partners board approved offer for Blancco is undervaluing your shares

Private equity firm Francisco Partners has made a cash offer to take Blancco private for 223p per share. The bid has been endorsed by Blancco's board of directors. Two large shareholders have offered irrevocable undertakings to accept the deal unless another bidder offers at least a 10% higher price. A third has given a non-binding letter suggesting it intends to accept the offer[1].

A fund managed by our firm, Forager Funds Management, owns 2,365,271 shares in Blancco, representing more than 3% of the company's equity. Forager is a top 10 shareholder and has owned stock in the company since 2017.

It's our opinion that the 223p offer price significantly undervalues the potential in Blancco's business.

Our base case valuation is more than 30% higher than the bid price. Our top end valuation is significantly higher again, and doesn't lean on any heroic assumptions.

Blancco is a quality tech company

You can make your own discounted cash flow model. But we wanted to share some thoughts relevant to valuing this company, in case you find it useful in forming your own opinion about the proposed takeover. Consider this:

1. Revenue growth is inflecting higher. Blancco has grown revenue at a compound annual growth rate of 12%[2] over the past five years. But that's while carrying a Mobile segment that has disappointed - barely growing revenue over that period. With each passing year, the Mobile segment is becoming a smaller part of the pie, from 36% of company revenue in 2018 to an estimated 23%[3] in 2023. The much faster growth coming from the Enterprise and ITAD segments will accelerate overall company growth.

2. Profit margins should rise from here. Blancco's adjusted EBITDA margins have increased from 20.4% in 2018 to an estimated 29.5%[4] in 2023. Those margins should and will continue to rise. The gross margin on Blancco's products is more than 95%. Much of its remaining cost base is relatively fixed in nature. The *incremental* margin on sales over that same five-year period was above 40%. It's not unreasonable to expect this margin to trend towards that level over time, relying on no change in current trajectory. And there's an immense amount management could do proactively to further improve margin from there. You can bet Francisco Partners have a list of such actions ready to go after settlement.

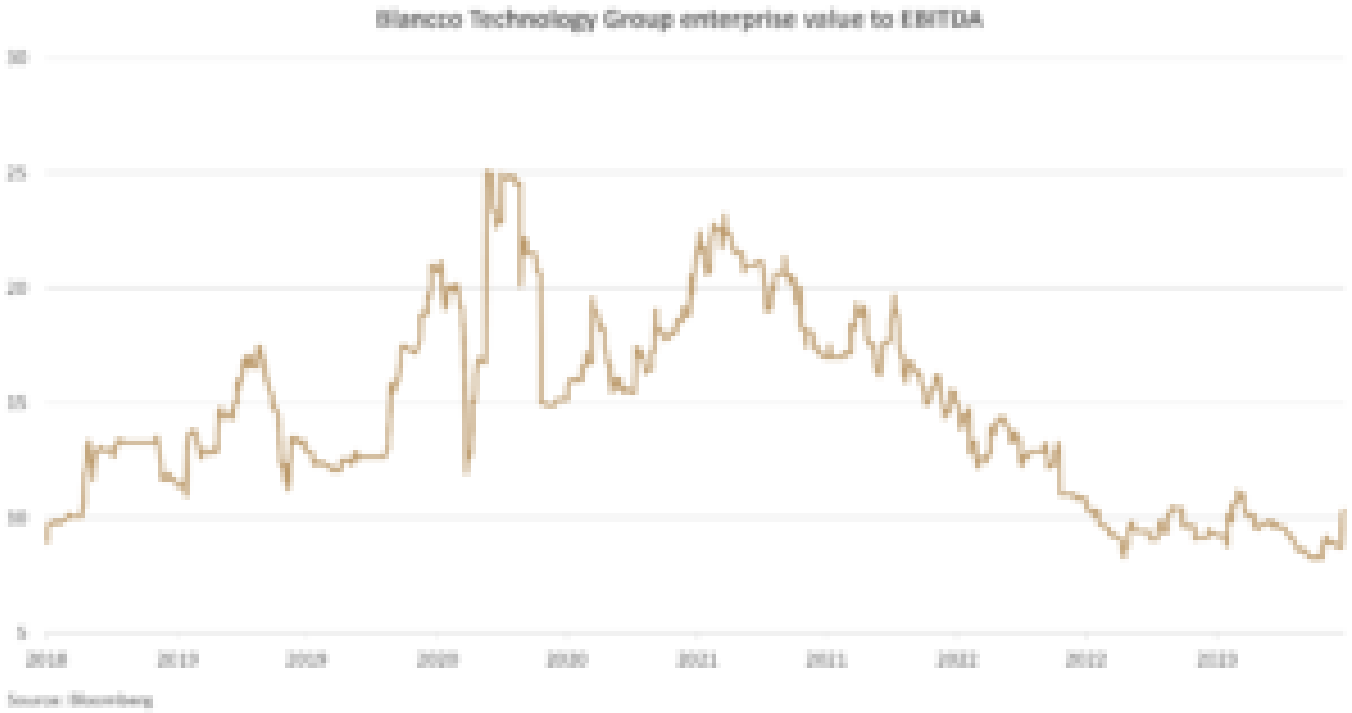
3. Untapped pricing power. Related to points 1 and 2 above, Blancco has significant pricing power that has historically been untapped. Software-as-a-Service (SaaS) customers are becoming increasingly accustomed to annual price rises. Blancco has rarely pulled that trigger in the past, with revenue growth closely linked to volume growth. That might be changing. Enterprise and ITAD customers have both experienced price rises over the past year. Blancco's dominant global share in paid erasure software and extreme customer loyalty provide the foundation for modest annual price increases going forward. Even a 5% annual price adjustment will meaningfully add value for shareholders - the drop through to profit should be almost 100%.

4. Strengthening ESG tailwind. Blancco helps customers secure their data, and the increasing importance of data security barely needs mentioning. The environmental pitch to customers is also growing more relevant with each passing year. Blancco already counts some of the largest technology firms globally as customers. Among those tech giants, an unsustainable proportion of their used hardware is still shredded rather than cleared then recycled or resold. See the *Financial Times* article *Why Big Tech shreds millions of storage devices it could reuse* from 6 October 2022 for more insights. Blancco's revenue from its existing customer base alone will likely grow at an impressive rate, based entirely on volume increases.

Undervalued on historical multiples

In addition to the fine business attributes outlined above, which you may want to incorporate into your own thoughts on value, here are some other metrics that make the case that the current bid is substantially too low.

Francisco Partner's bid is pitched at an Enterprise Value to current year (2023/24) estimated EBITDA multiple of just 11 times[5]. Despite the board's rightful concerns about the lack of investor appetite on the AIM market, Blancco shares have traded well above that multiple for most of the past five years.



Also note that versus the broader software index[6], Blancco has traded at a premium for much of the past five years. But it's not currently, despite the 25% deal premium. It is hard to imagine that disconnect wasn't a factor in the timing of Francisco's bid.

Transaction data

Other takeovers are even more telling. There have been plenty of transactions done for

relatively similar businesses in the software and cybersecurity markets globally over the past few years.

The cybersecurity market in particular has been hot. Where deals are being struck, it's typically at mid-to-high single digit multiples of the last 12 months' revenue[7]. Broader software multiples are a little lower but still well above the 3.4 times revenue implied in Fransico's offer price[8].

Businesses of Blancco's strong and improving revenue growth, mature margin potential and customer loyalty (recurring revenue) don't tend to get sold for 3.4 times expected revenue or 11 times expected EBITDA[9], as the Board is proposing to do here.

We've collected details of a few transactions that offer some degree of relevance. To avoid any accusations of cherry-picking, we've ignored any deals greater than US$1.5bn, focused mainly on targets outside the US where the spotlight shines less brightly and have only considered deals inked in the past 9 months.

In comparison with Blancco, the following list includes a fair helping of businesses that are lower quality, with a lesser growth outlook and lower to non-existing profitability. And yet they point to solidly higher valuations. Four times revenue would still be cheap. Five times would be closer to fair.

Date	Company name	Country	Acquisition multiples		Buyer
			Revenue multiple (times)	EBITDA multiple (times)	
Dec 22	Nearmap	Australia	6.6	Unprofitable	Thoma Bravo
Jan 23	Magnet Forensics	Canada	12.5	104	Thoma Bravo
Feb 23	Sumo Logic	US	4.7	Unprofitable	Francisco Partners
Feb 23	Linode	US	9.0	N/A	Akamai
Feb 23	Elmo Software	Australia	4.8	Unprofitable	K1 Investment Management
Feb 23	MSL Solutions	Australia	3.5	22	Pemba
Feb 23	Illumio Global	US	6.1	~61	WiseTech
Mar 23	Logpoint	Denmark	6.0	N/A	Summa Equity
Apr 23	Nitro Software	Australia	5.3	Unprofitable	Potentia
Jul 23	Absolute Software	Canada	3.9	35 (2023e)	Crosspoint Capital
Average			6.2		
Pending	**Blancco**	UK	**3.4**	**11.4**	**Francisco Partners**

Frustration is not a reason to sell too cheap

Over the past two years to 30 June 2023, Blancco has grown revenue by 30%, while its share price fell more than 40%.

Forager acknowledges the board's concerns about liquidity and the wider pool of investors and potential investors not properly recognising Blancco's value. We share their frustration and

other large shareholders clearly feel likewise. But accepting a miserly 25% premium over the pre-bid share price is not the way to correct it. The bid price doesn't properly bridge that undervaluation, and indeed solidifies it.

If the right time to sell the business is now, shareholders must get an appropriate valuation for their shares.

Best and highest offers

It is in our individual and collective interest for a sale process to be allowed to play out in a way that ensures maximum value for all shareholders. That doesn't mean blindly accepting this first bid.

There are surely other private equity and trade buyers who would have interest in a business of this quality. If the board is convinced a sale is the best way for shareholders to maximise value, we have concerns that this asset hasn't been thoroughly shopped to a sufficiently long list of potential buyers. We want a fuller, more detailed process to explore that on behalf of all existing shareholders, incorporating the use of additional third-party advisors to guide it through this process. That's an issue Forager will take up with the Board directly, and you may consider doing likewise.

If, after a full and complete sale process, Francisco is the only bidder currently interested and 223p is all they are willing to offer, then the board should focus on growing the business and selling it for significantly more in a few years' time.

The board of directors will need to buckle down and ensure Blancco has the right management team and indeed board composition to take it forward. The business needs to grow revenue above that seemingly magical US$100m mark where markets and bidders start to pay real attention. At that point, if the stock is still being ignored on the AIM market, the board can move the listing to a more discerning market like the NASDAQ or seek a bid then. Blancco could top US$100m annual sales within 4-5 years via organic growth alone. This is an area where patience should pay. It would not be unreasonable to expect to crystallise multiples of this bid price should that growth occur.

If large shareholders have had enough

Forager is also perfectly happy continuing on as a minority shareholder with a large talented private equity firm as the major shareholder, be that Francisco Partners or someone similar. In the offer documentation, Ravi Bhatt of Francisco Partners said:

"Sustainability and e-waste reduction are increasing strategic priorities for customers of all sizes globally, and we see tremendous organic and inorganic growth opportunities for Blancco worldwide."

We couldn't agree more.

We've long thought that more can be done at Blancco to drive the business faster. If today's large shareholders disagree, let them move on and bring in someone with vision and a plan. Forager would certainly appreciate a like-minded larger shareholder on board, and are more than happy to swap notes if anyone cares for our thoughts.

But our initial thoughts on this bid price is that it's inadequate. There's no obvious premium for control. And our opinion is that shareholders will do better continuing to own their shares than to sell out for 223p today.

If any shareholders, media or potential bidders want to get in contact with us to discuss further, please do. You can reach Gareth at gareth.brown@foragerfunds.com and we're happy to set up a call.

Footnotes

[1]See Blancco release Francisco Partners II - Recommended Cash Offer of 2/8/23

[2]Uses market estimate revenue for the year to 30 June 2023 of £47.5m

[3]Forager internal estimate

[4]Uses market estimate EBITDA for the year to 30 June 2023 of £14.0m

[5]Uses market estimate EBITDA for the year to 30 June 2023 of £14.0m

[6]S&P500 Software Industry Index

[7]https://www.spglobal.com/marketintelligence/en/news-insights/latest-news-headlines/mandiant-multiple-sets-pace-for-cybersecurity-m-a-in-2022-69478262

https://momentumcyber.com/docs/Quarterly/Cybersecurity_Market_Review_Q1_2023.pdf

http://cdn.hl.com/pdf/2023/cybersecurity-market-update-first-quarter-2023.pdf

[8]Uses market estimate revenue for the year to 30 June 2023 of £47.5m

[9]Uses market estimate EBITDA for the year to 30 June 2023 of £14.0m