

# Compliance Standards

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## Moving Up the Value Chain, Regeneris Acquires Blancco

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UK-based electronics services and repair company Regeneris announced that it has acquired data erasure firm Blancco Oy Ltd (Blancco), with full absorption slated to be finalized on April 17, 2014. What does this mean and what are the implications for Regeneris, for the ITAD space and for end-user companies?

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## A Search for Higher-Value Acquisition Targets and the Morphing of Two Sectors

Up until recently, the M&A world on the electronics recycling front focused exclusively on IT asset disposition firms that get value from the physical handling of decommissioned hardware, their potential placement into the secondary market and/or their recycling. Some services are added to these tasks, including offering data erasure services, which the acquired company Blancco is one of the market leaders. This classic ITAD M&A trend is still underway but now that Regeneris is acquiring Blancco, the market is sending fresh signals that it is looking for higher-value acquisition targets of a different sort.

From our perspective, Blancco's acquisition is the strongest indicator thus far of a market that is maturing, expanding beyond hardware and into areas of the ITAD, recycling and services spaces that emphasize compliance. It is also about investors that are looking for new sustainable sources of revenues and higher margins amid a transforming IT and hardware landscape.

On the other hand, while a lot of M&A activity has essentially focused on the end-of-life of IT and electronics, we are now seeing a blurring of the lines between what is happening there and what we expect to happen in the broad IT services sector going forward. There is plenty of evidence to suggest that a morphing between end-of-life ITAD and IT services is underway, a trend that is likely to create a whole new set of dynamics on the competitive front. In the next two to five years, we are most likely going to witness a redefinition of the value chain and a sort of reshuffling of the competitive landscape in a unified IT services/ITAD space.

### Looking for Value beyond Core

In the case of Regeneris, the company's core activities are not necessarily focused on the classic ITAD/end-of-life of devices per se. Regeneris is a service provider for OEMs who outsource to the company areas of their customer support operations involving repairs and returns management. It is indeed engaged, to a certain degree, in the secondary market, but in a different way than classic ITAD companies are. Given the list of its customers, Regeneris handles broad lines of products and brands, from mobile and TV sets to set-top boxes and other electronics. These are essentially of transactional nature. In the enterprise space, the company handles what may be mass market

systems such as ATMs and scanners, but it is not as enterprise IT-focused as the more known ITAD firms. That in itself is an interesting point; insofar that Blancco has always been more enterprise IT focused, although investing recently in developing new tools for mobile systems' erasure. Absorbing Blancco will be interesting and potentially challenging for Regeneris, naturally given the difference in the business cultures that exist between the companies and the differences in the markets in which they operate.

However, in purchasing Blancco at the price tag of €60 million (a little over \$80 million), Regeneris gets a new entry into the enterprise IT space, but more importantly it secures the data erasure technology it sees important in its own future growth.

We expect Blancco's products and solutions to be part of Regeneris sales organization's kit, with the purpose of penetrating new OEM accounts such as the ones already serviced by Regeneris, including potentially HTC, Nokia, Samsung, LG, Toshiba and others major names. But Regeneris also gets a new entry into the data erasure space as it seeks to remarket the millions of devices it handles on behalf of its partners and clients.

Looking to the foreseeable future, Regeneris move is smart in that it anticipates a tightening of privacy and data security regulations around the world, creating business opportunities for its acquisition. Europe will continue to be the most aggressive source of data-related legislation. A draft European Data Protection Regulation is scheduled to start next year, which will likely increase fines for companies that suffer from customer data losses, fines that could amount to a mid-single-digit percent of worldwide revenue. The severity of the upcoming European law will require companies to appoint a Chief Security Officer and establish new sets of operating procedures to avoid damages and losses.

In the United States, the massive data breach that has affected the customers of retailer Target has led to renewed interest for new laws. Attorney General Eric Holder has recently asked Congress to enact a law that would require companies victim of data breaches to notify the public, adding new cost to the already expansive liability of cleaning up data losses.

Separately, US States are also looking to increase regulatory requirements related to data security. For example Florida's Attorney General and the State of Minnesota, among many others, are following the same path as the US Attorney General.

Similar regulations are expected also in many other large markets, including emerging markets, and that should provide Regeneris sustained opportunity for growth.

## What Regeneris is Getting

We believe that the acquisition is an excellent move for Regeneris for many reasons. Firstly, Blancco is a well run company. In a forthcoming report, Compliance Standards LLC has conducted an in-depth analysis of Blancco, awarding it a five-star rating for “Vision, Execution, and Sustainability.” The analysis preceding the issuance of the rating, and setting aside the news of this acquisition, highlights the company’s areas of strength and weaknesses, mostly showing the company has excellent set of attributes, which in addition to its growth prospects driven by expanding regulation, include a sound strategic vision, great tactical moves, and investments and placements in key areas of sustainable growth. The link up with Regeneris provides new venues for growth for the Blancco brand.

Equally positive is the decision made by Regeneris management to let Blancco operate as an independent subsidiary. This autonomy will be critical in business continuity that Blancco needs as it charts its way forward, while allowing Regeneris to take full advantage of Blancco’s capabilities. This spirit of autonomy is also reflected in the decision to keep Blancco’s headquarters and staff in Finland unchanged.

Another positive move announced by Regeneris and Blancco is not just and only the decision to maintain Blancco’s CEO Mr. Kim Väisänen as its top leader, but also appointing him as head of software services for Regeneris, in essence creating a bridge between the two entities, enabling better synergies.

Finally, the companies say the acquisition will have “no impact on Blancco’s existing customer relationships.” This is good news for the many companies that use Blancco solutions, however we do expect some rethinking to take place regarding Blancco’s approach of the ITAD sector, which may now be in direct competition with Regeneris. Indeed and although Blancco’s revenues from the ITAD space continues to drop as a share of total sales, that vertical sector still represents a sizeable portion of total sales estimated at 35% to 45%.

## Implications for ITAD and IT Services Companies that are Blancco Customers

We assume Regeneris will maintain Blancco's legacy relationships going forward specific to ITAD and IT services companies that use Blancco products. At least for the next year or so, it would be counter intuitive for Blancco's new parent company to simply withdraw from a sizeable source of revenue and a sector that Blancco has invested so heavily since its inception to become its market leader. What may change may be the future terms of use and contracts will have to be adjusted to fit the competitive requirements of the new owner. This is an area that Blancco's top three competitors will be watching closely.

## Implications for Enterprise IT Departments that are Blancco Customers

For end-users, it is unlikely that Blancco's product quality or support will be negatively impacted by the acquisition. Regeneris made it clear that its purpose is to see Blancco's reach in the end-user market expand and that means Blancco will likely continue to invest where it matters the most. The fact that Blancco is an independent subsidiary and still managed by its previous CEO bode well for Blancco's position with its existing customer base in enterprise IT. So we do not expect any disruption as a result of the acquisition.

## For Regeneris

Compliance Standards reiterates that the acquisition is a smart move. Keeping Blancco separate from a structural perspective, but tied to Regeneris from a sales and go-to-market approaches are good decisions that should pave the way for business continuity and expanded growth prospects in new areas for both Blancco and Regeneris.

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