EDISON

GO internet

Initiation of coverage

Italian 4G wireless broadband provider

Telecoms

GO internet raised €5m to fund an accelerated roll-out of its 4G services in its two licensed regions in Italy and potentially elsewhere. By targeting 'mobile-only' homes, GO hopes to increase significantly the rate at which it attracts subscribers. The group is already EBITDA positive and has sufficient liquidity to fund it to cash flow breakeven. If management can execute on plan we believe there is plenty of upside opportunity to the share price, which discounts no increase in growth from its pre-IPO rate and trades at a significant discount to our base case DCF of €4.7/share.

Year end	Revenue (€000s)	EBITDA* (€000s)	EPS* (c)	EV/sales (x)	EV/EBITDA (x)	P/E (x)
12/12	1,321	(605)	(20.8)	10.1	N/A	N/A
12/13	2,674	887	(1.1)	5.0	15.1	N/A
12/14e	3,793	1,409	1.1	3.5	9.5	338.7
12/15e	5,673	2,295	6.4	2.4	5.8	30.2

Note: *EBITDA and EPS are normalised, excluding amortisation of acquired intangibles, exceptional items and share-based payments.

A niche opportunity

GO internet is targeting the one million homes in the Emilia-Romagna and Marche regions of Italy that have opted to relinquish their relatively expensive fixed-line services. With no cable alternative and low penetration from other 4G services, these 'mobile-only' homes represent a niche opportunity for GO's competitively priced offer. As the founding team from ARIA, the first 3.5GHz/4G operator in Italy, management has considerable experience and although the company is at an early stage of development with a mere 21k subscribers, management believes that by accelerating the roll-out of its network it can rapidly increase penetration within and beyond its existing regions.

Ambitious growth targets

Following the IPO, GO has the flexibility to pursue its growth strategy; although early in its plan, since it stepped up its network roll-out in Q3 subscriber additions have increased – it added 900 in September. We initiate forecasts, based on the assumption that subscribers can on average grow in line with the network expansion. This drives our forecast EBITDA growth of 59% in FY14 and 63% in FY15. We expect network capital expenditure to absorb the operating cash flow in the forecast period, but despite this, GO should have sufficient liquidity to fund its network and its debt obligations. We forecast net debt to peak in FY16.

Valuation: Does not reflect post-IPO strategy

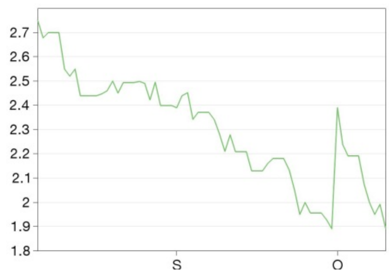
A reverse DCF implies that the current share price discounts subscriber growth below the historic rate (ie 6-7k pa). Provided management can increase net subscriber additions, there should be considerable upside; our base-case DCF, returns a value of €4.7per share. The prospect of expanding to another region (on the same terms as secured for its last licence) could add approximately 50% to this.

13 October 2014

Price	**€1.92**
Market cap	**€11m**

Net debt (€m) at September 2014	1.9
Shares in issue	5.99m
Free float	31%
Code	GO
Primary exchange	AIM Italia
Secondary exchange	N/A

Share price performance



%	1m	3m	12m
Abs	(14.3)	N/A	N/A
Rel (local)	N/A	N/A	N/A
52-week high/low		€2.75	€1.89

Business description

GO internet provides internet and telephone services using fourth generation (4G) wireless technology. The service is currently offered in the Emilia-Romagna and Marche regions of Italy, where GO has an exclusive right of use for 42MHz in the 3.5GHz frequency band known as 4G.

Next event

Full year results	March 2014

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Edison profile page

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Investment summary

Company description: Italian 4G wireless broadband operator

GO internet is an Italian regional 4G wireless internet and telephone service provider. The service is offered in the Marche and Emilia-Romagna regions of Italy, where GO has acquired licences for the exclusive right of use for 42MHz in the 3.5GHz frequency band. For a basic price of €18.18 per month, it offers fixed broadband internet access using fourth-generation (4G) wireless technology at speeds of up to 7Mbps. The service is competitively priced and is targeted at the approximately 900,000 homes in these two regions of Italy that have opted to relinquish their expensive fixed-line connections and consequently have no broadband service (other than cellular-network based) along with the 100,000 'digital divide' homes in the region that have no DSL access. It currently provides coverage for about 500,000 of the six million people across the two regions. At the end of September it reported 20,738 active subscribers.

Financials: Accelerated roll-out drives strong growth forecasts

Growth to date has progressed at a steady pace with 6-7k net subscriber additions in each of the last three years, dictated to a large extent by the company's liquidity. Following the IPO in August, which raised gross proceeds of €5m, the group is accelerating its network roll-out. Management has doubled the rate at which it is installing base stations in its existing regions, plans the introduction of 100Mbps equipment in the near term and is actively looking to secure a licence in another region. In doing so it believes it can significantly increase its subscriber growth rate.

Our forecasts assume subscriber growth picks up as network coverage expands. Within the existing regions we look for year end subscribers of 23k rising to 35k in FY15 and 70k by 2017. This drives revenue growth of 42% in FY14 to €3.8m and 50% in FY15 to €5.7m. GO has a light cost structure and is already profitable – EBITDA margin in H114 was 34%. Most of the costs are incurred on signing a customer and at scale we estimate EBITDA margins could reach c 55%. We forecast EBITDA margins to increase to 37% this year (from 33%) and 40% next. We expect the network roll-out to absorb operating cash for the next three years and forecast capex to increase from €1.7m in FY14 to €3.5m in FY15 and FY16.

Valuation: Significant upside potential if it executes its strategy

GO trades at a significant discount to our base-case DCF of €4.7 per share and on a 5.8x FY15 EV/EBITDA multiple it is at a marked discount to peers (6.2x to 17.4x), despite the prospect of strong revenue growth and margin expansion. Management has previously successfully launched a wireless broadband company and this gives us greater confidence that GO will be able to execute on its strategy, which is key to driving a re-rating of the share. To deliver forecasts we will be looking for evidence that 1) the network roll-out is progressing, 2) the cost of 100Mbps base stations does not escalate overall equipment costs, and 3) there is a marked acceleration in subscriber growth. The valuation will also be affected by news that GO has secured access to additional capacity in other regions; if this can be done on similar terms to the existing licences, it could add approximately 50% of value per share to the base case DCF (although additional financing may be required to fund the expanded network).

Sensitivities: Pace and cost of network roll-out

Sensitivities relate to the pace and cost of the network roll-out and the rate at which GO can attract, and keep subscribers. For instance, the price of network equipment, consumer demand in light of a difficult economic backdrop, its ability to keep churn low and the possible reaction of well-funded competitors. The limited free float and a dominant shareholder should also be considered.

Company description: 4G Wireless broadband

GO internet: Italian 4G wireless broadband service provider

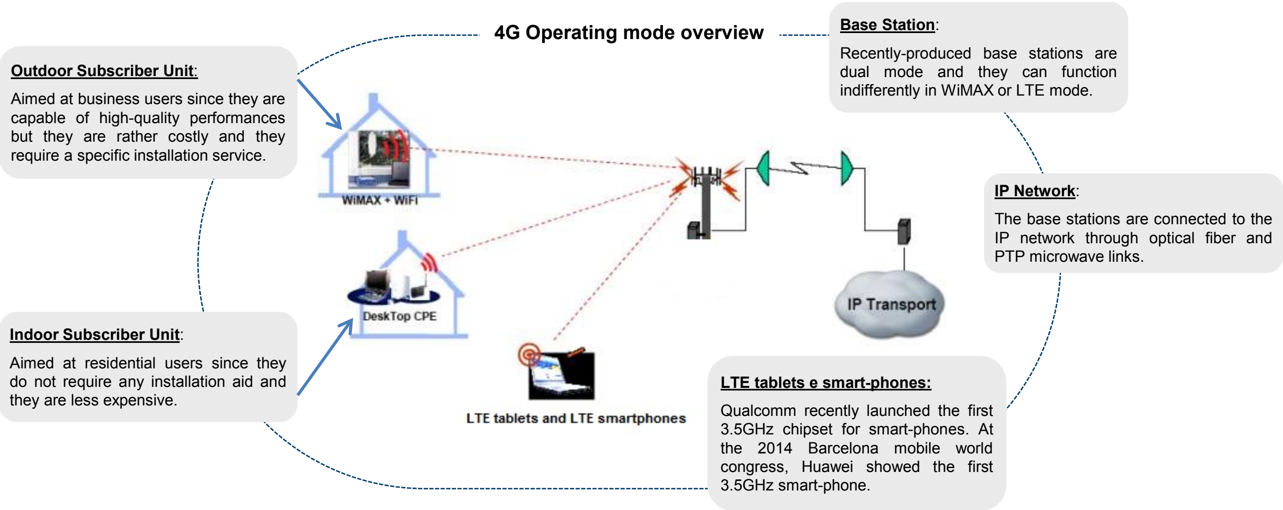
GO internet provides wireless internet and telephone services using 4G wireless technology. Its network supports speeds of up to 7Mbps, with an average speed of 4Mbps, which is comparable to the average DSL speed in Italy. Management plans to start to roll out 100Mbps-capable technology towards the end of the year.

The service is offered in the Marche and Emilia-Romagna regions of Italy, where GO has acquired licences for the exclusive right of use for 42MHz in the 3.5GHz frequency band (until 2023). It currently provides coverage for about 500,000 of the six million people across the two regions, corresponding to 8.7% coverage of the population of these regions and 5% of the territory. It would like to expand its footprint by continuing its roll-out to increase coverage in these areas and potentially by purchasing or renting frequencies in other regions. It had 20,738 active customers as at the end of September 2014.

GO uses 4G (3.5GHz) – WiMAX/LTE technology

4G is a wireless communications technology standard that operates in the 4G band and utilises WiMAX and LTE protocols. These technologies can be used for the ‘last mile’ internet connectivity, made possible by the installation of a modem operable under the 3.5GHz band. The last mile (also known as the local loop in the case of copper networks) is the most difficult and expensive to build and therefore represents a barrier to increased competition and enhanced broadband service quality. Exhibit 1 presents an overview of the technology.

Exhibit 1: Overview of GO’s technology



Sources: WiTech and Big Bang Solutions

Management and background

GO acquired its first licence in 2008 and its second in 2012 and commercial operations started in 2011. The company listed on AIM Italia in August 2014, raising €5m from the issue of 1.8m shares at €2.75 per share. The company is now 52%-owned by Gold Holding Srl, the holding company of the Umbrian industrialist Franco Colaiacovo’s family (Giuseppe Colaiacovo is GO’s chairman) and 17% by WN Srl, which is jointly owned by CEO/CTO Alessandro Frizzoni, CFO Alessandro Ronchi and COO Flavio Ubaldi. GO’s legal name was recently changed from WaveMax, although it has been using the GO brand name for marketing purposes for three years.

The executive management team brings considerable experience; they previously launched a regional telecom service provider, and have worked together since 2005, when they launched ARIA (which they left due to strategic differences with new owners). During their time at ARIA, they grew the company from nothing to one with 50,000 subscribers by the time they departed about four years later, despite the poorer technology available at the time. Management also brings valuable experience with respect to the logistics of building a network and navigating the bureaucracy involved in placing sites with base stations in key areas, as well as other financial and operational experience. Senior management have agreed to a 36-month lockup on their shares and a 48-month non-compete restriction. For further details on the management team, see page 15.

A niche within Italy's telecommunications market

Italy has made rapid progress in increasing broadband penetration over the last couple of years – penetration is up from 55% in 2012 to 68% at the end 2013 – yet it still remains considerably behind the European average of 76% (source: Eurostat), leaving plenty of room for structural growth.

Telecom Italia (TI) dominates the DSL broadband market with a 52.4% share nationwide.[1] Of the other licensed operators (OLOs), WIND is the largest (16.7% share), followed by Fastweb (14.7%), Vodafone (12.6%) and Tiscali (3.9%). The preponderance of DSL offers has followed the EU mandated unbundling of the local-loop (ULL) from TI, which enables OLOs to install their equipment in the exchanges, and rent the line from the exchange to the home from TI.

GO aims to serve the growing number of mobile-only homes

Management believes that its low-cost mobile broadband solution will appeal particularly to the approximately 900,000 homes in these two regions of Italy that have opted to relinquish their expensive fixed-line connections and consequently have no broadband service (other than cellular-network based), a segment of the market that is likely to continue to grow.

Although GO considers its service as an alternative to fixed broadband, by targeting a fixed service to 'mobile-only' homes, it is avoiding direct competition with Italy's incumbent telecoms operator. In doing so, GO may have found a niche. Within these 'mobile-only' homes, GO is competing with mobile (cellular network) broadband providers and other fixed 4G services. However, its small size and regional coverage may insulate it from retaliatory moves as GO's competitors are unlikely to feel much effect from GO for some time.

Trend towards relinquishing the TI fixed line

In order to subscribe to fixed broadband internet services from the incumbent operator, TI, customers are required to also pay for fixed-line telephony for €17 per month. However, as VOIP services improve and as the price of mobile declines, consumers increasingly consider this fairly expensive fixed-line connection, often referred to as a 'wireline tax', as a redundant service.

According to the Italian telecommunications regulator (Agcom), in the two regions where GO currently operates, there are 900k households that no longer have a fixed-line phone from TI; many of them could be interested in broadband without the cost of a TI line from which they derive little or no utility. Fixed-line penetration in Italy as a whole has dropped from about 95% at the peak in the late 1990s to around 65% at the end of 2013. Moreover, this decline is accelerating, which will increase GO's addressable market; of the 1.2m lines disconnected nationwide in the past two years, 730k were disconnected in 2013. In its licensed regions, a further 100k households are not even covered by fixed-line-based DSL service, in contravention of the EU's Digital Agenda for

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1 Based on the most recent (Q413) data from Agcom (Autorità per le Garanzie nella Comunicazioni), the Italian telecoms regulatory authority

Europe (DAE) target of 100% coverage of basic broadband service by 2013 (the so-called 'digital divide' homes).

Mobile broadband services

GO does not offer mobile broadband and hence does not consider itself as an alternative to the cellular operators that operate in Italy (TIM, Vodafone, Wind and 3). Ericsson, Huawei and others are working on 3.5GHz-enabled smartphones and tablets, however, it will be some time before they are broadly available and widely-owned enough to make GO a relevant alternative for users that are looking for a fully mobile solution.

That said, for consumers who currently subscribe to a mobile broadband service but use it predominantly in the home, GO's offer presents a more economical alternative and we believe that at the margin, GO's offer does represent a challenge. The cellular operators (due to the much higher cost of the network) limit the level of data that can be used (offers are typically for 2-30GB for €10 to €30 per month), after which point they charge an additional fee per GB used. GO's plan is unlimited, and subscribers use on average 40GB of data per month. At this level of data consumption, mobile broadband offers are unaffordable; we estimate GO's offer to be a factor of 10 to 20 times cheaper.

Two nationwide 4G competitors have little presence in GO's market

Three 4G licences have been awarded in each region in Italy. GO internet faces two main competitors in wireless internet services, both offering coverage nationwide: Linkem, which has a share of the national 4G market of around 56%,[2] and ARIA, with a 38% share; the remainder is held by several regional operators such as GO. However, their licences were awarded to them specifically on the basis of bridging the so-called 'digital divide' with specific rural coverage requirements. GO places greater focus on mobile-only households and households that would like to be free of the Telecom Italia 'wireline tax', although it also includes the c 100,000 digital divide households in Emilia-Romagna and Marche in its addressable market of 1m. Effectively, this means that both ARIA and Linkem have much more rural coverage than GO and that GO is rarely competing with them on the ground in either region where GO currently operates.

Future direction of broadband in Italy

TI today has only c 300k FTTH/P (Fibre-to-the-Home/Premises) subscribers, with the vast majority in Milan plus some in Rome, and very few elsewhere. However, networks are under pressure to improve bandwidth and we expect fibre to be gradually extended deeper into fixed networks in cities and suburbs in order to meet the directives of the EU Digital Agenda for Europe (DAE).

Bologna is the only large business centre in Emilia-Romagna and Marche. As a historic city, it is hard to get planning permission, apart from perhaps some industrial estates on the outskirts of town, and so installing fibre in Bologna represents a challenge to TI and other fibre providers – consequently we do not consider it an immediate threat. However, it is a consideration management will have to weigh in deciding whether to expand into other regions. In any case, for now GO is focused on residential customers.

Bundling of three or more services (fixed-line telephony, broadband, mobile and TV) is becoming the norm in other markets. For structural reasons, Italy has been slow to follow suit (no cable). However, bundled offers are being introduced: TI has launched a pay TV-over-DSL service and Sky Italia has entered into a number of partnerships with broadband providers. These offers are currently relatively expensive, and we believe that GO is targeting a different demographic. However, if bundled services start to catch on in Italy, GO may be disadvantaged.

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2 Agcom

Growth strategy

GO's commercial offer

The basic service costs €18.18 per month (gross of 22% VAT), which covers the broadband connection and data plan, or €25.25/month including unlimited free national calls to land lines. International calls and calls to mobiles are charged based on the companies' rate card. The vast majority of customers opt to rent the CPE (Customer Premises Equipment) as the rental is currently waived for two years (€4/month on the cheapest service), although GO does offer the CPE for sale at €120 per box. GO also charges a one-off service activation fee (€49.9 or €99.9 depending on the payment method). Subscriptions are paid by direct debit two months in advance, or by postal order, giving GO a visible and recurring revenue stream.

For self-install customers, there is a five-day full-refund return policy; if users cannot get satisfactory coverage with the box in their home or if they simply change their minds, they can return it for no charge. For more remote homes, where quality of service may be an issue with the indoor CPE, customers can opt for an outdoor CPE. In this situation, there is a €60 charge for installation and no grace period during which the customer could change their mind about taking the service.

After the five-day trial period, customers are locked into a two-year contract, although, under Italian law, they may terminate this contract early for an €80 fee.

Competitive advantages – convenient and competitively priced

We consider GO's principal competitive advantages to include its competitive pricing, the plug-and-play nature of the equipment and management's experience in setting up and running 4G services. Looking ahead to 100Mbps roll-out, we expect this to confer a significant advantage relative to the competition, which we believe will be slower to implement these speeds.

Competitively priced

GO's lowest-rate service, which the majority of subscribers choose, is competitively priced at just over €18 per month inclusive of VAT and CPE rental. Both ARIA and Linkem charge around €23 per month for a comparable service, although ARIA currently has an offer that costs only €15 per month for the first 12 months. GO's pricing should be attractive to users who, by disconnecting their TI lines, have clearly signalled that they are price-conscious. We note also that national competitors are restricted from offering differing prices on a local basis.

Exhibit 2: Cost of cheapest service (up to 7Mbps internet service)

€	GO internet	ARIA	Linkem
Price/month	18.18	23.12	20.00
Box rental	0.00	0.00	3.00
Total monthly charge	**18.18**	**23.12**	**23.00**
Intro special offer	9.90	14.95	N/A
Length of special offer	6 months	12 months	N/A
Conditions of special offer	Available in certain regions	Pay by direct debit/credit card	N/A
Activation fee	49.9*/99.9**	0*/40**/110.83	50*/100

Source: Company websites. Note: *If paid by direct debit/credit card. **If paid by postal order.

Other considerations:

- **Broadband without a copper fixed line**: No Telecom Italia 'wireline tax', ie the €17 monthly line rental fee for what some consider a low- to no-utility service, representing a saving of c 40% compared to the cheapest ADSL offers from TI.
- **'Plug & play' and 'try & buy'**: Small and lightweight indoor customer premises equipment (CPE) for almost all (85%) subscribers, offering no-hassle 'plug & play' installation. This is a

key advantage that GO has compared to its WiMAX competitors ARIA and Linkem, which can only provide plug & play to 40-60% of their customers, a function of the distance of the customer's home to the nearest base station. GO customers have a five-day window in which to try the service and, if not satisfied, return the box to the retailer for a full refund.

- **ADSL-quality speed**: Currently, GO's broadband internet access service runs at a maximum speed of 7Mbps with an average speed of 4Mbps. This is competitive with ADSL in Italy. According to Akamai's "State of the Internet" report, Q413, Italy is ranked 46th of surveyed countries globally, second worst in the EMEA region and the worst in the EU with an average speed of just over 4Mbps. Planned technology upgrades would bring the maximum speed to 100Mbps for new GO customers later this year – ahead of its competitors. For logistical and economic reasons, the upgrade of copper-based services to fibre is likely to progress more slowly, and for regulatory reasons other 4G operators are currently focused on rural homes. Due to the remoteness of their predominantly rural customer bases, the other WiMAX operators are unlikely to be able to offer comparable speeds to GO or DSL even with new base stations.
- **High quality**: GO's exclusive right of use of 42MHz within the 3.5Ghz band is important as, in contrast to mobile operators, GO does not have to compete for airspace in populated areas, which would lower the quality of service and the achieved speed does not vary significantly based upon network utilisation.
- **Voice**: It offers voice connectivity via VoIP (voice over internet protocol), including number portability.
- **Partial mobility:** It offers mobility within coverage areas (currently limited to Emilia-Romagna and Marche) if users transport the CPE with them.

Roll out – wider and deeper

Management aims to drive subscriber growth by increasing coverage and take-up in its two existing regions and by expanding to other regions within Italy.

Increase in penetration within two existing regions: As of end September 2014, GO's 20,738 subscribers represent a take-up rate of only 4.1% of the population covered and 0.3% of the licensed population. Within the one million 'mobile-only' homes, penetration stands at 2.1%. Management plans to increase take up by both increasing coverage (currently only 8.7% of the six million people in the regions) and increasing penetration within covered regions. Since the IPO, GO has already started to increase the run rate at which it is rolling out base stations, and plans in the near term to start to introduce 100Mbps, which will enable it to more efficiently widen its coverage.

Distribution is via 300 electronics retail outlets dispersed across the two regions. To date, marketing has been fairly low key and has tended to involve direct marketing and price discounting in certain towns as the network roll-out has progressed. As penetration widens, and as the higher speeds are introduced, to raise awareness of the product, management plans to step up its regional marketing activity using digital and social media, sponsorship and marketing events such as in shopping centres.

Geographic expansion targeted in the near future: GO plans to expand to other regions in Italy on an opportunistic basis, either by buying or renting capacity in other regions. This is an immediate priority for management and we believe it could secure a licence in the near future.

Sensitivities

GO internet's financial and share price performance are sensitive to the pace of roll out of the network and the rate of subscriber growth:

- **Technology not proven on a broad scale:** 4G technology has not been broadly deployed on a wide scale in Europe and is only operational in a handful of locales globally. This is due in large to the more significant competition from cable and fibre networks in other markets. In Italy, there is no cable alternative and its dispersed population we believe lends itself to GO's 4G wireless network. That said, increasing the coverage, capacity and utilisation of its network without suffering technological bottlenecks or poorer customer support could pose challenges. The executive management's previous experience in rolling out a 4G network (ARIA) means that they are well equipped to deal with any issues that may arise during roll-out. Furthermore, plans from the end of this year to introduce 100Mbps base stations should also support a consistent quality of service.
- **Cost of the network:** Before embarking on a base station installation, GO performs market research to assess the economic viability of each site and so the risk of over provisioning is fairly low. The cost of the network depends upon a number of variables including the terms on which GO can secure new 100Mbps base stations, the cost of CPEs and the density of its base stations per site.
- **Health of the Italian economy**: The difficult economic climate in Italy, where GDP has declined by around 2% in each of the past two years, could have an impact on demand for GO's services. While GO's price differential versus DSL offers it some advantage, what remains unclear is how much of the rise in mobile-only households is due to household financial strains (which would indicate that it may be difficult to successfully market a new service to them) and how much is due to a rationalisation by households that would value a broadband service but could not justify the line rental fee to Telecom Italia. These households may be content to continue with a mobile (cellular network) only service.
- **Structural growth in broadband**: The accelerated penetration in broadband over the last few years indicates that a large proportion of households now consider broadband access a priority and given that GO believes that there are now 900,000 mobile-only households in its licensed regions and has less than 21,000 subscribers currently, we believe that its limited coverage represents a greater constraint in the short term than household finances.
- **Competition**: GO seems to have identified a niche in the market and, for now, we believe it will operate under the radar of the established companies in the market. However, a change in strategy by GO's 4G competitors would have an impact on GO's competitiveness, as would, for instance, TI offering fixed line for 'free' with its DSL offering. To date, it has not felt the effects of either ARIA or Linkem, which are not particularly active in Go's regions. However, should either of these companies decide and indeed have the funding to become more aggressive, this could have an impact on GO's strategy.

Financials

Business model – leveraged to achieving payback on each subscriber

With approximately 90% of revenues derived from subscriptions, GO has a visible and recurring revenue stream.

GO uses contractors to install the base stations at sites that it rents. It has on average 2.3 base stations per site; there is no industry standard as to how many one site can accommodate as there are many variables – site owners often allow base stations from many operators to co-locate at one site especially in densely populated areas or where planning regulations would make finding new sites quite difficult, but management estimates this could be up to six base stations per site. Each base station can serve up to 120 homes, although GO does not intend to run them at this capacity to maintain the promised bandwidth and quality of service. 100Mbps base stations, will enable a higher subscriber attachment rate (eg more than 200 per base station) while maintaining the same quality of service.

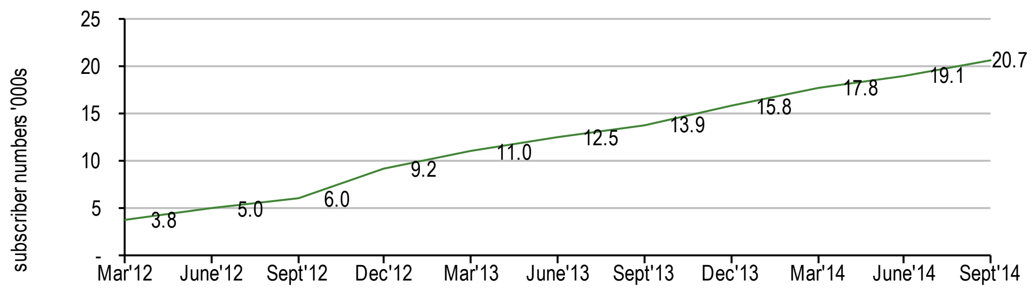
Subscriber acquisition costs (SAC) include the cost of installation for the c 15% of customers that cannot self-install, the cost of the CPE (capitalised and depreciated over four years) and sales commissions paid to the 300 or so retailers. Once the service is up and running, ongoing costs comprise data transportation paid on a wholesale basis to TI (backhaul), the costs of renting the base station sites where GO's equipment is installed, depreciation of the network equipment and customer service costs (eg box replacements, inquiries).

Backhaul is the only cost that is directly related to service usage (c 13% of revenues); consequently, the model is very operationally geared and with the upfront costs involved in signing each customer, keeping churn low is key to driving profitability.

Performance to date – steady progress being made

Pre-IPO growth has been at a fairly measured pace, dictated by available liquidity to fund the network roll-out. Since launch in 2011, GO has steadily increased its subscriber base by roughly 6-7k subscribers a year to reach 10k at the end of 2012, 16k at the end of 2013, 19k as of June 2014 and 21k (20,738) at the end of September.

Exhibit 3: GO internet subscriber trends



Source: GO

Management has taken particular care to ensure a light cost structure for the group. and despite being a growing business, at an early stage of development, GO is already generating operating profits, having turned a negative 46% EBITDA margin in 2012 around to +33% in 2013, and +34% in H114. We note in particular:

- **Romanian call centres:** First level customer support call centres are outsourced to Romania.
- **Small company status:** The company is outsourcing the customer care, help desk and base station installation to external companies specialised in such activities. The outsourcing strategy has allowed the company to keep the FTE count to only 11 employees – below the level (15) that would trigger stricter labour restrictions. Despite the forecast growth, management will try to keep FTE below the 15 limit.
- **Vendor financing for network expansion**: GO procures base stations from Telrad (Israel) and Airspan (US) for between €3,400 and €4,300 per unit. Both offer vendor financing on good terms: 12% and 20% down payment respectively with interest-free financing for approximately two years. It buys CPEs from Telrad (€55 per unit, paid after two to three years) and is currently

trialling Huawei base stations. For the new 100Mbps-capable base stations, GO is soliciting RFPs from at least four or five different vendors (including the current ones, Airspan and Telrad, plus Huawei and Cisco).

- **Eurona co-operation:** GO is collaborating with Eurona Wireless Telecom (Spain) to drive scale benefits in securing good terms on equipment procurement.

GO had a small legacy voice resale business that it recently closed down. It was generating minimal revenues (c €100k pa) and near zero margins.

Forecasts: Acceleration of roll-out post-IPO

Following the IPO, management is planning a much more aggressive growth strategy. With the financial flexibility the group has following the IPO, the pace of roll-out is no longer constrained and it hopes to secure an additional licence in the near term.

Given the difficulty in forecasting the timing and terms of any licence purchases with a high degree of confidence, we model the company in its current form. We assess the potential impact of variance to forecasts and geographic expansion in the scenario section on page 13.

P&L: Subscriber growth drives margin expansion

Our forecasts assume that GO's network expansion evolves in line with management's strategy, ie a doubling of the rate at which it deploys base stations, and the introduction of 100Mbps base stations from next year.

The company currently has a very low subscriber penetration into its target market (2% of mobile only homes), and given the competitiveness of the offer, we see no reason why the rate of subscriber growth should not be in line with network expansion. In recent months, management has nearly doubled the rate at which it is installing base stations, and the rate at which it has signed new customers has also increased; in September it added 900 new subscribers, a record for the company.

Based on the assumption that there is (on average) the same attachment rate of subscribers to base stations, we forecast a marked pick-up in the rate of subscriber growth over the forecast period.

Our base-case forecasts assume that subscribers grow to 23k by year end, 35k in FY15, 51k in FY16 and 70k in FY17. This drives our forecast revenue growth of 42% in FY14 and 50% in FY15. The vast majority of cost of sales is incurred on signing a subscriber and, at scale, we estimate the EBITDA margin could reach 55%. Over the next two years, we expect it to increase to 37% this year (from 33%) and 40% next. Our forecasts are summarised in Exhibit 4 and presented in full in Exhibit 8.

More specifically we forecast:

- Coverage: Base station roll-out to cover 12% of homes by 2017 (8.7% currently), ie approximately 200k homes more under coverage.
- Subscriber numbers: Grow from 20.7k at the end of September to reach 70k by 2017. This would imply a market share of covered population rising from about 4% now to 10% in 2017 and its market share of mobile-only homes rising from about 2% currently to 8% in 2017 (this assumes no increase in mobile-only homes during this period, although further wireline disconnections are very likely).
- Churn: Churn is currently below 5%. This is very low compared to industry norms (15-20%), partly explained by the age of the service – we estimate 70% of subscribers are contractually locked in. Adjusting for these subscribers, underlying churn is still a respectable 15%.

- ARPU (average revenue per user): Although GO's pricing is the most competitive in the market, this is an industry that is facing downward pressure on prices and we assume that ARPU drops by 1pp each year.
- Capex: We assume that 1) GO accelerates the roll out of base stations from eight to 15 per month; 2) it progressively increases its number of base stations to four per site; and 3) 100Mbps equipment is introduced from FY15.

We note that in H114, GO reported c €625k EBITDA on revenues of €1,817k; adjusting for the closure of the small legacy voice resale business, this represents approximately 46% and 44% of our revenue and EBITDA forecasts respectively for the current year.

Exhibit 4: Summary assumptions and key financials

	2013	2014e	2015e	2016e	2017e
Gross adds	6,608	7,930	13,480	18,872	23,968
Churn	4%	4%	6%	8%	10%
Net adds	6,228	7,300	12,099	16,062	18,849
Subscribers	**15,728**	23,028	35,127	51,189	70,038
ARPU (excluding activation fee) €	14.5	14.5	14.3	14.2	14.0
Broadband service revenues €000s	2,521	3,762	5,673	8,290	11,412
Other revenues €000s	153	31	0	0	0
Total revenues €000s	**2,674**	3,793	5,673	8,290	11,412
EBITDA €000s	887	1,409	2,295	3,703	5,569
EBITDA margin	**33%**	37%	40%	45%	49%
Capex €000s	(1,844)	(1,738)	(3,523)	(3,501)	(3,813)
FCF €000s	(788)	(265)	(321)	(1,577)	1,000
Cash €000s	128	4,565	3,338	869	1,099
Net cash/(debt) €000s	(5,921)	(1,158)	(1,479)	(3,056)	(2,056)

Source: Edison Investment Research (forecasts), GO (historic numbers)

Balance sheet: Slightly indebted following IPO

GO raised €5,028,375 from its recent IPO, and has earmarked these funds for expansion both of coverage within Emilia-Romagna and Umbria and also potentially licence purchases in other regions of Italy. It had €6.1m of net debt at the end of H114, falling to €1.9m at the end of September, inclusive of the IPO proceeds.

Gross debt comprises two bank loans of approximately €3m (3.9% interest) and €0.8m (2% interest) repayable in annual instalments by 2019 and 2023 respectively, a sale and leaseback arrangement with five years remaining for €0.4m, the outstanding payments due on the licence acquisition for the Emilia-Romagna region of €0.9m (repayable in annual instalments to 2024) and other credit lines totalling €0.6m.

Cash flow: Operating cash should fund the network roll-out

Capital expenditure comprises the cost of the base stations, their installation and the cost of the CPE. Consequently it is affected both by the pace of the network roll-out and the pace of growth in subscribers.

Driven by management's strategy to accelerate the roll-out of base stations and to introduce 100Mbps solutions, we forecast capex to increase from €1.7m for the full year (€0.6m reported in H1) to €3.5m in FY14 and FY15.

Although the group is already generating significant positive operating cash flow, we expect the network roll-out to absorb this for the next three years. Despite this, with the recent IPO (we forecast €4.6m cash at the year end), GO should have adequate liquidity to execute its plan, and honour its debt repayments. We forecast net debt to peak in FY16 at €3m.

EDISON

Valuation

There is no obvious listed peer group for GO in Europe and so while we look to peer multiples as a reference point, we are wary to place much weight on them. Given the stage of GO's development and the recurring nature of its revenues, we prefer a DCF valuation.

Peer multiples – plenty of scope for rating expansion

For peer multiple comparison, we refer to other broadband service providers, although we do not consider any as a particularly strong reference point.

- Eurona Wireless of Spain is the only other listed company that offers a similar service to GO. However, its wireless broadband business represents a fairly small part of its overall business (predominantly satellite services, outdoor Wi-Fi hot spots).
- There are three quoted, terrestrial wireless broadband service operators, Boingo, iPass and WirelessGate of Japan. Their business plans and hence valuations vary significantly, but like both GO and Eurona, they are in the early stages of development and have reached EBITDA profitability.
- Other DSL LLUs (local loop unbundlers) such as Talk Talk (UK) and Illiad (France), are at significantly more mature stages in their lifecycle, and operate on a different cost structure to GO (much lower EBITDA margins despite scale).

GO trades on 2.4x FY15 EV/sales, which is at the premium end of its peer group (1.0x to 3.0x). This can be easily justified given the stronger revenue growth forecast, and the higher EBITDA margins. On an FY15 EV/EBITDA multiple of 5.8x, it is at the bottom end of peers and even trades below more mature companies such as Talk Talk and Iliad. With GO's higher forecast revenue growth and margin potential, we believe there is plenty of scope for ratings expansion.

Exhibit 5: Peer multiples comparison

	Share price	Market cap (m)	Net debt (m)	EV (m)	Sales (m)			EBITDA (m)		
					Last	Current	Next	Last	Current	Next
GO Internet (€)	**1.9**	**11**	**2**	**13**	**2.6**	**3.8**	**5.7**	**0.8**	**1.4**	**2.3**
Eurona Wireless (€)	2.7	56	4	60	7.0	N/A	N/A	1.1	N/A	N/A
iPass (US$)	1.7	108	(24)	84	111.1	78.2	82.2	(7.8)	(13.4)	(7.0)
Boingo Wireless (US$)	7.3	262	(59)	203	106.7	119.6	141.5	19.3	23.9	32.6
WirelessGate (¥)	4,735	48,045	(2,482)	45,563	7,056	9,378	15,359	810	1,098	2,625
TalkTalk Telecom (£)	292	2,787	497	3,284	1,727	1,798	1,848	229	299	367
Iliad (€)	162	9,408	1,023	10,431	3,748	4,157	4,532	1,222	1,293	1,504
	EBITDA margins		Sales growth		EV/sales (x)			EV/EBITDA (x)		
	Current	Next	Current	Next	Last	Current	Next	Last	Current	Next
GO Internet	**37%**	**40%**	**42%**	**44%**	**5.0**	**3.5**	**2.4**	**15.1**	**9.5**	**5.8**
Eurona Wireless	15%	N/A	N/A	N/A	8.5	N/A	N/A	55.2	N/A	N/A
iPass	-7%	-9%	-30%	5%	0.8	1.1	1.0	N/A	N/A	N/A
Boingo Wireless	20%	23%	12%	18%	1.9	1.7	1.4	10.5	8.5	6.2
WirelessGate	12%	17%	33%	64%	6.5	4.9	3.0	56.2	41.5	17.4
TalkTalk Telecom	17%	20%	4%	3%	1.9	1.8	1.8	14.3	11.0	9.0
Iliad	31%	33%	11%	9%	2.8	2.5	2.3	8.5	8.1	6.9

Source: Bloomberg, Edison Investment Research. Note: Prices as at 10 October 2014.

Base-case DCF valuation – €4.7/share

For our base-case DCF we assume our explicit forecasts to 2017, ie 70k subscribers by 2017 with EBITDA margins increasing to 49%. Beyond 2017, we forecast gross additions to remain stable for five years to reach 119k subscribers by 2022, on peak EBITDA margins of 50% and with capex stabilising at 13% of revenues.

We have used a 12% WACC (risk free rate of 4%, 2.0 beta and a 4% equity market risk premium), and a 2% terminal growth rate. On these assumptions, our base-case DCF returns a value of €4.7 per share (sensitivities to WACC and terminal growth rate are summarised in Exhibit 6).

Exhibit 6: Base case DCF value – sensitivity to WACC and terminal growth (€)

WACC	Terminal growth rate			
	1%	2%	3%	4%
10%	6.0	6.5	7.2	8.2
12%	4.4	**4.7**	5.1	5.6
14%	3.4	3.5	3.8	4.0
16%	2.6	2.7	2.9	3.0

Source: Edison Investment Research

Scenario analysis

Given the early stage of development of the group, its limited trading history and the potential to expand geographically, we present a few scenarios (Exhibit 7) that flex our base-case assumptions.

Geographic expansion: For this scenario, we assume that GO acquires a new licence, on the same terms as it secured the Emilia-Romagna licence, enabling it to expand its footprint by 50%, and consequently the rate at which it adds new subscribers by 50% a year. Under this scenario, we forecast total subscribers to reach 100k by 2017 (management's ambition) and 183k by 2022. Additional funding may be required to support the roll-out of the network in the new region (we estimate approximately €2m over the period 2016 to 2018. However, assuming this is secured, our DCF returns a value approximately 50% above the base case.

Slower subscriber growth: If gross subscribers continue to grow at historic pace, ie 6-7k pa and reach only 36k by 2017and 41k by 2022, our DCF returns a value of €2.5 per share, which is still above the current share price.

Faster subscriber growth: If gross subscribers grow at 10% above the rate forecast (higher gross additions and lower churn) our DCF returns a value 8% above our base case.

ARPU pressure: There is competitive pricing pressure in the industry and we have assumed a one percentage point annual reduction in ARPU in our base case forecast – were this to be 2pp, our DCF would return a value approximately 10% lower than our base case.

Exhibit 7: DCF scenario analysis

	Base case	Lower sub growth scenario	Higher growth scenario	Higher growth and regional expansion	Lower ARPU scenario
DCF value (€)	4.7	2.5	5.1	7.0	4.3
Subscribers end 2014 (000s)	23	22	23	23	23
Subscribers end 2017 (000s)	70	40	75	100	70
Subscribers peak – 2022 (000s)	119	55	130	183	119
EBITDA margin 2014	37%	37%	37%	37%	37%
EBITDA margin 2017 – peak	49%	46%	49%	50%	48%
Capex/revenues 2014	46%	45%	46%	46%	46%
Capex/revenues 2017	33%	22%	34%	38%	34%
Capex/revenues terminal	13%	11%	13%	14%	14%

Source: Edison Investment Research

Exhibit 8: Financial summary

€000s	2012	2013	2014e	2015e	2016e	2017e
Year end 31 December	IFRS	IFRS	IFRS	IFRS	IFRS	IFRS
PROFIT & LOSS						
Revenue	1,321	2,674	3,793	5,673	8,290	11,412
Cost of Sales	(1,602)	(1,469)	(1,929)	(2,772)	(3,763)	(4,761)
Gross Profit	(281)	1,205	1,864	2,901	4,527	6,652
EBITDA	(605)	887	1,409	2,295	3,703	5,569
Operating Profit (before amort. and except.)	(1,046)	166	233	674	1,508	2,742
Intangible Amortisation	0	0	0	0	0	0
Exceptionals	(68)	(54)	0	0	0	0
Other	0	0	0	0	0	0
Operating Profit	(1,114)	111	233	674	1,508	2,742
Net Interest	(162)	(202)	(205)	(193)	(160)	(129)
Profit Before Tax (norm)	(1,208)	(36)	28	481	1,348	2,613
Profit Before Tax (FRS 3)	(1,276)	(90)	28	481	1,348	2,613
Tax	343	(10)	0	(100)	(372)	(820)
Profit After Tax (norm)	(865)	(46)	28	381	976	1,792
Profit After Tax (FRS 3)	(933)	(100)	28	381	976	1,792
Average Number of Shares Outstanding (m)	4.16	4.16	4.93	5.99	5.99	5.99
EPS - normalised (€)	(0.21)	(0.01)	0.01	0.06	0.16	0.30
EPS - normalised and fully diluted (€)	(0.21)	(0.01)	0.01	0.06	0.16	0.30
EPS - (IFRS) (€)	(0.22)	(0.02)	0.01	0.06	0.16	0.30
Dividend per share (€)	0.00	0.00	0.00	0.00	0.00	0.00
Gross Margin (%)	-21.3	45.1	49.1	51.1	54.6	58.3
EBITDA Margin (%)	-45.8	33.2	37.1	40.5	44.7	48.8
Operating Margin (before GW and except.) (%)	-79.2	6.2	6.2	11.9	18.2	24.0
BALANCE SHEET						
Fixed Assets	5,401	6,536	7,113	9,015	10,321	11,307
Intangible Assets	2,389	2,404	2,404	2,375	2,278	2,020
Tangible Assets	3,012	4,132	4,709	6,640	8,043	9,287
Investments	0	0	0	0	0	0
Current Assets	1,983	2,023	6,279	5,988	4,567	6,094
Stocks	447	166	155	339	340	388
Debtors	1,520	1,729	1,517	2,269	3,316	4,565
Cash	16	128	4,565	3338	869	1099
Other	0	0	0	0	0	0
Current Liabilities	(2,756)	(3,065)	(2,401)	(2,915)	(3,407)	(4,079)
Creditors	(1,833)	(1,384)	(1,192)	(1,689)	(2,293)	(2,922)
Short term borrowings	(923)	(1,681)	(1,209)	(1,225)	(1,113)	(1,158)
Long Term Liabilities	(4,376)	(4,515)	(4,662)	(3,739)	(2,959)	(2,144)
Long term borrowings	(4,245)	(4,368)	(4,515)	(3,592)	(2,812)	(1,997)
Other long term liabilities	(131)	(147)	(147)	(147)	(147)	(147)
Net Assets	252	979	6,287	8,307	8,480	11,135
CASH FLOW						
Operating Cash Flow	(86)	1,297	1,692	3,495	2,457	5,763
Net Interest	(162)	(202)	(205)	(193)	(160)	(129)
Tax	343	(10)	0	(100)	(372)	(820)
Capex	(1,953)	(1,844)	(1,738)	(3,523)	(3,501)	(3,813)
Acquisitions/disposals	0	0	0	0	0	0
Financing	0	0	5,028	0	0	0
Dividends	0	0	0	0	0	0
Other	(62)	(29)	(15)	0	0	0
Net Cash Flow	(1,920)	(788)	4,763	(321)	(1,577)	1,000
Opening net debt/(cash)	3,298	5,152	5,921	1,158	1,479	3,056
HP finance leases initiated	0	0	0	0	0	0
Other	66	19	0	0	(0)	0
Closing net debt/(cash)	5,152	5,921	1,158	1,479	3,056	2,056

Source: GO (historic), Edison Investment Research (forecasts)

Contact details	Revenue by geography
Go internet s.p.a. Via degli Artigiani 27 City – Postcode, Italy +39 348 643 1609 ir@gointernet.it www.gointernet.it	N/A

CAGR metrics		Profitability metrics		Balance sheet metrics		Sensitivities evaluation	
EPS 2012-2017e	N/A	ROCE 2016e	N/A	Gearing 2016e	35.4%	Litigation/regulatory	◖
EPS 2015-2017e	117%	Avg ROCE 2013-2016e	N/A	Interest cover 2016e	9.4	Pensions	○
EBITDA 2013-2017e	58%	ROE 2016e	11.5%	CA/CL 2016e	1.3	Currency	○
EBITDA 2015-2017e	56%	Gross margin 2016e	54.6%	Stock days 2016e	15	Stock overhang	●
Sales 2013-2017e	44%	Operating margin 2016e	18.2%	Debtor days 2016e	146	Interest rates	◖
Sales 2015-2017e	42%	Gr mgn / Op mgn 2016e	3.0	Creditor days 2016e	101	Oil/commodity prices	○

Management team

Chairman: Giuseppe Colaiacovo

Giuseppe Colaiacovo is a graduate in business and finance and has an MBA from UCLA. He has been professor of education economics at the Perugia University since 2001. From 1994 he has been on the board of directors of companies such as SNAM Rete Gas, Maire Tecnimont, MCC, Fineco (Unicredit Group), Financo, Colacem, Colabeton. He is the chairman of the GDS Group and the CEO of the Goldlake Group (the sixth largest enterprise in Umbria in terms of profit).

CEO and CTO: Alessandro Frizzoni

Alessandro Frizzoni has an MSc in software engineering from Essex University (UK) and a BSc in statistics and computer science from Perugia University. He was in the R&D department of Ericsson in Ireland, subsequently at '3' in London and from 2003 was a consultant for Logica CMG working for mobile operators such as 3, Vodafone and Tim. In 2005 was founder and CEO of ARIA, and managed the firm's start-up phase, raising €63m from private equity and venture capital investors for the construction of a 4G network providing service in the digital divide areas of Italy.

CFO: Alessandro Ronchi

Alessandro Ronchi graduated from the Siena University in economic sciences. From 2001 to 2004 he was the controller of the distribution chain of Carlsberg Italy and from 2004 to 2006 the controller at Colacem. He was founder and CFO of ARIA and he managed the firm in its start-up phase, raising €63m from investors and venture capital for the construction of a 4G network aimed at eliminating the digital divide in Italy.

COO: Flavio Ubaldi

Flavio Ubaldi has a master's degree from the Bocconi University in Milan. From 1984 to 1993 he worked as a programmer for Olivetti systems and in 1993 he founded Archimede Srl (commercialisation of voice recognition devices). In 1999 he founded B.V.T.C. Srl, active in IT systems for travel agencies. In 2006 he became the chairman of the BoD of ARIA and he was responsible for commercial development in Riccardo Ruggiero's team.

Principal shareholders	(%)
Gold Holding Srl	52.1
WN Srl	17.4

Companies named in this report

Eurona Wireless Telecom (EWT:SM), TALK TALK (TALK LN), Iliad (ILD FP), Boingo Wireless (WIFI US), iPass Inc (IPAS US), Wireless Gate Inc (9419 JT)