Independent European Research

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GO Internet

Bridging Italy's digital divide

Alberto Rolla
+41 91 210 4811
alberto.rolla@
hammer-partners.com

Pan-European Sales Desk
+41 91 92 40160
sales@
hammer-partners.com

GO Internet offers 4G/LTE wireless internet connectivity in two of Italy's most affluent regions, Emilia Romagna and Le Marche. The company has acquired the licence in these two regions to use 42MHz within the 3.5GHz frequency through 2023. We expect GO to rapidly expand its reach in these regions by leveraging the following key drivers: 1) the urban/rural digital divide; 2) the presence of vacation second homes; and 3) the growing rate of withdrawal from the service offered by the incumbent operator.

Proven marketing team with deep telecom start-up record

GO is managed by a young and skilled management team with deep experience of telecom start-ups. The launch of GoBox has been a marketing success and we expect the number of subscribers to increase rapidly in the next few years.

Opportunity ahead to expand network, acquire new licences

GO has decided to seek a capital increase, both to accelerate its network expansion and to fund the acquisition of new licences as and when they become available.

Multiple drivers of demand going forward

We can split GO Internet's demand drivers into two broad categories with different aims: 1) demand stemming from those who simply need connectivity in a cost-effective way; and 2) demand from those who live in rural areas and have no access to connectivity at all.

DCF-based model gives a value of EUR4.5 per share

Our DCF-based model gives a value of EUR4.5 per share. In terms of EV/EBITDA, GO Internet appears undervalued versus an admittedly limited number of direct peers.

Company description

GO Internet provides wireless internet and telephone services using 4G/LTE wireless technology. Its network supports speeds of up to 100 Mbps. The service is offered in the affluent Le Marche and Emilia Romagna regions, where the company has acquired licences for exclusive rights to use 42MHz in the 3.5GHz frequency band through 2023.

GO Internet's potential reach encompasses 500,000 of the 6m inhabitants in the two regions, corresponding to 8.7% coverage of the population and 5% of the territory. The company seeks to expand its footprint by continuing its rollout to increase coverage in these areas and potentially by purchasing or renting frequencies in other regions. National and regional beauty contests in the next two years to free up new frequencies represent a major opportunity to expand into other areas.

4G technology and the GO Internet solution

GO Internet's network is based on 4G technology. 4G is a communications technology standard recently rolled out by all major telecom companies to bridge the speed gap between fixed and wireless connections.

4G is based on Wimax and LTE protocols, and can be used to replace traditional copper-based "last mile" (ie, the portion between the network and end-user's premises). Due to building premises and street facilities, at present this is the most expensive and cumbersome part of the network to implement. GO Internet aims to overcome this hurdle by leasing a modem that connects directly to base stations scattered over the territories covered, which then distributes the signal to the client's base station.

GO Internet's is a plug-and-play solution leased to subscribers through a network of computer or mobile phone stores located in GO operating areas, where clients can pick up a modem dubbed GoBox. For each client acquired the store earns an average of EUR45 per client. The distribution network currently counts around 310 stores.

Customers can pick up the GoBox and try it without obligation for five days. Post-sale customer care is managed through a call centre based in Romania, where all employees speak Italian. On average a GO client lasts about two years.

The structure of the offer is relatively simple, as GO Internet charges for plain connectivity without the universal service landline fee usually charged by Telecom Italia solutions. A typical GO Internet solution is paid around EUR18 per month with an activation fee of EUR49.9. Subscribers do not pay for GoBox leasing.

Management and history of the company

GO Internet acquired its first licence in 2008 and its second in 2012, while commercial operations started in 2011. The company listed on AIM Italia in August 2014, raising EUR5m from the issue of 1.8m shares at EUR2.75 per share.

Gold Holding Srl, the holding company of Umbrian industrialist Franco Colaiacovo's family (Giuseppe Colaiacovo is GO's chairman) owns 52% of GO, while WN Srl, jointly owned by CEO/CTO Alessandro Frizzoni, CFO Alessandro Ronchi and COO Flavio Ubaldi, owns 17%.

The management team includes Giuseppe Colaiacovo as Chairman. Mr Colaiacovo since 1994 has been serving in several Italian established companies, among which Snam Rete Gas, Maire Tecnimont, Fineco.

Alessandro Frizzoni is CEO and CTO. Mr Frizzoni has a MSc in software engineering from Essex University and a BSc from Perugia University in Statistics and Computer Science. After holding top positions in telecom companies he founded Aria in 2005 where he was CEO, overseeing the start-up phase and the equity raising.

Alessandro Ronchi is CFO. He graduated in Business from Siena University and held different positions at Carlsberg Italia and Colacem. He was founder and CFO of Aria. Flavio Ubaldi is COO. He holds a MBA from Bocconi University. He was chairman of the board at Aria.

The GO Internet management team brings considerable telecom experience to the table. All members were key to the launch of ARIA, a WiMax technology-based company which they guided from start-up to 50,000 subscribers by the time they left the company. Senior management have agreed to a 36-month lockup on their shares and a 48-month non-compete restriction.

Key business proposition

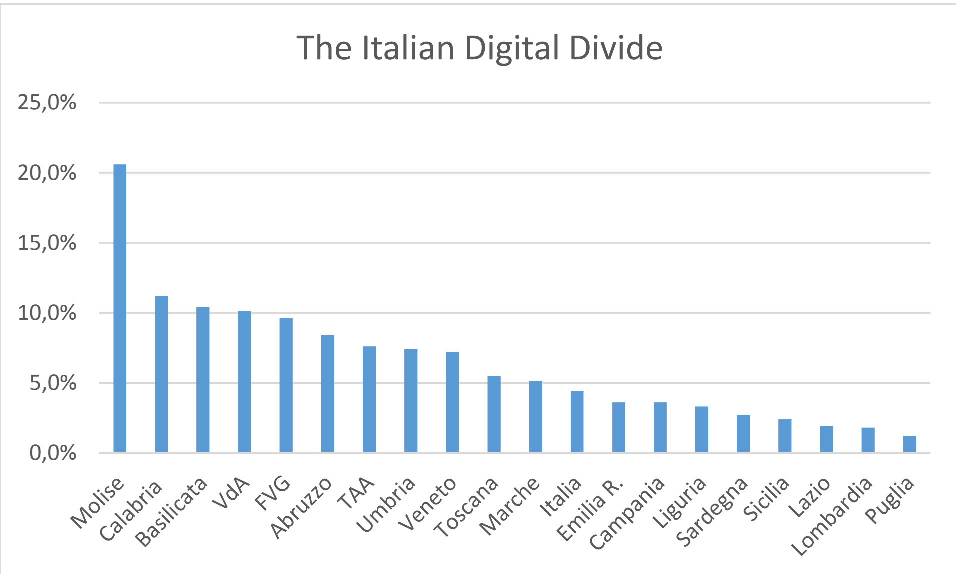
Demand drivers

We can split GO Internet's demand drivers into two broad categories with different aims: 1) demand stemming from those who simply need connectivity in a cost-effective way; and 2) demand from those who live in rural areas and have no access to connectivity at all.

Apart from being two of Italy's richest regions, GO Internet territories Le Marche and Emilia-Romagna (which together account for about 11% of Italian total GDP) have the following characteristics:

1. They are currently experiencing accelerated trends of cancellation from the incumbent Telecom Italia-offered service.
2. Due to their orographic configuration, the two regions show an average or above-average digital divide.
3. It is estimated that roughly 900,000 families in the two regions exclusively use mobile phones to make calls. These families however need broadband Internet services and are already accustomed to wireless connectivity.
4. Le Marche and Emilia Romagna are also two regions with a significant number of vacation second homes which need low-variable, zero fixed costs.
5. In these two regions penetration of broadband remains limited, which opens the way for a rapidly deployable service whose quality is comparable to fibre-optic.

Town & country: for many, parts of Italy are still offline



Source: Ansa (2013). % of population with zero access to the internet

Moreover the percentage of Italy's population that connects to the internet via wireless service only is very low at only 5%, painting a positive pent-up demand scenario for a wireless service to provide connectivity in rural areas under-served by the dominant operator.

Current and future network rollout

The increase in subscriptions is a function of the current status of the network and its future rollout. Currently, GO Internet management has two main goals:

1. **Increasing penetration in the two current regions.** GO Internet last reported a total of 30,200 subscribers, expected to increase to 31,000 as at end-2015. This represents only 0.51% of the six million inhabitants of Emilia Romagna and Le Marche. However, we estimate that roughly only 500,000 people are "illuminated" by GO Internet service, so actual penetration is around 5.8%. We expect service take up to increase rapidly as GO Internet increases "illumination" of the two regions via network rollout. GO is currently installing 15-20 base stations per month out of a current installed base of 695.
2. **Introducing the new LTE service.** GO Internet is currently introducing the new 100 Mbps service. This move has been made possible by an agreement with China technology giant Huawei, which foresees the supply of LTE base stations worth USD10m. This agreement has been signed in December 2014 and the rollout has begun over the summer of 2015. LTE allows GO to offer: a) better overall service; b) an improved signal, particularly indoors, which allows the group to access the rich business market. Further, LTE also allows a denser network – critical considering that towers for base stations are increasingly hard to find.

Long-term development

Key to GO Internet's future development will be AGCOM's (the Italian telecommunication authority's) plans to make available 200Mhz of spectrum in the 3.6Ghz frequency band. This decision follows widespread political debate over how best to bridge the "digital divide" between urban and rural areas.

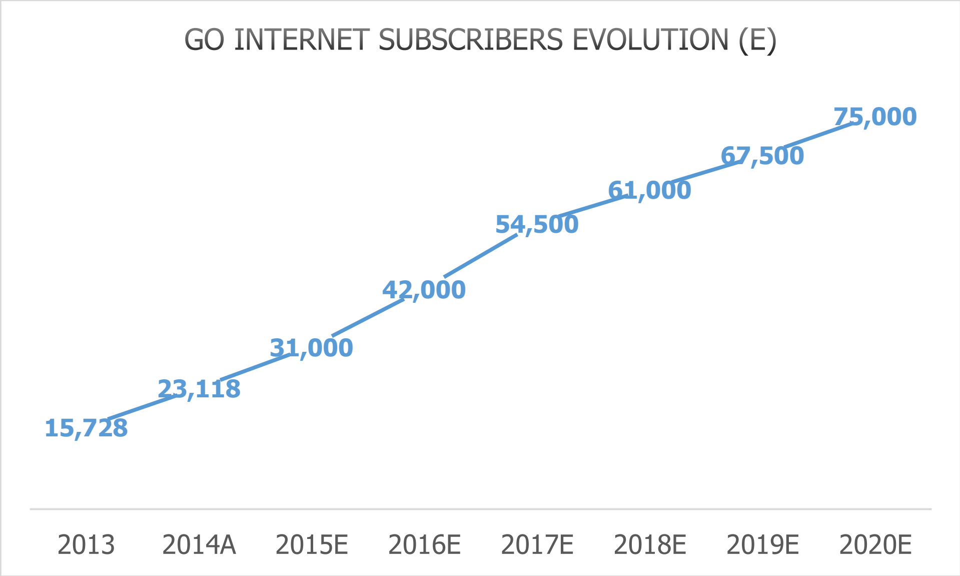
The frequencies, currently used by the military forces, will be awarded via a "beauty contest" and not auctioned. Given GO Internet's track record we believe that it is in a strong position to secure additional licences. Although details of the beauty contests have so far been limited, indications point to a national and a regional auction, with GO eager to apply for licences that complement its current footprint.

Financials

Base assumptions

With more than 90% of revenues generated by subscriber fees, GO Internet's financials display a high degree of visibility. As typical of a telecom business, large, upfront fixed costs and low variable costs lead us to expect GO to show strong EBITDA as a function of operating leverage in the next years.

More specifically we expect subscribers to grow by 19.3% CAGR over the next five years.



Subscriber trends will drive revenues from the current EUR5.35m estimated at end-2015 to EUR15.4m at end-2020, while EBITDA margin is expected to reach 48.4% in the same year, consistent with the company's strong competitive position. Given the current structure we believe EBITDA margin after 2020 may exceed 50%.

We have assumed that churn will not exceed 5%. This low number, compared to industry standards in excess of 15%, is a function of: a) lock-in of subscribers into the service; b) the novelty of the service; and c) the very high cost of switching in rural areas most affected by the digital divide.

We have assumed ARPU rising through 2017 and then remaining flat through 2020. While this could seem counterintuitive, noted that GO Internet has just launched its higher-priced LTE service, and that the marketing initiatives required for the launch are now expiring.

From a balance sheet perspective net/debt EBITDA should already decline this year to a comfortable 1.9x, remain at that level and then decline steadily as the company transitions to a free cash-flow position that we expect at the end of 2016.

The debt structure does not seem particularly complicated, as it includes two bank loans for less than EUR3m with interest rates in the range 2-3.9%. These two bank loans are repayable in annual installments by 2019 and 2023. Also a sale and leaseback arrangement is outstanding for a total value of EUR0.1.9m with a residual life of other three years. GO still owes EUR0.56m for the acquisition of the Emilia Romagna region licence for a total EUR0.56 set to to be fully reimbursed within 2017. For flexibility purposes GO also has credit lines totaling EUR0.6m.

At its 9 December 2015 shareholders' meeting GO Internet called for an equity raising exercise. By end-2016 the company will issue a maximum of EUR8m of shares and/or convertible bonds. This decision is justified by the company's intention to accelerate its expansion in the two regions covered and to access the funds needed to invest in new regions as and when these become available.

Valuation

As with all telecom companies with a service in its infancy, we have used a DCF-model to value GO Internet. We have used a WACC of 7.18% mainly driven by a beta of 1.25x and a g of 2.5% justified by the good growth prospects after the explicit estimate period.

GO INTERNET DCF MODEL							
	2016E	**2017E**	**2018E**	**2019E**	**2020E**		
EBIT	**1116,8**	**1897,4**	**3142,4**	**3894,6**	**4696,1**	WACC=	7,18%
(Taxes)	(177,6)	(420,2)	(809,1)	(1.048,6)	(1.270,9)	Rf	1,00%
Depreciation	2.100,0	2.750,0	2.750,0	2.750,0	2.750,0	P	4,50%
(Capex)	(3.530,0)	(3.600,0)	(3.600,0)	(3.600,0)	(3.600,0)	D	50,1%
(NWC Change)	(72,5)	151,3	(196,8)	(652,8)	(665,8)	MP	49,9%
Free cash-Flows (FCF)	-563,3	778,6	1286,5	1343,2	1909,4	t	26,6%
						g	2,50%
Terminal Value					**40.811,6**	C	10,5%
						b	1,25
PV Period	1	2	3	4	5		
PV of FCF	-525,6	677,8	1044,9	1017,9	1350,1		
Total PV of FCF					**3.412,9**		
PV of Terminal value					**28.856,6**		
ENTERPRISE VALUE					**32.269,5**		
NFP as at 31/12/16 (E)					(5.067,1)		
Minorities as at 31/12/16 (E)					(1,2)		
SSF as at 31/12/16 (E)					(110,0)		
Equity Value					**27.091,2**		
Equity Value per Share (€)					4,5		

Source: Hammer Partners

Sensitivity analysis

In terms of sensitivities GO's DCF shows that adding just 1,000 more subscriber a year increases the total equity value per share by EUR0.2 (from EUR4.5 to EUR4.7) while increasing ARPU by 1% adds EUR0.1.

Peer comparison

Here we provide investors with a table of comparables. However, although GO emerges as undervalued especially in terms of EV/EBITDA, we would take this exercise cautiously as:

1. No other company has a business model which is completely comparable to GO.
2. Some of these companies, like Iliad and TalkTalk, are more mature.
3. Multiples valuations at this stage of a company's lifecycle tend to be less reliable/significant.

COMPARABLE ANALYSIS

	EV/SALES		EV/EBITDA		EV/EBIT	
	2016E	2017E	2016E	2017E	2016E	2017E
Go Internet	2,69	1,83	6,19	3,98	17,88	9,77
Iliad	3,18	2,99	9,65	8,41	21,04	17,38
Eurona Wireless	N/A	N/A	N/A	N/A	N/A	N/A
Ipass Inc	0,59	0,48	N/A	64,00	N/A	N/A
Boingo Wireless	1,86	1,61	9,20	6,30	N/A	N/A
Wirelessgate	1,41	1,12	15,06	10,93	N/A	N/A
TalkTalk Telecom	1,46	1,42	9,52	7,51	16,64	11,82
Median ex-Go	**1,46**	**1,42**	**9,59**	**8,41**	**18,84**	**14,60**

Source: Bloomberg

P&L	2013	2014A	2015E	2016E	2017E	2018E	2019E	2020E	CAGR 20-15
REVENUES	**2.645,0**	**3.899,0**	**5.349,7**	**7.434,7**	**10.134,2**	**12.517,9**	**13.921,3**	**15.432,5**	
TOTAL REVENUES	**2.645,0**	**3.899,0**	**5.349,7**	**7.434,7**	**10.134,2**	**12.517,9**	**13.921,3**	**15.432,5**	**23,6%**
Other revenues	29,0	50,0	50,0	50,0	50,0	50,0	50,0	50,0	
VALUE OF PRODUCTION	**2.674,0**	**3.949,0**	**5.399,7**	**7.484,7**	**10.184,2**	**12.567,9**	**13.971,3**	**15.482,5**	**23,5%**
External Costs	(1.087,0)	(1.732,0)	(2.490,9)	(3.470,8)	(4.739,6)	(5.859,9)	(6.519,5)	(7.229,8)	**23,8%**
Other	(83)	(48)	(40)	(40)	(40)	(40)	(40)	(40)	
VAL. ADDED	**1.504,0**	**2.169,0**	**2.868,9**	**3.973,9**	**5.404,6**	**6.668,0**	**7.411,8**	**8.212,7**	**23,4%**
in % of sales	*56,9%*	*55,6%*	*53,6%*	*53,5%*	*53,3%*	*53,3%*	*53,2%*	*53,2%*	
Cost of Labor	(617,0)	(744,0)	(750,0)	(750,0)	(750,0)	(750,0)	(750,0)	(750,0)	
EBITDA	**887,0**	**1.425,0**	**2.118,9**	**3.223,9**	**4.654,6**	**5.918,0**	**6.661,8**	**7.462,7**	**28,6%**
EBITDA margin	*33,5%*	*36,5%*	*39,6%*	*43,4%*	*45,9%*	*47,3%*	*47,9%*	*48,4%*	
Depreciations	(721,0)	(1.052,0)	(1.600,0)	(2.100,0)	(2.750,0)	(2.750,0)	(2.750,0)	(2.750,0)	
EBITA	**166,0**	**373,0**	**518,9**	**1.123,9**	**1.904,6**	**3.168,0**	**3.911,8**	**4.712,7**	**55,5%**
EBITA margin	*6,3%*	*9,6%*	*9,7%*	*15,1%*	*18,8%*	*25,3%*	*28,1%*	*30,5%*	
Amortizations				(7,1)	(7,2)	(25,6)	(17,1)	(16,7)	
Non recurring D&A, impairment, fair value var.									
EBIT	**166,0**	**373,0**	**518,9**	**1.116,8**	**1.897,4**	**3.142,4**	**3.894,6**	**4.696,1**	**55,4%**
EBIT margin	*6,3%*	*9,6%*	*9,7%*	*15,0%*	*18,7%*	*25,1%*	*28,0%*	*30,4%*	
Fin. Income/(Charges), Net	(193,0)	(292,0)	(425,0)	(450,0)	(320,0)	(105,0)	42,0	75,0	
Extraord. Items	(38)	(7,0)							
Other income/(losses)	(25,0)	(50,0)							
PRE-TAX PROFIT	**-90,0**	**24,0**	**93,9**	**666,8**	**1.577,4**	**3.037,4**	**3.936,6**	**4.771,1**	**119,4%**
Taxation	(10,0)	(17,0)	(25,0)	(177,6)	(420,2)	(809,1)	(1.048,6)	(1.270,9)	
Tax rate	*-11,1%*	*70,8%*	*26,6%*	*26,6%*	*26,6%*	*26,6%*	*26,6%*	*26,6%*	
Minorities									
NET PROFIT	**-100,0**	**7,0**	**68,9**	**489,2**	**1.157,2**	**2.228,3**	**2.888,1**	**3.500,2**	**119,4%**
CASH FLOW	**621,0**	**1.059,0**	**1.668,9**	**2.596,3**	**3.914,4**	**5.003,9**	**5.655,2**	**6.266,9**	

BALANCE SHEET	2013	2014A	2015E	2016E	2017E	2018E	2019E	2020E
Net Work. Cap.	(526,0)	(1.272,0)	(1.745,3)	(1.672,8)	(1.824,1)	(1.627,3)	(974,5)	(308,7)
Net Tangible Assets	4.132,0	5.652,0	7.522,0	8.952,0	9.802,0	10.652,0	11.502,0	12.352,0
Net Intangible Assets	2.404,0	2.465,0	2.465,0	2.465,0	2.465,0	2.465,0	2.465,0	2.465,0
Net Financial Assets & Others	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0
Other	126,0	481,0	481,0	481,0	481,0	481,0	481,0	481,0
CAPITAL EMPLOYED	**6.136,0**	**7.326,0**	**8.722,7**	**10.225,2**	**10.923,9**	**11.970,7**	**13.474,5**	**14.989,3**
Staff. S. Fund & other funds	(57,0)	(95,0)	(100,0)	(110,0)	(120,0)	(130,0)	(140,0)	(150,0)
CAPITAL REQUIREMENTS	**6.079,0**	**7.231,0**	**8.622,7**	**10.115,2**	**10.803,9**	**11.840,7**	**13.334,5**	**14.839,3**
Met by:								
S'HOLD. EQUITY	**158,0**	**4.490,0**	**4.558,9**	**5.048,0**	**6.205,3**	**8.433,6**	**11.321,6**	**14.821,9**
MINORITIES	**0,0**	**0,0**	**0,0**	**0,0**	**0,0**	**0,0**	**0,0**	**0,0**
NET FIN POS.	**(5.921,0)**	**(2.741,0)**	**(4.063,9)**	**(5.067,1)**	**(4.598,6)**	**(3.407,1)**	**(2.012,9)**	**(17,5)**

CASH FLOW STATEMENT	2013	2014A	2015E	2016E	2017E	2018E	2019E	2020E
NET FIN. POSITION AT YEAR BEG.	**(5.809,0)**	**(5.921,0)**	**(2.741,0)**	**(4.063,9)**	**(5.067,1)**	**(4.598,6)**	**(3.407,1)**	**(2.012,9)**
Net Income	-100,0	7,0	68,9	489,2	1.157,2	2.228,3	2.888,1	3.500,2
Depreciation	721,0	1.052,0	1.600,0	2.107,1	2.757,2	2.775,6	2.767,1	2.766,7
Other	39,0	(282,0)						
Cash-Flow from Operations	**660,0**	**777,0**	**1.668,9**	**2.596,3**	**3.914,4**	**5.003,9**	**5.655,2**	**6.266,9**
Change in Net Working Capital	415,0	746,0	473,3	-72,5	151,3	-196,8	-652,8	-665,8
Free Cash-Flow from Operations	**1.075,0**	**1.523,0**	**2.142,1**	**2.523,8**	**4.065,8**	**4.807,1**	**5.002,3**	**5.601,0**
Total Investments	(1.857,0)	(2.633,0)	(3.470,0)	(3.530,0)	(3.600,0)	(3.600,0)	(3.600,0)	(3.600,0)
Free Cash-Flow to the Firm	**(782,0)**	**(1.110,0)**	**(1.327,9)**	**(1.006,2)**	**465,8**	**1.207,1**	**1.402,3**	**2.001,0**
Dividends	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0
Buy-Back, other changes in eq		5.029,0						
Other	894,0	(739,0)	5,0	10,0	10,0	10,0	10,0	10,0
CHANGE IN NFP	**112,0**	**3.180,0**	**(1.322,9)**	**(996,2)**	**475,8**	**1.217,1**	**1.412,3**	**2.011,0**
NET FIN. POSITION AT YEAR END	**(5.921,0)**	**(2.741,0)**	**(4.063,9)**	**(5.067,1)**	**(4.598,6)**	**(3.407,1)**	**(2.012,9)**	**(17,6)**

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