

January 4, 2016

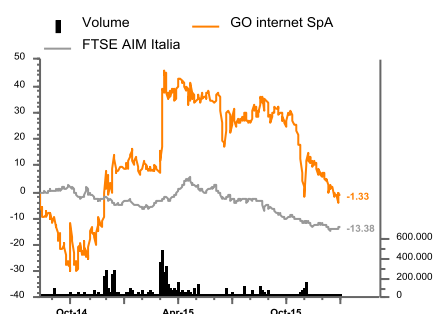
EQUITY RESEARCH



Target Price: €3.61

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Market Data:

Price (€)	2.57
Market Cap (€/mn)	15.37
Free Float (%)	30.3%
52 Wk. High/Low €	2.45-4.08
Avg daily volume-90day	15,433
Share out. (mn)	5.99
Price Change (%): 1y	-13.60

GOing faster!

Subscriber growth accelerated after August... GO's subscriber growth in the first eight months of 2015 was lower-than-expected, with an average of 600 new active clients per month, and this was due mainly to the capacity constraints the Company experienced as permits for the installation of new 100 Mbps base stations were obtained later-than-anticipated. With permits secured in mid-year and new base stations installed, GO accelerated its client acquisition to an average of 863 new active clients per month during the Sept-Nov period. We now expect GO to close 2015 with 31.5k active clients, with a 36% yoy increase. The acceleration in subscriber growth is forecasted to continue throughout 2016 and we foresee 45k active clients by YE2016. GO's churn rate is still at 4%.

Better quality for clients, higher per-base-station capacity for GO... GO had previously announced the agreement with its commercial partner Huawei regarding the supply of 4G-LTE base stations for a 4-yr period. Thanks to the installment of this new equipment, GO now offers a broadband connection up to 100 Mbps, which not only has better quality for clients but also enables the operator to increase the subscriber capacity per base station --up to 2.5times as much--. GO also secured an agreement in July 2015 with Italy's El Towers, the independent tower company, to utilize the strategically well-positioned sites to install its base stations.

ARPU has been €16.2 (ex-VAT) per month in 1H2015, slightly lower than the 2014 average, however still strong and is destined to grow further in 2016E. We expect ARPU to improve in 2H2015 and especially in 2016E due to: a) new clients purchasing the new €24.99/month service for the 4G-LTE connection, instead of the €19.99/month standard package for 7Mbps, and b) early subscribers, who enjoyed special discounts throughout 2013, re-contracted throughout 2015 with a new 2-yr plan at full service prices. We expect 2015 overall ARPU to reach back to the 2014 level until year-end and 2016 ARPU to grow by 3%yoy reaching €17.

New funding is programmed to be utilized for network deployment as well as to evaluate any potential opportunities to expand geographically. GO has been reinvesting its operating cash flow, together with the IPO proceeds collected in 2014, in network deployment. It has a net debt position of €5.2mn by 1H2015-end and we expect an additional CAPEX of a total of €7mn throughout 2016 and 2017. The Company recently announced its plan to raise €8mn: €4mn via rights issue and another €4mn via convertible bonds. This funding will not only help realize the investments to keep up with the planned growth, but will also help GO evaluate the opportunities in new regions because the much-awaited AGCOM auctions for an additional 200 MHz of spectrum --b/w 3.6-3.8 GHz-- for fixed wireless and LTE operators are expected to be held soon in 2016.

GO is a well-positioned (#1 where it operates) regional player in Italy's fast-growth fixed wireless broadband industry. With increasing expected returns (2016E and 2017E ROCE at 10% and 17% respectively) and 2016E-2017E EV/EBITDA multiples that are at an average 14.3%-27.8% discount to peers, we continue to rate the shares undervalued (+40.5% upside to current stock price).

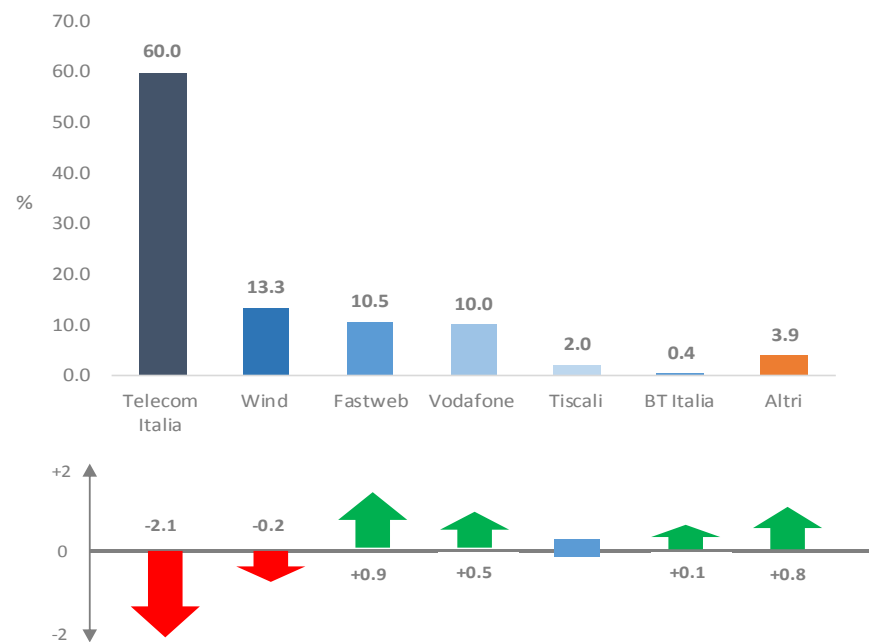
€ thousand	Revenues	EBITDA	EBITDA Margin	EBIT	Earnings	Net Margin
2012	1,321	-605	n.m.	-1,114	-934	n.m.
2013	2,674	887	33%	103	-100	n.m.
2014	3,949	1,425	36%	316	7	0%
2015E	5,432	2,111	39%	349	50	1%
2016E	7,822	3,341	43%	1,336	713	9%
2017E	10,768	4,927	46%	2,862	1,743	16%

Source: Company data, KT&P estimates

The top-down appeal: GO is a niche technology player that operates in the fast-growth fixed wireless broadband segment in Italy, a country that has officially defined the guidelines to spread and speed up its broadband network to meet the prerequisites for European Digital Agenda 2020.

Italian households continue to abandon the landlines at an increasingly fast rate: In the last 4 years, 3mn Italian families said farewell to fixed landlines and the cord-cutters in Marche and Emilia Romagna, the two regions where GO operates, have reached to almost 900k families in the same period. As seen below in Graph 1, while fixed broadband was losing its market share by 2.1p.p. between March 2014 and March 2015, it was the fixed wireless operators, just like GO, who grew fast capturing another 0.8p.p., reaching an overall market share of c.4%.

Graph 1: Market Shares in March 2015, with YOY difference in market shares



Source: AGCOM

Having witnessed the success of Italian wireless broadband operators in the last 4 years, AGCOM, the Italian state communication authority, decided to auction new spectrums in an attempt to increase the country’s broadband coverage. The additional 200 MHz of electro-magnetic spectrum between 3.6 and 3.8 GHz is expected to be auctioned in 2H2016 using two different methods: a) auctions in highly-populated/urban areas, and b) beauty contests in digital divide/rural areas. We see GO as a perfect fit for the beauty contests as the Company proved to be the cost leader in LTE network deployment, which would be a competitive advantage in such contests. In regions where they see opportunity, the management announced its interest to bid in the auctions for urban areas as well, thanks to the newly proposed funding.

With the network upgrade, population coverage is accelerating. After GO has obtained the permits in June to install the new 100 Mbps base stations, its population coverage has accelerated. Today, the Company’s coverage is 12% in the two regions it operates, up from an 8% pre-IPO. GO’s target is to reach 30% coverage by YE2018.

By the end of 1H2015, GO's base stations reached 645 (from 484 in YE2014) and we expect to see an additional 75 base stations installed in 2H2015. The new 100 Mbps base stations have up to 2.5times as much subscriber capacity compared to the previous 7 Mbps base stations and this will help speed up the subscriber growth significantly throughout 2016. Our expected active subscriber estimate is 45k by YE2016 and 58.5k by YE2017.

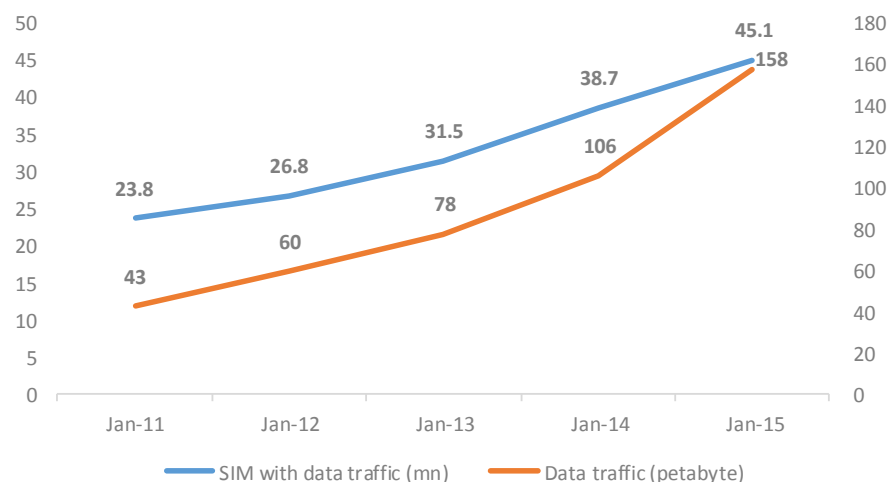
Table 1: GO's Revenue Generation between 1H2015 to 2017E

	1H2015	2015E	2016E	2017E
Period-end subscriber	27,013	31,500	45,000	58,500
Average subscriber	25,066	27,309	38,250	51,750
ARPU	16.23	16.47	16.97	17.31
Overall turnover	2,474	5,432	7,822	10,768

Source: KT&P estimates

Smartphones with 3.5 GHz technology will be commercially available from June 2016 on. The new mobile devices that will be compatible with the 3.5 GHz technology are being presented to the market (Huawei made a presentation in Bologna last June) and considering that these devices enable users' access to the LTE mobile network without using the 3G operator's high-cost internet services, the possibility of lower-cost internet on mobile devices might accelerate the penetration of such devices. Also considering that data is growing much faster than voice in the mobile communication arena (Graph 2), 4G LTE and fixed wireless operators are expected to benefit from this trend. High-end device producers, such as Apple and Samsung, have already announced their plan to embed the modems into their new products to make them compatible with the 3.5 GHz technology.

Graph 2: Growth of data versus voice in mobile communication



Source: AGCOM

We expect GO's ARPU to improve in 2H2015, reaching €16.47 (ex-VAT) by YE2015. In 2016, our expectation is a 3%yoy strong increase to €16.97, due to: a) new clients purchasing the new €24.99/month service for the 4G-LTE connection, instead of the €19.99/month standard package for 7Mbps, and b) early subscribers, who enjoyed special discounts throughout 2013, re-contracted throughout 2015 with a new 2-yr plan at full service prices. ARPU improvement and faster subscriber growth are expected to result in a turnover of €7.8mn in 2016E. Our expected top-line CAGR between 2014 and 2017E is 40% (Table 2).

Table 2: Summary income statement

€ thousand	2014	1H2014	1H2015	2015E	2016E	2017E
Total Sales	3,949	1,826	2,529	5,432	7,822	10,768
<i>Sales growth</i>	48%	45%	38%	38%	44%	38%
Service and other Costs	-1,780	-861	-1,243	-2,448	-3,526	-4,854
Personnel Costs	-744	-341	-419	-872	-955	-987
EBITDA	1,425	624	867	2,111	3,341	4,927
<i>EBITDA Margin</i>	36%	34%	34%	39%	43%	46%
EBIT	316	118	220	349	1,336	2,862
Net Income	7	-63	21	50	713	1,743

Source: Company data, KT&P estimates

GO's EBITDA margin in 1H2015 was at 34%, flat as 1H2014. EBITDA per subscriber remained strong at € 71 and is expected to grow further with the increasing improvement in the margins, to € 77 in 2015E and € 87 in 2016E.

GO is expected to invest a total of € 7mn throughout 2016 and 2017 and c.70% (€ 5.2mn) of these investments in base station deployments whereas the rest (€ 1.8mn) in CPEs. New 100 Mbps Huawei base stations are costlier than the 7 Mbps base stations and this will eventually increase the cost per subscriber.

After having turned green at the bottom-line, we now expect the net margin to improve further throughout 2016E and 2017E, reaching a 16% net margin by YE2017. More importantly, return ratios are estimated to grow significantly, to 10% in 2016E and 17% in 2017E (Table 3).

Table 3: Reclassified balance sheet

€ thousand	2014	June30th, 2015	2015E	2016E	2017E
Trade receivables	1,757	578	1,618	2,329	3,207
(Trade payables and advances)	-4,749	-4,163	-4,706	-5,719	-6,226
Final inventories	814	736	810	891	980
Other short term net operating assets	906	1,157	1,200	1,053	1,127
Net Working Capital	-1,272	-1,692	-1,078	-1,446	-913
Intangible assets	2,465	2,572	2,519	2,467	2,420
Tangible assets	5,652	8,464	7,537	9,150	10,698
Investments and securities	0	0	0	0	0
(Employee benefits)	-95	-86	-131	-188	-259
Other net assets	481	455	450	466	458
CAPITAL EMPLOYED (net of fin. receivables)	7,231	9,713	9,296	10,448	12,404
Equity	4,490	4,525	4,540	5,253	6,996
(Cash, banks and similar items)	-2,284	-1,313	-600	-600	-600
Due to banks and other lenders	5,025	6,501	5,356	5,794	6,008
Net financial position	2,741	5,188	4,756	5,194	5,408
SOURCES	7,231	9,713	9,296	10,447	12,404
Capital employed	7,231	9,713	9,296	10,447	12,404
NOPAT	299	353	326	1,008	2,061
ROCE	4.1%	3.6%	3.5%	9.6%	16.6%

Source: Company data, KT&P estimates

GO is a well-positioned (#1 where it operates) regional player in Italy's fast-growth fixed wireless broadband industry. Moreover, it is still trading at a discount to its peers' 2016E and 2017E multiples. Company shares are trading at 6.15 times and 4.17 times 2016E and 2017E EV/EBITDA respectively. Under the current scenario GO offers significant EBITDA and net profit growth in the next two years, which we find attractive for a small-sized tech/telco firm that operates in the rising segment of this industry. With an estimated 51% CAGR of EBITDA until 2017E, we believe GO deserves the industry average multiples that are at 7.18 times 2016E and 5.78 times 2017E EV/EBITDA. In order to reflect Company growth perspectives in the coming years, we applied the average of peers' 2016E and 2017E multiples to our estimated Company EBITDA in the same period, which points to an equity value of € 21.60mn or € 3.61 per share (+40.5% upside to current stock price).

Table 4: GO Peer Group Multiples

Company Name	Exchange	Market Cap (€ mn)	EV/SALES 2016	EV/EBITDA 2016	EV/EBIT 2016	P/E 2016
Sprint Corp.	NYSE	14,014	1.38	5.36	37.21	n.m.
WirelessGate, Inc.	Tokyo	138	1.08	10.06	11.30	20.90
Eurona Wireless Telecom, S.A.	Spain	88	n.a.	n.a.	n.a.	n.a.
Bigair Group Limited	ASX	85	1.66	6.13	9.06	12.31
Average peer group		3,581	1.37	7.18	19.19	16.61
Median peer group		113	1.38	6.13	11.30	16.61
GO Internet	Milan	15.37	2.63	6.15	15.39	21.56

Company Name	Exchange	Market Cap (€ mn)	EV/SALES 2017	EV/EBITDA 2017	EV/EBIT 2017	P/E 2017
Sprint Corp.	NYSE	14,014	1.33	4.54	24.22	n.m.
WirelessGate, Inc.	Tokyo	138	0.87	7.30	8.57	15.12
Eurona Wireless Telecom, S.A.	Spain	88	n.a.	n.a.	n.a.	n.a.
Bigair Group Limited	ASX	85	1.48	5.49	8.17	11.11
Average peer group		3,581	1.23	5.78	13.66	13.12
Median peer group		113	1.33	5.49	8.57	13.12
GO Internet	Milan	15.37	1.91	4.17	7.18	8.82

Source: KT&Partners elaboration on Factset data

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