# Globo: Multiple Red Flags

## Recommendation: Short

**Price**: 81p | **Price Target**: 38p | **Forecast Return**: -51%
**Market Cap**: £282m | **Valuation Metric**: Headline P/E | **Current Multiple:** 13x | **Target Multiple:** 6x

- **Weak cash flow and accounting red flags raise questions over economics of the business.**
- **Citron!GO has a high churn rate, so Globo has to do a lot to simply stand still.**
- **GO!Enterprise faces a number of challenges in breaking into international growth markets.**
- **£282m market cap appears high given limited tangible net worth, limited IP and no FCF.**

We add Globo to our Short list following initial work on the business model and its markets. Globo is an AIM-listed play on emerging market telecoms (Citron!GO) and 'bring your own device' (BYOD) to work technology (GO!Enterprise), plus a WiFi business in Greece for hotels, airports and marinas.

Our initial work has flagged a number of issues which would give us reasons to sell the shares today:

1. Churn in **Citron!GO is estimated at between 30%** (management's guidance) **and 50%** (pre-pay mobile churn in emerging markets). With Citron!GO, Globo has to do a lot to simply stand still, has limited visibility of revenue and we believe should therefore trade at a low multiple of earnings. ARPU also appears to be trending down.

2. Globo has **rapidly grown profitability since IPO.** However, this has **not been reflected in the cash flow statement** with limited free cash generation. FY'12 FCF was €1.7m vs. €16.5m of continuing PAT and H1'13 FCF outflow was -€3.7m vs. €13.9m of PAT.

3. In H1'13 vs. H2'12, **revenue increased by €7.2m whilst trade receivables increased by €9.5m**. We find this hard to explain given 43% of this growth came from the GO!Enterprise business which should not have the 130+ day payment terms of the Citron!GO business. Net working capital (inventories + WIP + trade receivables + other current receivables less trade and other payables) is now ~50% of sales.

4. Management's comments in the reports **do not compare like to like**. For example, the H1'13 interim report refers to trade receivables growing y-o-y by only 4% - this, however, fails to restate the balance sheet for the disposal of Globo Technologies that led to receivables dropping from a June 2012 level of €26.8m to December 2012 level of €18.4m.

5. There is a **large grossing up of revenues internally** in the mobile products and services business. H1'13 total segment revenue was €63.9m and revenue from external customers was €28.0m, giving intersegment revenue of €35.9m. We understand from the company that this is mainly the revenue of the group IP company (GMIP Ltd based in Cyprus) to help offset against tax, but we have not seen anything of this scale before.

6. A **significant amount of development work is capitalised onto Globo's balance sheet** and amortised over three to five years. Excluding any grossing up between the disposed Global Technologies business, we estimate that intangible assets on the balance sheet have grown from the December 2011 level of €6.4m (December 2011 statutory BS of €19.7m minus the €13.4m of disposed intangible assets of Globo Technologies in Note 15 of the accounts) to €23m at June 2013.

7. BYOD technology is becoming a **highly competitive market place**. Gartner's research identified 22 companies playing in this market.

    a. US-based rivals have market leadership in the US market, having been established there for a number of years. Good Technology, for example, is a Silicon Valley-backed business with 13 years of operating history, a blue chip customer list (5,000 organisations in 130 countries including the U.S. Air Force, AstraZeneca and Mitsubishi) and a number of granted patents.

    b. Samsung has recently entered the market with [Samsung Knox for Enterprise].

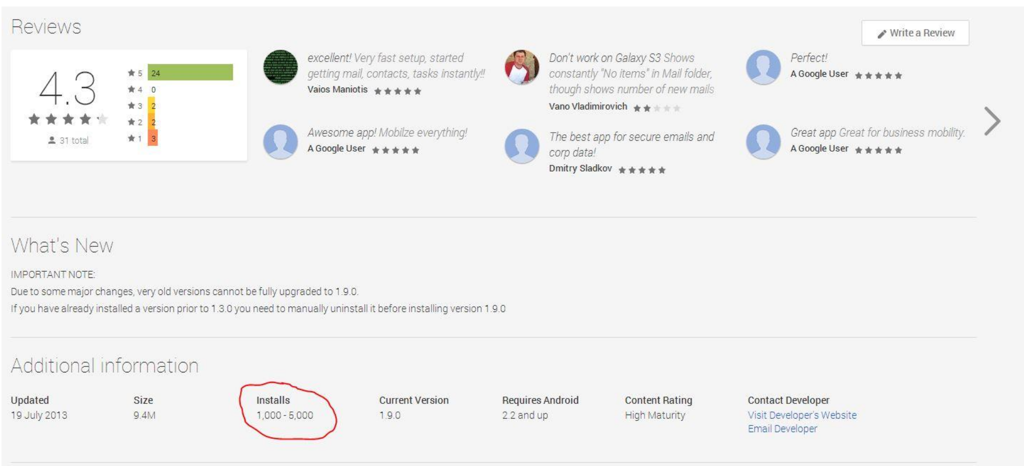
8. **App store reviews and download numbers are difficult to square with revenue numbers:**

    a. According to the Google Play store, GO!Enterprise has only been downloaded 1,000 to 5,000 times. Android has 68% of share of the mobile market according to Globo's presentation. This does not correlate with a business doing €5.8m of license revenue in H1'13 which implies at a monthly ARPU of €3 to €7, a requirement for a user base of 138,000 to 322,000 installs.

    By way of comparison, peer Good Technology has 500,000 to 1,000,000 installs on Google Play whilst MobileIron (Mobile@Work app) and AirWatch MDM Agent both have 100,000 to 500,000 installs.

    Of course, the Google Play Store is not the only way to install apps on Android, but the number of installs for Go!Enterprise does seem to be surprisingly low compared to competitors and in the context of the implied user base.






*Source: Google Play Store – emphasis by The Analyst*

b. We also looked into the background of the people leaving app reviews on the Google Play store.

i. Two share names with employees at ASBIS, a distributor of GO!Enterprise, (Sary El Nahlawy and Dmitry Sladkov) and both left 5* reviews. All other 5* reviews bar one are from unidentified Google Play users.

ii. GO!Enterprise has 31 reviews on the Google Play store. Good has 6,024 and Mobile@Work 589.

9. Globo pays little tax in the income statement and even less in the cash flow statement.

10. We are unfamiliar with a number of the advisers used by Globo. The company recently signed a Euro-denominated facility with Barclays Bank for €20m plus option to extend to a further €5m. This transaction was arranged by a New York investment bank with no UK office (Akin Bay Investment Bank) with consultancy services provided by Black Summit Financial Group (a "boutique style, discrete, independent financial consulting and asset management firm" based in Mississippi and Lexington in the US) and Avax UK Limited (no readily available website, registered at RSM Tenon's London HQ with one director and no FCA approval or history of being approved for its registered director).

## Conclusion – add to the Short list today

We believe the above 10 red flags are enough for us to add the stock to our short list today. We are currently doing more work on both Globo and the sector including trying out products to test our convictions. Our initial view is that the shares could more than halve from here given our expectation of continued low levels of FCF generation and continued opaqueness of the accounts. We expect to update clients shortly as we gain additional insights into the business model.

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