CANACCORD Genuity

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Globo plc

Software and Services

Canaccord Genuity Limited (UK)

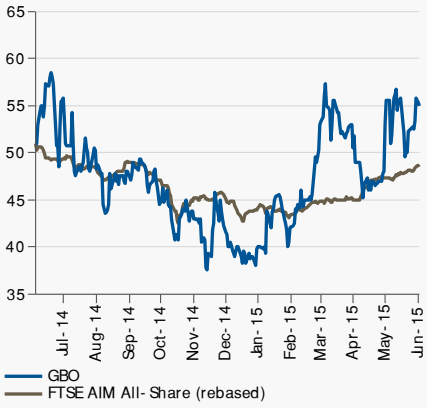
UK Equity Research
3 June 2015

BUY
unchanged

PRICE TARGET	90p
unchanged	
Price (2-Jun)	56p
Ticker	GBO-AIM

52-Week Range (p):	34 - 62
Shares Out. (M) :	373.7
Market Cap (£M):	207
Enterprise Value (£M):	178

FYE Dec	2014A	2015E	2016E	2017E
Sales (€M)	106.4	137.5	159.5	179.3
EBITDA (€M)	50.9	67.5	83.3	95.0
EPS Adj&Dil (€)	0.09	0.11	0.13	0.16
EV/EBITDA (x)	4.9	3.4	2.4	1.7
P/E (x)	8.5	7.0	5.9	4.8
Equity FCF Yield (%)	3.2	6.9	13.9	21.8



Source: FactSet

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Company Update

Q1 trends heading in the right direction

What's new?

Today's strong Q1 trading statement was anticipated following the outlook at the 30 April prelims which stated that 'the strong momentum of 2014 has continued into the first quarter of 2015'. Q115 revenues grew 36% to €23.7m (Q114: €17.4m) primarily due to 108% growth in GO!Enterprise revenues to €13.3m (Q114: €6.4m). Despite the ongoing investment in strengthening its direct sales notably in the US, EBITDA increased 33% to €13.4m (Q114: €10.1m). The statement provides detailed cash metrics which have substantially improved, with positive FCF of €1.8m (Q114: negative €7.4m). As a consequence, the net cash position at the end of 31 March 2015 increased to €41.2m (€40.4m at the end of 31 December 2014). The outlook is confident and states that the early successes in 2015 are expected to continue through the remainder of the year. The principal focus in 2015 remains growing its US revenues (c.15% of FY14 revenues) and market presence. As of 31 December 2014, c.25% of Globo's employees were based in the US.

Impact on the Canaccord Genuity view

Since 2012, Globo has embarked on a structural change to generate the majority of revenues from a business with a low-growth and long cash collection cycle profile (CitronGO!/GO!Social) to one with a high-growth and shorter cash collection cycle profile (GO!Enterprise). GO!Enterprise represents the dominant component of the Group and accounts for 56% of Q115 revenues (54% in FY14 and 42% in FY13). Globo continues to make significant progress with GO!Enterprise. In Q115, Globo renewed c.50,000 GO! Enterprise EMM licences. This represents c.6% of its FY14 GO!Enterprise EMM installed licence base of 834,000. This suggests that the majority of the revenue growth is coming from growing within existing customers (Oracle incremental $1.2m purchase order) and winning new customers.

Globo, along with its peers, has grown over the last three years which, we believe, is indicative of the attractive market opportunity. It is important to note that MobileIron's weak Q115 was due to an execution rather than a market issue. MobileIron conceded that it lost market share but, crucially, also detailed that industry pricing has been consistent over the last 12 months. It is also worth noting that its key peers (Good Technology, MobileIron) continue to be loss making and generate negative free cash flow.

Valuation

Globo trades at a FY15E EV/EBITDA of 3.4x. Including capitalised R&D, Globo trades at a FY15E EV/EBITDA of 5.8x. This compares with a blended peer group rating of c.14x. Our adjusted Quest™ fair value of 90p implies a FY15E EV/EBITDA of c.10x (including capitalised R&D) and is the basis of our target price.

Share performance catalyst

AGM trading statement in June 2015. Further contract announcements.

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Company Summary

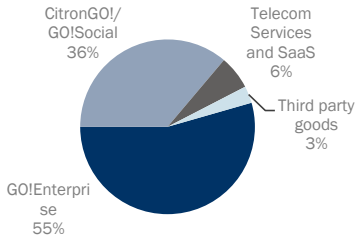
Company Description

Globo is an international leader and technology innovator delivering Enterprise Mobility Management and Mobile Application Development Platforms and Services, in addition to Consumer Mobility solutions.

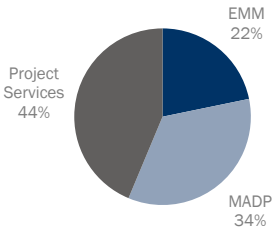
Key competitors

Good Technology, MobileIron, IBM, VMWare (AirWatch), SOTI, Citrix, Kony, Blackberry, Microsoft

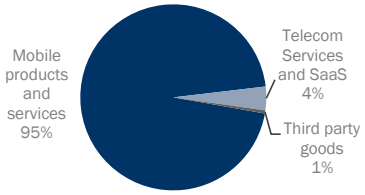
Revenue by division (FY14)



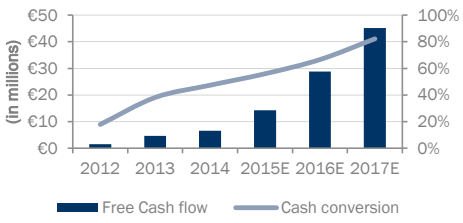
GO!Enterprise revenue split (FY14)



Gross profit split by division (FY14)



Free cash flow & conversion



Source: Company data, Canaccord Genuity Research

Valuation	Dec-13A	Dec-14A	Dec-15E	Dec-16E	Dec-17E
EV/Sales (x)	3.1	2.3	1.7	1.3	0.9
EV/EBITDA (x)	6.2	4.9	3.4	2.4	1.7
EV/EBITA (x)	6.3	4.9	3.5	2.5	1.7
EV/NOPAT (x)	6.8	5.0	4.1	2.9	2.0
EV/Invested Capital (x)	1.2	0.9	0.8	0.6	0.4
ROAIC (%)	46.0%	45.0%	52.0%	54.0%	54.0%
P/E (x)	11.0	8.5	7.0	5.9	4.8
Dividend yield (%)	N/A	N/A	N/A	N/A	N/A
Equity FCF Yield (%)	2.4%	3.2%	6.9%	13.9%	21.8%

Summary P&L (€m)	Dec-13A	Dec-14A	Dec-15E	Dec-16E	Dec-17E
Sales	71.5	106.4	137.5	159.5	179.3
EBITDA	36.0	50.9	67.5	83.3	95.0
EBITDA Margin (%)	50%	48%	49%	52%	53%
EBITA	35.6	50.1	66.8	82.5	94.3
EBITA Margin (%)	50%	47%	49%	52%	53%
Adjusted PBT	27.4	35.7	47.6	58.9	69.5
Adjusted Diluted EPS	0.07	0.09	0.11	0.13	0.16
DPS	0.00	0.00	0.00	0.00	0.00

Growth	Dec-13A	Dec-14A	Dec-15E	Dec-16E	Dec-17E
Sales (%)	55.4%	48.8%	29.2%	16.0%	12.4%
EBITA (%)	49.2%	40.9%	33.3%	23.5%	14.2%
PBT (%)	59.1%	30.3%	33.2%	23.8%	18.0%
EPS (%)	32.0%	27.4%	14.1%	23.8%	18.0%
DPS (%)	N/A	N/A	N/A	N/A	N/A

Summary cash flow (€m)	Dec-13A	Dec-14A	Dec-15E	Dec-16E	Dec-17E
EBIT	27.3	37.3	49.3	60.6	71.3
Depn. & Amortisation	8.6	13.5	18.2	22.6	23.7
Change in working capital	-13.5	-18.1	-18.8	-20.1	-13.0
Net Capex	-16.0	-24.4	-30.0	-29.6	-31.6
Interest	-1.7	-4.1	-4.2	-4.2	-4.2
Tax	-0.4	-1.3	-1.5	-1.9	-2.2
Other	0.3	3.7	1.3	1.3	1.3
Free Cash flow	**4.6**	**6.6**	**14.2**	**28.8**	**45.2**
Acquisitions / Disposals	-3.9	-9.2	0.0	0.0	0.0
Dividend	0.0	0.0	0.0	0.0	0.0
Share Issues	27.3	0.0	0.0	0.0	0.0
Other	-73.0	-16.2	-29.2	-58.3	-91.2
Change in net debt	-45.0	-18.8	-15.0	-29.6	-46.0
Net debt / (cash)	**-42.8**	**-40.4**	**-55.3**	**-84.7**	**-130.6**

Summary balance sheet (€m)	Dec-13A	Dec-14A	Dec-15E	Dec-16E	Dec-17E
Non current assets	56.3	75.8	87.6	94.5	102.4
Current assets	118.4	163.8	198.9	249.1	308.8
Non current liabilities	17.9	35.5	35.5	35.5	35.5
Current liabilities	-11.9	-14.0	-15.3	-16.1	-16.9
Net Assets	**180.7**	**261.2**	**306.6**	**363.1**	**429.8**

Financial structure	Dec-13A	Dec-14A	Dec-15E	Dec-16E	Dec-17E
Gearing (debt / equity) (%)	-0.3	-0.2	-0.2	-0.3	-0.4
Net debt / EBITDA (x)	-1.2	-0.8	-0.8	-1.0	-1.4
Interest cover (x)	-39.6	-12.1	-16.0	-24.6	-37.9

Appendix: Important Disclosures

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Target Price / Valuation Methodology:

Globo plc - GBO

Our TP is based on an adj. Quest fair value, implying a FY15E EV/EBITDA of c.9x.

Risks to achieving Target Price / Valuation:

Globo plc - GBO

Competitive landscape in EMM and MADP markets not as favourable as other software markets, with major vendors offering solutions. Large software vendors entered EMM market via acquisitions, with more established distn. channels, and large customer bases. Prevalence of low-cost smartphones - risk that CitronGO!/ GO!Social revenues decline faster than expected. Greek economy tough, with medium-term risk that GT doesn't meet instalment payment schedule, and Globo's 49% stake in GT is impaired. Past cash collection no guide to future collection.

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Global Stock Ratings (as of 06/03/15)

Rating	Coverage Universe		IB Clients
	#	%	%
Buy	583	57.95%	32.08%
Hold	337	33.50%	15.43%
Sell	40	3.98%	5.00%
Speculative Buy	46	4.57%	56.52%
	1006*	100.0%	

*Total includes stocks that are Under Review

Canaccord Genuity Ratings System

BUY: The stock is expected to generate risk-adjusted returns of over 10% during the next 12 months.

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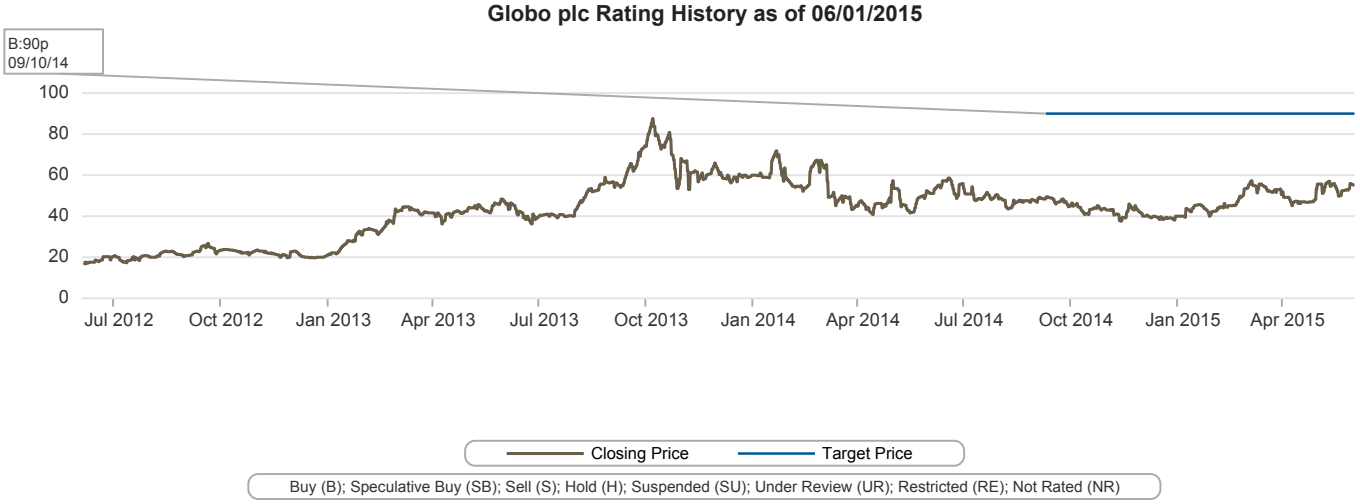
Globo plc Rating History as of 06/01/2015



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