EDISON

Go Internet

Financing & interim results

Rights issue for accelerated network roll-out

Telecoms

The proposed €4m rights issue, if successful, will be used to re-accelerate the roll-out of GO's high speed network both within its existing regions and beyond, via its new agreement with Enel Open Fibre. While the offer is dilutive to earnings, the share price has been heavily marked down and appears to discount a continued slowing of subscriber growth, rather than the pick-up we expect as the network roll-out gets back on track.

Year end	Revenue (€m)	EBITDA* (€m)	EPS* (c)	EV/sales (x)	EV/EBITDA (x)	P/E (x)
12/14	3.9	1.4	0.5	4.3	11.7	N/A
12/15	5.1	2.0	3.8	3.3	8.3	35.8
12/16e	6.4	2.8	4.2	2.6	5.9	32.4
12/17e	7.7	3.4	4.4	2.2	4.9	30.9

Note: *PBT and EPS are normalised, excluding amortisation of acquired intangibles, exceptional items and share-based payments. Historic EPS restated to reflect rights issue.

Rights issue to support faster network expansion

If successful, the funds raised from the rights issue will enable GO to re-accelerate the pace at which it installs its high speed network, which had been managed in recent months in order to conserve liquidity. The introduction of 100Mbps base stations during 2015 was a milestone in the group's strategy to double its network coverage over the next few years and the planned introduction of next generation 'fibre like' 4.5G kit towards the end of this year will represent another significant step forward for the group. In addition, in July, GO announced a major new initiative to extend its reach into new regions in Italy through its partnership with Enel Open Fibre. Meanwhile it continues to monitor the 'pending' spectrum auctions, which could further support its strategy to widen its footprint.

Forecasts assume funding in place

We have updated our forecasts to reflect the slower network roll-out in recent months, as well as incorporating estimates for the Enel agreement. While this results in very little change to our overall medium-term subscriber forecasts, the change in the mix means a downgrade to our FY16 and FY17 EBITDA forecasts of 7% and 12% respectively. The full impact of the rights issue, which is significantly discounted, means a sharper 38% downgrade to our FY17 EPS estimate.

Valuation: Does not reflect growth and opportunities

The fall in the share price following the announcement of the rights issue is consistent with its pricing. Nevertheless, the shares were marked down this year as the company 'treaded water' while its majority shareholder, Gold Holdings (Gold) considered its position. With Gold opting to be diluted, this now removes a controlling majority. Despite management's solid track record to date and sound strategy, the share price now appears to assume very little in terms of the expansion of the wireless network within its existing regions, or from the opportunity to widen its footprint with Enel. Our updated base case DCF, which excludes the option value associated with the spectrum, or possible participation in the upcoming spectrum auctions, is more than double the current share price.

10 October 2016

Price	**€1.36**
Market cap	**€14m**

Net debt (€m) as at June 2016	4.8
Shares in issue (post rights)	10.6m
Free float	31%
Code	GO
Primary exchange	AIM Italia
Secondary exchange	NA

Share price performance

%	1m	3m	12m
Abs	(13.4)	13.0	(50.6)
Rel (local)	(8.9)	6.3	(35.4)
52-week high/low		€3.53	€1.30

Business description

GO internet provides fixed broadband 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

Rights period closed	17 October 2016

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Edison profile page

Go Internet is a research client of Edison Investment Research Limited

Investment summary

Forecasts

At the interims, GO reported net debt of €4.8m, with cash of €1.5m. The current funding round, if successful, will leave GO in a position to honour its existing commitments and provide flexibility to accelerate the pace of the wireless network roll-out. Our post money forecasts assume that for the wireless services, capital expenditure and marketing steps up again during 2017 and after a period of 'catch up', subscriber growth gradually accelerates into 2018 reaching a total FY18 subscriber base of 44k. For the new wireline services with Enel Open Fibre (EOF), we assume 1k subscribers are added next year, increasing to 3.3k in FY18. Under this scenario, we forecast net debt of €2.3m post the rights issue, rising to €4.4m by FY18 (including €1.4m in cash).

Valuation and investment case

Assuming the funding can be secured, we believe GO is in a strong position to re-accelerate the deployment of its network both within, and beyond its existing regions. Our base case DCF valuation, which factors in our forecasts to FY18 followed by stable subscriber additions for a further five years (and assumes an 11.5% WACC and a 2% terminal growth rate), returns a valuation of €3.1 per share, more than double the current share price. Investors should consider the following:

- GO is targeting the 1m homes in the Marche and Emilia-Romagna regions that have chosen to relinquish their fixed line and with 36.4k subscribers as of September 2016, there is considerable headroom for growth. Management plans to double its network coverage in the next few years to 30% of homes and the introduction of the 100Mbps and soon 300Mbps service should further improve its competitive offering.
- Enel's entry to the fibre market in Italy is potentially very disruptive. We view GO's recently-announced agreement with Enel as a relatively low risk route to extending its brand outside its current regions, potentially nationally in Italy. Even a fairly small degree of success nationwide could have a significant impact on GO's overall financial position longer term.
- The pending spectrum auctions offer a further opportunity for GO to expand its footprint beyond its current regions.
- With Gold Holdings, the holding company of the Umbrian industrialist Franco Colaiacovo's family (Giuseppe Colaiacovo is GO's chairman) opting to dilute its 52% position, the post rights shareholder structure where there will be no controlling majority, will be more appropriate for a public company.

Risks and sensitivities

- GO competes with a number of much larger, well-funded operators. Our forecasts assume, from a lower base, a stable pricing environment and steady progression in subscribers. However, the market is highly competitive and GO needs to react to market trends.
- While we do not consider our subscriber forecasts for the new Enel service to be aggressive (peaking at 200 new subscribers a month), they are fairly speculative. The financial impact could be significantly higher or lower than we assume. However, even if we exclude the Enel deal from our estimates, our DCF of €2.1/share still remains above the current share price.
- Our forecasts assume the rights issue is fully subscribed; however, the final capital structure may differ from our assumption. The board has dropped previous plans to issue a €4m convertible bond, although additional finance would be required should GO wish to participate in the planned spectrum auctions.

Company description: 4G wireless broadband

GO internet provides fixed wireless internet and IP telephone services using 4G technology 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 started rolling out its wireless broadband network in 2011 and currently provides coverage for about 500,000 people ie c 15% of the population in these regions and reported 36.4k subscribers at the end of September. It is targeting the approximately 1m homes in its licensed regions that have opted to relinquish their fixed-line connections and, consequently, have no fixed broadband service, along with homes in the region that have no DSL access. The company originally installed 7Mbps technology; however, during 2015, it started the installation of 100Mbps base stations and in the near term plans to introduce technology that would see it able to offer 4.5G services (300Mbps); a key part of its strategy to increase coverage (targeting 30% coverage by 2018) and its competitive position. In July, GO also announced an agreement with Enel Open Fibre that will enable it to extend its reach to other regions in Italy. We also believe the company is a strong contender for the forthcoming spectrum awards in Italy, which could enable it to considerably increase its wireless footprint.

Background to the proposed rights issue

GO listed on AIM Italia in August 2014, raising €5m from the issue of 1.8m shares at €2.75 per share. In December 2015 it announced plans for a €4m rights issue and a €4m convertible bond. In March 2016, its majority shareholder, Gold, issued a letter of comfort that it would provide pre-payments on its share of this rights issue by September 2016. Gold made one instalment on this funding promise, but in September 2016 it withdrew its commitment to inject a further €1.8m of funds. Having received an irrevocable commitment from a third party to take up Gold's share, as well as from existing shareholders to take up 68% of the rights, GO has now launched the 77 for 100 rights issue at €0.86 per share (€4m, 4.6m shares in total). The subscription period will remain open until 17 October 2016. Assuming it is fully subscribed, following this rights issue Gold will own 31% of the shares (from 52%), while WN which is jointly owned by CEO/CTO Alessandro Frizzoni, CFO Alessandro Ronchi and COO Flavio Ubaldi will hold 15%.

Management

As the team that originally launched Aria, the executive management team brings considerable experience. During their time at Aria, the team members grew the company to 50,000 subscribers within four years, 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 members agreed to a 36-month lock-up on their shares (13 months remain) and a 48-month, non-compete restriction. For further details on the management team, see page 15.

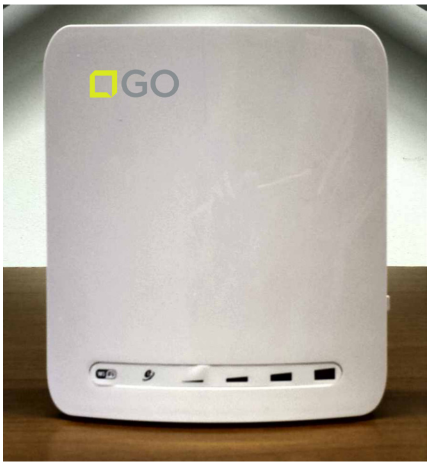
GO uses 4G (3.5GHz) – WiMAX & LTE technology

WiMAX and LTE are wireless technology standards that come under the umbrella of 4G services. Typically associated with mobile phone services, the technology can also be used for "last mile" connectivity (the most difficult and expensive to build for wire line services) to provide a fixed broadband service. This requires the installation of a base station on a networking tower (Exhibit 1), connected to a customer's home with customer premises equipment (CPE) or modem (Exhibit 2).

Exhibit 1: Tower with a GO base station

Source: GO Internet

Exhibit 2: GO internet's indoor CPE



Source: GO Internet

Market overview and opportunity

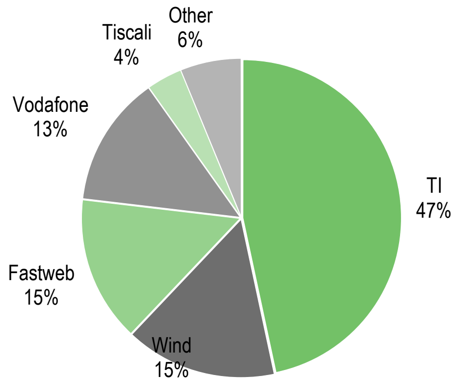
Broadband access – Enel's fibre solution

Broadband penetration in Italy has increased considerably in the last couple of years, but still only ranks 32th in the OECD countries (with 63% internet penetration). According to AGCOM (the Italian regulator), high-speed internet or next-generation access (NGA) networks (ie where download speeds are above 30Mbps) account for around 8.5% of all fixed broadband connections. The government and network operators are under pressure to improve penetration and bandwidth to meet the directives of the EU Digital Agenda for Europe.

The Italian market is unique in the EU because it has no cable offering and with the current limited coverage of fibre the two main delivery mechanisms for broadband access are ADSL and 4G. However, Italian PM Matteo Renzi has made the development of a nationwide fibre network a priority and with the potentially disruptive entry of Enel into the market, this looks set to change.

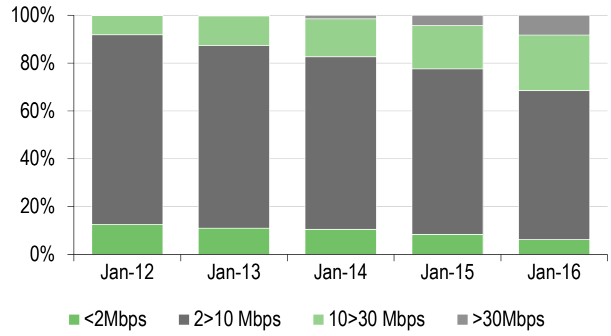
- **ADSL:** Telecom Italia (TI) is the dominant fixed broadband provider, with a 46.6% market share (down 1.2% on March 2015). Of the other licensed operators (OLOs), Wind is the largest (15.4% share), followed by Fastweb (14.8%), Vodafone (13.3%) and Tiscali (3.6%).
- **4G:** Three 4G licences for 3.5GHz spectrum have been awarded in each region in Italy. In its two regions, GO faces two main competitors, both with national licences: Linkem is the largest with a 1.7% share of the national fixed broadband market, followed by Aria (which merged with Tiscali last year); the remainder is held by several regional operators including Aolus, air and GO Internet (with a total market share of 4.5%).
- **Fibre:** Fibre to the home (FTTH) in most markets proves uneconomical for residential users and to date in Italy, fibre coverage is largely restricted to Fibre to the Cabinet (FTTC), targeted at businesses in Milan and Rome. However, during 2015 state controlled power utility Enel (ENEL.SW) offered to use its domestic power network to run fibre all the way to homes and office. 'Enel Open Fibre' has started installing a new generation of smart electricity meters into 33m homes in Italy and has proposed laying fibre at the same time, making deployment more cost effective. Enel will be precluded from marketing its fibre directly to customers, but is partnering with selected third-party service providers on a wholesale basis. We understand that Enel has received a number of tenders from potential partners, with three partnerships announced to date – with Vodafone, Wind and GO Internet.

Exhibit 3: Broadband provider market share



Source: AGCOM, March 2016

Exhibit 4: Fixed broadband speed take-up



Source: AGCOM

Growth strategy

GO's commercial offer

GO's basic service costs €14.90 per month (including 22% VAT) for both the lower speed WiMAX offer (now up to 12Mbps, upgraded from 7Mbps previously) and for the LTE service (up to €100Mbps), although after 12 months there is differential pricing (€19.90 and €22.90, respectively). This covers the broadband connection and the unlimited data plan. The vast majority of customers opt to rent the CPE as the rental is currently waived for two years, although GO also offers it 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 within five days. 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, customers are charged €60 for installation and no grace period during which they can change their mind about taking the service. After the five-day trial period customers are locked into a two-year contract, although Italian law allows them to terminate this contract early for an €80 fee.

Target market – mobile-only homes

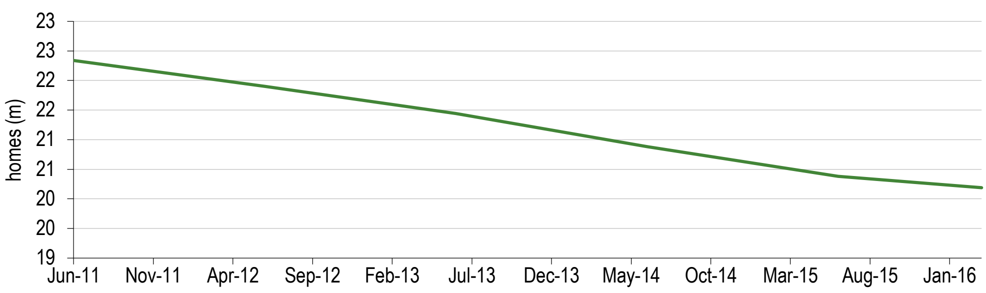
To subscribe to most ADSL services, customers are required to also pay for TI's fixed-line connection for €15 per month (Exhibit 6 summarises current offers made by the main Italian broadband operators). However, as VOIP services improve and as the price of mobile packages declines, consumers increasingly consider this expensive fixed-line connection, often referred to as a 'wireline tax', as a redundant service and many Italians are choosing to relinquish their fixed lines. Over the last couple of years TI has responded with aggressive discounting and the pace of decline has reduced; however, fixed-line penetration in Italy as a whole continues to decrease – from about 95% at the peak in the late 1990s to around 61% at the end of June 2015, with more than one million homes 'cutting the cord' over the last two years.

900k Italians have abandoned their fixed line in GO's two regions: in the two regions where GO currently operates, there are 900k households (34% of homes, AGCOM) that no longer have a fixed-line phone from TI and consequently have no broadband service (other than cellular network based). These mobile-only homes are GO's main target market.

A further 120k 'digital divide' customers are also a natural fit for GO's 4G services: both Linkem and Aria (now Tiscali) also hold 4G licences in GO's regions and arguably, for mobile-only homes, they represent the most direct competition. However, their licences were awarded on the basis of bridging the so-called digital divide (ie areas where there is no broadband coverage), 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 the c 120,000 digital divide households in Emilia-Romagna and Marche also offer an obvious fit for its products. Effectively, this means that both Aria and Linkem have much more rural coverage than GO and to date rarely compete on the ground in either region where GO currently operates. Aria's merger last year with Tiscali may ultimately result in a more competitive market for GO, but the enlarged group remains heavily indebted and management has yet to notice any impact.

Mobile broadband – compete at the margins: GO does not offer a mobile broadband service and so does not consider itself an alternative to the cellular operators that operate in Italy (TIM, Vodafone, Wind and 3), but more as a complement to them. 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 at the margin GO's offer could represent a challenge. The cellular operators (due to the much higher cost of their networks) limit the level of data that can be used (offers are typically for 2-30GB for €10-30 per month), after which point they charge an additional fee per GB used. GO's plan is unlimited and subscribers use an 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 10-20 times cheaper.

Exhibit 5: Fixed line penetration - Italy



Source: AGCOM

Competitive positioning – cheap, convenient and fast

GO's competitive advantages include its pricing, the plug & play nature of the equipment and the quality of the connection. The roll-out of the 4G 100Mbps network (and soon 4.5G) should also strengthen GO's position.

Competitively priced: over the past two years ADSL competitors have noticeably reduced the price of their basic bundles, so the price differential is not as pronounced. However, even taking account of current special offers, without the need for the TI fixed-line rental, GO's offer remains the cheapest on the market (Exhibit 6).

Convenience: GO's small and lightweight indoor CPEs for almost all (85%) subscribers provide a no-hassle plug & play installation. This compares to ADSL customers who typically need to wait a few days for activation and may also require installation by an engineer.

High speed: the basic service runs at a maximum speed of 12Mbps with an average speed comparable with ADSL services in Italy. The 100Mbps service reportedly gives an average speed of

30Mbps making it much faster than ADSL and will soon start to introduce 4.5G services (up to 300Mbps). At present, only TI, Fastweb and Vodafone offer a comparable speed.

Mobility: the plug & play modem can be used anywhere in the coverage region eg customers can take it to second homes for the weekend.

High-quality connection: GO's exclusive right of use of 42MHz within the 3.5Ghz band means it does not have to deal with the congestion issues that other operators face in terms of frequency saturation which may reduce the quality of service during peak usage times. However, overcrowding on the 12Mbps base stations can lead to service disruption.

Exhibit 6: Competitor pricing

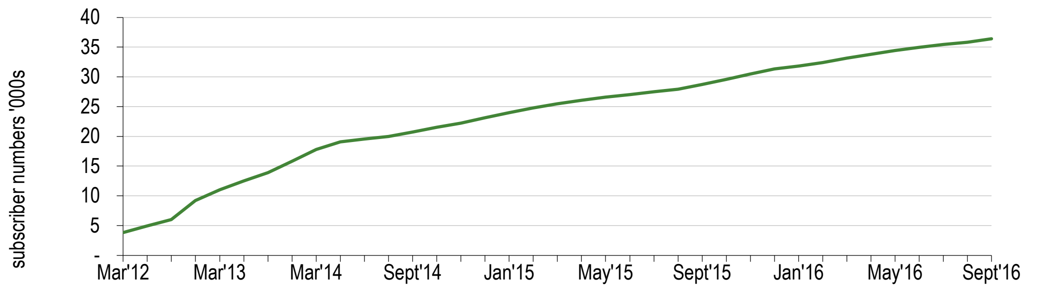
€	GO internet		Linkem	TI			Tiscali (Aria)		Fastweb	Infostrada-Wind		
Speed (Mbps)	12	100	7-20	7	20	300	20	100	20- 200	20	50	100
Landline	No	No	No	Yes	Yes	Yes	Yes	Yes	No	Yes	Yes	Yes
Price	14.9	14.9	21.9	22.9	19	19.9	24.95	24.95	22.5	19.95	19.95	19.95
Box rental	0	0	3	3.9	3.9	3.9	0	0	0	4	4	4
Total charge yr 1	14.9	14.9	24.9	26.8	22.9	23.8	24.95	24.95	22.5	23.95	23.95	23.95
Year 2	19.9	22.9	24.9	39.9	39.9	39.9	24.95	34.95	25	24.95	24.95	29.95
Average price 2 yrs	**17.4**	**18.9**	**24.9**	**33.35**	**31.4**	**31.85**	**24.95**	**29.95**	**23.75**	**24.45**	**24.45**	**26.95**
Activation fee €		49.9**/99.9***	50, returnable on 1st invoice	Free*/or €79	Free*/or €90	Free*/or €90		Free*/or €99	Free*/or €119	50*/or €96		75*/or €200

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

Network roll-out – from 4G to 4.5G

GO acquired its first licence in 2008 and its second in 2012; commercial operations started in 2011. With the funds raised from its IPO in August 2014, it accelerated the installation of base stations to c 15-20 sites a month during 2015 and the start of 2016, although this has deliberately slowed in recent months ahead of securing additional funding. At the end of September 2016, GO had an installed base of 760 base stations, covering 15% of the population of Marche and Emilia-Romagna (from 8.7% at the time of the IPO). Subscribers have increased in line with the pace of the network expansion and in September 2016, the company reported 36.4k subscribers.

Exhibit 7: Subscriber numbers (000s)



Source: GO Internet

The introduction of more powerful base stations is a key pillar to management's strategy to double coverage in its two regions to 30% over the next two to three years and to continue to increase take-up of the service.

2015/2016 from WiMAX to LTE: The original kit that was installed related to 7Mbps technology (since upgraded to12Mbps). However, since the summer of 2015 it has moved to the installation of 100Mbps base stations. This has enabled it to offer a higher-quality service to customers, reaching speeds up to 100Mps with an improved signal performance, particularly indoors. In addition, it provides for a more efficient network roll-out (each base station can handle almost double the number of the 12Mbps kit), which is critical as network towers are becoming increasingly crowded and sites are harder to find. Of the 760 base stations installed at the end of June 2016, approximately 180 are 100Mbps LTE, a further 130 are dual mode WiMax LTE (100Mbps capable following software upgrades).

2016/ 2017 from LTE to 4.5G: At MWC this year, GO's technology partner, Huawei, announced a further significant advancement in its base station technology to support 'near fibre like' speeds initially to 300Mbps and with planned upgrades up to 1Gbps (with the appropriate fibre backhaul). As well as a considerable improvement in the service to customers, this will represent a major step forward in terms of both more efficient site usage and customer density (capacity of up to 400 customers per base station).

Expanding into new regions in Italy

Along with ongoing expansion in Marche and Emilia-Romagna, GO has aspirations to widen its footprint to other areas of Italy. Enel's fibre strategy provides a relatively low risk opportunity for GO to extend its reach nationwide and management continues to follow the planned spectrum auctions closely.

ENEL partnership for wire-line service: GO was one of the first operators to announce a partnership with Enel Open Fibre (EOF) to provide FTTH with speeds of up to 1Gbps. Under the agreement EOF will provide 'dark fibre' connections directly from the cabinet in the street to homes (the 'last mile'). GO will offer the wi-fi modems and service contract to customers. The agreement enables GO to expand beyond its current regions and, once the EOF fibre network has been rolled out, could give it a near national footprint as a virtual network operator. Within its existing regions it should also enable GO to target more effectively the SME segment, which has eluded it to date. The service has been trialled in Perugia (Umbria) and will be expanded to other regions. This strategy requires very little capital investment from GO and represents a fairly low risk opportunity to extend beyond its current regions.

Spectrum auctions: In early 2015 (at the request of the EU), AGCOM announced its intention to release 200MHz of spectrum in the 3.6GHz frequency band (currently used by the military and broadcasters). The government is keen to add services in areas of the country that currently have poor or no reception (digital divide areas). As a result, AGCOM has indicated that some of the spectrum will be allocated following a 'beauty contest' based on the applicants' business plans. We think GO is in a strong position to apply for additional licences, having already proved its capabilities in Marche and Emilia-Romagna. Originally scheduled for H116, the announcement of final terms and the date of the auction has slipped; however, we understand that it remains a priority. At this stage it looks as if there may be both a national and a regional spectrum auction and we would expect GO to apply for regional licences that complement its existing footprint.

Longer-term opportunities – new uses for 3.5GHz spectrum

According to Cisco, by 2018 more than 50% of internet traffic will be generated by mobile devices and the volume of data being transported is forecast to increase exponentially over the coming years. As a consequence, the lower frequencies currently used by mobile service providers are rapidly becoming saturated and operators will need to use higher frequencies to manage these data. Governments around the world are already starting to free up frequencies in the higher 3.6-3.8GHz band, and phone and chipset manufacturers are developing products that will support these frequencies across a wider array of equipment; during the Mobile World Congress (MWC) 2015, Intel, Qualcomm and Huawei presented chipsets that support 3.5GHz frequency for tablet and smartphone reception. We understand that the Qualcomm chipset is already being sent to manufacturers for production and management expects the first devices to become available in high-end smartphones from spring 2017. This opens up a number of new possibilities for GO longer term, from wholesaling its spectrum to MNOs, to potentially even adding a mobile offering to its fixed wireless broadband services.

Financials

Recent performance shaped by funding requirement

The lack of clarity over funding over the last nine months has impacted the pace at which GO has been able to roll out its network and while it has continued to steadily add new subscribers (c 550 a month over the last nine months to 36.4k at the end of September), management had hoped to accelerate momentum. Instead, it has moderated the rate at which it has installed new base stations (760 at June 2016 +17.5% y-o-y), and held back marketing in order to conserve liquidity.

Nevertheless, the interim results announced in September show ongoing solid financial progress. Revenues of €3.1m in H116 were up 26% y-o-y, underpinned by the steady increase in the subscriber base, although offset by a slight fall in ARPUs as GO reacted to the more competitive pricing environment. Operational leverage as well as tight control of costs enabled EBITDA margins to increase to 40% (36% in H115, 38% FY15).

The payback period on a subscriber is approximately one year and although we estimate that approximately 75% of the subscriber base is now profitable, the majority of the operating cash is being reinvested in expanding the network. Capex mainly relates to network equipment (CPEs and base stations), and GO needs to be installing approximately €4m of kit a year in order to expand in line with its target of 30% coverage by 2018.

At the interims, GO reported net debt of €4.8m, with cash of €1.5m. Debt comprises two bank loans of approximately €3m (c 3.5% interest) repayable in annual instalments by 2019 and 2023 respectively, and sale and leaseback arrangements mainly with Huawei for €3m, the outstanding payments due on the licence acquisition for the Emilia-Romagna region of €0.5m (repayable in annual instalments to 2024) and other credit lines.

The current funding round, if successful, will leave GO in a position to honour its existing commitments and to provide flexibility to accelerate the pace of the wireless network roll-out. The board has dropped previous plans to issue a €4m convertible bond; however, based on the ambition to increase network coverage to 30% by 2018, additional finance would be required should GO also wish to participate in the planned spectrum auctions. We understand it is exploring additional lines of finance to this end.

Forecast changes

As the rights issue is already 68% subscribed, we have updated our forecasts to reflect a post-money scenario. We have sought to capture the current pace of subscriber additions for the wireless services and introduced estimates for the new fibre wireline service. We have also introduced FY18 forecasts. Overall, the result is a reduction to our previous EBITDA forecasts of 7% to €2.8m in FY16 and 12% to €3.4m in FY17 and we initiate an EBITDA forecast of €4.4m in FY18. At the EPS level, our forecasts are reduced more markedly owing to the dilution from the rights issue.

Exhibit 8: Summary forecast changes

€000s	2016e			2017e			2018
	Old	New	% change	Old	New	% change	New
Revenues	6,764	6,369	(6)	8,414	7,699	(8)	9,675
EBITDA	3,040	2,830	(7)	3,895	3,423	(12)	4,369
Net income (headline)	364	360	(1)	557	462	(17)	914
EPS (normalised, diluted) (c)	4.6	4.2	(8)	7.0	4.4	(38)	8.6
Capex	(3,550)	(3,232)	(9)	(3,239)	(3,999)	23	(3,422)
Net debt	5,517	2,254	(59)	5,992	3,302	(45)	4,437

Source: Edison Investment Research. Note: Old EPS forecasts are restated to reflect the bonus factor.

Impact of the proposed rights issue: GO's proposed rights issue is 77 new shares at 86c for 100 existing shares; the share price just before the rights issue was announced was approximately 200c, thus the rights price represented a 57% discount, making the theoretical ex-rights price 150c. We estimate a bonus factor of around 1.33x (Exhibit 9). We have restated the historical share count and historical EPS of 0.7c (FY14) and 5.1c (FY15) to 0.5c and 3.8c respectively.

Exhibit 9: Terms and technical impact of the rights issue

	Calculation	Terms
Rights price (cents)	A	86
Pre rights shares	B	100
Rights issue	C	77
Post rights shares	D = B+C	177
Share price before announcement (cents)	E	200
Discount (%)	F = A/E	(57%)
Theoretical ex rights price (cents)	G = ((A*C)+(E*B))/D	150
Bonus factor	E/G	1.33

Source: Edison Investment Research

Update wireless forecasts: In FY16 we reduce our capex forecast (from €3.6m to €3.2m) and subscriber forecasts (from 40k to 38k) to capture a more measured pace of network expansion for the wireless broadband services. However, with additional funding in place, management plans to re-accelerate the pace of network roll-out and we forecast an increase in capital expenditure and marketing during FY17, with the momentum in net new subscribers picking up as the year progresses and into FY18. Given the pricing pressure in the market, we no longer assume that the 100Mbps service can be offered at a premium to the 12Mbps and we now assume flat ARPUs (previously we assumed 3% growth) with all the net subscriber growth coming from the faster 100Mbps service.

Introduce fibre wireline forecasts: The current trial service to 30 customers in Perugia is progressing well and management plans to start to market the commercial offer in Umbria in Q117. We forecast that GO signs first subscribers from its new relationship with EOF from March 2017 at a rate of 100 a month, rising to 200 a month in 2018 with monthly subscription price of €35 (lower than the €40 currently asked by TI for its 300Mbps service to reflect marketing promotions). GO will be renting the dark fibre from Enel (we assume €12/month), and we expect dealer commissions and marketing expenses to be broadly similar to the wireline product. As 100% of the network fibre is rented, capital expenditure requirements relate only to the cost of acquiring the CPEs (which we assume are offered to subscribers for free) and the cost of the OLT (Optical Line Terminal) installed by GO at Enel's central shelter (c €8k, one required in each city) .

We present the breakdown of our forecasts to EBITDA in Exhibit 10, with full forecasts in Exhibit 11 at the back of this report.

Exhibit 10: Summary KPIs and key financials

	2013	2014	2015	2016e	2017e	2018e
Churn (%)	4	4	6	9	10	11
Subscribers – wireless	15,728	23,000	31,356	37,783	44,179	52,037
Subscribers – fibre					900	3,300
Total net subscribers	**15,728**	**23,000**	**31,356**	**37,783**	**45,079**	**55,337**
Net subscriber additions	6,600	7,272	8,356	6,427	7,296	10,258
ARPU (ex VAT) – wireless (€)	12.5	14.5	14.8	14.2	14.2	14.2
ARPU (ex VAT) – wireline (€)					28.7	28.7
Wireless revenues (€000s)	2,521	3,843	5,103	6,334	7,469	8,807
Wireline revenues (€000s)					200	843
Other revenues (€000s)	124	56	41	35	30	25
Total revenues (€000s)	**2,645**	**3,899**	**5,144**	**6,369**	**7,699**	**9,675**
EBITDA (€000s)	**887**	**1,425**	**2,010**	**2,830**	**3,423**	**4,369**
EBITDA margin (%)	34	37	39	44	44	45
Interest (€000s)	(202)	(292)	(275)	(250)	(230)	(210)
Tax (€000s)	(10)	(48)	(8)	(100)	(211)	(418)
Working capital (€000s)	410	417	35	(7)	(30)	(1,453)
Other (€000s)	(29)	6	0	0	0	0
Capex (€000s)	(1,844)	(2,670)	(4,476)	(3,232)	(3,999)	(3,422)
FCF (€000s)	**(788)**	**(1,162)**	**(2,714)**	**(759)**	**(1,047)**	**(1,135)**
EBITDA to FCF conversion (%)	(88.8)	(81.5)	(135.0)	(26.8)	(30.6)	(26.0)
Financing/ other (€000s)	0	(4,342)	8	(3,968)	0	0
Net debt – closing (€000s)	**5,921**	**2,741**	**5,463**	**2,254**	**3,302**	**4,437**
of which cash (€000s)	128	2,285	339	3,548	2,500	1,365

Source: GO Internet, Edison Investment Research

Valuation

GO's listed ADSL peers are more mature and have a different capital structure, so we are wary of making direct comparisons, although it is worth highlighting that on a FY17e EV/EBITDA of 4.9x, GO compares favourably despite the better EBITDA growth profile. We prefer a DCF valuation.

There are three key factors that determine GO's valuation:

- The roll-out and take up of the wireless LTE network
- The possibility of greatly enhancing the footprint of its wireless network by participating in spectrum tenders
- The success of its new partnership with Enel Open Fibre

Base case DCF: Our Base Case DCF adopts our published forecasts to FY18. For the following five years we assume that gross annual wireless and wireline subscriber additions stabilise (at 1,500 a year in total), with churn increasing to 15%, more in line with industry averages. This converts to a total subscriber base reaching 85k by 2023, of which c 20% relate to the new wireline fibre services. We assume EBITDA margins peak at 45%, the current 31% tax rate and that capex normalises at 20% of revenues from 2020. We have used an 11.5% discount rate, a 2% terminal growth rate from 2023 and assume that GO funds the capital expenditure required based on its post rights issue capital structure (net debt of €2.3m and share count of 10.6m).

This returns a value of €3.1 per share, which is over twice the current share price.

Regional expansion – wireline (Enel partnership): Ahead of commercial launch which we forecast in Q2 next year, our forecast uptake of GO's fibre offer is fairly speculative. As a nationwide service, it has the potential to be considerably more successful. Equally, with competition from other, considerably larger service providers, it could be considerably less successful.

To provide a sense of proportionality; if we remove this revenue possibility altogether from our forecasts, our DCF returns a value of €2.1. On the other hand, if GO can add as many fibre subscribers each month as wireless subscribers (c 500), this would increase our DCF to €3.7 per share.

Regional expansion - wireless: While there is little visibility on the timing or the possible outcome of the proposed spectrum auction, were GO to secure additional licences this could have a considerable impact on its longer-term value. For instance, if we assume GO is granted a licence for a region that covers three million people at a cost of €2m (0.025c per MHz per population – two-thirds more than the cost of its existing licences), this could enable it to increase its footprint by 50%. Theoretically, it could then increase annual net subscriber additions by 50% a year from 2018. Additional funding would be required to support the roll-out of the network in the new region. However, assuming this is secured, we estimate this could add €0.7 per share to our base case valuation.

'Option value' It is important to bear in mind the potential 'option' value that spectrum ownership may have on GO's value in light of the current developments regarding the incorporation of 3.5GHz technology into mobile phones. While hard to quantify, the value of GO's spectrum is likely to increase as this technology becomes more widespread.

Sensitivities

As well as the sensitivities outlined above, investors should consider the following:

Rights issue: Our forecasts assume 100% take up of rights. However, the final value of share capital raised may differ from our assumptions.

Additional finance: Although management has decided not to proceed with previously announced plans to issue a €4m convertible bond, it may seek additional funds in order to participate in the upcoming spectrum auctions, which would enable it to expand its wireless network in other regions in Italy. Depending on its cost and deployment, this could have a dilutive impact on earnings in the near term.

Cost of the network: The cost of the network depends on a number of variables including the terms on which GO can secure new base stations, the cost of CPEs and the density of subscribers on each base station. 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.

Economy: While GO's low price offer confers some protection against cost-conscious subscribers looking to economise the difficult economic climate in Italy could affect demand.

Competition: The market does seem to have become more competitive over the last year and more sustained discounting by the ADSL providers, or a step-up in network investment by the other 4G operators could have an impact on GO's strategy.

Service bundling: Bundling of three or more services (fixed-line telephony, broadband, mobile and TV) is now the norm in other markets. For structural reasons, Italy has been slow to follow suit (no cable). However, bundled offers have been 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 GO, with its no-strings service, is targeting a different demographic. However, if bundled services start to catch on in Italy, GO may be disadvantaged.

Sites secured: Italy has some of the most restrictive rules on the installation of sites and the bureaucracy surrounding site planning applications can present obstacles to the pace of network roll-out. GO has many tower providers, but during 2015 extended its contract with one of its largest, and secured access to additional strategic towers via an agreement with EI Towers (one of Italy's leading transmission tower companies), giving it ample capacity for the near term. The Italian government is working on a set of measures to stimulate broadband diffusion in Italy. New policies being discussed include an increase in the number of site permits made available, an increase in the speed of approval of site applications and, crucially, an increase in the electromagnetic emissions permitted per site, which would enable more base stations to be installed in each site, improving the ROI of each site installed.

Exhibit 11: Financial summary

€000s	2013	2014	2015	2016e	2017e	2018e
31 December	IFRS	IFRS	IFRS	IFRS	IFRS	IFRS
PROFIT & LOSS						
Revenue	2,645	3,899	5,144	6,369	7,699	9,675
Cost of Sales	(1,170)	(2,053)	(2,735)	(2,762)	(3,424)	(4,313)
Gross Profit	1,475	1,846	2,409	3,608	4,275	5,362
EBITDA	887	1,425	2,010	2,830	3,423	4,369
Operating Profit (before amort. and except.)	166	373	587	710	903	1,543
Intangible Amortisation	0	(50)	(86)	0	0	0
Exceptionals	(54)	(7)	(67)	0	0	0
Other	0	0	0	0	0	0
Operating Profit	111	316	434	710	903	1,543
Net Interest	(202)	(292)	(275)	(250)	(230)	(210)
Profit Before Tax (norm)	(36)	81	312	460	673	1,333
Profit Before Tax (FRS 3)	(90)	24	159	460	673	1,333
Tax	(10)	(48)	(8)	(100)	(211)	(418)
Profit After Tax (norm)	(46)	33	304	360	462	914
Profit After Tax (FRS 3)	(100)	(24)	151	360	462	914
Average Number of Shares Outstanding (m)	5.54	6.56	7.97	8.63	10.61	10.61
EPS - normalised (c)	(0.84)	0.50	3.82	4.18	4.36	8.62
EPS - normalised fully diluted (c)	(0.84)	0.50	3.82	4.18	4.36	8.62
EPS - (IFRS) (c)	(1.81)	(0.37)	1.90	4.18	4.36	8.62
Dividend per share (€)	0.00	0.00	0.00	0.00	0.00	0.00
Gross Margin (%)	55.8	47.3	46.8	56.6	55.5	55.4
EBITDA Margin (%)	33.5	36.5	39.1	44.4	44.5	45.2
Operating Margin (before GW and except.) (%)	6.3	9.6	11.4	11.2	11.7	15.9
BALANCE SHEET						
Fixed Assets	6,536	8,117	11,158	12,574	14,053	14,649
Intangible Assets	2,404	2,465	2,767	2,660	2,589	2,199
Tangible Assets	4,132	5,652	8,391	9,914	11,464	12,450
Investments	0	0	0	0	0	0
Current Assets	2,023	6,527	4,330	7,613	6,641	6,235
Stocks	166	814	967	986	1,006	1,006
Debtors	1,729	3,429	2,729	2,784	2,839	3,568
Cash	128	2,284	338	3,548	2,500	1,365
Other	0	0	296	296	296	296
Current Liabilities	(3,065)	(5,093)	(7,835)	(7,903)	(7,948)	(5,214)
Creditors	(1,384)	(3,839)	(5,034)	(5,101)	(5,146)	(2,412)
Short term borrowings	(1,681)	(1,254)	(2,801)	(2,802)	(2,802)	(2,802)
Long Term Liabilities	(4,515)	(3,911)	(3,000)	(3,304)	(3,304)	(3,304)
Long term borrowings	(4,368)	(3,771)	(3,000)	(3,000)	(3,000)	(3,000)
Other long term liabilities	(147)	(140)	0	(304)	(304)	(304)
Net Assets	979	5,640	4,653	8,981	9,443	12,366
CASH FLOW						
Operating Cash Flow	1,297	1,842	2,045	2,823	3,393	2,916
Net Interest	(202)	(292)	(275)	(250)	(230)	(210)
Tax	(10)	(48)	(8)	(100)	(211)	(418)
Capex	(1,844)	(2,670)	(4,476)	(3,232)	(3,999)	(3,422)
Acquisitions/disposals	0	0	0	0	0	0
Financing	0	4,324	0	3,968	0	0
Dividends	0	0	0	0	0	0
Other	(29)	6	(8)	0	0	0
Net Cash Flow	(788)	3,162	(2,722)	3,209	(1,047)	(1,135)
Opening net debt/(cash)	5,152	5,921	2,741	5,463	2,254	3,302
HP finance leases initiated	0	0	0	0	0	0
Other	19	18	0	0	0	0
Closing net debt/(cash)	5,921	2,741	5,463	2,254	3,302	4,437

Source: GO Internet, Edison Investment Research

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

Management team

Chairman: Giuseppe Colaiacovo	CEO and CTO: Alessandro Frizzoni
Giuseppe Colaiacovo is a graduate in business and finance and has an MBA from UCLA. He has been professor of educational 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).	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 he 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	**COO: Flavio Ubaldi**
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 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.	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 (commercialisation of voice recognition devices). In 1999 he founded BVTC, 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 (pre-rights issue)	(%)
Gold Holding Srl	52.1
WN Srl	17.4

Companies named in this report

Huawei 002502:CH, Telecom Italia TIT IM, Tiscali TIS IM, Vodafone VOD LN