

Globo PLC - UK listed Greek software business (short position)

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Globo's business

Globo is a Greek software company with two main product categories: text-based services that make web content such as social networks available for feature phone users, and a remote access product that employees can operate using their own personal smartphone or tablet (in the first half of 2013 these two products accounted for nearly 90% of Globo's revenue).

As at 21st January 2014 the company has a market capitalisation of GBP 267m despite never generating positive free cash flow after nearly a decade of publically reporting its financial statements. Future growth is expected to come mostly from the second of Globo's products - GO!Enterprise - which is an app that allows a company's employees secure remote access to work servers from their own personal mobile device, which the company describes as "ideally suited for the implementation of Bring Your Own Device (BYOD) mobility strategies". According to the 2013 interim results statement, Globo management "believe that GO!Enterprise revenues will soon become the most significant part of Group revenue". We have a number of concerns about this product and the level of revenue reported for it that have led us to conclude that this valuation is not justifiable and the funds that we manage are short the stock.

Globo's customer base for GO!Enterprise

(a) Reported size and geography

In Globo's 2013 Interim Results announcement the company reported total revenue in the first half year of EUR 32m. Of this, EUR 10m (H1 2012: EUR 4.4m) came from its GO!Enterprise product, "driven by the BYOD [...] trend", with 57 % coming from licence sales.

Globo's GO!Enterprise product is primarily aimed at developed markets where professional use of smartphones is prevalent with Western Europe, the USA, Canada and Australia being identified as the main target markets by the CEO in May 2012.

For 2012 Globo reported revenue of EUR 0.3m for Western Europe and EUR 0.5m for North America and revenue of EUR 12m for its GO!Enterprise product. The majority of North America revenue in 2012 appears to be from the acquisition of Dialect Technologies in February 2012, a VoIP business unrelated to the GO!Enterprise product that had revenue of c.USD 2.1m in 2011. In H1 13 Globo did not report North American revenue separately.

In June 2013 Investor Relations told us that to date Globo has generated material revenue from its GO!Enterprise product in "Greece / SE Europe / Emirates / W Europe"; given reported Middle East revenue of EUR 0.8m in 2012 this implies that roughly 90% of GO!Enterprise revenue in 2012 came from Greece and other south eastern European countries rather than from its stated target markets.

(b) Reference customers

Globo declined our requests to name any GO!Enterprise customers. The company's results and presentations name a number of corporate customers, most of whom we have attempted to contact. None of these customers have confirmed to us that they are licensees of the GO!Enterprise BYOD

product; some apparently are not e.g. employees at Piraeus Bank have confirmed that the firm does not use BYOD software; some appear to use Globo for other services such as basic app development e.g. Estee Lauder has a customer loyalty app in Greece that was developed by Globo.

The website of Computerlinks, a reseller of the BYOD product does include a case study for GO!Enterprise: the Theocharakis Foundation. However, as the case study states, Globo developed a mobile app for the Foundation “to inform Art & Music enthusiasts in Greece of the schedules, events and activities” and does not suggest that Globo provided any kind of BYOD solution to them. It is also surprising that the only case study Globo has provided is for an app that has been downloaded less than fifty times from Google Play, the primary source of app downloads for the Android mobile operating system, suggesting it is virtually unused.

(c) Other attempted validation of the licensee base

In its final results announcement for 2012 Globo reported that it had 155,000 active licences through the “GO!Enterprise Office and Mobilizer license scheme” and 95,000 through the “GO!Enterprise Reach license scheme”. The reported revenue growth in H1 2013 suggests that the number of licensees should have increased significantly.

In September 2012 two company representatives advised us on separate occasions that the GO!Enterprise software is accessed by the end user via download from an app store; Investor Relations confirmed in writing that it is “accessed via AppStore or android Market as appropriate” with approximately two thirds of GO!Enterprise users being on devices using Google’s Android operating system. No other method of download was mentioned on either occasion.

As at 29th August Google Play (which is by far the largest app store for Android users) showed that the GO!Enterprise app had only been downloaded from it between 1,000 and 5,000 times which is less than 5% of the end users implied by the revenue reported for the product.

We raised this apparent discrepancy with Globo and were subsequently, and separately, advised that the product could be (a) accessed via intranet; and (b) by direct download from the company’s server.

While Globo’s three explanations on how end users install the GO!Enterprise app on their personal device may contradict each other, the description of Globo’s GO!Enterprise product on the website of reseller Computerlinks is clear and consistent with what the company originally told us: “users download a GO!Mobile Client from their respective App store (Android, Apple, Windows Phone or Blackberry)”; there is no mention of downloading the app from either the customer’s server (i.e. via intranet) or from Globo’s server directly.

A comparison with other vendors of BYOD software suggests that download from app stores is the industry standard means of distribution - as at 9th October Google Play showed that the comparable product from Good Technology had been downloaded 500,000 to 1,000,000 times from Google Play; MobileIron and AirWatch’s comparable products had each been downloaded 100,000 to 500,000 times.

GO!Enterprise as a product

In addition to our concerns about the method of installation on end users' devices we also have concerns about the quality of and support for the GO!Enterprise product.

We surveyed several corporate IT departments in a variety of industries and IT consultants, all of which had installed BYOD software, and none had considered using Globo to provide this.

In September we hired an IT consultancy to trial the GO!Enterprise product for us anonymously. Emails from the consultancy to GO!Enterprise support on 26th September and 2nd October went unanswered, as a result the consultancy was unable to set up the trial.

We contacted Globo management directly on 3rd October in an attempt to elicit some response and we were able to trial the product from 7th October. The GO!Enterprise BYOD product worked but crashed randomly; in particular, the Messages messaging function frequently crashed and deleted messages in error.

The consultancy trialling the product for us commented that the development platform "seems lacking in documentation and support. We have built within the Good [Technology] framework in the past and the solution is backed with a very rich community site [...]. I cannot find anything equivalent with Globo."

We are aware that our poor experience trialling GO!Enterprise is not unique with another potential customer having similar issues trialling the product later in 2012.

Cashflow and receivables

Globo has not generated positive free cash flow in any year since 2004, the first year that financial statements are available for, including for 2013 to date and, from the growth in receivables, it appears that little revenue has been collected over the past year.

Between 31st December 2012 and 30th June 2013 Globo's trade receivables increased 52% from EUR 18m to EUR 28m, with trade receivables days outstanding increasing from 125 to 159 (based on revenue from continuing operations)

Globo H1 13 results state: "Trade receivables increased only by 4%" compared to June 2012. This is a year over year comparison that has not been adjusted for the disposal of 51% of its Greek subsidiary Globo Technologies - to local management on 3rd December 2012 - which had receivables of EUR 16m¹ at the year end.

An adjusted year over year comparison, excluding Globo Technologies at 30th June 2012, is not possible because Globo has not published pro forma balance sheet information excluding intra-company balances. However, if Globo Technologies trade receivables as at 30th June 2012 were similar to the level as at 31st December 2012 the pro forma increase in trade receivables year on year for Globo's continuing operations was c.150% (from EUR 11m to EUR 28m); this is somewhat higher than the headline increase of 4% highlighted by the company and roughly equivalent to all of the revenue reported for the GO!Enterprise product over this period.

¹ Globo Technologies 2012 annual report

Total current receivables are significantly higher than trade receivables, principally due to revenue that has been recognised but not invoiced which is reported as accrued income. As at 31st December 2012 Globo reported total current receivables of EUR 34m (trade receivables of EUR 18m, other receivables of EUR 4m, accrued income of EUR 9m and prepayments of EUR 2m), equivalent to 228 days sales from continuing operations. As at 30th June 2013 total current receivables had increased to EUR 46m (trade receivables of EUR 28m, other receivables of EUR 3m and accrued income and prepayments of EUR 16m), equivalent to 264 days sales from continuing operations.

Governance issues

(a) Quality of financial reporting

There are a number of errors in Globo's audited financial statements and areas where disclosure is unclear, such as accounting for long term contracts in the 2012 Annual Report:

Note 4 states, under the heading Contract Revenue, that: "As at 31 December 2012, the Group has recognized €31,886,484 (2011 - €35,584,485) of contract revenue, of which €9,220,965 (2011 - €9,204,322) had not been invoiced by year end". A company representative has confirmed that the accrued contract balance as at 31st December 2011 was in fact EUR 13,952,000.

Note 27 reports "Accrued income and Amounts recoverable under long term contracts" of EUR 9.029m as at 31st December 2012, which is inconsistent with the amount of contract revenue stated as recognised but not billed in Note 4.

Note 3 (t) states: "Contract revenue is recognised using the percentage of completion method [...]. From December 2012 onwards, this revenue stream is discontinued following the disposal of Globo Technologies S.A."; this appears to mean that the contract revenue stream was part of the Globo Technologies disposal and that the amounts recoverable under these contracts as at 31st December related to this company and not to Globo and therefore would not be expected to appear on its balance sheet

(b) Non-executive directors

While we recognise his relevant industry experience, the appointment of Barry Ariko as Chairman is a further matter of concern. Mr Ariko was a Non-Executive Director of Peregrine Systems Inc when it went bankrupt in 2002; several members of Peregrine management (not including Barry Ariko) were subsequently indicted and convicted of securities fraud.

Mr Ariko was also a Non-Executive Director of Autonomy Plc between 2000 and 2010. Hewlett Packard, which acquired Autonomy in 2011, has alleged a "wilful sustained" fraud at the company that is currently being investigated by the Securities and Exchange Commission and the Federal Bureau of Investigation in the USA and the Serious Fraud Office in the UK.

(c) Consultancy fees

On 30th May 2013 Globo agreed a EUR 30m credit facility with Barclays Bank. Globo's interim results for 2013 show that the cost of arranging this loan facility was EUR 1.6m. The loan was arranged by

Akin Bay Investment Bank (New York) with consultancy services provided by BlackSummit Financial Group and Avax UK Limited.

BlackSummit Financial Group is an investment advisor registered with the states of Mississippi and Kentucky in the USA, run by Blake Headley and John Charalambakis. According to its own website the company can only “offer to sell securities or advisory services [...] in States where Blacksummit is registered”.

Avax UK Limited is a private UK company incorporated in December 2011 and wholly owned by Maria Mantzavinatou. Maria Mantzavinatou’s LinkedIn profile (under the name Marianna) states that she last worked in Private Banking at Coutts in 2003 (it also incorrectly states that she has been a Director of Avax only since October 2012).

The level of fees for arranging this facility and the choice of advisers appears unusual. Globo declined our request to comment further on these payments.

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