

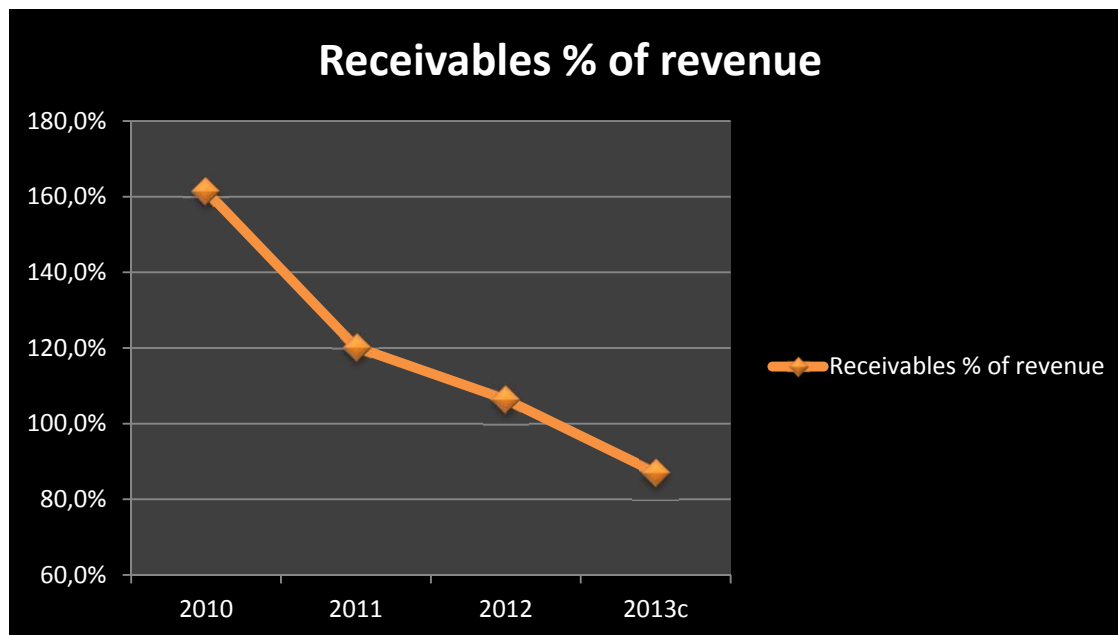
## Why the short thesis in Globo is wrong

Short sellers have recently attacked Globos financial statements. Globo has in recent years had a strong growth on both top and bottom line. In the same time Globo has raised funds several times to fund their growth. Short sellers are saying Globos financial statements are falsified because they are inflating their balanced sheet, loading it with receivables and R&D costs. Here is why I believe their thesis is wrong and why I am long Globo.

	30-jun	2010	2011	2012	2013c*
Revenue		12.527	19.614	25.217	32.029
Receivables		20.236	23.588	26.837	27.905
Inventory		5.647	4.146	4.722	6.058
R&D		3.845	7.194	5.831	6.013
Reveiables % of revenue		161,5%	120,3%	106,4%	87,1%
Inventory % of revenue		45,1%	21,1%	18,7%	18,9%
R&D spend % of revenue		30,7%	36,7%	23,1%	18,8%

\*c is continuing operations.

On the above box I have listed numbers from Globos interim financial reports from 2010 to 2013. In the period Globos revenue has gone up 156 %, while receivables are up only 38 %.



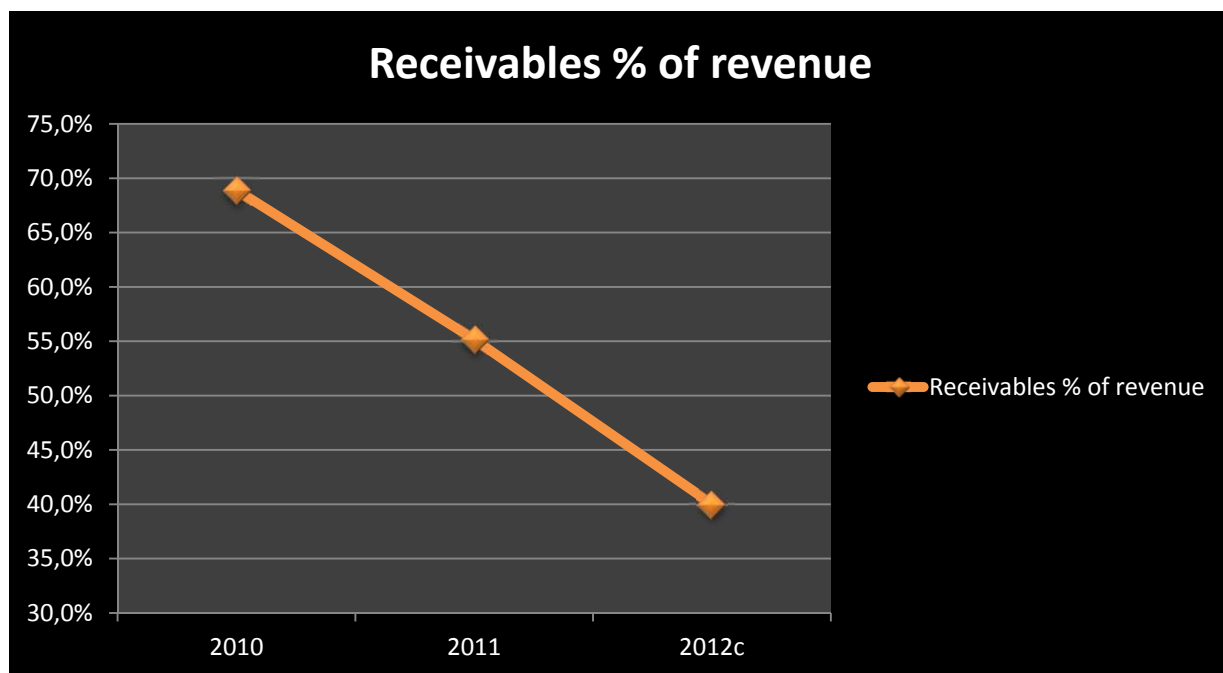
So looking on the interim reports investors can see how receivables as % of revenue have gone down from 162 % to 87 %, indicating improving payment terms every

year. Short sellers will argue that the decline is only a result of the disposal of the subsidiary, but in my chart it is only the 2013 numbers that doesn't include the subsidiary, and the trend was also clear in 2011 and 2012, and I will discuss later, why the disposal of the subsidiary isn't that important.

Now we have been looking at the interim results, but what with the annual results?

	31-dec	2010	2011	2012c
Revenue		30.909	45.311	46.007
Receivables		21.305	25.002	18.411
Inventory		5.495	4.900	4.537
R&D		7.093	13.118	11.672
Receivables % of revenue		68,9%	55,2%	40,0%
Inventory % of revenue		17,8%	10,8%	9,9%
R&D spend % of revenue		22,9%	29,0%	25,4%

C\* is continuing operations



Looking at the annual data the trend is still the same. The 2012 numbers is without the subsidiary but as you see on the chart that didn't influence the trend in any way.

Also looking at other posts like inventory as a % of Revenue and R&D spend as % of revenue we clearly do see an improvement from 2010 to 2012/2013. With R&D spend I am not referring to amortisation but the actually R&D spend including acquisitions.

To me it doesn't seem like Globo has a receivable problem, but if they have, the trend is clear, it is improving every year?

**Globo putting R&D spends on their balance sheet:**

Globos is following the IFRS accounting rules regarding to R&D spend. They amortise the spends over a 3 year period. Short sellers say their financial statements are inflated because they are loading expenses on their balance sheet.

But according to ISA the international accounting standards, you don't have to amortise intangibles as COGS (cost of goods sold) but instead doing it after gross profit. Here is Globos financial statements for the last 4 years:

	2010	2011	2012c	H1 2013c
Revenue	30.909	45.311	46.007	32.029
COGS	19.476	24.497	21.926	14.978
Gross profit	11.433	20.814	24.081	17.051
Gross Margin	37,0%	45,9%	52,3%	53,2%
SG&A	5.972	7.432	7.006	4.848
R&D				
Other	-403	214	-704	-2.327
Operatin profit	5.864	13.168	17.779	14.530
Operating margin	19,0%	29,1%	38,6%	45,4%

\*C is continuing operations

Globos operating margin have improved significantly in the last years. That is mainly because their business model is so scalable and they use distributors. That means they can have improving revenue without the need of spending more costs. In the COGS statement above I have included all amortisation costs as Globo does it in their financial statements.

But short sellers say that is wrong because they inflate their earnings while loading R&D spends to the balance sheet.

I have taken a look on that:

Adjusted with  
R&D/Amortisation

	2010	2011	2012c	H12013c
Revenue	30.909	45.311	46.007	32.029
COGS	13.684	18.026	14.125	11.013
Gross profit	17.225	27.285	31.882	21.016
Gross Margin	55,7%	60,2%	69,3%	65,6%
SG&A	5.972	7.432	7.006	4.848
R&D	7.093	13.118	11.672	6.013
Other	-403	214	-704	-2.327
Operatin profit	4.563	6.521	13.908	12.482
Operating margin	14,8%	14,4%	30,2%	39,0%

I have now removed all amortization from the COGS in Globos financial statements. Instead I have created a line called R&D and included all R&D spends in the years, also including acquisitions of other companies. But what Company do amortise acquisitions over 1 year? I can't find anyone. So I definitely think Globos current accounting is appropriate. Short sellers have compared Globos gross margin with competitor Aruba's without doing the above adjustments. Aruba follows the ISA standards as I have reported Globo with above. So even when I adjust Globos financial statements the trend is clear. Improving revenue, gross margins and operating margins (the second half of the year is always the best, so I think gross margin will go to over 70 % for 2013 as a whole).

	2010	2011	2012	2013
Difference:	1.301	6.647	3.871	2.048
% of operating margin	22,2%	50,5%	21,8%	14,1%

The R&D spends in 2011 was high do to an acquisition. But as you can see above, the difference between the reported financial statements after IFRS and the adjusted financial statements isn't that big. So to make a statement that Globo inflate financial statements is clearly wrong.

But if Globo does not have a receivable problem or are inflating their financial statements, why do they need to raise cash every year? Short sellers will clearly need and answer to that question before considering closing their short positions and admitting their falsified attack on Globo.

	2009	2012	Diff.	%
Equity:	17.796	85.567	67.771	
Tangible Assets	4.984	2.072	-2.912	-4,3%
Intangible Assets	12.827	21.121	8.294	12,2%
Revievables	18.798	18.411	-387	-0,6%
Inventory	2.730	4.537	1.807	2,7%
"Spin off subsidiary"	0	24.186	24.186	35,7%
Other assets	8.243	11.251	3.008	4,4%
Cash	3.113	19.174	16.061	23,7%
Borrowings	13.013	5.023	7.990	11,8%
Other liabilities	19.886	10.162	9.724	14,3%
Sum:	17.796	85.567	67.771	100,0%

From 2009 to 2012 Globos equity has gone from 17,8 mio. Euro to 85,6 mio. Euro as a result of retained earnings and issuing of new shares. Short sellers are saying Globo raise cash because of a receivable problem, I think they are wrong. I have listed the balance sheets posts of 2009 and 2012 from Globos financial statements.

As you can see, receivables have actually gone down in the period. What the analysis says is that 35,7 % of the difference in equity has been "spend" on the subsidiary disposal and -0,6 % on receivable and 2,7 % on inventory. Instead Globo has gone from a net cash position in 2009 of -10 mio. Euro to a net cash position in 2012 of +14 mio. Euro. An improvement of 24 mio. Euro or 35,5 % of the equity improvement. In the same period growth in intangibles including acquisitions has allocated 12,2 % of the improved equity. Paying of trade payables and other liabilities has used 14,3 %.

So in my world, Globo has never had an Receivable problem, and neither had a problem with to high R&D spends even when including acquisitions. In my world Globo have used the new money and retained earnings to improve their balance sheet, where they have gone from high debt and trade payables to a big net cash

position. The disposal of the subsidiary is a onetime thing, so no money will be allocated here going forward. Instead the amount will go down when the payments flow to Globo and the subsidiary start paying dividends to Globo. But just to satisfy everyone I have done the analysis moving back the disposal of the subsidiary:

	2009	2012	Diff.	%	sub corr.	2012c	Diff.	%
Equity:	17.796	85.567	67.771			85.567	67.771	
Tangible Assets	4.984	2.072	-2.912	-4,3%	2.533	4.605	-379	-0,6%
Intangible Assets	12.827	21.121	8.294	12,2%	2.695	23.816	10.989	16,2%
Revieables	18.798	18.411	-387	-0,6%	12.782	31.193	12.395	18,3%
Inventory	2.730	4.537	1.807	2,7%	3.447	7.984	5.254	7,8%
"Spin off subsidiary"	0	24.186	24.186	35,7%	-21.085	3.101	3.101	4,6%
Other assets	8.243	11.251	3.008	4,4%	11.401	22.652	14.409	21,3%
Cash	3.113	19.174	16.061	23,7%	7.061	26.235	23.122	34,1%
Borrowings	13.013	5.023	7.990	11,8%	-7.289	12.312	701	1,0%
Other liabilities	19.886	10.162	9.724	14,3%	-11.545	21.707	-1.821	-2,7%
Sum:	17.796	85.567	67.771	100,0%	0	85.567	67.771	100,0%

The above table include the "sub corr." This moves back the disposal of the subsidiary with the numbers reported in Globos 2012 annual report. Then I have a corrected 2012 balance sheet and I can look at the "differences" from the 2009 report. The table still show that Globo has spent 35 % of the equity raise to improve their cash position, they have used 16,2 % on R&D, acquisitions etc. and 18,3 % on receivables.

I still think this is a reasonably level. The above financial analysis is from Globos annual report 2012, if you look at the 2013 interim statement and include the 28 mio. Euro in fundraising in October 2013, Globo has a really strong balance sheet, improving revenue growth and improving margins. They are well positioned to do suitable acquisitions and invest in their growth.

Globos growth has gone from 52 % in H1 2013 to 70 % in Q3 2013 compared to the same periods last year. Globo is clearly on its way to become a sustainable profitable, growing company.

I am still bull on Globo and still hold a big position in the stock.

Disclaimer: This isn't a buy, sell or hold suggestion. Investors need to do their own due diligence before investment.