Stock Market Review

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Go's Greek investment hits the headlines again

Forthnet, the Greek telecoms company in which Go plc has an indirect 18.55 per cent equity stake, made international headlines last week when it was revealed that it was among 29 bidders for one of its competitors, Wind Hellas. An official announcement was made on October 2 when Forthnet confirmed it had submitted an expression of interest for Wind Hellas Telecommunications S.A.

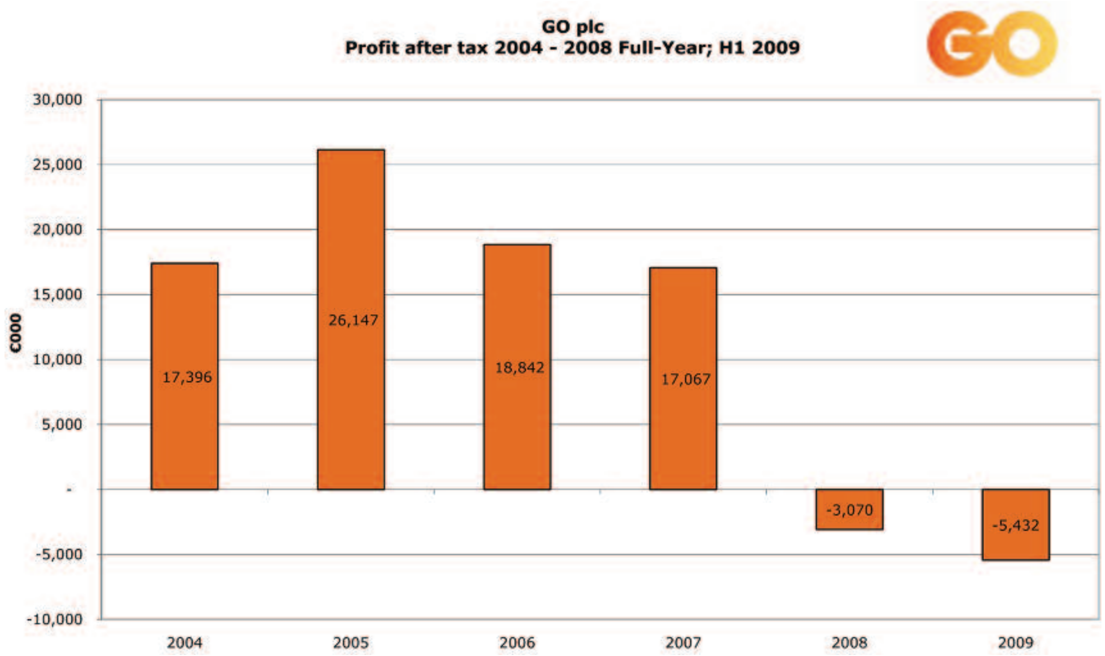
This debt-laden Greek company offering mobile, fixed line and broadband services is largely owned by Weather Investments SpA, a privately held telecommunications investment company, 97 per cent controlled by the Egyptian Sawiris family. Weather Investments acquired Wind Hellas on April 20, 2007. Due to its high debt levels and insufficient liquidity to pay its debt interest of €67 million due on October 15, Wind Hellas initiated talks with its largest shareholder and its creditors to discuss the restructuring of its capital. This may also include a capital injection from a new strategic investor.

In the announcement filed by Forthnet on the Athens Stock Exchange, it was stated that the submission of an expression of interest on October 2 "does not mean that there will be a binding offer if the non-binding one is accepted". Moreover, Forthnet assured its shareholders that it will pursue the acquisition of Wind Hellas "only if it finally judges that the transaction will be to the benefit of both the company and its shareholders". Forthnet stated that it will duly inform investors on any material development in due course.

Some sections of the international press claim that the value of Wind Hellas is in the region of €2 billion. Wind Hellas currently has close to 5.2 million subscribers. Wind said discussions with several unnamed parties who expressed an interest will now take place, with a view to requesting final and binding offers in mid-October. International commentators have been speculating that private equity firms TPG and Apax Partners are considering putting new cash into Wind Hellas.

Given that Forthnet is the largest private broadband provider in Greece, and it became a more meaningful competitor to incumbent OTE following last year's acquisition of Nova (the only digital satellite platform in Greece), it may seem logical that in order to compete head on with OTE (30 per cent owned by Deutsche Telekom), Forthnet would need to add a mobile arm to its current service offering. This would position Forthnet as a quadruple play operator having a strong position in broadband services and TV as well as fixed and mobile services.

However, the ability of Forthnet to acquire such a significant player is debatable and shareholders of Go plc would continue to question Go's ability to inject further capital into Forthnet to help fund such an ambitious acquisition. Go has already invested a total of €110.5 million in Forthnet and although the medium-term profitability potential seems attractive given the significant market share in pay-TV and the dynamics of the Greek broadband industry, any further investments overseas at this juncture of Go's business cycle may not be opportune.



Go has just published probably its worst set of financial results since inception. Mainly due to a number of one-off items related to voluntary retirement costs and an impairment loss on non-trade receivables, but also as a result of the effects of the international and local recessionary environment coupled with regulatory pressures causing narrower margins, Malta's largest telecoms company suffered a loss of €5.4 million during the first half of 2009.

The most immediate and pressing initiative for the company would be to seek to further downsize the company and bring its headcount level (especially in the fixed line area of business) to a level more commensurate with the current level of business activity and the new competitive landscape. Unfortunately, the legacy costs being incurred by Go's shareholders to downsize the organisation are substantial and although the financial results of Go are being hugely impacted by the costs related to this staff reduction programme, shareholders should keep in mind the longer-term benefits of having a much leaner operation.

Apart from having to absorb these legacy items and the unexpected pension liability, Go has also conducted a number of acquisitions during recent years. It had initially acquired the TV operator Multiplus and the new management are seeking to offer their home pack "bundled package" mainly to increase subscribers in this new area of business. Go has reportedly exceeded the 40,000 mark in TV subscribers but in order to manage to compete more aggressively with the larger operator in the pay-TV market, it would need to acquire further sports content to supplement its service offering.

Meanwhile, only recently Go invested €9.5 million in the acquisition of a 60 per cent shareholding in the Bell Net Group mainly involved in the co-location facilities to gaming companies. This company has already contributed over €1.5 million in revenue to Go's Group accounts for the first two months since the acquisition and the return from this investment will only become visible at the 2009 year-end stage when it is reflected in Go's full-year financial statements.

With various columnists and shareholders at times rightly airing their disappointment on the Greek investment results to date, and the lack of communication from Go's senior executives on the rationale behind this costly acquisition, it would seem sensible for the company to organise "roadshows" with as many shareholders as possible to explain the financial performance of this Greek company and the strategy being adopted to place Forthnet in a profitable position. This will undoubtedly help investors make a more informed judgment on Go's potential investment return in the years ahead.

The level of Go's investment in Forthnet warrants a deep insight into this company's operation and future outlook since this is possibly the only investment which may help Go return to the profitability levels ranging between €17 million and €26 million seen in past years. If Go's directors wish to address the negative sentiment towards the group, they should accept to carry out the suggested "roadshows" with shareholders without further delay and do their utmost to win over their support for such important investment initiatives.

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