

GlobalSCAPE, Inc

NASDAQ: GSB

Analyst: Mark Gruber

Sector: Technology

BUY on GSB

Price Target: \$4.82

Key Statistics as of 3/5/2016

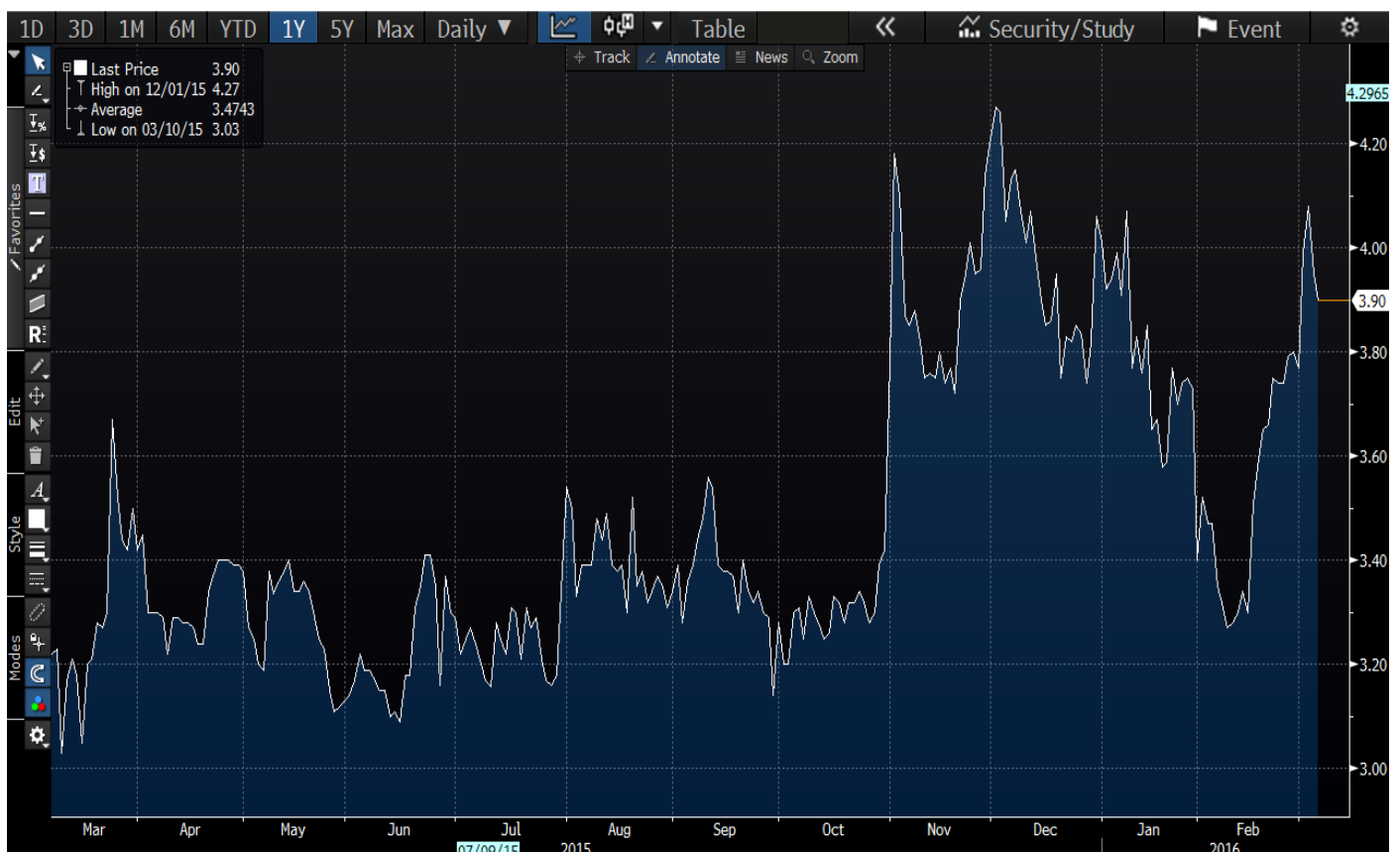
Market Price:	\$3.97
Industry:	Application Software
Market Cap:	\$84.64M
52-Week Range:	\$3.01-4.33
1 Year Beta:	1.07

Thesis Points:

- Increasing Cyber Attacks will lead to more demand for safely transferring files
- Consistent Revenue Growth with no signs of slowing down
- Undervalued stock because of the small market cap with very little downside

Company Description:

GlobalSCAPE safely transfers critical information over the internet. The products and services help businesses protect their important information safely and efficiently. They also protect information for businesses that use file sharing that centralizes data storage. Information that GlobalSCAPE transfers includes sensitive data and intellectual property critical to their business. They work with companies of all sizes around the world from small family run businesses to fortune 500 companies. Some major corporations they do business with include Apple, Cisco, Google, and Microsoft. They were founded in 1996 in San Antonio, Texas and went public on March 1, 2004. They reached 30.8 million revenue in 2015, which is their highest yearly revenue to date.



Thesis

GlobalSCAPE manages file transfers for businesses with crucial information. Demand has been increasing with no signs of slowing down as technology evolves and more and more people rely on the internet to transfer their critical information. The industry as a whole will see increased demand, as more and more businesses have to protect their data from hackers. As the business grows they will be able to decrease their operating costs which will lead to increased cash that they can reinvest in the business or pay dividends out to their current shareholders. They have also been showing positive revenue growth that they should be able to continue with a very high floor due to the nature of the industry, and the growing demand within the industry. They also will rely on more third party marketing which will let the GlobalSCAPE team focus more on product development and enhancing their current products.

Industry Outlook

Data transferring has seen steady growing demand over the past several years, and shows no signs of slowing down. This is due to the increasing popularity of the internet, which will lead to almost all businesses having to use the internet to transfer their files. Cybercrime has also been increasing over the last few years which will lead to even more demand for businesses protecting their crucial information. The recent hackings of Sony and Target will lead more people to see how important safely transferring files is to your business and will lead to even more demand in the industry. There are also many rules and regulations in place that businesses have to follow that will keep adding increased demand to the industry.

Financials

GlobalSCAPE has continued to see their revenue increase year after year. In 2013 they recorded revenues of \$24,339,000 followed by 2014 where they saw revenues increase to \$26,770,000 followed by \$30,800,000 of total revenue in 2015, which equates to a 21% revenue increase in two years. They also recorded 4th quarter revenue of 8.2 million in 2015 which is an 8% increase from last year's 4th quarter revenue.

Management

GlobalSCAPE is led by President and CEO James Bindseil. He was awarded this position in 2013, after he was Vice President and grew maintenance and support revenue by over 75% during his three-year tenure. The Chief Operating Officer of GlobalSCAPE is Matthew Goulet. He has been in this position for the last few years, and has seen steady revenue growth since he took over. The Chief Financial Officer, Jim Albrecht, joined GlobalSCAPE in 2012. Prior to working at GlobalSCAPE he was Chief Financial Officer at Introgen Therapeutics where he was in charge of the security offerings and product development. He then moved on to Express Digital Graphics where he was CEO/CFO before coming to GlobalSCAPE. Greg Hoffer, Vice President of Engineering is in charge of the product development team. Before this role Hoffer was the senior director of engineering where he led the Enhanced File Transfer product to numerous awards. Vice President of Product Strategy and Technology Alliances, Peter Merkulov leads and overseas product marketing and product strategy. He has over 14 years of experience in the IT industry.

Porters Five Forces

Data transferring has a very low barrier to enter. It revolves around having a secure network that keeps out hackers. It is currently a very competitive industry and there are always possibilities of new entrants. Threat of substitutes is low due to the trust level that each company has to have in order to do business in this industry. Bargaining Power of customers is medium because although there are many competitors in the industry trust and a proven track record are very important and there are only a few proven businesses that have been in the industry for many years.

Future

GlobalSCAPE plans on using more third party sellers in the future. This allows the company to focus more on their products and enhancing them rather than trying to sell and market their products. They also plan on enhancing their prized product, Enhanced File Transfer

with more add-ons while being cost efficient. The management team has listed three pillars as their main goals in the future. The first pillar is to continue innovating their current products especially the Enhanced File Transfer. The next pillar is the expansion and creation of emerging technologies. The last pillar is to continually evolve their enhanced demand generation, including market, for which they will rely more on third parties.

Awards

GlobalSCAPE has won many awards over the last few years, which should help their credibility within the industry. In 2015 they were named one of San Antonio's top 50 places to work, which should help them attract the best workers in the industry. They have also won this award 4 out of the last 5 years. They have also received the San Antonio Business Journal Fast Track Award in 2012, 2013, and 2015 which is given to the fastest growing companies in San Antonio. GlobalSCAPE also received the CRN 2015 Partner Program Guide 5 Star Rating, which is given to the best channel partner programs in the market. In 2015 they also won the Deloitte Technology Fast500, Software Magazine award along with many other awards solidifying them as one of the best companies in the industry.

Conclusion

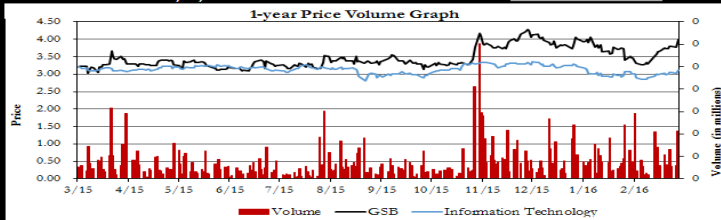
Currently GlobalSCAPE stock is underpriced. The biggest reason for this is because not many people know about the stock and there are not many analysts currently valuing the stock. They have a market share of only \$84 million. In the future we should see the stock rise to around \$5 at the end of 2016 to upwards of \$10 in the near future. This will be due to the increased demand in the industry along with GlobalSCAPE getting more and more experience in the industry.

GlobalSCAPE, Inc. (GSB)
CENTER FOR GLOBAL FINANCIAL STUDIES
BULLISH

 Analysis by Mark Gruber
 3/5/2016

 Current Price: **\$3.98**
 Dividend Yield: **1.2%**

 Intrinsic Value: **\$4.56**
 Target Price: **\$4.82**

 Target 1 year Return: **22.34%**
 Probability of Price Increase: **98.8%**


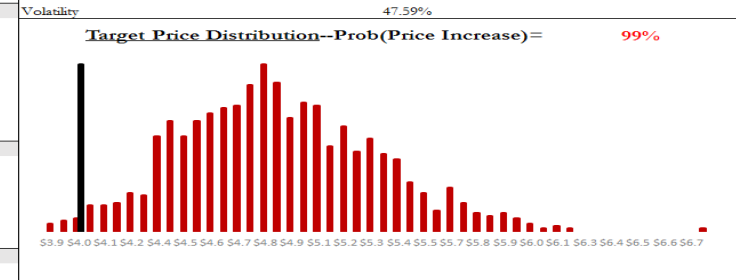
Description
 GlobalSCAPE, Inc., together with its subsidiaries, develops and distributes software, delivers managed and hosted solutions, and provides associated services for secure information exchange for enterprises and consumers worldwide.

General Information
 Sector: Information Technology
 Industry: Software
 Last Guidance: November 3, 2015
 Next earnings date: April 30, 2016
 Estimated Country Risk Premium: 6.21%
 Effective Tax rate: 35%
 Effective Operating Tax rate: 44%

Market Data	
Market Capitalization	\$83.01
Daily volume (mil)	0.04
Shares outstanding (mil)	21.01
Diluted shares outstanding (mil)	21.37
% shares held by institutions	16%
% shares held by investments Managers	18%
% shares held by hedge funds	4%
% shares held by insiders	35.20%
Short interest	0.09%
Days to cover short interest	0.42
52 week high	\$4.33
52-week low	\$3.01
Levered Beta	1.14
Volatility	47.59%

Quarter ending	Revenue	EBITDA
12/31/2014	N/A	N/A
3/31/2015	N/A	N/A
6/30/2015	N/A	N/A
9/30/2015	N/A	N/A
12/31/2015	-2.91%	-34.97%
Mean	-2.91%	-34.97%
Standard error	#DIV/0!	#DIV/0!

Position	Peers
Attunity, Ltd.	
Cisco Systems, Inc.	
eFuture Holding Inc.	

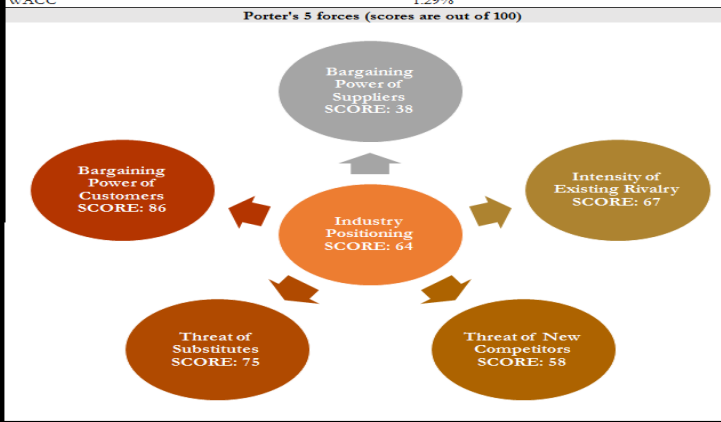
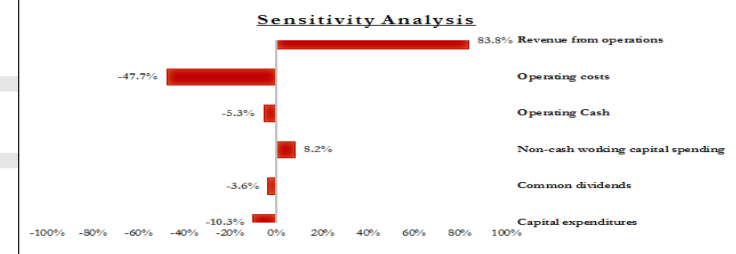


Management	Position	Total compensations growth	Total return to shareholders
Bindsell, James	Chief Executive Officer, Pre	34.01% per annum over 2y	27.34% per annum over 2y
Albrecht, James	Chief Financial Officer	14.49% per annum over 2y	27.34% per annum over 2y
Goulet, Matthew	Chief Operating Officer	188.14% per annum over 1y	-2.58% per annum over 1y
Farmer, Andrea	Vice President of Human Reso	N/M	N/M
Hoffer, Gregory	Vice President of Engineerin	N/M	N/M
Cleary, Chris	Senior Director of Channel S	N/M	N/M

Profitability	GSB (LTM)	GSB (5 years historical average)	Industry (LTM)
ROIC	12.4%	15.79%	12.15%
NOPAT Margin	11%	11.96%	14.1%
Revenue/Invested Capital	1.17	1.32	0.86
ROE	10.6%	13.04%	13.20%
Adjusted net margin	11%	11.43%	12.7%
Revenue/Adjusted Book Value	1.01	1.14	1.04

Invested Funds	GSB (LTM)	GSB (5 years historical average)	Industry (LTM)
Total Cash/Total Capital	46.9%	34.6%	46%
Estimated Operating Cash/Total Capital	32.4%	23.9%	N/A
Non-cash working Capital/Total Capital	-19.6%	-20.8%	-21%
Invested Capital/Total Capital	78.2%	78.9%	63%

Capital Structure	GSB (LTM)	GSB (5 years historical average)	Industry (LTM)
Total Debt/Common Equity (LTM)	0.05	0.23	0.11
Cost of Existing Debt	1.29%	3.08%	3.82%
Estimated Cost of new Borrowing	1.19%	1.19%	3.82%
CGFS Risk Rating	1.29%	AAA	CC
Unlevered Beta (LTM)	0.00%	0.57	1.18
WACC	1.29%	6.05%	10.06%



Period	Revenue growth	Valuation
Base Year	15.2%	NOPAT margin
12/31/2016	12.7%	10.6%
12/31/2017	12.4%	20.1%
12/31/2018	10.7%	21.1%
12/31/2019	10.0%	20.1%
12/31/2020	8.0%	19.4%
12/31/2021	6.0%	18.7%
12/31/2022	6.0%	18.0%
12/31/2023	5.0%	17.4%
12/31/2024	4.5%	16.8%
12/31/2025	4.3%	16.2%
Continuing Period	4.0%	15.7%
		15.2%

Period	Invested Capital	Net Claims	Price per share
Base Year	\$13.81	-\$4.78	\$4.55
1/0/1900	\$22.22	-\$4.75	\$4.79
1/0/1900	\$23.76	-\$8.59	\$5.22
1/0/1900	\$25.34	-\$12.61	\$5.66
1/0/1900	\$26.31	-\$16.85	\$6.11
1/0/1900	\$31.90	-\$21.55	\$6.58
1/0/1900	\$35.17	-\$26.77	\$7.05
1/0/1900	\$39.61	-\$31.96	\$7.54
1/0/1900	\$43.97	-\$37.34	\$8.03
1/0/1900	\$48.48	-\$42.79	\$8.54
1/0/1900	\$52.68	-\$48.18	\$9.07

Period	Revenue growth	Valuation	ROIC/WACC
Base Year	15.2%	NOPAT margin	
12/31/2016	12.7%	10.6%	1.34
12/31/2017	12.4%	20.1%	2.31
12/31/2018	10.7%	21.1%	2.49
12/31/2019	10.0%	20.1%	2.33
12/31/2020	8.0%	19.4%	2.24
12/31/2021	6.0%	18.7%	2.12
12/31/2022	6.0%	18.0%	1.99
12/31/2023	5.0%	17.4%	1.91
12/31/2024	4.5%	16.8%	1.82
12/31/2025	4.3%	16.2%	1.75
Continuing Period	4.0%	15.7%	1.68
		15.2%	1.62