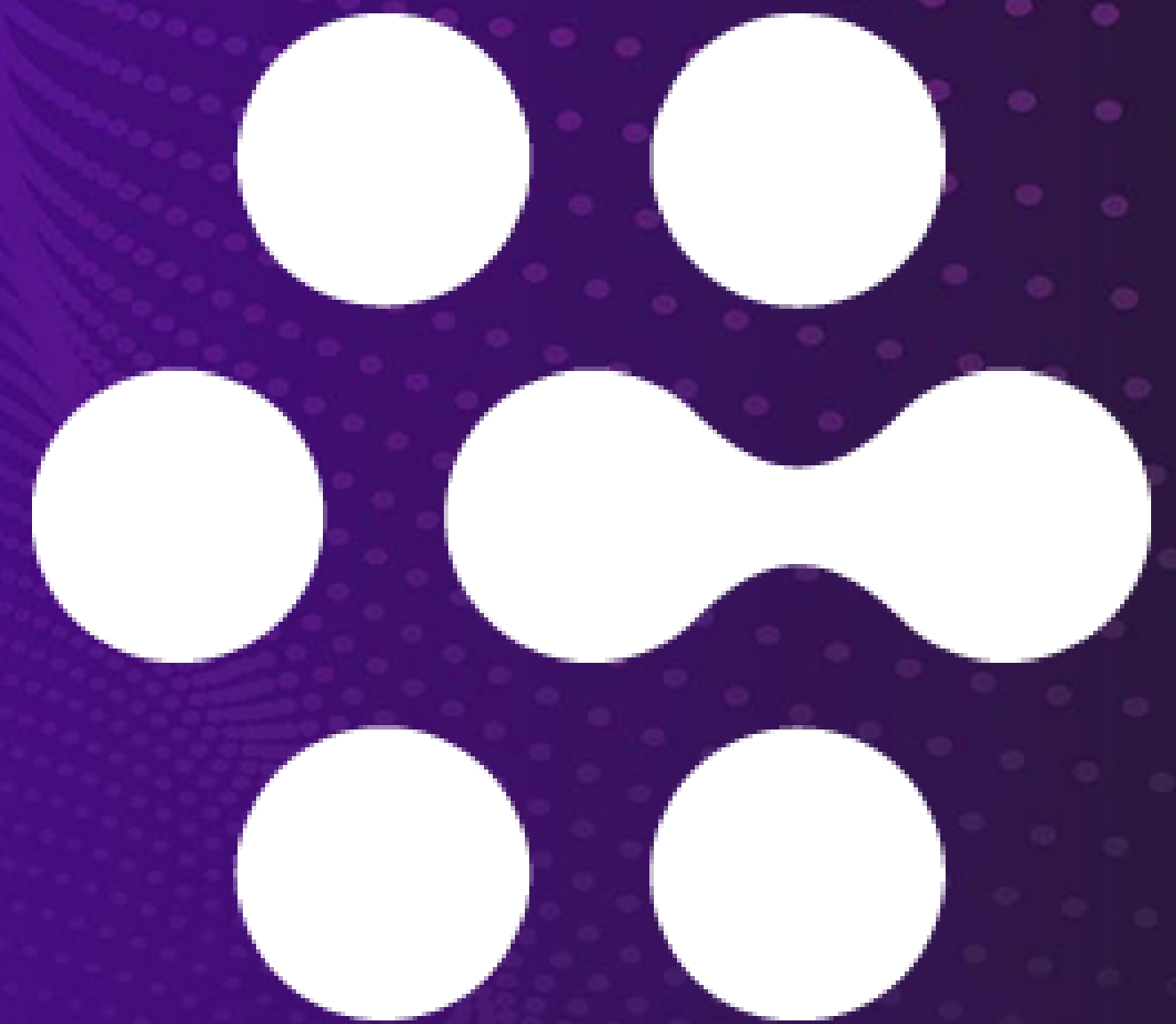


# Gamma 2019 Results

Andrew Taylor, CEO  
Andrew Belshaw, CFO



# Results 2019

## Agenda

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- 01. Performance highlights and business update**  
Andrew Taylor

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  - 02. 2019 Financial Review**  
Andrew Belshaw

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  - 03. Gamma 2023 Strategic plan update**  
Andrew Taylor

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  - 04. Business outlook**  
Andrew Taylor

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  - 05. Q&A**  
Andrew Taylor & Andrew Belshaw
- 



# Performance highlights and business update

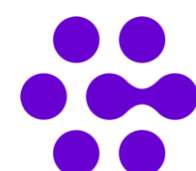


# 2019 - Highlights

## Strong financial performance

Revenue	£328.9m	(+15% against 2018; organic growth (UK) was +11%)
Adj EBITDA	£63.5m	(+31%)
Adjusted EPS	40.8p	(+35%)

- Strong growth across all key products, with a continued focus on upselling and cross selling across all sales channels
- All business units performed well with excellent levels of sales & service execution and channel engagement
- Strong execution across all aspects of our “Gamma 2023” Strategic Plan
- Development of our Cloud Telephony and UCaaS suite – Collaborate launched in March 2019 and has over 9,000 users
- Successfully implemented phase-1 of our Digital Transformation Program across our Direct Business
- Implementation of both our Data and Mobile access strategies going well and on track
- Acquisitions – targeted to support both our European expansion strategy and to accelerate our UCaaS strategy and roadmap
- Continued development and strengthening of the Gamma team, harnessing and augmenting our skills and talent



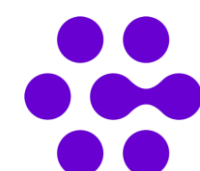
# Product Performance



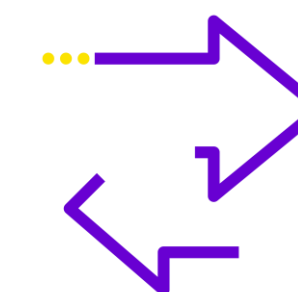
# 2019 Product Summary – Applications



Product	Unit growth in 2019	Comments
SIP Trunking	856k to 1,016k (+19%)	<ul style="list-style-type: none"> <li>• 9.39% market growth over the period*</li> <li>• Margins consistent with previous periods</li> <li>• Further consolidated No.1 position in the market – now at 31% market share</li> <li>• Gamma delivered 50% of all new SIP connections in the period</li> <li>• Increasing sales of SIP Trunk Call Manager, representing 41% of new SIP channel adds in the period; improving competitiveness, protecting margin &amp; reducing churn</li> </ul>
Cloud PBX	435k to 522k (+20%)	<ul style="list-style-type: none"> <li>• 20% market growth over the period*</li> <li>• No.1 in the UK SME Cloud PBX market, with overall market share of 11%*</li> <li>• Gamma delivered 50% of all adds in the sub-50 user market</li> <li>• Margins consistent with previous periods</li> <li>• 22k seats in Netherlands and 40k seats in Spain when the Voz deal closes</li> <li>• 11% of Gamma’s Cloud PBX seats will come from Europe after Voz closes</li> </ul>



# 2019 Product Summary - Connectivity



Product	Unit growth in 2019	Comments
Business Broadband	94k to 111k (+18%)	<ul style="list-style-type: none"> <li>• Good growth in a mature market – small but growing market share of 4.0%</li> <li>• 1.1% market growth (Business Broadband Market) during the period*</li> <li>• Cost base reductions throughout 2019 enabling pricing to improve competitiveness whilst maintaining margins during the period</li> </ul>
Ethernet	8,370 to 13,900 (+66%)	<ul style="list-style-type: none"> <li>• Exceptional growth due to the roll out of a number of Direct Enterprise customer high speed data networks</li> <li>• Market growth overall flat for the period, with opportunities driven by bandwidth upgrades and increases</li> <li>• Market share of c.5% of the sub-250 user Business Dedicated Connections Market</li> </ul>
Mobile	50k to 62k (+24%)	<ul style="list-style-type: none"> <li>• Focus during the period has been on building an enhanced product and service proposition for both our Direct and Indirect channels</li> <li>• Good growth during the period, however H2 saw a pause in sales as we plan the launch of our new proposition later in 2020</li> </ul>



# 2019 Business Unit Performance



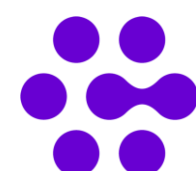


# 2019 Indirect Channel Summary

Indirect Channel revenue

£230.1m

- 70% of Group revenues – **£230.1m** (2018: £210.6m) and **9.3% organic growth**
- Maintaining our core product Margins (Cloud PBX and SIP) despite price pressure in a competitive market
- Revenues continue to be diversified, with our Top 10 Partners contributing **14%** of channel revenue, and our largest partner contributing **3.7%** of channel revenue, which is similar to previous years.
- Continued focus on enabling our partners to win a larger share of the business market, with targeted cross sell and upsell campaigns (e.g. Collaborate, Voice recording, SIP Trunk Call Manager and Broadband)
- Excellent levels of channel engagement throughout 2019:
  - Gamma Academy – delivered 19,992 training courses to our channel partners during 2019
  - Gamma Accelerate – continues to enable our partner marketing capabilities with 870 using the platform in 2019
  - A significant number of channel partner events held across the UK to drive existing and new business

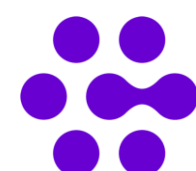


# 2019 Direct Channel Summary

Direct Channel revenue

£83.6m

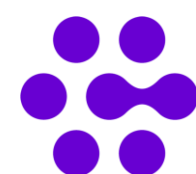
- 25% of Group Revenue – **£83.6m** (2018: £70.9m) and **17.9% organic growth**
- All market segments performing well and growing, with strong cross selling and upselling a key feature during 2019
  - Mid Market **(+10%)** Public Sector **(+12%)** and Enterprise **(+30%)**
- Delivered a strong 2019 order book, including new contract wins with Heathrow Airport, BUPA, HMRC, David Lloyd, Inchcape plc and a 3-year contract extension with our largest financial services customer
- In the Public Sector, Gamma was successful in achieving accreditation in all seven lots applied for by the Crown Commercial Service as an approved supplier on its new Network Services 2 framework agreement **(RM3808)**
- Successful delivery of phase-1 of our Digital Transformation Programme and phase-2 now in execution mode
- Delivered strong contracted backlog and rolling qualified pipeline growth across all direct channels
  - Providing good revenue and margin visibility for 2020



# 2019 Overseas Summary

# £15.2m

- 5% of Group revenue – **£15.2m**
- Dean One (Channel) business has performed well, however, legacy ISDN business reduced more quickly than expected in H1; H2 performance has been positive with net growth in Cloud seats and Mobile Connections
- Dean One Mobile “Go” proposition was launched successfully to retail and wholesale partners in H1 and has performed very well – 7,000 net connections added in 2019
- Schiphol Connect performed well and after a successful customer migration to our next generation platform, we are now focused on cross selling and upselling opportunities across our Schiphol customer base
- Nimsys was acquired in February 2019 and is performing ahead of expectations.
- The acquisition of Voz Telecom (Spain) will be completed shortly, and will add £13.0m Revenue and £2.1m EBITDA (based on proforma 2019 performance – not included in Gamma’s consolidated figures); it will also add c.40k cloud seats and a well established market position.

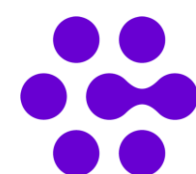


# 2019 Financial Review



# 2019 Financial Highlights

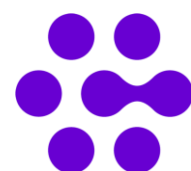
- Strong growth – Revenue **up 15% to £328.9m** (organic growth of 11%)
- Adjusted EBITDA **up 31% to £63.5m**
- Adjusted EPS **up 35% to 40.8p**
- Cash generated by operations **up 33% to £54.0m**
- Dividend **up 13% to 10.5p**
- Cash balance **£53.9m** as at 31 December



# Income Statement

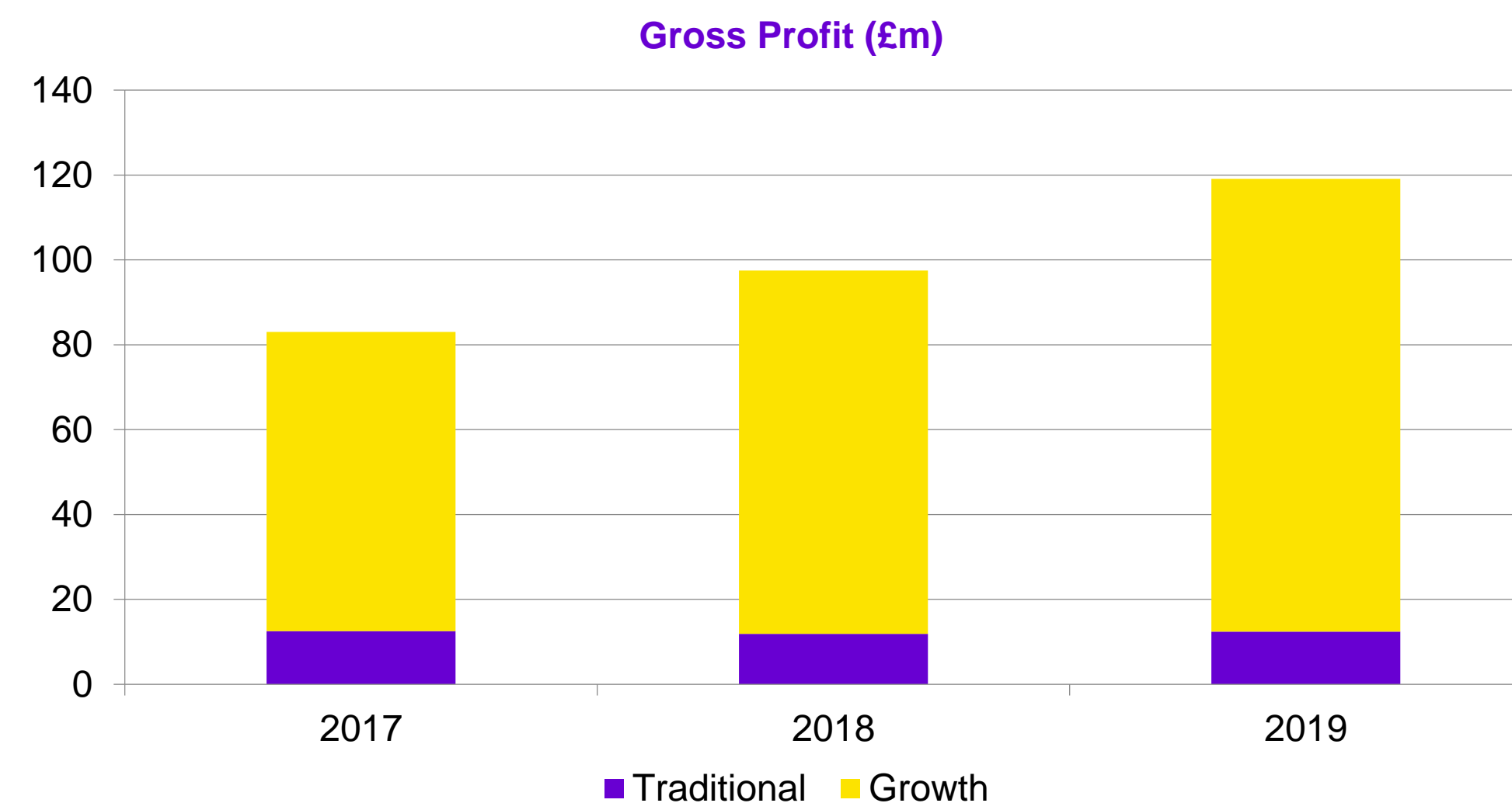
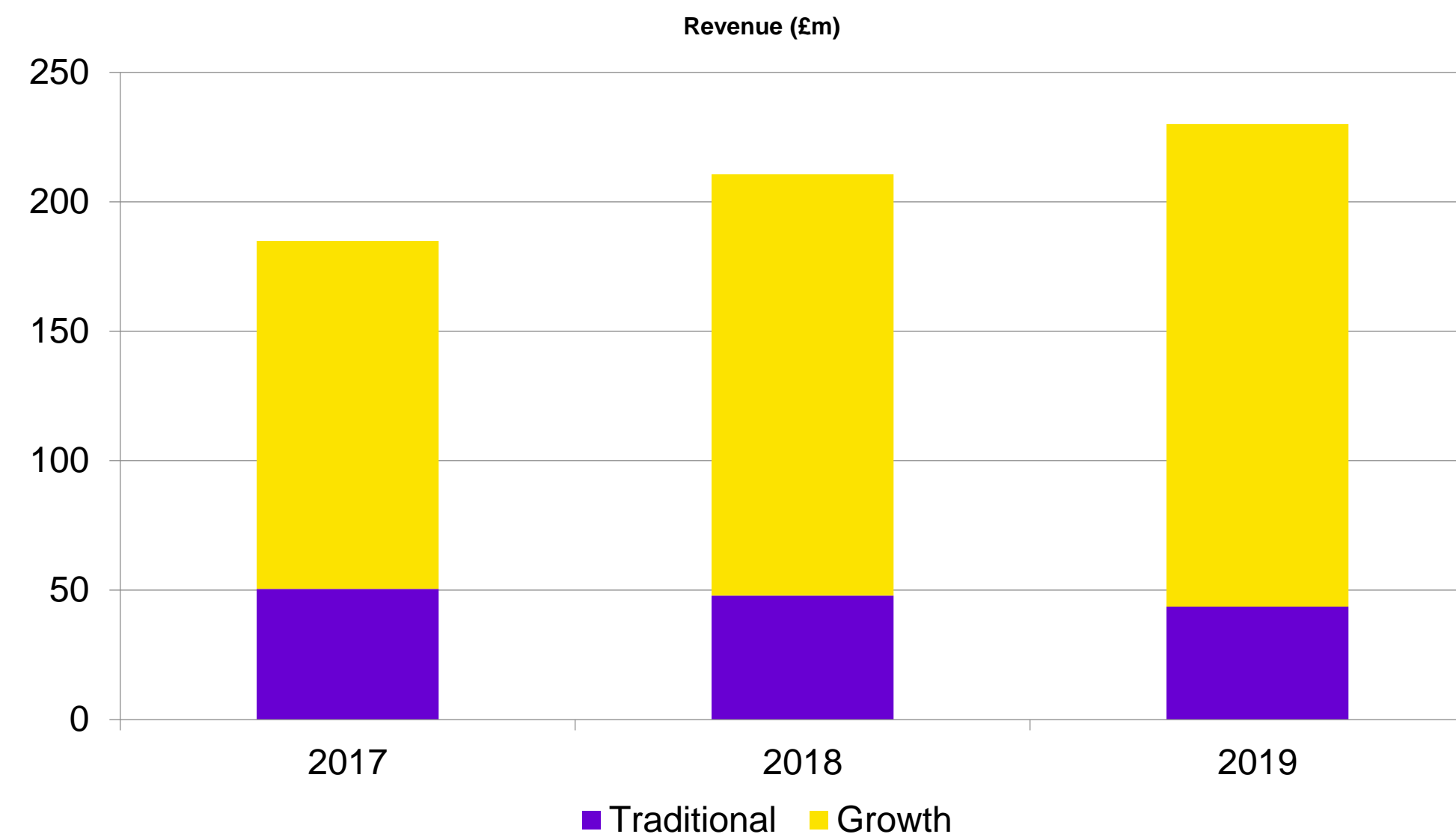
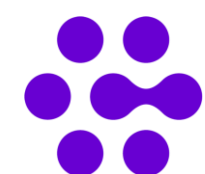
- Organic revenue (UK) growth of **11%**
- Recurring revenue remains at **90%+**
- Margins increased despite price pressure due to reductions in cost base and mix
- **£19.1m** growth in operating expenses; of which **£15.3m** is organic due to acquisition programme, investment in sales, development and digital strategy
- Exceptional items (non-cash) are driven by adjustment to purchase price of acquisitions
- Depreciation driven by success and investment – now trending to Capex level
- Effective tax rate at 24% - underlying rate **19%**; difference due to prior year adjustments in deferred tax

Years ended 31 December (£m)	2017	2018	2019	Growth 18 vs 19
Revenue	242.0	284.9	328.9	15.4%
Cost of sales	-133.3	-152.7	-162.4	
<b>Gross profit</b>	<b>108.7</b>	<b>132.2</b>	<b>166.5</b>	<b>25.9%</b>
<i>Gross profit margin</i>	44.9%	46.4%	50.6%	
Operating expenses	-72.7	-83.9	-103.0	
<b>adjusted EBITDA</b>	<b>36.0</b>	<b>48.3</b>	<b>63.5</b>	<b>31.5%</b>
<i>EBITDA margin</i>	14.9%	17.0%	19.3%	
Exceptional Items	-	-	-0.9	
Depreciation and amortisation	-10.4	-13.5	-15.1	
Amortisation on business combination	-	-0.4	-2.0	
Gain on disposal of PPE	0.7	-	-	
<b>Operating profit</b>	<b>26.3</b>	<b>34.4</b>	<b>45.5</b>	<b>32.3%</b>
Finance income / expense	0.2	0.1	-0.3	
<b>Profit before tax</b>	<b>26.5</b>	<b>34.5</b>	<b>45.2</b>	<b>31.0%</b>
Tax expense	-3.8	-6.1	-10.7	
<b>Profit after tax</b>	<b>22.7</b>	<b>28.4</b>	<b>34.5</b>	<b>21.5%</b>
<b>Adjusted EPS, Fully Diluted (Pence)</b>	<b>23.1</b>	<b>30.3</b>	<b>40.8</b>	<b>34.7%</b>



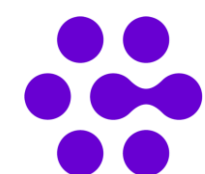
# Indirect Business

- Growth business increasing at revenue and gross profit led by SIP and Cloud PBX which continue to grow strongly
- Traditional business static at gross profit but low margin legacy “calls and lines” replaced by higher margin “IP Carrier”
- Data grows in unit terms but significant price pressure
- Mobile growth slowed pending new platform launch
- Margin increased from 46.3% (2018) to **51.8%** due to mix
- Price pressure remains but offset by reductions in cost base and lower usage

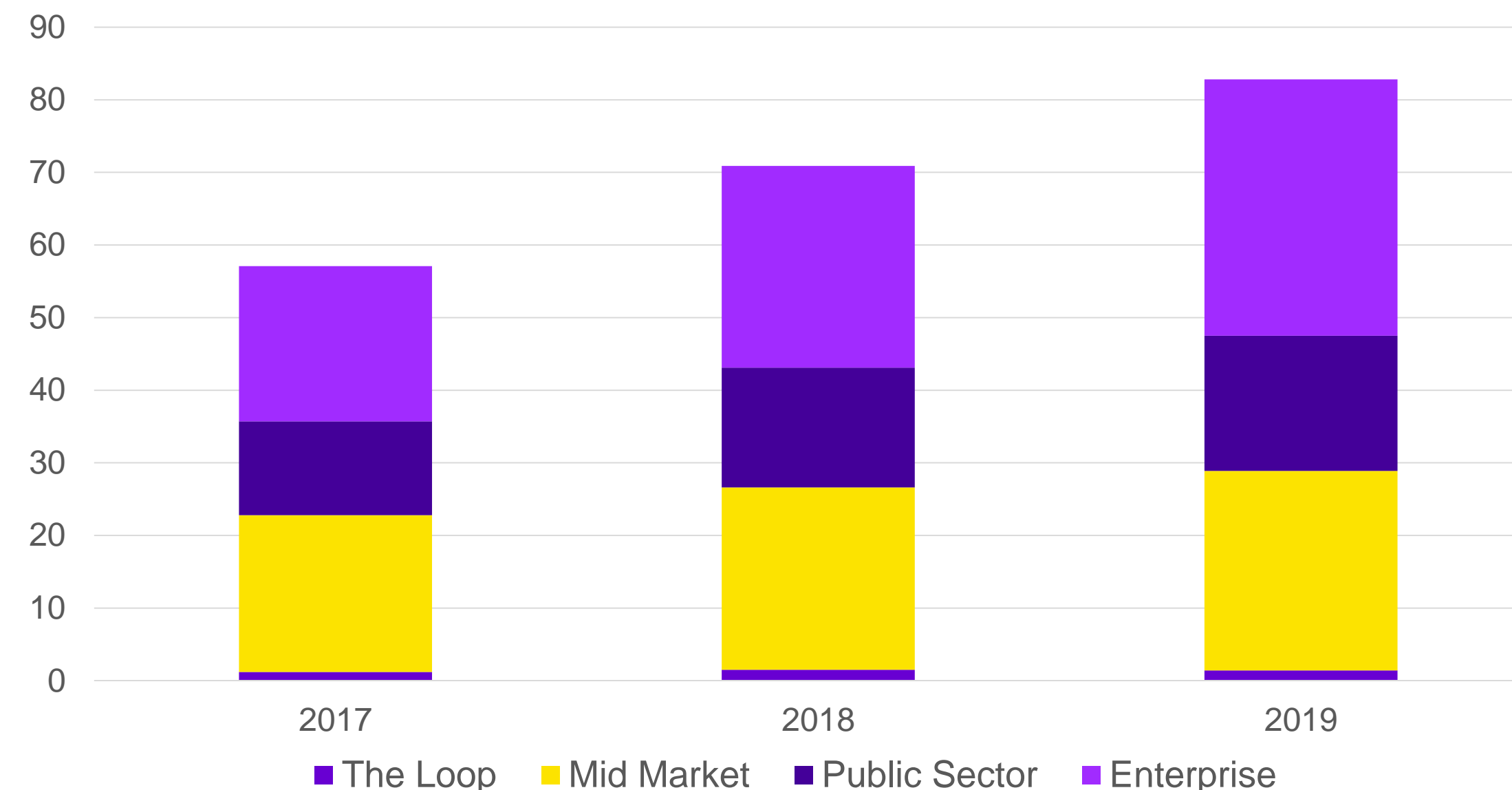


# Direct Business

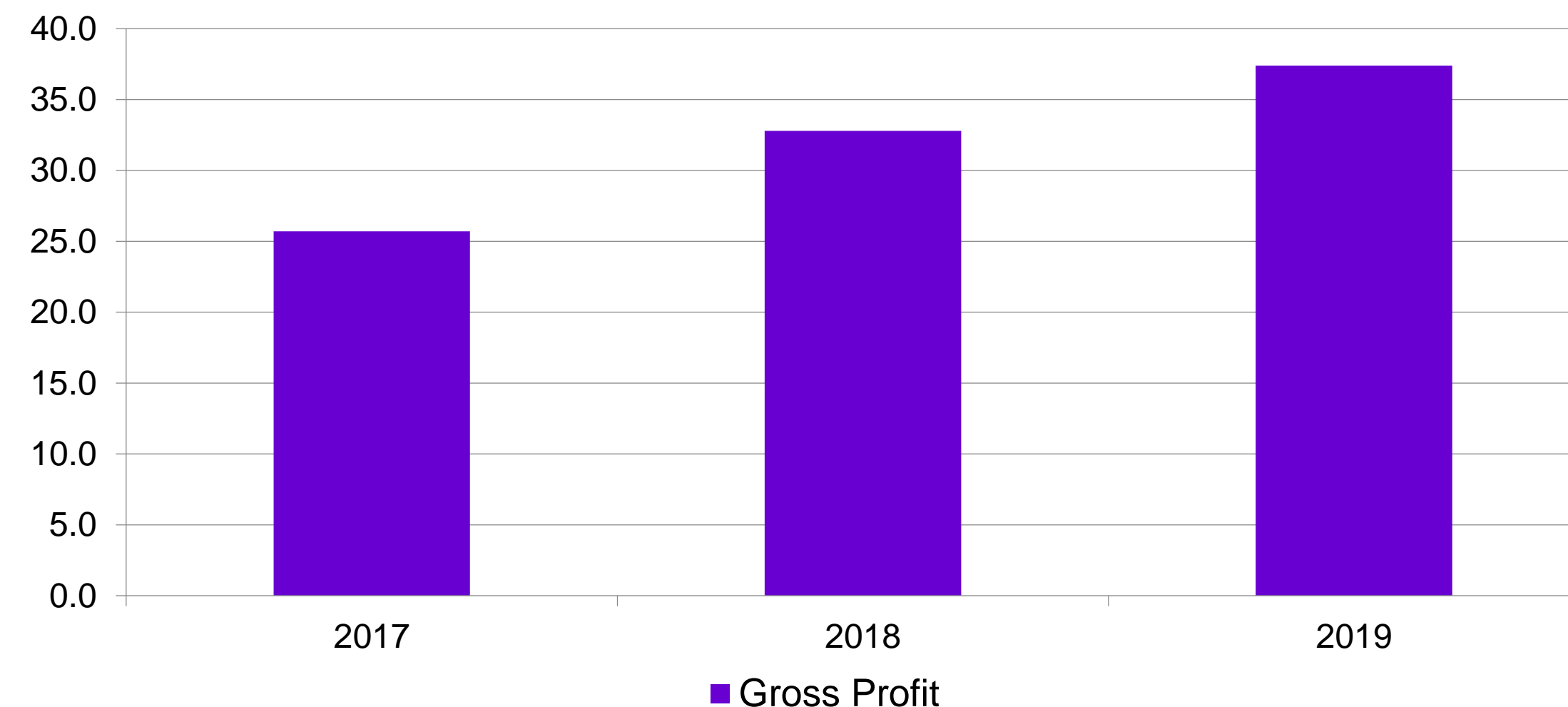
- Direct business continues to grow in all market segments but driven by Enterprise Solutions
- Customers are buying more Gamma solutions as upsell becomes an important sales channel
- Public Sector performed well despite a challenging year for this sector
- Slight reduction in margins (2018: 46.3%; 2019: **45.7%**) due to lower margins in the Public Sector (hardware) and Enterprise (large project)
- Investment in our Digital Transformation program continued as we move into the next phase



Revenue by Sector (£m)



Gross Profit (£m)





# Netherlands – Dean One, Schiphol Connect, Nimsys

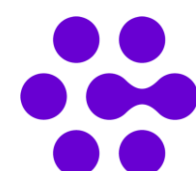
- Overseas business contributed **£15.2m** to revenue in 2019 and **£2.6m** of (trading) EBITDA
- In addition £2.3m of costs spent evaluating other European opportunities (overall “overseas EBITDA” was £0.3m for the first half)
- Dean trading is driven by Cloud PBX and also by mobile since deal signed with T-Mobile in late 2018.
- Schiphol Connect trading well
- Nimsys ahead of expectations – likely that full earn out will be achieved
- Therefore total acquisition costs for Netherlands business likely to be **£18.4m**



# Overheads

- “Cash overheads” increased by 23% to **£103.0m**
- Strong cost control in Indirect Business restricted increase to 7%
- Direct Business spend on Digital Strategy Programme - £1.7m; also investment in sales heads
- Overseas growth is largely inorganic and influenced by M&A activity (not all successful)
- Central Costs increased due to building a “Group” team

	2019 £m	2019 £m	2018 £m	2018 £m	Growth
Expenses included within cash generated from operations					
- UK Indirect Business	64.9		60.6		7.1%
- UK Direct Business	20.1		16.4		22.6%
- Overseas Business	8.9		2.3		
- Central Costs	6.5		2.7		
		100.4		82.0	
Share based payments		2.6		1.9	
		103.0		83.9	22.8%
Depreciation and amortisation					
- tangible and intangible assets	13.4		12.1		
- right of use assets	1.7		1.4		
- acquisition	2.0		0.4		
		17.1		13.9	
Exceptional Items		0.9			
<b>Operating expenses</b>		<b>121.0</b>		<b>97.8</b>	<b>23.7%</b>



# Balance Sheet and Cashflow

- Remains debt free with strong cash reserves
- Cash conversion consistent with prior period at **85%**
- Capex consistent with prior year:
  - Maintenance Capex of £12.4m (2018: £11.6m)
  - No “one off” projects in 2020; in 2019 we had a network upgrade of £1.1m
- Payments of **£3.4m** (net of cash acquired) for acquisition of Nimsys and **£4.1m** for Telsis



Balance Sheet as at 31 December (£m)	2017	2018	2019
Non-current assets (incl. PPE)	57.3	90.3	98.9
Receivables and inventories	64.8	69.0	85.6
Cash	31.6	35.5	53.9
Current assets	96.4	104.5	139.5
<b>Total assets</b>	<b>153.7</b>	<b>194.8</b>	<b>238.4</b>

Non-current liabilities	9.3	24.9	26.4
Current liabilities	49.1	48.2	59.5
<b>Total liabilities</b>	<b>58.4</b>	<b>73.1</b>	<b>85.9</b>

Share capital	6.3	7.1	9.1
Other reserves	2.0	2.2	2.5
Retained earnings	87.0	112.4	140.9
<b>Total Equity</b>	<b>95.3</b>	<b>121.7</b>	<b>152.5</b>

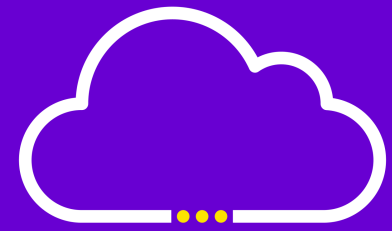
Cash Flow Statement (£m)	Year to 31 December		
	2017	2018	2019
Adj EBITDA	36.0	48.3	63.5
Net Cash inflow from Operations (pre-tax)	29.9	40.6	54.0
Cash conversion	83.1%	84.1%	85.0%
Taxation	-3.6	-4.3	-7.5
Capital Expenditure	-15.8	-12.7	-12.4
<b>Cash inflow before Acquisitions and Financing</b>	<b>10.5</b>	<b>23.6</b>	<b>34.1</b>

Gamma 2019 results

# Gamma 2023 Strategic Plan update



# Gamma 2023 Key Strategic Priorities



Evolve our strong cloud telephony position into the UCaaS market



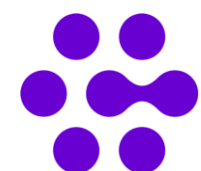
Build on our Fixed and Mobile Telecom strength to differentiate our proposition from pure OTT's



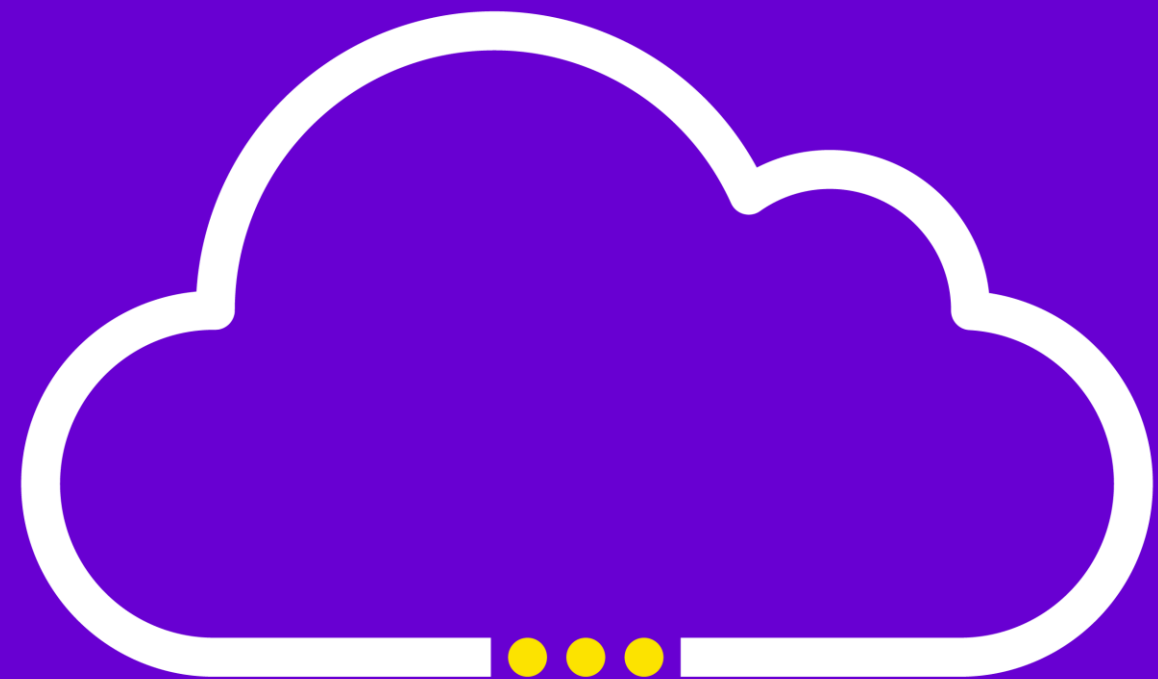
Expand to Europe to gain continued growth and scale



Continue to build on our digital capabilities to assure agility and sustain competitiveness



# Evolve our strong cloud telephony position into the UCaaS market



- Launched our first complete and fully integrated UCaaS product “Collaborate” in March 2019
- Fully assessed options to evolve our UCaaS proposition for different market sectors – now very much in execution
- Acquisition of Telsis in November 2019, provides ability to develop a fully integrated Cloud Contact Centre platform into our existing Cloud PBX service
- Internally developed a Cloud Call Recording solution which was launched in September 2019 to support our UC Strategy
- Developed and trialled a Microsoft Teams direct routing SIP trunking service prior to full launch in H1 2020
- Acquisition of Exactive in February 2020, providing the ability to support Teams implementations in the Enterprise space
- We continue to evaluate opportunities / acquisitions to both add capability to our UCaaS portfolio and accelerate our UCaaS strategy

# Build on our Fixed and Mobile Strength to differentiate our proposition from pure OTTs



## Strong network and Data Access capabilities:

- Clear strategic direction as an aggregator – enables us to offer best in class service and be more price competitive
- Delivered a broader and stronger data product portfolio in 2019 - launched 4G Fast Start and Back-Up, FTTP, and SD-WAN
- Supporting cross sell and upsell to existing UCaaS customers
- Supports our reputation for excellent network quality and service across both our indirect & direct channels

## New mobile proposition with Three will improve service:

- New MVNO scheduled for launch later in 2020, and which will give access to 5G services
- Improved 4G Network connectivity and in building coverage using VoWiFi and VoLTE
- Flexibility on commercial offering – enables Gamma to be competitive as data consumption increases

# Expand to Europe to gain continued growth and scale



- The European cloud market continues to be attractive and presents significant future growth opportunities, in what is an active M&A environment
- We are executing well against our strategic plan:
  - A clear understanding of our target markets and the company profiles we are targeting in each geography
  - We have developed a strong in-house M&A capability, and a real presence and network across the European cloud market
  - Established a presence in the Netherlands with Dean, Schiphol & Nimsys
  - Establishing a presence in Spain with the proposed acquisition of Voz Telecom – largest Cloud business outside of incumbents and MNOs
- We continue to evaluate entry opportunities in Germany and France as well as “bolt on” opportunities in Netherlands and Spain to gain scale and accelerate growth
- Post acquisition of Voz Telecom, 11% of Gamma’s total Cloud seats will be in mainland Europe



# Continue to build on our digital capabilities to assure agility and sustain competitiveness



- In our Direct business we are implementing a Digital Transformation that is creating a system foundation to support continued and long-term business growth with a high level of customer driven automation
- To deliver this programme, we have built a digital team which brings new capabilities into Gamma.
- In 2019 we have delivered:
  - Single customer support system allowing customers to self serve and webchat, reducing the need for telephone calls
  - A GDPR compliant sales and marketing platform with AI and chatbots that has greatly improved opportunity qualification & engagement
  - A customer community portal providing a single pane of glass for customers to interact with Gamma
- In 2020 we are planning to implement:
  - A quote and provisioning automation which will remove duplication and manual systems within direct

# New Brand and Values launched across Gamma



Working smarter,  
together.

Our spirit and vision



Aim high



Consider  
others



Think  
differently

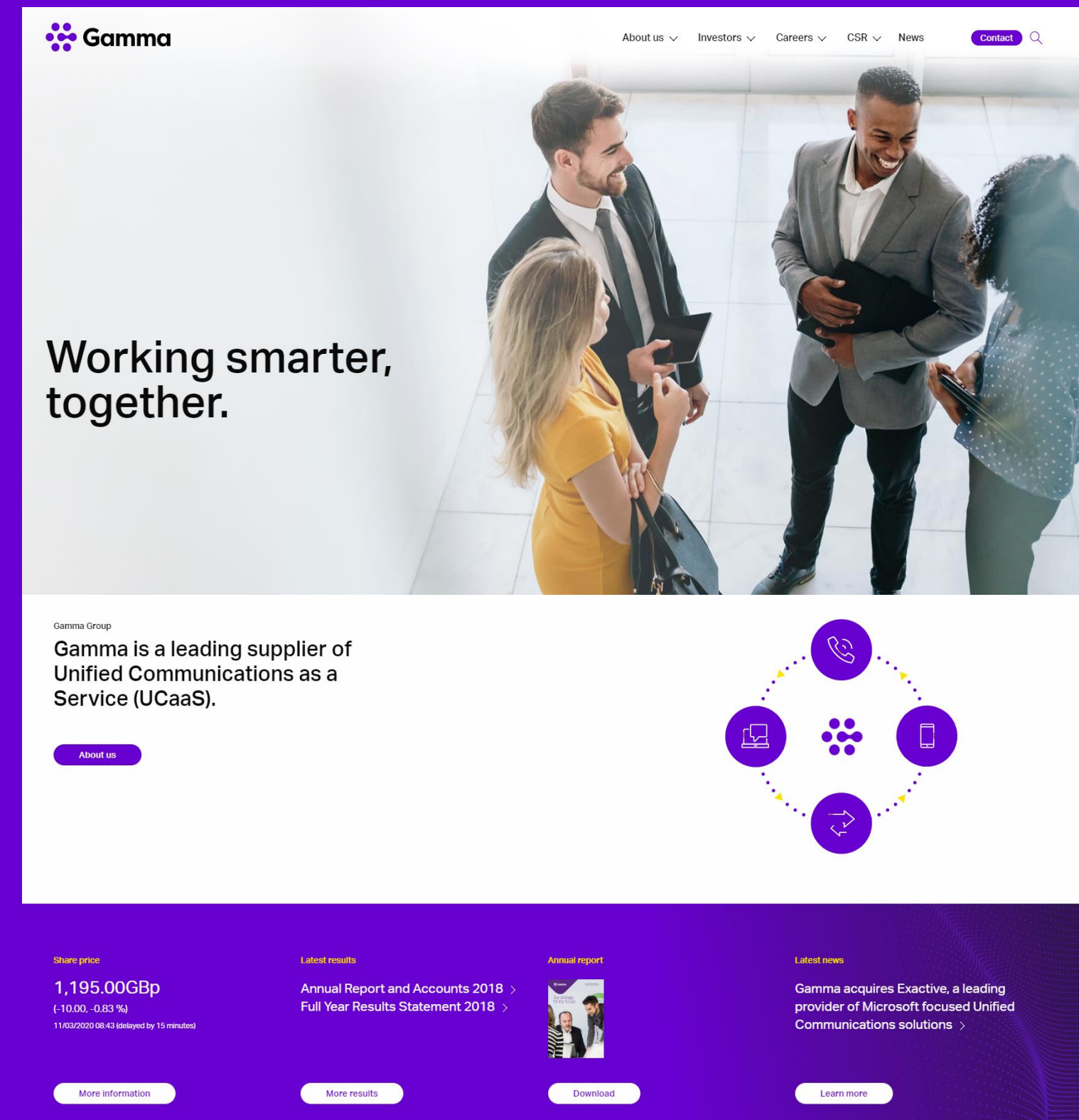


Stronger  
together

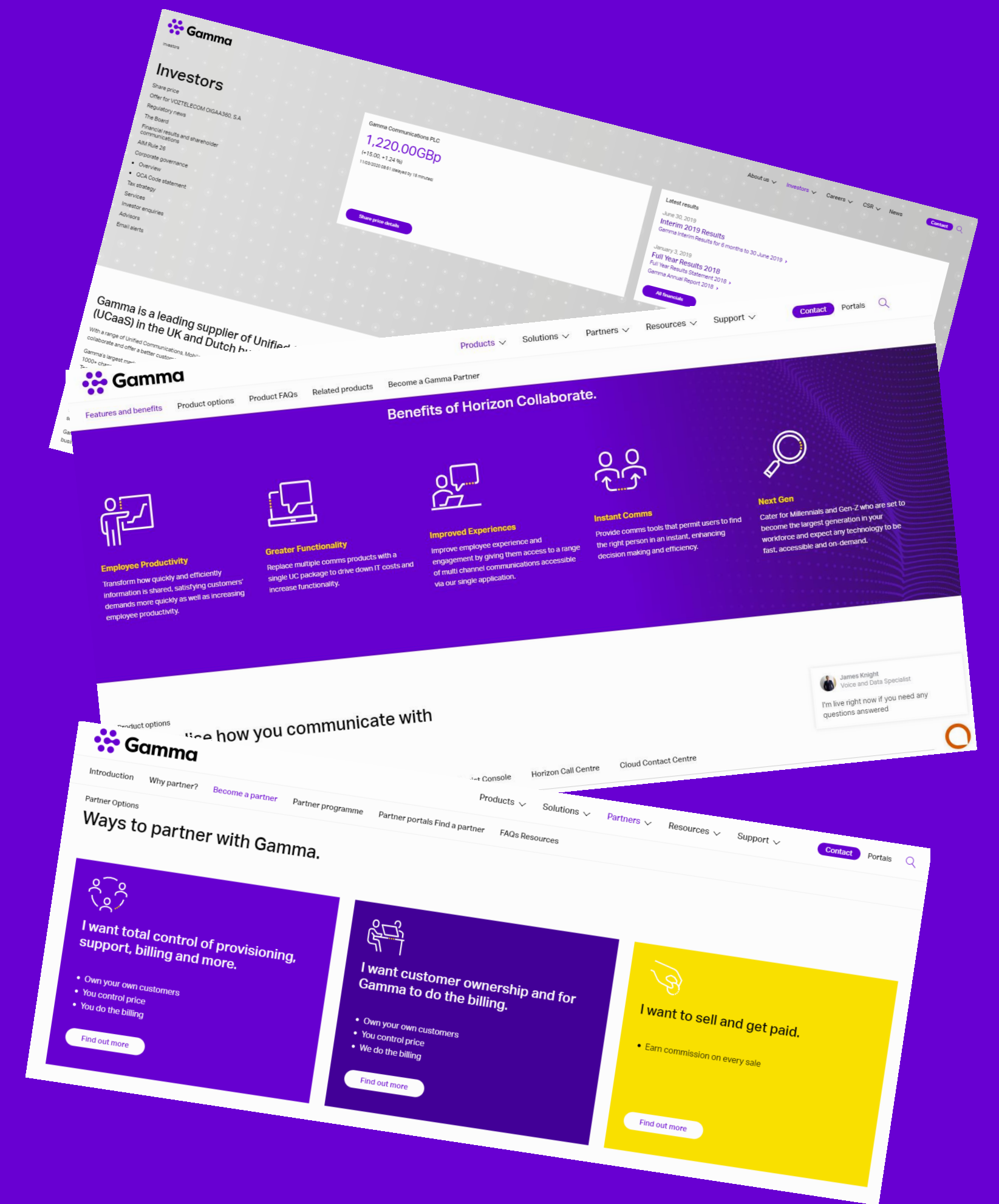
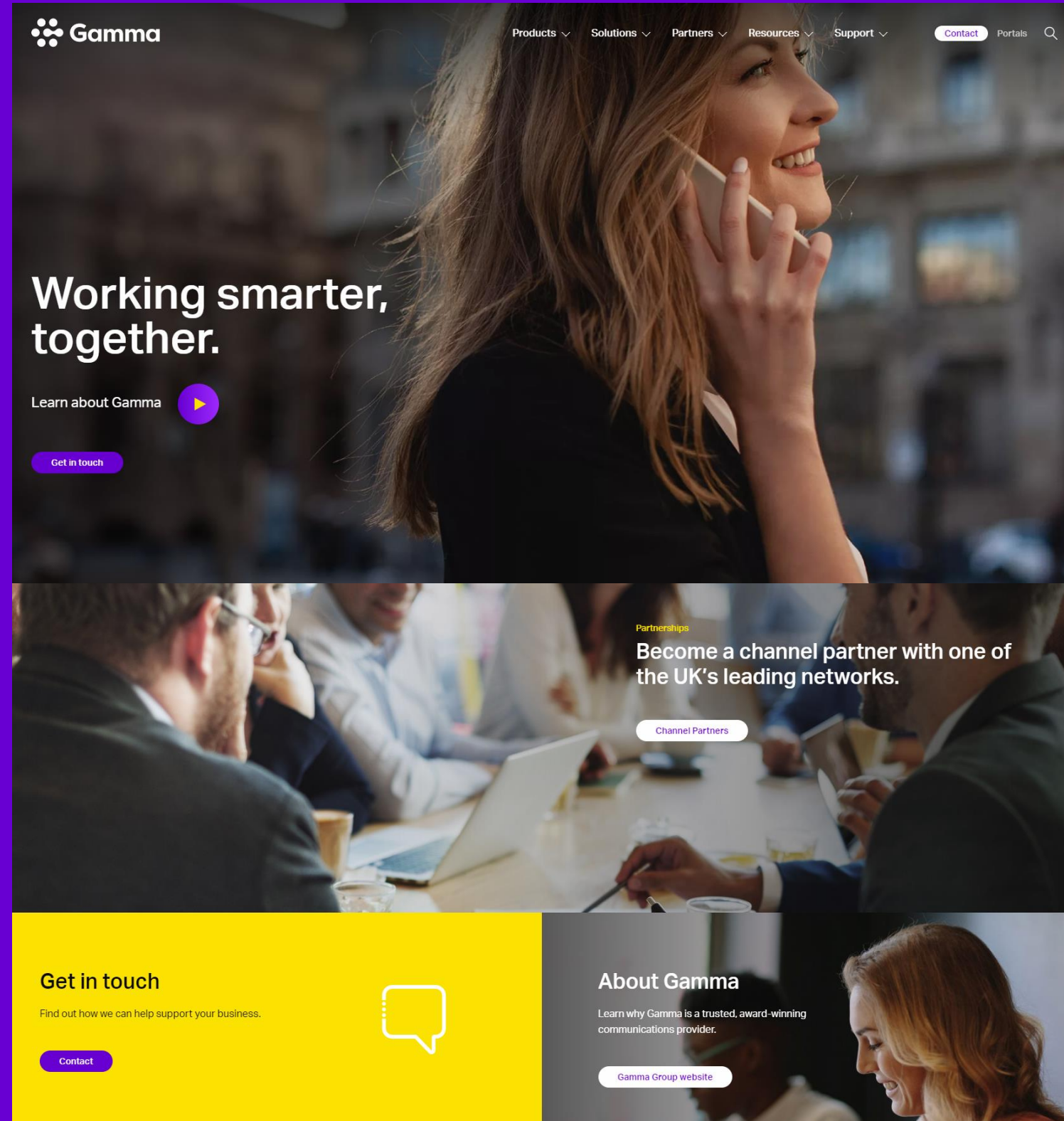


# New websites launched

GammaCommunicationsPlc.com



Gamma.co.uk



# Business Outlook



# Business outlook

- Positive long-term market outlook and significant opportunities across Gamma's core growth products and key areas of strategic focus
- However, this is tempered by short term uncertainty due to the potential but yet unknown impact of Coronavirus
- Gamma has a strong and robust business model with very good (+90%) recurring revenue & margin, and therefore good visibility of our numbers through 2020
- Execution of our short term business commitments and our longer term Gamma 2023 strategic priorities - where we have clearly defined objectives for 2020 and beyond.



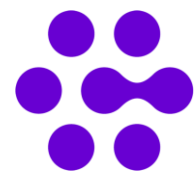
Gamma 2019 results

# Q&A



# Statement on Coronavirus

- We have discussed the potential impact of Covid-19 on the business. This remains a matter of close attention for the Board. In particular we will take measures to ensure the safety of our employees and other stakeholders. We are taking regular advice and following guidance from the Government and public bodies. We have a sub-group of our Senior Leadership Team who are monitoring the situation on a daily basis and communicating the latest advice to staff
- With respect to our day to day operations we are able (should it become necessary) to operate our business with virtually all staff at home, and we have stress tested our network to ensure this. We believe we will be able to continue to support our customers and our Channel partners albeit in a slightly less efficient manner.
- The potential impact of the Covid-19 health crisis on our short-term results is difficult to assess at this time but it is possible that it may have a temporary negative impact. We have a resilient business model and at this point we have seen little effect on our business. We suspect that we may see fewer orders because partners and end customers are beginning to introduce travel and meeting bans which will make customer visits and lead generation harder. With respect to existing orders, installations which require engineers to visit a site are also likely to be delayed and hence revenues will be delayed. At the time of writing it is impossible to know how long this situation is likely to continue for, and if the situation should deteriorate significantly, we have a strong balance sheet and we expect to be able to weather the crisis.
- In the longer term, our product set is well suited to organisations that wish to work remotely as part of their disaster recovery plans. Whilst the current crisis is not desirable, we believe that the experience will demonstrate the advantages of UCaaS to businesses of all sizes across all industries.



**Thank you.**