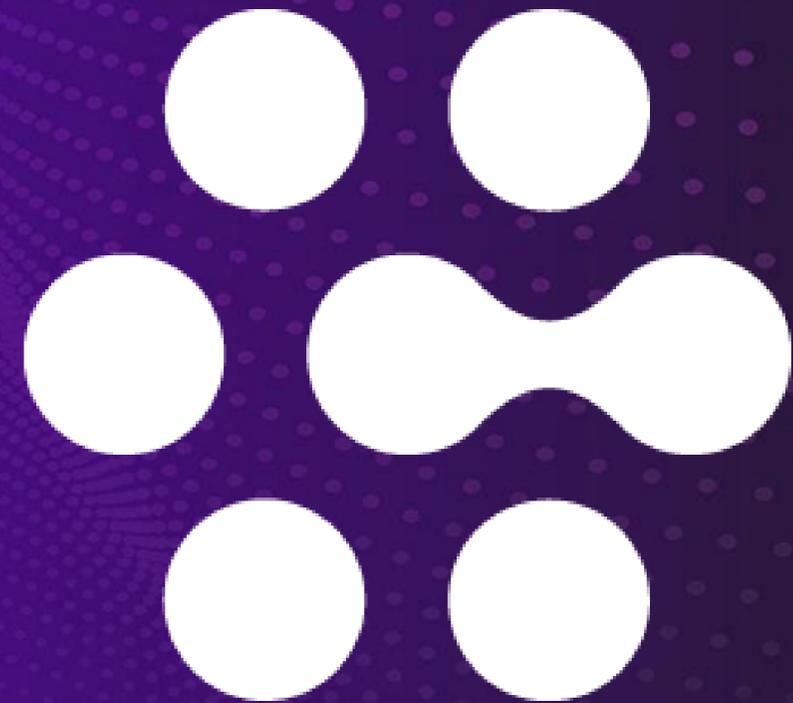


# Gamma

# Full Year 2022 Results

21 March 2023

Andrew Belshaw, CEO  
Bill Castell, CFO





## FY 2022 Results

### Agenda

- 
01. **FY 2022 Business Update**  
Andrew Belshaw

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  02. **FY 2022 Financial Highlights**  
Bill Castell

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  03. **Strategic update and growth drivers**  
Andrew Belshaw

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  04. **ESG**  
Andrew Belshaw

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  05. **Business Outlook**  
Andrew Belshaw

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  06. **Q&A**  
Andrew Belshaw and Bill Castell
- 



# Full year 2022 Business Update

Andrew Belshaw, CEO



# Full year 2022 Business Update – **Business Highlights**

- **Strong financial performance** with high levels of recurring revenue and margin
- **Strong cash position**
  - Cash generated by operations of **£99.1m**
  - Net cash balance of **£92.5m** at 31 December 2022
- **Further integration of European business**
  - Acquisition of Neotel and divestment of non-core business, ComyMedia, in Spain
  - Operator Connect launched in Netherlands in 2022; will be launched in Belgium, Germany and Spain in 2023
  - CircleLoop launched in Netherlands and Germany
  - Contact Centre launched in Spain
  - Business Transformation programme underway to create group-wide functional teams
- **Effect of macro-economic environment**
  - "Business as usual" - no sign of economic downturn in UK
  - Some wage pressure seen but overhead growth has been well managed; price rises to customers taken effect in 2023



# 2022 Business Update – Business Units

Gamma Group	UK Indirect	UK Direct	Europe
Up to <b>£484.6m</b> +8% growth	Up to <b>£295.9m</b> +10% growth	Up to <b>£115.5m</b> +10% growth	Up to <b>£73.2m</b> +1% growth
Gamma Group revenue	61% of Group revenue	24% of Group revenue	15% of Group revenue

- UK Indirect business continues to see strong growth; high levels of recurring revenue maintained
- UK Direct business has also performed strongly with double digit revenue growth
- European Cloud PBX grew with seats increasing by 28%; traditional business declined in line with expectations (and consistent with pattern seen in UK historically)





**Full year 2022**  
**Financial Highlights**  
Bill Castell, CFO



# 2022 Financial Highlights

## Revenue

Up

**8%**

to **£484.6m**

## Adjusted EBITDA

Up

**10%**

to **£105.1m**

## Adjusted EPS

Up

**12%**

to **71.8p**

## Cash generated by operations

Up

**10%**

to **£99.1m**

## Cash balance

**£94.6m**

As at 31 Dec  
(net cash of **£92.5m**)

## Dividend

Up

**14%**

to **15.0p**



# Income Statement

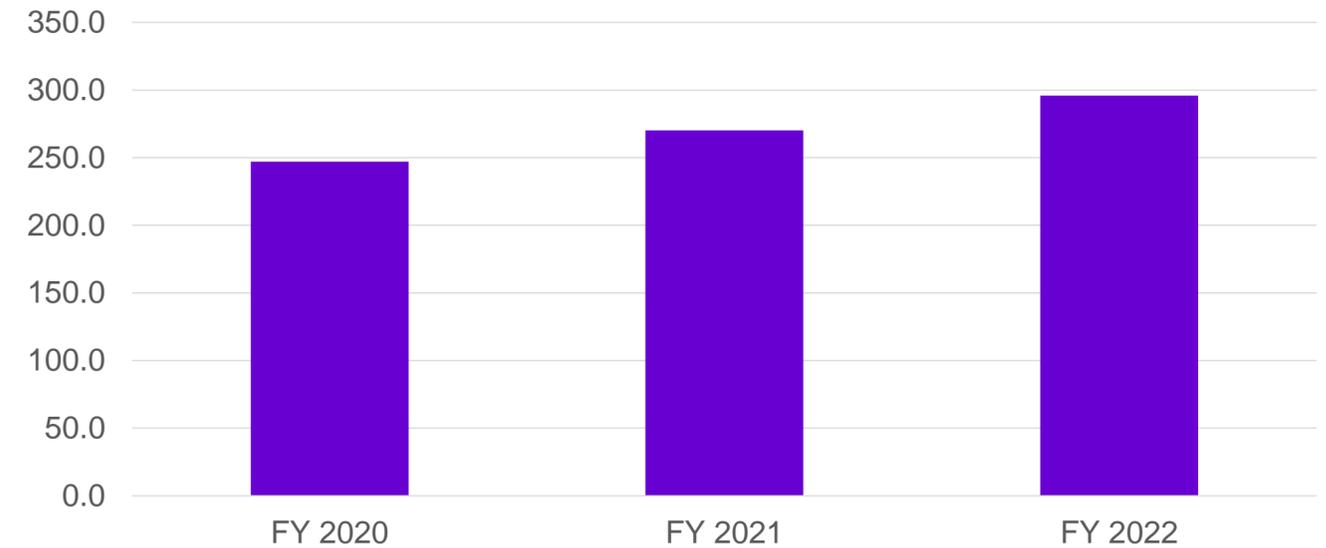
- Recurring revenue grew to **£431.7m**, **89%** of total revenue (2021: 89%)
- Revenue and gross profit grew by **8%**
- Gross margin maintained above **51%**
- Adjusted EBITDA growth of **10%**
- Inflationary impact
  - Active cost control kept operating expense growth at a **6%** like for like (7% reported prior to adjusting for the immaterial European commission reclass)
  - Price rises notified at end of 2022 mitigating cost increases into 2023
- Exceptional items
  - Spanish Goodwill impairment (£12.2m) and,
  - loss on disposal of a subsidiary in Spain (£0.3m)
- Adjusted PBT was £87.8m (2021: £77.2m) up **14%**

Years ended 31 December (£m)	2020	2021	2022	Growth 22 vs 21
<b>Revenue</b>	<b>393.8</b>	<b>447.7</b>	<b>484.6</b>	<b>8%</b>
Cost of sales	(193.0)	(219.2)	(236.9)	
<b>Gross profit</b>	<b>200.8</b>	<b>228.5</b>	<b>247.7</b>	<b>8%</b>
<i>Gross profit margin</i>	<i>51.0%</i>	<i>51.0%</i>	<i>51.1%</i>	
Operating expenses	(121.8)	(133.1)	(142.6)	<b>7%</b>
<b>Adjusted EBITDA</b>	<b>79.0</b>	<b>95.4</b>	<b>105.1</b>	<b>10%</b>
<i>EBITDA margin</i>	<i>20.1%</i>	<i>21.3%</i>	<i>21.7%</i>	
Exceptional items	19.6	0.0	(12.5)	
Depreciation and amortisation	(16.9)	(17.6)	(17.7)	
Amortisation on business combinations	(6.0)	(9.5)	(9.5)	
<b>Operating profit</b>	<b>75.7</b>	<b>68.3</b>	<b>65.4</b>	<b>-4%</b>
Net finance income/expense	(0.7)	(1.1)	(0.5)	
<b>Profit before tax</b>	<b>75.0</b>	<b>67.2</b>	<b>64.9</b>	<b>-3%</b>
Tax expense	(10.6)	(13.2)	(15.4)	
<b>Profit after tax</b>	<b>64.4</b>	<b>54.0</b>	<b>49.5</b>	<b>-8%</b>
<b>Adjusted EPS (Pence, fully diluted)</b>	<b>51.3</b>	<b>64.0</b>	<b>71.8</b>	<b>+12%</b>

# UK Indirect

- Strong **10%** growth in revenue with increased volumes
- Growth primarily driven by UCaaS, mobile and data products
- Healthy momentum with rate of growth of cloud “bolt ons” increasing faster than core product
- Gross profit increased **9%** from £143.2m to £155.6m
- Gross margin broadly consistent at **53%**
- Price increases (mainly on traditional products and traffic) communicated to Channel in H2 (live from 1 Jan 2023)

### Revenue (£m)



### Gross Profit (£m)

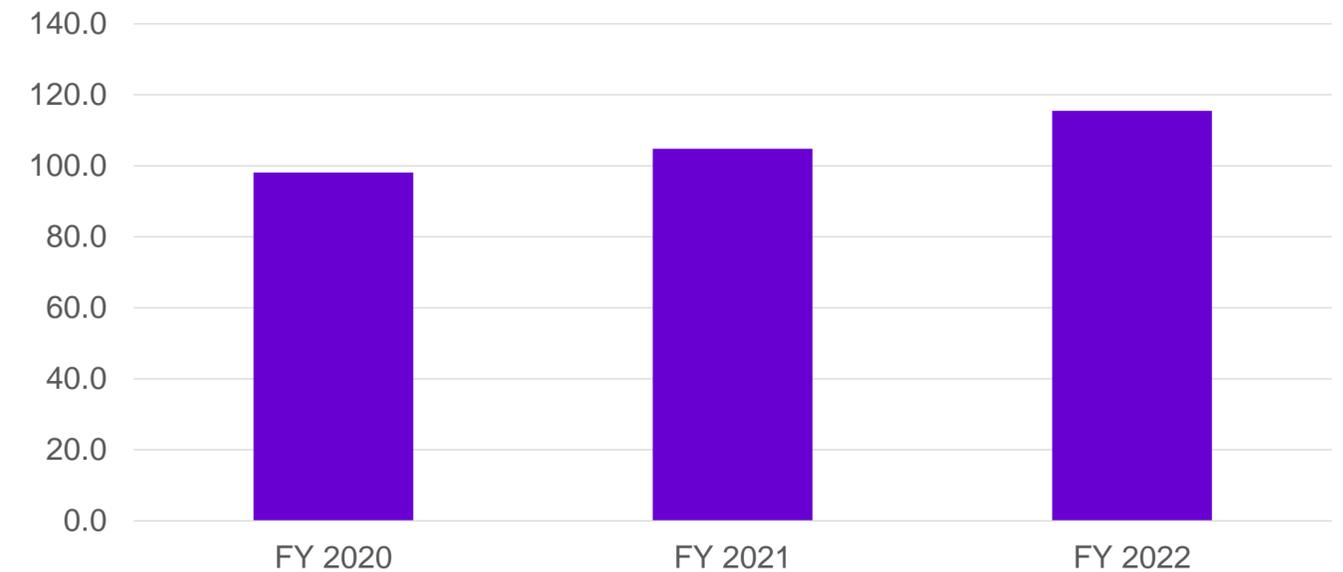


	FY 2020	FY 2021	FY 2022
Gross Margin	53.5%	53.0%	52.6%

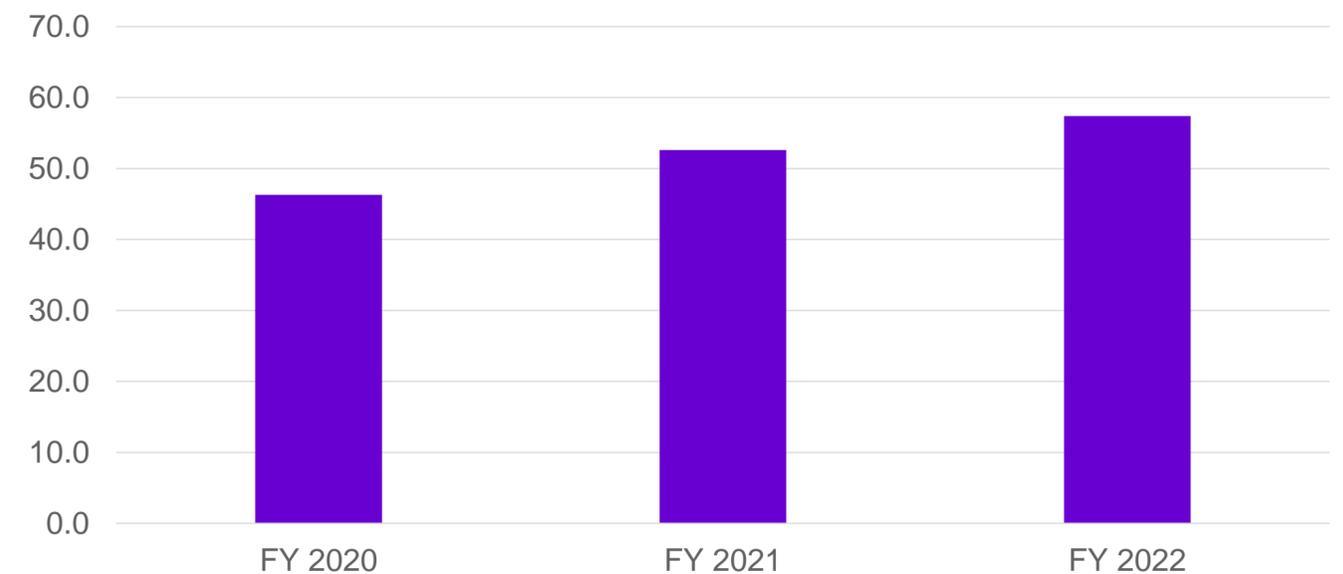
# UK Direct

- Delivered impressive **10%** revenue growth driven by key contract performance
- Gross profit increased by **9%**
- Gross margin fluctuates due to timing and mix of installations and hardware sales
- Continued expansion of Gamma Hub (customer user portal)
- Hardware supply pressures eased off towards end of 2022
- Some significant wins including the Department for Work and Pensions (SIP driven by Microsoft Teams users) and Card Factory (SD-WAN)

### Revenue (£m)



### Gross Profit (£m)

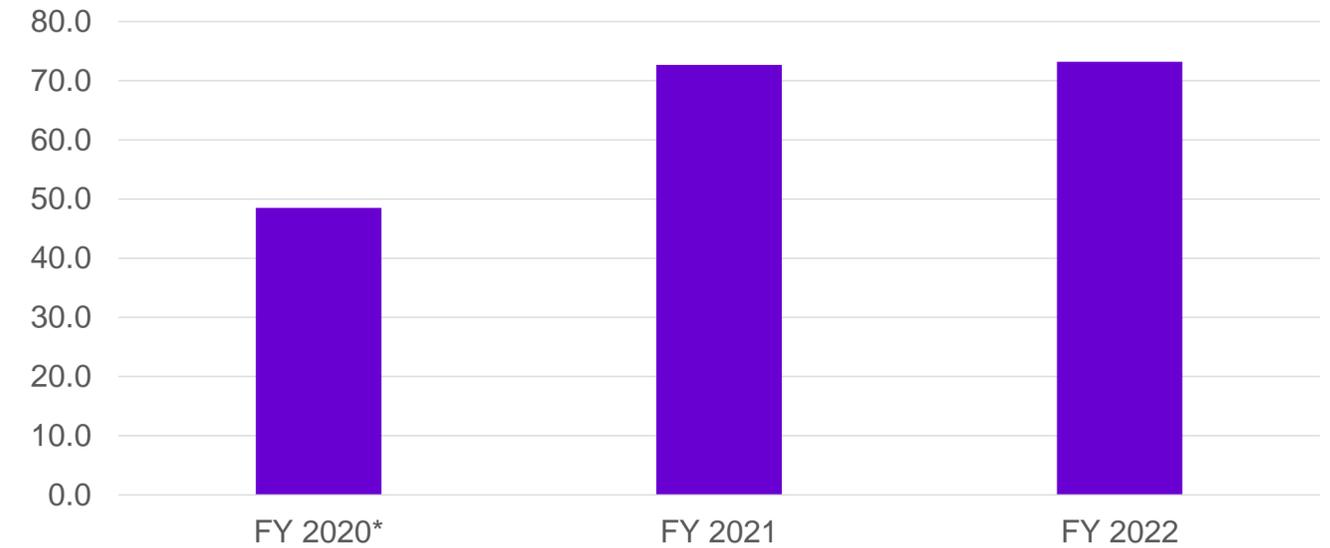


	FY 2020	FY 2021	FY 2022
Gross Margin	47.2%	50.2%	49.7%

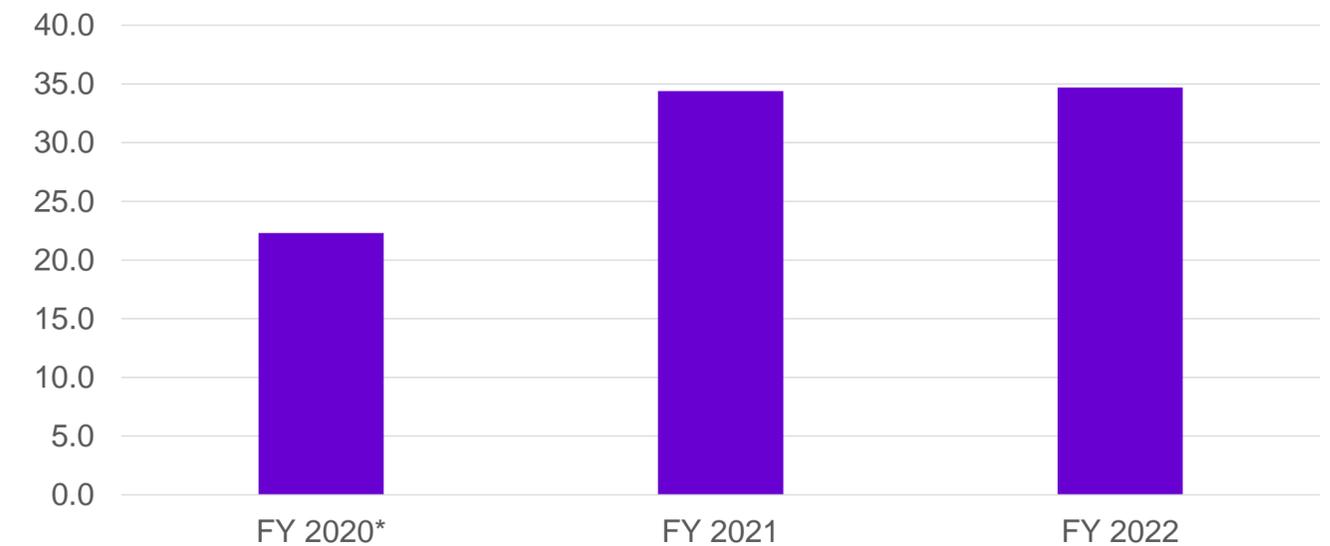
# Europe

- Revenue growth **1%** (**2%** at constant currency) with mixed financial performance across our European footprint
- Cloud seats grew by **28%** with 2 large German deals towards the end of the year
- Gross profit grew by **1%** (taking into account a £1.6m reclassification between cost of sales and operating expenses)
- Good German business performance in UCaaS and Epsilon
- Challenging market conditions in Spain but benefit being seen from NeoTel acquisition
- Netherlands (a mature market) saw a small reduction in call usage

Revenue (£m)



Gross Profit (£m)



\* 2020 included part years of acquisitions in Spain and Germany

	FY 2020	FY 2021	FY 2022
Gross Margin	46.0%	47.3%	47.4%

# European Revenue

- Solid UCaaS revenue growth in the period
- UCaaS strong in Germany (+8%), Spain growth recovering in H2 following NeoTel acquisition offset by Netherlands (-8%)
- As expected traditional revenue has declined
- Strong Epsilon revenue (German mobile connections) which is lower margin (<20%) and fluctuates between periods

Revenue as at (€m unless stated)	31 Dec 2021	31 Dec 2022	2022 vs 2021
<b>UCaaS</b>			
NL	8.5	7.9	-8%
ES	10.9	10.9	0%
DE	14.2	15.4	8%
<b>Subtotal</b>	<b>33.6</b>	<b>34.2</b>	<b>2%</b>
<b>Other</b>			
Traditional	23.2	22.2	-4%
Epsilon (mobile)	27.3	29.7	8%
<b>Subtotal</b>	<b>50.5</b>	<b>51.9</b>	<b>3%</b>
<b>Total</b>	<b>84.1</b>	<b>86.1</b>	<b>2%</b>
<b>Total (£m)</b>	<b>72.7</b>	<b>73.2</b>	<b>1%</b>

# Investments

## Overheads

- Increased by **7%** to **£142.6m** (2021: **£133.1**). (6% increase when adjusted for the immaterial alignment)
- UK business overhead grew by **5%** (compared to gross profit growth of 9%). The majority of this relates to staff. Strong management here, including the effect of inflationary pressures
- European costs increased **3%**, including the impact of the immaterial reclassification
- Central costs have increased to support the businesses we have acquired around Europe as well as including an increase in governance costs

## Capital expenditure and development costs

- Development spend increased by **£9.5m** due to investment in our own voice applications products (in part using the capabilities acquired with Mission Labs) including future product pipeline

£m	2021	2022	Variance
Capitalised	4.8	13.1	8.3
Expensed	14.8	16.0	1.2
<b>Total Development Spend</b>	<b>19.6</b>	<b>29.1</b>	<b>9.5</b>

- Capital spend increased by **£3.9m**. Increased development costs offset in part by decrease in amounts paid to third parties

£m	2021	2022	Variance
Tangible assets	9.1	6.8	(2.3)
Development costs	4.8	13.1	8.3
Software licences	2.9	0.8	(2.1)
<b>Total Capital Spend</b>	<b>16.8</b>	<b>20.7</b>	<b>3.9</b>



# Balance Sheet

- Strong cash reserves – **£94.6m**
- Net cash of **£92.5m**
- Notional IFRS 16 liability (i.e. future lease payments – largely on buildings) of £11.1m (2021: £11.9m)
- Receivables increase relates to contract assets and prepayments
- Contingent consideration decreased mainly due to Mission Labs and HFO payments

Balance Sheet as at (£m)	31 Dec 2020	31 Dec 2021	31 Dec 2022
Non-current assets (incl. PPE)	163.6	197.6	185.7
Receivables and inventories	104.4	111.4	126.5
Cash	53.9	52.8	94.6
Current assets	158.3	164.2	221.1
<b>Total assets</b>	<b>321.9</b>	<b>361.8</b>	<b>406.8</b>

Non-current liabilities	42.9	41.4	34.5
Current liabilities	74.6	66.2	72.6
<b>Total liabilities</b>	<b>117.5</b>	<b>107.6</b>	<b>107.1</b>

Share capital and share premium	9.2	15.1	18.2
Other reserves	(5.3)	(2.2)	6.8
Retained earnings	197.5	239.1	273.9
Non-controlling interest	3.0	2.2	0.8
<b>Total Equity</b>	<b>204.4</b>	<b>254.2</b>	<b>299.7</b>

Cash and Debt as at (£m)	31 Dec 2020	31 Dec 2021	31 Dec 2022
<b>Cash</b>	<b>53.9</b>	<b>52.8</b>	<b>94.6</b>
Debt acquired with subsidiaries	(5.9)	(3.3)	(2.1)
<b>Net Cash</b>	<b>48.0</b>	<b>49.5</b>	<b>92.5</b>
Contingent Consideration (including put option liabilities)	(14.2)	(12.0)	(6.8)
	<b>33.8</b>	<b>37.5</b>	<b>85.7</b>

# Cashflow

- Cash conversion remained at **94%**
- Taxation cashflow increased inline with growth in Adjusted PBT
- Capex (incl. intangibles) increased as a result of the continued investment in software development
- M&A activity
  - Acquisition of NeoTel **£4.3m**
  - Contingent consideration of **£1.7m** primarily in respect of Mission Labs
  - **£3.8m** for acquisition of shares in HFO
  - Consideration to be paid in future is estimated to be £7.0m (undiscounted and including options on Gamma Holding GmbH, formerly HFO); of which £5.3m is payable within 1 year

Cash Flow Statement (£m)	31 Dec 2020	31 Dec 2021	31 Dec 2022
<b>Adjusted EBITDA</b>	<b>79.0</b>	<b>95.4</b>	<b>105.1</b>
<b>Cash generated by operations</b>	<b>70.3</b>	<b>89.8</b>	<b>99.1</b>
<i>Cash conversion</i>	<i>89%</i>	<i>94%</i>	<i>94%</i>
Taxation	(14.1)	(13.3)	(14.4)
Capital Expenditure	(15.4)	(16.8)	(20.7)
<b>Cash inflow before Acquisitions and Financing</b>	<b>40.8</b>	<b>59.7</b>	<b>64.0</b>

# Analyst Modelling Guidance

- Overall expectations for the full year 2023:
  - Within the current company compiled consensus range\* for **adjusted EBITDA (£110.1m – £117.2m)** and **adjusted EPS (67.9p – 77.0p)** as at 20 March 2023
- Updated Gamma investor web page, including company compiled consensus
- UK Corporation Tax rate to increase from 19% to 25% from April 2023, a blended rate of 23.5%
- Capex expected range of £22-£25m, depreciation and amortisation will increase when new products are brought to market
- Cash conversion guidance increased to over 90%

\* The opinions, forecasts, estimates, projections or predictions regarding the Gamma Group performance made by the coverage analysts are those of the analysts alone and do not represent the opinions, forecasts, estimates or predictions of the Gamma Group or its management and Gamma does not endorse or concur with any of such analysts' opinions, forecasts, estimates, projections or predictions. The consensus figures are being provided for information purposes only and are not intended to, nor do they, constitute investment advice or any solicitation to buy, hold or sell securities or other financial instruments of Gamma, its subsidiaries or affiliates. When making an investment decision you should seek advice from an independent financial adviser.



# Update on Strategy and Growth Drivers

Andrew Belshaw, CEO



# 2018 – Five year plan to 2023



Evolve our strong cloud telephony position into the UCaaS market



Expand to Europe to gain continued growth and scale



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



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



# Self-Evaluation of 2018 Plan



**Evolve our strong cloud telephony position into the UCaaS market**

- Built Collaborate, Contact, Call Recording
- ARPU stabilised on Horizon
- Well positioned for PSTN switch off in UK – PhoneLine+



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

- CircleLoop presence in UK and launch in EU
- Gamma Hub (UK Enterprise Digital Customer Journey)



**Expand to Europe to gain continued growth and scale**

- Acquired in Germany, Benelux and Spain
- Markets not growing as quickly as expected; Gamma growth is in line or ahead of market
- Not acquired in France



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

- Network presence and number hosting capability in every country in which we operate
- Differentiate from OTT in all countries
- Enables us to "voice enable" MS Teams in every country



# Gamma's 2026 strategic priorities



We will **develop** a **common European product set** for **UCaaS and CCaaS** for SMEs



We will develop **multiple routes** to the **market** in each country in which we operate



We will become a **trusted partner** to Enterprises across Europe, transforming their communications estates



We will create an organisation that **engages all** our people with a **common set of values and goals**



# At the half year we identified five drivers of long-term growth – our Strategy exploits each of these

1

**Cloud Comms remains a growing market in UK**

2

**European market is under-penetrated** which presents us with an opportunity to grow European revenues as the market evolves

3

Favourable customer trends and behaviours present us with an opportunity to both **upsell and improve ARPU in Cloud PBX**

4

Technology changes are a growth opportunity. E.g. **evolution of SIP is an opportunity to increase ARPU** as customers move to higher value solutions

5

**MS Teams adoption is growing in Enterprise** - as more organisations “voice enable” their solution, we have the opportunity to gain revenue



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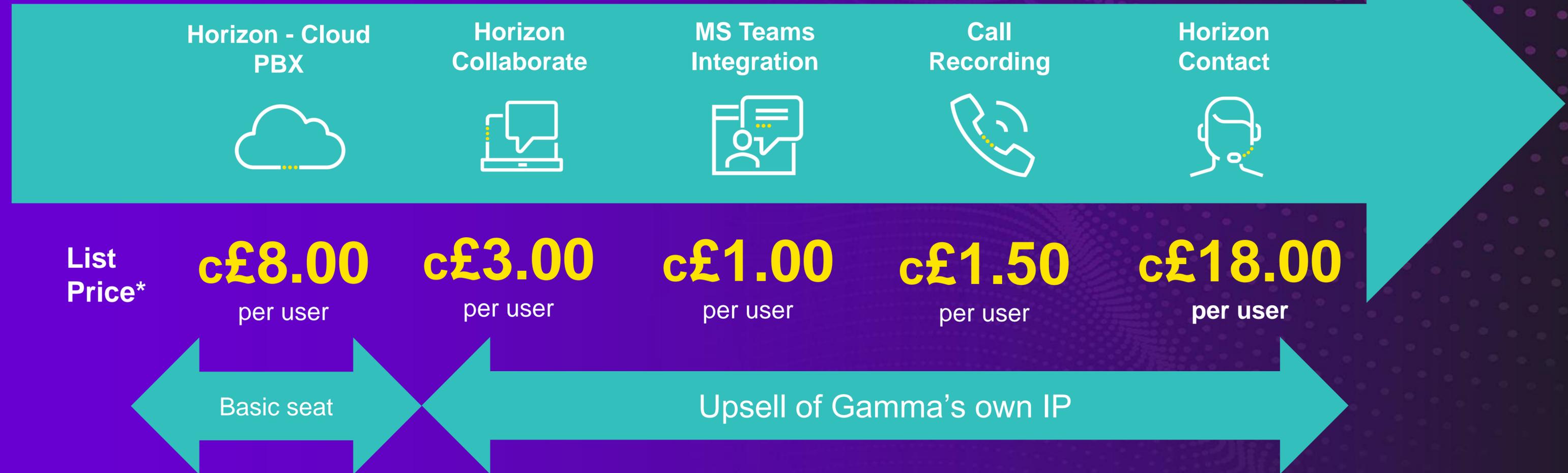


We will create an organisation that **engages all** our people with a **common set of values and goals**



# Developing a common European product set gives us opportunity for upsell

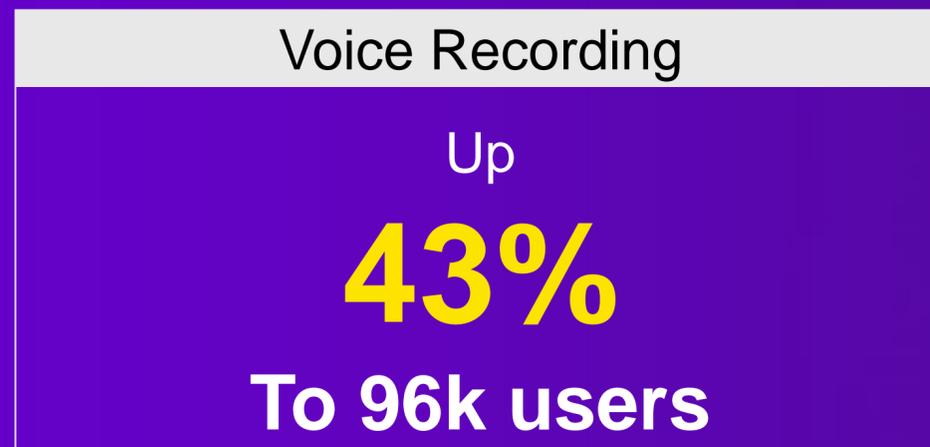
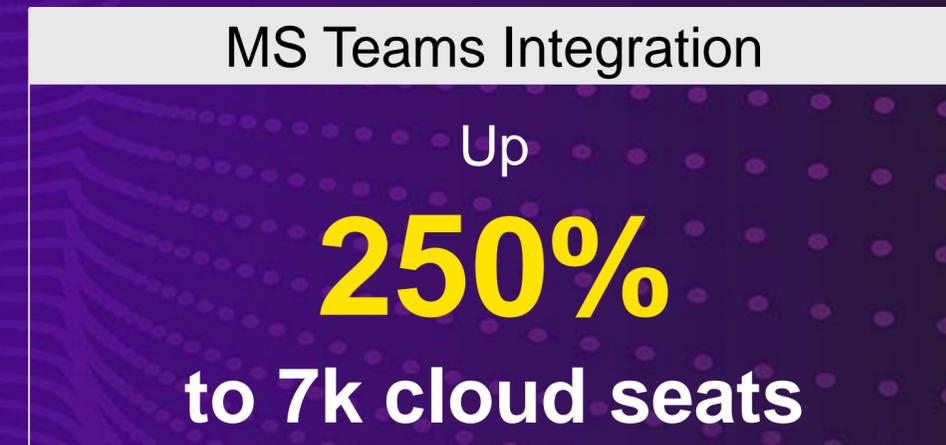
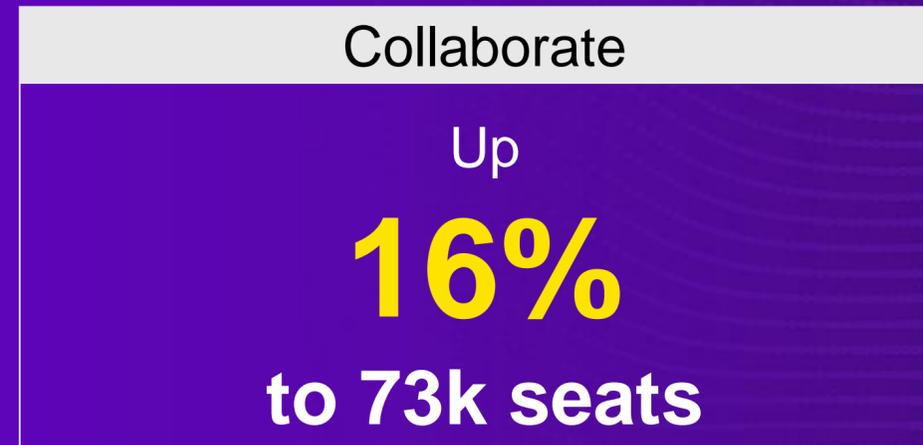
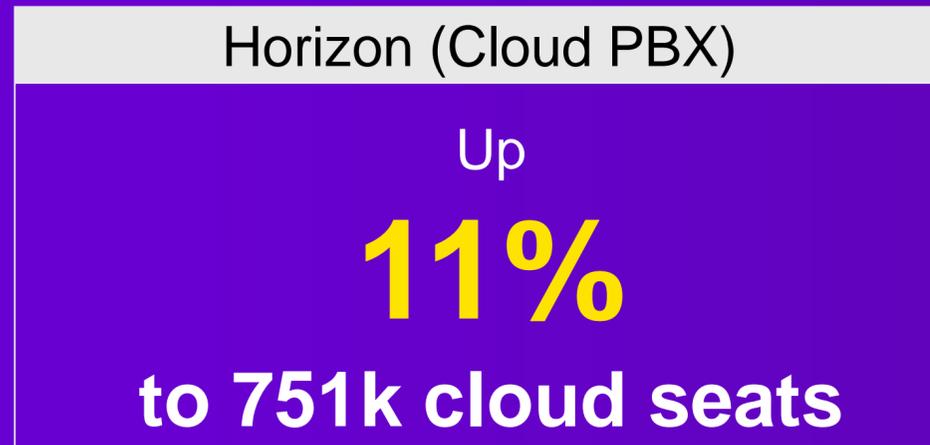
## Opportunities to increase wallet share from Horizon users



- \*Approximate wholesale list prices to partners – per seat per month and typically on a 36m contract
- Growth coming from increased "share of wallet" - Gamma has built products which enable us to gain additional revenue from the users of the core Horizon product
- ARPU will increase and end users become stickier



# Cloud Communications – Performance in the UK



- Rate of growth of "bolt-ons "increasing faster than core product - therefore ARPU increasing
- "Notional ARPU" increase of 2.6% across whole base
- Increase in ARPU from upsell on new seat sales increasingly offsetting price pressure on the base



# Evolution of UK SIP business

As SIP users migrate to our other products there is an opportunity to increase ARPU

Existing SIP Customer

**c.£1.25** per User

**c.£5.00** per Trunk

Approximation based on 4 users to 1 SIP channel

2022: 1.05m Trunks  
2021: 1.01m Trunks  
Growth = +4%

We believe that three migration paths will emerge



In 2022 c.13k Trunks migrated but trend expected to accelerate

**Overall SIP Figures (UK)\***

2022: 1.78m Trunks  
2021: 1.43m Trunks  
Growth = +28%



Gamma Horizon

**c.£8.00+** per User

2022: 751k Seats 2021: 676k Growth = +11%



**c.£2.50** per User

2022: 356k Trunks 2021: 124k Growth = +187%

3<sup>rd</sup> party

UCaaS provider **c.£0.60** per User

2022: 367k Trunks 2021: 298k Growth = +23%

# Gamma's 2026 strategic priorities



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We will develop **multiple routes** to the **market** in each country in which we operate



We will become a **trusted partner** to Enterprises across Europe, transforming their communications estates



We will create an organisation that **engages all** our people with a **common set of values and goals**



# Our existing strong capability supporting Microsoft Teams users enables Enterprises to trust us

Microsoft rely on third parties to provide voice capabilities for Teams  
As more organisations “voice enable” their solution we are gaining revenue

## Voice for Teams Users



- Both Teams Direct Routing and Operator Connect available
- One of only two UK Channel Operator Connect wholesale products
- Higher ARPU than existing SIP
- First to market with Operator Connect in the Netherlands
- Forthcoming releases in Belgium, Germany and Spain

## Teams Integration with Horizon



- Upsell for Horizon user who wishes to integrate rich Gamma PBX functionality with MS Teams
- Complements MS collaboration features with Gamma Voice expertise – an alternative to Gamma's own Collaborate Product which is designed for SME

## Professional Services and integration



- Acquisition of Exactive in 2020 and its Cloud UCX product
- Enables Gamma to deliver complex consultative Teams solutions e.g. DWP with 100k seats
- Supports expansion of Gamma's Enterprise business into international markets

Increasing Level of Complexity



# Gamma's 2026 strategic priorities



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We will develop **multiple routes** to the **market** in each country in which we operate



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# ESG Update

Andrew Belshaw, CEO



# Communications with a Conscience



## Environment

- Preparation for SBTi validation in progress, underpinning our 2042 carbon net-zero ambition
- Halve emissions by 2030 as Scope 1 and Scope 2 emissions reduced by 90%
- Carbon Disclosure Project (CDP) awarded B, improving from B- in 2021
- Climate-scenario risk analysis completed for all Gamma offices and data centre locations



## Social

- ‘You Belong’ initiative launched across Gamma Group, our response to enhancing Diversity, Equality, Inclusion and Belonging (DEI&B) across the organisation
- Employee communities created with a focus on Wellbeing, Women, Early Careers and Multiculturalism
- Targeted pay rises to help our lower paid employees with cost of living
- Helped to bridge the ‘Digital Divide’ by setting up a computer lab for school children in Uganda
- The Gamma Charity Forum match funded charitable fundraising by our employees



## Governance

- Gamma received “AA” ESG rating from MSCI
- Gamma was shortlisted for the AIM Award 2022 “Corporate Governance”
- The Gamma Board reviewed and approved multiple public policies, driving further transparency with external stakeholders
- Gamma continued to work successfully with both customers and suppliers for external audits, retaining our various certifications



A man with a beard and short dark hair, wearing a blue button-down shirt over a light blue t-shirt, is sitting at a desk in a dimly lit office. He is smiling and looking at a laptop screen. His hands are on the keyboard. In the background, there are shelves with books and framed pictures on the wall. A desk lamp is visible on the left side of the desk.

# Business Outlook

Andrew Belshaw, CEO



# Business Outlook

Our strategy builds on our core strengths to exploit existing opportunities for growth in the markets we serve



Robust business model with strong **recurring revenue and margin, cash generative** and with **strong balance sheet**



Continued execution of our **own-IP technology driven product strategy** across **all routes to market**; release more products across geographies



**Cloud PBX penetration in UK remains below 50% and Europe significantly lower**

Market growth will continue in UK and will ultimately come in Europe



Continue to look for additional **M&A opportunities** to add to **routes to market** and **technical capability**



**Significant migrations in UK market**

"SIP + Hardware" moves to Cloud Product; PSTN Switch off creates opportunity in voice



Opportunity to work with Microsoft and Amazon across Europe to **replicate the success of our UK Enterprise business**



# Q&A

Andrew Belshaw, CEO

Bill Castell, CFO





**Thank you.**