23 March 2021

Gamma Communications plc
Results for the year ended 31 December 2020

Good organic growth in the UK supported by strategic acquisitions in Europe combine to deliver positive results for 2020

Gamma Communications plc ("Gamma" or "the Group"), a leading, technology-based provider of communications services to the business market in Europe, is pleased to announce its results for the year ended 31 December 2020.

	Year ended 31 December		
	2020	**2019**	**Change (%)**
Revenue	£393.8m	£328.9m	+20%
Gross profit	£200.8m	£166.5m	+21%
Gross margin	*51%*	*51%*	
Profit from operations	£75.7m	£45.5m	+66%
Adjusted EBITDA	£79.0m	£63.5m	+24%
PBT	£75.0m	£45.2m	+66%
Adjusted PBT	£61.7m	£48.1m	+28%
EPS (Fully Diluted, "FD")	66.6p	36.1p	+84%
Adjusted EPS (FD)	51.3p	40.8p	+26%
Total dividend per share	11.7p	10.5p	+11%
Cash generated by operations	£70.3m	£54.0m	+30%
Cash generated by operations / adjusted EBITDA	*89%*	*85%*	
Cash and cash equivalents (gross cash)	£53.9m	£53.9m	0%

All adjusted measures set out above and throughout this document which are described as "adjusted" represent Alternative Performance Measures ("APMs") and are separately presented within the statement of profit or loss or reconciled in the Financial Review section or segment note and are applied consistently. Where reference is made to adjusted EPS this is stated on a fully diluted basis. Definitions of APMs are included in the Financial Review – within the adjustments is the gain of £19.5m made on the sale of the Group's non-core business which traded as "The Loop". Our policy on the use of APMs is included in note 2.

Key Highlights

The Group had a good financial performance across all business units with growth across all key product categories during the year. COVID-19 only had a small impact on the overall financial performance of the business, with cancellations, bad debt and churn continuing in line with their normal low, pre-COVID-19 levels.

Financial highlights

Each of the business units continued to perform well:

- Revenue grew by 20% from £328.9m to £393.8m.
- Organic revenue growth in the period was 9% (from £328.9m to £357.6m across the Group). Organic growth was slightly lower than originally expected due to the lower rate of sales in the second quarter driven by the COVID-19 pandemic; sales activity returned to pre-COVID levels in the second half. (NB Organic growth excludes the results of acquisitions made in 2020).
- Recurring revenue (being repeat business) in the year grew from £306.9m in 2019 to £359.3m in 2020.
- UK Indirect Business continued to grow strongly with a focus on the existing partner base. Gross profit increased 11% (£13.1m) from £119.1m in 2019 to £132.2m in 2020.
- UK Direct Business (which now includes Exactive) continued to grow gross profit which increased by 21% (£8.1m) from £38.2m in 2019 to £46.3m in 2020.

- European Business saw gross profit increase from £9.2m in 2019 to £22.3m in 2020, primarily through acquisition - Voz Telecom (acquired in April 2020), HFO Holding (acquired in July 2020) and gnTel (acquired in July 2020).

Product highlights

Continued strong growth across the major product groups in the United Kingdom:

- The number of installed SIP Trunks increased by 17% to 1,185,000 from 1,016,000 at 31 December 2019; these figures include sales of the MS Teams Direct Routing product and seats on Exactive's CloudUCX platform.
- The number of Horizon (Cloud PBX) users increased to 601,000 from 522,000 (+15%). The number of Horizon users taking the additional Collaborate service increased from 9,000 to 46,000.
- The number of hosted PBX seats in our European business increased to 114,000 at 31 December 2020 from 22,000 at 31 December 2019. Much of this growth was via the acquisitions of Voz and gnTel.
- Horizon Contact, our Cloud Contact Centre solution, which resulted from the acquisition of Telsis in 2019 and is a fully integrated module for our Cloud PBX product was successfully launched in the UK on 2 March 2021.
- In the second quarter of 2021, we expect to launch our single line replacement product (PhoneLine+) and we will also release functionality which will enable Horizon users to integrate our Cloud PBX with MS Teams.

Acquisitions

We have continued to execute our strategy through selective acquisitions which both strengthen our UCaaS product functionality and expand our geographical footprint in Europe.

We have strengthened our product capabilities as follows -

- In February 2020, we acquired Exactive Holdings Ltd ("Exactive"), a unified communications specialist (based in the UK and Poland) with expertise in Microsoft Teams. It is helping to develop our UCaaS proposition by enabling us to configure Microsoft Teams as a full UCaaS solution for those customers who require it. These will tend to be Enterprise customers.
- In March 2021, we acquired Mission Labs Limited ("Mission Labs"). Mission Labs provides expertise and product capability in the Cloud Contact Centre as a Service market ("CCaaS"). It also has a solution for micro-business users called Circle Loop which is sold digitally.

We have expanded our presence in Europe through three acquisitions: -

- In April 2020, we acquired VozTelecom OIGAA360, S. A. ("Voz Telecom"), a well-established provider of cloud communication services in Spain, which provides us with access to the nascent Cloud PBX market.
- In July 2020, we acquired a majority shareholding in HFO Holding AG ("HFO") in Germany. HFO is a leading provider of SIP Trunks in Germany and has recently begun to sell Cloud PBX products.
- Also, in July 2020, we acquired gnTel B.V. ("gnTel"), a Cloud PBX provider in the Netherlands and Germany.

Acquisition activity has been high in FY2020. We have bought four companies and the cash outflow for acquisitions in that period was £52.8m. However, each acquisition was funded from internally generated cash flow and we believe it has been the most cost effective way to build a footprint to take advantage of the future acceleration in UCaaS uptake in continental Europe.

Subsequent to the end of 2020 we acquired Mission Labs Limited for initial consideration (on a cash free basis) of £40.2m which was also funded from internally generated cashflow.

Andrew Taylor, Chief Executive Officer, commented,

"We have delivered a good business performance and set of financial results for 2020, with both our UK and European businesses continuing to develop and grow. We have begun to successfully knit together our desired European footprint and are working with the local management to accelerate our growth in Cloud PBX in Europe.

"Despite the COVID-19 pandemic, our product performance was positive, and we continued to strengthen our market capabilities through the development and launch of new products and services. During the year we have reinforced the execution of our UCaaS strategy, which is progressing very well, with the strengthening of both our geographical reach and overall product capabilities. As ever, we have continued to strengthen both our Direct and Indirect channel propositions across all markets, with a focus on positively supporting our partners and our customers"

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Chair's statement

Overview of results

Group revenue for the year ended 31 December 2020 increased by £64.9m to £393.8m (2019: £328.9m) an increase of 20% on the prior year. Despite lower sales in quarter two due to the COVID-19 restrictions, organic growth in revenue amounted to £28.7m (+9%). Adjusted EBITDA for the Group increased by £15.5m (24%) to £79.0m (2019: £63.5m) whilst organic EBITDA growth was £11.6m. (NB Organic growth excludes the results of acquisitions made in 2020).

Fully diluted earnings per share for the year increased by 84% to 66.6p (2019: 36.1p). Adjusted earnings per share (FD) for the year increased by 26% to 51.3p (2019: 40.8p), with the main adjusting item being the profit made on the sale of The Loop (the fibre business based in Manchester) which generated a profit of £19.5m. Adjusted items are explained and reconciled in the financial review. The cash generated by operations for the year was £70.3m compared to £54.0m in 2019. The closing cash balance for the year was £53.9m which was the same as at the end of December 2019. This cash balance has been maintained despite investing £15.4m on capital items, £52.8m on acquisitions and paying £10.4m in dividends. The disposal of The Loop generated a cash inflow of £19.4m. Subsequent to year end, the Group paid initial consideration (on a cash free basis) of £40.2m for Mission Labs Limited.

Overview of the year

The year has been a period of strong strategic execution for Gamma with the following highlights:

- The whole business has responded well to a difficult period; we have been able to run the business with the vast majority of our staff working from their homes.
- Growth in revenue and profitability has been good despite the economic downturn caused by COVID-19. The Group's recurring revenue model has proved robust and its product set supports businesses which have had to work remotely. The Group has seen cancellations and bad debt remain at the low levels experienced prior to the pandemic.
- There has been strong growth in the volumes of our key UCaaS products in the UK. SIP Trunking units increased by 17% (this includes MS Teams Direct Routing) and Cloud PBX units increased by 15%. In Europe we now have 114,000 Cloud PBX seats – 16% of our total seats.
- In April 2020, we launched a Microsoft Teams Direct Routing product to our Channel Partners, making Gamma's market-leading SIP trunks available to Enterprises using Microsoft Teams. This is an expanding market and we have already connected thousands of individuals to the platform since the launch.
- During the year, the Group acquired UCaaS providers in two countries - Voz Telecom (Spain) and HFO (Germany). We had started discussions with both businesses before the pandemic made international travel difficult. As we have known management for some time, the integration continues to go well. The UCaaS market in both countries is significantly less penetrated than in the UK but is expected to grow rapidly. We also acquired gnTel in the Netherlands (which provides a product capability and opens up a new route to market through partners who specialise in IT).
- To improve our product offering in the UCaaS space, Gamma acquired Exactive in the UK (which supports companies wishing to use Microsoft Teams as a UCaaS solution). After the year end we acquired Mission Labs Limited which will give us additional capabilities in the rapidly evolving markets of Cloud Contact Centre and Cloud Communications.
- The Group continues to develop its product portfolio, it launched Horizon Contact Centre on 2 March 2021 which has been received positively by our channel partners. Further product releases are expected throughout 2021.

Board and governance

I was delighted to welcome Charlotta Ginman and Xavier Robert to the Board on 8 September 2020 as additional Independent Non-Executive Directors. Charlotta holds a number of non-executive roles at both AIM and fully listed businesses and is also the chair of the audit committee at Keywords Studios plc, Pacific Asset Trust plc and Polar Capital Technology Trust plc.

Xavier Robert is Head of UK at Bridgepoint Private Equity and was their Global head of TMT from 2011 to 2018. He has acted as a non-executive for many private companies - in many cases as chairman of the Board or chair of the Remuneration or Audit Committees. He is a French national and lives in the UK. He has significant experience of international M&A.

As we announced earlier today Alan Gibbins will be leaving the board following our AGM in May. Alan has been a Non-Executive Director and Chair of the Audit Committee since our flotation in 2014. I am grateful for all of his hard work and contribution to the Board. Charlotta will take over as Chair of the Audit Committee following Alan's departure.

On 2 June 2020, the Nominations Committee appointed Martin Lea as Senior Independent Director.

On 5 June 2020, it was decided to rotate the Chair of the Remuneration Committee. Martin Lea stood down as its chair after six years and handed over to Henrietta Marsh. Henrietta has been a member of the committee since joining the Board in April 2019 and has previously chaired remuneration committees at other premium list and AIM traded companies.

On 3 August 2020, the Board created a separate Environmental, Social and Governance ("ESG") Committee. This committee is chaired by Martin Lea and its membership consists of a mixture of Non-Executive and Executive Directors. I am pleased to say that Gamma already has a strong set of ESG credentials; the purpose of the committee is to encourage and oversee the underlying activity and to ensure that we report in line with the emerging standards in this area.

We continue to adhere to the QCA Corporate Governance Code (2018 edition) (the 'QCA Code').

Employees

At 31 December 2020, we had 1,530 employees in the Group based in seven countries. During the year I was pleased to welcome the staff of Exactive in the UK and Poland, Voz Telecom in Spain and Morocco, HFO in Germany and gnTel in the Netherlands and Germany into the Gamma Group.

We encourage all employees to own shares in the Company. For our UK based employees, we offered a sharesave scheme for the fifth year in succession. Once again, it was particularly pleasing to see the high take-up, with 449 staff choosing to participate in the scheme (2019: 459). We also run an "Evergreen SIP" scheme which gives employees a further opportunity to buy shares in the company in a tax efficient way. We are actively exploring ways in which our non-UK based employees can own Gamma shares.

The Board recognises the high levels of support and commitment from its staff through what has been a very difficult year. We would like to express our thanks for their dedication, hard work and enthusiasm. Gamma did not take advantage of the UK Government's Job Retention Scheme ("furlough") nor similar schemes offered by governments in the other countries in which we operate.

Dividend

Gamma remains committed to a progressive dividend policy which has seen the dividend increase by between 10-15% every year since our IPO in 2014. Gamma has paid one third of the dividend as an interim dividend with the final two thirds paid as a final dividend once the results for the full year are known. Having carefully considered the interests of all stakeholders, and noting that the Group has continued to be cash generative and has not availed itself of Government support, the Board has continued with this policy throughout 2020.

The Board is pleased to propose a final dividend, in respect of the year ended 31 December 2020, of 7.8 pence per share (2019: 7.0 pence), an increase of 11%. Subject to shareholder approval at the forthcoming AGM, this dividend will be payable on Thursday 24 June 2021 to shareholders on the register on Friday 4 June 2021. When added to the 3.9 pence interim dividend (2019: 3.5 pence) this would make a total dividend of 11.7 pence for the year as a whole (2019: 10.5 pence).

Environmental

As a business which enables other companies to reduce their carbon footprint by communicating and collaborating from multiple sites and thereby reducing the need to travel, we continue to challenge ourselves on our own environmental credentials. We run a certified CarbonNeutral© network and we have also now committed to supporting the UN Sustainable Development Goals.

Since Gamma's inception nearly 20 years ago, we have taken our responsibilities to the wider environment seriously and were the first UK carrier to offer end users an opportunity to offset the "carbon cost" of their communications through the introduction of "Green minutes" back in 2007. Prior to COVID-19, as a business which is based on multiple sites, we encouraged our people not to travel but rather to use our own collaborative communications tools which both reduces our carbon emissions and promotes employee wellbeing. This has stood us in good stead for the conditions in which we have had to operate throughout 2020.

Current Trading and Outlook

The Board is positive about the outlook for the Group in 2021 and beyond. Our product set is well suited to organisations that wish to work remotely as part of their disaster recovery plans or who will choose to allow more flexible working in future. We believe that experiences learned from the COVID-19 pandemic will demonstrate the advantages of UCaaS to businesses of all sizes across all industries and we expect to see continuous growth in UCaaS product sales.

Gamma will continue to concentrate efforts and investment on supporting our channel partners and end users. We will develop a product set which facilitates flexible working for businesses of all sizes, building on an already strong reputation for operational excellence and service quality.

Richard Last
Chair

Chief Executive Review

I am pleased to report another excellent set of financial results for 2020.

As well as executing against our short-term commitments throughout 2020, we have also focused heavily on the further development and execution of our medium and longer-term growth strategy. We have, both organically and through acquisition, accelerated the development of our technology and product capabilities, while extending our European footprint. In addition, we have developed and strengthened the skills and capabilities of our team, while continuing our focus and investment on building digital platform capabilities and skills across Gamma.

I am very pleased with how the whole Group continues to respond to the COVID-19 pandemic. Our focus throughout has been on the safety and wellbeing of our staff, our partners and our end-customers but we have also sought to ensure that business continuity was at the heart of our planning and support. The level of support and engagement from all of our staff has been excellent throughout, and I want to give my thanks to the entire Gamma team for how they have responded to this challenging period for everyone. The services we provide to business customers have always been vital, and during the pandemic the structural changes to our marketplace have substantially reinforced both the importance of this and future growth opportunities for Gamma and our overall sector. We believe that the experience of COVID-19 will only accelerate the adoption of cloud services in the business market in the medium to long term, thereby reinforcing our overall UCaaS strategy.

Despite very difficult COVID-related economic and business market conditions, we have continued to grow and strengthen our position in our core UK market. Importantly, we have benefitted from our "SaaS" recurring revenue business model.

During the period we have made very good progress with the integration of our acquisitions that we previously made to support both our geographical expansion and the acceleration of our UCaaS technology and product strategy. These businesses, which include Dean One, Nimsys, Telsis and Exactive, are now very much part of the Gamma Group. In addition, during the period, we have expanded our business across mainland Europe through our first acquisitions in Spain (Voz Telecom) and Germany (HFO Group), as well as completing another bolt-on acquisition in the Netherlands (gnTel). All acquisitions are making very positive progress.

I am delighted with the continued investment and progress we have made throughout 2020, to both expand and strengthen our technology, product set, service, and delivery capabilities across Gamma. In November 2019 we acquired Telsis, which had cloud contact centre capabilities. Using this capability, we have recently launched our Horizon cloud contact centre solution (CCaaS) – this is aimed at end users in the SME market and is fully integrated into Horizon (our leading cloud PBX service).

In February 2020, we acquired Exactive Holdings Ltd ("Exactive"), a unified communications specialist with expertise in Microsoft Teams. This has helped us to deliver our strategic objective of further developing our UCaaS proposition by enabling us to configure Microsoft Teams as a full UCaaS solution for those customers who require it – these customers tend to be larger in size. During the year, we also launched Microsoft Teams Direct Routing – a product which enables our Channel Partners to facilitate the implementation of Microsoft Teams for those end users who choose to do that. We will also be launching the tools which will allow our customers to integrate our Horizon product with Microsoft Teams later this year.

I would also like to highlight the progress we have made in developing and expanding both our mobile and fixed data access product portfolio in the UK and across Europe. We plan to launch our new UK MVNO service during the first half of 2021 and, when combined with our fixed access portfolio, this provides an opportunity for our sales team and channel partners to up-sell and cross-sell Gamma's access products.

I am also pleased that (after the end of the year under review) we acquired Mission Labs, a UCaaS technology business who we have previously partnered with and got to know over the last 18-months. This acquisition will deliver significant benefits to Gamma:

- It will enable us to enhance and expand our Cloud Contact Centre as a Service (CCaaS) technology, product, and channel partner capabilities with larger enterprise sized customers. Mission Labs has a well-established product and exciting AI capabilities which are complementary to our recent Telsis acquisition.
- It will allow us to accelerate our digital channel strategy, through Mission Labs CircleLoop platform. CircleLoop provides a cloud-based telephony product which is fully serviced through the web and aimed at micro-businesses. We plan to launch our first jointly developed product (PhoneLine+) in the UK during Q2 2021.
- It has brought a group of highly talented software developers to Gamma, who will work with our existing team to define and deliver products in the UCaaS and CCaaS space.
- It has provided Gamma with a product capability and technology platform which supports our future growth plans and opportunities across the UK and Europe.

Business review

UK Indirect Business

The UK Indirect Business accounted for 63% of our group revenue in 2020, and I am very pleased to report that it performed very strongly, with gross profit up 11% to £132.2m and revenue up by 7% to £247.2m. Gross margin went up from 51.8% to 53.5% (which reflects an ongoing shift towards our higher margin UCaaS products). This performance demonstrates the robustness of our indirect channel to market and the high relevance of our products and services during the pandemic.

In response to the COVID-19 pandemic, during Q2 we introduced a "COVID-19 Support Package" for our UK channel partners, which allowed them to hibernate customers (i.e. temporarily pause their contracts) or to provide home working capability without charge from Gamma. This provided commercial assistance and a measure of certainty at a time when it was needed most and built a strong level of goodwill across our partner base.

During the period most of our business has been conducted remotely with our partners which has reinforced the benefits of our digital eLearning (Gamma Academy) and eMarketing (Gamma Accelerate) platform capabilities. These are now embedded into the everyday activity of our partner base, and during the period our partners completed 19,690 training courses and ran 303 digital marketing campaigns using our Gamma Accelerate platform.

Our overall product performance was strong, and we delivered net volume growth across all major product categories.

- Our UCaaS performance was particularly pleasing, and after a strong Horizon performance in Q1, we returned to normal net growth run-rate levels throughout Q3 and Q4 following lock down in Q2.
- We delivered significant growth in Collaborate seats during the period. We now have a steady monthly run rate of collaborate subscriptions and a healthy attachment rate of 7% across the Horizon base. The product combination remains a strong, cost effective tool for smaller customers in our base.
- For larger customers, who have more complex and feature rich requirements, in April 2020 we launched Microsoft Teams Direct Routing which is now delivering a steady monthly run rate of net additions.
- Our SIP performance was particularly strong throughout the period, demonstrating the need for both business customers and carriers to strengthen their voice network capacity.

UK Direct Business

The Direct Business accounted for 25% of our group revenue in 2020. I am very pleased to report we delivered a very strong performance, with gross profit growing 21% to £46.3m and revenue growing 17% to £98.1m. Notwithstanding some of the project delivery and new business sales challenges during the lock-down period of the pandemic (e.g. access to customers, the temporary postponement of new projects and, due to physical access issues, a suspension of all but key existing project installations), we have delivered a strong year across all market segments. We secured over £85m of contract bookings (excluding sales relating to The Loop); of this amount 75% was new business to Gamma.

Although COVID-19 suppressed our overall Direct sales performance in H1, we quickly recovered during H2 and achieved notable wins across our Enterprise business with Serco plc (fully managed communications services), Grant Thornton (Microsoft Teams), Bannatyne Group (UCaaS) and Sureserve plc (UCaaS & CCaaS). We also extended existing long-term agreements with Dignity plc, BNP Paribas and Volkswagen Financial Services.

In Public Sector, we secured significant wins across a wide selection of councils, charities, healthcare providers and “blue light” providers. Of note is the RNIB who are implementing our UCaaS and CCaaS services, while Cardiff, South Ayrshire, Crawley and Coventry councils have implemented our market leading SIP services. Nine additional NHS trusts contracted with us for a mix of SIP and Microsoft Teams, and as in previous years, we successfully delivered and supported a more complex University Clearing solution to the education sector during the pandemic.

Throughout 2020, we continued to focus on the development and execution of our direct digital programme (The Gamma Hub), and I am happy to report that we have made excellent progress in streamlining and fully automating our end-to-end operating and delivery model across all of our Direct market segments and products. As part of our investment during the period, we extended the use of AI and sales automation across our Direct Business, and this investment enabled us to rapidly switch to remote selling within hours of the national lockdown. In addition to this, we accelerated our adoption of digital marketing across all market segments, which has enabled us to maintain good levels of lead generation and strong engagement. Through 2021, we aim to focus our digital investments on delivering further improvements in operational efficiency and customer service. This will include the delivery of online quotation tools, a customer self-service capability, and fully automated provisioning, which will reduce our delivery lead times.

Finally, on 31 December 2020 we announced that we divested our non-core Manchester based fibre business which traded as “The Loop” and which we have reported on in our Direct Business. The proceeds from this sale strengthened our balance sheet.

European Business

Our European business grew – mainly through acquisition - with gross profit up 142% to £22.3m and revenue up by 219% to £48.5m. Gross margin went down from 61% to 46% as a result of the lower gross margins of Epsilon, the mobile focused distribution business which we acquired as part of the HFO acquisition. In 2020 the overseas business represented 12% of our group revenue and 5% of our group EBITDA (although the run rate is higher as 2020 includes only a part of the year for acquisitions). Throughout the year, I am pleased to report that we delivered positive net growth across all key European product categories, and at the end of 2020 have a total of 114,000 cloud seats across our European business.

HFO - Germany
We acquired HFO in July 2020. HFO has been providing SIP trunks to the German business market both directly and via its indirect channel partners since 2013. Similar to our UK business, HFO provides SIP trunking into “on premise” hardware PBXs as well as to support the enablement of Cloud based solutions.

Throughout 2020, the business focussed both on enlarging the partner base as well as encouraging existing partners who are currently selling SIP to start adding Cloud PBX products into their portfolio. The Cloud PBX market is significantly less developed in Germany than in the UK with a penetration of only approximately 9%. This transition from partners selling SIP to Cloud PBX is a very similar journey to that which the UK Indirect Channel business has been on for the past ten years. Despite the pandemic lengthening the sales cycle (in a similar manner to the UK), by the end of the year, HFO was delivering positive growth in new Cloud PBX sales.

At the end of 2020, we had a total of 10,400 Cloud seats in Germany. These include Cloud seats from HFO as well as those from the German division of gnTel which in 2021 we have merged with HFO. This has created synergies and will also allow HFO to sell gnTel’s products into the German market through their well-established partner distribution channels.

Our UK sales and commercial teams have been sharing knowledge with their peers in our Germany businesses and a number of Gamma’s well established UK commercial models and go to market strategies will be introduced into Germany during 2021.

In addition to the core HFO business which mainly focusses on SIP and UCaaS, part of the German Group is a mobile focused distribution business which trades under the Epsilon brand. Due to the mature nature of the mobile market, this business has less potential for growth than the core HFO business, however, during 2020, it sold 100,000 mobile contracts across all of the major networks including Deutsche Telekom, Vodafone and Telefonica. Epsilon also launched its own IoT offering - Fusion IOT. This managed platform for M2M-simcards means that Epsilon is now a service provider with end-customer ownership.

Whilst we see limited growth in the Epsilon business in the medium term, we believe that Epsilon’s distribution partners may be able to sell UCaaS products in the future.

Voz Telecom - Spain

In April 2020 we acquired VozTelecom OIGAA360, S. A. ("Voz Telecom"), a well-established provider of cloud communication services in Spain. The company provides us with access to the small but growing Cloud PBX market in Spain. Voz Telecom is the fourth largest cloud provider in Spain and the largest outside of the major network operators.

During 2020, we strengthened our UCaaS proposition in Spain through the addition of new product features and options. This included API integration with other business applications (CRM & ERP) and full availability of our self-developed softphone, which importantly, enabled end users to implement home working. In addition, through the year, we launched a white-label cloud PBX product for a national mobile operator which drove growth in our UCaaS seats. Our total UCaaS seats across all platforms in Spain now stand at 43,000.

As well as the core UCaaS business, our Spanish business has two other smaller business units – ComYMedia (a Cloud ICT direct business) and NetHits (which provides call centre facilities for, amongst others, Accenture). Unlike the rest of the group, these business units were more severely impacted by COVID-19. ComYMedia is reliant on project income and projects were delayed or cancelled and NetHits suffered as a key customer reduced their call centre capacity requirements.

In 2020 we transitioned to a new MVNO reseller agreement with MasMovil which increased gross margin and allowed us to introduce more competitive pricing plans. During the period, we started to bundle our mobile and UCaaS propositions with MasMovil, which enables us to drive improvements in margin and now also have a steady run-rate of UCaaS seats coming indirectly from the MasMovil channel.
Similar to Germany, and as part of a structured integration plan, we have shared some of the knowledge and tools from the UK team and have developed several initiatives to drive long-term cloud growth. For example, a new channel programme was launched at the end of 2020. We are also leveraging our UK technology and product capabilities and plan to launch a Cloud Contact Centre solution (CCaaS) and Microsoft Teams Direct Routing service during 2021.

Netherlands

In July 2020 we acquired gnTel, which has materially strengthened our cloud position across the Dutch market, with a specific and complementary focus on the IT reseller channel. At the end of 2020, after delivering positive net growth through the year, we now have a total of 61,000 cloud seats in the Netherlands. In addition to this, our wholesale and retail mobile offerings, which we take to market in partnership with T-Mobile, performed very well. We more than doubled our mobile connections through 2020, and when combined with our cloud proposition, will remain an important driver for future growth.

Since acquiring gnTel, we have delivered strong growth in cloud seats across the IT channel and have reinforced our excellent reputation for providing a stable and reliable cloud PBX platform to channel partners and end users. Shortly after acquisition, we introduced our T-Mobile product offering to gnTel's channel partner base, which was well received and is positively contributing to our growth numbers.

Throughout the year, we focused on further developing and strengthening both our cloud product and channel proposition across the Dutch market, and similar to Spain and Germany, there was close cooperation with our UK commercial, product marketing and indirect channel teams. We launched a new cloud telephony product ("Horizon") during Q1 2020, delivering enriched features and with more competitive price positioning, and, as part of our partner proposition, we also implemented Gamma's e-marketing platform ("Accelerate") which has been very positively received in the market. Similar to

Spain, we are leveraging our UK technology and product capabilities and plan to launch a Cloud Contact Centre solution (CCaaS) and Microsoft Teams Direct Routing service during 2021.

Our Nimsys business provides cloud communications and IT services to business customers operating from multi-tenanted offices. We experienced decreasing demand due to less business activities in office buildings, but we expect this trend to reverse once businesses start returning to their offices. In spite of this pandemic related issue, we connected 164 new business customers during 2020. In addition, we also re-signed two long-term contracts with important multi-tenant office providers.

As part of our integration planning, we have also integrated our Schiphol Connect business with Nimsys and aligned the businesses under common business and operational systems to drive synergy and a better customer experience. This approach has also allowed Schiphol Connect to cross-sell new Nimsys based products and enhanced support services to their customer base.

In August 2020, and as part of a structured succession plan, we appointed Gerben Wijbenga as CEO of our Benelux business, and I am very pleased to report that Gerben has settled in well and has started to make a very positive contribution.

Summary and outlook

As a business, we have responded decisively to both the challenge and opportunity that the COVID-19 pandemic has presented across our markets, while maintaining a focus on supporting our staff, our customers, and our channel partners. I continue to be very pleased with the execution of our short-term business objectives, and because of our robust business model and our very positive financial performance throughout the year, we have doubled down on the execution, continued investment, and further development of our longer-term growth strategy.

Looking forward, we will continue to stay focused on developing the products and services which enable our customers and our channel partners to be successful and win market share in their respective markets. Given the growth opportunities across the core product areas and market segments in which we operate, we do expect to see ongoing competition which could lead to price pressure, but to compensate for this, we will continue to add-value by further developing our products and our overall value proposition to our channel partners and end customers.

Our view of the current structural changes in the UCaaS market are also very positive with regards to our strategy and future growth opportunities. The pandemic has raised both the awareness and adoption of cloud communication services, and because of this, businesses and their employees have explored new ways of working both flexibly and remotely. The significant benefits of the UCaaS, CCaaS and fixed and mobile access products that we sell across the UK and Europe have been reinforced during the pandemic, and notwithstanding the risks of pandemic related economic and business market headwinds, we continue to see a positive business and overall long-term market outlook.

As a final point, I would like to personally thank our staff, partners and customers for their contribution and ongoing support during a very difficult period. Given the circumstances, our performance during 2020 has been strong, and we remain optimistic about Gamma's future growth prospects.

Andrew Taylor
Chief Executive Officer

Financial review

Overview

Gamma has performed well during the year increasing revenue by 20% to £393.8m (2019: £328.9m) and gross profit by 21% to £200.8m (2019: £166.5m). We have seen this strong performance across all the main areas of the business. The growth is in part due to acquisitions in the year with organic growth in revenue being £28.7m (+9%) and gross profit growth of £19.8m (+12%) (NB Organic growth removes the results of acquisitions made in 2020). Organic growth was slightly lower than originally expected due to the lower rate of sales in the second quarter driven by the onset of the COVID-19 pandemic although sales activity returned to pre-COVID levels in the second half of the year. Adjusted EBITDA increased by 24% to £79.0m (2019: £63.5m) whilst organic EBITDA grew 19%. Adjusted EPS (FD) increased by 26% to 51.3p (2019: 40.8p).

Revenue and gross profit

UK Indirect

	2020 £m	2019 £m	Increase
Revenue	247.2	230.1	+7.4%
Gross Profit	132.2	119.1	+11.0%
Gross Margin	53.5%	51.8%	

Overall, the growth in the UK Indirect Business unit has been consistent with previous periods - the revenue growth was 7.4%. This is slightly lower than we had been originally expecting due to the lower rate of net additions in the second quarter which was driven by the onset of the COVID-19 pandemic – net additions did subsequently trend towards to pre-COVID-19 levels in the second half. Because of the recurring nature of revenues, lower net additions in the second quarter had an impact on the revenue performance in the second half of the year.

Within the UK Indirect Business, the gross profit from the traditional business (which includes calls and lines and trade with other carriers) has seen minimal movement from the previous year. Indeed, the trend we had seen over the past years where traditional business was declining has flattened and there remains a small quantity of this traditional business on the Gamma network. This will gradually erode over time. We will therefore (from 2021) no longer show the "traditional" business as a separate line within our segmental analysis as the trend that it was highlighting is no longer a significant factor in our performance.

We group our data, mobile, SIP and UCaaS products as our "growth" products and revenue from growth product sales increased from £186.5m to £205.0m (+10%) and gross profit grew from £106.7m to £119.9m (+12%). The gross margin grew from 57% to 58%, which reflects the fact that the main contributors to this growth were SIP Trunking and our UCaaS products (Horizon and Collaborate) which have higher margins than other products. In addition (again due to lockdown) we had fewer installations and hardware sales in the second quarter. These tend to be at a lower margin than the monthly recurring revenues and therefore the margin has increased due to the change in mix.

UK Direct

	2020 £m	2019 £m	Increase
Revenue	98.1	83.6	+17.3%
Gross Profit	46.3	38.2	+21.2%
Gross Margin	47.2%	45.7%	

The UK Direct Business continues to grow strongly and in line with previous periods despite the challenging market conditions. There is some inorganic growth driven by the acquisition of Exactive in February 2020. This contributed £3.3m of revenue in the year meaning that the organic growth was 13%.

The UK Direct Business continues to focus on selling to larger enterprise businesses and public sector customers on multi-year deals. The growth was mainly attributable to sales to enterprise customers and revenue from those increased by £11.8m. Sales to the public sector increased by £3.0m which relates to growth in both the organic and acquired business. Our Direct mid-market revenue was in line with the prior year.

The gross margin increased due to a lack of installations and hardware sales which are lower margin and hence the mix changed favourably.

Europe

	2020 £m	2019 £m	Increase
Revenue	48.5	15.2	+219%
Gross Profit	22.3	9.2	+142%
Gross Margin	46.0%	60.5%	

Our European business consists of the group under Gamma Communications Benelux B.V. (formerly DX Groep) in the Netherlands, Voz Telecom in Spain (acquired April 2020) and HFO in Germany (acquired July 2020). In addition, Gamma Communications Benelux expanded with the acquisition of gnTel in July 2020. The acquisitions contributed £36.2m of revenue in the year and £12.8m of gross profit. The organic revenue growth of the Dutch business was 3% which was made up of a strong growth in sales of Cloud PBX and Mobile products offset by a decline in the legacy ISDN product throughout 2019 which affected the opening run rate of revenue into 2020.

Gross margins have decreased from the prior year as a result of “high revenue / low margin” business within the Epsilon subsidiary of the HFO business which offers mobile connections. The margins on a product by product basis are consistent with those in the UK but the mix in Europe tends to be away from lower margin data products (broadband and ethernet).

The Group finance team has regular calls with the local finance teams to monitor their performance. We continue to spend time aligning both processes and accounting policies.

Operating expenses

Operating expenses grew from £121.0m to £125.1m. We break these down as follows:

	2020 £m	**2020 £m**	**2019 £m**	**2019 £m**	**Growth**
Expenses included within cash generated from operations					
- UK Indirect Business	69.1		64.9		+6.5%
- UK Direct Business	22.9		20.1		+13.9%
- European Business	18.3		8.9		+105.6%
- Central Costs	8.0		6.5		+23.1%
		118.3		100.4	
Depreciation and amortisation					
- tangible and intangible assets	14.7		13.4		+9.7%
- right of use assets	2.2		1.7		+29.4%
- acquisition	6.0		2.0		+200.0%
		22.9		17.1	
Share based payments		3.5		2.6	+34.6%
Exceptional items		(19.6)		0.9	
Operating expenses		**125.1**		**121.0**	**+3.4%**

Movements in cash-based expenses are discussed below:

- Within the UK Indirect Business, operating expenses have grown by 6.5% although of the increase in costs of £4.2m, £1.9m is the full year impact due to our acquisition of Telsis in 2019. Organic cost growth was 3.5% which is favourable compared to our growth in gross profit. This demonstrates both our ability to be cost efficient as the business grows and also the fact that working in the "Covid environment" means we have experienced some unexpected cost savings for example, travel and subsistence expenses are significantly lower. These savings are not expected to continue in the long run but it is difficult to predict how quickly costs will return. One significant driver of cost continues to be our investment in the development of products that will provide future benefits as well as our desire to ensure that our level of customer service remains the best in our industry.
- In the UK Direct business, overhead increased by 13.9% (compared to gross profit growth of 21.2%) – this includes £1.1m of cost from Exactive – the "like for like" growth is 8.5%. The level of increase was mainly to support the growth in the business as well as our ongoing investment in our digital strategy.
- The increase in European costs of £9.4m is reflective of the cost base growing by acquisitions. The organic Dutch business had overheads in line with prior year.
- Central costs have increased from the prior year, which is due to two main factors. First, as our European footprint expands, Group functions required to support the businesses we have acquired increases. Second, we have completed four acquisitions in the year and have incurred significant costs in respect of our M&A programme (which we include within our operating expenses).

Depreciation and amortisation on tangible and intangible assets have increased from £13.4m in 2019 to £14.7m in 2020. This is driven by acquisition - the depreciation in the UK business decreased year on year. The annual depreciation charge is now in line with annual capital expenditure and (save for future acquisitions) is not expected to increase significantly.

Share based payments costs have increased during the year because of the increasing cost of the all-staff schemes such as SAYE. In addition, the rising share price has made the costs of employers NI for share grants higher than in previous years.

Exceptional Items
There were two exceptional items in the year which are discussed below.

Disposal of a subsidiary
On the 31 December 2020 Gamma completed the sale of its non-core fibre business which traded as The Loop Manchester Limited, based in Manchester, UK.

An exceptional gain of £19.5m was recognised relating to the proceeds on disposal less the book value of the net assets of the business. This was a cash item.

Deferred consideration
An exceptional item of £0.1m was recognised as a result of a difference between the estimated consideration and the amount paid in relation to Nimsys. Whilst this figure is not material, previous changes in estimated consideration have been treated as exceptional and hence we have been consistent by including this as exceptional.

In the prior year there were exceptional transactions related to the acquisition of the DX Groep which netted to zero – full details are provided in the prior year financial statements.

Alternative performance measures
Our policy for alternative performance measures is set out in note 2.

The tables below reconcile the alternative performance measures used in this document:

Measure	Statutory Basis	Amortisation of intangibles	Change in fair value of acquisitions	Adjusting tax items	Exceptional items **	Adjusted basis
2020						
PBT (£m)	75.0	6.0	0.3	-	(19.6)	61.7
PAT* (£m)	64.2	6.0	0.3	(1.5)	(19.6)	49.4
EPS (FD) (p)	66.6	6.2	0.3	(1.5)	(20.3)	51.3
2019						
PBT (£m)	45.2	2.0	-	-	0.9	48.1
PAT* (£m)	34.5	2.0	-	1.6	0.9	39.0
EPS (FD) (p)	36.1	2.1	-	1.7	0.9	40.8

* PAT is the amount attributable to the ordinary equity holders of the Company.
** See note 4 for further details.

We believe that these measures provide a user of the accounts with important additional information by providing the following alternative performance metrics:

- Profit before tax is also adjusted for exceptional items for the same reason as above but it is also adjusted for the amortisation of intangibles which were created on acquisition. This enables a user of the accounts to compare performance irrespective of whether the Group has grown by acquisition or organically.
- Profit after tax is adjusted in the same way as Profit before tax but it also considers the tax impact of these items. To exclude the items without excluding the tax impact would not give a complete picture.
- Adjusted earnings per share takes into account all of the factors above and gives users of the accounts information on the performance of the business that management is more directly able to influence and on a basis comparable from year to year.

In addition to the above we add back the depreciation and amortisation charged in the year to Profit from Operations (2020: £75.7m; 2019: £45.5m) to calculate a figure for EBITDA (2020: £98.6m; 2019: £62.6m) which is commonly quoted by our peer group internationally and allows users of the accounts to compare our performance with those of our peers. We further adjust EBITDA for exceptional items as this gives a reader of the accounts a view of the underlying trading picture which is comparable from year to year (2020: £79.0m; 2019: £63.5m).

Adjusted EBITDA
Adjusted EBITDA grew from £63.5m to £79.0m (24%). Were we to eliminate the effect of acquisitions made in 2020 then adjusted EBITDA would have grown by 19%.

Taxation
The effective tax rate for 2020 was 14% (2019: 24%). The rate in 2020 is depressed due to non-taxable income on the disposal of The Loop. The underlying rate applied to trading profits was slightly above the 19% statutory UK rate due to disallowable expenditure and the increasing impact of higher taxation rates in European countries. We would expect these trends to continue and hence to see the marginal rate of tax increase slightly above the UK headline rate in future years. In 2019, the rate was inflated by adjusting tax items of £1.6m and tax on business combinations of £0.5m – neither of these were cash items.

Net cash and cash flows

The Group has net cash of £48.0m. The gross cash balance at the end of the year was £53.9m in line with the end of the previous year and the Group had borrowings of £5.9m which are held by trading subsidiaries outside of the UK and pre-dated their acquisition by Gamma.

In addition, we estimate that we will have to pay an additional £14.2m in future in relation to acquisitions made before the end of the year (this is a mix of contingent consideration and the exercise of options over shares not yet acquired); these payments will be between 2021 and 2023. There is also a possible £6.0m of contingent consideration which may become due to the vendors of Mission Labs Limited – a business acquired after the end of the year. We do not class contingent consideration as debt for the purposes of quoting a net cash figure.

Cash conversion from trading during the year was in line with previous years. The ratio of adjusted EBITDA to cash generated from operations was 89% (2019: 85%).

Items which are not directly related to trading were:

- Capital spend was £15.4m, which is an increase from £12.4m in the comparative period. This is discussed in detail below.
- £45.1m was paid for the new acquisitions net of cash acquired (2019: £7.5m) of which £3.2m was paid for the acquisition of Exactive, £16.6m for Voz Telecom, £18.5m for HFO and £6.8m for gnTel.
- £2.5m was paid in deferred consideration relating to the acquisition of Nimsys in the prior year (2019: £nil).
- Our acquisition spend was offset by £19.4m which was received for the disposal of The Loop (our fibre business based in Manchester); this figure is net of cash.
- £10.4m was paid as dividends (2019: £9.2m) – We retained our pre-existing dividend policy despite the pandemic.

Capital spend

Capital spend in 2020 was £15.4m (2019: £12.4m) as follows:

- £9.5m was the spend on maintaining and increasing capacity on the core network as well as other minor items such as IT and fixtures and fittings (2019: £9.9m).
- £2.7m was the capitalisation of development costs incurred during the period (2019: £1.4m) – the increase is due to acquisition, the amount of development capitalised in the UK business was consistent with the prior year.
- £3.2m was spent with third-party software vendors for the software which underpins our Cloud PBX products (£1.1m).

Adjusted EPS (FD) and Statutory EPS (FD)

Adjusted EPS (FD) increased from 40.8p to 51.3p (26%). The growth in adjusted EPS (FD) has been driven by the continued growth in a difficult market as well as the acquisitions. Adjusted EPS is EPS as adjusted for exceptional items and other items as defined in note 2 and a reconciliation to the statutory measure is shown in the table above.

EPS (FD) grew from 36.1p to 66.6p (84%). The growth is higher than the adjusted metric, in the current year, because of the exceptional item relating to the disposal of The Loop.

Going Concern

The Group's business activities, together with the factors likely to affect its future development, performance and position, are set out in the Strategic Report. In assessing going concern management and the Board has considered:

- The principal risks faced by the Group, discussed further in the Annual Report for the year ended 31 December 2020.
- The financial position of the Group including budgets and financial plans.
- The strong cash position - at 31 December 2020 the Group had cash and cash equivalents of £53.9m (2019: £53.9m). Net cash (being cash and cash equivalents less borrowings) was £48.0m (2019: £53.9m). All borrowings were acquired with acquisitions made in the year.
- Future cashflows including liquidity, borrowings and the acquisition of Mission Labs (which was £40.2m on a cash free basis). We have performed sensitivity analysis which has shown that EBITDA is our biggest sensitivity and would need to decrease by 43% for the Group to need additional borrowing (assuming no mitigating actions had been taken). We consider this to be highly unlikely. Notwithstanding, lenders have indicated to management that they would provide additional borrowing if required.

- The ongoing impact of COVID-19. Whilst this has impacted new wins in 2020, the Group has continued to grow. In the medium term, as a result of COVID-19, the adoption of cloud services will accelerate in and this reinforces our overall UCaaS strategy.

The Directors are satisfied that the Group has adequate financial resources to continue in operational existence for the foreseeable future, a period of at least twelve months from the date of this report. Accordingly, the going concern basis of accounting continues to be used in the preparation of the Annual Report for the year ended 31 December 2020.

Dividends

The Board has proposed a final dividend of 7.8p (2019: 7.0p). This is an increase of 11% and is in line with our progressive dividend policy.

Subject to shareholder approval, the final dividend is payable on Thursday 24 June 2021 to shareholders on the register as at Friday 4 June 2021.

Finally, I would like to thank Alan Gibbins for his support and wise counsel during the period he has chaired the Audit Committee.

Andrew Belshaw
Chief Financial Officer
22 March 2021

Consolidated statement of profit or loss
For the year ended 31 December 2020

	Note	2020 £m	2019 £m
Revenue	3	**393.8**	328.9
Cost of sales		**(193.0)**	(162.4)
Gross profit		**200.8**	166.5
Operating expenses		**(125.1)**	(121.0)
Earnings before depreciation, amortisation and exceptional items		**79.0**	63.5
Exceptional items	4	**19.6**	(0.9)
Earnings before depreciation and amortisation		**98.6**	62.6
Depreciation and amortisation (excluding business combinations)		**(16.9)**	(15.1)
Depreciation and amortisation arising due to business combinations		**(6.0)**	(2.0)
Profit from operations		**75.7**	45.5
Finance income		**0.4**	0.1
Finance expense		**(1.1)**	(0.4)
Profit before tax		**75.0**	45.2
Tax expense	5	**(10.6)**	(10.7)
Profit after tax		**64.4**	34.5
Profit is attributable to:			
Equity holders of Gamma Communications plc		**64.2**	34.5
Non-controlling interests		**0.2**	-
		64.4	**34.5**
Earnings per share attributable to the ordinary equity holders of the company:			
Basic per Ordinary Share (pence)	6	**67.5**	36.6
Diluted per Ordinary Share (pence)	6	**66.6**	36.1

Adjusted earnings per share is shown in note 6

All income recognised during the year was generated from continuing operations.

Consolidated statement of comprehensive income
For the year ended 31 December 2020

	2020	2019
	£m	£m
Profit for the year	**64.4**	34.5
Other comprehensive loss		
Items that may be reclassified subsequently to the income statement (net of tax effect)		
Exchange differences on translation of foreign operations	**(0.1)**	(0.4)
Total comprehensive income for the year	**64.3**	34.1
Total comprehensive income for the year attributable to:		
Equity holders of Gamma Communications plc	**64.1**	34.1
Non-controlling interests	**0.2**	-
	64.3	34.1

Consolidated statement of financial position
As at 31 December 2020

	Note	2020 £m	2019 £m
ASSETS			
Non-current assets			
Property, plant and equipment	8	**36.3**	32.1
Right of use assets		**11.5**	11.4
Intangible assets	9	**95.3**	37.4
Deferred tax asset		**5.7**	3.0
Trade and other receivables		**14.8**	15.0
		163.6	98.9
Current assets			
Inventories		**8.1**	8.1
Trade and other receivables		**93.7**	77.5
Cash and cash equivalents		**53.9**	53.9
Current tax asset		**2.6**	-
		158.3	139.5
Total assets		**321.9**	238.4
LIABILITIES			
Non-current liabilities			
Other payables		**1.5**	0.2
Borrowings		**4.6**	-
Provisions		**1.9**	0.8
Lease liabilities		**10.8**	11.3
Contract liabilities		**8.3**	9.1
Contingent consideration		**1.2**	1.1
Put option liability		**5.6**	-
Deferred tax		**9.0**	3.9
		42.9	26.4
Current liabilities			
Trade and other payables		**54.9**	46.1
Borrowings		**1.3**	-
Provisions		**0.6**	0.9
Lease liabilities		**2.3**	1.3
Contract liabilities		**7.6**	8.0
Contingent consideration		**1.8**	1.5
Put option liability		**5.6**	-
Current tax liability		**0.5**	1.7
		74.6	59.5
Total liabilities		**117.5**	85.9
Net assets		204.4	152.5
EQUITY			
Share capital		**0.2**	0.2
Share premium reserve		**9.0**	6.6
Merger reserve		**2.3**	2.3
Share option reserve		**5.2**	3.8
Foreign exchange reserve		**(0.7)**	(0.6)
Own shares		**(0.7)**	(0.7)
Retained earnings		**197.5**	140.9
Equity attributable to owners of Gamma Communications Plc		**212.8**	152.5
Non-controlling interests		**3.0**	-
Written put options over non-controlling interests		**(11.4)**	-
Total equity		**204.4**	152.5

Consolidated statement of cash flows
For the year ended 31 December 2020

	Note	**2020**	2019
		£m	£m
Cash flows from operating activities			
Profit for the year before tax		**75.0**	45.2
Adjustments for:			
Depreciation of property, plant and equipment	8	**9.7**	9.8
Depreciation of right of use assets		**2.2**	1.7
Amortisation and reduction in value of intangible assets	9	**11.0**	13.7
Change in fair value of contingent consideration		**(0.1)**	(7.2)
Share based payment expense		**3.5**	2.6
Interest income		**(0.4)**	(0.1)
Finance cost		**1.1**	0.4
Gain on disposal of subsidiary undertaking		**(19.5)**	-
		82.5	66.1
Increase in trade and other receivables		**(6.1)**	(16.7)
Decrease/(Increase) in inventories		**0.3**	(1.9)
(Decrease)/Increase in trade and other payables		**(6.1)**	6.3
(Decrease)/Increase in contract liabilities		**(1.2)**	0.7
Increase/(Decrease) in provisions		**0.9**	(0.5)
Cash generated by operations		**70.3**	54.0
Taxes paid		**(14.1)**	(7.5)
Net cash flows from operating activities		**56.2**	46.5
Investing activities			
Purchase of property, plant and equipment	8	**(9.5)**	(9.9)
Purchase of intangible assets	9	**(5.9)**	(2.5)
Interest received		**0.4**	0.1
Acquisition of subsidiaries net of cash acquired		**(47.7)**	(7.5)
Disposal of subsidiary net of disposed cash		**19.4**	-
Net cash used in investing activities		**(43.3)**	(19.8)
Financing activities			
Lease liability repayments		**(2.1)**	(1.1)
Repayment of borrowings		**(1.6)**	-
Interest paid		**(0.3)**	-
Share issues		**1.5**	2.0
Dividends		**(10.4)**	(9.2)
Net cash used in financing activities		**(12.9)**	(8.3)
Net increase in cash and cash equivalents		**-**	18.4
Cash and cash equivalents at beginning of the year		**53.9**	35.5
Cash and cash equivalents at end of the year		**53.9**	53.9

Consolidated statement of changes in equity
For the year ended 31 December 2020

	Share capital	Share premium reserve	Merger reserve	Share option reserve	Foreign exchange reserve	Own shares	Retained earnings	**Total**	NCI	Written put options over NCI	**Total equity**
	£m	£m	£m	£m	£m	£m	£m	**£m**	£m	£m	**£m**
1 January 2019	0.2	4.6	2.3	3.2	(0.2)	(0.8)	112.4	121.7	-	-	121.7
Issue of shares	-	2.0	-	(1.4)	-	-	1.3	1.9	-	-	1.9
Investment in own shares	-	-	-	-	-	0.1	-	0.1	-	-	0.1
Share based payment expense	-	-	-	2.0	-	-	-	2.0	-	-	2.0
Tax on share based payment expense:											
- Current	-	-	-	-	-	-	1.0	1.0	-	-	1.0
- Deferred	-	-	-	-	-	-	0.9	0.9	-	-	0.9
Dividends paid	-	-	-	-	-	-	(9.2)	(9.2)	-	-	(9.2)
Transactions with owners	-	2.0	-	0.6	-	0.1	(6.0)	(3.3)	-	-	(3.3)
Profit for the year	-	-	-	-	-	-	34.5	34.5	-	-	34.5
Other comprehensive loss	-	-	-	-	(0.4)	-	-	(0.4)	-	-	(0.4)
Total comprehensive (loss)/income	-	-	-	-	(0.4)	-	34.5	34.1	-	-	34.1
31 December 2019	0.2	6.6	2.3	3.8	(0.6)	(0.7)	140.9	152.5	-	-	152.5
1 January 2020	0.2	6.6	2.3	3.8	(0.6)	(0.7)	140.9	152.5	-	-	152.5
Issue of shares	-	2.4	-	(1.4)	-	-	1.3	2.3	-	-	2.3
Share based payment expense	-	-	-	2.8	-	-	-	2.8	-	-	2.8
Tax on share based payment expense											
- Current	-	-	-	-	-	-	1.0	1.0	-	-	1.0
- Deferred	-	-	-	-	-	-	0.5	0.5	-	-	0.5
Non-controlling interests on acquisition of subsidiary	-	-	-	-	-	-	-	-	2.8	-	2.8
Equity put rights	-	-	-	-	-	-	-	-	-	(11.4)	(11.4)
Dividends paid	-	-	-	-	-	-	(10.4)	(10.4)	-	-	(10.4)
Transactions with owners	-	2.4	-	1.4	-	-	7.6	(3.8)	2.8	(11.4)	(12.4)
Profit for the year	-	-	-	-	-	-	64.2	64.2	0.2	-	64.4
Other comprehensive loss	-	-	-	-	(0.1)	-	-	(0.1)	-	-	(0.1)
Total comprehensive (loss)/income	-	-	-	-	(0.1)	-	64.2	64.1	0.2	-	64.3
31 December 2020	**0.2**	**9.0**	**2.3**	**5.2**	**(0.7)**	**(0.7)**	**197.5**	**212.8**	**3.0**	**(11.4)**	**204.4**

Notes to the consolidated financial statements
For the year ended 31 December 2020

1. Basis of preparation

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS), issued by the International Accounting Standards Board ('IASB') as adopted by the European Union ('adopted IFRS'). The financial statements are presented in sterling and, unless otherwise stated, have been rounded to the nearest 0.1 million (£m).

The financial statements have been prepared on a historical cost basis.

The financial information contained in this statement does not constitute statutory financial statements within the meaning of the Companies Act 2006. They are an extract from the full accounts for the year ended 31 December 2020 on which the auditor has expressed an unqualified opinion and do not include any statement under section 498 of the Companies Act 2006. The full accounts contain a detailed statement of the accounting policies which have been used to prepare this summary. The accounts will be posted to shareholders on or before 21 April 2021 and subsequently filed at Companies House.

There are no additional standards or interpretations requiring adoption that are applicable to the Group for the accounting period commencing 1 January 2020.

A full set of the audited statutory accounts will be available at:

www.gammacommunicationsplc.com/investors/financial-results-and-shareholder-communications/

2. Accounting policies

The accounting policies adopted are consistent with those followed in the preparation of the audited statutory financial statements for the year ended 31 December 2020.

Critical accounting estimates and judgements
Some of the critical accounting judgements and estimates require management to make difficult, subjective or complex judgements or estimates. The policies which management consider critical because of the level of complexity, judgement or estimation involved in their application and their impact on the financial information are available in the Annual Report.

Alternative Performance Measures

Adjustments to the income statement have been presented because the Group believes that adjusted performance measures (APMs) provide valuable additional information for users of the financial statements in assessing the Group's performance. Moreover, they provide information on the performance of the business that Management is more directly able to influence and on a basis comparable from year to year.

The measures are adjusted for the following items:

(a) Depreciation and amortisation
Depreciation and amortisation relate to the assets which were acquired by the Group. These are omitted from adjusted operating expenses to allow users of the accounts to compare against other external data sources.

(b) Depreciation and amortisation arising due to business combinations
This adjustment is made to improve the comparability between acquired and organically grown operations, as the latter cannot recognise internally generated intangible assets. Adjusting for amortisation provides a more consistent basis for comparison between the two.

(c) Change in fair value of acquisitions
The change in fair value of deferred consideration and put option liability is adjusted for to improve the comparability between acquired and organically grown operations, providing a more consistent basis for comparison between the two.

(d) Exceptional items
The Group treats certain items which are considered to be one-off or not representative of the underlying trading of the Group as exceptional in nature.

The Directors apply judgement in assessing the particular items, which by virtue of their scale or nature should be classified as exceptional items. The Directors consider that separate disclosure of these items is relevant to an understanding of the Group's financial performance. Any changes to items that are initially identified as exceptional in one year will consistently be treated as exceptional in subsequent periods.

Changes in deferred consideration, reduction of intangible assets and goodwill, and profit upon disposal of a subsidiary are considered to be exceptional where of a certain scale as they are not representative of the primary activities of the Group.

(e) Adjusting tax items
Where movements to tax balances arise and these do not relate to the underlying trading current year tax charge, these are adjusted in determining certain APMs as they do not reflect the underlying performance in that year.

The tables below reconcile the alternative performance measures used in this document:

Measure	Statutory Basis	Depreciation and amortisation on business combinations	Change in fair value of acquisitions	Adjusting tax items	Exceptional items **	Adjusted Basis
2020						
PBT (£m)	75.0	6.0	0.3	-	(19.6)	61.7
PAT* (£m)	64.2	6.0	0.3	(1.5)	(19.6)	49.4
EPS (FD) (p)	66.6	6.2	0.3	(1.5)	(20.3)	51.3
2019						
PBT (£m)	45.2	2.0	-	-	0.9	48.1
PAT* (£m)	34.5	2.0	-	1.6	0.9	39.0
EPS (FD) (p)	36.1	2.1	-	1.7	0.9	40.8

* PAT is the amount attributable to the ordinary equity holders of the Company.
** See note 4 for further details.

3. Segment information

The Group's main operating segments are outlined below:

- → UK Indirect – This division sells Gamma's products and services to channel partners and contributed 63% (2019: 70%) of the Group's external revenue;
- → UK Direct – This division sells Gamma's products and services to end users in the Mid-market, Enterprise and public sectors. They contributed 25% (2019: 25%) of the Group's external revenues.
- → European (formerly overseas) – This division consists of sales made in Europe by Gamma Communications Benelux B.V. (formerly DX Groep B.V.) and its subsidiary companies (including the newly acquired gnTel entities) in the Netherlands, by VozTelecom Oigaa360 S.A. and its subsidiaries in Spain and by HFO and its subsidiaries in Germany contributing 12% (2019: 5%) of the Group's external revenues.; and
- → Central functions – This is not a revenue generating segment but is made up of the central management team and wider Group costs.

Factors that management used to identify the Group's reportable segments
The Group's reportable segments are strategic business units that offer products and services into different markets. They are managed separately because each business requires different marketing strategies and are reported separately to the Board and management team.

Measurement of operating segment profit or loss, assets and liabilities

The accounting policies of the reportable segments are the same as those described in the summary of significant accounting policies.

The Group evaluates performance on the basis of profit or loss from operations but excluding non-recurring losses, such as goodwill impairment, and exceptional income.

Inter-segment sales are priced in line with sales to external customers, with an appropriate discount being applied to encourage use of Group resources at a rate acceptable to local tax authorities. This policy was applied consistently throughout the current and prior year.

2020	UK Indirect £m	UK Direct £m	European £m	Central functions £m	Total £m
Segment revenue	268.5	98.1	48.5	-	415.1
Inter-segment revenue	(21.3)	-	-	-	(21.3)
Revenue from external customers	**247.2**	**98.1**	**48.5**	**-**	**393.8**
Timing of revenue recognition					
At a point in time	14.7	4.0	15.8	-	34.5
Over time	232.5	94.1	32.7	-	359.3
	247.2	98.1	48.5	-	393.8
Total gross profit	**132.2**	**46.3**	**22.3**	**-**	**200.8**
Operating expenses	(87.3)	(4.2)	(25.6)	(8.0)	(125.1)
Earnings before depreciation, amortisation and exceptional items	**59.6**	**23.4**	**4.0**	**(8.0)**	**79.0**
Exceptional items	-	19.5	0.1	-	19.6
Earnings before depreciation and amortisation	**59.6**	**42.9**	**4.1**	**(8.0)**	**98.6**
Depreciation and amortisation (excluding business combinations)	(13.6)	(0.5)	(2.8)	-	(16.9)
Amortisation arising due to business combination	(1.1)	(0.3)	(4.6)	-	(6.0)
Profit/(loss) from operations	**44.9**	**42.1**	**(3.3)**	**(8.0)**	**75.7**

External customer revenue has been derived principally in the geographical area of the operating segment and no single customer contributes more than 10% of revenue.

2020	UK Indirect £m	UK Direct £m	European £m	Central functions £m	Total £m
Additions to non-current assets	16.4	0.2	4.5	-	21.1
Reportable segment assets	199.6	31.1	91.2	-	321.9
Reportable segment liabilities	60.1	15.0	42.4	-	117.5

The UK Indirect revenue and gross profit is further split between traditional and growth products below:

	2020 £m	2019 £m
Year ended 31 December		
Traditional products and services	**42.2**	43.6
Growth (being strategic and enabling) products and services	**205.0**	186.5
Total revenue from external customers	**247.2**	230.1
Traditional products and services	**12.3**	12.4
Growth (being strategic and enabling) products and services	**119.9**	106.7
Total gross profit	**132.2**	119.1

Given that the decline in the traditional business has now stabilised and that element of the business is no longer material, this will be the final year where we show this split. We believe that it is no longer needed by a user of the accounts to understand the growth of the business.

The UK Direct revenue is detailed below:

	2020 £m	2019 £m
Mid Markets	**27.3**	27.5
Enterprise	**47.9**	36.1
Public Sector	**21.6**	18.6
The Loop[1]	**1.3**	1.4
	98.1	83.6

[1]The Group completed the sale of The Loop business on 31 December 2020.

Following a re-organisation, the UK Direct business is now managed with a common management team and hence this will be the last year that we split the revenue by sub-channel.

2019	UK Indirect £m	UK Direct £m	Overseas £m	Central functions £m	Total £m
Segment revenue	251.6	83.6	15.2	-	350.4
Inter-segment revenue	(21.5)	-	-	-	(21.5)
Revenue from external customers	**230.1**	**83.6**	**15.2**	**-**	**328.9**
Timing of revenue recognition					
At a point in time	16.4	5.6	-	-	22.0
Over time	213.7	78.0	15.2	-	306.9
	230.1	83.6	15.2	-	328.9
Total gross profit	**119.1**	**38.2**	**9.2**	**-**	**166.5**
Operating expenses	(81.5)	(20.3)	(12.7)	(6.5)	(121.0)
Operating profit before depreciation, amortisation and exceptional items	**51.6**	**18.1**	**0.3**	**(6.5)**	**63.5**
Exceptional items	-	-	(0.9)	-	(0.9)
Operating profit before depreciation and amortisation	**51.6**	**18.1**	**(0.6)**	**(6.5)**	**62.6**
Depreciation and amortisation (excluding business combinations)	(13.9)	(0.2)	(1.0)	-	(15.1)
Amortisation arising on business combinations	(0.1)	-	(1.9)	-	(2.0)
Profit from operations	**37.6**	**17.9**	**(3.5)**	**(6.5)**	**45.5**

External customer revenue has been derived principally in the geographical area of the operating segment and no single customer contributes more than 10% of revenue.

2019	UK Indirect £m	UK Direct £m	European £m	Central functions £m	Total £m
Additions to non-current assets	11.6	-	0.8	-	12.4
Reportable segment assets	190.4	23.0	25.0	-	238.4
Reportable segment liabilities	62.0	12.4	11.5	-	85.9

4. Exceptional items

	2020 £m	2019 £m
Contingent consideration adjustment – DX Groep	**-**	8.1
Reduction of goodwill carrying value	**-**	(4.2)
Reduction of intangible assets carrying value	**-**	(3.9)
Exceptional items related to DX Groep acquisition[1]	**-**	-
Contingent consideration adjustment – Nimsys[2]	**0.1**	(0.9)
Profit upon disposal of subsidiary[3]	**19.5**	-
Total Exceptional Items	**19.6**	(0.9)

[1] In 2019, the Gamma Communications Benelux Group (formerly DX Groep) experienced a higher than expected attrition rate of legacy customers taking ISDN. This resulted in lower than expected revenues. Therefore, the estimated contingent consideration due has been revised and the associated intangible assets including goodwill were reduced.
[2] At 31 December 2020, the contingent consideration due in respect of Nimsys was remeasured and updated as a result of the 2020 EBITDA being slightly lower than the estimate. The overall balance due decreased by £0.1m (2019: increase £0.9m) which was credited to the statement of comprehensive income, further detail can be found in note 10.
[3] Relates to the sale of The Loop Manchester on 31 December 2020, further detail can be found in note 11.

5. Taxation on profit on ordinary activities

	2020 £m	2019 £m
Current tax expense		
Current tax on profits for the year	**12.1**	9.9
Adjustment in respect of prior year	**0.1**	(0.6)
Overseas tax	**0.5**	0.7
Total current tax	**12.7**	10.0
Deferred tax expense		
Origination and reversal of temporary differences	**(2.3)**	(1.2)
Adjustment in respect of prior years	**0.1**	0.5
Tax rate change	**0.1**	(0.2)
Adjusting tax items	**-**	1.6
Total deferred tax	**(2.1)**	0.7
Total tax expense	**10.6**	10.7

The reasons for the difference between the actual tax charge for the period and the standard rate of corporation tax in the United Kingdom applied to profits for the period are as follows:

	2020 £m	2019 £m
Profit before income taxes	**75.0**	45.2
Expected tax charge based on the standard rate of United Kingdom corporation tax at the domestic rate of 19% (2019: 19%)	**14.3**	8.6
Effects of:		
Tax-exempt income[1]	**(3.7)**	-
Tax effect of expenses that are not deductible in determining taxable profit	**-**	0.5
Effect of different tax rates of subsidiaries operating in other jurisdictions	**(0.2)**	(0.2)
Tax rate change	**-**	(0.2)
Tax on business combinations	**-**	0.5
Adjusting tax items	**-**	1.6
Adjustment in respect of prior years	**0.2**	(0.1)
Total tax expense	**10.6**	10.7

[1]Includes gain on the disposal of The Loop Manchester Limited (note 11)

6. Earnings per share

	2020	2019
Earnings per Ordinary Share – basic (pence)	**67.5**	36.6
Earnings per Ordinary Share – diluted (pence)	**66.6**	36.1

The calculation of the basic and diluted earnings per share is based on the following data:

	2020	2019
	£m	£m
Earnings		
Profit after tax	**64.2**	34.5
Shares	**Number**	Number
Basic weighted average number of Ordinary Shares	**95,058,880**	94,370,938
Effect of dilution resulting from share options	**1,273,867**	1,246,648
Diluted weighted average number of Ordinary Shares	**96,332,747**	95,617,586

On 28 February 2020, the Group acquired Exactive Holdings Limited; £0.9m of Ordinary Shares (69,024 shares) were issued as part consideration in March 2020.

Adjusted earnings per share is detailed below:

	2020	2019
Adjusted earnings per Ordinary Share – basic (pence)	**51.9**	41.3
Adjusted earnings per Ordinary Share – diluted (pence)	**51.3**	40.8

Adjusted profit used in the calculation of adjusted earnings per share is detailed below:

	2020	2019
	£m	£m
Earnings		
Profit attributable to the equity holders of the Company	**64.2**	34.5
Amortisation arising on business combinations	**6.0**	2.0
Movement of fair value on put option	**0.3**	-
Exceptional items (disposal of The Loop)	**(19.5)**	-
Exceptional items (change in value of deferred consideration)	**(0.1)**	0.9
Adjusting tax items	**(1.5)**	1.6
Adjusted profit after tax for the year	**49.4**	39.0

7. Dividends

The following dividends were paid by the Group to its shareholders:

	2020 £m	2019 £m
Final dividends for the year ended 31 December 2018 of 6.2p per ordinary share	**-**	5.8
Interim dividend for the year ended 31 December 2019 of 3.5p per ordinary share	**-**	3.4
Final dividends for the year ended 31 December 2019 of 7.0p per ordinary share	**6.6**	-
Interim dividend for the year ended 31 December 2020 of 3.9p per ordinary share	**3.8**	-
	10.4	9.2

A final dividend of 7.8p will be proposed at the Annual General Meeting but has not been recognised as it requires approval. The total amount of dividends proposed is 11.7p. The payments of these dividends do not have any tax consequences for the Group.

8. Property, plant and equipment

	Land and buildings £m	Network assets £m	Computer equipment £m	Fixtures and fittings £m	Total £m
Cost					
At 1 January 2020	-	67.9	9.1	1.4	78.4
Additions	-	7.2	2.2	0.1	9.5
Acquisition of subsidiaries	4.9	0.1	0.3	0.5	5.8
Disposals	-	(3.1)	-	-	(3.1)
Exchange differences	(0.1)	(0.2)	-	-	(0.3)
At 31 December 2020	4.8	71.9	11.6	2.0	90.3
Depreciation					
At 1 January 2020	-	38.6	6.8	0.9	46.3
Charge for the year	0.1	8.1	1.1	0.4	9.7
Disposals	-	(1.6)	-	-	(1.6)
Exchange differences	-	(0.4)	-	-	(0.4)
At 31 December 2020	0.1	44.7	7.9	1.3	54.0
Net book value					
At 1 January 2020	-	29.3	2.3	0.5	32.1
At 31 December 2020	4.7	27.2	3.7	0.7	36.3

9. Intangible assets

	Goodwill	Customer contracts	Brand	Development costs	Software	Total
	£m	£m	£m	£m	£m	£m
Cost						
At 1 January 2020	24.0	22.4	1.1	10.3	13.4	71.2
Additions	-	3.0	-	2.7	3.2	8.9
Acquisition of subsidiary	32.0	22.6	1.4	4.7	-	60.7
Acquisition adjustment	(0.8)	-	-	-	-	(0.8)
Exchange differences	(0.2)	0.6	(0.1)	(0.1)	-	0.2
At 31 December 2020	55.0	48.6	2.4	17.6	16.6	140.2
Amortisation						
At 1 January 2020	8.7	8.0	0.3	7.8	9.0	33.8
Charge for the year	-	5.5	0.4	2.3	2.8	11.0
Exchange differences	0.1	-	-	-	-	0.1
At 31 December 2020	8.8	13.5	0.7	10.1	11.8	44.9
Net book value						
At 1 January 2020	15.3	14.4	0.8	2.5	4.4	37.4
At 31 December 2020	46.2	35.1	1.7	7.5	4.8	95.3

[1]This relates to amendments made within the 12 months of acquisition date to the provisional amounts recognised for those acquisitions.

Amortisation on intangible assets is charged to the consolidated statement of profit or loss and included in operating expenses.

10. Business combinations

During 2020, the Group completed a total of four acquisitions, all of which are 100% owned by the Group unless otherwise stated.

Acquisition	Acquired	Principal activity
Exactive Holdings Limited and its subsidiaries (Exactive)	February	Exactive is a leading UK Microsoft Gold Partner and specialist Microsoft Teams UCaaS provider.
VozTelecom Oigaa360[1] and its subsidiaries (Voz Telecom)	April	Voz Telecom provides telecommunication services to end users directly and through a network of wholesale partners, franchisees and dealers.
HFO Holding AG[2] and its subsidiaries (HFO)	July	The core HFO business is one of the leading SIP Trunk providers in Germany. It also has a subsidiary which focuses on mobile distribution which trades under the Epsilon brand.
gnTel B.V. and gnTel GmbH (gnTel)	July	gnTel operates VoIP platform services, EasyConference and other activities.

[1] On 9 April 2020, the Group acquired 94.9% of the issued share capital of VozTelecom Oigaa360 S.A., with the remaining 5.1% acquired by 30 June 2020.
[2] On 1 July 2020, the Group acquired 80.25% of HFO Holding AG (HFO), with an option to acquire the remaining shareholding, held by management, over the next 3 years.

The identifiable assets acquired and liabilities assumed are as follows:

	Exactive	Voz Telecom	HFO	gnTel	Total
	£m	£m	£m	£m	£m
Tangible fixed assets	-	0.7	5.1	-	5.8
Intangible – development costs	-	2.5	1.5	0.7	4.7
Intangible – customer contracts	1.8	7.1	11.6	2.1	22.6
Intangible – brand	-	0.7	0.5	0.2	1.4
Cash	0.9	1.4	-	0.6	2.9
Trade receivables	0.6	1.3	5.5	0.5	7.9
Other receivables	0.3	4.4	0.6	0.7	6.0
Inventories	-	0.3	-	-	0.3
Trade payables	(0.2)	(3.2)	(2.2)	(0.1)	(5.7)
Other payables	(1.1)	(7.2)	(4.8)	(1.0)	(14.1)
Deferred tax liability	(0.3)	(0.4)	(3.8)	(0.5)	(5.0)
Total identifiable assets	2.0	7.6	14.0	3.2	26.8
Less: Non-controlling interests	-	-	(2.8)	-	(2.8)
Add: Goodwill	5.3	15.2	7.3	4.2	32.0
Net assets acquired	7.3	22.8	18.5	7.4	56.0

	Exactive	Voz Telecom	HFO	gnTel	Total
	£m	£m	£m	£m	£m
Satisfied by					
Cash paid	4.1	17.7	18.5	7.4	47.7
Ordinary Shares issued	0.9	-	-	-	0.9
Consideration for convertible bonds	-	5.1	-	-	5.1
Contingent consideration[1]	2.3	-	-	-	2.3
Total	7.3	22.8	18.5	7.4	56.0

[1]Contingent consideration is based on Exactive achieving predetermined EBITDA targets for fiscal years 2020 and 2021. Additional consideration of up to £1.5m may be payable in 2021 and 2022 of which 80% will be in cash and 20% by the issue of consideration shares. The fair value of the contingent consideration at acquisition of £2.3m was based on Exactive achieving £0.9m EBITDA for 2020 giving £1.5m contingent consideration and achieving £1.9m EBITDA for 2021 giving £0.9m contingent consideration. At 31 December 2020 the maximum £1.5m relating to EBITDA for 2020 is expected to be paid and £0.9m relating to the EBITDA targets for 2021.

HFO – Remaining Shareholding

The Group has an option to acquire the remaining 19.75% of the shares (which are held by management) in two tranches of c8% in 2021 and 2022 (where the consideration will be based on the results of the preceding financial year) and one final tranche of c4% in 2023 (also based on the results of the preceding financial year). This additional consideration will in aggregate be between €7.5m and €17.5m and will be payable in cash. As part of the transaction, management has agreed to re-invest approximately 17% of the cash proceeds it will receive from each tranche of the additional consideration into Gamma shares which will then be “locked up” for two years after each re-investment.

The upper end of the option price will only be achieved if HFO achieves challenging growth targets related to its IP telephony business. This has been included as a put option liability based on the estimated gross obligation.

Net cash outflow on acquisitions:

	Exactive	Voz Telecom	HFO	gnTel	Total
	£m	£m	£m	£m	£m
Cash paid	4.1	18.0	18.5	7.4	48.0
Less: cash acquired	(0.9)	(1.4)	-	(0.6)	(2.9)
Net outflow of cash for acquisitions in the year	3.2	16.6	18.5	6.8	45.1
Deferred consideration payments					2.6
Net outflow of cash – investing activities					**47.7**

The cash consideration for Voz Telecom includes the additional £0.3m made to acquire the non-controlling interest.

Valuations of intangible assets
Customer contracts were valued under the Income Method and the brand under the Relief from Royalty Method.

Goodwill
The goodwill is attributable to the acquired entities. The goodwill is not deductible for tax purposes.

Acquired receivables
The fair value of acquired trade receivables for Exactive, Voz Telecom, HFO and gnTel is £0.6m, £1.3m, £5.5m and £0.5m respectively. The gross contractual amount for trade receivables due is £0.6m, £1.3m, £6.0m and £0.5m respectively, of which £0.5m in Voz Telecom is expected to be uncollectible.

Revenue and profit contribution
From the date of acquisition, the acquired businesses have contributed £36.2m of revenue and £1.0m of profit after taxation attributable to the owners of the parent to the Group:

	Revenue	**Profit/(loss) before tax**	**Profit/(loss) after tax**
	£m	**£m**	**£m**
Exactive	3.3	0.6	0.4
Voz Telecom	9.8	(0.5)	(0.4)
HFO	21.0	1.4	0.9
gnTel	2.1	0.2	0.1
	36.2	1.7	1.0

If these acquisitions had occurred on 1 January 2020, the acquired businesses would have contributed revenue and profit after taxation attributable to the owners of the parent to the Group as outlined in the table below. These amounts are unaudited.

	Revenue	Profit/(loss) before tax	Profit/(loss) after tax
	£m	**£m**	**£m**
Exactive	3.8	0.6	0.5
Voz Telecom	13.1	(1.9)	(1.5)
HFO	38.3	3.1	1.9
gnTel	5.0	0.8	0.5
	60.2	2.6	1.4

11. Disposal of a subsidiary

During the year ended 31 December 2020, the Group completed the disposal The Loop Manchester Limited for consideration of £19.6m. The business was transferred into a company that was set up on the 20 May 2020 having been trading as a separate business unit for a number of years previously. The assets and liabilities disposed of were as follows:

	2020
	£m
Property, plant and equipment	1.5
Trade and other receivables	0.4
Cash and cash equivalents	0.2
Current tax payable	(0.1)
Trade and other payables	(1.9)
Net assets disposed	**0.1**
Consideration/Equity value	(19.6)
Gain on disposal	**(19.5)**

12. Events after the reporting date

On the 3 March the Group acquired Mission Labs Limited and its subsidiaries. Mission Labs provide the Group with expertise and product capability in the Cloud Contact Centre as a Service market ("CCaaS"). It also has a solution for micro-business users called Circle Loop which is sold digitally.

The initial consideration for the entire issued share capital of Mission Labs is £40.2m on a cash free basis with up to an additional £6.0m contingent deferred consideration payable over the next three years assuming certain development milestones are met on the existing and future product set.

As part of the transaction, management shareholders (who previously owned 72% of the shares acquired) have agreed to re-invest approximately 10% of their cash proceeds into Gamma shares which will be locked up for three years. These shares will be issued by Gamma following the announcement of its 2020 full year results on 23 March 2021. The price will be based on the average of daily closing price over the 30-day period prior to the release of results.

Due to the proximity of the acquisition to the publication of these accounts, the Group has not yet completed the purchase price allocation and it is impractical to give further information.