**25 March 2024**

**Gamma Communications plc**

**Results for the year ended 31 December 2023**

**Continued strong financial performance, with growth in line with expectations, delivering considerable cash generation**

Gamma Communications plc ("Gamma" or "the Group"), a leading technology-based provider of communication services across Europe, is pleased to announce its results for the year ended 31 December 2023.

| | Year ended 31 December | | |
|---|---|---|---|
| | **2023** | **2022** | **Change (%)** |
| Revenue | **£521.7m** | £484.6m | +8% |
| Gross profit | **£267.2m** | £247.7m | +8% |
| *Gross margin* | ***51%*** | *51%* | |
| Adjusted EBITDA* | **£114.3m** | £105.1m | +9% |
| Profit before tax ("PBT")** | **£71.5m** | £64.9m | +10% |
| Adjusted PBT* | **£97.9m** | £87.8m | +12% |
| Earnings Per Share ("EPS") (fully diluted)** | **54.9p** | 50.6p | +8% |
| Adjusted EPS (fully diluted)* | **75.1p** | 71.8p | +5% |
| Total dividend per share | **17.1p** | 15.0p | +14% |
| Cash generated by operations | **£123.5m** | £99.1m | +25% |
| *Adjusted cash conversion** | ***108%*** | *94%* | |
| Net cash* | **£134.8m** | £92.5m | +46% |

**The Group uses certain measures in addition to those reported under IFRS, under which the Group reports. These measures are known as Alternative Performance Measures ("APMs"). The Group does not consider these APMs to be a substitute for, or superior to, the equivalent statutory IFRS measures. These APMs are explained, defined and reconciled in the APM section and are applied consistently.*

***In 2023, EPS and PBT include two exceptional items, a significant non-cash impairment of a development cost intangible asset and significant non-recurring restructuring costs. In 2022, these measures included exceptional items relating to an impairment of the Spanish cash generating unit (CGU) and disposal of ComyMedia in Spain.*

### *Key highlights*

- Strong financial performance with growth in all business units and strong cash position.
- Three acquisitions completed: Satisnet, in August 2023, a leading provider of cyber security services and solutions; EnableX Group, in December 2023, giving us a relationship with Ericsson-LG and access to their UCaaS solution, iPECS; and Coolwave Communications, in February 2024, an international SMS and voice services provider allowing us to provide Operator Connect and other carrier services into nearly 20 countries.
- Through these acquisitions and strengthening existing partnerships we intend to have a full UCaaS portfolio with our in-house developed product, PhoneLine+ for micro-businesses, Horizon and iPECS for SMEs, and a Cisco suite for larger SME and Enterprises customers. Most of these can be integrated with Teams.
- After applying the Board's capital allocation framework we are announcing an intention to launch a share buyback programme of £35m to be executed over the next six months, until early September.

*Financial highlights*

The Group delivered continued strong financial performance with good gross profit growth flowing through to both Adjusted EBITDA and Adjusted PBT, with significant cash generation.

- Revenue and gross profit grew by 8% to £521.7m and £267.2m respectively (2022: £484.6m and £247.7m), with gross margin being maintained at 51%.
- Recurring revenue (being revenue which is recognised "over time" as per note 3) grew by 7% to £462.8m (2022: £431.7m), remaining at 89% (2022: 89%) of total revenue.
- Adjusted EBITDA grew by 9% to £114.3m (2022: £105.1m) ahead of 8% growth in revenue and gross profit with maintained focus on cost control.
- Gamma Business continued to grow strongly, primarily driven by our UCaaS portfolio but also supported through targeted price rises. Gross profit increased by 8% to £176.1m (2022: £163.7m[#]) with a stable gross margin.
- Gamma Enterprise grew gross profit by 7% to £52.6m (2022: £49.3m[#]) partially supported by the Satisnet acquisition. Gross margin decreased slightly from 48.3% to 47.8% due to Satisnet having a lower gross profit margin.
- The European business delivered gross profit growth of 11% to £38.5m (2022: £34.7m[#]), 8% excluding foreign exchange movements, with gross margin improving from 47.4% to 48.5% supported by the successful integration of NeoTel, acquired in 2022.
- Profit before tax increased by 10% to £71.5m (2022: £64.9m) after a £12.7m non-cash exceptional impairment of development cost intangible assets and £3.3m of non-recurring exceptional restructuring costs (note 4).
- Adjusted EPS (fully diluted) for the year increased by 5% (2022: 12%) to 75.1p (2022: 71.8p). The reduction in growth rate was primarily due to the adverse impact of the increase in UK statutory corporation tax rate in April 2023.
- Cash generated by operations increased by 25% to £123.5m (2022: £99.1m) with Adjusted cash conversion of 108% (2022: 94%), primarily a result of favourable working capital movements, in particular the effect of some prepayments in 2022 not repeated in 2023. This underpinned a net cash increase of 46% to £134.8m (2022: £92.5m), achieved after total payments of £30.5m related to acquisitions (net of cash acquired) and £15.2m paid as dividends in the year.

[#]See Note 3 for segmental change information and restated comparatives.

**Andrew Belshaw, Chief Executive Officer, commented,**

"Gamma has produced another strong set of results. Recurring revenue, stable margins and cash generation continue to be a feature of our business. We have grown in each business unit and the growth in our European business is particularly pleasing.

As well as our organic growth, Gamma has made acquisitions which have added to our growth potential and our ability to sell additional solutions to our existing customers.

We have developed our solution portfolio in the UCaaS space, and in the UK, for the first time, we will have a portfolio of solutions to serve any business of any size – we plan to replicate this in Europe throughout 2024. I want to thank our customers, partners and colleagues and look forward to working with them as we continue to grow the business over the coming years.

I am very pleased with this set of results and the opportunities which lie ahead of us suggest a promising future for the group."

**Enquiries:**

| | |
|---|---|
| **Gamma Communications plc**<br>Andrew Belshaw, Chief Executive Officer<br>Bill Castell, Chief Financial Officer | Tel: +44 (0)333 006 5972<br>CompanySecretary@gamma.co.uk |
| **Investec Bank plc (NOMAD & Broker)**<br>Patrick Robb / Virginia Bull | Tel: +44 (0)207 597 5970 |
| **Teneo (PR Adviser)**<br>James Macey White / Matt Low / Rebecca Hamer | Tel: +44 (0)207 353 4200<br>Gamma@teneo.com |

**Cautionary Statement**

Certain statements in this Full Year results announcement are forward-looking. Although Gamma believes that the expectations reflected in these forward-looking statements are reasonable, we can give no assurance that these expectations will prove to have been correct. Because these statements contain risks and uncertainties, actual results may differ materially from those expressed or implied by these forward-looking statements. We undertake no obligation to update any forward-looking statements whether as a result of new information, future events or otherwise.

## Chief Executive Review

I am pleased to report another set of strong results for Gamma in 2023. Group revenue for the year ended 31 December 2023 increased by £37.1m to £521.7m (2022: £484.6m), an increase of 8% on the prior year. Adjusted EBITDA for the Group increased by £9.2m (9%) to £114.3m (2022: £105.1m). Profit before tax for the year was £71.5m, an increase of 10% from the prior year figure of £64.9m.

Fully diluted earnings per share for the year increased by 8% to 54.9p (2022: 50.6p); Adjusted earnings per share (fully diluted) for the year increased by 5% (2022: 12%) to 75.1p (2022: 71.8p). The reduction in percentage growth relative to the increase in revenues was primarily due to the adverse impact of the increase in UK statutory corporation tax rate in April 2023.

Adjusted items are explained and reconciled in the Alternative Performance Measures section.

Cash generated by operations for the year was £123.5m compared to £99.1m in 2023. The closing Net Cash balance for the year was £136.5m (2022: £94.6m). This cash balance has increased despite investing £23.0m in capital items, paying £30.5m in relation to acquisitions (including repayment of debt acquired) and paying £15.2m in dividends.

### Continuing to deliver our strategy

As I reported in early 2022, we began a five-year strategic review, mapping our competitive and market landscape out to the end of 2026. This was undertaken in the context of the aftermath of the COVID-19 pandemic, the rise of hybrid working and the resulting changes in the communications market.

As a result of this review we identified four strategic priorities:

- Develop a common pan-European solution set for UCaaS and CCaaS for SMEs.
- Develop multiple routes to market in each country in which we operate.
- Become a trusted partner to Enterprises across Europe, transforming their communications estates.
- Create an organisation that engages all our people with a common set of values and goals.

Throughout the year we continued to build on each of these strategic pillars to grow every part of our business.

***Develop a common pan-European solution set for UCaaS and CCaaS for SMEs.***

Gamma has a disparate solution set across Europe – each business which we have bought has had its own set of customer solutions. When selecting which solutions to sell in each market we have considered both the needs of the market and the most economical way of providing that solution, for example, is it more profitable to partner with another company or to build that capability ourselves.

As technology becomes more complex, it can be more economical to adopt best of breed third-party solutions rather than building our own technology. We therefore expect to take more third-party technology and incorporate it into the managed services which we offer to channel partners and our own end users. As an example, Artificial Intelligence ("AI") is affecting many industries, and communications is no exception. AI will be incorporated into both the solutions which our end users need to be able to run their businesses, and into the tools which we need to run our own network and business. Where high quality third-party solutions exist, it does not make economic sense for Gamma to build its own suite of AI tools so we will partner with technology leaders to make these solutions available to our end users.

Global providers of technology recognise the added value that Gamma can bring to their solutions because of our high levels of service (which make solutions easy to provision and consume), our communications network (which means we can voice enable products) and our wide distribution reach across Europe.

Gamma is unique in having that combination – service, a network and a wide distribution.

In the UK, we continue to sell our core Horizon Cloud PBX solution (which has always incorporated software licensed from Cisco). During the year, we strengthened our partnership with Cisco, which will allow us to sell the more complex solutions which they have been developing. This includes Cisco's collaboration software (which is a "bolt on" addition to Horizon providing video conferencing). We have stopped ongoing development of some of our own collaboration software (although this is still available and expected to generate revenue) and we will, in future, provide Cisco's video conferencing solutions alongside our own product. Cisco's suite of communication solutions uses AI to enhance the user experience, for example "Audio Intelligence" is a set of AI, software and hardware technologies that powers clear communication across the entire Cisco portfolio. It includes features such as noise removal, music mode and optimised framing. For end users who require an enhanced virtual meeting experience, AI also features in the solution itself with an AI assistant that provides real-time transcription of calls as well as meeting summaries for those who join late or miss calls.

As well as deepening our relationship with Cisco, towards the end of 2023 Gamma acquired EnableX. This gives us a relationship with Ericsson-LG ("ELG") which allows access to ELG's UCaaS solution, iPECS. iPECS is a cloud communications solution that unites the hybrid workplace on a single platform available on any device, anywhere. There are already 130,000 users in the UK on our iPECS UCaaS solution and 15 million users worldwide using iPECS applications and hardware. It is easy to use and has an intuitive user interface.

We intend to include both the ELG and Cisco solutions in our portfolio.

Gamma intends to sell iPECS and the Cisco Suite in every country in which we operate. We believe this will make us unique amongst pan-European communications providers because we intend to have a full UCaaS portfolio which starts with our in-house developed product, PhoneLine+ for micro-businesses, Horizon and iPECS for SMEs, and the Cisco suite of solutions for the larger SME and Enterprise customers.

We will also have a solution set which can be integrated with MS Teams if users require. We plan to work with a partner to supply MS Licences to our own Channel Partners who are not able to supply them to end users. Additionally, we are able to simply "voice enable" MS Teams for those users who only require Teams to make and receive calls using phone numbers. The popularity of Teams continues to be a growth driver for Gamma.

As we work to roll out this common solution set across 2024, Gamma continues to sit in a unique position within our industry – channel partners across Europe want to work with us because of the variety of solutions we can offer their end users, and the global technology companies (such as Cisco and ELG) want to work with us because of our breadth of distribution capability. We continue to work with other global solution providers to explore the possibility of adding other relevant solutions into our portfolio.

It will take us some time to achieve our goal of a common solution set, but we are progressing well. By partnering where it makes sense to do so, it will be more cost effective for us to introduce new technology and we will be able to do it more quickly.

***Develop multiple routes to market in each country in which we operate.***

I am pleased with the strong portfolio of solutions that we are now able to offer. However, Gamma has always been known for its high levels of customer service and, in particular, for making solutions easy to provision and to operate. This task is made more complex because we support multiple routes to market.

In the UK we have focused on the indirect route to market through our valued channel partners who sell mainly to SME customers. We have sold to UK-based Enterprise and Public Sector customers directly. In Europe there are a variety of sales models including wholesale, resale, dealer and direct.

The customer portal which we have had in operation in the UK is widely recognised as industry leading. In Europe we have acquired several portals of varying degrees of quality. Portals are important because customers want to order solutions made up of multiple components – not only do we need to provide third-party software and hardware, we need to bundle this with our own voice enablement services at the point of provisioning which, among other things, ensures that end users can continue to use the same telephone numbers which they have always had.

During 2023, we have been reviewing the underpinning systems which we use to support our businesses across Europe. We have concluded that we need to enhance our portals to improve user experience and allow us to get solutions to market quickly. At the start of 2024 we welcomed Colin Lees to Gamma as CTO. Colin joins us from Openreach where he was CTO. Colin brings with him a wealth of experience in the design of user portals and how they interact with the underlying telecoms network. He will use this knowledge to work with our team of developers to enhance the portals, which will give our customers the excellent quality of service which they are accustomed to, but which is better able to grow and develop with Gamma.

As well as being a differentiator in the market, our future portal will support all the routes to market which we use.

In addition, throughout 2023, we continued to invest in the Gamma Hub (which is used by our Enterprise customers in the UK). This allows our customers to place orders, which both gives them a better experience and reduces our overheads due to the high level of automation. We continue to invest in this to consistently give our customers excellent service.

***Become a trusted partner to Enterprises across Europe, transforming their communications estates.***

SME customers continue to be a driver of growth for us. However, it is important to note that Gamma should not be considered “only” a supplier to SMEs. We continue to service and win customers in the Enterprise and Public Sector space in the UK and increasingly now in the Benelux region.

Throughout 2023, Microsoft and AWS have become large and important partners to us. Our Microsoft Teams voice enablement solution continues to be developed and has been deployed by some of the largest UK Enterprise and Public Sector organisations. We also deployed Microsoft Operator Connect across all our businesses and have secured several European and pan-European contracts. In Benelux we secured significant Operator Connect wins, including for a large Dutch university and our first Belgian customer, providing Operator Connect for a large municipality. We believe we are the largest provider of voice enablement for Teams both in the UK and the Netherlands. Our acquisition of Coolwave at the start of 2024 brings capabilities which will allow us to voice enable Teams in around 20 countries; in time this will be via the Operator Connect programme. This will significantly increase the market we are able to serve with this product.

Our contact centre SmartAgent solution, which enhances the Amazon AWS Connect platform, has grown considerably in 2023, with over 13,000 customer service agents using SmartAgent in the UK and Europe. Our new contract wins include the Government Digital Project and Shawbrook Bank. During the year we have continued to develop SmartAgent, allowing existing customers to adopt new features such as WhatsApp messaging. This is important as it enables us to monetise communication channels which are not traditional voice and text. We have also introduced AI for solving our customers’ problems without them needing to interact with a person – again we are able to charge on a per unit basis for this “call deflection” service.

Alongside our hyperscale partnerships we continue to win significant managed service contracts for SD-WAN, UCaaS, CCaaS and Mobile solutions in both Enterprise and Public Sector. During 2023 Central England Co-op and Redde Northgate plc both awarded us multi-year contracts for large SD-WAN estates. Epping Forest and Gloucester Councils adopted our combined UCaaS and CCaaS solution and the Home Office has selected Gamma as its mobile provider for the next three years.

We further enhanced our managed service capability with the acquisition of Satisnet, a Cyber Security Managed Security Services Provider, and have successfully cross sold this service to several existing customers including Reed.

***Create an organisation that engages all our people with a common set of values and goals.***

As reported previously, Gamma has identified four key values which are at our core. These values unite us across all of our business units in each country we operate in:

We're there and we care – caring for our employees, our customers, our environment and all stakeholders;

We love to grow – not only growing as a business, but also reflecting that we are made up of individuals who strive for personal growth;

We do the right thing – we act openly in our relationships both within and outside of Gamma;

We step up and own it – everyone within our organisation takes ownership of problems and helps one another to solve them.

We celebrate these values with our quarterly awards and annual dinner for award winners.

Throughout 2023, our Charity Forum facilitated our employees taking part in various national sporting events, organised a UK-wide charity raffle and supported matched funding on a variety of individual and team activities. I am also pleased to say that in 2024 we will be working with two UK universities providing scholarships for students on STEM programmes.

**Gamma Business**

Gamma Business is our business unit which sells to SMEs in the UK, mainly via Channel Partners. Revenue in 2023 grew from £309.4m to £332.2m – an increase of 7%.

Our growth in the UK SME market through our channel partners continues to be strong. Across the Group our net adds in Horizon were 46k (2022: 75k) and our net adds in PhoneLine+ were 12k (2022: 1k), primarily driven by Gamma Business. In addition, our new acquisition, EnableX, added 25k users on the iPECS platform in 2023. On a pro-forma basis the Group added 83k seats of Cloud PBX products in 2023. We're delighted with this strong growth in the current economic climate.

We have delivered growth in our product aimed at micro-businesses, PhoneLine+. Businesses are slowly beginning to understand that existing "single line" products (based on legacy technology) are being withdrawn between now and the end of 2025. Notwithstanding this, some potential customers are moving to "Metallic Path Framework" or "MPF" solutions provided by some network providers – these solutions effectively mimic the PSTN and mean that the end user does not need a cloud solution such as PhoneLine+. We expect these solutions to be retired over the next five years as local telephone exchanges are closed which will mean that the growth of PhoneLine+ is likely to be slower than anticipated in 2024 and 2025 but stronger after this period.

While the sales of PhoneLine+ accelerated, the Horizon base continued to increase but net new volumes were lower than in previous years. This was caused by both a reduction in gross adds and a slight increase in churn. The latter is driven by end users ceasing the service and returning their phone numbers to the general pool (as opposed to moving to another operator); in other words, this is due to businesses ceasing to trade or downsizing in response to a weakness in the economy.

The reduction in gross adds was due to some customers requiring features which Horizon does not support. As noted above, we have addressed this by the addition of Ericsson-LG in 2023. In 2024 we intend to add Cisco solutions to the portfolio. We now have a more complete set of solutions than we have ever had, and we can meet the needs of all businesses.

The cross-selling of additional modules for Horizon (such as call recording or collaboration) continues to be pleasing and our penetration rates continue to increase, which is important as this offsets any ARPU reductions on the sales of the core Horizon product. As we extend the portfolio of solutions (as described above) and new technologies, such as AI, come into the communications space, the opportunity to cross sell and up sell increases across Phoneline+, iPECS and Cisco.

Connectivity remains a core component of our portfolio, and we grew our UK volumes of both broadband, to 168k (2022: 158k), and ethernet, to 20.9k (2022: 19.4k). In 2024 we will continue to focus on the geographic availability and pricing of our services to give our customers and partners the connectivity services they need to support their business.

We continue to be the leading supplier of voice enablement for Teams and we now have a base of 429k users (2022: 356k) taking either our Operator Connect or Direct Routing Solutions. As mentioned above, our acquisition of Coolwave will increase the total addressable market for voice enablement of Teams. The acquisition will also enhance the offering from our Service Provider business (which is reported within Gamma Business). The Service Provider business provides carrier services such as hosting telephone numbers and connecting calls.  Our customers are carriers who wish to run a service in the UK but do not have network capabilities. Our customers include several of the hyperscalers and over half of Gartner's magic quadrant providers in UCaaS, CCaaS and CPaaS. We will also be able to offer these customers services in around 20 countries, which greatly enhances the growth prospects of this part of the business unit.

**Gamma Enterprise**

Gamma Enterprise revenues, supported by the acquisition of Satisnet, which contributed £4.6m of revenue, grew from £102.0m to £110.1m in 2023 – an overall increase of 8%.

The general softness in the economy noted above also affected the organic growth of our Enterprise business unit.  We saw elongated sales cycles with decisions delayed. Whilst our growth in 2023 was therefore lower than anticipated, our pipeline going into 2024 is strong because those buying decisions were delayed, not avoided, and customers are now being signed up. Our portfolio strength and variety is enabling us to win a large and varied group of Enterprise and Public Sector customers. Our ability to build and manage their solutions assists us in re-signing contracts with our existing customers. Our Microsoft Teams voice enablement solution has been deployed by the largest UK Enterprise and Public Sector organisations such as HMRC, DWP and the London Stock Exchange. During 2023 Central England Co-op and Redde Northgate plc both awarded us multi-year contracts for large SD-WAN estates. Epping Forest and Gloucester Councils adopted our combined UCaaS and CCaaS solution and the Home Office has selected Gamma as its mobile provider for the next three years.

**Europe**

Our growth in Europe was also pleasing. Revenue in 2023 grew from £73.2m to £79.4m – an increase of 8%.

During the year we added 7k seats of Cloud PBX – mainly driven by sales in Germany. The German market continues to be slow to embrace Cloud PBX (and indeed cloud products in general) and penetration remains below 20%. We see Germany as a significant driver for growth in the medium term and longer term – annual growth rates are likely to be lower than we have seen in the UK but, given the overall market is larger, growth will likely last for many years to come. As well as the organic growth potential, we continue to seek acquisitions to improve our scale and market position in Germany.

While Teams usage in Europe lags behind that of the UK, we are building a base of Operator Connect customers and we are now the leading supplier of Operator Connect in the Netherlands – albeit the market is very immature.

## Key market trends

### *UK market growth*

We have identified three key trends in the UK market which will continue to drive our growth.

***More complex communications solutions are being required by users***

Both changing working patterns (e.g. hybrid and home working) and new technologies (e.g. omnichannel and AI) mean that businesses are becoming more demanding in what they require from their communications systems.

This presents opportunities, but there is also the risk that Gamma fails to keep up with the additional demands. The gross adds on our Horizon solution were slightly lower than in previous years because Horizon lacks features which some end users are now demanding. We have responded to this trend by broadening our UCaaS portfolio in the UK to include more feature-rich solutions from Ericsson-LG and Cisco.

Over time we expect to require a broader portfolio of solutions which incorporate all of the latest technologies to be able to compete across the whole market as needs and demands become more complex. Through a combination of partnering with the global technology giants and developing our own solutions where it is commercially sensible to do so, we will be the only pan-European communications provider which is able to supply solutions to all customers no matter how complex their needs are.

***PSTN Switch off***

At the end of 2025, BT will cease to provide services which are underpinned by the PSTN. This will mean that millions of consumers and micro-businesses will need to seek another solution for their broadband and voice. While some are choosing to delay their digital journey through temporary MPF solutions or may choose to cancel their landline altogether, Gamma is well placed to provide next generation solutions for forward-thinking businesses. Gamma can supply both broadband and voice – the latter being provided by our own PhoneLine+ solution, Horizon or iPECS. We see this as an opportunity for growth over the coming years.

***Hardware PBX to cloud migrations***

We expect a trend to emerge where end users who have taken Gamma SIP to voice enable a hardware PBX will move towards a full UCaaS solution. We have not seen this happening in volume during 2023. We believe that the lack of migration to date has been because the hardware PBX solutions which are still in use are more feature rich than the Cloud PBX products which have been widely available and are generally bought on long-term contracts.

As Cloud PBX solutions become more feature rich, this trend will accelerate and we expect end users to migrate away from a SIP/hardware solution. There is a risk that Gamma may lose business, but we believe we are well placed to increase ARPUs for customers who stay with Gamma. The wholesale ARPU from a SIP customer is typically around £1.25 per user per month. If these customers migrate to a Teams solution, that can double, and it can increase further if end users migrate to one of Gamma's UCaaS offerings. To capitalise on this coming trend it has been important for Gamma to increase the breadth of its UCaaS portfolio. Hardware PBXs are not homogenous and have a variety of features. As noted previously, Gamma now has a wide variety of cloud solutions and is therefore able to meet the needs of most end users.

### European market growth

Gamma first acquired businesses in Europe in 2018 and, in the past five years, we have built up a large amount of experience and knowledge of the European communications markets.

Market conditions in the Netherlands and Spain continue to be difficult. The Dutch market is already well penetrated for Cloud PBX and, in Spain, the market is dominated by the MNOs (particularly Telefonica). We do see voice enablement (and particularly voice enablement of MS Teams) as being a growth driver in the Netherlands and Spain over the medium term.

There is a bigger market opportunity in Germany where the cloud market continues to be under-penetrated compared to the rest of Europe. During the year the CEO of our German business, Achim Hager, retired and we thank him for his contribution to the Group. We appointed Gerben Wijbenga, our Dutch CEO, to an expanded role as CEO of a combined Northern Europe business. We also appointed a new Sales Director, Thomas Muschalla, who joined us from nFon (the German market leader by size for Cloud PBX) where he held the same role. We believe that we have a management team and a set of solutions which will enable us to capitalise on the market movement to Cloud PBX as this develops.

**Board changes**

Henrietta Marsh has informed the Board of her intention to retire as the Senior Independent Non-Executive Director at the conclusion of the 2024 AGM having served on the Board since April 2019. Further information on this change and resulting Board Committee changes are provided in a separate announcement.

**Sustainability**

We remain committed to providing transparency and actively engaging with our stakeholders to ensure alignment with our environmental objectives. We ensure that management are incentivised to achieve our aims through ESG targets as part of their bonus metrics and regularly monitor progress. Each of the Executive Committee members have personalised ESG bonus criteria and clear ownership responsibility.

In 2022, we announced a science-based net-zero target of 2042, supporting both the Paris Agreement's aims to limit the temperature increase to 1.5°C globally and the UN Sustainable Development Goal 13: Climate Action. We are pleased to confirm that the SBTi has verified Gamma's net-zero science-based target by 2042.

In 2023 we published our first Sustainability Report, highlighting progress made in all areas of ESG (environment, social and governance). We have published our first report under the Task Force on Climate-related Financial Disclosures ("TCFD") and we have reported compliance with ten out of the eleven recommendations.

**Outlook**

The communications market in Europe continues to grow and evolve. We have identified growth opportunities in the UK and Europe, in SME and Enterprise (using both our own solutions and those of third parties). We believe our improving portfolio of solutions will meet the communications challenges which businesses are facing today and in the future. The recent acquisition of Coolwave has increased the addressable market for our voice enablement products (including MS Teams) and provides new opportunities for our Service Provider business (which is part of Gamma Business).

We saw some evidence of a softer economy in 2023, although early signs in 2024 are that there is some improvement. We believe that our enhanced product set will continue to drive growth but the current economic climate may temper the rate of acceleration. Conversely, the reduction in inflation has reduced pressure on overheads and particularly salaries.

In October 2024, Gamma will celebrate ten years as a listed company. We have grown revenue, Adjusted EBITDA and Adjusted EPS (fully diluted) in every one of the nine years to date and we expect growth to continue in 2024 as we add more users both in the UK and Europe. We have a robust business model based on recurring revenue from solutions that are critical to the businesses which use them. Our continued profitability, strength in cash generation and healthy net cash balance leave us well placed to maximise the opportunity even in challenging macro-economic times.

I look forward to working with our customers, partners and colleagues for the benefit of all our stakeholders as we continue to grow the business over the coming years.

**Andrew Belshaw**

**Chief Executive Officer**

**Supplementary information on product volumes**

The table below shows the movements in the number of SIP Trunks which provide voice enablement to various hardware PBXs and voice applications:

| **Voice Enablement – UK & Europe (000's)** | **December 2023** | December 2022 | Change (%) |
|---|---|---|---|
| SIP Trunks enabling traditional hardware PBX | | | |
| - UK | **1,019** | 1,053 | -3 |
| - Europe | **198** | 183 | 8 |
| | | | |
| SIP Trunks enabling a non-Gamma Cloud PBX | | | |
| - UK | **398** | 367 | 8 |
| - Europe | **-** | - | n/a |
| | | | |
| Voice enabled MS Teams users (either Operator Connect or MS Teams Direct Routing) | | | |
| - UK | **429** | 356 | 21 |
| - Europe | **9** | 1 | 800 |

The table below shows the number of Cloud PBX seats in UK and Europe:

| **Cloud PBX seats – UK & Europe (000's)** | **December 2023** | December 2022 | Change (%) |
|---|---|---|---|
| UK – Horizon | **797** | 751 | 6 |
| UK - iPECS | **130** | - | n/a |
| UK – Micro* | **27** | 15 | 80 |
| **UK – Total** | **954** | 766 | 25 |
| Europe | **161** | 154** | 5 |

**CircleLoop and PhoneLine+, our Cloud PBX products which serve the micro business market*
*** 3,000 CCaaS seats were previously included in the total "European Cloud" seats and are now included in the CCaaS table below. Amounts have also been restated to exclude 7,000 seats which related to a SIP solution added in H2 2022 and are included within the SIP units.*

The table below shows the number of units of the various bolt-ons which are sold to enhance the functionality of UK Cloud PBX (Horizon):

| **Horizon bolt-ons – UK (000's)** | **December 2023** | December 2022 | Change (%) |
|---|---|---|---|
| Call Recording | **117** | 96 | 22 |
| Collaborate | **77** | 73 | 5 |
| Horizon for MS Teams | **13** | 7 | 86 |
| Horizon Contact | **17** | 11 | 55 |

The table below shows the number of CCaaS seats:

| **CCaaS seats – UK & Europe (000's)** | **June 2023** | December 2022 | Change (%) |
|---|---|---|---|
| UK – Horizon Contact* | **17** | 11 | 55 |
| UK – SmartAgent | **13** | 8 | 63 |
| **UK – Total** | **30** | **19** | **58** |
| Europe** | **4** | 3 | 33 |

** All Horizon Contact users also take a "Base Horizon" seat (separately disclosed within Cloud PBX seats); for the avoidance of doubt, these 17,000 seats are the same as the seats in the table above*

*** The Neotel acquisition in October 2022 included 3,000 CCaaS seats*

## Financial review

### Overview

Gamma has performed well during the year, increasing revenue by 8% to £521.7m (2022: £484.6m) and gross profit by 8% to £267.2m (2022: £247.7m). Group Adjusted EBITDA increased by 9% to £114.3m (2022: £105.1m), profit before tax increased by 10% to £71.5m (2022: £64.9m) and Adjusted PBT increased by 12% to £97.9m (2022: £87.8m). EPS (fully diluted) increased to 54.9p (2022: 50.6p) while Adjusted EPS (fully diluted) increased by 5% (2022: 12%) to 75.1p (2022: 71.8p). The reduction in Adjusted EPS (fully diluted) growth was primarily due to the adverse impact of the increase in UK statutory corporation tax rate in April 2023. In the reporting of financial information in this Financial review, the Group uses certain measures in addition to those reported under IFRS, under which the Group reports. These measures are known as Alternative Performance Measures ("APMs"). The Group believes that these additional measures, which are used internally, are useful to users of the financial information in helping them understand business performance. The Group does not consider these APMs to be a substitute for, or superior to, the equivalent measures calculated and presented in accordance with IFRS. These APMs are explained, defined and reconciled from the most comparable IFRS metric in the Alternative Performance Metric section and used consistently period on period.

### Revenue and gross profit

### Gamma Business

| | **2023** | 2022* | Increase |
|---|---|---|---|
| | **£m** | £m | |
| Revenue | **332.2** | 309.4 | +7% |
| Gross profit | **176.1** | 163.7 | +8% |
| Gross margin | **53.0%** | 52.9% | |

*See note 3 for segmental change information and restated comparatives

Overall, the growth in Gamma Business has been strong. Growth was primarily driven by our UCaaS portfolio, which includes our Horizon Cloud PBX solution as well as those SIP trunks supporting MS Teams implementations and other non-Gamma Cloud PBX solutions. UCaaS unit growth continued, with PhoneLine+ (Gamma's own software solution) making a more significant contribution to the product mix. Horizon Cloud PBX and additional module bolt-ons net growth was lower than in prior periods, partially due to this change in mix. Revenue growth has also been supported through targeted price rises, including across our connectivity portfolio. Gross margin has been stable with previous periods, which is in line with expectations, as the mix of UCaaS and connectivity products is now reasonably consistent.

**Gamma Enterprise**

| | 2023 £m | 2022* £m | Increase |
|---|---|---|---|
| Revenue | **110.1** | 102.0 | +8% |
| Gross profit | **52.6** | 49.3 | +7% |
| Gross margin | **47.8%** | 48.3% | |

*See note 3 for segmental change information and restated comparatives

Gamma Enterprise has continued to have significant contract wins, including UK-wide SD-WAN solutions for Redde Northgate plc and the Denholm Group, and a Microsoft Teams implementation with a Contact Centre as a Service (“CCaaS”) overlay for Gloucester County Council. There have also been a number of wins for our AWS omnichannel contact centre, via our enablement tool SmartAgent, with the Government Digital Project and Shawbrook Bank. In addition, Satisnet Limited, the UK-based Managed Security Services Provider that was acquired in August 2023, has been successfully integrated, contributing £4.6m of revenue and £1.5m of gross profit in the year. The gross margin decrease is due to Satisnet having a lower gross profit margin.

**Europe**

| | 2023 £m | 2022 £m | Increase |
|---|---|---|---|
| Revenue | **79.4** | 73.2 | +8% |
| Gross profit | **38.5** | 34.7 | +11% |
| Gross margin | **48.5%** | 47.4% | |

Growth in both SIP and UCaaS, with UCaaS supported by the NeoTel acquisition, resulted in an improved year-on-year financial performance with good growth in both European revenue and gross profit. Results were further bolstered by positive foreign exchange movements, with a Euro that strengthened against Sterling compared to the prior year. Gross profit growth was 8% excluding foreign exchange movements. The gross margin improvement was supported by the successful integration of the NeoTel business acquired in 2022.

**Operating expenses**

Operating expenses grew from £182.3m in 2022 to £200.2m (£184.2m net of £16.0m exceptional items outlined below). We break these down as follows:

| | **2023** | 2022 | Change |
|---|---|---|---|
| | **£m** | £m | |
| Expenses included within cash generated from operations | **152.9** | 142.6 | 7% |
| Depreciation and amortisation (excluding business combinations) | **21.3** | 17.7 | 20% |
| Amortisation arising due to business combinations | **10.0** | 9.5 | 5% |
| Exceptional items | **16.0** | 12.5 | 28% |
| **Total operating expenses** | **200.2** | 182.3 | 10% |

Expenses included within cash generated from operations increased by 7%, comprising the following:

- The UK businesses' operating expenses grew by 7% (compared to gross profit growth of 7%). These expenses (the majority of which relate to staff) have been actively controlled with mitigating product price changes where appropriate given the inflationary environment.
- The increase in European operating expenses costs was 10% (compared to gross profit growth of 11%). This was adversely impacted by the stronger Euro and general inflationary pressures. Excluding the impact of foreign exchange movements, the increase was 8%.
- Central costs remained broadly flat from the prior period.

Depreciation and amortisation on tangible and intangible assets (excluding business combinations) increased to £21.3m (2022: £17.7m). The annual depreciation and amortisation charge remained below the annual capital expenditure spend.

Amortisation arising due to business combinations increased to £10.0m (2022: £9.5m). This reflected an increased level of intangible assets as a result of further bolt-on acquisitions in the year, as well as the impact of a full year of amortisation on the NeoTel intangible assets in 2023.

**Exceptional items**

There were two exceptional items in the year (2022: two), a non-cash impairment of £12.7m and a one-off restructuring cost of £3.3m. The cash cost of the restructuring in the year was £0.2m (2022: £nil), with the remainder payable in 2024.

*Restructuring costs*

Following organisational changes related to the expanded UCaaS offering and the combining of the German and Dutch senior leadership teams, a restructuring exercise was carried out in late 2023, which resulted in one-off severance costs of £3.3m.

*Development cost intangible asset impairment*

A non-cash impairment of £12.7m on intangible development cost assets has been recognised in the year. This resulted from stopping ongoing development of some of our own collaboration software following the acquisition of EnableX in December 2023, which provides a partnership with Ericsson-LG that further expands our UCaaS offering, along with the strengthening of our partnership with Cisco.

The exceptional items in 2022 were impairment of goodwill on the Spanish cash-generating unit ("CGU") and a small loss on disposal of a subsidiary. A non-cash impairment of the Spanish CGU was recognised in 2022 (£12.2m). This CGU was impacted by challenging local market economic conditions. It was anticipated that the achievement of future business performance targets may take longer than originally forecast. This, combined with the increase in discount rates applied, resulted in an impairment. On 5 August 2022 Gamma completed the sale of ComyMedia, previously part of the Spanish CGU, for €1. ComyMedia specialised in IT solutions and had little fit with the rest of Gamma's European business. An exceptional loss of £0.3m was recognised relating to proceeds on disposal less the book value of the net assets of the business. ComyMedia generated a negligible EBITDA contribution in 2022 prior to disposal.

**Adjusted EBITDA**

Adjusted EBITDA grew from £105.1m to £114.3m (9%) driven by the revenue and gross profit growth in both the UK and Europe together with Group-wide cost control.

**Profit before tax**

Profit before tax grew from £64.9m to £71.5m (10%), driven by the revenue and gross profit growth in both the UK and Europe together with Group-wide operating expense cost control. In addition, finance income increased by £4.6m to £5.4m (2022: £0.8m) due to an increased amount of cash held alongside an increase in interest rates. Finance costs reduced slightly from £1.3m to £0.9m.

**Taxation**

The effective tax rate for 2023 was 25% (2022: 24%). This increase follows the statutory UK rate rising from 19% to 25% in April 2023. The effective tax rate in 2023 applied to trading profits was above the 23.5% statutory UK average rate due primarily to expenses that are not deductible in determining taxable profit. The rate in 2022 was increased relative to the statutory rate at the time by the goodwill impairment charge on the Spanish CGU, which is a non-deductible tax expense. The tax rate in future years will increase as a result of a full year of the UK tax rate increase to 25%.

**Net Cash and cash flows**

The Group had Net Cash of £134.8m (2022: £92.5m). This comprised cash and cash equivalents of £136.5m (2022: £94.6m) at the end of the year, offset by borrowings of £1.7m (2022: £2.1m) held by European trading subsidiaries and which pre-dates their acquisition by Gamma.

Cash generated by operations was £123.5m (2022: £99.1m). The ratio of cash generated by operations as a percentage of Adjusted EBITDA ("Adjusted cash conversion") was 108% (2022: 94%). The increase in cash conversion was primarily the result of favourable year-on-year working capital movements totalling £19.2m, including:

- A year-on-year favourable movement of £16.8m in relation to trade and other receivables, with the majority of the cash effect of the unwind of some prepayments in 2022 and 2023 and with the remainder attributable primarily to improved debtor days.
- A year-on-year favourable movement of £1.6m in relation to advance inventory purchases in 2022 to de-risk potential supply chain delays.

The primary cash items which are not directly related to trading were:

- Capital spend was £23.0m, which is an increase from £20.7m in the comparative period. This is discussed below.
- £30.5m was the total payment for acquisitions net of cash acquired (2022: £9.8m): £8.3m for the acquisition of Satisnet (net of cash acquired), £18.9m for the acquisition of EnableX (net of cash acquired) which included £7.7m to repay all EnableX borrowings on acquisition, £0.9m of contingent consideration paid in cash as final payment for Exactive and £2.4m of contingent consideration based on milestones achieved in 2022 in relation to Mission Labs.
- £1.3m was paid to acquire the remaining 3.95% of shares in Gamma Holding GmbH.

- £4.9m (2022: £0.8m) of interest was received on cash and cash equivalents, increased during the year due to higher cash holdings and improved interest rates.
- £1.9m was received from the issue of shares (2022: £3.1m) on the exercise of share options.
- £15.2m was paid as dividends (2022: £13.3m).

Gamma's Group treasury policy is governed by the Audit Committee. Gamma manages cash centrally and seeks to maximise value and return whilst balancing associated risks. The policy manages concentration risk by setting an appropriate limit on the amount that can be placed with any one institution, and manages credit risk by setting a minimum requirement around the credit rating of the financial Institution. Given 85% of Group revenue is generated from our UK business, all deposit balances are held with large established UK financial institutions. Cash in Europe is held for working capital purposes and follows the credit rating requirements as set out above.

**Capital spend**

Capital spend in 2023 was £23.0m (2022: £20.7m), broken down as follows:

- £5.6m on the core network, including increasing capacity as well as computer equipment and fixtures and fittings (2022: £6.8m).
- £14.4m on the capitalisation of development costs incurred during the period (2022: £13.1m). The increase was due to the continued development of our own portal and our own voice applications (in part using the capabilities acquired with Mission Labs) and is partially offset by the amounts paid to third parties as outlined below.
- £3.0m with third-party software vendors for the software which underpins our Cloud PBX products (2022: £0.8m).

**Adjusted EPS (fully diluted) and EPS (fully diluted)**

Adjusted EPS (fully diluted) increased from 71.8p to 75.1p (5%), which compares to a 12% increase in 2022. The reduction in growth is primarily due to the increase in statutory UK corporation tax rate to 25% in April 2023. There will be a continued impact on Adjusted EPS (fully diluted) growth in 2024 when the statutory tax rate increase impact will be annualised.

EPS (fully diluted) increased from 50.6p to 54.9p (8%). The growth is higher than the adjusted metric because, in the current year, amortisation relating to business combinations has grown at a slower rate. The growth rate has also been impacted by the increase in statutory UK corporation tax rate to 25% in April 2023.

**Acquisitions**

The acquisitions of Satisnet and EnableX in the year were the primary driver behind the £30.4m increase in intangible assets from £124.3m to £154.7m. These acquisitions created intangible additions of £46.1m, including £36.6m of goodwill and £6.6m of customer contract intangible assets. The exercise to identify and value EnableX acquired intangible assets remains provisional at this time due to proximity of the acquisition to the year end.

Acquisitions were also the primary reason behind the increase in contract liabilities from £17.0m to £26.2m, with £1.9m acquired with Satisnet and £4.5m acquired with EnableX.

Acquisitions also drove the £4.4m increase in contingent consideration from £5.0m to £9.4m. Additions totalled £7.5m (£3.9m in relation to Satisnet and £3.6m in relation to EnableX). These were partially offset by settlement of the final element of the Exactive contingent consideration for £1.1m and settlement of £2.4m of contingent consideration in relation to the 2022 Mission Labs milestones, both of which had been previously accrued.

Share premium also increased by £4.9m in the year from £18.0m to £22.9m. £2.8m of this increase was attributable to the Satisnet acquisition, where £2.8m of the consideration was in ordinary shares issued. Exercise of share options also increased share premium by £1.9m.

**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 contained in the Annual Report for the year ended 31 December 2023 ("Annual Report"). In assessing going concern, management and the Board have considered:

- The principal risks faced by the Group discussed further in the Annual Report.
- The financial position of the Group.
- The strong cash position – at 31 December 2023 the Group had cash and cash equivalents of £136.5m (2022: £94.6m) and Net Cash of £134.8m (2022: £92.5m). Borrowings of £1.7m (2022: £2.1m) were all acquired with acquisitions made in previous years.
- Budgets, financial plans and associated future cash flows which incorporate completed acquisitions up to the date of the Annual Report including the Coolwave acquisition and the share buyback programme of £35m to be executed in 2024, including liquidity and borrowings.
- Sensitivity analysis, which has shown that EBITDA would need to decrease by more than 100% for the Group to need additional borrowing (assuming no mitigating actions had been taken). We consider this to be highly unlikely.

The Directors are satisfied that the Group and Company have adequate financial resources to continue in operational existence for the foreseeable future, being a period of at least 12 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.

**Capital allocation policy**

Gamma has a strong unlevered balance sheet and continues to generate significant operating cash flow. The Board's main priorities when it comes to our cash is to enhance the growth of the business, both organically and through acquisition, and to reward shareholders through growth in earnings alongside our progressive dividend policy while retaining a robust capital base.

Where there is surplus cash over and above the needs of funding that organic and inorganic growth, the Board will consider additional one-off returns of capital to shareholders. After applying the Board's capital allocation framework we are announcing an intention to launch a share buyback programme of £35m to be executed over the next six months, until early September (see separate announcement).

The Board will continue to keep its capital allocation policy and further distributions to shareholders under review, with consideration of other potential uses of capital that may drive value for shareholders over the medium term.

**Dividends**

The Board is proposing a final dividend of 11.4p (2022: 10.0p). This is an increase of 14% and is in line with our progressive dividend policy. Subject to shareholder approval, the final dividend is payable on Thursday 20 June 2024 to shareholders on the register on Friday 31 May 2024.

**Financial guidance**

The Board anticipates Adjusted EBITDA and Adjusted EPS (fully diluted) for the year ending 31 December 2024 will be in the range of current market expectations*. The Adjusted EBITDA and Adjusted EPS (fully diluted) guidance excludes the one-off incremental costs relating to the implementation of new cloud-based Finance and HR systems, which we intend to treat as an adjusting item and are anticipated to be c.£3m in total and split over 2024 and 2025. UK corporation tax rate is expected to increase from a blended rate of 23.5% to 25%, with expected capital spend of £22m-£25m and Adjusted cash conversion of 90%+.

**Company compiled range is based on known sell side analyst estimates as at 22 March 2024. The ranges are Adjusted EBITDA of £118.3m to £127.4m and Adjusted EPS (fully diluted) of 75.8p to 86.3p.*

**Bill Castell**

**Chief Financial Officer**

**Consolidated statement of profit or loss**

For the year ended 31 December 2023

| | Note | **2023 £m** | 2022 £m |
|---|---|---|---|
| **Revenue** | 3 | **521.7** | 484.6 |
| Cost of sales | | **(254.5)** | (236.9) |
| **Gross profit** | | **267.2** | 247.7 |
| Operating expenses | | **(200.2)** | (182.3) |
| **Earnings before interest, tax, depreciation, amortisation and exceptional items (Adjusted EBITDA)** | | **114.3** | 105.1 |
| Exceptional items | 4 | **(16.0)** | (12.5) |
| **Earnings before interest, tax, depreciation and amortisation (EBITDA)** | | **98.3** | 92.6 |
| Depreciation and amortisation (excluding business combinations) | | **(21.3)** | (17.7) |
| Amortisation arising due to business combinations | | **(10.0)** | (9.5) |
| **Profit from operations** | | **67.0** | 65.4 |
| Finance income | | **5.4** | 0.8 |
| Finance expense | | **(0.9)** | (1.3) |
| **Profit before tax** | | **71.5** | 64.9 |
| Tax expense | 5 | **(17.8)** | (15.4) |
| **Profit after tax** | | **53.7** | 49.5 |
| **Profit is attributable to:** | | | |
| Equity holders of Gamma Communications plc | | **53.6** | 49.3 |
| Non-controlling interests | | **0.1** | 0.2 |
| | | **53.7** | 49.5 |
| **Earnings per share attributable to the ordinary equity holders of the company:** | | | |
| Basic per Ordinary Share (pence) | 6 | **55.2** | 51.1 |
| Diluted per Ordinary Share (pence) | 6 | **54.9** | 50.6 |

*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 2023

| | 2023 £m | 2022* £m |
|---|---|---|
| **Profit after tax** | **53.7** | 49.5 |
| ***Other comprehensive income/(expense)*** | | |
| *Items that may be reclassified subsequently to the profit or loss* | | |
| Exchange differences on translation of foreign operations before tax | **(0.9)** | 3.5 |
| Tax effect of exchange differences on translation of foreign operations | **0.3** | (0.6) |
| **Total comprehensive income** | **53.1** | 52.4 |
| | | |
| **Attributable to:** | | |
| Equity holders of Gamma Communications plc | **53.0** | 52.2 |
| Non-controlling interests | **0.1** | 0.2 |
| | **53.1** | 52.4 |

* For re-presentation of 2022 comparatives refer to note 1, section Consolidated statement of comprehensive income.

**Consolidated statement of financial position**
As at 31 December 2023

| | Note | 2023 £m | 2022* £m |
|---|---|---|---|
| **Assets** | | | |
| **Non-current assets** | | | |
| Property, plant and equipment | 8 | **30.5** | 33.8 |
| Right of use assets | | **7.9** | 9.1 |
| Intangible assets | 9 | **154.7** | 124.3 |
| Deferred tax asset | | **6.5** | 5.5 |
| Trade and other receivables | | **11.8** | 10.0 |
| Contract assets | | **2.9** | 3.0 |
| | | **214.3** | 185.7 |
| **Current assets** | | | |
| Inventories | | **11.8** | 10.2 |
| Trade and other receivables | | **76.1** | 75.0 |
| Contract assets | | **32.5** | 34.4 |
| Cash and cash equivalents | | **136.5** | 94.6 |
| Current tax asset | | **3.6** | 6.9 |
| | | **260.5** | 221.1 |
| **Total assets** | | **474.8** | 406.8 |
| **Liabilities** | | | |
| **Non-current liabilities** | | | |
| Other payables | | **0.1** | 2.7 |
| Borrowings | | **1.4** | 1.7 |
| Lease liabilities | | **7.0** | 8.6 |
| Provisions | | **1.7** | 0.9 |
| Contract liabilities | | **12.1** | 7.8 |
| Contingent consideration | 11 | **7.7** | 1.5 |
| Put option liability | | **1.1** | - |
| Deferred tax | | **10.4** | 11.3 |
| | | **41.5** | 34.5 |
| **Current liabilities** | | | |
| Trade and other payables | | **66.5** | 54.0 |
| Borrowings | | **0.3** | 0.4 |
| Lease liabilities | | **3.0** | 2.5 |
| Provisions | | **3.4** | 0.7 |
| Contract liabilities | | **14.1** | 9.2 |
| Contingent consideration | 11 | **1.7** | 3.5 |
| Put option liability | | **-** | 1.8 |
| Current tax | | **0.1** | 0.5 |
| | | **89.1** | 72.6 |
| **Total liabilities** | | **130.6** | 107.1 |
| **Net assets** | | **344.2** | 299.7 |
| **Equity** | | | |
| Share capital | 12 | **0.2** | 0.2 |
| Share premium reserve | | **22.9** | 18.0 |
| Other reserves | 13 | **6.9** | 9.0 |
| Retained earnings | | **315.1** | 273.9 |
| **Equity attributable to owners of Gamma Communications plc** | | **345.1** | 301.1 |
| Non-controlling interests | | **0.2** | 0.8 |
| Written put options over non-controlling interests | | **(1.1)** | (2.2) |
| **Total equity** | | **344.2** | 299.7 |

* For re-presentation of 2022 comparatives refer to note 1, section Consolidated statement of financial position.

## Consolidated statement of cash flows

For the year ended 31 December 2023

| | Note | 2023 £m | 2022 £m |
|---|---|---|---|
| **Cash flows from operating activities** | | | |
| Profit for the year before tax | | **71.5** | **64.9** |
| Adjustments for: | | | |
| Depreciation of property, plant and equipment | 8 | **9.3** | **9.5** |
| Depreciation of right of use asset | | **2.3** | **2.8** |
| Amortisation of intangible assets | 9 | **19.7** | **14.9** |
| Impairment of intangible assets | 9 | **12.7** | **-** |
| Impairment of goodwill | 9 | **-** | **12.2** |
| Change in fair value of contingent consideration/put option liability | | **-** | **(0.9)** |
| Share-based payment expense | | **2.7** | **4.3** |
| Interest income | | **(5.4)** | **(0.8)** |
| Finance expense | | **0.9** | **1.3** |
| Loss on disposal of subsidiary undertaking | 4 | **-** | **0.3** |
| | | **113.7** | **108.5** |
| Decrease/(increase) in trade and other receivables and contract assets | | **6.7** | **(10.1)** |
| Increase in inventories | | **(1.0)** | **(2.6)** |
| Increase in trade and other payables | | **2.1** | **4.1** |
| Decrease in contract liabilities | | **(1.5)** | **(0.4)** |
| Increase/(decrease) in provisions | | **3.5** | **(0.4)** |
| **Cash generated by operations** | | **123.5** | **99.1** |
| Taxes paid | | **(15.3)** | **(14.4)** |
| **Net cash flows from operating activities** | | **108.2** | **84.7** |
| **Investing activities** | | | |
| Proceeds on disposal of property, plant and equipment | | **-** | **0.4** |
| Purchase of property, plant and equipment | 8 | **(5.6)** | **(6.8)** |
| Purchase of intangible assets | 9 | **(17.4)** | **(13.9)** |
| Interest received | | **4.9** | **0.8** |
| Acquisition of subsidiaries net of cash acquired | 10 | **(22.8)** | **(9.8)** |
| Disposal of subsidiary net of disposed cash | | **-** | **(0.3)** |
| **Net cash used in investing activities** | | **(40.9)** | **(29.6)** |
| **Financing activities** | | | |
| Lease liability repayments | | **(2.3)** | **(2.8)** |
| Put option liability payment | | **(1.3)** | **-** |
| Repayment of borrowings | | **(0.5)** | **(0.7)** |
| Repayment of borrowings acquired with acquisitions | 10 | **(7.7)** | **-** |
| Interest paid | | **(0.1)** | **(0.1)** |
| Share issues | | **1.9** | **3.1** |
| Dividends | 7 | **(15.2)** | **(13.3)** |
| **Net cash used in financing activities** | | **(25.2)** | **(13.8)** |
| **Net increase in cash and cash equivalents** | | **42.1** | **41.3** |
| Cash and cash equivalents at beginning of the year | | **94.6** | **52.8** |
| Effects of exchange rate changes on cash and cash equivalents | | **(0.2)** | **0.5** |
| **Cash and cash equivalents at end of the year** | | **136.5** | **94.6** |

**Consolidated statement of changes in equity**

For the year ended 31 December 2023

| | Share capital | Share premium reserve | Other reserves | Retained earnings | Total | Non-Controlling interests | Written put options over non-controlling interests | Total equity |
|---|---|---|---|---|---|---|---|---|
| | £m | £m | £m | £m | £m | £m | £m | £m |
| 1 January 2022 | 0.2 | 14.9 | 4.5 | 239.1 | 258.7 | 2.2 | (6.7) | 254.2 |
| Issue of shares | - | 3.1 | (2.7) | 2.7 | 3.1 | - | - | 3.1 |
| Share-based payment expense | - | - | 4.3 | - | 4.3 | - | - | 4.3 |
| Tax on share-based payment expense: | | | | | | | | |
| - Current tax | - | - | - | 0.1 | 0.1 | - | - | 0.1 |
| - Deferred tax | - | - | - | (1.1) | (1.1) | - | - | (1.1) |
| Non-controlling interests on acquisition of subsidiary | - | - | - | 1.6 | 1.6 | (1.6) | - | - |
| Equity put rights | - | - | - | (4.5) | (4.5) | - | 4.5 | - |
| Dividends paid | - | - | - | (13.3) | (13.3) | - | - | (13.3) |
| **Transactions with owners** | - | 3.1 | 1.6 | (14.5) | (9.8) | (1.6) | 4.5 | (6.9) |
| Profit for the year | - | - | - | 49.3 | 49.3 | 0.2 | - | 49.5 |
| Other comprehensive income | - | - | 2.9 | - | 2.9 | - | - | 2.9 |
| **Total comprehensive income** | - | - | 2.9 | 49.3 | 52.2 | 0.2 | - | 52.4 |
| **31 December 2022** | **0.2** | **18.0** | **9.0** | **273.9** | **301.1** | **0.8** | **(2.2)** | **299.7** |
| **1 January 2023** | **0.2** | **18.0** | **9.0** | **273.9** | **301.1** | **0.8** | **(2.2)** | **299.7** |
| Issue of shares | - | 4.9 | (4.2) | 4.2 | 4.9 | - | - | 4.9 |
| Share-based payment expense | - | - | 2.7 | - | 2.7 | - | - | 2.7 |
| Tax on share-based payment expense: | | | | | | | | |
| - Deferred tax | - | - | - | (0.1) | (0.1) | - | - | (0.1) |
| Non-controlling interests on acquisition of subsidiary | - | - | - | 0.9 | 0.9 | (0.7) | - | 0.2 |
| Equity put rights | - | - | - | (2.2) | (2.2) | - | 1.1 | (1.1) |
| Dividends paid | - | - | - | (15.2) | (15.2) | - | - | (15.2) |
| **Transactions with owners** | - | 4.9 | (1.5) | (12.4) | (9.0) | (0.7) | 1.1 | (8.6) |
| Profit for the year | - | - | - | 53.6 | 53.6 | 0.1 | - | 53.7 |
| Other comprehensive (expense) | - | - | (0.6) | - | (0.6) | - | - | (0.6) |
| **Total comprehensive (expense)/income** | - | - | (0.6) | 53.6 | 53.0 | 0.1 | - | 53.1 |
| **31 December 2023** | **0.2** | **22.9** | **6.9** | **315.1** | **345.1** | **0.2** | **(1.1)** | **344.2** |

**Notes to the consolidated financial statements**

For the year ended 31 December 2023

## 1. Basis of preparation

The preliminary results for the year ended 31 December 2023 are an abridged statement of the full Annual Report which was approved by the Board of Directors on 24 March 2024. The consolidated financial statements in the full Annual Report are prepared in accordance with UK-adopted International Financial Reporting Standards ("IFRS"), with IFRS as issued by the International Accounting Standards Board ("IASB") and with the requirements of the Companies Act 2006.

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 2023 on which the auditor has expressed an unqualified opinion and do not include any statement under section 498 of the Companies Act 2006. The Group's statutory consolidated financial statements for the year ended 31 December 2023 will be available at the Gamma Communications plc website in due course and will be posted to shareholders prior to the AGM and subsequently filed at Companies House.

The financial information included in this preliminary announcement does not itself contain sufficient information to comply with IFRS. The annual report and audited financial statements for the year ended 31 December 2023 will be made available on the Group's website in March 2024.

The financial statements are presented in Pounds Sterling and, unless otherwise stated, have been rounded to the nearest 0.1 million (£m). The consolidated financial statements have been prepared on a going concern basis under the historical cost convention, except for certain financial instruments which have been measured at fair value.

The accounting policies adopted are consistent with those followed in the preparation of the audited statutory consolidated financial statements for the year ended 31 December 2023.

A full set of the audited statutory accounts will be available in due course at:
www.gammagroup.co/company/investors/results-presentations/

There are no additional standards or interpretations requiring adoption that are applicable to the Group for the accounting period commencing 1 January 2023.

**Consolidated statement of comprehensive income**

The Group has revised the presentation of the Consolidated statement of comprehensive income to present exchange differences and the tax effect of them separately. These were presented as one net figure previously. The revised presentation is considered to be more helpful to the users of the accounts. The comparatives have been re-presented to be consistent with the revised presentation format.

**Consolidated statement of financial position**

The Group has revised the presentation of the Consolidated statement of financial position to present contract assets separately. These were presented within Trade and other receivables in previous periods. The revised presentation is considered to be more helpful to the users of the accounts, given the relative materiality of contract assets. The comparatives have been re-presented to be consistent with the revised presentation format. Contract costs were previously included within contract assets in Trade and other receivables and continue to be included within Trade and other receivables as contract costs. The revision has no impact on the Consolidated statement of profit or loss or cash flows, or total or net assets.

**Consolidated statement of cash flows**

In 2023 the put option liability payment of £1.3m was recorded within financing activities given no change in control. In 2022 a comparable put option liability payment of £3.8m was recorded in acquisition of subsidiaries net of cash required within investing activities and has not been re-presented as it is not material.

## 2. Accounting policies, judgements and estimates

The accounting policies adopted are consistent with those followed in the preparation of the audited statutory consolidated financial statements for the year ended 31 December 2023.

Preparation of the consolidated financial statements requires the Group to make certain estimations, assumptions and judgements regarding the future. Estimates and judgements are continually evaluated based on historical experience and other factors, including best estimates of future events. In the future, actual experience may differ from these estimates and assumptions. The following are considered to be the critical accounting judgements and key sources of estimation uncertainty.

### Critical accounting judgements

Critical judgements, apart from those involving estimations, applied in the preparation of the consolidated financial statements are discussed below:

### Revenue recognition

Revenue recognition on contracts may involve providing services over multiple years and involving a number of products. In such instances, judgement is required to identify the date of transaction of separable elements of the contract and the fair values which are assigned to each element. For more information on the Group's revenue recognition policy please see note 1, Accounting policies of the full set of the statutory consolidated financial statements.

### Key accounting estimates

Key accounting estimates that could have a significant risk of causing a material adjustment within the next financial year are discussed below:

### Contingent consideration

At 31 December 2023, the fair value of contingent consideration liabilities amounted to £9.4m (2022: £5.0m). This is based on estimates of the future financial performance of the acquired entity. The maximum amount that could be paid is £16.5m due by the end of 2027, dependent upon financial performance. Further details on these estimates and sensitivity of the fair value of contingent consideration is provided within note 11 Contingent Consideration.

## 3. Segment information

In recent years, Gamma has widened its product and solution/services set to address the communications needs of a broader range of businesses. Post pandemic, customer requirements have evolved in respect of their telecommunications and IT infrastructure and methods of procurement for such products and services have broadened. Because of this, the Group's business unit responsibilities have been realigned to allow the business units to focus more directly on customer needs and preferences.

Our two UK business units are now aligned with customer groups rather than routes to market. We have therefore updated our segmental reporting structure to reflect the way in which the Group now manages its operations.

Previously the reported segments were UK Indirect, UK Direct, Europe and Central Functions. The new segments are Gamma Business, Gamma Enterprise, Europe and Central Functions. Gamma Business consists of the former UK Indirect business with the addition of some customers and associated costs from the UK Direct business (now Gamma Enterprise). This has resulted in a £13.5m revenue movement between segments for the year ended 31 December 2022 (3% of group revenue) with no change in Executive Committee leadership.

This change in segmentation resulted in the following movements between the former Direct segment to the former Indirect segment for FY 2022: revenue of £13.5m, gross profit of £8.1m and overheads of £6.2m, resulting in a £1.9m EBITDA movement between segments for the year ended 31 December 2022.

This change in reporting structure has taken effect for reporting in 2023.

The Group's main operating segments are outlined below:

Gamma Business – This division sells Gamma's products to smaller businesses in the UK, typically with fewer than 250 employees. This division sells through different routes including the channel, direct, digital and other carriers who sell to smaller businesses in the UK. It contributed 64% (2022: 64%) of the Group's external revenue.

Gamma Enterprise – This division sells Gamma's products to larger businesses in the UK, typically to those with more than 250 employees. Larger organisations have more complex needs so this division sells Gamma's and other suppliers' products to Enterprise and Public Sector customers, together with an associated managed service wrap, and ordinarily sells directly. It contributed 21% (2022: 21%) of the Group's external revenue.

Europe – This division consists of sales made in Europe through Gamma's German, Spanish and Dutch businesses. It contributed 15% (2022: 15%) of the Group's external revenue.

Central functions – This comprises the central management team and wider Group costs.

**Factors that Management used to identify the Group's operating segments**

The Group's reportable segments are strategic business units that are aligned with customer groups, needs and preferences. They are managed separately because each business requires different marketing strategies and are reported separately to the Board and Executive Committee to use for decision-making.

**Measurement of operating segment profit or loss**

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

The Board and Executive Committee evaluate performance on the basis of earnings before interest, tax, depreciation, amortisation and exceptional items.

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.

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

| **2023** | Gamma Business £m | Gamma Enterprise £m | Europe £m | Central functions £m | Total £m |
|---|---|---|---|---|---|
| Segment revenue | 353.9 | 110.6 | 79.5 | - | 544.0 |
| *Inter-segment revenue* | *(21.7)* | *(0.5)* | *(0.1)* | - | *(22.3)* |
| **Revenue from external customers** | **332.2** | **110.1** | **79.4** | **-** | **521.7** |

| | | | | | |
|---|---|---|---|---|---|
| *Timing of revenue recognition* | | | | | |
| At a point in time | 19.3 | 9.2 | 30.4 | - | **58.9** |
| Over time (recurring) | 312.9 | 100.9 | 49.0 | - | **462.8** |
| | 332.2 | 110.1 | 79.4 | - | **521.7** |
| **Total gross profit** | 176.1 | 52.6 | 38.5 | - | **267.2** |
| **Earnings before interest, tax, depreciation, amortisation and exceptional items (Adjusted EBITDA)** | 85.0 | 29.6 | 10.2 | (10.5) | **114.3** |
| Exceptional items | (14.7) | (0.2) | (1.0) | (0.1) | **(16.0)** |
| **Earnings before interest, tax, depreciation and amortisation (EBITDA)** | 70.3 | 29.4 | 9.2 | (10.6) | **98.3** |

| **2022 (Restated)** | Gamma Business £m | Gamma Enterprise £m | Europe £m | Central functions £m | Total £m |
|---|---|---|---|---|---|
| Segment revenue | 334.0 | 102.9 | 73.4 | - | 510.3 |
| *Inter-segment revenue* | *(24.6)* | *(0.9)* | *(0.2)* | - | *(25.7)* |
| **Revenue from external customers** | **309.4** | **102.0** | **73.2** | **-** | **484.6** |
| *Timing of revenue recognition* | | | | | |
| At a point in time | 17.5 | 6.7 | 28.7 | - | 52.9 |
| Over time (recurring) | 291.9 | 95.3 | 44.5 | - | 431.7 |
| | 309.4 | 102.0 | 73.2 | - | 484.6 |
| **Total gross profit** | **163.7** | **49.3** | **34.7** | **-** | **247.7** |
| **Earnings before interest, tax, depreciation, amortisation and exceptional items (Adjusted EBITDA)** | 78.6 | 27.9 | 9.0 | (10.4) | **105.1** |
| Exceptional items | - | - | (12.5) | - | **(12.5)** |
| **Earnings before interest, tax, depreciation and amortisation (EBITDA)** | 78.6 | 27.9 | (3.5) | (10.4) | **92.6** |

*Geographic segmentation*

The UK is the Group and Company's country of domicile and is where most revenue is generated, which is from external UK customers. The geographic analysis of revenue and non-current assets, which excludes deferred tax assets, is presented below.

The Group's revenue from external customers by geographical location is detailed below:

| | **2023 £m** | 2022 £m |
|---|---|---|
| UK | **413.8** | 391.1 |
| Europe | **107.9** | 93.5 |
| Total | **521.7** | 484.6 |

The Group's non-current assets by geographical location are detailed below:

| | **2023 £m** | 2022 £m |
|---|---|---|
| UK | **131.8** | 104.0 |
| Europe | **76.0** | 76.2 |
| Total | **207.8** | 180.2 |

**4. Exceptional items**

| | **2023 £m** | 2022 £m |
|---|---|---|
| Impairment of intangible development costs | **12.7** | **-** |
| Restructuring costs | **3.3** | **-** |
| Impairment of goodwill | **-** | 12.2 |
| Loss on disposal of subsidiary | **-** | 0.3 |
| **Total exceptional items** | **16.0** | 12.5 |
| **Tax effect of exceptional items** | **(3.9)** | **-** |

An impairment of intangible development costs totalling £12.7m has been recorded in the year (2022: £nil), see note 9 for additional information.

Restructuring costs relate to severance of £3.3m in the year (2022: £nil), following non-recurring organisational changes related to the expanded UCaaS offering and the combining of the German and Dutch senior leadership team. The cash cost in the year was £0.2m and the remaining £3.1m is expected to be paid out within the next 12 months.

In 2022 an impairment of goodwill in the Spanish CGU was recognised, along with a loss on disposal of ComyMedia (previously part of the Spanish CGU).

The total cash cost of exceptional items in the year was £0.2m (2022: £nil).

## 5. Tax expense

| | **2023 £m** | 2022 £m |
|---|---|---|
| **Current tax expense** | | |
| UK current tax on profits for the year | **18.9** | 13.7 |
| Overseas current tax | **1.1** | 1.1 |
| Adjustment in respect of prior year | **1.7** | (0.4) |
| **Total current tax** | **21.7** | 14.4 |
| **Deferred tax expense** | | |
| Origination and reversal of temporary differences | **(2.3)** | (0.2) |
| Adjustment in respect of prior years | **(1.6)** | 0.2 |
| Tax rate change | **-** | 1.0 |
| **Total deferred tax** | **(3.9)** | 1.0 |
| **Total tax expense** | **17.8** | 15.4 |

The tax charge for 2023 is higher (2022: higher) than the standard blended rate of corporation tax in the United Kingdom of 23.5% (2022: 19%). The differences are explained below:

| | **2023 £m** | 2022 £m |
|---|---|---|
| Profit before tax | **71.5** | 64.9 |
| Expected tax charge based on the standard blended rate of United Kingdom corporation tax at the domestic rate of 23.5% (2022: 19%) | **16.8** | 12.3 |
| Effects of: | | |
| Tax effect of expenses that are not deductible in determining taxable profit | **0.8** | 2.8 |
| Effect of different tax rates of subsidiaries operating in other jurisdictions | **(0.1)** | (0.2) |
| Tax rate change | **-** | 1.0 |
| Other tax items | **0.2** | (0.3) |
| Adjustment in respect of prior years | **0.1** | (0.2) |
| **Total tax expense** | **17.8** | 15.4 |

Deferred tax was calculated based on the tax laws and rates that were enacted or substantively enacted at the balance sheet date.

### 6. Earnings per share

| | 2023 | 2022 |
|---|---|---|
| **Earnings per ordinary share – basic (pence)** | **55.2** | 51.1 |
| **Earnings per ordinary share – diluted (pence)** | **54.9** | 50.6 |

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

| | 2023 £m | 2022 £m |
|---|---|---|
| Profit attributable to the ordinary equity holders of the Company | **53.6** | 49.3 |

| **Shares** | **No.** | No. |
|---|---|---|
| Weighted average number of Ordinary Shares for basic earnings per share | **97,088,798** | 96,543,985 |
| Effect of dilution resulting from share options | **606,553** | 948,689 |
| **Diluted weighted average number of ordinary shares** | **97,695,351** | 97,492,674 |

In 2022, as part of Gamma's acquisition of Gamma Holding GmbH (formerly HFO) the vendor reinvested £0.5m and purchased 44,558 ordinary shares.

Adjusted earnings per share (diluted) is detailed below:

| | 2023 | 2022 |
|---|---|---|
| **Adjusted earnings per ordinary share – diluted (pence)** | **75.1** | 71.8 |

### 7. Dividends

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

| | 2023 £m | 2022 £m |
|---|---|---|
| Final dividend for the year ended 31 December 2021 of 8.8p per ordinary share | **–** | **8.5** |
| Interim dividend for the year ended 31 December 2022 of 5.0p per ordinary share | **–** | **4.8** |
| Final dividend for the year ended 31 December 2022 of 10.0p per ordinary share | **9.7** | **–** |
| Interim dividend for the year ended 31 December 2023 of 5.7 per ordinary share | **5.5** | **–** |
| | **15.2** | 13.3 |

A final dividend of 11.4p will be proposed at the 2024 Annual General Meeting but has not been recognised as it requires shareholder approval. The total amount of dividends proposed for the year ended 31 December 2023 is 17.1p. 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 2023 | 4.7 | 67.4 | 13.5 | 2.8 | 88.4 |
| Additions | – | 3.9 | 1.6 | 0.1 | 5.6 |
| Acquisition of subsidiary | – | – | – | 0.1 | 0.1 |
| Disposals | – | (3.1) | (0.8) | (0.2) | (4.1) |
| Exchange difference | (0.1) | 0.2 | 0.1 | 0.1 | 0.3 |
| **At 31 December 2023** | **4.6** | **68.4** | **14.4** | **2.9** | **90.3** |
| **Depreciation** | | | | | |
| At 1 January 2023 | 0.3 | 41.8 | 10.7 | 1.8 | 54.6 |
| Charge for the year | 0.2 | 6.9 | 1.8 | 0.4 | 9.3 |
| Disposals | – | (3.1) | (0.8) | (0.2) | (4.1) |
| Exchange difference | 0.1 | – | – | (0.1) | – |
| **At 31 December 2023** | **0.6** | **45.6** | **11.7** | **1.9** | **59.8** |
| **Net book value** | | | | | |
| At 1 January 2023 | 4.4 | 25.6 | 2.8 | 1.0 | 33.8 |
| **At 31 December 2023** | **4.0** | **22.8** | **2.7** | **1.0** | **30.5** |

| | Land and buildings £m | Network assets £m | Computer equipment £m | Fixtures and fittings £m | Total £m |
|---|---|---|---|---|---|
| **Cost** | | | | | |
| At 1 January 2022 | 4.5 | 78.7 | 12.3 | 2.4 | 97.9 |
| Additions | 0.2 | 5.5 | 1.0 | 0.1 | 6.8 |
| Acquisition of subsidiary | – | – | 0.1 | – | 0.1 |
| Disposals | – | (16.7) | – | – | (16.7) |
| Disposal of subsidiary | – | – | (0.1) | – | (0.1) |
| Exchange difference | – | (0.1) | 0.2 | 0.3 | 0.4 |
| **At 31 December 2022** | **4.7** | **67.4** | **13.5** | **2.8** | **88.4** |
| **Depreciation** | | | | | |
| At 1 January 2022 | 0.3 | 50.3 | 9.0 | 1.5 | 61.1 |
| Charge for the year | 0.1 | 7.5 | 1.6 | 0.3 | 9.5 |
| Disposals | – | (16.3) | – | – | (16.3) |
| Disposal of subsidiary | – | – | (0.1) | – | (0.1) |
| Exchange difference | (0.1) | 0.3 | 0.2 | – | 0.4 |
| **At 31 December 2022** | **0.3** | **41.8** | **10.7** | **1.8** | **54.6** |
| | | | | | |
| **Net book value** | | | | | |
| At 1 January 2022 | 4.2 | 28.4 | 3.3 | 0.9 | 36.8 |
| **At 31 December 2022** | **4.4** | **25.6** | **2.8** | **1.0** | **33.8** |

### 9. Intangible assets

| | Goodwill £m | Customer contracts £m | Brand £m | Development costs £m | Software £m | Total £m |
|---|---|---|---|---|---|---|
| **Cost** | | | | | | |
| At 1 January 2023 | 97.5 | 50.9 | 1.4 | 40.4 | 19.3 | 209.5 |
| Additions | - | - | - | 14.4 | 3.0 | 17.4 |
| Acquisition of subsidiaries | 36.6 | 6.6 | 0.8 | - | 2.1 | 46.1 |
| Disposal of subsidiaries | - | - | - | - | - | - |
| Disposals | - | - | - | (2.4) | - | (2.4) |
| Exchange difference | (0.9) | (0.8) | - | (0.1) | - | (1.8) |
| **At 31 December 2023** | **133.2** | **56.7** | **2.2** | **52.3** | **24.4** | **268.8** |
| **Amortisation and impairment** | | | | | | |
| At 1 January 2023 | 20.8 | 29.1 | 0.7 | 18.0 | 16.6 | 85.2 |
| Charge for the year | - | 8.8 | 0.4 | 5.2 | 5.3 | 19.7 |
| Impairment charge | - | - | - | 12.7 | - | 12.7 |
| Disposal of subsidiaries | - | - | - | - | - | - |
| Disposals | - | - | - | (2.4) | - | (2.4) |
| Exchange difference | (0.3) | (0.5) | - | (0.3) | - | (1.1) |
| **At 31 December 2023** | **20.5** | **37.4** | **1.1** | **33.2** | **21.9** | **114.1** |
| | | | | | | |
| **Carrying value** | | | | | | |
| At 1 January 2023 | 76.7 | 21.8 | 0.7 | 22.4 | 2.7 | 124.3 |
| **At 31 December 2023** | **112.7** | **19.3** | **1.1** | **19.1** | **2.5** | **154.7** |

Included in development costs are assets not yet in service of £2.4m (2022: £10.2m).

| | Goodwill £m | Customer contracts £m | Brand £m | Development costs £m | Software £m | Total £m |
|---|---|---|---|---|---|---|
| **Cost** | | | | | | |
| At 1 January 2022 | 91.8 | 47.6 | 2.2 | 28.1 | 18.5 | 188.2 |
| Additions | – | – | – | 13.1 | 0.8 | 13.9 |
| Acquisition of subsidiaries | 4.0 | 1.3 | 0.1 | – | – | 5.4 |
| Disposal of subsidiaries | – | – | – | (0.2) | – | (0.2) |
| Disposals | – | – | (0.9) | (0.8) | – | (1.7) |
| Exchange difference | 1.7 | 2.0 | – | 0.2 | – | 3.9 |
| **At 31 December 2022** | **97.5** | **50.9** | **1.4** | **40.4** | **19.3** | **209.5** |
| **Amortisation and impairment** | | | | | | |
| At 1 January 2022 | 8.7 | 20.2 | 0.9 | 14.8 | 14.3 | 58.9 |
| Charge for the year | – | 7.9 | 0.7 | 4.0 | 2.3 | 14.9 |
| Impairment charge | 12.2 | – | – | – | – | 12.2 |
| Disposal of subsidiaries | – | – | – | (0.2) | – | (0.2) |
| Disposals | – | – | (0.9) | (0.8) | – | (1.7) |
| Exchange difference | (0.1) | 1.0 | – | 0.2 | – | 1.1 |
| **At 31 December 2022** | **20.8** | **29.1** | **0.7** | **18.0** | **16.6** | **85.2** |
| **Carrying value** | | | | | | |
| At 1 January 2022 | 83.1 | 27.4 | 1.3 | 13.3 | 4.2 | 129.3 |
| **At 31 December 2022** | **76.7** | **21.8** | **0.7** | **22.4** | **2.7** | **124.3** |

In 2022 an impairment of the goodwill of the Spanish CGU was recognised.

In December 2023 Gamma acquired EnableX, which gave the Group a relationship with Ericsson-LG and allows access to Ericsson-LG's UCaaS solution, iPECS, which further expands our UCaaS offering. This, along with the strengthening of our partnership with Cisco, has resulted in the Group stopping ongoing development of some of our own collaboration software and accordingly reviewing the recoverability of our capitalised development costs.

The carrying amount of this collaboration software, which had been in development as at 31 December 2023, was £15.0m (2022: £7.5m), recorded within development cost intangible assets and the Gamma Business reportable segment. Following the decision to stop ongoing development of this software, the carrying amount has been reduced to its recoverable amount of £2.3m through recognition of an impairment loss of £12.7m. This loss is included within operating expenses in the Consolidated statement of profit or loss and recorded solely within the Gamma Business segment.

The recoverable amount was calculated using the expected future discounted cash flows over the estimated life of the asset. It incorporates cash flows derived from Board approved five year forecasts and with cash flows beyond the five year forecast period then reflecting management's expectations of future growth prospects in the asset's market, with all cash flows discounted to present value.

These cash flows have also been adjusted to exclude any estimated cash inflows and outflows arising from enhancing the asset. The post-tax risk adjusted discount rate used in estimating the recoverable amount based on value in use is 9.7% or 12.3% on a pre-tax risk adjusted discount basis.

**10. Business combinations**

**Summary of acquisitions**
During 2023 the Group completed a total of two acquisitions, both of which are 100% owned by the Group unless otherwise stated.

| Acquisition | Acquired | Principal activity |
|---|---|---|
| Satisnet Limited (Satisnet) | August | Satisnet is a leading provider of cyber security services and solutions to businesses across the UK and Europe. |
| EnableX Group (EnableX) [1] | December | EnableX's focus is on enabling resellers to access new opportunities and win within multiple technology areas, including in cloud communications, where it is one of the leading providers to the UK wholesale channel. |

[1] On 20 December 2023, the Group acquired 95% of EnableX with an option to acquire the remaining shareholding, held by management, in 2027.

The fair value of identifiable assets acquired and liabilities assumed is as follows:

| | Satisnet £m | EnableX £m | **Total £m** |
|---|---|---|---|
| Tangible fixed assets | – | 0.2 | **0.2** |
| Intangible assets – software | – | 2.1 | **2.1** |
| Intangible assets – customer contracts | 6.6 | – | **6.6** |
| Intangible assets – brand | 0.8 | – | **0.8** |
| Cash | 5.5 | 0.6 | **6.1** |
| Inventories | – | 0.6 | **0.6** |
| Trade and other receivables | 2.1 | 5.1 | **7.2** |
| Trade and other payables | (2.8) | (4.8) | **(7.6)** |
| Bank loans[1] | – | (7.7) | **(7.7)** |
| Contract liabilities | (1.9) | (4.5) | **(6.4)** |
| Deferred tax liability[2] | (1.9) | – | **(1.9)** |
| Total identifiable assets/(liabilities) | 8.4 | (8.4) | **-** |
| Less: Non-controlling interests | – | (0.2) | **(0.2)** |
| Add: Goodwill | 12.6 | 24.0 | **36.6** |
| **Net assets acquired** | **21.0** | **15.4** | **36.4** |

[1] Bank loans of £7.7m were repaid at the time of acquisition.

[2] Deferred tax liability arising on customer contract and brand intangible assets.

The fair value of identifiable assets acquired and liabilities assumed are final for Satisnet.

The fair value of identifiable assets acquired and liabilities assumed are provisional for EnableX. The exercise to finalise these balances and the corresponding adjustment in respect of non-controlling interest is ongoing and will be completed by 30 June 2024.

The value of the goodwill represents the prospective future economic benefits that are expected to accrue from enhancing the portfolio of products available to the Group's existing customers.

£19.5m was the total payment for the acquisition of EnableX, gross of £0.6m of cash acquired. This payment included £7.7m to repay, at the time of acquisition, all EnableX bank loans, with £11.8m the remaining cash consideration paid.

| | Satisnet £m | EnableX £m | **Total £m** |
|---|---|---|---|
| Satisfied by: | | | |
| Cash paid | 13.8 | 11.8 | **25.6** |
| Ordinary Shares issued | 2.8 | – | **2.8** |
| Deferred consideration[1] | 0.5 | – | **0.5** |
| Contingent consideration[2] | 3.9 | 3.6 | **7.5** |
| **Total** | **21.0** | **15.4** | **36.4** |

[1] Deferred consideration of £0.5m relating to the initial purchase payment has been retained. This is expected to be paid in cash within 12 months, provided that the retained amount has not been offset against the price adjustment or against claims or damages and losses.

[2]Contingent consideration is payable dependent on future performance of the business acquired. Refer to note 11 for further details.

**Net cash outflow on acquisitions:**

| | Satisnet £m | EnableX £m | Other £m | Total £m |
|---|---|---|---|---|
| Cash consideration | 13.8 | 11.8 | – | 25.6 |
| Less: cash acquired | (5.5) | (0.6) | – | (6.1) |
| | **8.3** | **11.2** | **–** | **19.5** |
| Contingent consideration payments during the year[1] | – | – | 3.3 | 3.3 |
| **Net outflow of cash – investing activities (Acquisition of subsidiaries net of cash acquired)** | **8.3** | **11.2** | **3.3** | **22.8** |
| Repayment of acquired bank loans[2] | – | 7.7 | – | 7.7 |
| **Net outflow of cash – financing activities (Repayment of borrowings acquired with acquisitions)** | – | **7.7** | – | **7.7** |
| **Net cash outflow relating to acquisitions in the year** | **8.3** | **18.9** | **3.3** | **30.5** |

[1] See note 11 Contingent consideration.

[2] Bank loans of £7.7m were repaid at the time of acquisition under change of control notice.

**Valuations of intangible assets**

Customer contracts were valued under the Income Method and the Brand under the Relief from Royalty methodology.

**Goodwill**

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

**Revenue and profit contribution**

From the date of acquisition, the acquired businesses have contributed £4.6m of revenue and £0.2m of profit after taxation attributable to the equity holders of Gamma Communications plc:

| | Revenue £m | Profit before tax £m | Profit after tax £m |
|---|---|---|---|
| Satisnet | 4.6 | 0.3 | 0.2 |
| EnableX | – | – | – |
| **Total** | **4.6** | **0.3** | **0.2** |

If these acquisitions had occurred on 1 January 2023, the acquired businesses would have contributed revenue and profit after taxation attributable to the equity holders of Gamma Communications plc as outlined in the table below. The amounts below are unaudited.

| | Revenue £m | Profit before tax £m | Profit after tax £m |
|---|---|---|---|
| Satisnet | 12.1 | 0.9 | 0.7 |
| EnableX | 15.1 | 1.3 | 1.0 |
| **Total** | **27.2** | **2.2** | **1.7** |

**11. Contingent consideration**

| | 2023 | 2022 |
|---|---|---|
| | £m | £m |
| Current | **1.7** | 3.5 |
| Non-current | **7.7** | 1.5 |
| | **9.4** | 5.0 |

The reconciliation of the carrying amounts of contingent consideration is as follows:

| | Exactive | Mission Labs | NeoTel | Satisnet | EnableX | **Total** |
|---|---|---|---|---|---|---|
| | £m | £m | £m | £m | £m | **£m** |
| 1 January 2023 | 0.9 | 3.9 | 0.2 | – | – | **5.0** |
| Acquisition of subsidiary | – | – | – | 3.9 | 3.6 | **7.5** |
| Contingent consideration settled | (1.1) [1] | (2.4) | – | – | – | **(3.5)** |
| Change in fair value of contingent consideration: | | | | | | |
| Unwinding of discount | – | 0.2 | – | 0.2 | – | **0.4** |
| Other change in fair value | 0.2 | – | (0.2) | – | – | **–** |
| **31 December 2023** | **–** | **1.7** | **–** | **4.1** | **3.6** | **9.4** |

[1] Includes £0.2m of shares issued.

Contingent consideration for Exactive was based on the EBITDA performance for 2021. This was settled during 2023, part cash £0.9m and part shares £0.2m.

Contingent consideration relating to Mission Labs is based on milestones being achieved in 2023. Consideration of up to £1.7m may be payable. The fair value of £1.7m at 31 December 2023 is current and based on a payout of £1.7m which takes into account the weighted probability of payout.

Contingent consideration for NeoTel was based on gross profit for the period July 2022 to July 2023, which was not achieved. Subsequently the contingent consideration liability has been released.

Contingent consideration for Satisnet is based on managed service revenues for the financial year ending 31 December 2025, and gross profit split between the periods from 1 July 2023 to 31 December 2024 and the financial year ending 31 December 2025. Consideration of up to £5.0m may be payable. The fair value of £4.1m at 31 December 2023 is non-current and based on a payout of £4.8m which takes into account the weighted probability of payout.

Contingent consideration for EnableX is based on the EBITDA performance for the financial year ending 31 December 2026. Consideration of up to £9.8m may be payable. The fair value of £3.6m at 31 December 2023 is non-current and based on a payout of £5.8m which takes into account the weighted probability of payout.

The valuation technique used for instruments categorised in Level 3 (including contingent consideration) was a probability weighted expected returns methodology, using a risk-adjusted discount rate appropriate to the transaction. The fair value of contingent consideration which is a Level 3 instrument is £9.4m (2022: £5.0m). It is dependent on the future financial performance of the entity. It is assumed that future profits are in line with management estimates which are derived from internal business plans together with financial due diligence performed in connection with the acquisition.

The following analysis is provided to illustrate the sensitivity of the year-end balance to a change in an individual input, within reasonable expected ranges, while all other variables remain constant. This is not intended to imply the likelihood of change or that possible changes in value would be restricted to this range.

| Input | Year-end discounted estimate | Change in input | Change in fair value £m |
|---|---|---|---|
| Discount rate | 14.3% | +1% | (0.2) |
| | | -1% | 0.2 |
| Financial forecasts | Forecast revenue performance | +10% | - |
| | | -10% | (1.8) |
| | Forecast gross profit performance | +10% | 0.2 |
| | | -10% | (1.1) |
| | Forecast EBITDA performance | +10% | 0.6 |
| | | -10% | (0.6) |

The following table sets out the contractual maturities (representing undiscounted contractual cash flows) of financial liabilities at fair value (contingent consideration and put option liability):

| | Less than 1 year £m | Between 1 and 2 years £m | Between 2 and 5 years £m | Over 5 years £m |
|---|---|---|---|---|
| 2023 | 1.7 | 1.1 | 11.2 | – |
| 2022 | 5.3 | 1.7 | – | – |

As at 31 December, the potential undiscounted amount of future payments that could be required under contingent consideration arrangements range from nil to £16.5m.

### 12. Share capital

At 31 December the share capital was as follows:

| | 2023 Number | 2023 £m | 2022 Number | 2022 £m |
|---|---|---|---|---|
| Authorised, allotted and fully paid | | | | |
| Ordinary Shares of £0.0025 each | **97,462,226** | **0.2** | 96,847,301 | 0.2 |

Ordinary Share movement in the year is as follows:

| | Number | Notes |
|---|---|---|
| **As at 1 January 2023** | 96,847,301 | |
| January | 7,170 | (a) |
| February | 2,221 | (a) |
| April | 5,268 | (a) |
| May | 4,132 | (a) |
| June | 109,751 | (a) |
| July | 176,233 | (a) |
| August | 1,000 | (b) |
| September | 25,607 | (a) |
| September | 246,599 | (b) |
| October | 2,790 | (a) |
| November | 3,510 | (a) |
| December | 10,450 | (a) |
| December | 20,194 | (c) |
| **As at 31 December 2023** | **97,462,226** | |

(a) Ordinary shares were issued to satisfy options which had been exercised.
(b) Ordinary shares were issued to the vendor of Satisnet Limited as consideration for the purchase.
(c) Ordinary shares were issued to the former owners of Exactive Holdings Limited, being the final of two contingent consideration payments.

## 13. Other reserves

A breakdown of other reserves is shown below:

| | Merger reserve £m | Share option reserve £m | Foreign exchange reserve £m | Own shares £m | Total Other Reserves £m |
|---|---|---|---|---|---|
| **1 January 2022** | 2.3 | 7.1 | (4.2) | (0.7) | 4.5 |
| Issue of shares | – | (2.7) | – | – | (2.7) |
| Share-based payment expense | – | 4.3 | – | – | 4.3 |
| Other comprehensive income | – | – | 2.9 | – | 2.9 |
| **31 December 2022** | **2.3** | **8.7** | **(1.3)** | **(0.7)** | **9.0** |
| | | | | | |
| **1 January 2023** | **2.3** | **8.7** | **(1.3)** | **(0.7)** | **9.0** |
| Issue of shares | – | (4.2) | – | – | (4.2) |
| Share-based payment expense | – | 2.7 | – | – | 2.7 |
| Other comprehensive (expense) | – | – | (0.6) | – | (0.6) |
| **31 December 2023** | **2.3** | **7.2** | **(1.9)** | **(0.7)** | **6.9** |

## 14. Subsequent events

In February 2024, the Group acquired the entire issued share capital of Coolwave Communications Limited, a prominent international SMS and voice services provider, for an initial cash payment of £6.3m (excluding amounts paid for cash acquired). In addition, there is a further amount payable of up to £0.4m within the next six months. Given the timing of the closure of the transaction, the Group expects to disclose the provisional accounting for the acquisition in the H1 2024 results.

In March 2024, the Group has appointed Investec Bank plc to manage a share buyback programme to purchase ordinary shares of 0.25 pence each in Gamma Communications plc for an aggregate purchase price of up to £35.0m within certain pre-set parameters (the "Programme"). The Company has authorised the Programme to continue while it retains the authority from shareholders to repurchase such ordinary shares until the earlier of: (i) the maximum aggregate consideration payable by the Company has been reached or (ii) Friday 6 September 2024. The Programme will be conducted by the Company in accordance with and under the terms of the general authority granted to the Board by the Company's shareholders. The purpose of the Programme is to reduce the Company's share capital (any Shares repurchased for this purpose will be cancelled) and to enable the Company to meet obligations arising from share option programmes (any Shares repurchased for this purpose will be held in treasury).

**Alternative Performance Measures**

The Group uses certain measures to assess the financial performance of its business. These measures are called Alternative Performance Measures ("APMs") because they exclude amounts that are included in, or include amounts that are excluded from, the most directly comparable measure calculated and presented in accordance with IFRS, or are calculated using financial measures that are not calculated in accordance with IFRS.

These APMs are used to measure operating performance and liquidity in presentations to the Board and as a basis for strategic planning and forecasting. The Group believes that APMs provide additional useful information for users of the financial statements to assess the Group's performance, including the Group's core operational performance. These and similar measures are used widely by certain investors, analysts and other interested parties as supplemental measures of performance and liquidity.

The APMs may not be comparable to similarly named measures used by other companies and have limitations as analytical tools. They should not be considered in isolation or as a substitute for analysis of the Group's results reported under IFRS.

An explanation of the relevance of each of the APMs, a reconciliation of the APM to the most directly comparable measure calculated and presented in accordance with IFRS and a discussion of the limitations are set out below. The Group does not consider these APMs to be a substitute for, or superior to, the equivalent measures calculated and presented in accordance with IFRS.

**EBITDA and Adjusted EBITDA**

EBITDA is presented because it is widely used by securities analysts, investors and our peer group internationally to evaluate the profitability of companies. EBITDA is defined as Profit before tax excluding finance expense, finance income, depreciation of property, plant and equipment, right of use asset depreciation and amortisation of intangible assets. EBITDA eliminates potential differences in core financial performance that can be caused by variations in capital structures (affecting net finance costs), tax positions (such as the availability of brought forward losses against which taxable profits can be relieved), the cost and age of property, plant and equipment and right of use assets (affecting relative depreciation expense), and the extent to which intangible assets are identifiable (affecting relative amortisation expense).

Adjusted EBITDA is a primary profit measure used internally by the Board to assess financial performance of the Group and its segments. It is defined as EBITDA (as defined above) adding back exceptional items. It excludes exceptional items (note 4) by virtue of their size, nature or incidence, in order to show the Group's core performance.

The following table is a reconciliation from statutory profit before tax for the year to EBITDA and Adjusted EBITDA:

| | **2023** | 2022 |
|---|---|---|
| | **£m** | £m |
| **Profit before tax** | **71.5** | 64.9 |
| Finance income | **(5.4)** | (0.8) |
| Finance expense | **0.9** | 1.3 |
| **Profit from operations** | **67.0** | 65.4 |
| Depreciation of property, plant and equipment and right of use assets | **11.6** | 12.3 |
| Amortisation from intangible assets | **19.7** | 14.9 |
| **EBITDA** | **98.3** | 92.6 |
| Exceptional items | **16.0** | 12.5 |
| **Adjusted EBITDA** | **114.3** | 105.1 |

In the year, the cash cost of exceptional and other adjusting items was £0.2m (2022: £nil).

**Adjusted profit before tax**

Adjusted profit before tax is defined as profit before tax excluding the effects of exceptional items, amortisation arising from business combinations and changes in fair value of contingent consideration and put option liability. These items are individually material items and/or are not considered to be representative of the trading performance of the Group:

Exceptional items (note 4) are excluded by virtue of their size, nature or incidence in order to show the core performance of the Group.

Amortisation of intangibles arising from business combinations is excluded because this charge is a non-cash accounting item based on judgements about the assets' value and economic life and is the result of the application of acquisition accounting, and whilst revenue recognised in the income statement does benefit from the intangibles that have been acquired, the amortisation costs bear no relation to the Group's trading performance in the period. This adjustment improves comparability between acquired and organically grown operations.

Changes in fair value of contingent consideration and put option liability are excluded because the amounts are non-cash accounting items and bear no relation to the Group's trading performance in the period. This adjustment improves comparability between acquired and organically grown operations.

Adjusted profit before tax is the primary profit measure used internally to reward employees.

The following table is a reconciliation from statutory Profit before tax for the year to Adjusted profit before tax:

| | **2023** | 2022 |
|---|---|---|
| | **£m** | £m |
| **Profit before tax** | **71.5** | 64.9 |
| Exceptional items | **16.0** | 12.5 |
| Amortisation of intangibles arising from business combinations | **10.0** | 9.5 |
| Change in fair value of contingent consideration and put option liability | **0.4** | 0.9 |
| **Adjusting items** | **26.4** | 22.9 |
| **Adjusted profit before tax** | **97.9** | 87.8 |

In the year, the cash cost of exceptional and other adjusting items was £0.2m (2022: £nil).

**Adjusted earnings per share (fully diluted)**

Adjusted earnings per share ("EPS") fully diluted is presented as management believes it is important for understanding the changes in the Group's fully diluted EPS, including improving comparability between acquired and organically grown operations. Adjusted EPS fully diluted is defined as Diluted EPS where the earnings attributable to ordinary shareholders are adjusted by excluding the effects of exceptional items, amortisation arising from business combinations and changes in fair value of contingent consideration and put option liability (for the same reasons outlined previously in relation to Adjusted profit before tax), as well as the tax on these items, because they are individually or collectively material items that are not considered to be representative of the trading performance of the Group. To exclude the tax impact of these items would give an incomplete picture.

| | 2023 | 2022 |
|---|---|---|
| **Earnings per ordinary share – diluted (pence)** | **54.9** | 50.6 |
| **Adjusted earnings per ordinary share – fully diluted (pence)** | **75.1** | 71.8 |

| | 2023 | 2022 |
|---|---|---|
| | **£m** | £m |
| **Profit after tax attributable to the ordinary equity holders of the Company** | **53.6** | 49.3 |
| **Adjusting items:** | | |
| Exceptional items | **16.0** | 12.5 |
| Amortisation of intangibles arising from business combinations | **10.0** | 9.5 |
| Change in fair value of contingent consideration and put option liability | **0.4** | 0.9 |
| | **26.4** | 22.9 |
| **Tax relating to adjusting items** | **(6.6)** | (2.2) |
| **Adjusted profit after tax attributable to the ordinary equity holders of the Company** | **73.4** | 70.0 |

| | 2023 | 2022 |
|---|---|---|
| | **No:** | No: |
| **Diluted weighted average number of ordinary shares** | **97,695,351** | 97,492,674 |

**Net cash**

Net cash is presented as it is an important liquidity measure used by management and the board. Net cash is defined as cash and cash equivalents less borrowings. IFRS 16 lease liabilities and contingent consideration are not considered as debt for the purpose of quoting Net cash.

| | 2023 | 2022 |
|---|---|---|
| | **£m** | £m |
| Cash and cash equivalents | **136.5** | 94.6 |
| Borrowings | **(1.7)** | (2.1) |
| **Net cash** | **134.8** | 92.5 |

The following table is a reconciliation of the movements in Net cash from previously reported periods:

| | Cash and cash equivalents | Borrowings | Net cash |
|---|---|---|---|
| | £m | £m | £m |
| At 1 January 2022 | 52.8 | (3.3) | 49.5 |
| Repayments | - | 0.7 | 0.7 |
| Disposal of subsidiaries | - | 0.6 | 0.6 |
| Net increase in cash and cash equivalents | 41.3 | - | 41.3 |
| Effects of foreign exchange rate changes | 0.5 | (0.1) | 0.4 |
| **At 31 December 2022** | **94.6** | **(2.1)** | **92.5** |
| Repayments | - | 0.5 | 0.5 |
| Borrowings acquired with acquisitions | - | 7.7 | 7.7 |
| Repayment of borrowings acquired with acquisitions | - | (7.7) | (7.7) |
| Net increase in cash and cash equivalents | 42.1 | - | 42.1 |
| Effects of foreign exchange rate changes | (0.2) | (0.1) | (0.3) |
| **At 31 December 2023** | **136.5** | **(1.7)** | **134.8** |

**Adjusted cash conversion**

Adjusted cash conversion is presented as management believe it is important to understand the Group's conversion of Adjusted EBITDA (as defined previously) to cash. The Group's Adjusted cash conversion is defined as Cash generated by operations excluding the cash impact of exceptional items divided by Adjusted EBITDA, so as to exclude the impact of significant one-off transactions outside the normal course of trading. Adjusted cash conversion is used to track and measure timing differences between profitability and cash generation through working capital management, including seasonality or one-offs.

| | **2023** | 2022 |
|---|---|---|
| | **£m** | £m |
| Cash generated by operations | **123.5** | 99.1 |
| Cash impact of exceptional items | **0.2** | - |
| **Cash generated by operations (excluding exceptional item impacts)** | **123.7** | 99.1 |
| Adjusted EBITDA | **114.3** | 105.1 |
| **Adjusted cash conversion** | **108%** | 94% |