Gamma Half Year (H1) Results 2022

Andrew Belshaw

Good morning, everybody and can I add my welcome to Jaime’s and thank you for joining us for Gammas first half of 2022 results presentation. I think everybody knows me Andrew Belshaw slightly different role, I'm now the interim CEO and I'll be introducing later Bill Castell who's our new CFO. My speaker notes here actually say he's the first decent CFO, Gamma’s had, but I'm not entirely clear who wrote that.

Obviously, we're still virtual. Hopefully we'll be able to do this in person next time. So, this morning I'll give you a quick update of the first six months, then hand over to Bill fairly quickly so that he can go through the results because we're very proud of them and we're very excited about how we've done in the first half. So I'd like to Bill to run that through with you. Then I'd like to talk about some of the growth drivers for Gamma. I'm conscious every time we pick up a newspaper or turn the television on, there's lots of doom, there's lots of gloom about the economy, I think there's some great reasons why Gamma is going to carry on growing and I want to share those with you. I also say a few things about ESG as well. Again, as CEO taking over, it's very important to me and I think very important to Gamma. So we want to pick up on a few bits and pieces there and then talk about the outlook and we will go to Q&A as quickly as we can hopefully leave lots of time for questions and hopefully we will get everything done for you by half past 10.

So look, we think we've had a really good first six months. As I say, there's lots of doom, there's lots of gloom. We are not seeing it in our business or certainly we haven't seen it in our business for the first six months of the year. There's very little effect in there of recession, very little effect of inflation in the first half of the year.

Gamma continues to do really strong business, strong recurring revenues, strong cash generation. And what we do is business critical to the businesses that we serve. They need a telephony service. It's not something that you cancel when times get tough. So, we've had a very strong first half which Bill will come on to explain. We closed the half with a lot of cash and we've done a little bit of M&A which again will come and talk to. In Spain, we've divested a business called Comymedia, which was pretty immaterial and non-core, it's one of the business units that we acquired when we acquired Voztelecom, which was the UCaaS Business we bought in Spain. So Comymedia, we've divested and we still think we need scale in Spain and indeed in some of the other European countries. So we've bought a business, it's still subject to regulatory approval, but we think that will come through shortly called NeoTel, which just gives us a bit more scale and a greater opportunity to grow in Spain.

Again, I shan’t steal Bill's thunder, but just to say I'm delighted with how all of the business units have performed in the first half. So, our Indirect business double digit revenue growth is fantastic, buoyed up by the new products, and I'll talk about that when I'm talking about growth drivers in a moment. Our Direct business, we said it would come back to growth in the first half and indeed it has. And our European business a little bit mixed. If you remember those of you that have covered Gamma for a long time, Gamma 8 years ago we had our traditional business that was coming down and that's a feature of the European business. So, the traditional business things likeyou know, legacy calls and lines that comes down. But more than offset by our increasing UCaaS business and you know, we grew our seats in Europe 7%, which will come on to talk to. So look, as I say, I won't steal Bill's thunder. Bill, would you please take us through the financials?

Bill Castell
Good morning and hello to those who I have not already met. I'm just going to take you through the first half financials before I go for the numbers. Just reiterating being here three or four months, a very strong first half set of results….so if we move on to the next page. So, you would've seen in the RNS this morning and I note that some of the analysts on the called have already published notes looking at this, but you can see our revenue was up 8% as Andrew said to £234.7 million that flowed through given good cost control. Our gross profit also grew 8% keeping margins stable or Adjusted EBITDA was up double digits growth at 13% to £51.9 million which again flow through to an adjusted EPS up 16% to 35. 6p. As Andrew's stated, we're proud of the continuous cash generation of our operations. I'll talk a bit about that later on being up 15%, to £49.5 million, which leads us in the strong cash position as of the 30th June of having £75.6 million in the bank, small amount of debt. As you know, we're unlevered as a company, but a small amount due to the acquisitions of around £3m (debt) which therefore gives us a net cash position on £72.6 million.

As a result of all of that, the board signed off an interim dividend of 5p, which is up 14%. As you're aware, historically Gamma and going forward does 1/3, 2/3, 1/3 in the interim, 2/3 at year end, but again interim dividend up 14% at 5p. Just to give you a bit of a line of sight of what I'm going to get through next. Similar to last time I'll go through a bit of detail on the business units. I have a couple more slides on Europe given as Andrew said, it's a mixed story there. So we've got a bit more analysis to share with you there. For the first time as well actually not the first time, but in this format we'll give you a snapshot of the cost base as of H1 2022. So that you can just see it. It's not going to be a recurring item that we show every presentation but given the inflationary environment and the macroeconomics we thought it was a good time just to reiterate the cost structure and then the standard kind of balance sheet, cash flow and at the end I've added a page just around analyst modelling guidance. Just to reiterate some of the guidance that we restate in the RNS. So it should be no surprises there.

So moving on, I won't spent too long in here. This is straight out of the RNS. As I said, revenue was up 8%, but so was gross profit that allowed us to keep our gross margin maintained above 51%. Recurring revenue, which you'll see in Note 3 of the RNS, still strong at 89%. So the same as this time last year. H1 last year at £208.7 million and the key strength for the business is that recurring revenue. We will talk a bit more about costs, but you can see on the operating expense line that we kept the expense growth down to 4%, so significantly positive what I call jaws between the revenue and cost growth and also the gross profit and cost growth of over 4%. The fact that the effect of tax, obviously our tax goes up because our profits are going up as you can see, profit before tax up 19%, but the effective tax rate has remained at 19% and we'll see where the new Prime Minister will still have the increase in April to 25% or whether that will be an action that she and her government decide to reverse. Moving on

So, if I go through the business units now and again this is being picked up, I can see it this morning a strong performance as you can see from the graphs, that continuous story double digit growth both on revenue and gross profit maintaining those margins above 53%. So 10% growth in revenue, 10% growth in gross profit, margins at 53%. We'll talk about maybe in the Q&A and we've flow through. We made reference to this and our August, the 2nd trading update flow through a selected price rises. This is mainly on our traditional product base. We've been a bit more tentative on the Cloud PBX because that market remains competitive, happy to answer Q&A. But I'm sure you're aware I can't go into too much detail given the pricing environment and our competition, but we will talk about that in a bit more, but really a strong, continuously strong performance in indirect.

The direct business, I wasn't here at the obviously at the back end of last year, but as Andrew said, return to growth in our direct business as we come through post lock down and COVID, we wrote in the RNS and our previous announcements, some significant wins, departments, work and pensions and Home Office on that side, we've also see obviously, but that's the public sector. We also see some significant improvement and uptick in our enterprise business as those contracts and deals one at the back end of last year, we start to deliver on and the key contracts coming through. the 7% revenue growth turned into 6% gross profit, growth versus H121

As we've referenced before.Total contract value strong contracted pipeline coming through higher at this at the end of H1 than it was in previous years. That gives us confidence going forward in the direct business and like the indirect business, our margins are staying stabl,e constant above the 50% mark. We did make reference to our announcement as Andrew rightly said the recession and some of the supply constraints we did not see in H1 more recently we've seen a bit of noise and it is only the beginning of a bit of noise, and this is more in the direct business than the indirect business where specific hardware so when a customer wants a very specific sort of CPE or hardware circuit switch, then sometimes there's a bit of a delay, it's still a rise, but there's a bit of delay, but again not material, but we thought that we should indicate a beginning of a squeeze that we've seen there.

Europe. I've got a couple of pages here summary page and I'll go into similar kind of disclosure. I think you've seen maybe at the year-end last year. Cloud seat growth in line with market I'lll talk a bit more about that we saw cloud seat growth in all of our markets, not just Germany. Gross profit in in, in pound sterling, was slightly up year on year so versus H! one that was kind of a 1% of the revenue and 1% of the gross profit given the exchange rate and the euro movement. This is actually on a like for like basis in local currency at 4% on revenue and a 4% on gross profit. Margins remain stable at 45%. The European story is one of Germany performing well, and more subdued performance in Spain versus prior periods and Netherlands is you'll see in the next page tracking as previously. As Andrew said, the sale of Comymedia, non core business, a post balance sheet event and then at the same time we've agreed to acquire NeoTel business, which you'll see in the RNS that is still subject to regulatory approval and some closing conditions. But we don't see any problems in coming on that.

So on this slide, I'll give you a bit of time to look at all the figures on the page. We're looking at half on half since 2020, which was actually kind of the first full half of ownership for many of the businesses we bought then in April and July 2020, and you'll see the story is on our kind of UCaaS focus growth area, as Andrew said, the seats have grown 7% and we've grown seats in every market we were in, that translated in in local currency to a 2% increase period on period. You can obviously see the year on year. The far right column is H122 versus H221. You can see on that the story in the

Netherlands ticking up slightly to €4.1 million, 2% growth there on period and in Germany, a 6% growth which is continuing that story. You can see from the start in H2 2020 at €6 million now up to €7.6 million.

If you would recall, as Andrew said, the similar to Gamma historically, we have the traditional business that as expected is slowly declining that continue to €11.3 million as you can see in H1 and then Epsilon business which is our German mobile business, lower margin business sub 20% has, period on period is declined by 7%, but you can see half on half last year has gone up from €12.1 to €14.2 million on that side. This just gives you a bit of colour on the performance as I say the traditional as expected, cloud seat growth, we're happy with going through the business and the German business offsetting some of the subdued growth that we're seeing in the Spanish business.

If I move on to costs, quite a lot of words on this slide and you wouldn't have seen it and before this is a snapshot. As I said of the income statement costs for H1 2022, we just wanted to give a bit of colour both from the cost of sales and on the overheads. You'll see, as I said before, the gross profit grew in line with revenue at 8%, hence the cost of sales is growing at 8%. You'll see that we've highlighted here three of the largest components is to give you a taste of that, hopefully not a surprise data and mobile cost of sales representing about 40% of our total cost of sales which was one £114.3 million at the half year. The total that is so 40% of that. The traffic, the representing 25% that can be bundled or unbundled in all of Europe, this is group, not just UK. In Europe, it is unbundled in the UK and our direct business and others, there is bundling of traffic, wholesale line rental obviously we're focused on that as the PSTN switch off comes closer in 2025 and it clearly we have products that Andrew's going to talk about the help us in that journey. All of these cost of sales don't include all of the license costs, Broadsoft and others that are capitalising comes through the intangible asset and our amortized through that it's just awareness that some of those licenses are not coming through P*L, on the income statement. But on the balance sheet.

So that that gives you a bit of colour the other items are stock and commissions that obviously go through cost of sales as well. The commissions in particular on the Epsilon business that I just mentioned

On the overhead said earlier, good cost control for each one, 4% year on year. As Andrew I think has said in previous calls and I was listening, you know staff costs represent 3/4 of our overheads, so 3/4 in the first half of that £68.5 million of H1 total overheads was staff costs that salaries and wages IT & network represent about 10%. These include maintenance contracts and some licenses. Property cost represents around 5%. So that gives you roughly 90% of our kind of total overheads balance. It gives you kind of the idea of the top three, the property rental costs, if we recall under IFRS 16 go onto the balance sheet. So you will see those amortize and come through as I say amortization, you'll see that in a cash flow statement as well. I think a general comment on pricing as I've mentioned on the left-hand side of the graph here that a lot of these cost traffic WLR data, mobile is kind of common practice.

In the channel, when we put the our annual price rises through in January that these flow through and even if there are upticks mid-year we flow those through. The only caveats that is clearly in the direct business in these larger contracts which we negotiate a contract by contract basis, we take into consideration all of these costs and price on the solution basis going forward. But that will give you some understanding of that. Moving on balance sheet, I won't spend too long on this page. I think we said we want to say strong balance sheet £75.6 million cash in the bank net £72.6 million, you'll see the £3 million at the bottom of a debt acquired with subsidiaries. I know when we look at our net cash at £72.6, others sometimes look at the IFRS 16 liability. You'll see that that's come down from £13 million to £11.7 million on that and you can see on the page that we've had the only thing kind of real step up increased apart from the cash is the receivables increase relates to contract assets and some of the prepayments that I mentioned previously one of our trading updates.

Contingent consideration, which I know is sometimes also another adjustment. you can see is, is come down from the £11.9 this time last year to 10 million. Again this is the 1.6 million contingentconsideration that we did pay in Mission Labs the £10 million is a discounted number in line with IFRS accounting but a strong balance sheet unlevered cash generated business going forward.

Cash flow. Very happy with the cash conversion. This increased by 100 bips to 95% from this time last year, and I'll give a bit more guidance on that and at the end of the presentation, taxation cash flow decreased slightly R&D credit as you can see on the page, CapEx, including intangibles. I see a couple of comments coming on that. When you look at Mission Labs, we bought Mission Labs in H121. Andrew's going to talk a bit more about our product pipeline. We going forward, the products that we've already got in market, Mission Labs continue to build that our own software solutions and the kind of run rate is very similar to actually H2 2021. As you can see in our H1 2022 numbers. So that's is continuing as expected.

Contingent consideration, I've already mentioned the £1.6 I talked about the discounted value of £10 million. We expect that to be roughly £10.5 million undiscounted in cash of which quite a lot is payable in relation to our HFO business around £8.6 million within the next 12 months. Just to give you an understanding of the coming forthcoming contingent consideration pay-out.

Final page and again happy at the end after Andrew's to go into Q&A on some of these topics, but just reiterating it first of all you know very strong balance sheet in a very good position to go into what we think not for Gamma on itself, but the whole economy and macro economy and global economy is going to be an interesting time as we're all well aware there are inflationary pressures. We don't think they will materially impact in 2022. You've seen our good cost control in the first half of the year but may slow the growth in adjusted EBITDA going forward. And just to be clear slow the growth not slow EBITDA, slow the growth of EBITDA.

Overall expectations, I think you've seen continuing message from the AGM announcement through to the August 2nd announcement through to these RNS pretty much saying the same thing which is both on EBITDA and EPS. We expect to be in the upper half of the range. We've given the ranges there just for completeness as we know that obviously analysts will potentially update their views going forward, UK corporation tax stating the obvious, 19% as the effective tax rate at the moment, some of our European jurisdictions such as Spain already at the 25% mark, but the UK we're still expecting, until we hear otherwise, for the increase in April 23 to the 25% corporation tax. Cash conversion guidance, although we're outperforming in 94% this time last year 95%, we are still, we will look to our perform but the guidance we are maintaining it the 85 to 90% level. So that concludes the whistle stop tour. As I say, happy to take Q&A later on the topics and at this point I'll pass back to Andrew.

Andrew Belshaw
Bill, thank you very much indeed for doing that.

Yeah, as I mentioned at the very outset of this morning's presentation, every time you look in newspaper, every time you turn the television on, everybody's telling you that the economy is in terrible shape. And what I wanted to do is set out what I see the growth drivers of Gamma being (certainly over the short to medium term).

I guess what I'm also doing it as part of that is I think sometimes people perhaps need a little bit of reminding of what we actually do and what we actually sell. So hopefully we can cover that off a little bit. And the other question we get a lot is Teams, good thing, bad thing. I'm going to explain to you why Teams is a good thing for Gamma .

These are the five drivers and they're the same as we've listed out in the RNS. The other thing I probably should have said right at the beginning of this is I think Jaime mentioned we were recording it. We'll also make a transcript available once we've sorted out some of the AI amusement that generally comes into those transcripts. So to five drivers of growth that I see, look, the cloud communications market, Gammas core market in the UK will continue to grow and I'll give you some markets stats on that, I'll give you the latest market stats on Europe. We see Europe as still hugely underpenetrated and we see that as a great growth opportunity for us as a group.

In our core Cloud PBX product set Horizon, the product we've been selling in the UK for over 10 years now, I'll just explain to you how ARPUs are moving on that given the other bolt on products (that we've now built ourselves) that sit around that core product. I'll talk to you a little bit about how SIP is evolving and why that's a good thing for us and what that's doing to ARPUs going forward and I'll explain why Teams particularly in the enterprise space, why we see Teams as a good opportunity for us. Depending on who you talk to, the cloud comms market in the UK is somewhere between 30 and 40% penetrated. And what that means if you go back to basics of the things we've been talking about for the last seven or eight years as we describe Gamma as a business. Your evolution in your communications may have been that you started out life years ago with ISDN going into hardware PBX, you might then move to SIP going into hardware PBX and then you may move to a wholly cloud solution.

Over 60% of businesses in the UK have still got that hardware PBX, but over the course of the next four or five years, the number who had taken a cloud solution, as you can see there, is going to more than double and that is an amazing opportunity for us in our home market, a market where we've historically done very well.

Europe, the story's even better. The slide on or the graph on the right is perhaps a little bit noisy, but what you're looking at is market penetration. I think that's the Y axis (and I've got a degree in maths but I get confused easily) and on the X axis you're looking at market size. And what somebody in marketing has done is had a bit of fun coloured some things in with some flags and try to make the bubble look about the size of the market opportunity and you see that the UK as I just said, it's around about 40% penetrated today. That's people who moved from a hardware PBX, onto a cloud solution. Moving to somewhere around 80% over the next 4-5 years. But look at the other markets. Netherlands quite a small market growing very quickly. Spain and Germany, the other two markets where we've acquired businesses, there's an awful lot of growth to go in there and I'd call out Germany in particular. As of today, I mean this chart from the market data that we've got from this particular consultancy, they're saying Germany is about 10% penetrated. I've seen consultants come up with lower figures than that.

Over the course of the next four or five years, Germany becomes 30% penetrated. In five years time, the German market, as in the people who've moved to cloud, is still smaller than the UK. There is a very, very long runway of growth for us to go in Germany and that is, I think the challenge for us not just and I said short to medium term drivers, but this one, particularly Europe is going to be a long term driver for Gamma for many years to come. And the challenge for us is to do in Germany what we've done in the UK and grow our business to a similar sort of size because the market is there. We continue to look for acquisitions across Europe, particularly in Benelux, Spain, Germany, particularly in the countries they were already in. They just give us scale and they make us more efficient. I think either Bill or myself have already said we increased our cloud seats in Europe by 7% in the first half. I think if you go back two or three years that capital Markets Day is another presentations we were quoting market analysts who were saying by now the market in Europe will be growing at 20%.

It isn't. We're not seeing it. Our competitors aren't seeing it. If you have a look at their results, we've been growing 7% in the first half. We think that's in line with the market. We'd like to get it growing a little bit ahead of the market. But you know the European growth is there. The other thing we've done in Europe, which is really, really important is for the first time we've launched a product that was built in the UK into Europe, into the Netherlands, have taken on Microsoft Operator Connect. We've launched that into the Netherlands. We have live customers using it as of today and again, going forward, a feature of what we need to do to become more efficient as a business is to take those products that we're developing and launch an around the whole of Europe and not just in the UK. So again, that's a story that you'll see more of over the coming two to three years.

So, what are those products and this sort of takes us to the third trend and I might just sort of pause here because it's quite a busy slide and try and explain to you what's going on.So, on the left hand side of this slide, you've got Horizon, our Cloud PBX product. We've been selling it for 10 years in the UK, we've got 700,000 users on it. The prices underneath. I should explain to you, they're not ARPU's in the traditional sense of what our ARPU is. They’re our list prices for commercial reasons, I'm not going to tell you what our ARPU’s are. By definition, half of the customers are below that price. Half of the customers are above the price. So this is the list price. So if you want to Cloud PBX seat on Gamma horizon, our list price for that, these are wholesale prices I should say is £8.00.

You'll sign a three-year contract, will charge you eight £8.00 per month seat. And it's been a lot of commentary over what's happening to that £8.00 and we've never shied away from the fact there is pricing pressure in our market. There has been for the last 10 years, and we do our very best to combat that and we do our very best to hold our pricing and we'll talk a little bit about that in the current market. But what we've also done is to improve ARPU is we've built additional products that sit around that core product. So, your core Cloud PBX product enable you to make and receive calls, run voicemail, do call forwarding all of that kind of stuff that you can do on your phone at work. That's what that horizon does. We launched collaborate a couple of years ago. Collaborate enables you to do video calling. It enables you to set up video conferences. It's designed for small businesses. It's not designed to take on a Teams or something like that. It's designed as a bolt on product for small businesses. You need a level of functionality. And if you take that we’ll charge another £3.00. So again, the ARPU is just going up. If you don't want that, if you want Teams, we can integrate Horizon with Teams and we'll charge you another £1 for doing that. Don't get quite as much, but we’re still pushing the ARPU. So again, Teams, good thing drives the ARPU. Call recording, we've been selling that in the UK for quite some time now. Generally, we make about £1.50 per user. If you're taking that and Contact that we launched last year. So cloud contact it enables you not just to communicate by voice but also to pull together all the communication you're having with your customer, that's by e-mail, whether that's by text, social media. So that you have a single pane of glass that helps you understand how you've been interacting with a customer.

It's a highly functional product and therefore it carries quite a high list price, but again, it's just kind of pushing the ARPU up the whole time as people take these modules. So are these people actually taking these modules? Well, as I said in the top left box there Horizon, we've got over 700,000 seats now. We grew 6% in the first half. Collaborate, we're just under 70,000 seats now. So Collaborate attachment (penetration if you like) is around about 10%, just a little bit lower than 10% across the entire base in the UK. Teams, we've got 5 000 users now integrating with Teams. As you can see, that's the fastest growing thing, probably from quite a low base. So I wouldn't necessarily extrapolate that out too far. We are seeing Teams be used more in the enterprise space than the small business space, but that may change over time which people want to use Teams. We've got a solution to link that Cloud PBX functionality with the collaborative functionality with Teams gives you. Voice recording growing up to 83,000 users, again over 10% of the base take voice recording from us and Horizon Contact, it's a specialist product. It won't appeal to everybody, but you know growing quickly again from a low base that we launched it. If you look at the products that we launched some time ago in the UK. So if things like Collaborate, voice recording, we're up to around about 10% penetration in our base.

What we're doing is we're working with our own salespeople and we're working with our channel partners to incentivise them to get these penetration levels even higher. So again, this is the sort of dynamic we have when people want to talk to us about pricing, we want to talk to them about attachment rates and penetration and selling more of these products because both us and our channel partners, we can get a bigger share of wallet from our end users if we can sell these additional products into our end user space.

So what about SIP? That was Cloud PBX, SIP is evolving a bit as well. If you remember, SIP is an ISDN replacement product, the ISDN network’s being turned off in 2025. As people are moving from ISDN, we think about 80% of the market has now moved and we are still gaining customers who are moving from ISDN to SIP. So the base is still growing, but we're also now seeing some of those customers move on to alternative products and it's just worth explaining how that works because again, there's an ARPU impact. So again, what you're looking at here, these are list prices, not technical ARPUS, but hopefully you'll understand why I'm using the term ARPU to try and explain what's going on. So SIP trunking our list in the UK now is £5 it was £4.50 but it's one of the areas we are pushing our pricing. So SIP is now £5 list price and we generally think there's about four end users using a SIP trunk. It's about the number of concurrent calls so you don't have more than 25% of your people on the phone at any time. Therefore, you can get away with 1 to 4 contention ratio. So the ARPU not the revenue per trunk but per user is around about £1.25. And as I mentioned a few slides ago, if you're a SIP plus Hardware PBX user who wants to move to a cloud solution, but we'd love you to move to our Horizon product and you can see from the earliest side the ARPU we make on that is at least £8.00. So as people move from SIP to hardware onto a Horizon solution and you know we see some of that going on now, you know the ARPU opportunity for us is large. People ask us about Teams, look a lot of people are using Teams, particularly larger businesses. So the top end of the SME space, the enterprise space people are moving to Teams. At the moment if you want to liven up Teams using SIP, we call that something different because we just have to change the names of everything to confuse everyone and ourselves, you can use Microsoft Teams direct routing, you can use Operator Connect and we think the ARPU for that is a roundabout £2.50. So again, if people are moving from SIP plus hardware to SIP plus Teams, so not only do they want to use Teams as a collaborative piece of software, but they want to be able to make and receive external calls, basically using telephone numbers, we can increase our ARPU doing that. So again, Teams is a good thing for Gamma.

Third thing we see people doing inevitably is moving from our SIP plus somebody's hardware onto somebody else's third party or UCaaS platform that's less good for Gamma because we'd rather that we're using Horizon, but you have to accept occasionally you're going to lose some users, but it's not all bad because a lot of these over the top providers don't have a carrier capability in the UK, so therefore they need somebody like Gamma providing the service that we basically provide to Microsoft customers, to enable people to just make and receive calls into the UK public telephony network.

Because we're dealing with carriers and because we're dealing with them in slightly different ways, it's quite difficult to get to an ARPU. We think the ARPU is about 60p, so the ARPU there is an ARPU in there for us, it's a bit lower. What we would dearly love, everybody would be doing is moving to our own Horizon solution. But if they move to Teams, that's OK. If they move to a third party UCaaS provider, that's not as OK, but there's still a revenue opportunity in there.

So we talked about Teams a bit. We see Teams adoption growing particularly in enterprise and as I say, the very top end of the SME market. And I think I probably covered all of this, but there are three ways that we can monetise Teams and get revenue from it. Firstly, if you want to be able to just make a receive calls from your Teams, you need something called Microsoft Teams direct routing or you can buy as Operator Connect through the Microsoft website. We are an Operator Connect provider in the UK and the Netherlands and in the UK we one of only two Operator Connect providers that can sell through the channel. So we're in quite a good position to leverage that Microsoft relationship.

We also bought a business called Exactive over two years ago now, and Exactive has the capability to integrate Teams with other third-party products. So you might want to integrate it with contact centre or some sort of CRM and they have a number of tools when their tools is called cloud UCX but enables Exactive to help you do more with Teams. And the third thing that we can do on the right hand side there is we can integrate our own cloud PBX product Horizon with Teams.

Just very quickly ESG. ESG really matters to Gamma. I think we really cared about ESG even before we even knew it as ESG. In the first half of the year, we've launched a new ESG website that's got a whole bunch of data on there. The address is at the bottom of the screen. But I just wanted to call out a few things. So we said before on the environment Gamma will be carbon neutral by 2042. But in terms of the bits that we can influence what's called our scope one and scope two emissions, so not those of our suppliers, we're going to reduce that by 90% by 2030. So in the bits that we can really implement, we're going to get there a long way before 2042 because it matters to us as a business that we do that now.

On the social side, we've done a lot of work in the first half on ED&I and I and again, you know, sitting in this seat now, as an interim CEO, it hugely matters to me that everybody can have a job at Gamma, have a career at Gamma and thrive at Gamma irrespective of their race, their gender, their sexuality or their creed. And it's one of the things that I personally care about a lot and it's one of the things that Gamma will absolutely be known for. We're also very conscious that there are a number of people in Gamma who are really struggling at the moment with cost of living. I can't tell you exactly what we're going to do because we haven't told those people, but in the next two to three days we will be producing a series of measures, a package for the lower paid people in Gamma to make sure that they're not choosing whether they eat or heat over this winter. It's going to cost us a little bit of money, but it's the right thing to do and as Bill said, even doing that, we're still confident that we can hit the numbers that we said we were going to hit. On governance, it's probably the time just to just to say we've changed the board a little bit in the first six months of this year. So we've welcomed Bill who you've now all met. We also welcome Shaun, who's come on as a non exec and now it's very much the time for me, I think to acknowledge the work Andrew Taylor has done over the last four years and to thank him very much indeed for the platform that he has built with Gamma to enable me to take Gamma forward for the next few years. So thank you very much indeed, Andrew.

And also just in passing, I wanted to say thank you to two other non execs who've left Gamma in the first half. That's Andrew Stone and Wu Long Peng who may not be known to you, but they were the representative Non execs of Gammas founder shareholders and frankly without them and without Gamma founder shareholders who took punt on a business 20 years ago, none of us would be here today. So thank you to those retiring directors for your service and I'm very much looking forward to working with Bill and Sean and the rest of the board going.

So let's have a look at the outlook. I think we've covered off most of this. Look, on the recession, in the last few weeks, we've had the first conversations, and actually it was with our team in Germany who are saying we are just beginning to see the first signs of recession. We're just beginning to see the first signs of hesitation of people buying and I suspect we'll see a little bit more of that in the first half. Sorry, into the second half. We don't expect that’s going to affect 2022 as we've explained many times, Gamma is a bit of an oil tanker, and these things take a little while to kind of work through.

And just to reiterate the points I made at the beginning, the services that we sell are absolutely critical to business users. We sell them on a recurring revenue basis and our cash generation is very good. So we are, we think, well placed to deal with the recession. Inflation - as Bill explained, the main inflationary driver we have is wage costs. As I said a moment ago, we will do the right things by our employees, particularly those who are lower paid because it's the right thing for us to do as a business

On pricing, there are areas where it's easy for us to push pricing than others, and we're working through all of that with our channel partner and our direct customers to just make sure we do what's right and what's fair. And as we've said many times on the supply chain, I think a number of businesses have got different issues. We are generally in a very good place on supply chain. I think as Bill said, where people want one or two very specific products, sometimes it can be a little bit harder to source but we can generally get something that will provide the solution that a customer needs.

So, look in terms of outlook, as I've just said, we think recession is highly likely in Europe, but you know we'd rather it wasn't coming, but if it's coming, we remain confident we'll be able to weather it and probably weather it better than some of our competition. Our business model remains the same. It's recurring revenues, cash generation, we have a product set (as I hope you've seen) that addresses all parts of the market from the SME through to the enterprise and all of those parts are growing.

Cloud PBX penetration in the UK is below 50%, it will double over the next 4-5 years. We have a fantastic opportunity in our home market. We have, I think, an even better longer-term opportunity in Europe and no that's not coming through in the numbers just yet, but it is a long term opportunity for us and we still believe that. We continue to build products, we continue to build products using our own IP and we're very proud of the things that we've built and we will carry on doing that. It just gives us more flexibility to deliver what our customers actually want, and we continue to look for M&A opportunities both in terms of European footprint and also some of those technology opportunities. I'm ever so sorry, I've probably gone on a little bit longer than I anticipated and I can only apologise for that.