8 September 2020

Gamma Communications plc
Unaudited results for the six months ended 30 June 2020

Increase in revenues, profitability and cash generation

Gamma Communications plc ("Gamma" or "the Group"), a leading, technology-based provider of communications services to the business market in Western Europe, is pleased to announce its unaudited results for the six months ended 30 June 2020.

	Six months ended 30 June		
	2020	**2019**	**Change (%)**
Revenue	£177.3m	£158.2m	*+12%*
Gross profit	£93.1m	£78.1m	*+19%*
Gross margin	*53%*	*49%*	
Profit from operations	£26.3m	£21.8m	*+21%*
Adjusted EBITDA	£36.1m	£30.4m	*+19%*
PBT	£26.2m	£21.7m	*+21%*
Adjusted PBT	£28.0m	£22.8m	*+23%*
EPS (Fully Diluted, "FD")	22.1p	19.4p	*+14%*
Adjusted EPS (FD)	23.5p	19.2p	*+22%*
Total dividend per share	3.9p	3.5p	*+11%*
Cash generated by operations	£32.2m	£27.4m	*+18%*
Cash generated by operations / adjusted EBITDA	*89%*	*90%*	

All adjusted measures set out above and throughout this document which are described as "adjusted" represent Alternative Performance Measures ("APMs") and are separately presented within the statement of comprehensive income or reconciled in the Financial Review section or segment note and are applied consistently. Where reference is made to adjusted EPS this is stated on a fully diluted basis. Definitions of APMs are included in the Financial Review. Our policy on the use of APMs is included in note 2.

Key Highlights

The Group had a strong financial performance across all business units with positive growth across all key product categories during the first half. COVID-19 had a minor impact on the overall financial performance of the business, with cancellations and bad debt at their normal low, pre-COVID-19 levels.

Financial highlights

The main business units continued to perform well:

- Revenue grew by 12% from £158.2m to £177.3m. Organic revenue growth in the period was 9% (from £158.2m to £171.7m across the Group), with organic gross profit increasing by 15% (£11.5m) from £78.1m to £89.6m.
- UK Indirect business continues to grow strongly with a focus on the existing partner base. Gross profit increased from £55.9m in H1 2019 to £64.5m in H1 2020 (+15%).
- UK Direct business (which now includes Exactive) continues to deliver very positive growth, with gross profit increased from £17.9m in H1 2019 to £22.4m in H1 2020 (+25%).
- Overseas business saw gross profit increase from £4.3m in H1 2019 to £6.2m in H1 2020 (+44%). Voz Telecom, which was acquired in April 2020, is included in this performance.

Product highlights

There was continued strong growth across the major product groups in the United Kingdom:

- The number of installed SIP Trunks increased from 1,016,000 at 31 December 2019 to 1,100,000 at 30 June 2020 (+8%).
- The number of Horizon (Cloud PBX) users increased from 522,000 to 560,000 (+7%) in the first six months of 2020. The main growth area continues to be in the SME segment which is the market segment Horizon has been developed to serve.
- Collaborate, the fully integrated Unified Communications upgrade to Horizon which was launched in March 2019, saw an increased rate of sales driven by the COVID-19 pandemic.

In Europe at 30 June 2020 we had 65,000 Cloud PBX seats.

Acquisitions

During the period we have continued to execute our strategy through two acquisitions which strengthen our UCaaS product capabilities and expand our geographical footprint in Europe:

- In February 2020, we acquired Exactive Holdings Ltd ("Exactive"), a unified communications specialist with expertise in Microsoft Teams. This will help us to deliver our strategic objective of further developing our UCaaS proposition by enabling us to configure Microsoft Teams as a full UCaaS solution for those customers who require it – these customers tend to be larger in size.
- In April 2020 we acquired VozTelecom OIGAA360, S. A. ("Voz Telecom"), a well-established provider of cloud communication services in Spain, which provides us with access to the nascent Cloud PBX market in Spain.

In addition, after the end of the period, we acquired HFO Holdings AG ("HFO") in Germany and GnTel B.V. ("gnTel"), a Cloud PBX provider in the Netherlands. As a consequence of these acquisitions we now have over 100,000 Cloud PBX seats in mainland Europe. The adoption and penetration of cloud services in the business market is very low across mainland Europe, and we are now able to bring our experience of developing the Cloud PBX market in the UK into the Dutch, Spanish and German markets.

Each of our acquisitions has been integrated into our group operating model. This has ensured that they have quickly become part of the group and reduced the level of management time required on integration.

Whilst acquisition activity has been high during the first seven months of 2020 (we have bought four companies and the cash outflow for acquisitions in the period was c£45m), each acquisition has been funded from internally generated cash flow and we believe it has been the most cost effective way to build a footprint to take advantage of the future acceleration in UCaaS uptake in continental Europe.

Digital programme

We have also continued to invest in our Digital Programme which has progressed well during the period, and has delivered real benefits across our direct channel business. This investment includes the launch of a digital platform (the "Gamma Hub") which is the first iteration of our integrated Dealer partner platform which will afford us full visibility of sales leads and opportunities across our dealer network. The continued digitalisation of key operational and business processes is driving improved levels of automation, efficiency and overall customer experience.

Andrew Taylor, Chief Executive Officer, commented:

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

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

Enquiries:

Gamma Communications plc Andrew Taylor, Chief Executive Officer Andrew Belshaw, Chief Financial Officer	Tel: +44 (0)333 006 5972
Investec Bank plc (NOMAD & Broker) Virginia Bull Patrick Robb	Tel: +44 (0)207 597 5970
Tulchan Communications LLP (PR Adviser) James Macey White Matt Low	Tel: +44 (0)207 353 4200

Notes to Editors

Gamma is a leading supplier of Unified Communications as a Service (UCaaS) to the business markets in Western Europe. Providing a range of Unified Communications, Mobile and Connectivity services, Gamma provides robust and secure solutions that enable organisations to communicate, collaborate and offer a better customer experience.

Gamma's largest market is in the UK where the company's network-based services are supplied to the SME, public sector and enterprise markets, through a large network of over 1,000 channel partners and its own direct sales and support capabilities. In addition, Gamma owns UK-based Unified Communications infrastructure provider Telsis, which also has a small presence in Germany, and Exactive, which specialises in Microsoft Teams.

In the Netherlands, Gamma owns DX Groep which owns Dean One (a telecom and internet provider supplying VoIP, Mobile and Broadband services through over 600 channel partners), Nimsys (an ICT specialist for workspaces and multi-tenancy buildings), Schiphol Connect (the communications and high speed internet service provider at Schiphol Airport in the Netherlands) and gnTel (a Cloud PBX provider).

In Spain, Gamma owns Voz Telecom which is the fourth largest Cloud PBX business in Spain (after the established telecoms providers such as the Mobile Network Operators "MNOs").

In Germany, Gamma owns HFO Holdings (a leading provider of IP telephony services in Germany).

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Chairman's statement

I am pleased to present the unaudited results for the six months ended 30 June 2020

Overview of results

Group revenue for the six months ended 30 June 2020 increased by £19.1m to £177.3m (2019: £158.2m) an increase of 12% on the prior half year. On an organic basis the growth in the period was 9% from £158.2m to £171.7m. Adjusted EBITDA for the Group increased by 19% to £36.1m (2019: £30.4m). Fully diluted earnings per share for the half year increased by 14% to 22.1p (2019: 19.4p). Adjusted fully diluted earnings per share for the half year increased by 22% to 23.5p (2019: 19.2p).

The cash generated by operations for the first half was £32.2m compared to £27.4m in H1 2019. The closing cash balance for the period was £42.5m compared to £53.9m at the end of December 2019, this was after investing £21.5m on acquisitions, including £1.7m of deferred consideration, and also spending £6.1m on capital expenditure. We have continued to pay a dividend in line with our pre-COVID-19 progressive policy and this resulted in a cash outflow of £6.6m in the first half.

The first half of 2020 was dominated by the COVID-19 pandemic and has been challenging for all businesses. The products and services which Gamma sells are often critical for the end users to carry on their business. Gamma was able to continue to support its customers and performed well during the pandemic because our people were able to adapt quickly to the new working environment. Our customers, partners and suppliers were also very supportive. Our financial performance was maintained because our commercial model involves the majority of sales being invoiced monthly on a recurring basis. This has meant we have not only weathered the crisis but we have continued to grow – albeit with our growth levels slightly reduced due to the much lower economic activity in the second quarter.

The business has continued to perform well:

- Our UCaaS products have helped many of our end users to run their businesses effectively in difficult circumstances. We have (through the use of our own products) been able to fully support our channel partners and end customers throughout the "lockdown" period.

- The business has grown and remained cash generative during this period. We have not taken advantage of any of the government support schemes which have been made available in any of the countries in which we operate; it should be noted that we did not take any funds which formed part of the UK COVID-19 Job Retention Scheme (or Furlough). We have continued to pay dividends in line with our previous dividend policy.

- We have been pleased to provide some support for end user business customers who have been unable to trade due to the pandemic. We offered a "hibernation" scheme whereby customers who were not using the service could opt not to pay for it. This reduced cash and profit by £1.2m in the first half due to the lost gross profit associated with those users. The scheme ended on 30 June. The majority of users who had been in hibernation have now reverted to paying customers – they have not cancelled the service. However a number of these end users are not actually trading yet.

- The COVID-19 pandemic impacted our ability to deploy deals we won in Q1 and initiating new projects in Q2 which has had an impact on our sales pipeline in our Direct business. We therefore, expect a small hiatus in new projects starting towards the end of 2020 and in the first part of next year which will affect the level of growth of the Direct business unit in the early part of 2021. Since the half year, sales activity has returned to pre-COVID-19 levels.

We have strengthened our product capabilities and our geographic footprint through acquisition:

- In February 2020 we acquired Exactive, a UK Microsoft Teams specialist. Since the acquisition, we have been able to leverage Exactive's strengths and capabilities to win a number of new customer contracts with organisations such as Metro Bank, Fraser Nash, Northern Marine and Baillie Gifford.
- We have entered into two new countries both of which have significant PBX bases and very low cloud penetration. We acquired Voz Telecom (Spain) in April 2020 and HFO Holdings (Germany) on 1 July 2020.
- Since the period end, we have expanded our business in the Netherlands through the acquisition of gnTel on 17 July 2020. I would also like to welcome Gerben Wijbenga who joined Gamma on the 3 August 2020 as country CEO of our combined Dutch business.

Board and Governance

This morning we were pleased to announce the appointments of Charlotta Ginman and Xavier Robert onto the Board of Gamma Communications plc as Independent Non-Executive Directors with immediate effect.

Having qualified as a Chartered Accountant, Charlotta Ginman worked in investment banking with Deutsche Bank and JP Morgan. She left banking to hold a number of senior roles within Nokia and became CFO of its listed "spin out", Vertu. She holds a number of non-executive roles at both AIM and fully listed businesses and is also the chair of the audit committee at Keywords Studios plc and Polar Capital Technology Trust plc.

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

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

On 5 June 2020, it was decided to rotate the Chair of the Remuneration Committee. Martin Lea stood down as its chairman after six years and handed over to Henrietta Marsh who joined the Board in April 2019. Henrietta has been a member of the committee since joining the Board.

In addition, on 3 August 2020, the Board decided to create a separate Environmental, Social and Governance ("ESG") Committee. This committee will be chaired by Martin Lea and will consist of a mixture of non-executive and executive directors.

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

Employees

Gamma now has 1,355 employees (30 June 2019: 1,079). We continue to invest in all our employees and in particular we assist apprentices to gain valuable work experience, to continue their education and to obtain nationally recognised qualifications. At present, we have 23 apprentices employed in the UK in IT, HR, Infrastructure Support, Software Development, Sales and Customer Service. We have a good track record of offering permanent employment at the end of these apprenticeships and expanding opportunities for apprentices across the business remains a priority for Gamma. We consider diversity to be an important part of Gamma's culture and run a number of programmes across our business to support and promote this.

We are making a significant investment in people to strengthen the foundations for our business. We are building our capabilities in HR, Systems & Support, European management and governance and UCaaS product development. This will support our business both now and in the future which is particularly important as we anticipate growth.

We continue to encourage all employees to own shares in the Company. In the UK we launched this year's SAYE scheme in April 2020 and 449 employees subscribed which brought the total employees in the SAYE scheme to 718. We also have 164 employees who are buying shares monthly through our SIP scheme and 880 in total who hold shares through the SIP Trust. We are currently working to establish the most efficient way for our new colleagues in Europe to own Gamma shares should they wish to do so.

The Board recognises the high levels of support from Gamma's employees during this difficult period which have enabled uninterrupted services to be provided to most customers, some of which have been delivering vital services. Many have made significant personal sacrifices as they have had to juggle work commitments with changed family circumstances and we thank everyone for their dedication and support.

Environmental

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

Dividend

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

The Board is pleased to declare an interim dividend, in respect of the six months ended 30 June 2020, of 3.9 pence per share (2019: 3.5 pence) an increase of 11% which will be payable on Thursday 22 October 2020 to shareholders on the register on Friday 25 September 2020.

Current trading and outlook

Our performance subsequent to 30 June 2020 has continued to be strong, and we remain optimistic about Gamma's future growth prospects. We are seeing net additions start to return to pre-COVID levels and we have not seen any increase in bad debts from our historical low levels. Therefore, having reviewed our levels of trading over the summer period, we anticipate our full year revenue being within the expected range (which was itself raised following our trading update issued on 20 July) and our adjusted EBITDA and adjusted EPS are anticipated to be at the top end of the expected range. Company compiled expectations for the full year are Revenue (£369.0m-£394.3m), adjusted EBITDA (£72.1m-£75.1m) and adjusted EPS (43.5p-49.9p).

Richard Last
Chairman

Chief Executive Review

I would like to start by welcoming our new colleagues into the Gamma family. We acquired Exactive and Voz Telecom in the first half as well as HFO and gnTel in July. I am pleased to say that all our business units - existing and new - have performed very well, and I am happy to report another excellent set of financial results for the first half of 2020.

Gamma traded strongly in the first quarter and had expected to be equally strong throughout the first half. However, the COVID pandemic in the second quarter created uncertainty about the resilience of the economies in which we operate. Notwithstanding this, the markets which we serve proved themselves to be robust and in addition to completing acquisitions in both the UK and Spain, we were pleased to deliver strong organic growth across the business during the half. We saved on costs in some areas due to the COVID pandemic (for example in travelling and attendance at trade fairs etc.) but importantly, and as a key part of our strategy, we continued to invest in both our UCaaS product and team development to enable us to deliver new and exciting products in the future. As an example of this, in the future we expect to launch our new fully integrated cloud contact centre offering to a select number of partners for testing. Development of a cloud contact centre offering is a frequent request from channel partners and end users, and will open up a new part of the market to us in the SME space.

Gamma responded swiftly and decisively to the COVID-19 pandemic. Our focus throughout has been on the safety and wellbeing of our staff, our partners and our end-customers while ensuring that business continuity was at the heart of our planning and support. We quickly established a governance structure and COVID-19 leadership team to take decisions and communicate our plans to all stakeholders, and the level of support and engagement with our staff has been excellent throughout. This focus has continued, as we now consider how best to return our staff to the office where appropriate, while assessing the longer term implications and opportunities that a more flexible working environment will present Gamma, our partners and our customers. Overall, we consider that as a result of COVID-19, the adoption of cloud services will accelerate in the medium to long term, and therefore reinforce Gamma's market position and overall strategy.

Throughout the lockdown period, we continued to support our channel partners with our digital training platform, "The Gamma Academy" which continued to deliver training courses to our partners and their staff. In addition to this, we held a series of training and marketing webinars with partners and end-customers to drive levels of engagement, support and sales opportunities. "Gamma Accelerate", which is Gamma's digital marketing platform, also delivered a series of marketing campaigns to channel partners despite the challenging trading conditions during lockdown. Access to these platforms not only drives loyalty from channel partners but also enables them to create new opportunities, win market share and drive increased levels of revenue and margin for both their businesses and Gamma.

Strategy

Our strategy has four key elements.

Evolve our strong cloud telephony position into the Unified Communications as a Service ("UCaaS") market

We focus on the UCaaS market in the UK and Europe because this is expected to grow significantly over the coming five years.

Offering to SME users across Europe

The majority of our business consists of selling products and services to SME customers in the UK and Europe. We do not generally sell directly to these customers but instead we reach them indirectly through a network of channel partners in each country in which we operate. We provide channel partners with a range of UCaaS products on a wholesale basis.

We continue to execute well in the UK and are one of the market leaders in both of our core products of SIP and Cloud PBX. In SIP Trunking we have now increased our UK market share to 32%. In Cloud PBX we have increased the number of seats from 522,000 (at 31 December 2019) to 560,000 which gives us a market share of over 10%.

In the first half of 2019, as a key element of our UCaaS strategy, we launched a suite of Collaboration services. Gamma Collaborate is a fully integrated bolt-on to our market leading Horizon product. We saw significant levels of additional users taking the service during the COVID-19 "lockdown" period in the UK. In order to assist UK business and help accelerate the adoption of UCaaS, we offered a four-month free trial. A significant number of those who had taken part in the trial opted to purchase the service at the end of that period – in the SME market c80% of those moved from the trial into paying customers. At the end of the period we had over 25,000 users.

As a result of the positive execution of our European geographical expansion strategy, we are very much establishing ourselves as a recognised UCaaS player in mainland Europe and had 65,000 Cloud PBX seats in the Netherlands and Spain as at 30 June 2020.

In addition, in July 2020 we acquired HFO who are a well-established wholesale provider of next generation communication services in Germany and gnTel in the Netherlands. HFO has recently started to sell a wholesale Cloud PBX product through their channel partners, and similar to our plans in both Spain and the Netherlands, we are very focused on establishing a long-term product and cloud growth strategy across the market. In the Netherlands, we will shortly launch a UCaaS offering which will be fully integrated with our current cloud PBX market offering.

We previously reported that we acquired Telsis to bring both UCaaS product and software development capabilities to Gamma. I am very pleased to announce that the integration of Telsis has gone well and is now complete. We plan to launch a fully integrated "cloud contact centre" module into our UCaaS suite, which will provide our partners with an opportunity to up-sell to existing Horizon customers, while also providing an alternative cloud offering to replace on-premise contact centre systems.

We are particularly pleased with the progress we are making on the execution of our UCaaS product strategy. This includes investment in strengthening our in-house development capabilities, while augmenting this through utilising partner capabilities and strategic product bolt-on acquisitions, which bring both core product and UCaaS development skills to Gamma. It should be noted that this is part of a long-term UCaaS technology and product strategy which is ultimately focused on building and developing common core platforms which in the future will be deployed across our core markets. We will continue to invest and innovate in this area and bring new products to market.

Offerings into the enterprise space primarily in the UK

When we sell to enterprise and public sector customers (which is mainly done directly in the UK), as well as selling Gamma products and services, our strategy has been to introduce third party products and services into our portfolio, as these are sometimes better suited to customers who are larger or multi-national.

Microsoft Teams ("Teams") is an increasingly sought after UCaaS solution amongst such customers, and our strategy is to provide this as a stand-alone managed service to our customers, and one which is fully assured by Gamma's core network and excellent customer service. As a result, during the first half of the year:

- We acquired Exactive, a UK Microsoft Teams specialist. We are in the process of fully integrating Exactive into our UK Direct business, and since the acquisition, we have won a number of key contracts with organisations such as Metro Bank, Fraser Nash, Northern Marine and Baillie Gifford.

- As part of integrating Microsoft Teams into our overall portfolio, we launched a Microsoft Teams Direct Routing product to our Channel Partners, making Gamma's market-leading SIP trunks available to Microsoft Teams users. This is an expanding market and we have already connected thousands of users to the platform since the launch in April 2020.

Where enterprise and public sector customers require Cloud Contact Centre functionality, we partner with Cirrus, a well-regarded and market-leading solution provider in this market segment. Cirrus has been developed to address the needs of larger customers, whereas our own "Telsis developed" product will be aimed at smaller business customers, who are predominantly the target market for our channel partners. At the end of June 2020, we have installed 3,500 Cirrus seats to over twelve customers including RNIB and Macmillan.

Build on our Fixed and Mobile Telecom strength to differentiate our proposition from pure "Over the Top" (OTT) players

Sales of data access products in the UK are recovering to pre-COVID levels

We continue to offer data access services (Broadband and Ethernet) in the UK. New sales of data access in the first half were particularly difficult as many sales require some form of installation and engineers were not allowed to access customer sites to perform installations for non-critical services for much of the COVID-19 lockdown period.

Notwithstanding this, I am pleased to report that we delivered net growth in our data access products during the first half, ending the period with 114,000 Broadband circuits and 15,300 Ethernet circuits, representing an increase from 111,000 and 13,900 respectively. Monthly net additions are now growing back towards pre-COVID levels.

We offer mobile services in four countries

Each of our European operations is able to offer its customers a mobile service.

In the UK, we offer a service based on Three which had 64,000 users at 30 June 2020 – an increase of 3% from 62,000 which were taking the service at 31 December 2019.

In the Netherlands, we have a long-term strategic partnership with T-Systems which has enabled us to strengthen our proposition and market position with both our direct customers and indirect channel partners. At 30 June 2020, we had 10,900 mobile connections in the Netherlands.

Voz Telecom, our Spanish business, has a mobile offering supported by MasMovil and this had 7,700 connections at the end of the half.

HFO (our German business) has a subsidiary, Epsilon, which offers mobile connections from three of the major mobile operators in Germany. In the first half of 2020, HFO connected 42,000 mobile users.

Network resilience is an important differentiator in all territories in which we operate

We not only differentiate ourselves by offering a full suite of services (including data and mobile access alongside the core UCaaS product) but we also run our own network.

When evaluating acquisition opportunities we ensure that each business we consider has a similar philosophy; that is, it seeks to differentiate itself by running its own network infrastructure. We are not merely buying a sales channel in each country which we enter but we are also buying a resilient infrastructure similar to the one which we have in the UK.

Expand to Europe to gain continued growth and scale

Entry into new markets

Since announcing our last set or results we have acquired businesses in Spain (Voz Telecom) and Germany (HFO) as well as making a small "bolt on" acquisition in the Netherlands (gnTel).

As mentioned previously, we now have over 100,000 Cloud PBX seats in Europe which positions Gamma as one of the leaders in the European marketplace, and as a key part of our strategy, provides us with the foundations to deliver future long-term growth for the Group.

Integration is proceeding well

Each of our acquisitions has been integrated into our group operating model. This has ensured that they have quickly become part of the group and reduced the level of management time required on integration.

The senior team in Gamma and in those acquired businesses have and continue to be very focused on the integration of those businesses, and although circumstances have made travel to our overseas operations difficult, we have been effectively managing this through frequent video calls with local management teams to ensure that integration plans are on track and performance is in line with our expectations. Importantly, we have deepened our knowledge of the businesses and their wider management teams over the last twelve months, therefore positive relationships already exist, and we have a clear understanding of the business priorities across each business.

As each acquired business is already operating profitably as well-established wholesale channel businesses and brands in their own territories with their own networks, integration is focused on softer areas which ensure a common set of processes and policies across the businesses in areas such as finance, HR and operational resilience and compliance. We also ensure that we share best practice from our development, sales and product teams across each Group company. This includes working with the sales and product marketing teams in each country to develop long-term "go to market" strategies which have worked well in the UK to accelerate the level of Cloud growth.

Performance of our existing business has been good

We were pleased with the performance of our Dutch business in the first half of 2020 and our largest Dutch business (Dean One) continues to increase its Cloud seats and Mobile connections. Nimsys continues to perform strongly and Schiphol Connect had a strong first half despite the obvious pressures on the airline sector. Due to the similarities in the business models, and as part of our integration planning, we have moved Nimsys and Schiphol Connect under a common management team and are currently harmonising the operational and business support systems under one common platform. On 3 August 2020 we appointed Gerben Wijbenga as country CEO for the Netherlands, who will be fully responsible for our overall business and financial performance across the Benelux territory, including the integration of gnTel and the further development and execution of our strategy.

During the first half and in particular with reference to COVID-19, our experience in all European geographies in which we operate was similar to that seen in the UK. Businesses have demonstrated a renewed interest in UCaaS (although the sales cycles are longer and this may take some time to translate into new sales) and we anticipate that the mid to long term prognosis will be an acceleration in the adoption of cloud services across all European markets. Despite the difficult short-term economic and market trading conditions, cancellations are running at normal low pre-COVID-19 levels and bad debts continue to be negligible; we will continue to monitor this across the second half of the year.

Although our current focus is very much on the business performance, business support and integration of our recent acquisitions, we will continue to monitor the market, and assess other acquisition opportunities in those markets where we already operate, and where these will complement and strengthen our position.

As previously reported, we do not expect Brexit to affect our plans for geographical expansion or, indeed, to have a materially detrimental effect on our existing business.

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

We continue to invest in and develop a digital platform which is a key tool in supporting our direct customers in the UK – this is a long-term programme which is effectively streamlining and automating all pre-sales, sales, customer service and operational and business support services (OSS & BSS) across the business.

The main focus for the digital programme team in the first half of 2020 was planning our next major phase of business transformation targeted for deployment at the end of 2020.

The focus has been to develop a streamlined delivery model and digital tool supporting all UK Direct customer market segments and products. This will automate over 200 provisioning journeys through Gamma and our external partners. It is a key milestone in our digital journey and will result in all 'Direct' facing employees operating day to day on a single joined-up solution that underpins the customer journey from initial prospect, through provisioning, as well as in-life support and ultimately cessation.

In parallel with this delivery model, will be the release of "Customer Communities". This will allow customers of all sizes to self-serve support, provisioning, billing and reporting through our single system, providing them with greater control. We aim to provide a best in class customer experience. This will be a key differentiator supporting customer acquisition and retention, and will provide a high degree of digital automation which as well as materially strengthening customer service, will provide a highly scalable operational and business support services platform

For the first time we have an integrated dealer partner platform

We also launched our first iteration of our integrated Dealer partner platform affording us full visibility of sales leads and opportunities across our dealer network. The platform is being enriched daily with marketing content, training guides and template campaigns, resulting in a marked increase in dealer sales. The platform is laying the foundations to leverage more strategic relationships and similar to what Gamma has achieved with our "indirect channel partner portal" ensuring that Gamma is easy to do business with.

We use Artificial Intelligence to generate sales leads

We also implemented an Artificial Intelligence agent ("Gemma") that directly engages in a follow-up conversation with prospects. We are now in a position where email conversations on some of the simpler pre-sale qualifications can take place without any human sales engagement.

The innovation process is also well underway. Further deployment of AI, bots and adoption of tools to automate simple high-volume tasks are already delivering material benefit and improving efficiency across all our business processes which will enable us to scale.

Digital transformation in the Direct business is key to our rapid growth while driving operational efficiencies

The "Gamma Hub" consolidates multiple marketing apps and tools onto one 'best of breed' platform and this allows us to deliver faster, more frequent campaigns through utilising shared content and processes. This has already proved valuable in our rapid response to COVID-19 and has allowed us to create and execute multiple omnichannel campaigns in hours where this would previously have taken days or weeks.

We have also improved how we collect, cleanse, enrich and sustain the integrity of prospecting data whilst maintaining our GDPR compliance. Previously this was done manually. Today, data in The Gamma Hub is continuously validated by the platform giving us more tailored information for all prospects. This has increased the lead conversion ratio. We have also been able to expand the depth of data held, allowing us to have more meaningful engagements with our prospects.

Gamma values

Earlier in the year, and as part of an exciting employee led program which was aligned with our Gamma 2023 Strategy, we established Gamma's core values. These are:

- Aim high
- Consider others
- Think differently
- Stronger together

These values were launched in early 2020 as part of a company-wide values program, which included a full brand refresh and the launch of our new Gamma websites. We also introduced a new company strapline "Working Smarter, Together." which seeks to sum up our aspirations as a business, how we like to operate as a company, and importantly underpins our UCaaS focused strategy moving forward.

Summary and outlook

Despite the obvious difficulties during the last six months caused by COVID-19, I continue to be pleased with the execution of both our short-term business objectives and our longer term 2023 strategy. We have shown that we are able to operate our business with almost all staff working from home albeit we are now beginning to open offices again. I am also pleased to say that our internal network coped adequately with this level of home-working.

As highlighted previously, the business has performed very well throughout the "lockdown" period in each country where we operate, and I have been particularly impressed and proud of how our teams have engaged to support colleagues, partners and our end customers – I believe this is what truly sets Gamma apart from others and positions us very much as a caring organisation with a very high degree of personal, professional and corporate integrity. We have a robust commercial model based on recurring monthly billing (and we have made a very deliberate point of acquiring businesses who have similar models) which has ensured we have continued to operate positively and be cash generative. We are therefore confident that should there be a need for a second lockdown or localised lockdowns, the business will be able to function well and will continue to generate a positive cashflow.

We continue to see demand for our products and services which facilitate flexible working and the COVID-19 pandemic has reinforced and demonstrated the advantages of UCaaS to many businesses which had not previously considered the need for such a service. Therefore, we are confident in the long-term growth prospects of the business across the whole of Europe and believe that our strategy has been validated and reinforced as a result of the crisis – indeed, some commentators expect the UCaaS market to begin to grow faster as a response to the crisis.

It is my belief that the current crisis will ultimately accelerate the adoption of UCaaS across all markets, and although this will bring increased opportunity, it will also present increased levels of competition as the market becomes even more attractive. We will continue to stay focused on developing the products and services which enable our customers and our channel partners to be successful and win market share in their respective markets. The quality and competitiveness of our products and the strength of our direct and indirect channel businesses in the UK and in Europe provides confidence that we will continue to perform well and that the long-term growth prospects for our sector and for Gamma will continue to be positive.

Throughout the second half of 2020 we will build on each of our strategic pillars:

- In UCaaS we will continue to develop the roadmap for our UCaaS product suite in the UK and across Europe.
- We will continue to ensure that each infrastructure we operate in each country in Europe remains resilient and we will work with our strategic partners to deliver quality access technologies at competitive prices.
- We will continue to focus on the integration of our new acquisitions in the UK, Spain, Germany and Netherlands, whilst we continue to evaluate additional suitable acquisition opportunities to further develop both our UCaaS product capabilities and our market.
- As part of driving increased levels of digitalisation and automation across our UK Direct business, we will launch a streamlined digital tool to support our Direct customers and also our Direct Customer Communities.

As part of our COVID-19 governance and market monitoring activities, in the second half we shall continue to closely monitor partner and end-customer cancellations and bad debts due to business failures (which in turn are due to the general economic down turn). As highlighted previously, in the first half these ran at our normal low levels across all countries where we operate but may increase if the economy and business market deteriorates. In addition, during the second half we will establish a “new way of working” strategy which will take into consideration survey feedback that we have been receiving from our staff, our customers and our partners. As we move forward, Gamma will make sensible and informed decisions that positively impact our future way of working and overall business prospects.

While we focus on delivering our short-term business and financial commitments in 2020, we will continue to execute against our strategic priorities while continuing to maintain a strong balance sheet and generating positive monthly cashflow.

I would like to personally thank all of our staff (both existing and new), our channel partners and our customers for their ongoing support during what I know has been a very difficult period.

Andrew Taylor
Chief Executive Officer

Financial review

Revenue and gross profit

Gamma has performed well during the six months ended 30 June 2020, increasing revenue by 12% to £177.3m (H1 2019: £158.2m) and gross profit by 19% to £93.1m (H1 2019: £78.1m). We have seen this strong performance across all the main areas of the business. This has resulted in adjusted EPS of 23.5p, an increase of 22% from the same period in the prior year.

UK Indirect

	H1 2020 £m	H1 2019 £m	Increase
Revenue	**119.5**	110.9	7.8%
Gross Profit	**64.5**	55.9	15.4%
Gross Margin	***54%***	*50%*	

Overall, the growth in the UK Indirect Business unit has been consistent with previous periods although it should be noted that we have included sales made from Telsis (a business we acquired in November 2019) within our Indirect Business unit. This business made sales of £1.5m in the first half of 2020. Therefore, the organic revenue growth would have been 6.4% had the acquisition not been made. This is slightly lower than we had been expecting due to the slowdown in the rate of new sales in the second quarter which was driven by the COVID-19 pandemic – sales have begun to pick up to pre-COVID-19 levels after the end of the half. Because of the recurring nature of revenues, lower net additions in the second quarter will actually have a more material impact on the second half of the year.

Within the UK Indirect business, the gross profit from the traditional business (which includes calls and lines and trade with other carriers) has seen a slight increase from the previous period which is contrary to the trends seen over the past few years; that said, the first half of 2020 has seen unusual traffic profiles due to "lockdown" and home-working and it is too early to comment on any longer term change to trends. The call and lines part of the business continues to decline but Gamma is now providing IP telephony services to other carriers which is offsetting this.

We group our data, mobile, SIP and Cloud PBX products as our "growth" products and revenue from growth product sales increased from £89.3m to £98.2m (+10%) and gross profit grew from £49.9m to £58.3m (+17%). The gross margin grew from 50% to 54%, which reflects the fact that the main contributors to this growth were SIP Trunking and our UCaaS products (Horizon and Collaborate) which have higher margins than other products. In addition (again due to lockdown) we had fewer installations and hardware sales in the second quarter. These tend to be at a lower margin than the monthly recurring revenues and therefore the margin has increased due to the change in mix – for this reason we would expect margin to fall back again in the second half to be nearer to 2019 levels.

UK Direct

	H1 2020 £m	H1 2019 £m	Increase
Revenue	**47.2**	40.0	18.0%
Gross Profit	**22.4**	17.9	25.1%
Gross Margin	***47%***	*45%*	

The UK Direct business continues to grow strongly and in line with previous periods despite the difficult market conditions. Like the UK Indirect Business there is some inorganic growth driven by the acquisition of Exactive in February 2020. This contributed £1.2m of revenue in the first half meaning that the organic growth was 15%.

The growth was mainly attributable to sales to enterprise customers increasing by £6.9m. Sales to the public sector increased by £0.5m which was attributable to some "one-off" business in the first half of 2019 not being repeated in 2020 – the underlying recurring business is showing better growth. Our Direct mid-market revenue was in line with the prior year. The UK Direct business continues to move from selling to smaller customers to larger enterprise businesses and public sector customers on multi-year deals. The order book remains strong with significant customer wins anticipated in the second half.

The gross margin increased in part as a result of some lower margin work in the public sector in the prior year that was not repeated and also (in common with the Indirect Business) a lack of installations and hardware sales has pushed the margin higher; as for the Indirect Business, we would not expect this trend to continue as business gets back to normal after "lockdown".

Overseas

	H1 2020 £m	H1 2019 £m	Increase
Revenue	**10.6**	7.3	45.2%
Gross Profit	**6.2**	4.3	44.2%
Gross Margin	***58%***	*59%*	

Our overseas business consists of the DX Groep in the Netherlands and Voz Telecom in Spain. The latter was acquired in April 2020 and contributed £2.9m of revenue in the first half. The underlying growth of the Dutch business was therefore 5% which represents a strong growth in sales of Cloud PBX and Mobile products offset by a decline in the legacy ISDN product – a trend which Gamma saw in the UK during the transition to Cloud.

Gross margins have been consistent between periods. The margins on a product by product basis are consistent with those in the UK but the mix in Europe tends to be away from lower margin data products (broadband and ethernet) which is why the margins appear higher.

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

Operating expenses

Operating expenses grew from £56.3m to £66.8m.

We break these down as follows:

	H1 2020 £m	H1 2020 £m	H1 2019 £m	H1 2019 £m	Growth
Expenses included within cash generated from operations					
- UK Indirect Business	35.7		30.9		15.5%
- UK Direct Business	11.7		9.4		24.5%
- Overseas Business	5.2		4.0		30.0%
- Central Costs	3.3		2.3		43.5%
		55.9		46.6	
Depreciation and amortisation					
- tangible and intangible assets	7.0		6.7		4.5%
- right of use assets	1.0		0.8		25.0%
- acquisition	1.8		1.1		63.6%
		9.8		8.6	
Share based payments		1.1		1.1	0.0%
Exceptional items		-		-	
Operating expenses		**66.8**		**56.3**	**18.7%**

Movements in cash-based expenses were driven by:

- Within the UK Indirect Business, operating expenses have grown by 15.5% (compared to gross profit growth of 15.4%). Of the increase in costs of £4.8m, £1.1m is inorganic growth due to our acquisition of Telsis – the organic growth is 12.0%. The level of increase is driven by our investment in the development of products that will provide future benefits as well as our desire to ensure that our level of customer service remains the best in our industry.
- In the UK Direct business, overhead increased by 24.5% (compared to gross profit growth of 25.1%). Of the increase in costs of £2.3m, £0.4m is inorganic growth due to our acquisition of Exactive – the organic growth is 20.2%. The level of increase is mainly to support the growth in the business as well as our ongoing investment in our digital strategy.
- The increase in overseas costs is reflective of the inorganic growth with the acquisition of Voz Telecom. Within the overseas costs of £3.3m, £0.9m was for M&A activity (both executed and the costs for reviewing opportunities which were not ultimately pursued).
- Central costs have increased from the prior period, which is due to a number of factors. The first is that we have built a Group function which is able to support the businesses we have acquired around Europe. We have also incurred costs linked to our strategy project. Finally, we have incurred costs in respect of our M&A programme.

Whilst overheads have increased between H1 2019 and H1 2020, the growth from H2 2019 to H1 2020 is much lower – that is much of the growth in overheads happened in the second half of 2019. This is (in part) because general overhead increases have been offset by cost savings which have been driven by COVID-19 – for example, travel and subsistence expenses are significantly lower. These savings are not expected to continue in the long run.

Depreciation and amortisation on tangible and intangible assets have increased slightly from £6.7m in H1 2019 to £7.0m in H1 2020. This is driven by the inorganic growth (i.e. depreciation incurred within acquired companies). The annual depreciation charge is now in line with the annual capital expenditure spend and is not expected to increase significantly.

Share based payment costs are in line with the prior year.

Exceptional Items

There were no exceptional items in the period.

In the prior year there were exceptional transactions related to the acquisition of the DX Groep which netted to zero – full details are provided in the prior year interim statements. None of these were cash items.

Alternative performance measures

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

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

2020

Measure	Statutory basis	Amortisation of intangibles	Adjusting tax items	Exceptional items **	Adjusted basis
EBITDA* (£m)	36.1	-	-	-	36.1
PBT (£m)	26.2	1.8	-	-	28.0
PAT (£m)	21.2	1.8	(0.4)	-	22.6
EPS (FD) (p)	22.1	1.8	(0.4)	-	23.5

2019

Measure	Statutory basis	Amortisation of intangibles	Adjusting tax items	Exceptional items **	Adjusted basis
EBITDA* (£m)	30.4	-	-	-	30.4
PBT (£m)	21.7	1.1	-	-	22.8
PAT (£m)	18.5	1.1	(0.3)	(1.0)	18.3
EPS (FD) (p)	19.4	1.1	(0.3)	(1.0)	19.2

** Profit from operations is the nearest equivalent statutory measure to EBITDA and is reconciled on the Consolidated Statement of Comprehensive Income and note 3 (Segmental Analysis).*
*** See note 4 for further details.*

Adjusted EBITDA and EBITDA

The combination of increasing sales of new products and operational improvements means that both EBITDA and adjusted EBITDA grew from £30.4m in H1 2019 to £36.1m or 19%.

Taxation

The effective tax rate for the first half of 2020 was 19% (2019: 15%). The rate in the prior year was artificially depressed by an exceptional tax credit of £1.0m which related to the reduction of the intangible assets acquired with the DX Groep. The underlying tax rate in 2019 (ignoring this credit) would have been slightly above the statutory UK rate of 19% due to disallowable expenditure.

Cash flows

The cash balance at the end of the half was £42.5m, down from £53.9m at the end of the previous year.

The ratio of adjusted EBITDA to cash generated from operations was 89% in the first half (2019: 90%).

Significant non-operational spend items were:

- Capital spend for the half was £6.1m, which is an increase from £5.2m in the comparative period. This is discussed in detail below.
- £19.8m was paid for the acquisitions net of cash acquired (2019: £3.4m) of which £3.2m was paid for the acquisition of Exactive and £16.6m for Voz Telecom.
- £1.7m was paid in deferred consideration relating to the acquisition of Nimsys in the prior year (2019: £nil).
- £6.6m was paid as dividends (2019: £5.8m).

Capital spend in the first half was in respect of maintaining and increasing capacity on the core network. It was £6.1m (2019: £5.2m).

Adjusted EPS (FD) and Statutory EPS (FD)

Adjusted EPS (FD) increased from 19.2p to 23.5p (22%). The growth in adjusted EPS (FD) has been driven by the continued growth in a difficult market. Adjusted EPS is EPS as adjusted for exceptional items as defined in note 4 and is shown in the table above.

EPS (FD) grew from 19.4p to 22.1p (14%). The growth is lower than the adjusted metric because, in the current period, there is an increase in the amortization relating to business combinations. These items are in part offset by an exceptional tax credit relating to the reduction in intangibles.

Going Concern

Having assessed and considered the principal risks faced by the Group, the potential impact of COVID-19, the sensitivity analysis and the Group's significant financial headroom, the directors are satisfied that the Group has adequate financial resources to continue in operational existence for the foreseeable future, a period of at least twelve months from the date of this report. Accordingly, the going concern basis of accounting continues to be used in the preparation of the condensed consolidated financial statements.

Please see note 1 for further information.

Dividends

The Board has declared an interim dividend of 3.9p (2019: 3.5p). This is an increase of 11% and is in line with our progressive dividend policy.

The interim dividend is payable on Thursday 22 October 2020 to shareholders on the register on Friday 25 September 2020.

Andrew Belshaw
Chief Financial Officer

MANAGEMENT STATEMENT

This Interim Management Report (IMR) has been prepared solely to provide additional information to shareholders to assess the Group's strategies and the potential for those strategies to succeed. The IMR should not be relied on by any other party or for any other purpose.

The IMR contains certain forward-looking statements. These statements are made by the Directors in good faith based on the information available to them up to the time of their approval of this report but such statements should be treated with caution due to the inherent uncertainties, including both economic and business risk factors, underlying any such forward-looking information.

RESPONSIBILITY STATEMENT

We confirm that to the best of our knowledge:

- the condensed set of interim financial statements has been prepared in accordance with IAS 34 "Interim Financial Reporting";
- the Interim Management Report includes a fair review of the information required by DTR 4.27R (indication of important events during the first six months and description of principal risks and uncertainties for the remaining six months of the year); and
- the Interim Management Report includes a fair review of the information required by DTR 4.28R (disclosure of related party transactions and changes therein).

By the order of the board
7 September 2020

INDEPENDENT REVIEW REPORT TO GAMMA COMMUNICATIONS PLC

We have been engaged by the company to review the condensed set of financial statements in the half-yearly financial report for the six months ended 30 June 2020 which comprises the statement of comprehensive income, the statement of financial position, the statement of changes in equity, the cash flow statement and related notes 1 to 14. We have read the other information contained in the half-yearly financial report and considered whether it contains any apparent misstatements or material inconsistencies with the information in the condensed set of financial statements.

Directors' responsibilities

The half-yearly financial report is the responsibility of, and has been approved by, the directors. The directors are responsible for preparing the half-yearly financial report in accordance with the AIM Rules of the London Stock Exchange.

As disclosed in note 1, the annual financial statements of the group are prepared in accordance with IFRSs as adopted by the European Union. The condensed set of financial statements included in this half-yearly financial report has been prepared in accordance with International Accounting Standard 34 "Interim Financial Reporting," as adopted by the European Union.

Our responsibility

Our responsibility is to express to the Company a conclusion on the condensed set of financial statements in the half-yearly financial report based on our review.

Scope of review

We conducted our review in accordance with International Standard on Review Engagements (UK and Ireland) 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Financial Reporting Council for use in the United Kingdom. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing (UK) and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the condensed set of financial statements in the half-yearly financial report for the six months ended 30 June 2020 is not prepared, in all material respects, in accordance with International Accounting Standard 34 as adopted by the European Union and the AIM Rules of the London Stock Exchange.

Use of our report

This report is made solely to the company in accordance with International Standard on Review Engagements (UK and Ireland) 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Financial Reporting Council. Our work has been undertaken so that we might state to the company those matters we are required to state to it in an independent review report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company, for our review work, for this report, or for the conclusions we have formed.

Deloitte LLP
Statutory Auditor
Reading, United Kingdom
7 September 2020

Condensed consolidated unaudited statement of comprehensive income

For the six months ended 30 June 2020

	Note	**Six months ended 30 June 2020 £m Unaudited**	Six months ended 30 June 2019 £m Unaudited	Year ended 31 December 2019 £m Audited
Revenue	3	**177.3**	158.2	328.9
Cost of sales		**(84.2)**	(80.1)	(162.4)
Gross profit		**93.1**	78.1	166.5
Operating expenses		**(66.8)**	(56.3)	(121.0)
Earnings before depreciation, amortisation and exceptional items		**36.1**	30.4	63.5
Exceptional items	4	**-**	-	(0.9)
Earnings before depreciation and amortisation		**36.1**	30.4	62.6
Depreciation and amortisation (excluding business combinations)		**(8.0)**	(7.5)	(15.1)
Amortisation arising due to business combinations		**(1.8)**	(1.1)	(2.0)
Profit from operations		**26.3**	21.8	45.5
Finance income		**0.3**	-	0.1
Finance expense		**(0.4)**	(0.1)	(0.4)
Profit before tax		**26.2**	21.7	45.2
Tax expense	5	**(5.0)**	(3.2)	(10.7)
Profit after tax		**21.2**	18.5	34.5
Other comprehensive income/(loss)		**0.7**	(0.1)	(0.4)
Total comprehensive income attributable to the owners of the parent		**21.9**	18.4	34.1
Earnings per share				
Basic per ordinary share (pence)	6	**22.3**	19.7	36.6
Diluted per ordinary share (pence)	6	**22.1**	19.4	36.1

Adjusted earnings per share is shown in note 6

Condensed consolidated unaudited statement of financial position

As at 30 June 2020

	Note	30 June 2020 £m Unaudited	30 June 2019 £m Unaudited	31 December 2019 £m Audited
Assets				
Non-current assets				
Property, plant and equipment	8	**31.1**	31.0	32.1
Right of use assets		**12.5**	9.0	11.4
Intangible assets	9	**74.8**	34.5	37.4
Deferred tax asset		**2.7**	4.4	3.0
Trade and other receivables		**16.6**	11.4	15.0
		137.7	90.3	98.9
Current assets				
Inventories		**9.8**	7.5	8.1
Trade and other receivables		**85.7**	78.3	77.5
Cash and cash equivalents		**42.5**	44.8	53.9
Current tax		**1.7**	-	-
		139.7	130.6	139.5
Total assets		**277.4**	220.9	238.4
Liabilities				
Non-current liabilities				
Other payables		**0.2**	0.2	0.2
Long term borrowings		**2.8**	-	-
Provisions		**1.5**	1.7	0.8
Lease liabilities		**12.0**	8.3	11.3
Contract liabilities		**5.2**	9.1	9.1
Contingent consideration		**1.2**	0.6	1.1
Deferred tax assets		**6.1**	3.6	3.9
		29.0	23.5	26.4
Current liabilities				
Trade and other payables		**61.7**	51.0	46.1
Provisions		**-**	-	0.9
Lease liabilities		**1.7**	0.8	1.3
Contract liabilities		**10.9**	8.2	8.0
Short term borrowings		**1.0**	-	-
Contingent consideration		**3.1**	-	1.5
Current tax		**-**	2.2	1.7
		78.4	62.2	59.5
Total liabilities		**107.4**	85.7	85.9
Issued capital and reserves attributable to owners of the parent				
Share capital	11	**0.2**	0.2	0.2
Share premium reserve		**7.8**	4.7	6.6
Merger reserve		**2.3**	2.3	2.3
Share option reserve		**4.6**	3.3	3.8
Foreign exchange reserve		**0.1**	(0.3)	(0.6)
Own shares		**(0.7)**	(0.8)	(0.7)
Retained earnings		**155.7**	125.8	140.9
Total equity		**170.0**	135.2	152.5
Total equity and liabilities		**277.4**	220.9	238.4

Condensed consolidated unaudited statement of cash flows

For the six months ended 30 June 2020

	Note	**Six months ended 30 June 2020 £m Unaudited**	Six months ended 30 June 2019 £m Unaudited	Year ended 31 December 2019 £m Audited
Cash flows from operating activities				
Profit for the period before tax		**26.2**	21.7	45.2
Adjustments for:				
Depreciation of property, plant and equipment	8	**4.8**	4.9	9.8
Depreciation of right of use assets		**1.0**	0.8	1.7
Amortisation and reduction in value of intangible assets	9	**4.0**	2.9	13.7
Change in fair value of contingent consideration		**-**	-	(7.2)
Share based payment expense		**1.1**	1.1	2.6
Interest income		**(0.3)**	-	(0.1)
Finance cost		**0.4**	0.1	0.4
		37.2	31.5	66.1
(Increase) in trade and other receivables		**(3.5)**	(14.5)	(16.7)
(Increase) in inventories		**(1.4)**	(1.3)	(1.9)
Increase in trade and other payables		**0.2**	11.3	6.3
(Decrease)/increase in contract liabilities		**(1.0)**	0.9	0.7
Increase/(decrease) in provisions and employee benefits		**0.7**	(0.5)	(0.5)
Cash generated by operations		**32.2**	27.4	54.0
Taxes paid		**(7.9)**	(2.7)	(7.5)
Interest paid		**(0.1)**	-	-
Net cash flows from operating activities		**24.2**	24.7	46.5
Investing activities				
Purchase of property, plant and equipment	8	**(3.1)**	(4.0)	(9.9)
Purchase of intangible assets	9	**(3.0)**	(1.2)	(2.5)
Interest received		**0.3**	-	0.1
Payment of deferred consideration		**(1.7)**	-	-
Acquisition of subsidiaries net of cash acquired		**(19.8)**	(3.4)	(7.5)
Net cash used in investing activities		**(27.3)**	(8.6)	(19.8)
Financing activities				
Lease liability repayments		**(0.9)**	(0.9)	(1.1)
Repayment of borrowings		**(1.1)**	-	-
Share issues		**0.3**	(0.1)	2.0
Dividends		**(6.6)**	(5.8)	(9.2)
Net cash used in financing activities		**(8.3)**	(6.8)	(8.3)
Net increase in cash and cash equivalents		**(11.4)**	9.3	18.4
Cash and cash equivalents at beginning of period		**53.9**	35.5	35.5
Cash and cash equivalents at end of period		**42.5**	44.8	53.9

Condensed consolidated unaudited statement of changes in equity
For the six months ended 30 June 2020

	Share capital	Share premium reserve	Merger reserve	Share option reserve	Foreign exchange reserve	Own shares	Retained earnings	Total equity
	£m	£m	£m	£m	£m	£m	£m	£m
1 January 2019	0.2	4.6	2.3	3.2	(0.2)	(0.8)	112.4	121.7
Issue of shares	-	0.1	-	(0.7)	-	-	0.7	0.1
Recognition of share-based payment expense	-	-	-	0.8	-	-	-	0.8
Dividend paid	-	-	-	-	-	-	(5.8)	(5.8)
Transaction with owners	-	0.1	-	0.1	-	-	(5.1)	(4.9)
Profit for the period	-	-	-	-	-	-	18.5	18.5
Other comprehensive loss	-	-	-	-	(0.1)	-	-	(0.1)
Total comprehensive (loss)/income	-	-	-	-	(0.1)	-	18.5	18.4
30 June 2019	0.2	4.7	2.3	3.3	(0.3)	(0.8)	125.8	135.2
1 January 2020	0.2	6.6	2.3	3.8	(0.6)	(0.7)	140.9	152.5
Issue of shares	-	1.2	-	(0.3)	-	-	0.2	1.1
Recognition of share-based payment expense	-	-	-	1.1	-	-	-	1.1
Dividend paid	-	-	-	-	-	-	(6.6)	(6.6)
Transaction with owners	-	1.2	-	0.8	-	-	(6.4)	(4.4)
Profit for the period	-	-	-	-	-	-	21.2	21.2
Other comprehensive income	-	-	-	-	0.7	-	-	0.7
Total comprehensive income	-	-	-	-	0.7	-	21.2	21.9
30 June 2020	**0.2**	**7.8**	**2.3**	**4.6**	**0.1**	**(0.7)**	**155.7**	**170.0**

Notes to the condensed consolidated unaudited interim financial information

For the six months ended 30 June 2020

1. Basis of preparation

The condensed consolidated unaudited interim financial information (interim financial information) included in this half-yearly financial report has been prepared in accordance with International Accounting Standard 34 'Interim Financial Reporting', as adopted by the European Union. The half year condensed consolidated financial statements do not constitute statutory accounts within the meaning of the Companies Act 2006. The interim financial statements should be read in conjunction with the Group's Annual Report and Accounts for the year ended 31 December 2019, which was prepared in accordance with IFRSs as adopted by the European Union.

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

Going Concern

At 30 June 2020, the Group had gross cash balances of £42.5 million and external debt on the balance sheet of £3.8m (which relates to debt held by VozTelecom pre-acquisition and therefore was a liability assumed into the Group upon acquisition).

In adopting the going concern basis for preparing the half year condensed financial statements, the directors have considered the Group's principal risks and uncertainties, including the potential impact of the COVID-19 pandemic on the Group and any longer-term impact to the global economy. In the first half of 2020, the COVID-19 pandemic has not had a significant impact on the Group's trading performance and the Group has continued to operate effectively.

The directors have also considered sensitivities in respect of potential downside scenarios, including reverse stress testing the latest cash flow projections that cover a period of 18 months from the date of these half year condensed financial statements. In these scenarios, the Group has more than sufficient headroom in its available resources. The directors have noted that for the Group to be left in a negative cash position a significant and unlikely reduction in trade would be required across the 18-month period.

The Directors have acknowledged the latest guidance on going concern as issued by the Financial Reporting Council in May 2020 and the thematic review published in July 2020.

Having assessed and considered the principal risks faced by the Group, the potential impact of COVID-19, the sensitivity analysis and the Group's significant financial headroom, the directors are satisfied that the Group has adequate financial resources to continue in operational existence for the foreseeable future, a period of at least 12 months from the date of this report. Accordingly, the going concern basis of accounting continues to be used in the preparation of the condensed consolidated financial statements.

Principal risks and uncertainties

There have been no changes in the principal risks and uncertainties during the period and therefore these remain consistent with the year ended 31 December 2019 and are disclosed in the Annual Report for that year. The Directors have considered the impact of COVID-19 and do not consider that it has (at this point in time) changed the principal risks and uncertainties which the Group is facing. The directors continue to monitor the impact of COVID-19 on the principal risks and uncertainties.

2. Accounting policies

The accounting policies adopted are consistent with those followed in the preparation of the audited statutory financial statements for the year ended 31 December 2019.

An additional accounting policy has been introduced since year end relating to non-controlling interests. The Group recognises non-controlling interest in an acquired entity either at fair value or at the non-controlling interest's proportionate share of the acquired entity's net identifiable assets. This decision is made on an acquisition by acquisition basis

Critical accounting estimates and judgements

The Group makes certain estimates and assumptions 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 estimates and assumptions that have a significant risk of causing a material adjustment within the next financial year are discussed below.

Critical accounting judgements

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

(a) Principal vs agent classification of channel partners

The Group receives payment for products and services from channel partners who onwardly sell to end users. The Group has considered whether channel partners are acting as a principal or an agent under the criteria in IFRS 15. Where a channel partner has the primary responsibility for providing the products or services to the end user, carries the inventory risk, is free to establish its own prices and bears the credit risk for the amount receivable from the end user then the channel partner is treated as the principal in that transaction. The Group therefore recognises revenue earned in this way based on the transactions with the channel partner and not the end user. Where a Channel Partner acts as an introducer to an end user and the Group carries the contract risk then the Group recognises revenue from the end user and treats any commission paid to a partner as a cost of sale – this latter model is more prevalent in our overseas operations.

(b) 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. The Group also regularly assesses customer credit risk inherent in the carrying amounts of receivables, contract costs and estimated earnings.

Key accounting estimates

There are no key accounting estimates.

Alternative Performance Measures

Adjustments to EBITDA, PBT, PAT and EPS (fully diluted) have been presented because the Group believes that adjusted measures provide valuable additional information for users of the financial statements in assessing the Group's performance. Moreover, they provide information on the performance of the business that management is more directly able to influence and on a basis comparable from year to year. The measures are adjusted for the following items:

(a) Amortisation of intangibles arising on acquisition

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

(b) Depreciation and amortisation

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

(c) Exceptional items

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

The Directors apply judgement in assessing the particular items, which by virtue of their scale and nature should be classified as exceptional items. The Directors consider that separate disclosure of these items is relevant to an understanding of the Group's financial performance.

Changes in deferred consideration, reduction of intangible assets and goodwill are considered to be exceptional as they are not representative of the underlying trade of the Group as the nature of the Group's business is as a technology-based provider of communications services not an investment company.

(d) Adjusting tax items

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

3. Segment information

The Group's main operating segments are outlined below:

- → UK Indirect – This division sells Gamma's products and services to channel partners and contributed 67% (2019: 70%) of the Group's external revenue;
- → UK Direct – This division sells Gamma's products and services to end users in the Mid-Market, Enterprise and Public Sectors. They contributed 27% (2019: 25%) of the Group's external revenues.
- → Overseas - This division consists of sales made in Europe by DX Groep B.V and VozTelecom Oigaa360 S.A. and their subsidiary companies, contributing 6% (2019: 5%) of the Group's external revenues; and
- → Central functions – This is not a revenue generating segment but is made up of the central management team and wider Group costs.

Factors that management used to identify the Group's reportable segments

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

Measurement of operating segment profit or loss, assets and liabilities

The accounting policies of the operating segments are the same as those described in the summary of significant accounting policies. The Group evaluates performance on the basis of profit or loss from operations but excluding non-recurring losses, such as goodwill impairment, the effects of share-based payments and exceptional income. Inter-segment sales are priced along the same lines as 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 period.

	UK Indirect £m	UK Direct £m	Overseas £m	Central functions £m	Total £m
Period to 30 June 2020					
Total revenue from external customers	**119.5**	**47.2**	**10.6**	**-**	**177.3**
Inter-segment revenue	10.7	0.4	-	-	11.1
Timing of revenue recognition					
At a point in time	7.0	1.9	1.7	-	10.6
Over time	112.5	45.3	8.9	-	166.7
	119.5	47.2	10.6	-	177.3
Total gross profit	**64.5**	**22.4**	**6.2**	**-**	**93.1**
Operating expenses	(44.3)	(11.8)	(7.4)	(3.3)	(66.8)
Earnings before depreciation and amortisation	**27.7**	**10.7**	**1.0**	**(3.3)**	**36.1**
Depreciation and amortisation (excluding business combinations)	(7.1)	-	(0.9)	-	(8.0)
Amortisation arising due to business combinations	(0.4)	(0.1)	(1.3)	-	(1.8)
Profit from operations	**20.2**	**10.6**	**(1.2)**	**(3.3)**	**26.3**
Finance income	0.3	-	-	-	0.3
Finance expense	(0.2)	-	(0.2)	-	(0.4)
Group profit before tax	**20.3**	**10.6**	**(1.4)**	**(3.3)**	**26.2**
Tax expense	(3.7)	(2.2)	0.3	0.6	(5.0)
Group profit after tax	**16.6**	**8.4**	**(1.1)**	**(2.7)**	**21.2**
Other comprehensive income	-	-	0.7	-	0.7
Total comprehensive income attributable to the owners of the parent	**16.6**	**8.4**	**(0.4)**	**(2.7)**	**21.9**

External customer revenue has been derived principally from the United Kingdom and no single customer contributes more than 10% of revenue.

Period to June 2020	UK Indirect £m	UK Direct £m	Overseas £m	Central functions £m	Total £m
Additions to non-current assets	8.4	0.1	0.6	-	9.1
Reportable segment assets	188.4	67.0	22.0	-	277.4
Reportable segment liabilities	34.8	46.8	25.8	-	107.4

	UK Indirect £m	UK Direct £m	Overseas £m	Central functions £m	Total £m
Period to 30 June 2019					
Total revenue from external customers	**110.9**	**40.0**	**7.3**	**-**	**158.2**
Inter-segment revenue	12.4	-	-	-	12.4
Timing of revenue recognition					
At a point in time	9.2	2.8	-	-	12.0
Over time	101.7	37.2	7.3	-	146.2
	110.9	40.0	7.3	-	158.2
Total gross profit	**55.9**	**17.9**	**4.3**	**-**	**78.1**
Operating expenses	(38.9)	(9.5)	(5.6)	(2.3)	(56.3)
Earnings before depreciation and amortisation	**23.9**	**8.5**	**0.3**	**(2.3)**	**30.4**
Depreciation and amortisation (excluding business combinations)	(6.9)	(0.1)	(0.5)	-	(7.5)
Amortisation arising due to business combinations	-	-	(1.1)	-	(1.1)
Profit from operations	**17.0**	**8.4**	**(1.3)**	**(2.3)**	**21.8**
Finance income	-	-	-	-	-
Finance expense	(0.1)	-	-	-	(0.1)
Group profit before tax	**16.9**	**8.4**	**(1.3)**	**(2.3)**	**21.7**
Tax expense	(3.2)	(1.6)	1.2	0.4	(3.2)
Group profit after tax	**13.7**	**6.8**	**(0.1)**	**(1.9)**	**18.5**
Other comprehensive loss	-	-	(0.1)	-	(0.1)
Total comprehensive income attributable to the owners of the parent	**13.7**	**6.8**	**(0.2)**	**(1.9)**	**18.4**

External customer revenue has been derived principally from the United Kingdom and no single customer contributes more than 10% of revenue.

Period to June 2019	UK Indirect £m	UK Direct £m	Overseas £m	Central functions £m	Total £m
Additions to non-current assets	10.7	-	0.7	-	11.4
Reportable segment assets	161.5	35.2	24.2	-	220.9
Reportable segment liabilities	66.0	11.4	8.3	-	85.7

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

	Six months ended 30 June 20	Six months ended 30 June 19
	£m	£m
Period to 30 June		
Traditional products and services	**21.3**	21.6
Growth (being strategic and enabling) products and services	**98.2**	89.3
Total revenue from external customers	**119.5**	110.9
Traditional products and services	**6.2**	6.0
Growth (being strategic and enabling) products and services	**58.3**	49.9
Total gross profit	**64.5**	55.9

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

The UK Direct revenue is detailed below:

	Six months ended 30 June 20	Six months ended 30 June 19
	£m	£m
Mid Markets	**13.5**	13.7
Enterprise	**23.2**	16.3
Public Sector	**9.8**	9.3
The Loop	**0.7**	0.7
Total revenue from external customers	**47.2**	40.0

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

4. Exceptional items

	Six months ended 30 June 20	Six months ended 30 June 19
Contingent consideration adjustment	**-**	8.1
Revaluation of goodwill carrying value	**-**	(4.2)
Revaluation of intangible assets carrying value	**-**	(3.9)
	-	-

The exceptional items in the prior period related to the contingent consideration which was due on acquisitions.

In preparing the statutory accounts for 2018, the best estimate of the contingent consideration in respect of the DX Groep was made. During 2019, a higher than expected attrition rate of legacy customers taking ISDN caused the revenues to be lower than expected. Therefore, the estimated contingent consideration due has been revised and the associated intangible assets including goodwill have been reduced.

5. Taxation on profit on ordinary activities

Tax expense is recognised based on management's best estimate of the weighted average effective annual tax rate expected for the full financial year. The estimated average annual tax rate used for the period to 30 June 2020 is 19%, compared to 15% for the six months ended 30 June 2019. The tax rate was lower in 2019 due to £1.0m exceptional tax credit on reduction of intangibles.

6. Earnings per share

	Six months ended 30 June 20	Six months ended 30 June 19
Earnings per Ordinary Share – basic (pence)	**22.3**	19.7
Earnings per Ordinary Share – diluted (pence)	**22.1**	19.4

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

	Six months ended 30 June 20	Six months ended 30 June 19
Earnings	**£m**	£m
Profit after tax	**21.2**	18.5
Shares	**Number**	Number
Basic weighted average number of Ordinary Shares	**94,858,245**	94,062,836
Effect of dilution resulting from share options	**1,180,577**	1,304,874
Diluted weighted average number of Ordinary Shares	**96,038,822**	95,367,710

Adjusted earnings per share is detailed below:

	Six months ended 30 June 20	Six months ended 30 June 19
Adjusted earnings per Ordinary Share – basic (pence)	**23.8**	19.5
Adjusted earnings per Ordinary Share – diluted (pence)	**23.5**	19.2

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

	Six months ended 30 June 20	Six months ended 30 June 19
Earnings	**£m**	£m
Profit for the period	**21.2**	18.5
Amortisation arising on business combinations	**1.8**	1.1
Less tax benefit associated with business combinations	**(0.4)**	(0.3)
Less tax benefit associated with exceptional (reduction of intangibles)	**-**	(1.0)
Adjusted profit after tax for the period	**22.6**	18.3

There have been no material transactions involving Ordinary Shares or potential shares between the reporting date and the date of completion of the financial statements.

7. Dividends

A final dividend of 7.0p was paid on the 18 June 2020 (2019: 6.2p).

The Board has declared an interim dividend of 3.9p per share payable on Thursday 22 October 2020 to shareholders on the register as at Friday 25 September 2020. In the prior year an interim dividend of 3.5p was paid.

8. Property, plant and equipment

	Network assets £m	Computer equipment £m	Fixtures and fittings £m	Total £m
Cost				
At 1 January 2020	67.9	9.1	1.4	78.4
Additions	2.6	0.4	0.1	3.1
Acquisition of subsidiary	0.1	0.4	0.3	0.8
Reclassifications	(0.3)	-	0.3	-
At 30 June 2020	**70.3**	**9.9**	**2.1**	**82.3**
Depreciation				
At 1 January 2020	38.6	6.8	0.9	46.3
Charge for the period	4.0	0.6	0.2	4.8
Exchange differences	-	-	0.1	0.1
Reclassifications	(0.1)	-	0.1	-
At 30 June 2020	**42.5**	**7.4**	**1.3**	**51.2**
Net book value				
At 1 January 2020	29.3	2.3	0.5	32.1
At 30 June 2020	**27.8**	**2.5**	**0.8**	**31.1**

9. Intangible assets

	Goodwill on consolidation £m	Customer contracts £m	Brand £m	Development costs £m	Software £m	Total £m
Cost						
At 1 January 2020	24.0	22.4	1.1	10.3	13.4	71.2
Additions	-	3.0	-	1.1	1.9	6.0
Acquisition of subsidiary	23.0	8.9	-	2.5	-	34.4
Exchange differences	0.3	1.3	(0.1)	-	-	1.5
Reclassifications	-	-	-	0.8	(0.8)	-
At 30 June 2020	47.3	35.6	1.0	14.7	14.5	113.1
Amortisation						
At 1 January 2020	8.7	8.0	0.3	7.8	9.0	33.8
Charge for the period	-	1.7	0.1	1.0	1.2	4.0
Exchange differences	-	0.4	-	0.1	-	0.5
At 30 June 2020	8.7	10.1	0.4	8.9	10.2	38.3
Net book value						
At 1 January 2020	15.3	14.4	0.8	2.5	4.4	37.4
At 30 June 2020	**38.6**	**25.5**	**0.6**	**5.8**	**4.3**	**74.8**

The estimated cost of software which the Group is contractually committed to purchase at 30 June 2020 is £3.5m (30 June 2019: £6.2m). This amount is for the purchase of software licenses. The capital commitments in 2020 are payable in USD, with the payable amount being $4.4m. Changes in the exchange rate could cause variances in the value of the commitment.

10. Business combinations

Summary of acquisitions

On the 28 February 2020 the Group acquired 100% of Exactive Holdings Limited and its subsidiaries; Exactive Limited, Exactive Online Limited and Exactive Poland sp.zoo. ("Exactive"). Exactive is a leading UK Microsoft Gold Partner and specialist Microsoft Teams UCaaS provider.

On the 9 April 2020, the Group acquired 94.90% of the issued share capital of VozTelecom Oigaa360 S.A., and the remaining 5.1% was acquired by 30 June 2020. The subsidiaries included are VozTelecom Comunicación Inteligente S.L.U., VozTelecom Puntos de Servicio S.L.U., VozTelecom Andalucía S.L.U., ComyMedia Proyectos y Servicios S.L.U., VozTelecom Maroc S.A.R.L. A.U. ("Voz Telecom"). Voz Telecom is one of the leading Cloud PBX providers in Spain with c40,000 seats which equates to a market share of 5% and is the largest Cloud PBX business aside from the major fixed line and mobile network operators. VozTelecom provides services to end users directly and through a network of wholesale partners, franchisees and dealers.

Details of the purchase consideration, the net assets acquired, and goodwill are as follows:

	Exactive £m	Voz Telecom £m	30 June 2020 £m
Consideration paid for shares in issue	4.1	17.7	21.8
Deferred consideration for convertible bonds	-	5.1	5.1
Contingent consideration	2.3	-	2.3
Ordinary shares issued	0.9	-	0.9
Total purchase consideration	**7.3**	**22.8**	**30.1**

Exactive

Contingent consideration at 30 June 2020

The earn out agreement is based on Exactive's EBITDA for fiscal years 2020 and 2021. In the event that predetermined EBITDA targets are achieved by Exactive each year, additional consideration of up to £1.5m may be payable in 2021 and 2022 of which 80% will be in cash and 20% by the issue of consideration shares.

Ordinary shares issued

The fair value of the 69,024 shares issued as part of the consideration paid for Exactive Holdings Limited (£0.9m) was based on the middle market quotations for an ordinary share of Gamma Communications plc as shown by the daily Official List of AIM for each of the five Business Days immediately preceding 27 February being £13.039 per share.

Voz Telecom

Deferred consideration at 30 June 2020

An amount is payable relating to convertible bonds which are to be converted to shares once Voz Telecom has delisted from the Mercado Alternativo Bursátil exchange ("MAB") and purchased by Gamma for €5.7m. Voz Telecom has delisted from MAB and once the share capital increase has been registered the payment will be made.

Non-controlling interest

Subsequent to the acquisition date, but prior to 30 June 2020, a further £0.3m payment was made to acquire the non-controlling interest.

The provisional asset and liabilities recognised as a result of the acquisitions are as follows:

	Exactive £m	Voz Telecom £m	Total £m
Cash	0.9	1.4	2.3
Trade receivables	0.5	1.3	1.8
Other receivables	0.3	2.4	2.7
Inventories	-	0.3	0.3
Property, plant and equipment	-	0.8	0.8
Right of use assets	-	1.9	1.9
Intangible - development costs	-	2.5	2.5
Intangible - customer contracts	1.8	7.1	8.9
Trade payables	(0.2)	(1.8)	(2.0)
Other payables	(1.1)	(9.0)	(10.1)
Deferred tax liability/asset	(0.3)	(1.3)	(1.6)
Net identified assets acquired	1.9	5.6	7.5
Less: non-controlling interests	-	(0.1)	(0.1)
Add: Goodwill	5.4	17.3	22.7
Net assets acquired	**7.3**	**22.8**	**30.1**

Valuations of intangible assets

Customer relations were valued under the Income Method and technology under the replacement cost methodology.

Acquired receivables

The fair value of acquired trade receivables for Exactive and Voz Telecom is £0.5m and £1.9m respectively. The gross contractual amount for trade receivables due is £0.5m and £2.4m respectively, of which £0.5m in Voz Telecom is expected to be uncollectible.

Accounting policy choice for non-controlling interests

The Group recognises non-controlling interest in an acquired entity either at fair value or at the non-controlling interest's proportionate share of the acquired entity's net identifiable assets. This decision is made on an acquisition by acquisition basis. For non-controlling interest in Voz Telecom, the Group elected to recognise the non-controlling interest in at its proportionate share of the acquired net identifiable assets.

As at 30 June 2020, the Group controlled 100% of Voz Telecom.

Revenue and profit

Exactive contributed revenues of £1.2m and profit after tax of £0.2m to the Group for the period from 28 February 2020 to 30 June 2020.

If the acquisition had occurred on 1 January 2020, consolidated revenue and profit after tax for the six months to 30 June 2020 would have been £1.7m and £0.3m respectively.

Voz Telecom contributed revenues of £2.9m and loss after tax of £(0.1)m to the Group for the period from 9 April 2020 to 30 June 2020.

If the acquisition had occurred on 1 January 2020, revenue and loss after tax for the six months to 30 June 2020 would have been £6.6m and £(1.3)m respectively. The loss after tax includes £1.3m of costs which were incurred by Voz in respect of the acquisition by the Group – these are not related to normal tradingand adjusting for these would give an adjusted profit after tax (based solely on trading) of nil for the six month period.

Goodwill

The goodwill is attributable to the acquired entities and is broken down below. The goodwill is not deductible for tax purposes.

	£m
Voz Telecom goodwill	17.3
Goodwill arising as a result of additional share purchases	0.3
Total Voz Telecom	17.6
Exactive	5.4
Total	**23.0**

Purchase consideration - cash outflow

	Exactive £m	VozTelecom £m	Total £m
Cash consideration	4.1	18.0	22.1
Less: cash acquired	(0.9)	(1.4)	(2.3)
Net outflow of cash - Investing activities	**3.2**	**16.6**	**19.8**

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

11. Share capital

	Number	£m
1 January 2020		
Ordinary Shares of £0.0025 each	94,781,312	0.2

	Number	
At 1 January 2020	94,781,312	
Movement:		
January	7,925	(a)
March	14,400	(a)
March	69,024	(b)
April	39,688	(a)
May	20,283	(a)
At 30 June 2020	94,932,632	

(a) Ordinary shares were issued to satisfy options which have been exercised.
(b) Ordinary shares were issued as consideration to the shareholders of Exactive Holdings Limited

	Number	£m
30 June 2020		
Ordinary Shares of £0.0025 each	**94,932,632**	**0.2**

12. Related party transactions

Dividends totalling £0.04m (being the final dividend for 2019) were paid in the first half of the year in respect of ordinary shares held by the Company's Directors (2019: £0.02m).

13. Events after the reporting date

On 1 July 2020, the Group obtained control of German based HFO Holding AG and its subsidiaries, by acquiring c80% of the issued share capital for €20.4m. Gamma has an option to acquire the remaining c20% (which are held by management) in two tranches of c8% in 2021 and 2022 (where the consideration will be based on the results of the preceding financial year) and one final tranche of c4% in 2023 (also based on the results of the preceding financial year). This additional consideration will in aggregate be between €7.5m and €17.5m and will be payable in cash. The upper end of the option price will only be achieved if HFO achieves challenging growth targets related to its IP telephony business.

HFO is one of the leading SIP Trunk providers in Germany with an excellent reputation for product quality and end-customer service. It has a strategy to build on this expertise in both the VOIP and broad business communications markets and has recently started to sell Cloud PBX offerings through its extensive network of channel partners across the German market.

The Group also acquired 100% of Netherlands based GnTel B.V. and its subsidiary GnTel GmbH on 20 July 2020 for £7.4m. gnTel operates VoIP platform services, EasyConference and other activities. This acquisition further strengthens the Group's existing presence in the Netherlands.

Due to the proximity of the acquisitions to the publication of this update, the Group has not yet completed the purchase price allocation and it is impractical to give further information.

14. Ultimate controlling party

There is no ultimate controlling party.