

Gamma

Half Year 2022 Results

6 September 2022

Andrew Belshaw, Interim CEO
Bill Castell, CFO





HY 2022 Results

Agenda

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

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

 03. **Growth drivers**
Andrew Belshaw

 04. **ESG**
Andrew Belshaw

 05. **Business Outlook**
Andrew Belshaw

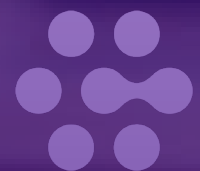
 06. **Q&A**
Andrew Belshaw and Bill Castell
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A woman with blonde hair and glasses, wearing a white striped shirt, is smiling and looking at her smartphone. She is standing in an office environment with a desk and chair visible in the background. The image has a purple overlay.

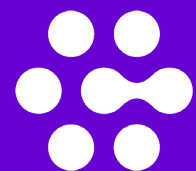
Half year 2022 Business Update

Andrew Belshaw, Interim CEO



Half year 2022 Business Update - **Business Highlights**

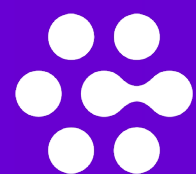
- **Strong financial performance** with high levels of recurring revenue and margin
 - Reinforced by a robust business model
- **Effect of inflation limited to date**
 - Some wage pressure seen – limited effect on 2022 but will affect 2023 run rate
 - Some effect being seen in other areas
 - Selective price rises introduced
- **Strong cash position**
 - Cash generated by operations of £49.5m
 - Net cash balance of £72.6m at 30 June 2022
- **Continued M&A in Europe**
 - Integration of previous acquisitions in Netherlands, Germany and Spain has progressed positively
 - Product developed by pan European team launched in Netherlands
 - Acquisition of Neotel in Spain (subject to regulatory approval)
 - Divestment of non-core business Comymedia (which was part of Voz Telecom when acquired)



Half year 2022 Business Update – Business Units

Gamma Group	UK Indirect	UK Direct	Europe
Up to £234.7m +8% growth	Up to £143.7m +10% growth	Up to £55.4m +7% growth	Up to £35.6m +1% growth
Gamma Group revenue	61% of Group revenue	24% of Group revenue	15% of Group revenue

- UK Indirect business experienced strong growth
- High levels of recurring revenue maintained
- UK Direct business has returned to growth as effect of Covid has dropped away
- European Cloud PBX grew with seats increasing by 7%; GP increased by 4% in local currency; traditional business decline in line with expectations (and consistent with pattern seen in UK historically)
- Newer products which were developed “In house” are increasingly contributing





Half year 2022 Financial Highlights

Bill Castell, CFO



2022 First Half Financial Highlights

Revenue

Up

8%

to **£234.7m**

Adjusted EBITDA

Up

13%

to **£51.9m**

Adjusted EPS

Up

16%

to **35.6p**

Cash generated by operations

Up

15%

to **£49.5m**

Cash balance

£75.6m

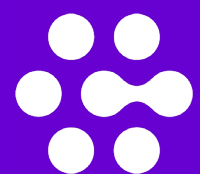
As at 30 June
(net cash of £72.6m)

Interim Dividend

Up

14%

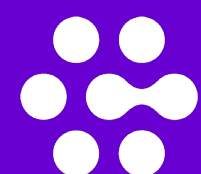
to **5.0p**



Income Statement

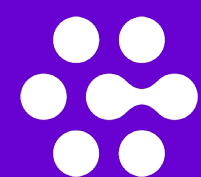
- Revenue and gross profit grew by **8%**
- Gross margin maintained above **51%**
- Recurring revenue grew to **£208.7m**, **89%** of total revenue (H1 2021: 89%)
- Active cost control kept operating expense growth at **4%**
- Effective tax rate remains **19%**

	Six months ended		Year ended	Half on half Growth
	30 June 2022	30 June 2021	31 December 2021	
Revenue	234.7	217.4	447.7	8%
Cost of sales	(114.3)	(105.7)	(219.2)	
Gross profit	120.4	111.7	228.5	8%
<i>Gross profit margin</i>	<i>51.3%</i>	<i>51.4%</i>	<i>51.0%</i>	
Operating Expenses				
Other operating expenses	(68.5)	(65.7)	(133.1)	4%
Adjusted EBITDA	51.9	46.0	95.4	13%
<i>EBITDA margin</i>	<i>22.1%</i>	<i>21.2%</i>	<i>21.3%</i>	
Depreciation and amortisation	(8.5)	(8.5)	(17.6)	
Amortisation on business combinations	(4.7)	(4.6)	(9.5)	
Operating profit	38.7	32.9	68.3	18%
Net finance income/expense	(0.3)	(0.5)	(1.1)	
Profit before tax	38.4	32.4	67.2	19%
Tax expense	(7.3)	(6.0)	(13.2)	
Profit after tax	31.1	26.4	54.0	18%
Adjusted EPS (Pence, fully diluted)	35.6	30.6	64.0	16%

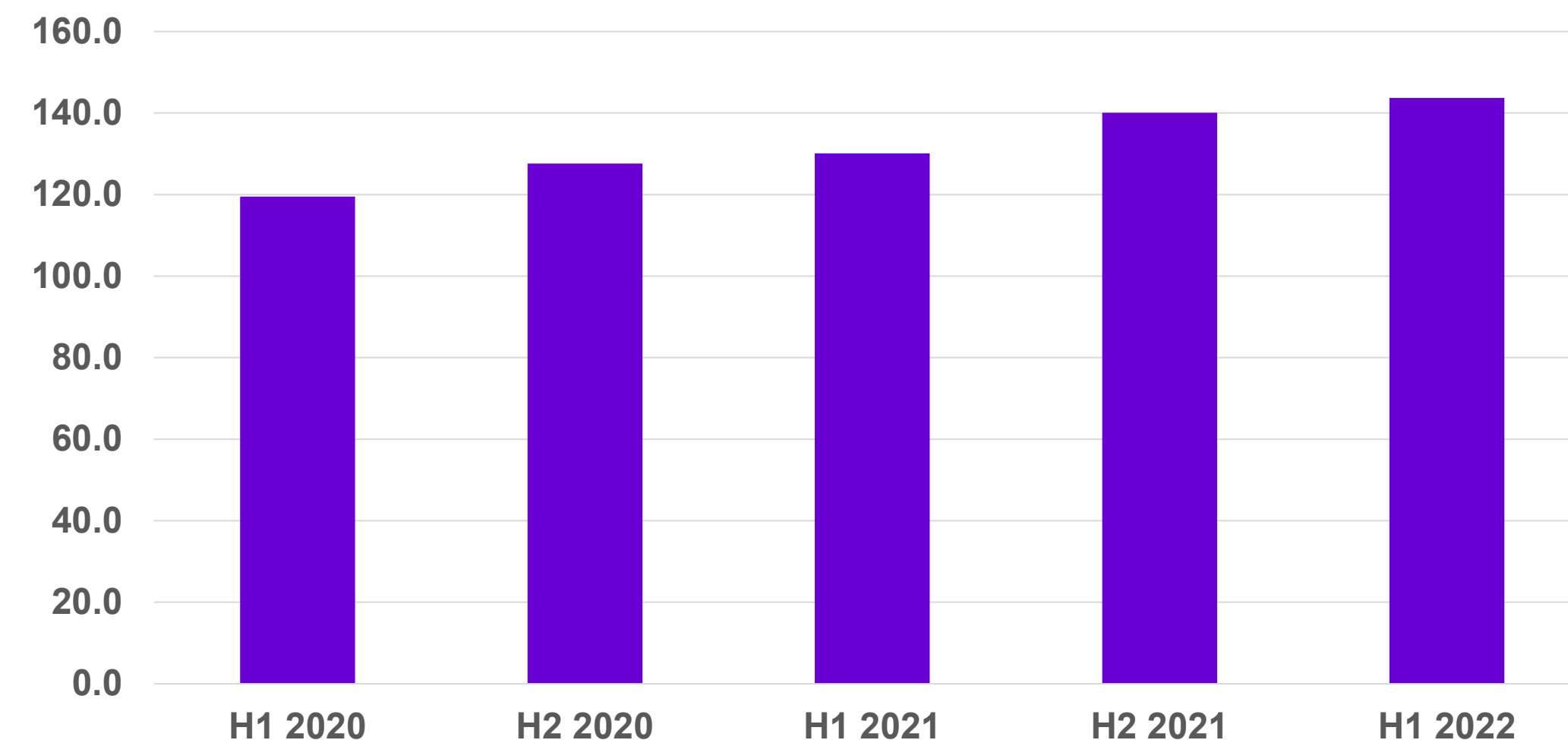


Indirect

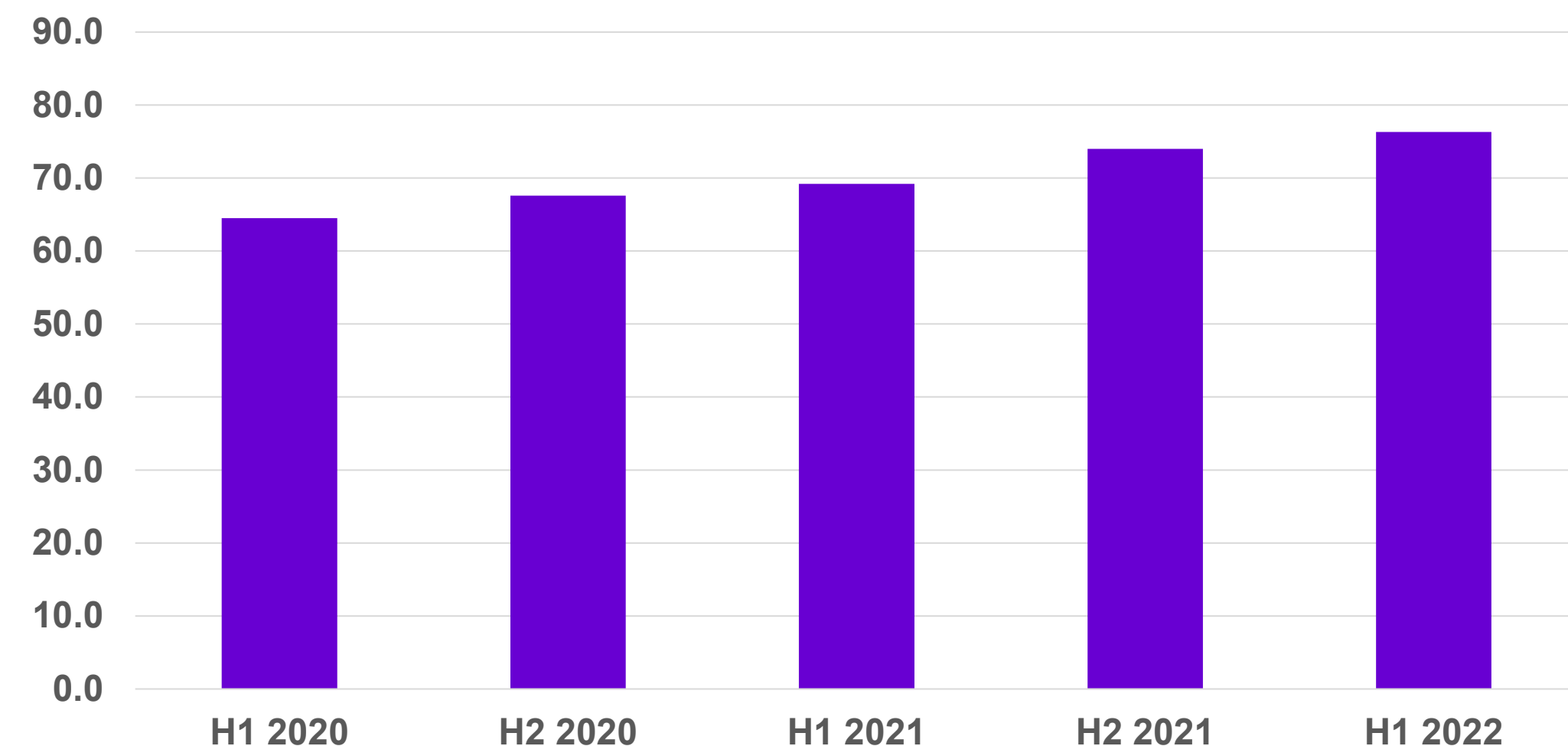
- Strong **10%** growth (half on half) in revenue driven by UCaaS, mobile and data product growth
- Healthy momentum with rate of growth of cloud “bolt ons” increasing faster than core product
- Gross profit increased **10%** from £69.2m (H1 21) to £76.3m
- Gross margin stable at **53%**
- Flow though of selected price rises on mainly traditional product base and traffic as Cloud PBX remains competitive



Revenue (£m)



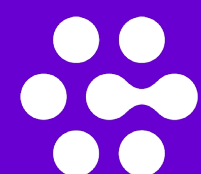
Gross Profit (£m)



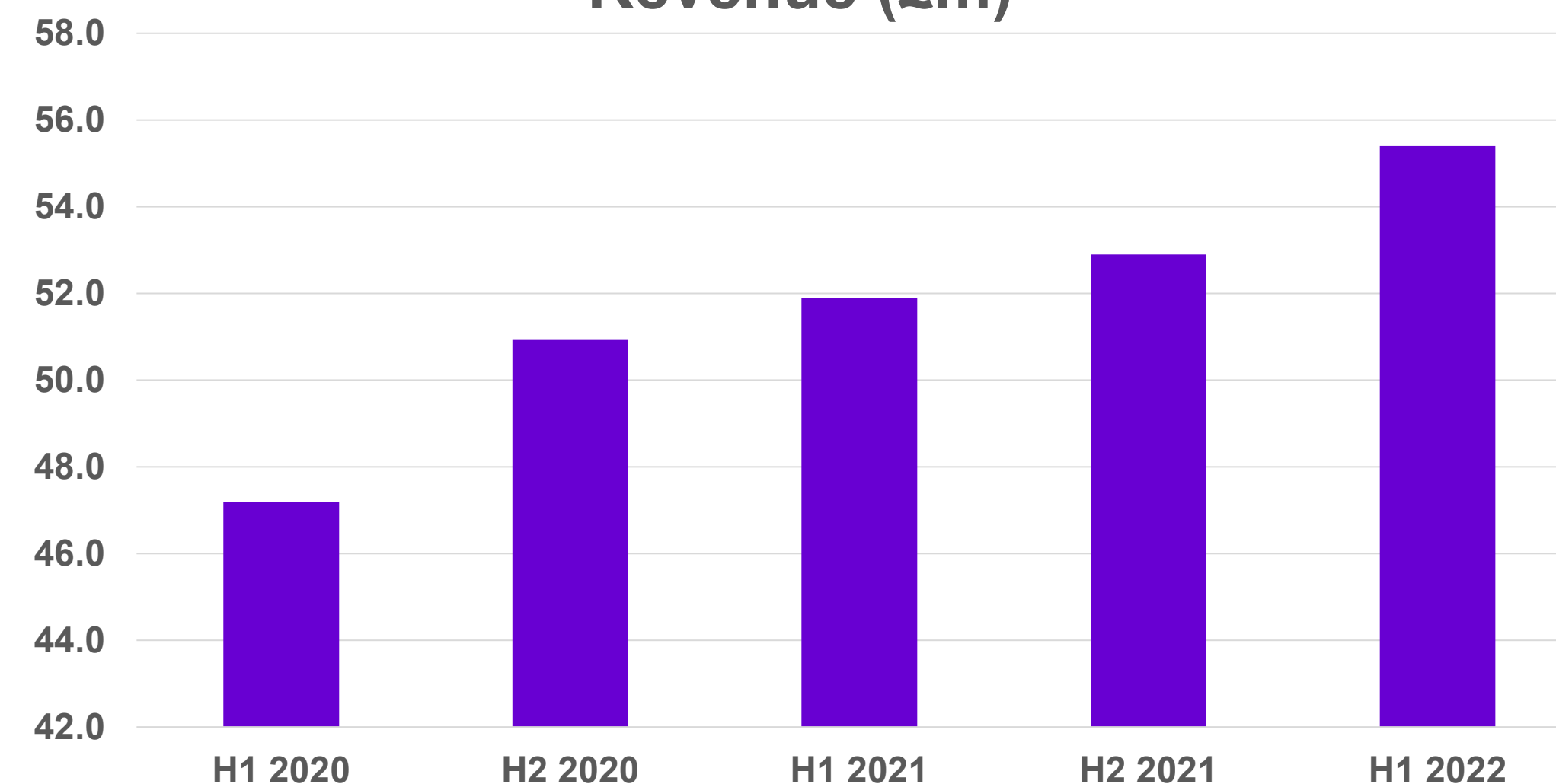
	FY 2020	FY 2021	H1 2022
Gross Margin	53.5%	53.0%	53.1%

Direct

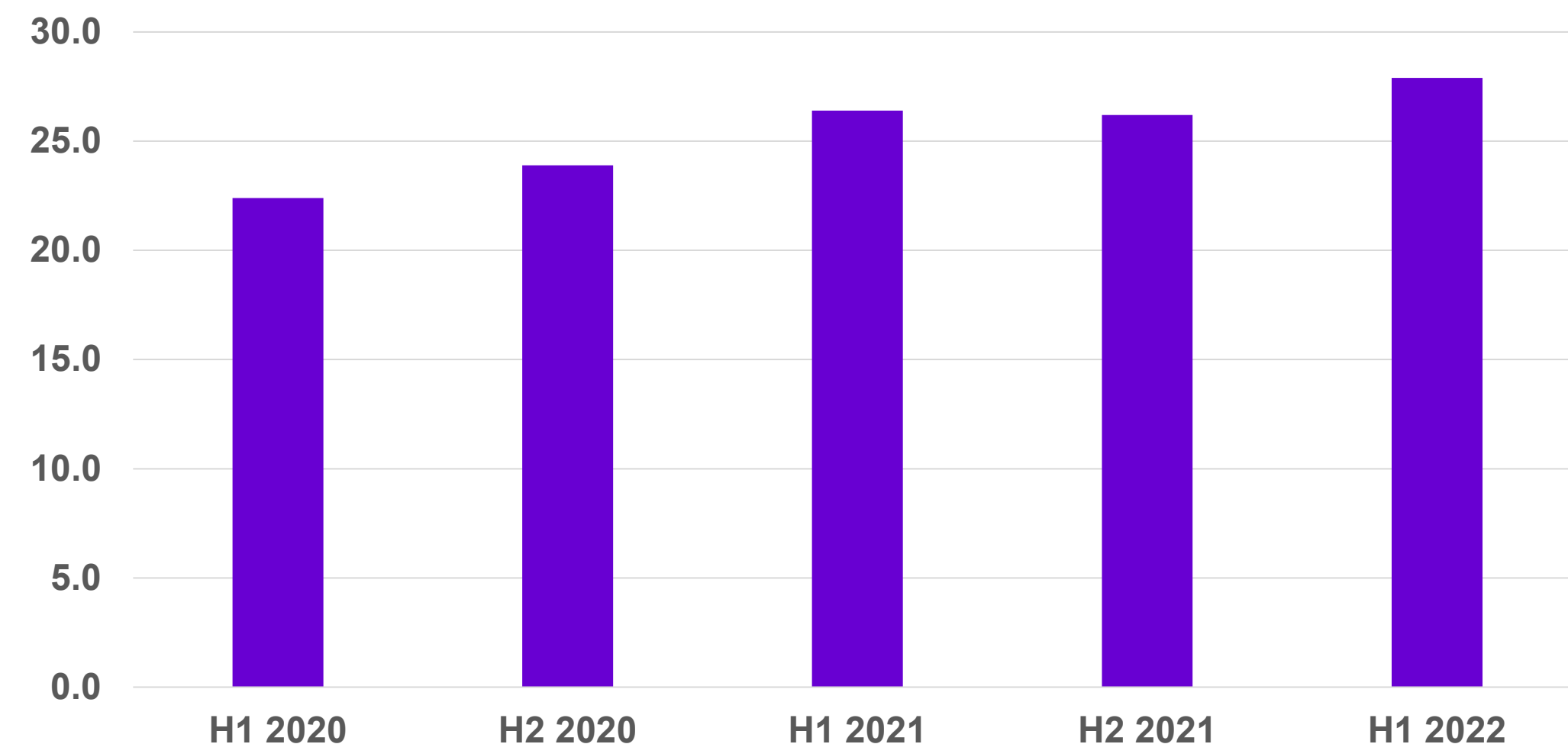
- Returns to gross profit growth from H2 21, with some large Public Sector wins: DWP and Home Office
- Step up in H1 22 Enterprise delivery performance on key contracts as lock down impact reduces
- Gross profit **6% growth** from H1 21
- Strong contracted pipeline
- Gross margin above **50%**
- Beginning to see some pressure on supply of specific hardware in H2



Revenue (£m)



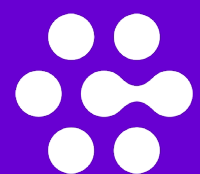
Gross Profit (£m)



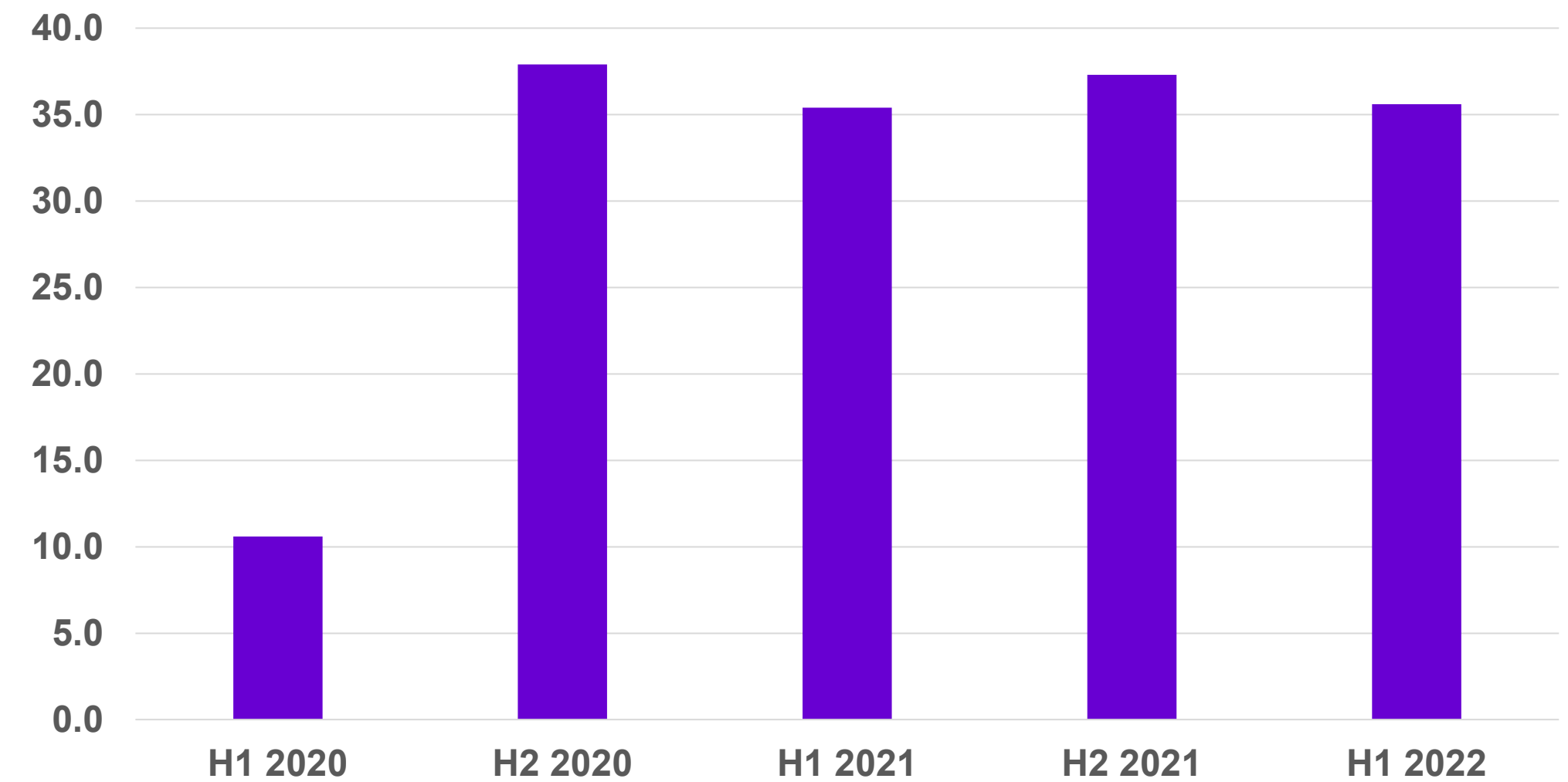
	FY 2020	FY 2021	H1 2022
Gross Margin	47.2%	50.2%	50.4%

Europe

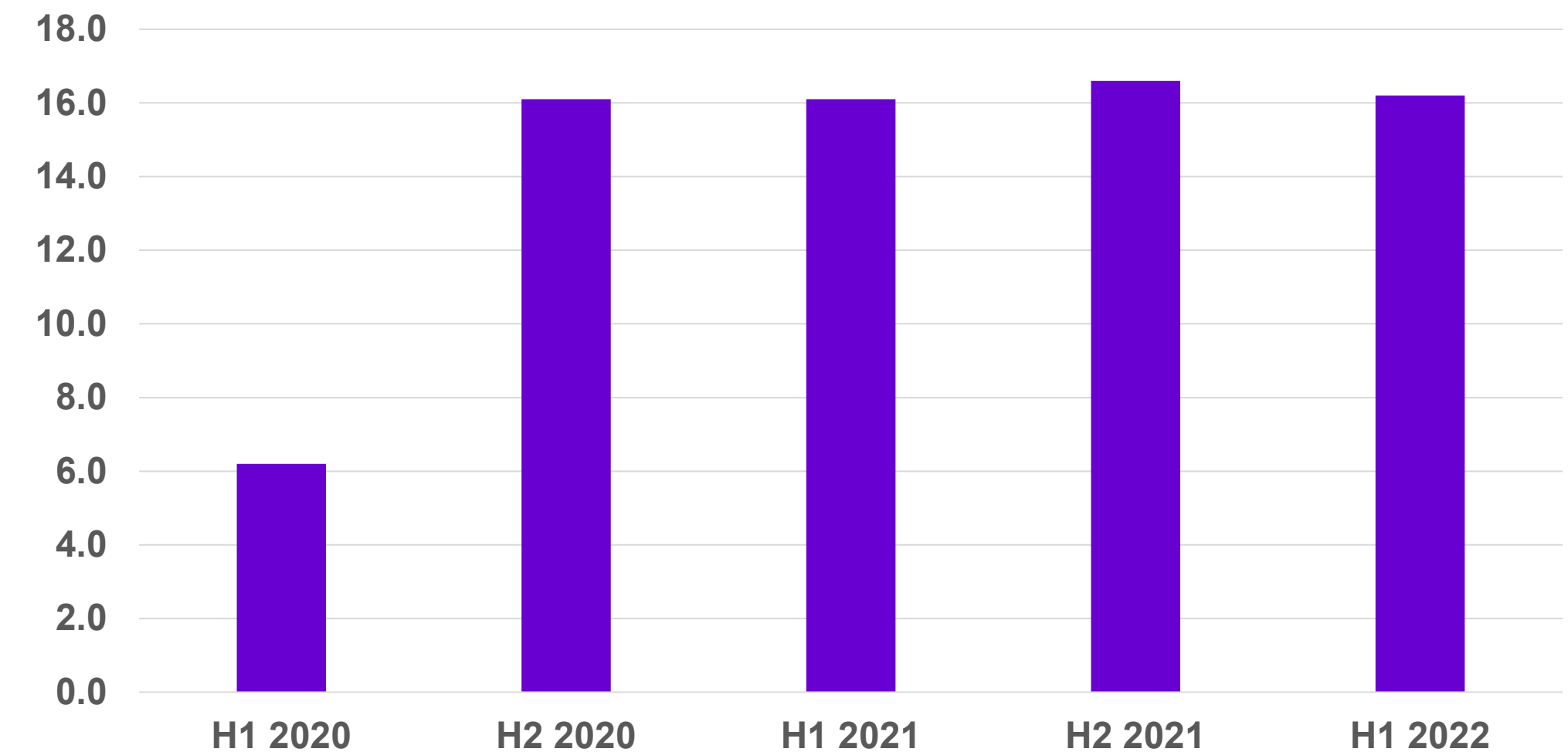
- Cloud seat growth inline with the market
- Gross profit H1 21 to H1 22 +£0.1m
- Impacted by less favourable exchange rates. In local currency delivered **4%** revenue and gross profit growth
- Stable margins above **45%**
- Good first half German business performance
- Some headwinds in smaller Spanish business



Revenue (£m)



Gross Profit (£m)

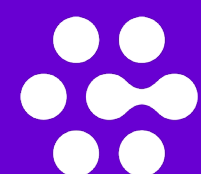


	FY 2020	FY 2021	H1 2022
Gross Margin	46.0%	45.0%	45.5%

European Revenue

- Good UCaaS revenue growth in the period; Germany (+6%) and Netherlands (+2%).
- Cloud seats grew by 7% in the period
- Europe bills traffic separately to seat revenue
- As expected traditional revenue has declined
- Epsilon revenue (German mobile connections) which are low margin (<20%) and fluctuates between periods

	2020 H2 €m	2021 H1 €m	2021 H2 €m	2022 H1 €m	H1 22 vs H2 21
UCaaS					
NL	4.3	4.5	4.0	4.1	2%
ES	5.0	5.5	5.4	5.2	-4%
DE	6.0	7.0	7.2	7.6	6%
Subtotal	15.3	17.0	16.6	16.9	2%
Other					
Traditional	11.8	11.5	11.7	11.3	-3%
Epsilon (mobile)	14.7	12.1	15.2	14.2	-7%
Subtotal	26.5	23.6	26.9	25.5	-5%
Total	41.8	40.6	43.5	42.4	-3%



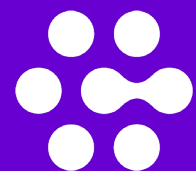
Snapshot of H1 2022 income statement costs

Cost of Sales

- With Gross Profit margins stable, COS (H1 22: £114.3m, H1 21: £105.7m) grew in line with revenue, **8%**
- The 3 largest components of our COS at H1 22 were:
 - Data and mobile representing **c.40%** of our total COS where it is commercially acceptable to pass on appropriate cost increases noting that within the UK Direct business negotiations are on a contract by contract basis
 - Traffic representing **c.25%** – could be bundled/unbundled
 - WLR representing **c.10%** has a PSTN target switch off date of 2025 in the UK
- Software licences are capitalised as an intangible asset and are amortised

Overheads

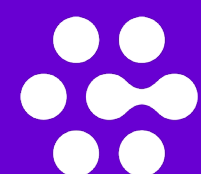
- Active cost control kept operating expense growth at **4%** (H1 22: £68.5m, H1 21: £65.7m)
- The 3 largest components of our overheads at H1 22 were:
 - Staff costs at **c.75%** of overheads
 - IT and Network representing **c.10%** includes all hardware and support costs (incl. maintenance contracts and licenses)
 - Property costs representing **c.5%**
- Property rental costs are accounted for as an asset under IFRS 16 and flow through amortisation



Balance Sheet

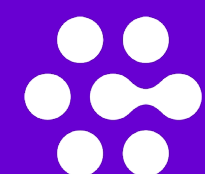
- Strong cash reserves - **£75.6m**
- Net cash of **£72.6m**
- Notional IFRS 16 liability (i.e. future lease payments – largely on buildings) of £11.7m (H1 2021: £13.0m)
- Receivables increase relates to contract assets and prepayments
- Contingent consideration decreased mainly due to Mission Labs payment

Balance Sheet as at (£m)	30 June 2022	30 June 2021	31 Dec 2021
Non-current assets (incl. PPE)	191.7	205.1	197.6
Receivables and inventories	122.8	109.6	111.4
Cash	75.6	30.8	52.8
Current assets	198.4	140.4	164.2
Total assets	390.1	345.5	361.8
Non-current liabilities	31.9	38.9	41.4
Current liabilities	77.6	78.7	66.2
Total liabilities	109.5	117.6	107.6
Share capital	15.4	13.8	15.1
Other reserves	1.1	-2.2	-2.2
Retained earnings	261.8	214.3	239.1
Non-controlling interest	2.3	2.0	2.2
Total Equity	280.6	227.9	254.2
Cash and Debt as at £m	30 June 2022	30 June 2021	31 Dec 2021
Cash	75.6	30.8	52.8
Debt acquired with subsidiaries	-3.0	-5.2	-3.3
Net Cash	72.6	25.6	49.5
Contingent Consideration (including put option liabilities)	-10.0	-11.9	-12.0
	62.6	13.7	37.5



Cashflow

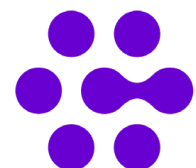
- Cash conversion increased to **95%** as a result of close working capital management
- Taxation cashflow decreased slightly as a result of R&D tax credit receipts
- Capex (incl. intangibles) increased as a result of the acquisition of Mission Labs in H1 2021
- Contingent consideration of **£1.6m** in respect of Mission Labs
- Contingent consideration to be paid in future is estimated to be £10.5m (undiscounted and including options on Gamma Holding GmbH, formerly HFO); of which £8.6m is payable within 1 year



Cash Flow Statement as at	30 June	30 June	31 Dec
£m	2022	2021	2021
Adjusted EBITDA	51.9	46.0	95.4
Cash generated by operations	49.5	43.1	89.8
<i>Cash conversion</i>	95%	94%	94%
Taxation	-7.4	-7.6	-13.3
Capital Expenditure	-7.8	-6.1	-16.8
Cash inflow before Acquisitions and Financing	34.3	29.4	59.7

Analyst Modelling Guidance

- Macroeconomic inflationary pressures give challenges around employee salary inflation:
 - Not expected to materially impact 2022; but
 - May slow the growth in our Adjusted EBITDA for a short time
- Overall expectations for the full year 2022 unchanged:
 - Upper half of range on EBITDA (£102.3m - £106.8m) and EPS (67.1p - 74.6p) as per 2 August 2022 update
- UK Corporation Tax rate to increase from 19% to 25% from April 2023, unless new PM and government change policy
- Cash conversion guidance range remains 85%- 90%



Growth Drivers

Andrew Belshaw, Interim CEO



Five drivers of long-term growth

1

Cloud Comms remains a growing market in UK

2

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

3

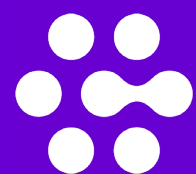
Favourable customer trends and behaviours present us with an opportunity to both **upsell and improve ARPU in Cloud PBX**

4

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

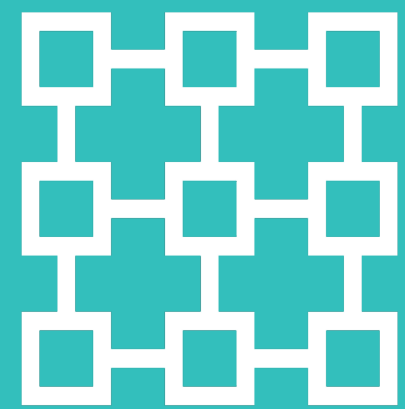
5

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



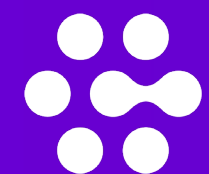
1. Cloud Communications remains a growing market in the UK

Continued growth of cloud adoption in communication technologies



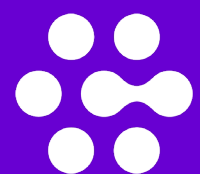
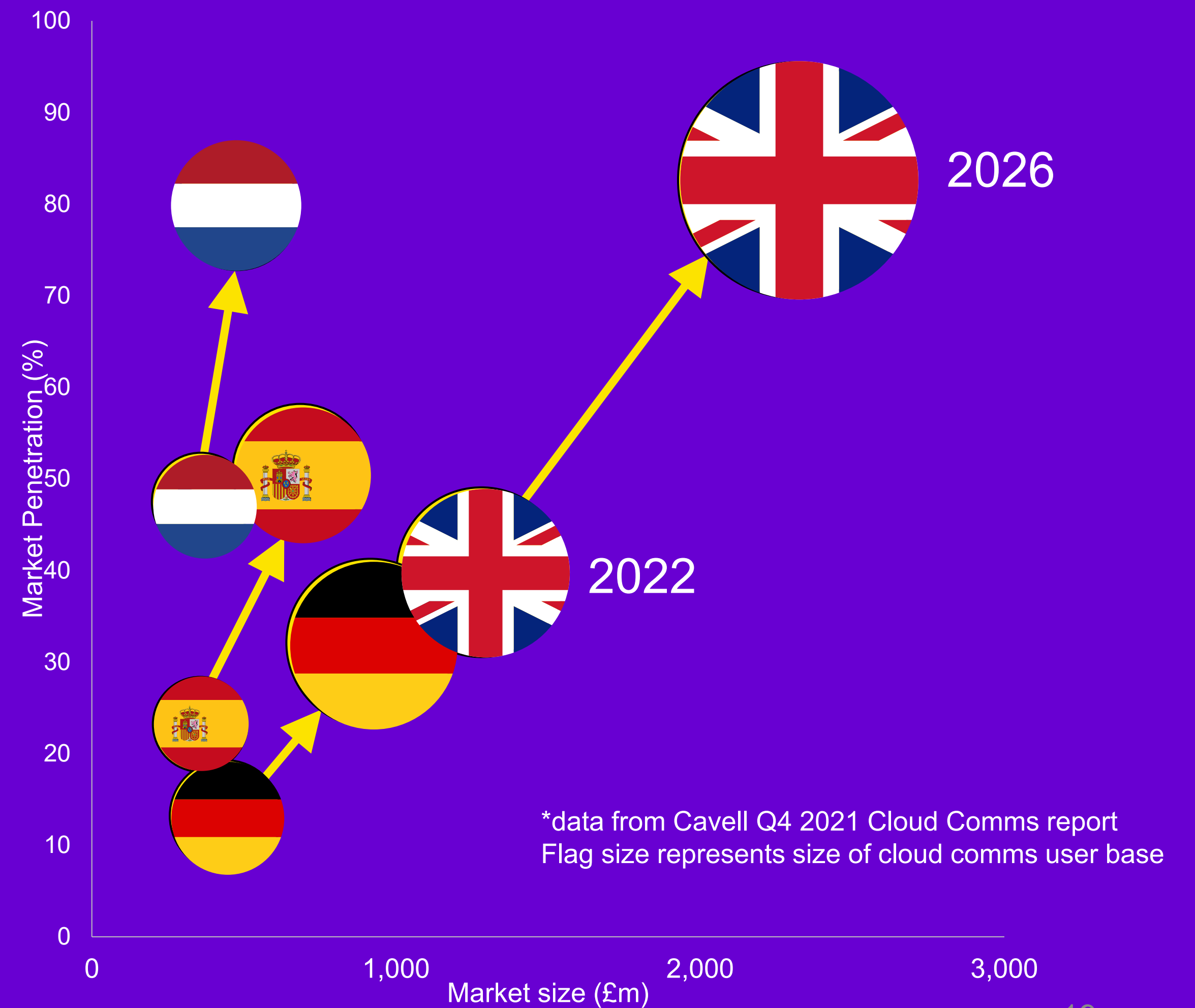
Q2 2022
40%
UCaaS
penetration

2026
88%
UCaaS
penetration



2. European market is under-penetrated compared to UK

- Projected growth rates lower than previously thought BUT overall market size remains significant – will take longer to achieve sizeable revenues
- Germany is largest European market – by 2026 will still be less penetrated than UK is today – growth in Europe will continue for 10+ years
- Acquisition in Spain to increase density in country - continue to look for additional acquisitions in Europe



Cloud Communications

Gamma's performance in Europe – H1 2022



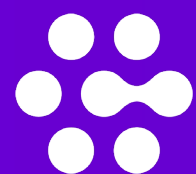
European Cloud Seats

Up

7%

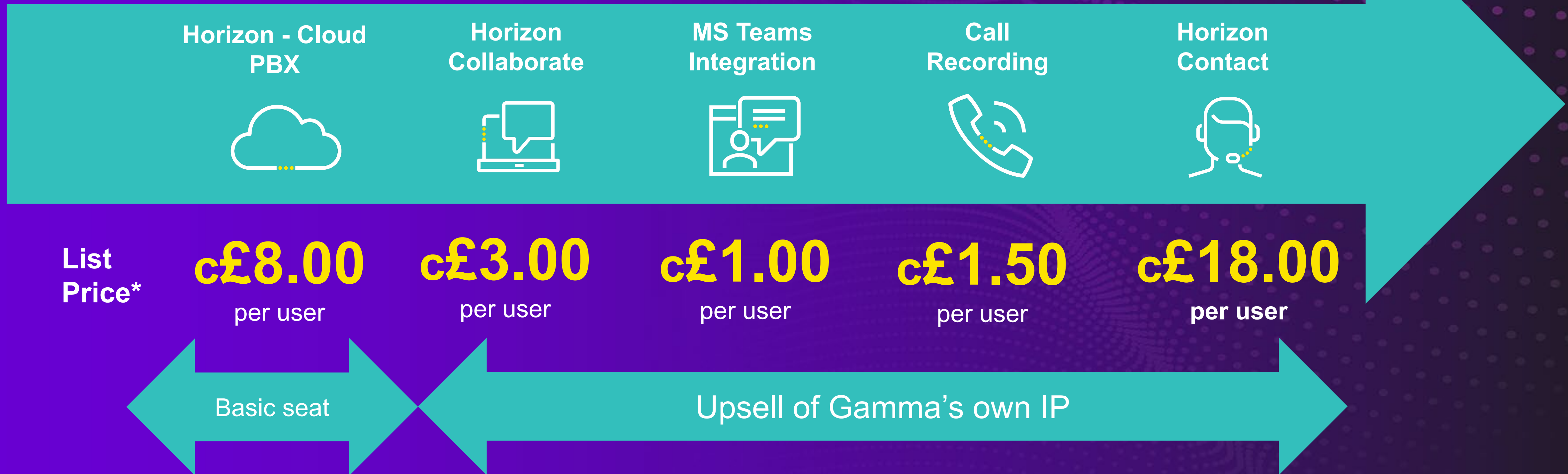
to 137k cloud seats

- Launched Operator Connect in Netherlands – Operator Connect is a Teams enablement product
- Plan to launch Circle Loop in Netherlands and Germany later in 2022

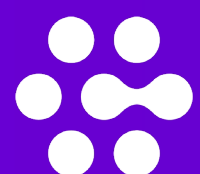


3. Favourable trends allow us to improve ARPU

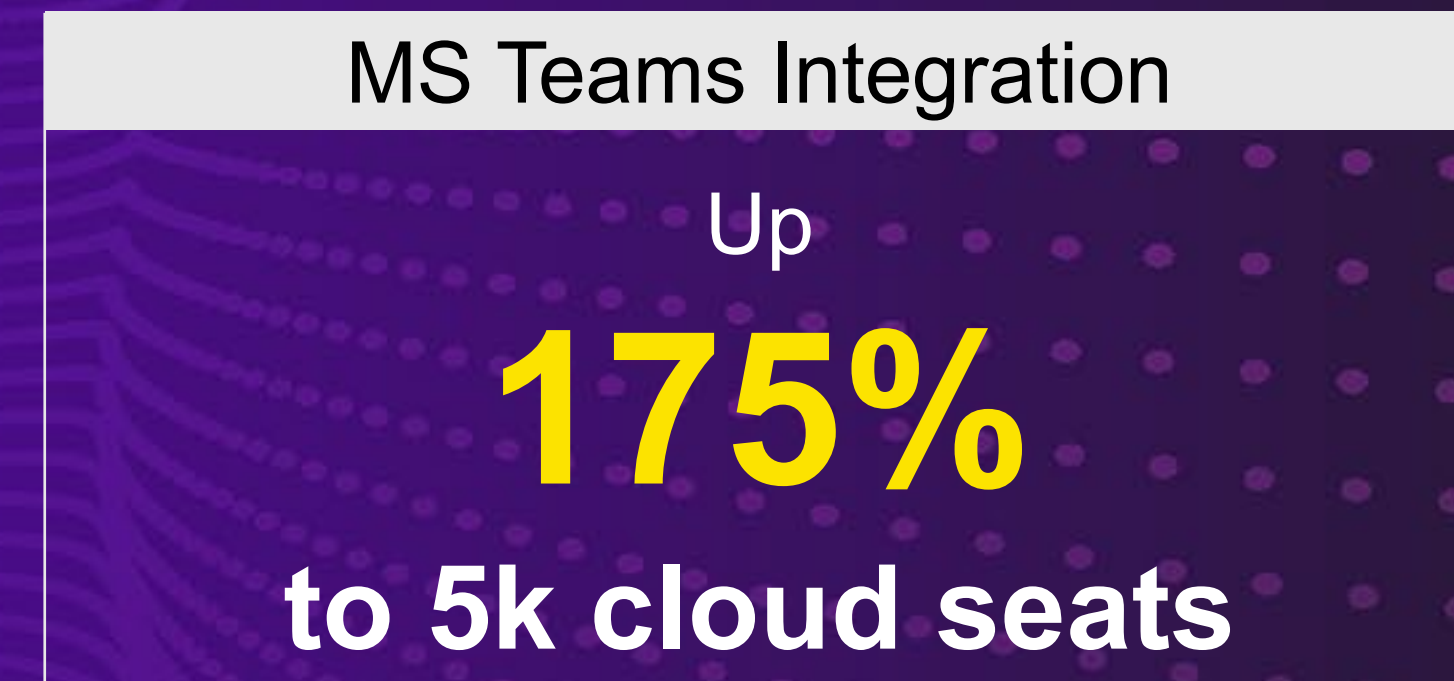
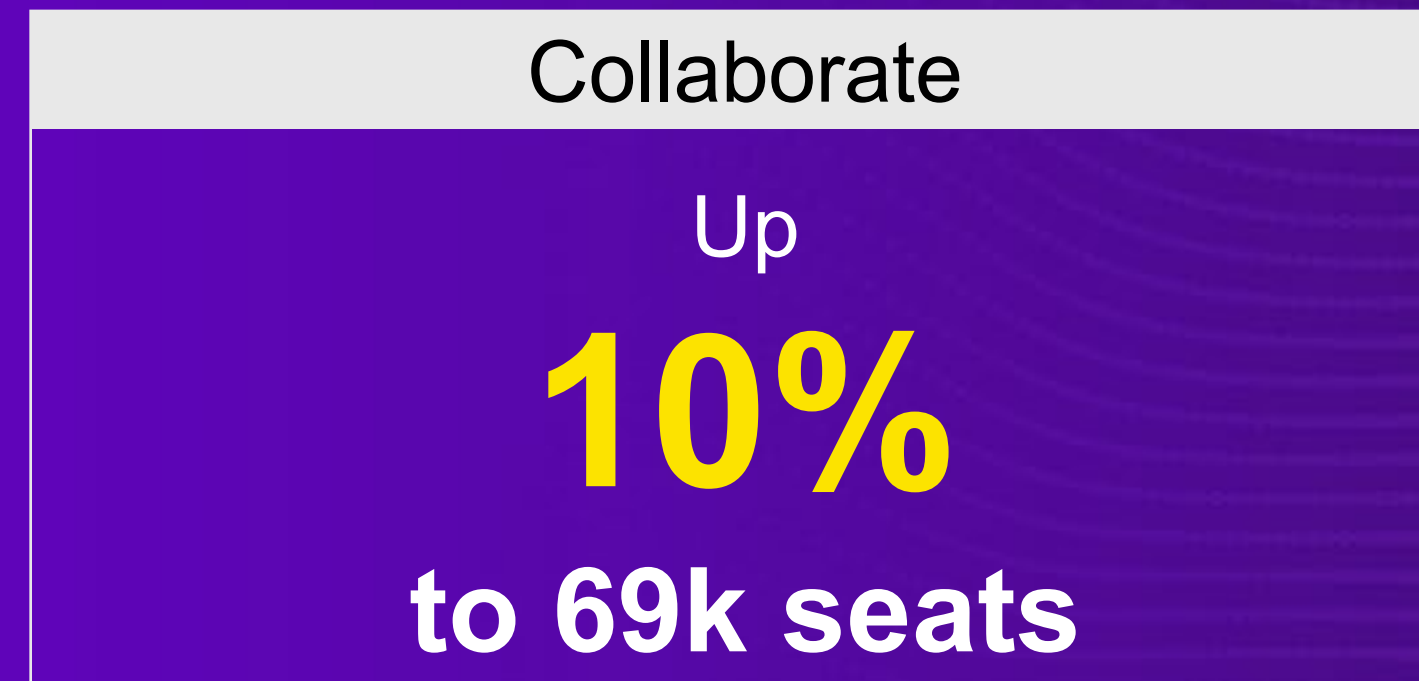
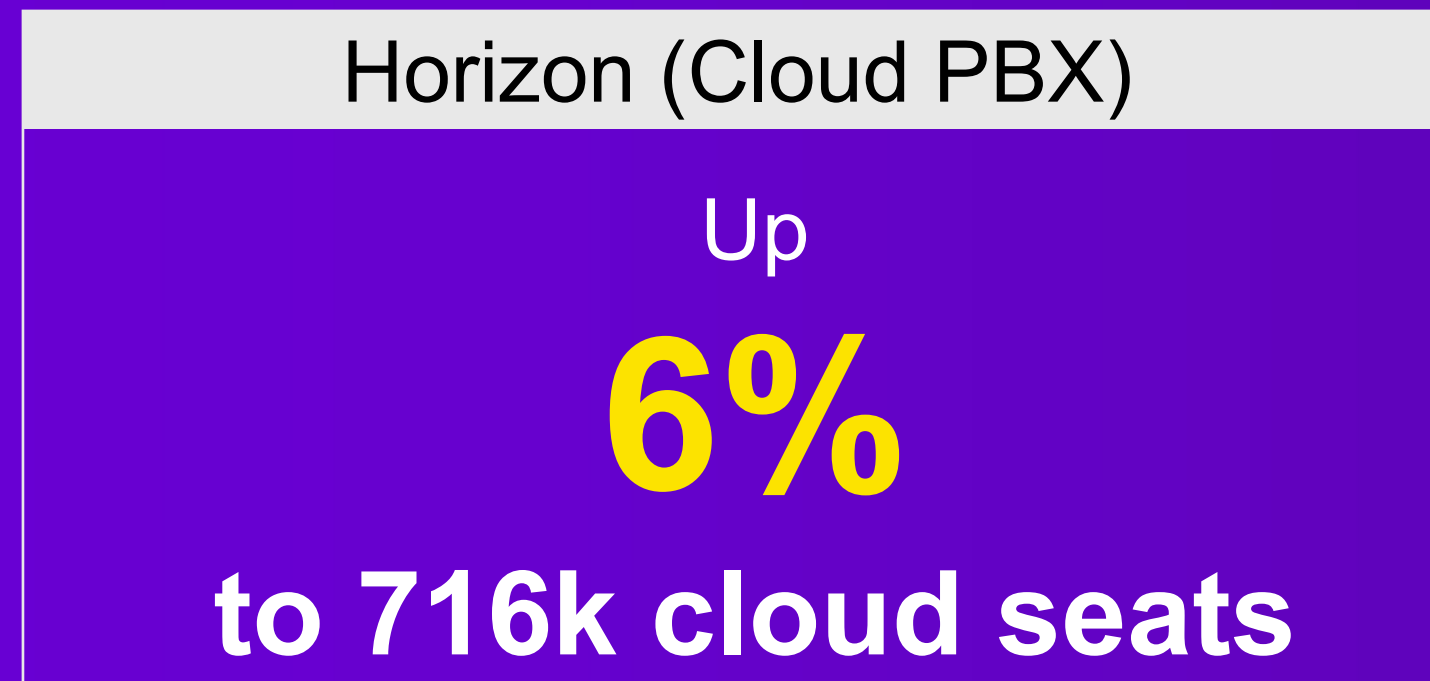
Opportunities to increase wallet share from Horizon users



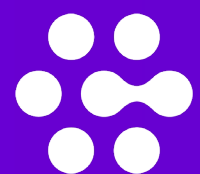
- *Approximate wholesale list prices to partners – per seat per month and typically on a 36m contract
- Growth coming from increased "share of wallet" - Gamma has built products which enable us to gain additional revenue from the users of the core Horizon product
- ARPU will increase and end users become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



Cloud Communications - Performance in the UK

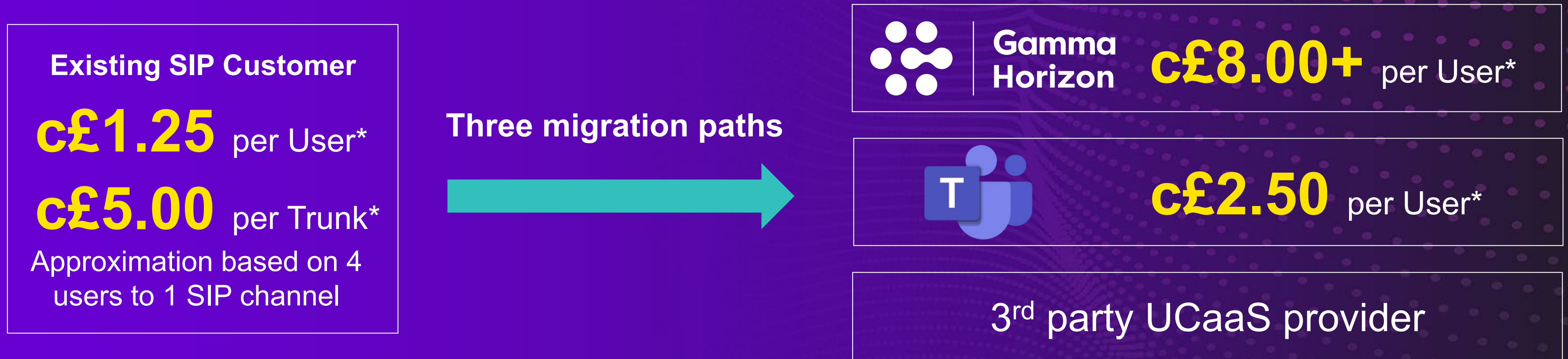


- Rate of growth of "bolt ons "increasing faster than core product - therefore ARPU increasing
- Strategy working!

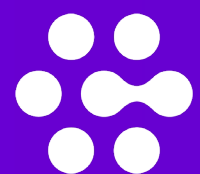


4. Technology changes are a growth opportunity

As SIP users migrate there is an opportunity to increase ARPU



- * Approximate wholesale list prices to partners; based on a monthly charge; typically 36m contract
- Migration from SIP to Gamma's own Horizon Cloud PBX product increases ARPU from £1.25 to £8.00
- Migration from SIP to a Teams Solution (MS Direct Routing or Operator Connect) increases ARPU from £1.25 to £2.50
- Migration from SIP to a competitor solution may result in lost revenue or (where Gamma provides Carrier services to an "over the top" provider) Gamma may retain some ARPU – estimated at £0.60



5. Microsoft Teams adoption is growing in Enterprise

We see this as an opportunity

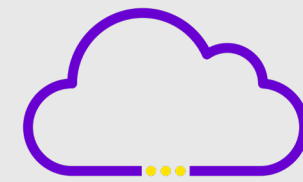
Microsoft rely on third parties to provide voice capabilities for Teams. As more organisations “voice enable” their solution we have the opportunity to gain revenue.

Voice for Teams Users



- Both Teams DR & OC available
- One of only 2 UK Channel OC wholesale products
- Released OC in the Netherlands with scope for rest of Europe (1st OC product to market in NL)
- Higher ARPU than existing SIP

Professional Services and integration

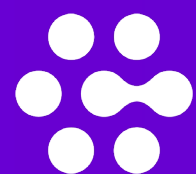


- Acquisition of Exactive in 2020 and its Cloud UCX product
- Enables Gamma to deliver complex consultative Teams solutions e.g. DWP with 100k seats

Teams Integration with Horizon

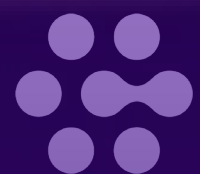


- Upsell for Horizon user who wishes to integrate rich Gamma PBX functionality with MS Teams
- Complements MS collaboration features with Gamma Voice expertise – an alternative to Gamma's own Collaborate Product which is designed for SME

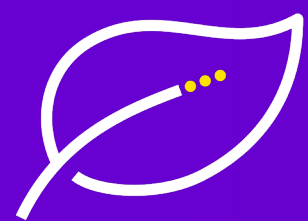


ESG Update

Andrew Belshaw, Interim CEO



Committed to delivering the business in the right way



Environment

- TCFD-aligned disclosure published
- Energy and Carbon Review completed
- Carbon Reduction Plan 2022 published – net zero by 2042
- Halve emissions by 2030 as Scope 1 and Scope 2 emissions reduced by 90%
- ISO14001 certification passed



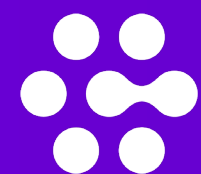
Social

- Gamma became member of the Employers Network for Equality and Inclusion (ENEI)
- Initial EDI assessment completed using TIDE ENEI
- Donated over 140 unused Gamma laptops to the Unconnected
- Ran Wellness Week to highlight the importance of mental, physical and financial health
- Managing mental health training launched
- Speakers for Schools Partnership launched



Governance

- Launched a consistent approach to policy
- Implemented a learning management system for compliance training



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

Business Outlook

Andrew Belshaw, Interim CEO



Gamma is well placed to deal with expected macro-economic headwinds



Recession

- Seeing the very early signs of recessionary behaviour – delayed buying decisions in Germany
- Little effect on 2022
- Our services are business critical to end users
- Recurring Revenues
- Strong cash generation and positive cash balance



Inflation

- Wage inflation not expected to impact 2022 but will affect 2023
- Limited effect experienced to date in other areas



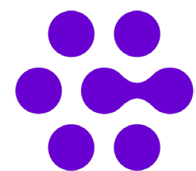
Pricing

- Limited price rises where possible – some long term contracts have fixed pricing and Cloud PBX remains very competitive
- Value escalation through upselling and cross-selling are key to the progression of value



Supply chain

- Secured hardware supply as far as possible
- Added further suppliers across all categories to ensure resilience
- Strong and active procurement management
- Some delays in Enterprise where specific hardware required



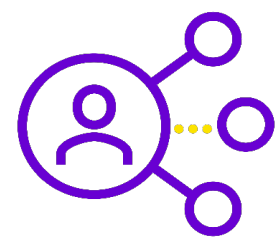
Business Outlook



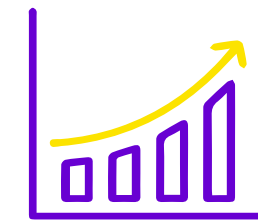
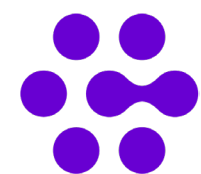
Recession highly likely in all European markets which changes dynamics of market growth, but creates opportunity – cloud service preferable to hardware



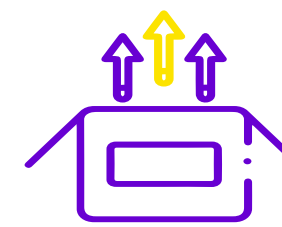
Robust business model with strong **recurring revenue and margin, cash generative** and with **strong balance sheet**



Addressing **all segments of the business market** (Micro, SME and Enterprise) with their **cloud communication and connectivity needs**; we see opportunity in the growth of Teams



Cloud PBX penetration in UK remains below 50% and Europe significantly lower – market growth will ultimately come even if recession slows it in the short term



Continued execution of our **own-IP technology and product strategy** with **roadmap driven by direct feedback** across **all markets**



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

Q&A

Andrew Belshaw, Interim CEO

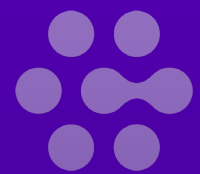
Bill Castell, CFO





Thank you.

Appendix – Our products and services



What do we actually do?

Solve customer problems



"I need..."

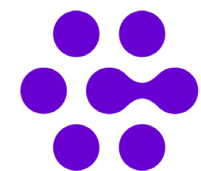
"...stable reliable connectivity"

"...my customers to reach me easily and efficiently"

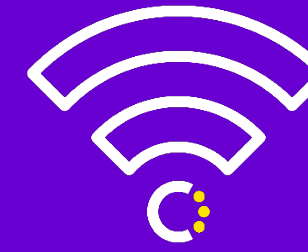
"...to reach out to my customers and suppliers"

"...my employees to work together"

"...to have a unified view of every conversation"



Customer needs



Connectivity



Voice communication



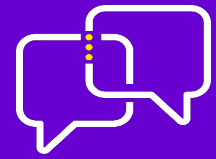
Internal conversations



External conversations



Business processes and applications integration



I need to **collaborate** with my colleagues and clients



I need to give a great customer **experience**



I need to **talk** to suppliers and customers



I need to **connect** my staff and sites

