

Gamma

Half Year 2023 Results

5 September 2023

Andrew Belshaw, CEO
Bill Castell, CFO





HY 2023 Results

Agenda

-
01. **HY 2023 Business Update**
Andrew Belshaw

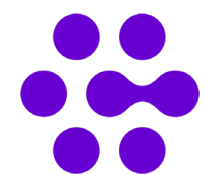
 02. **HY 2023 Financial Highlights**
Bill Castell

 03. **Strategic update and market trends**
Andrew Belshaw

 04. **ESG**
Andrew Belshaw

 05. **Business Outlook**
Andrew Belshaw

 06. **Q&A**
Andrew Belshaw and Bill Castell
-



A photograph of two men in business suits sitting at a table in a meeting room. The man on the left is wearing glasses and has a beard, while the man on the right has a beard and is looking towards the left. They appear to be in a professional discussion. The background shows a large window with a view of a building.

Half year 2023 Business Update

Andrew Belshaw, CEO

Half Year 2023 Business Update – Business Highlights

- **UK Business continues to grow**

- High levels of recurring revenue and margin
- Continue to add Cloud PBX seats (Horizon) and voice enablement of MS Teams (and other applications)
- Attachment rates of Horizon Add Ons continues to increase – protecting ARPU
- Significant opportunity for us to continue to grow in the UK

- **Enterprise capabilities expanded**

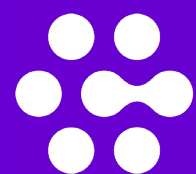
- Acquisition of Satisnet brings a Cyber security offering into the portfolio

- **European business growing**

- Revenue up 8%
- Sales of Operator Connect (Enabling Teams) taking off

- **Strong cash position**

- Cash generated by operations of **£57.1m**
- Net cash balance of **£121.7m** at 30 June 2023

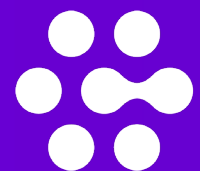


H1 2023 Business Update

Gamma Group	Business*	Enterprise*	Europe
Up to £256.2m +9% growth	Up to £164.8m +10% growth	Up to £53.0m +9% growth	Up to £38.4m +8% growth
Gamma Group revenue	64% of Group revenue	21% of Group revenue	15% of Group revenue

- Gamma Business continues to see strong growth; high levels of recurring revenue maintained
- Gamma Enterprise has shown good revenue growth, gross margin decreased slightly as a result of higher installations and hardware sales which are lower margin
- European growth supported by UCaaS products. Revenue bolstered by foreign exchange movements.

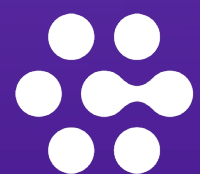
* During 2023 Gamma reviewed its reporting segments resulting in a movement of some customers and associated costs from the former UK Direct Business (now Enterprise) to the former UK Indirect business (now Business). This resulted in a total movement of £13.5m revenue (3% of Group Revenue).



A man in a blue and white striped shirt is sitting at a desk, writing on a document with a pen. A laptop is open in front of him. The scene is dimly lit with a blue tint. The text 'Half Year 2023 Financial Highlights' is overlaid on the left side of the image.

Half Year 2023 Financial Highlights

Bill Castell, CFO



H1 2023 Financial Highlights

Revenue

Up

9%

to **£256.2m**

Adjusted EBITDA

Up

9%

to **£56.5m**

Adjusted EPS

Up

5%*

to **37.5p**

Cash generated by operations

Up

15%

to **£57.1m**

Cash balance

£123.5m

As at 30 June
(net cash of **£121.7m**)

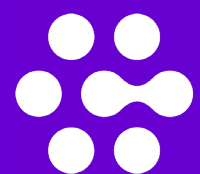
Interim Dividend

Up

14%

to **5.7p**

* The growth rate has been impacted by the change in the UK statutory tax rate. If the tax rate had not changed growth would have been 11%.



Income Statement

- Recurring revenue grew to **£229.7m** of the **£256.2m**, **90%** of total revenue (H1 2022: **89%**)
- Revenue and gross profit grew by **9%**
- Gross margin maintained at **51%**
- Adjusted EBITDA growth of **9%**
- Overheads, driven by salary rises, increased by **9%** (8% increase when adjusted for the immaterial alignment); **7%** in UK
- PBT was £43.5m (H1 2022: £38.4m), **13%** growth. Adjusted PBT **12%**

£m	Six months ended		Year ended	Half on half Growth
	30 June 2023	30 June 2022	31 December 2022	
Revenue	256.2	234.7	484.6	9%
Cost of sales	(125.0)	(114.3)	(236.9)	
Gross profit	131.2	120.4	247.7	9%
<i>Gross profit margin</i>	51.2%	51.3%	51.1%	
Overheads	(74.7)	(68.5)	(142.6)	9%
Adjusted EBITDA	56.5	51.9	105.1	9%
<i>EBITDA margin</i>	22.1%	22.1%	21.7%	
Exceptional items	0.0	0.0	(12.5)	
Depreciation and amortisation	(9.5)	(8.5)	(17.7)	
Amortisation on business combinations	(4.8)	(4.7)	(9.5)	
Operating profit	42.2	38.7	65.4	9%
Net finance income/expense	1.3	(0.3)	(0.5)	
Profit before tax	43.5	38.4	64.9	13%
Tax expense	(10.4)	(7.3)	(15.4)	
Profit after tax	33.1	31.1	49.5	6%
Adjusted EPS (Pence, fully diluted)	37.5	35.6	71.8	5%

Business (UK SME)

- Strong **10%** growth in revenue
- Growth primarily driven by UCaaS
- Gross profit increased **8%** from £80.2m to £86.8m
- Gross margin broadly consistent at **53%**
- Encouraging early growth of our micro business cloud solution PhoneLine+ (5k seats in H1 2023)
- Price increases (mainly on traditional products and traffic) communicated to Channel in H2 (live from 1 Jan 2023)



Enterprise

(Large Corporate and Public Sector)

- Delivered healthy **9%** revenue growth driven by key contract performance
- H2 2022 revenue bolstered by higher than usual levels of hardware sales
- Gross profit increased by **6%**
- Gross margin fluctuates due to timing and mix of hardware sales
- Some significant wins including the Home Office, Lidl's UK Store Network (SD-WAN) and our contact centre solution (Smart Agent) for the NHS
- Acquisition of Satisnet in August 2023 (to be immediately earnings enhancing although not material for the Group)



Europe

- Revenue growth **8%** (**3%** at constant currency)
- Gross profit grew headline **17%**, **7%** at constant currency (*also taking into account a £0.8m reclassification between cost of sales and operating expenses in H1 2022*)
- Solid German and Spanish business performance in UCaaS
- Netherlands (a mature market) growth driven by non UCaaS products
- Gross margin variations as a result of the mix between UCaaS and traditional, in particular lower margin Epsilon (German mobile connections)



European Revenue

- Overall good UCaaS revenue growth (Cloud PBX and SIP) in the period supported by price rises
- UCaaS strong in Spain (+18%) supported by NeoTel acquisition in H2 2022 (+6% excl. Neotel)
- Germany (+8%) relating to SIP growth and solid cloud volume offset by Netherlands (-5%)
- Traditional revenue is stable
- Epsilon H1 23 revenue similar to H1 22 (German mobile connections) which is lower margin (<20%) and fluctuates between periods

	2021 H2 €m	2022 H1 €m	2022 H2 €m	2023 H1 €m	H1 23 vs H2 22
UCaaS					
NL	4.0	4.1	3.8	3.6	-5%
ES	5.4	5.2	5.7	6.7	18%
DE	7.2	7.6	7.8	8.4	8%
Subtotal	16.6	16.9	17.3	18.7	8%
Other					
Traditional	11.7	11.3	10.9	11.0	1%
Epsilon (mobile)	15.2	14.2	15.5	14.1	-9%
Subtotal	26.9	25.5	26.4	25.1	-5%
Total	43.5	42.4	43.7	43.8	0%

Balance Sheet

- Strong cash reserves – **£123.5m**
- Net cash of **£121.7m**
- Notional IFRS 16 liability (i.e. future lease payments – largely on buildings) of £10.5m (H1 2022: £11.7m)
- Contingent consideration decreased to £4.5m due to Mission Labs payments

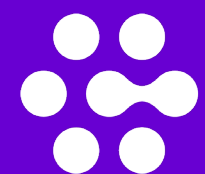
Balance Sheet as at (£m)	30 June 2023	30 June 2022	31 Dec 2022
Non-current assets (incl. PPE)	180.0	191.7	185.7
Receivables and inventories	122.0	122.8	126.5
Cash	123.5	75.6	94.6
Current assets	245.5	198.4	221.1
Total assets	425.5	390.1	406.8
Non-current liabilities	30.1	31.9	34.5
Current liabilities	72.1	77.6	72.6
Total liabilities	102.2	109.5	107.1
Share capital	18.3	15.4	18.2
Other reserves	6.9	1.1	6.8
Retained earnings	297.2	261.8	273.9
Non-controlling interest	0.9	2.3	0.8
Total Equity	323.3	280.6	299.7
Cash and Debt as at £m	30 June 2023	30 June 2022	31 Dec 2022
Cash	123.5	75.6	94.6
Debt acquired with subsidiaries	-1.8	-3.0	-2.1
Net Cash	121.7	72.6	92.5
Contingent Consideration	-4.5	-10.0	-6.8
	117.2	62.6	85.7

Capital Expenditure and Development Costs

Capital expenditure ("Capex") increased by **£2.7m** to **£10.5m** from H1 2022 with the continued investment in our own voice applications products (including future product pipeline, as seen in H2 2022)

Research and development spend increased by **£3.0m** to **£16.2m**. Within that capitalised spend increase was **£2.2m**

£m	H1 2022	H2 2022	H1 2023	£m	H1 2022	H2 2022	H1 2023
Tangible assets	2.2	4.6	1.8	Development costs capitalised (Balance Sheet)	5.6	7.5	7.8
Development costs	5.6	7.5	7.8	Research costs expensed (P&L)	7.6	8.4	8.4
Software licences	-	0.8	0.9				
Total Capital Expenditure	7.8	12.9	10.5	Total research and development spend	13.2	15.9	16.2



Cashflow

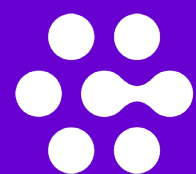
- Generated **£57.1m** cash from operations, Cash conversion **101%** supported by favourable working capital movements
- Taxation cashflow lower as a result of refund relating to prior year
- Capex (incl. intangibles) increased in line with guidance as a result of the continued investment in software development
- M&A activity
 - Contingent consideration of **£2.4m** in period relates to Mission Labs
 - Consideration to be paid in future is estimated to be **£4.5m** (undiscounted and including options on Gamma Holding GmbH, formerly HFO); of which all is payable within 1 year (financials pre Satisnet deal)

Cash Flow Statement as at £m	30 June 2023	30 June 2022	31 Dec 2022
Adjusted EBITDA	56.5	51.9	105.1
Cash generated by operations	57.1	49.5	99.1
<i>Cash conversion</i>	<i>101%</i>	<i>95%</i>	<i>94%</i>
Taxation	-5.3	-7.4	-14.4
Capital Expenditure	-10.5	-7.8	-20.7
Cash inflow before Acquisitions and Financing	41.3	34.3	64.0

Analyst Modelling Guidance

- Overall expectations for the full year 2023:
 - Within the top half of the company compiled consensus range* for adjusted EBITDA (range **£110.4m – £117.2m**; mid-point **£113.8m**) and adjusted EPS (range **70.0p – 77.0p**; mid-point **73.5p**) as at 5 September 2023
- UK Corporation Tax increased from 19% to 25% from April 2023, a blended rate of 23.5%
- Capex expected range of **£22-£25m** reiterated
- Cash conversion guidance maintained at over 90%

* The opinions, forecasts, estimates, projections or predictions regarding the Gamma Group performance made by the coverage analysts are those of the analysts alone and do not represent the opinions, forecasts, estimates or predictions of the Gamma Group or its management and Gamma does not endorse or concur with any of such analysts' opinions, forecasts, estimates, projections or predictions. The consensus figures are being provided for information purposes only and are not intended to, nor do they, constitute investment advice or any solicitation to buy, hold or sell securities or other financial instruments of Gamma, its subsidiaries or affiliates. When making an investment decision you should seek advice from an independent financial adviser.

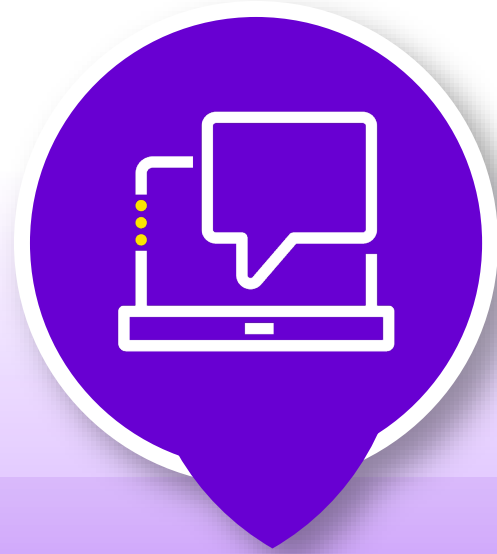


Update on Strategy and Market Trends

Andrew Belshaw, CEO



Gamma's 2026 strategic priorities



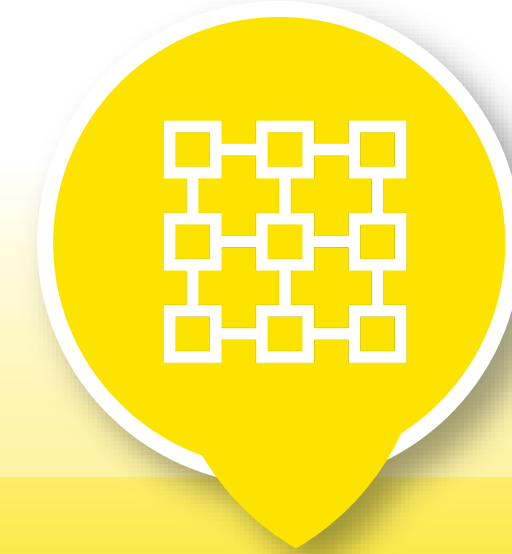
We will develop a **common European product set** for **UCaaS and CCaaS** for SMEs



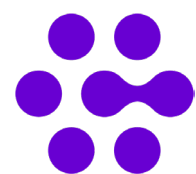
We will develop **multiple routes** to the **market** in each country in which we operate



We will become a **trusted partner** to Enterprises across Europe, transforming their communications estates

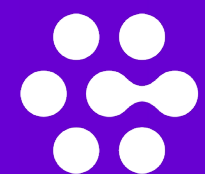
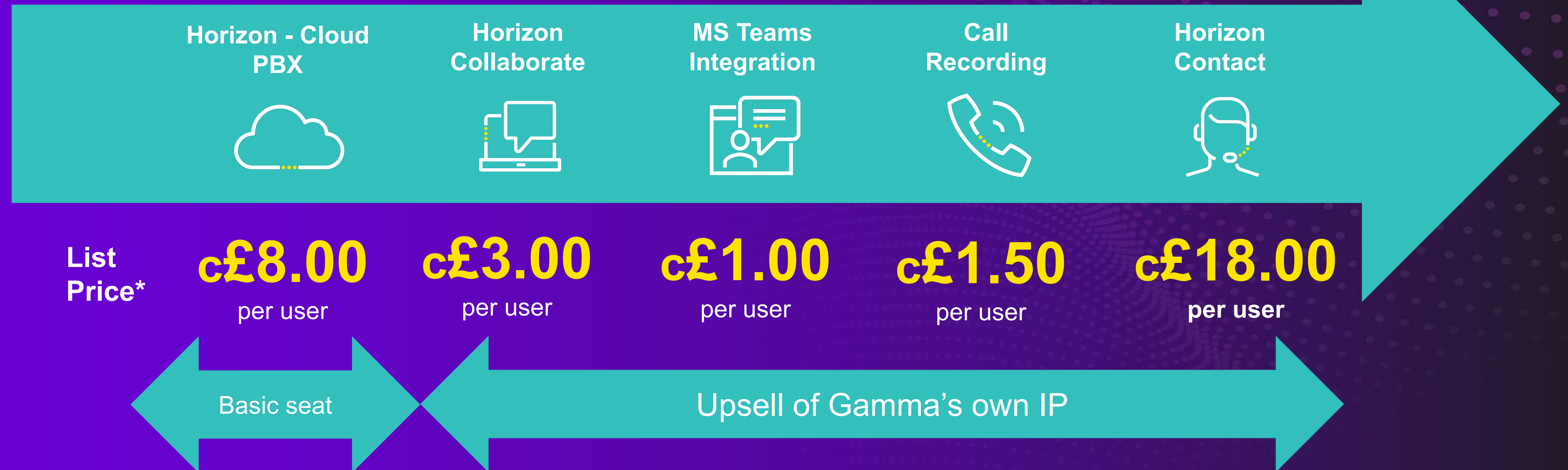


We will create an organisation that **engages all** our people with a **common set of values and goals**



Developing a common European product set gives us opportunity for upsell

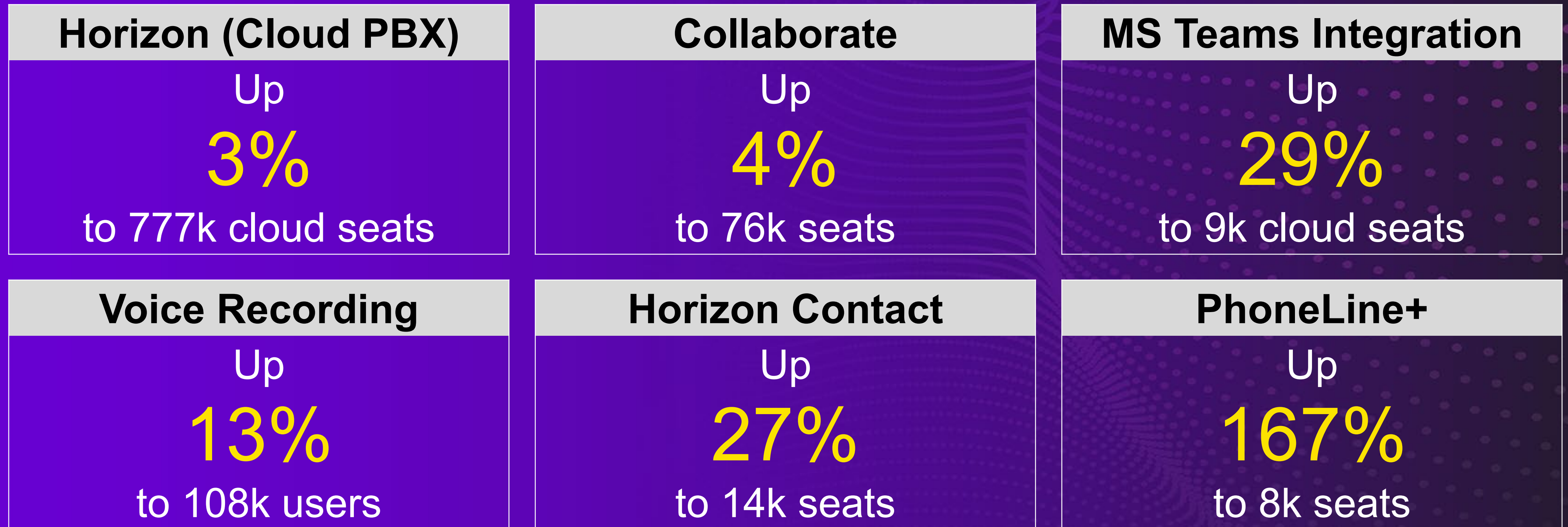
Opportunities to increase wallet share from Horizon users



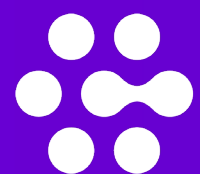
Note:

*Approximate wholesale list prices to partners – per seat per month and typically on a 36m contract

Cloud Communications – Performance in the UK



- Percentages shown are compared to 31 December 2022; rate of growth of “bolt-ons” exceeds the core product
- Stable ARPU - Increase notional ARPU from upsell on new seat sales (1% effect) offsetting price pressure on the base
- Gross adds on Cloud seats consistent with prior periods; some rationalisation resulting in churn
- PhoneLine+ growth expected to grow as PSTN switch off approaches



Voice Enablement – Performance in the UK

SIP Trunks Enabling
Hardware PBX

Down

1%

to 1,042k SIP Trunks

SIP Trunks Enabling
non-Gamma Cloud PBX

Up

3%

to 378k SIP Trunks

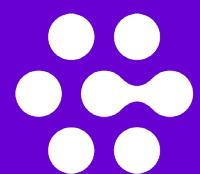
MS Teams Enablement

Up

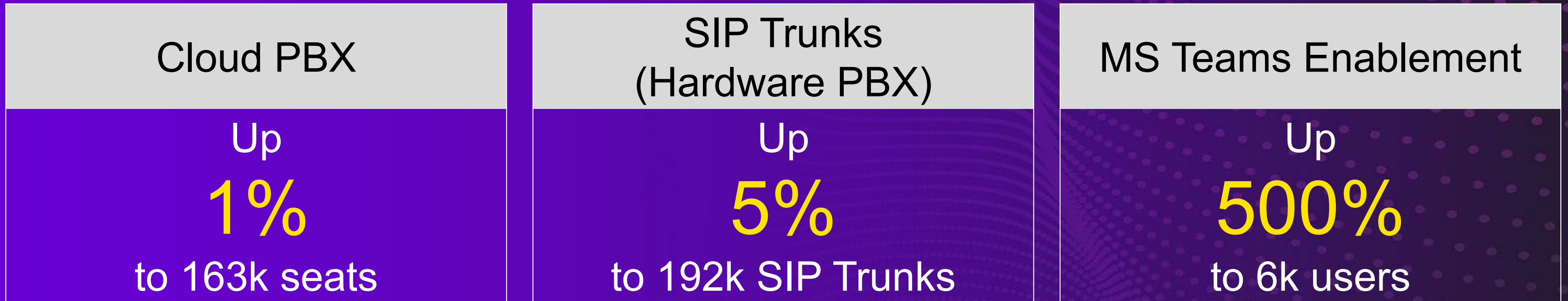
11%

to 394k cloud seats

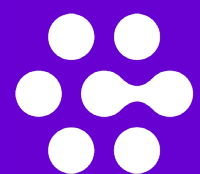
- Market continues to perform as expected – growth is now from enablement of Cloud services not traditional “SIP + Hardware”
- Gamma continues to perform well in each segment, with growth in the voice enablement of Microsoft Teams particularly pleasing given the continuing importance of this market



European Performance



- Growth in Cloud PBX seats in Germany but no significant large installations completed in H1 2023
- Netherlands business focussing on opportunity for Operator Connect in larger businesses



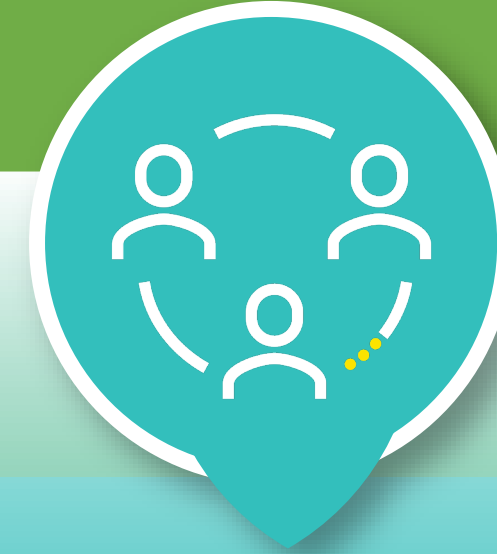
Gamma's 2026 strategic priorities



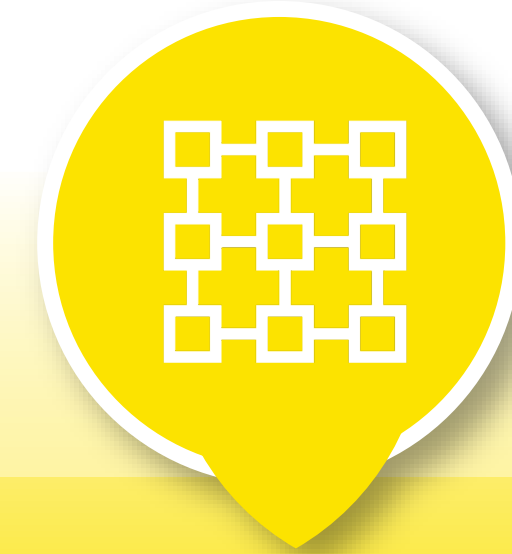
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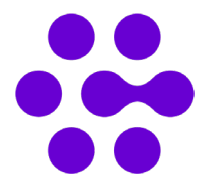
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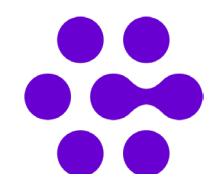
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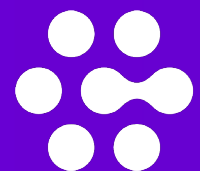
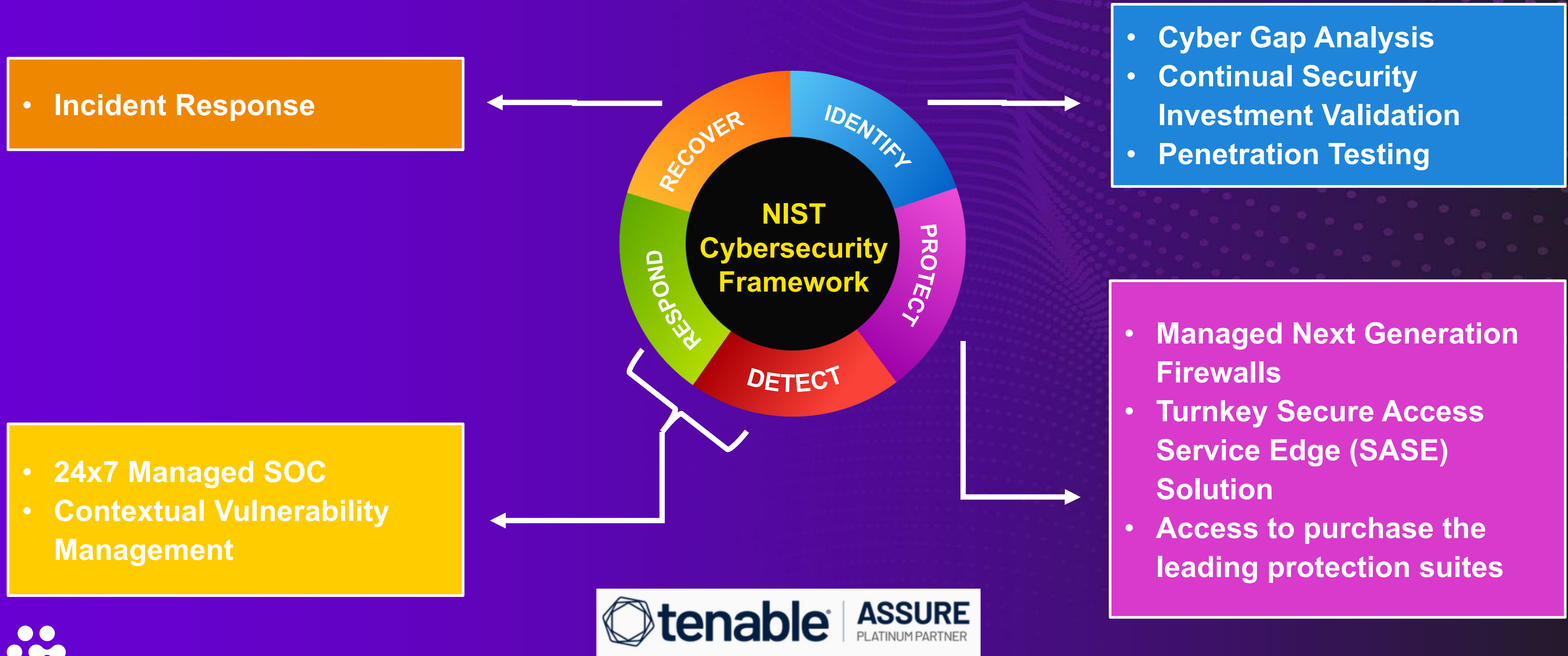
H1 Notable Deals with Enterprise and Public Sector customers



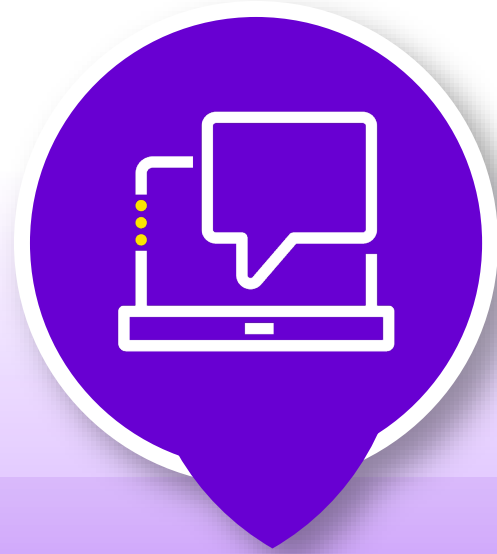
Re-sign

New Business

Acquisition of Satisnet – Cyber Security Capability



Gamma's 2026 strategic priorities



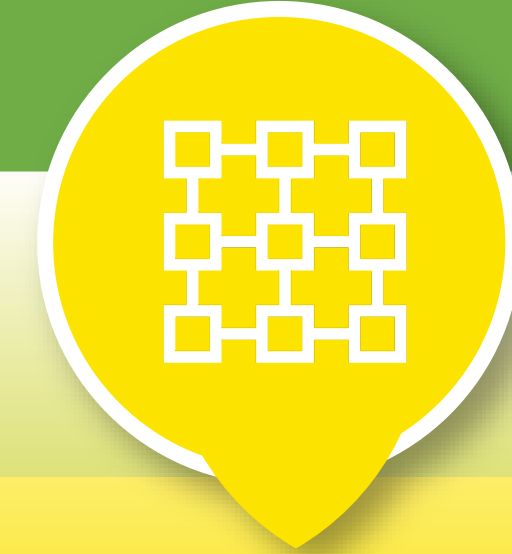
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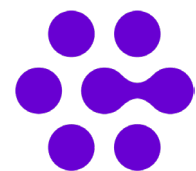
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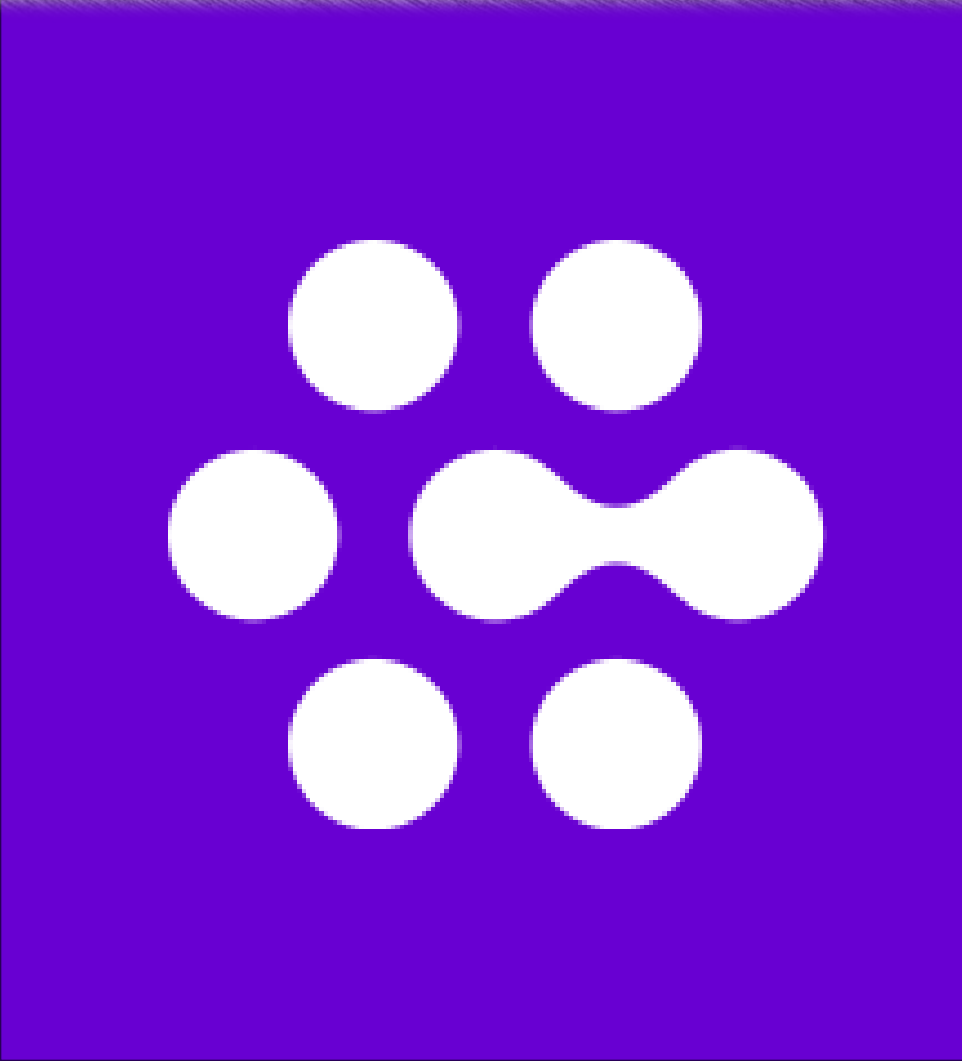


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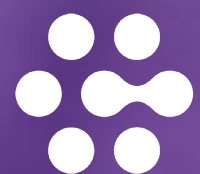
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ESG Update

Andrew Belshaw, CEO



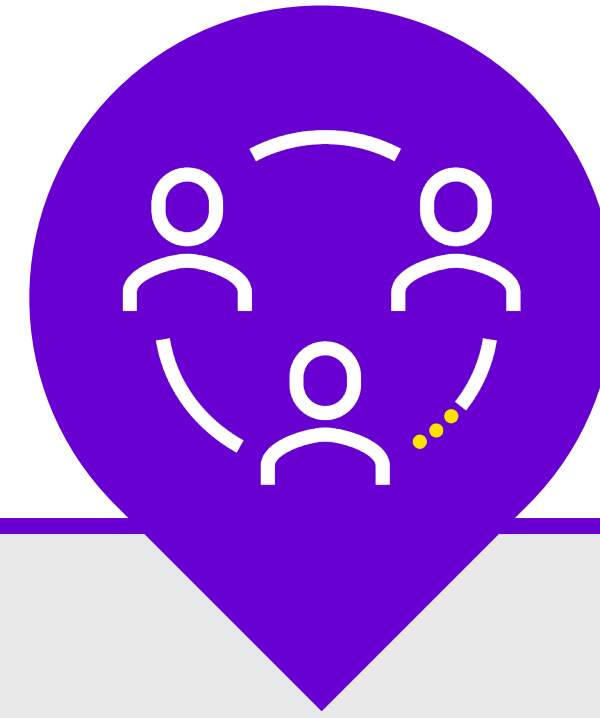
Communications with a Conscience



Environmental

- Targeting Carbon net-zero in **2042** for Scope 1, 2 & 3. Targets submitted to SBTi for validation
- Awarded **A-** by the Carbon Disclosure Project for our Supplier Engagement Rating
- Carbon Reduction Plan published, aligned to public sector procurement policy

E



Social

- **“You Belong”** employee communities held their first sessions
- The Gamma Charity Forum coordinated Tough Mudder events across the UK, and we’re close to raising **£20k** for our chosen charities, Mind and the Anthony Nolan Trust

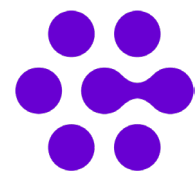
S



Governance

- Our Top 100 suppliers have been assessed for modern slavery and child labour risks, once again deemed **low**
- We’ve published our policies publicly to increase transparency
- We’ve worked successfully with both customers and suppliers for external audits, retaining our various certifications

G



Business Outlook

Andrew Belshaw, CEO



Business Outlook

Our strategy builds on our core strengths to exploit existing opportunities for growth in the markets we serve



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



Satisnet acquisition allows us to sell Cyber Security Managed Services into our Enterprise customer base



Cloud PBX penetration in UK around 50%; Europe significantly lower
Market growth will continue in UK and ARPU holding due to increasing penetration of bolt-ons



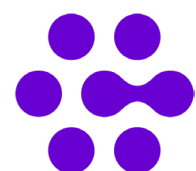
Continue to look for additional **M&A opportunities** to add to **routes to market and product / technical capability**



Migrations in UK market present significant opportunities
PSTN Switch off starting to drive PhoneLine+ adoption
“SIP + Hardware” will increasingly move to a Cloud Product



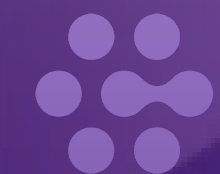
Continuing to execute our **common product strategy** across **all routes to market**. Operator Connect as the leading example



Q&A

Andrew Belshaw, CEO

Bill Castell, CFO





Thank you.