

# Gamma Communications plc

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# Summary of Gamma

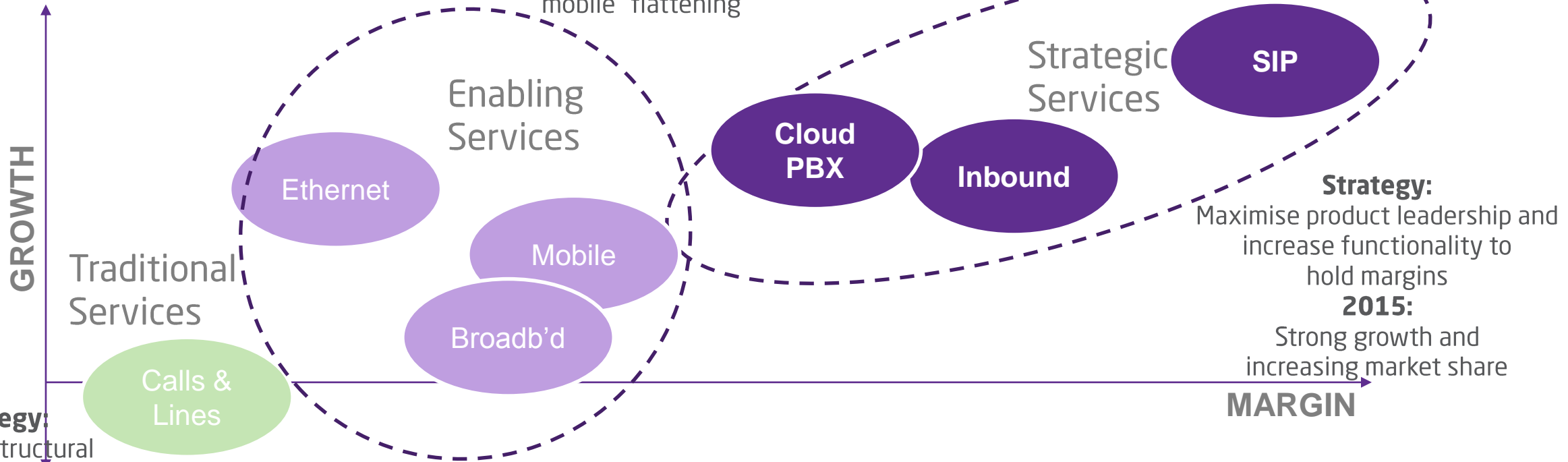
- Leading provider of integrated voice, data, and mobile telecoms services and applications to businesses
- UK market leader in SIP and Cloud PBX – differentiated by software and systems
- High volume indirect channel model with broad customer base and low customer concentration
- Ten years of strong organic growth driven by repeating revenues
- Consistent EBITDA growth with high margin new generation services
- Highly cash generative with good visibility of earnings



# Service portfolio

**Strategy:**  
Bundle into strategic services to maximise order value

**2015:**  
Good data growth, mobile "flattening"



**Strategy:**  
Manage structural decline in revenues

**2015:**  
Outperforming market with small decrease in margin

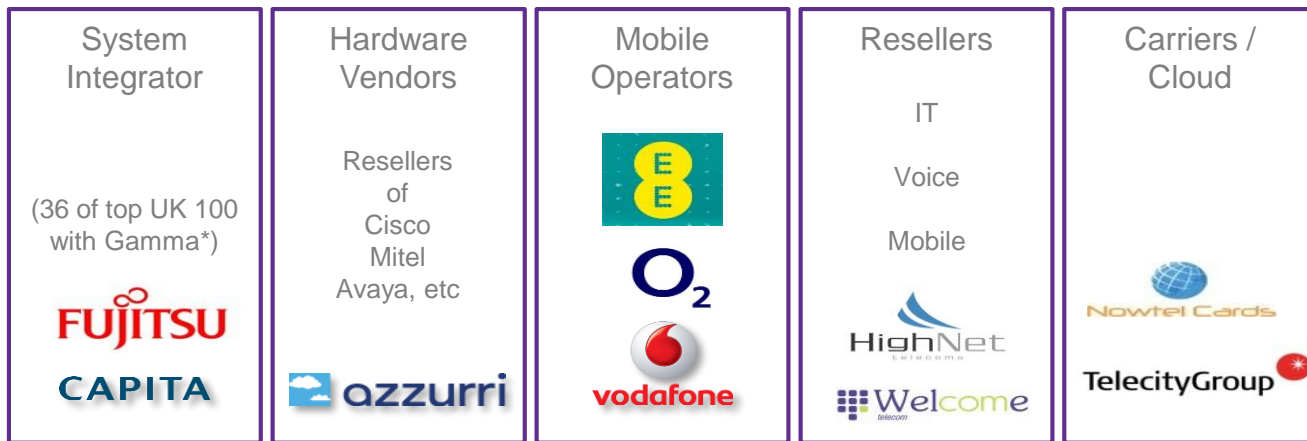
**Strategy:**  
Maximise product leadership and increase functionality to hold margins

**2015:**  
Strong growth and increasing market share

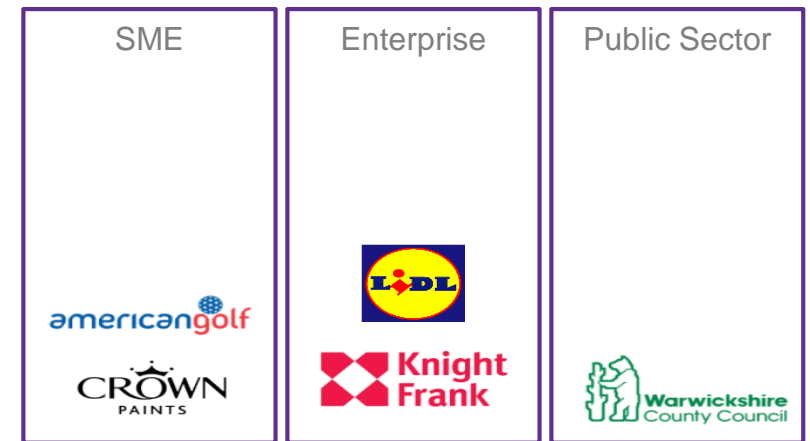


# Routes to Market

Indirect Channel: Increasingly selling the Gamma brand (79% of revenue)



Direct Channel (21% of revenue)



Source: \* The CRN top 100 SI-VARS 2013



# 2015 Business Highlights

- Strong SIP performance and market share increased
- Positive Cloud PBX performance and market share increased
- New Mobile service “on target” for Q2 release
- Number of new Partners increased by 109 to 834 in total
- Key brand wins include Taylor Wimpey, Metrobank, Costco, and HMRC



# The Financials



# 2015 Financial Highlights

- Revenue up 11% to £191.8m
- Adj EBITDA up 22.5% to £28.3m
- Adj EPS up 19.3% to 17.9p
- Pre-tax cashflow increased by £5.9m to £25.3m
- Dividend proposed of 6.6p for year, versus pro forma 5.9p prior year



# Income statement

- Continued organic growth driven by Strategic services (SIP, Cloud PBX and Inbound)
- Repeating revenues remain high
- Improving gross profit margins due to favourable product mix
- Indirect channel and direct channel growing at similar rates
- Exceptional item is gain from laddering (£5.7m)
- Share based charges reflect levels of options granted pre-float – will remain at this level for next two years
- Effective tax rate at 19% – move to large company R&D credit regime
- Strong growth in adj. EPS
- Proposed final dividend of 4.4p

Years ended 31 December (£m)	2013	2014	2015	Growth (14-15)
<b>Revenue</b>	148.7	<b>173.2</b>	<b>191.8</b>	<b>10.7%</b>
Cost of sales	-94.8	-105.6	-109.5	
<b>Gross profit</b>	53.9	<b>67.6</b>	<b>82.3</b>	<b>21.7%</b>
<i>Gross profit margin</i>	36.2%	39.0%	42.9%	
Adj operating expenses*	-36.7	-44.5	-54.0	
<b>Adj EBITDA**</b>	17.2	<b>23.1</b>	<b>28.3</b>	<b>22.5%</b>
<i>Adj EBITDA margin</i>	11.6%	13.3%	14.8%	
Share based charges	-0.9	-3.2	-4.1	
Depreciation and amortisation	-4.8	-6.4	-7.4	
<b>Operating profit before exceptionals</b>	11.5	<b>13.5</b>	<b>16.8</b>	<b>24.4%</b>
Exceptional items		-2.0	5.7	
<b>Operating profit</b>	11.5	<b>11.5</b>	<b>22.5</b>	<b>95.7%</b>
Finance income / expense	0.0	0.0	0.1	
<b>Profit before tax</b>	11.5	<b>11.5</b>	<b>22.6</b>	<b>96.5%</b>
Tax expense	-2.2	-2.1	-4.3	
<b>Profit after tax</b>	9.3	<b>9.4</b>	<b>18.3</b>	<b>94.7%</b>
<b>Adjusted EPS, Fully Diluted (Pence)</b>	10.8	<b>15.0</b>	<b>17.9</b>	<b>19.3%</b>

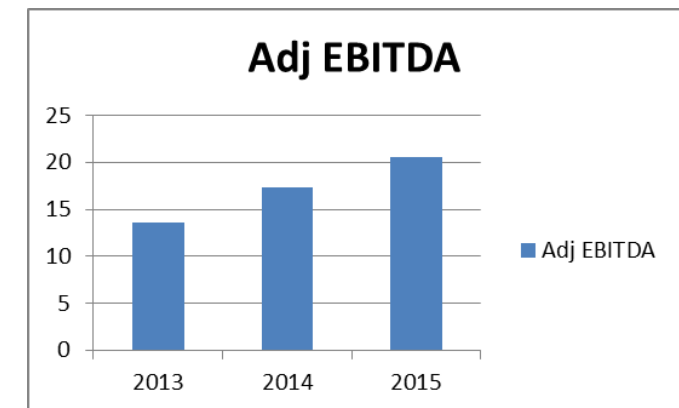
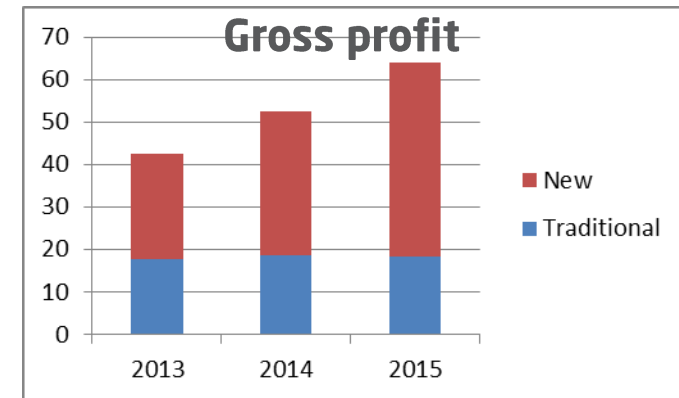
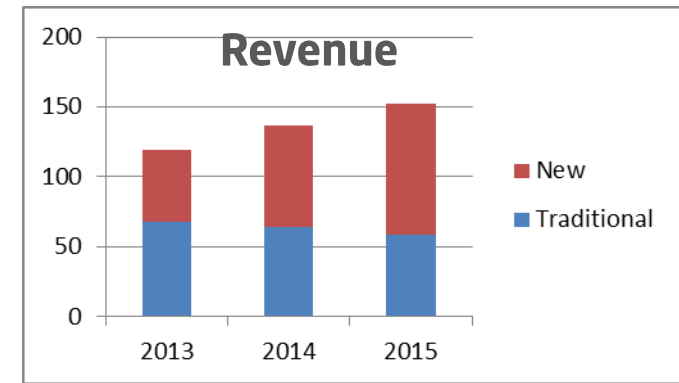
Notes: \*Operating expenses before IPO costs, depreciation, amortisation and share based charges

\*\*EBITDA before share based payments and exceptional



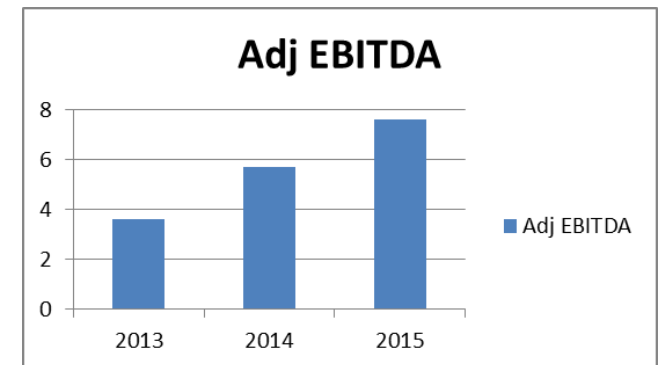
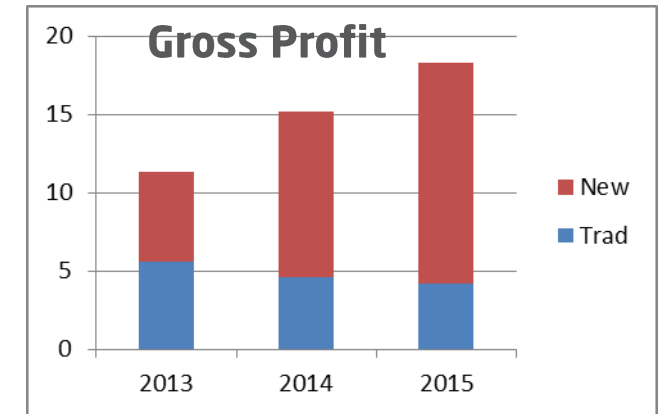
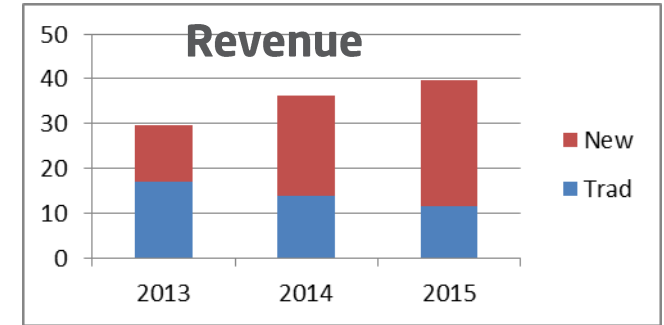
# Indirect business

- Positive shift in mix of Traditional and New services at both revenue and gross margin
- Strong increase in Strategic services—especially SIP Trunking and Cloud PBX
- Margin increased from 38% (2014) to 42%: mix
- Adj. EBITDA margin increased from 12.7% to 13.6%



# Direct business

- Direct business growing due to Strategic services
- Margin increased from 42% (2014) to 46% - due to mix
- Adj. EBITDA margin increased from 15.7% to 19.3%
- Order book remains strong



# Balance sheet and cash flow

- Significant cash reserves, and remain debt free
- Capex:
  - £3.4m core network (2014:£4.8m)
  - £1.0m mobile platform (2014:£4.0m)
  - £0.4m data network build out
  - £4.4m customer premises equipment (2014:£1.0m)
- Consistent cash generation
  - Cash conversion 89% average over three years
- £5.1m – Laddering inflow

<b>Balance Sheet as at</b>			
<b>31 December (£m)</b>			
	<b>2013</b>	<b>2014</b>	<b>2015</b>
Non-current assets (incl. PPE)	24.6	32.0	35.8
Receivables and inventories	26.9	33.6	37.5
Cash	14.6	13.4	24.8
Current assets	41.5	47.0	62.3
<b>Total assets</b>	<b>66.1</b>	<b>79.0</b>	<b>98.1</b>
Non-current liabilities	3.3	1.1	1.8
Current liabilities	25.9	26.7	29.6
<b>Total liabilities</b>	<b>29.2</b>	<b>27.8</b>	<b>31.4</b>
Share capital	2.5	5.7	6.2
Other reserves	1.1	2.4	3
Retained earnings	33.3	43.1	57.5
<b>Total Equity</b>	<b>36.9</b>	<b>51.2</b>	<b>66.7</b>

<b>Cash Flow Statement as at</b>			
<b>31 December (£m)</b>			
	<b>2013</b>	<b>2014</b>	<b>2015</b>
Adj EBITDA*	17.2	23.1	28.3
<b>Net Cash inflow from Operations (pre-tax)</b>	<b>16.3</b>	<b>19.4</b>	<b>25.3</b>
Cash conversion	94.8%	84.0%	89.4%
Laddering Cashflow			5.1
Taxation	-2.3	-3.0	-2.2
Capital Expenditure	-5.9	-12.1	-11.5
<b>Cash inflow before Acquisitions and Financing</b>	<b>8.1</b>	<b>4.3</b>	<b>16.7</b>

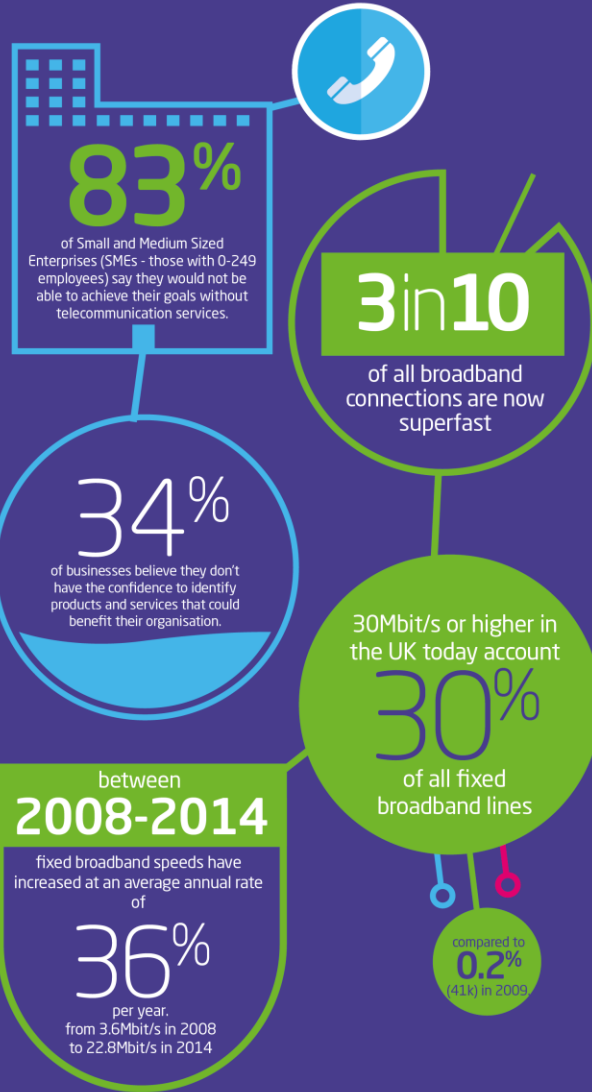
Notes: \*EBITDA post share based payments



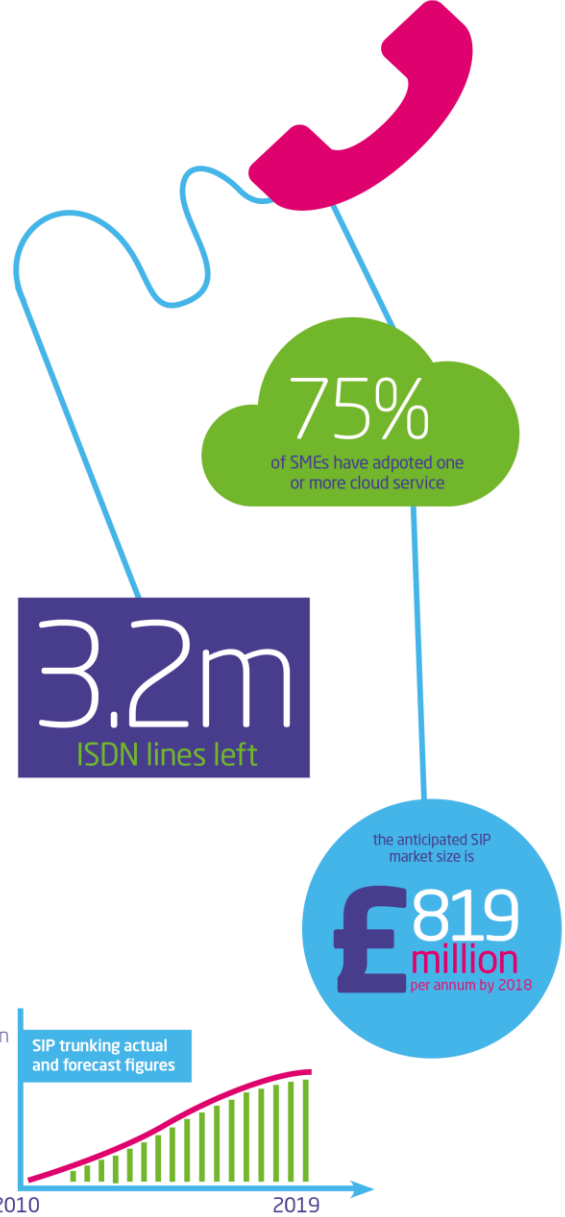
# Market Overview



## Key market trends



Sources: Illume Consulting, Ofcom, MZA, Comms Business



SIP now approaching halfway stage of ISDN 30 replacement

Cloud services being readily adopted by SME's

Superfast, better broadband is driving uptake of cloud services

Decline of traditional calls and lines may be accelerating



# How do we compete against .....



"Scalable, strong channel and complete service"

US/Euro market entrants



"Financially strong, strong channel and complete service"

Smaller UK software



"Agile, innovative, and good service"



The major telcos



# Growing Strategic Services

	Gamma growth 2015	Market growth 2015	Position in UK market and share	UK Market size by 2018	Update
<b>SIP Trunking</b> “Business grade VOIP” replacing ISDN	54%	25%	19%, No. 1*	£819m	Market share increasing Installed base over 360,000 Still 50% of ISDN 30 market to convert BT Wholesale and TalkTalk pricing aggressively No significant partner losses
<b>Cloud PBX</b> “Phone system in the cloud” replacing on-site hardware	78%	32%	7% Total 12% Target No. 1**	£650m	Market share increasing Installed base 142,000 Some price competition from new entrants Winning business in larger enterprises

Source - Illume



\* total market \*\*addressable market sub 500 emps





# Operational Review



# Indirect and Direct update

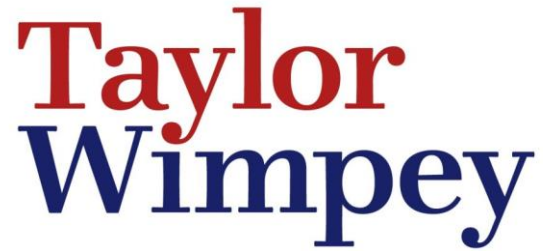
## Indirect

- Partner growth continues with 109 new partners
- Strong growth in Cloud PBX, 80k to 142k seats
- Gross margin up from 38% to 42%
- Good performance on long term commitments
- Data services building from low base, margin up

## Direct

- FTSE win with Taylor Wimpey
- Public sector
  - contracted gross profit increased
  - new Framework contract wins
- Mid market continues to improve gross margin
- Very low churn of large customers
- Market leading customer satisfaction

# New key wins



HM Revenue  
& Customs



ESTÉE LAUDER



PEABODY



# Our new Mobile Service

What is it ?	What we become	The future
<ul style="list-style-type: none"> <li>Our core network</li> <li>Primary radio access from Three</li> <li>Access to multiple networks</li> </ul>	<ul style="list-style-type: none"> <li>4<sup>th</sup> Mobile operator in UK business market</li> <li>The only channel focused operator</li> </ul>	<ul style="list-style-type: none"> <li>Convergence</li> <li>M2M ?</li> <li>Enabling consumer MVNO's ?</li> </ul>



Initial Proposition - 4G, MultiNet, Business Grade service.

Future proposition – seamless fixed/mobile services, one number, one voicemail etc



# Summary



# 2015 Summary

- 2015 has been a good year for Gamma
- Strong revenue and profit growth
- SIP and Cloud PBX continue to drive growth
- Excellent progress on launch of business mobile network
- Enterprise and public sector gaining traction



# Outlook

- SIP offers short to medium term growth
- Cloud PBX offers medium to long term growth
- Investing to drive down the costs of network access
- Mobile service full launch in June
- Growing strength of position in channel
- Public sector gaining traction
- Strong and growing reputation in Enterprise and Mid Market



# Thank You

