

Gamma

Results 2016



# Summary of Gamma

## Who we are

We are a UK based business employing 753\* staff across five main sites



Gamma is a rapidly growing technology based provider of advanced communication services to the UK business market.

## What we do

We supply a broad range of simplified communications and software services to small, medium and large sized business customers, both through our large network of channel partners and direct.

\* 31/12/16

Tuesday 21st March



# 2016 Business Highlights

- Strong financial performance:
- Revenue £213.5m (+11.3%) Adj EBITDA £34.2m (+20.8%) Adj PBT £24.5m (+ 16.7%):
- Growth accelerating in direct sales, particularly in the enterprise market. Gross profit £20.6m (+13.2%)
- Significant direct new business wins included; OCS, Reed, Strutt & Parker, City Electrical Factors, Your Housing Group, AQA and Dept of Communities & Local Government, and a large financial institution
- Indirect Channel continues to grow:
  - gross profit £78.2m (+22.0%)
  - number of Channel Partners up from 834 to 970 (+16.3%)
- Continued strong growth in both SIP and Cloud PBX whilst network investments accelerate data growth
- Mobile service built and made available to new customers in October

# 2016 Product Summary

Good solid year - increasing volumes and holding margins

## Strategic – SIP & Cloud PBX

YoY Growth:

SIP Trunks - 360k to 511k (42%)

Cloud PBX – 142k to 230k (62%)

Market share growing despite increased competition

Margins similar to 2015

## Enabling – Data & Mobile

YoY Growth:

B'band - 40k to 54k (35%)

Eth'net - 2.4k to 3.5k (46%)

Small market share

Data becoming significant margin contributor

Mobile service built and launched to new customers in October

## Traditional

Structural decline continues –

Displaced by SIP, Cloud PBX and mobile alternatives

now less than 21% of GP

# Growing Market Share in Strategic Services

	Gamma growth 2016	Market growth 2016	and share	Position in UK market	Update
<b>SIP Trunking</b> “Business grade VOIP” replacing ISDN	42%	22%	22%	No. 1*	Installed trunks of 511,000 Market growth slowing slightly Gamma share increasing 37% of market still to convert to SIP New bolt-ons adding value No significant new entrants
<b>Cloud PBX</b> “Phone system in the cloud” replacing on-site hardware	62%	24%	9% Total	No. 1**	Active users of 230,000 Market growth constant Gamma share increasing Estimated 60% of market to convert Still attracting new entrants

\* total market \*\*addressable market sub 500 employees

Source – Cavell Consulting

# 2016 Channels Summary

Growth in all markets and some major wins in Enterprise space

## Indirect Channel

- 79% of revenue £169m (2015: £152m)
- Active Channel Partners grew from 834 to 970
- Many entrants new to channel
- Largest partner 3.4% of indirect revenue
- SME focus but also large wins such as Homeserve via AltNet (Daisy) and Cote Restaurants via Opus Telecom
- New Gamma “Academy” and “Accelerate” driving channel growth

## Direct Channel

- 21% of revenue £44.5m (2015: £39.8m)
- £33m of new contract value
- Many new household names
- Public sector successes in health, housing and education
- Increasing trend to take all services
- NPS of 45 and negligible losses

# The Financials

Tuesday 21st March



## 2016 Financial Highlights

- Strong organic growth – Revenue up 11.3% to £213.5m
- Adj EBITDA up 20.8% to £34.2m
- Adj EPS up 17.9% to 21.1p
- Pre-tax operating cashflow up 23.7% to £31.3m – 92% conversion of adj EBITDA
- Dividend for the year up 13.6% to 7.5p (includes interim already paid)



# Income statement

## Revenue and Gross Profit

- Growth continues to be driven by SIP, Cloud PBX and data – segmental analysis follows
- Repeating revenues remain 90%+
- Accounting standard changes to come (IFRS 15 and IFRS 16)

## Other items

- Overheads increased due to spend on mobile platform support: £4.2m in 2016 (2015: £1.8m)
- Depreciation driven by success and investment
- Share based charges decreasing as float LTIP awards unwind
- Effective tax rate at 18.0%
- Strong growth in adj. EPS

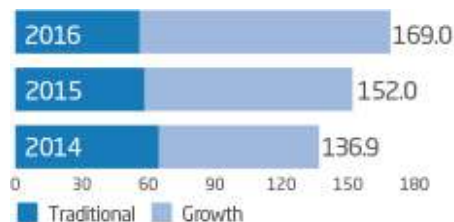
Years ended 31 December (£m)	Year ended 31 December		
	2014	2015	2016
Revenue	173.2	191.8	213.5
Cost of sales	(105.6)	(109.5)	(114.7)
<b>Gross profit</b>	67.6	82.3	98.8
Gross profit margin	39.0%	43%	46.3%
Adj operating expenses*	(44.5)	(54.0)	(64.6)
<b>Adj EBITDA**</b>	23.1	28.3	34.2
Adj EBITDA margin	13.3%	14.8%	16.0%
Exceptional items	(2.0)	5.7	
Depreciation and amortisation	(6.4)	(7.4)	(9.9)
Share based charges	(3.2)	(4.1)	(2.9)
<b>Operating profit</b>	11.5	22.5	21.4
Finance income / expense	0.0	0.1	0.2
<b>Profit before tax</b>	11.5	22.6	21.6
Tax expense	(2.1)	(4.3)	(3.9)
<b>Profit after tax</b>	9.4	18.3	17.7
<b>Adjusted EPS, Fully Diluted (Pence)</b>	15.0	17.9	21.1

# Indirect business

- Positive shift in mix of Traditional and Growth services at both revenue and gross margin
- Strong increase in Strategic services – especially SIP Trunking and Cloud PBX
- Also now seeing increase in data
- Traditional business now in decline
- Margin increased from 42% (2015) to 46% due to product mix and improvement in Inbound product set
- Adj. EBITDA margin increased to 14.7% but depressed due to increased mobile platform investment

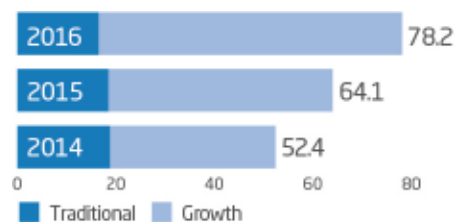
Revenue (£m)

**£169.0m**



Gross margin (£m)

**£78.2m**



Adjusted EBITDA

**£24.8m**

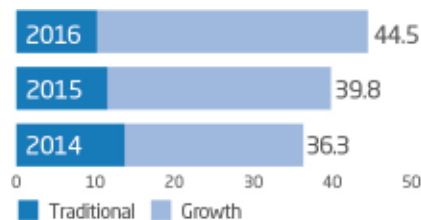


# Direct business

- Direct business growing due to Cloud PBX and SIP products
- Margin held steady at 46% year on year
- Adj. EBITDA margin increased from 19.3% to 21.1%
- Average contract length continues to increase
- Significant contract wins in 2016 yet to contribute

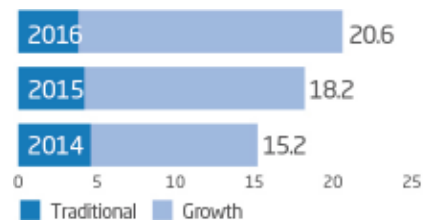
Revenue (£m)

**£44.5m**



Gross margin (£m)

**£20.6m**



Adjusted EBITDA (£m)

**£9.4m**



## Balance sheet and cash flow

- Remain debt free with significant cash reserves
- Cash conversion at 91.5%
- Capex increases driven by success and investment for the future –
  - Maintenance Capex at £6.7m (2015:£5.7m)
  - CPE of £8.3m (2015:£4.4m)
  - Investments of £2.8m in our mobile platform (2015: £1.0m) and £1.8m in our data network (2015: £0.4m)
- Network upgrade of c£5m to come in 2017
  - New fibre network and upgrade to 500Gbit/s

<b>Balance Sheet as at 31 December (£m)</b>	2014	2015	<b>2016</b>
Non-current assets (incl. PPE)	32.0	35.8	<b>45.3</b>
Receivables and inventories	33.6	37.5	<b>42.9</b>
Cash	13.4	24.8	<b>28.2</b>
<b>Current assets</b>	<b>47.0</b>	<b>62.3</b>	<b>71.1</b>
<b>Total assets</b>	<b>79.0</b>	<b>98.1</b>	<b>116.4</b>
Non-current liabilities	1.1	1.8	<b>2.1</b>
Current liabilities	26.7	29.6	<b>34.1</b>
<b>Total liabilities</b>	<b>27.8</b>	<b>31.4</b>	<b>36.2</b>
Share capital	5.7	6.2	<b>6.3</b>
Other reserves	2.4	3.0	<b>2.7</b>
Retained earnings	43.1	57.5	<b>71.2</b>
<b>Total Equity</b>	<b>51.2</b>	<b>66.7</b>	<b>80.2</b>

<b>Cash Flow Statement as at 31 December (£m)</b>	Year to 31 December		
	2014	2015	<b>2016</b>
<b>Adj EBITDA*</b>	23.1	28.3	<b>34.2</b>
<b>Net Cash inflow from Operations (pre-tax)</b>	19.4	30.4	<b>31.3</b>
<i>Cash conversion</i>	84.0%	89.4%	<b>91.5%</b>
Laddering Cashflow		5.1	
Taxation	(3.0)	(2.2)	<b>(4.8)</b>
Capital Expenditure	(12.1)	(11.6)	<b>(19.6)</b>
<b>Cash inflow before Acquisitions and Financing</b>	4.3	16.6	<b>6.8</b>

# Strategic Developments

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## Market trends

We have identified 5 key trends in our markets showing how the face of business communications is changing and how Gamma is addressing these trends.



# Mobile

- Full MVNO brought into service
- Have now transferred those prepared to swap from Thin MVNO to Full MVNO via sim swap
- Launched to new customers in October
- Early successes in Direct business – Indirect will take longer
- Post-launch service constraints have largely been addressed and proposition being tuned to the market opportunity
- This is now all about data volumes – from smartphone, machine, vehicle etc
- Voice focus is on “Converged”

# Converged Fixed/mobile – coming soon

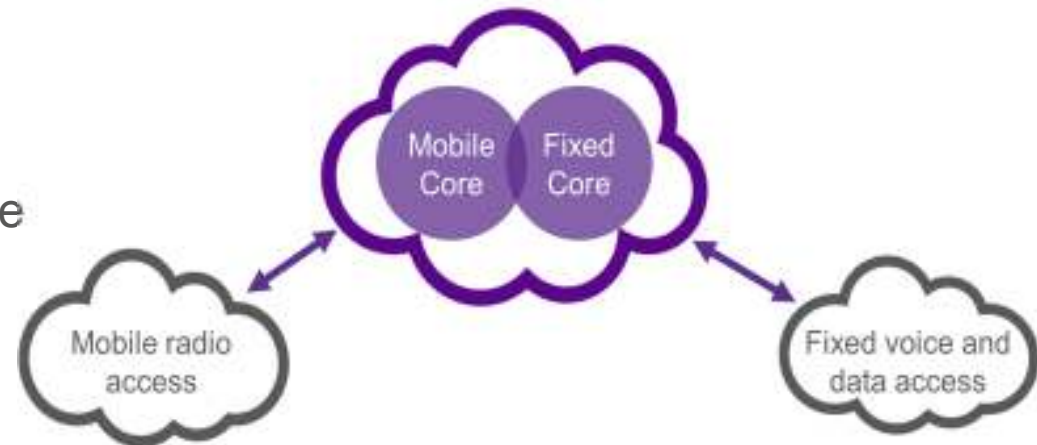
True convergence only possible with converged fixed and mobile core network – few have this capability

Works on any mobile phone with a Gamma SIM – no App required!

Combines key fixed and mobile features using Gamma's Cloud PBX

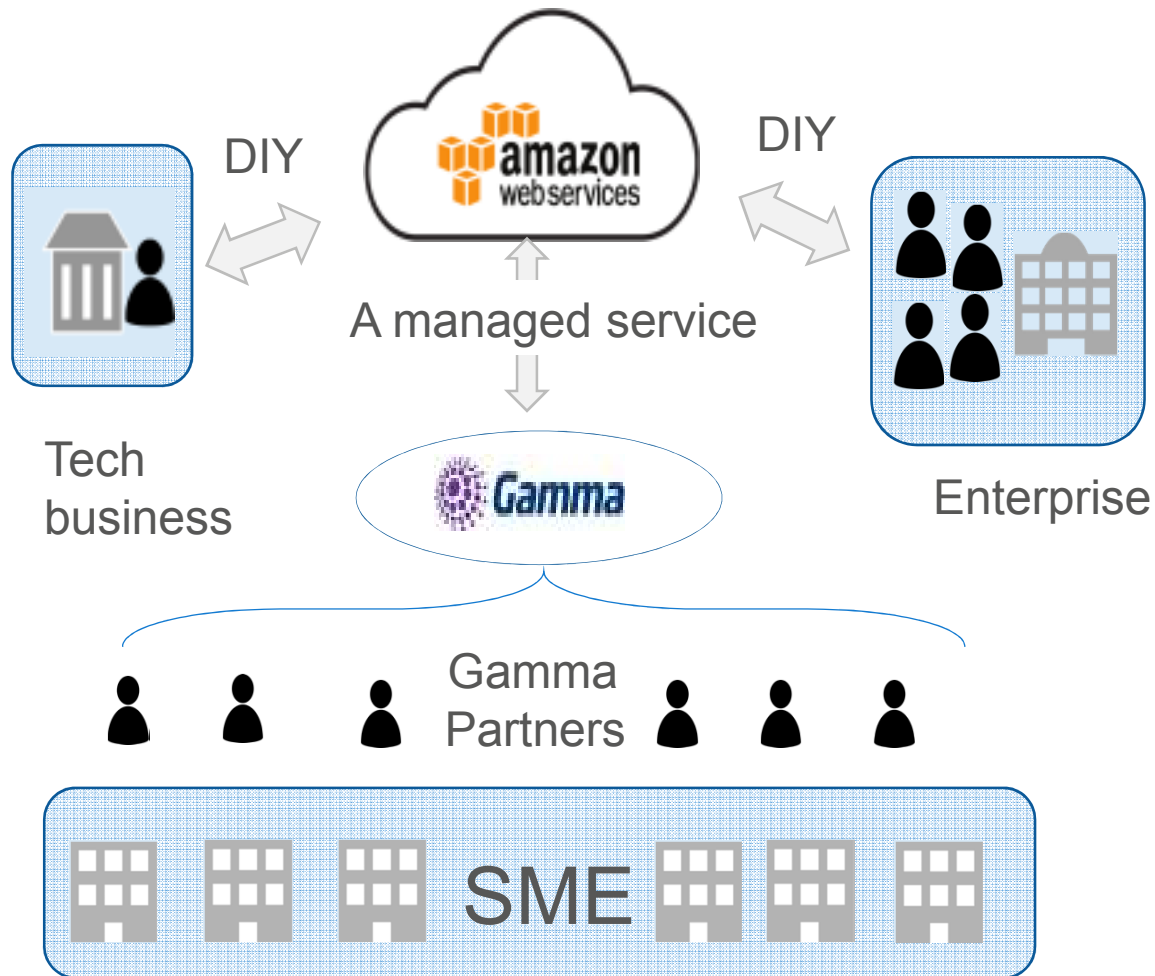
- One number for fixed & mobile
- Combines personal contacts and business directory
- Unified voicemail
- Mobile call recording
- Mobiles in hunt groups

Planned for 2H17 release





# Cloud Compute



## Benefits of Cloud Compute

- Fully-managed service
- Server, storage, firewall and network changes all included
- Simple, rapid, risk-free deployments
- Opex model
- Scalable platform

# Outlook

- Direct business expected to continue to grow strongly in both enterprise and public sector where traction has now been established
- The focus on helping the channel to expand and grow will continue to produce dividends
- SIP and Cloud PBX are expected to continue to grow significantly with market maturity in sight for SIP and some way still to run on Cloud PBX
  - Additional features and services will continue to add value and healthy margin
- The contribution from Data expected to grow as the benefit of network investments flow through
- The new Mobile capability presents a very significant opportunity for growth in a mature but constrained market
- ‘Converged’ is bringing real excitement and anticipation to the market
- Cloud Compute brings a first release of a potentially whole new range of services to the channel

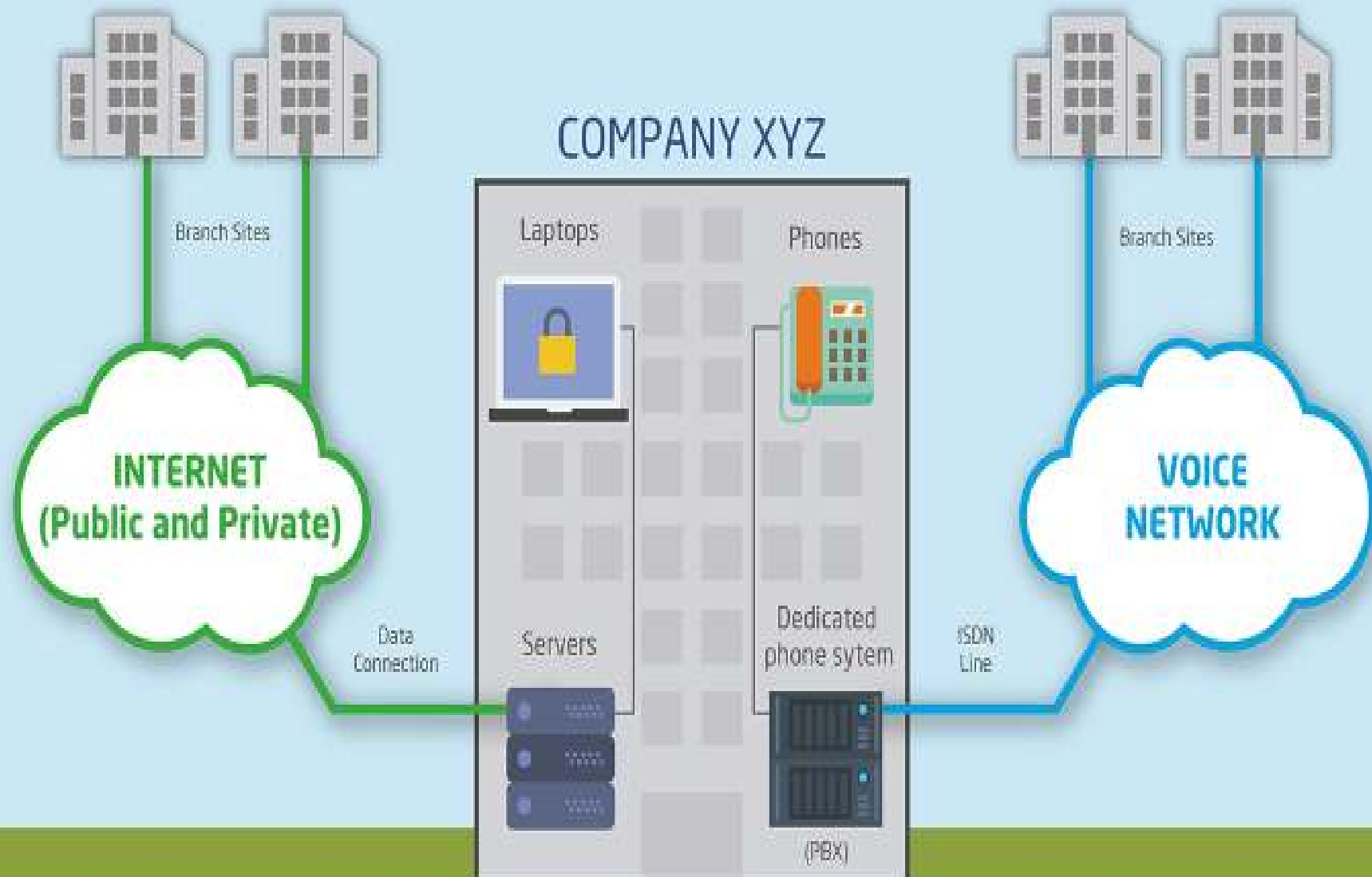
# Appendix



Tuesday 21st March



# "BACK IN THE DAY"



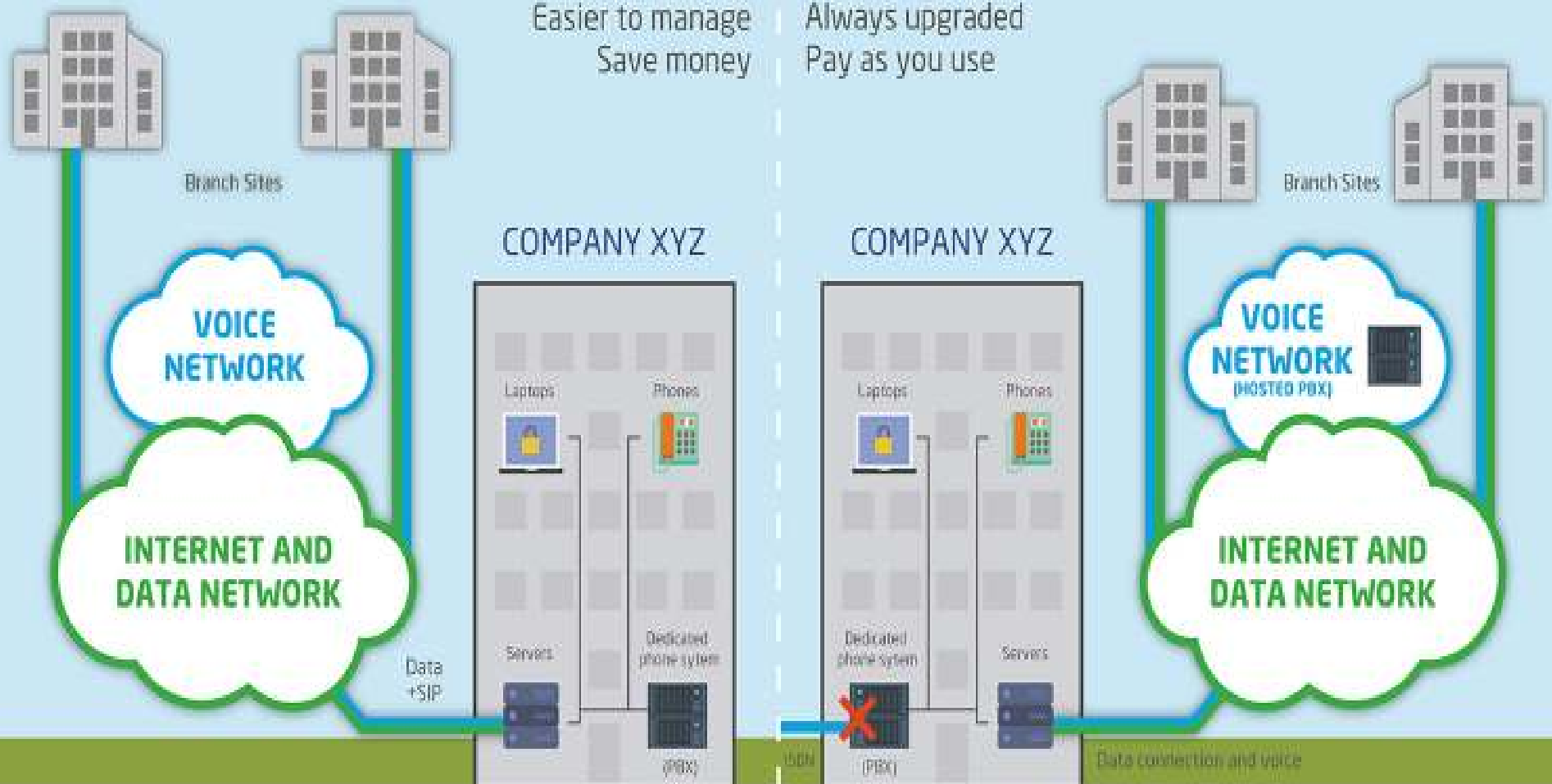
# "DRIVEN BY VOICE OVER IP - TWO OPTIONS EMERGED"

## Option 1: SIP

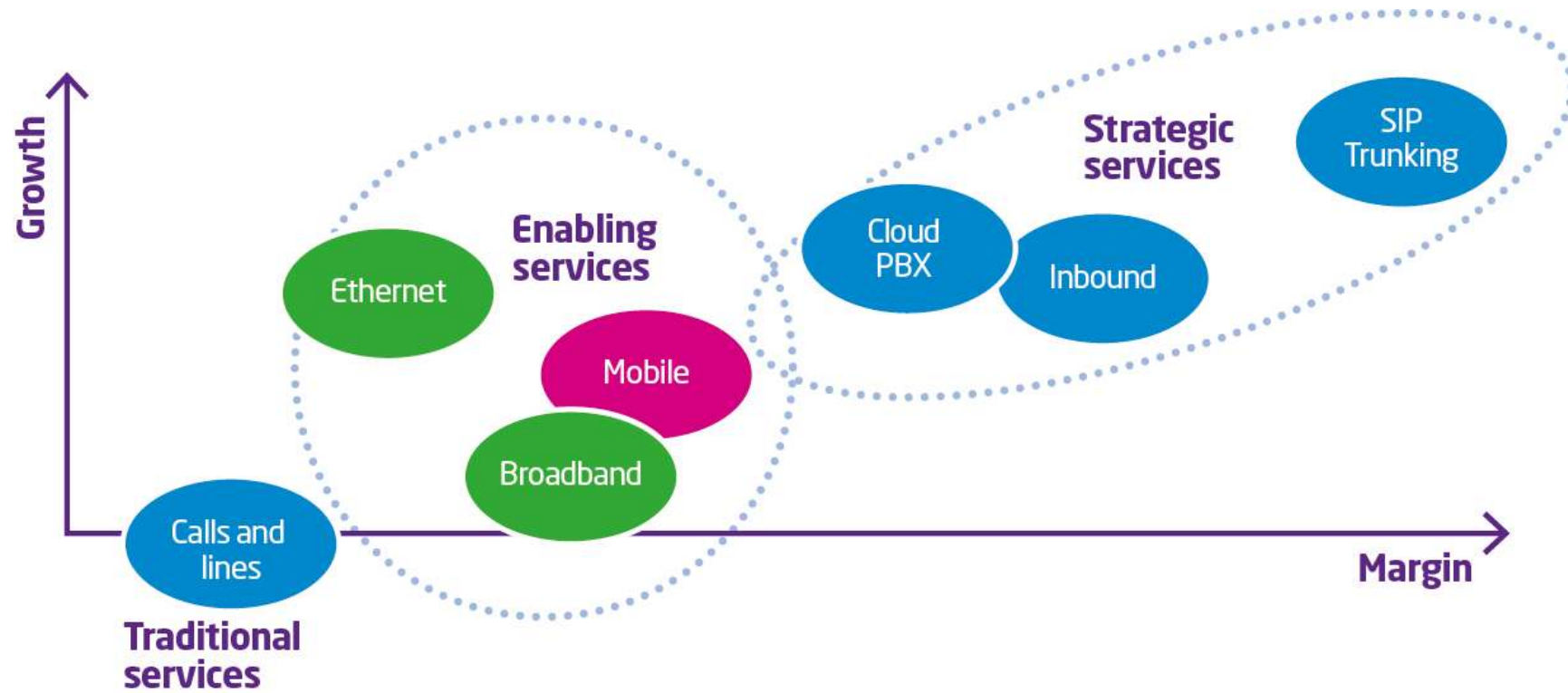
## Option 2: Hosted PBX

Use data connection for both voice and data  
Increase flexibility  
Easier to manage  
Save money

Use cloud phone system  
Lower connectivity costs  
Always upgraded  
Pay as you use



# Service portfolio



# How do we compete against...

## ...US/Euro market entrants



## ...Smaller UK software



## ...The major telcos



“Agile,  
innovative,  
and good  
service”

“Scalable,  
strong channel  
and complete  
service”



**Gamma**

“Financially strong,  
strong channel and  
complete service”

## Trends emerging this HY:

- Major telcos don't appear to be making inroads with SIP
- Cloud PBX becoming established in IT channel
- Traditional phone system manufacturers more active in cloud e.g. Mitel