



Clear. Creative. Communications.

Gamma Results 2017



Gamma Summary

Who are we?

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

A UK based business employing 901 staff across six sites

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

2017 Business Highlights



Strong financial performance continues:

Revenue £238.4m (+11.7% against 2016);
adjusted EBITDA £41.6m (+21.6%);
adjusted EPS 24.6p (+16.6%)

Excellent growth across the product range (Traditional excepted)

Number of active Channel Partners grew by 119 (to 1,089)

Significant new Direct wins included Manchester University Foundation NHS Trust, Savills Plc, Care UK, Macmillan Cancer Support and Leicester City Council

Thin MVNO now ceased and new Mobile service volumes growing

Initial Fixed/Mobile converged product launched to selected partners

MiFiD II call recording added to Cloud PBX product

2017 Product Summary

Strategic

Product	Unit Growth (2016 – 2017)	Comments
SIP Trunking	511k to 680k (+33%)	17% Market Growth over period* Margins remain similar Consolidated No 1 position in market – growth in market share SIP Trunk Call Manager successfully preserving margins/reducing churn
Horizon	230k to 331k (+44%)	19% Market Growth over period* Margins remain similar Overall market share of 10%; No 1 in sub 500 seat markets

* Cavell consulting

2017 Product Summary

Enabling

Product	Unit Growth (2016 – 2017)	Comments
Mobile	H2 2017 ; 63Tbytes (H1 2017; 35Tbytes)	Market share <1% Thin MVNO with Vodafone ceased in March Direct pipeline strongest, channel growth slower to build Many incremental enhancements made FMC Product – “Connect” linked to Cloud PBX now launched
Ethernet	3,500 to 5,300 (+51%)	Small market share c7% Market growth 7.7% pa Increasing displacement of Broadband with Ethernet for certain markets Investments in 2016 and 2017 has improved cost base and accelerated growth TalkTalk added as new access partner in addition to Virgin and BT Further investment opportunities being made to further improve competitiveness
Business Broadband	54k to 76k (+41%)	Significant growth in a saturated market – small market share (<3%) Market growth 5.4% pa Some margin sacrificed for volume growth

2017 Indirect Channel Summary

76% of Group revenue – £181.4m (2016: £169.0m)

Active Channel Partners grew from 970 to 1,089 – Channel continues to attract new entrants

Focus on enabling partners to take larger share of business market

Largest partner contributed 3.1% of channel revenue

Gamma Academy – 15,200 courses were undertaken by employees working for our channel partners

600 partners accessed new marketing platform “Accelerate”

SME focus remains but also larger partner wins

<u>Partner</u>	<u>Partner's Customer</u>	<u>Lead Product</u>
Unify	Addison Lee	Horizon
Sabio	Homebase	Resilient Inbound call management
Daisy	Multiple local authorities	SIP trunking
Ethos	Investment management provider	Horizon
IBT	National Autistic Society	Data network across 150 sites
G3	Blackstar DC	SIP trunking
TSI	Retail chain	Ethernet circuits across all stores
Focus	Kings Group (estate agents)	Horizon
G3	Hello magazine	SIP Trunking

2017 Direct Channel Summary

24% of Group Revenue –
£57.0m (2016: £44.5m)

Focus on Enterprise and Public Sector

'Large financial institution' fully
implemented

Significant order book ready for delivery

HSCN accreditation (Health framework)
process underway

Example wins

<u>Company</u>	<u>Sector</u>	<u>Lead Product</u>
itsu	Food retailer	70 site data network with Horizon
Savills Plc	Property	High speed managed data network
Stackhouse Poland	Insurance	Data, voice and mobile
Care UK	Health	Horizon to 80+ sites
Macmillan Cancer Support	Health Charity	Data, voice and mobility to 15 sites and 1500 staff
Manchester Uni Hospitals NHS Trust	Health	SIP trunking
Shropshire Council	Local government	Data, voice and mobile
Financial Ombudsman	Central government	Horizon
Leicester City Council	Local government	Horizon
City & County of Swansea	Local government	Horizon
Manchester Univ NHS Foundation Trust	Health	SIP trunking

'The Loop' - Manchester

A discrete asset within Gamma

161km of fibre cable (increased 11k in 2017)

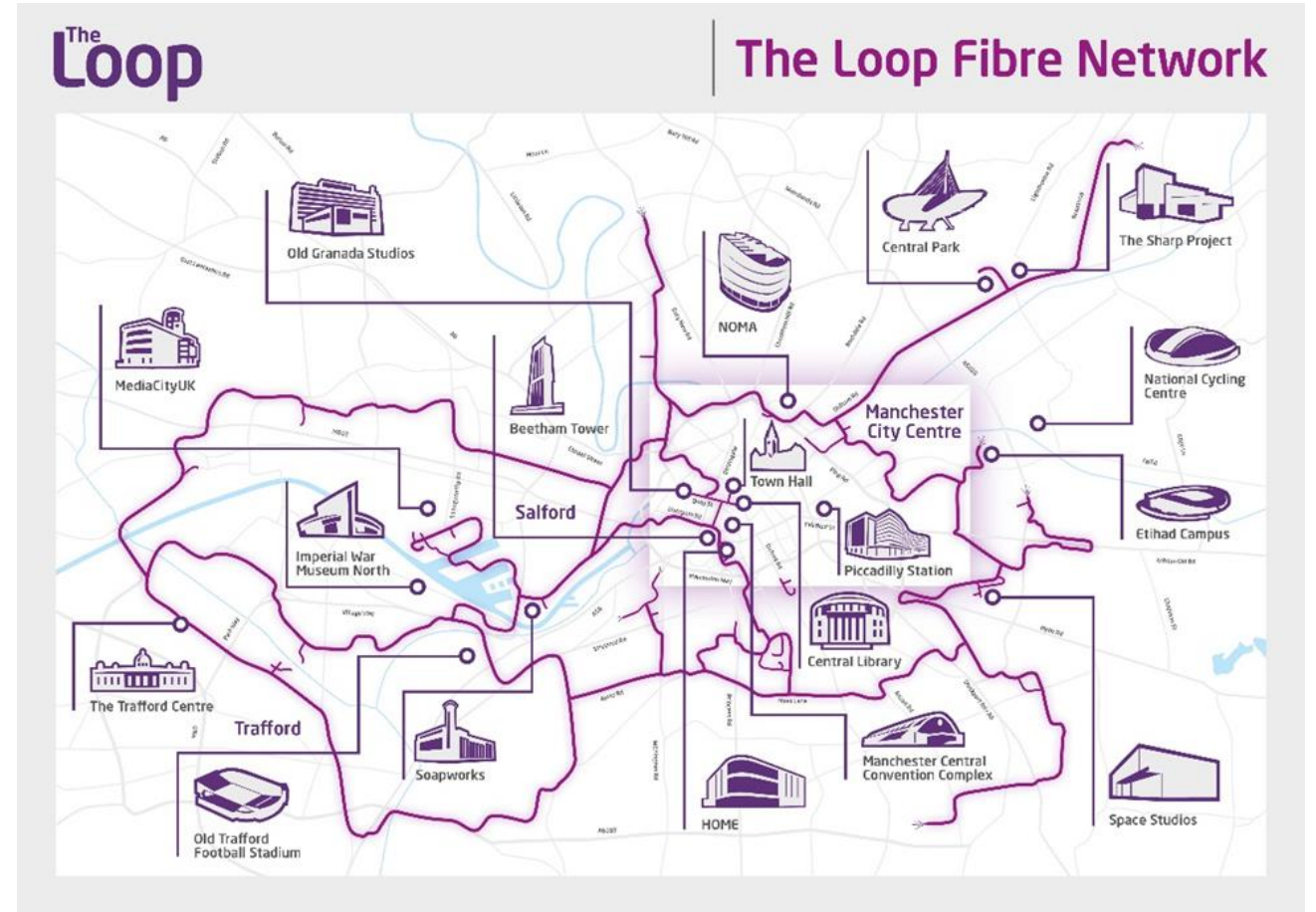
Connects all major datacentres and media hubs
– generally long-term contracts

Dark fibre and high capacity bandwidth services

42 customers inc. NHS, TalkTalk, BBC, Equinix
and Manchester Metropolitan University

Named strategic Fibre Partner to Manchester
City Council

Tameside pilot taking fibre into tram ducts



The Financials





2017 Financial Highlights

Strong organic growth – Revenue up 12% to £238.4m

Adjusted EBITDA up 22% to £41.6m

Adjusted EPS up 17% to 24.6p

Pre-tax operating cash flow up 24% to £38.8m

Dividend up 12% to 8.4p

Income Statement

Repeating revenues remain at over 90% – segmental analysis follows

Overheads increased by £6.8m – increases in development and support costs and investment in sales offset by savings on fixed and mobile network charges

Depreciation driven by success (CPE) and investment

Share based charges now at run rate

Effective tax rate at 14.4% but underlying rate of 17.8% – tax item from previous years settled favourably

Strong growth in adjusted EPS

Years ended 31 December (£m)	2015	2016	2017		Growth
Revenue	191.8	213.5	238.4		11.7%
Cost of sales	-109.5	-114.7	-125.4		
Gross profit	82.3	98.8	113.0		14.4%
<i>Gross profit margin</i>	<i>42.9%</i>	<i>46.3%</i>	<i>47.4%</i>		
Adj operating expenses	-54.0	-64.6	-71.4		
Adj EBITDA	28.3	34.2	41.6		21.6%
<i>Adj EBITDA margin</i>	<i>14.8%</i>	<i>16.0%</i>	<i>17.4%</i>		
Exceptional items	5.7	-	-		
Depreciation and amortisation	-7.4	-9.9	-14.1		
Gain on disposal of PPE	-	-	0.7		
Share based charges	-4.1	-2.9	-2.0		
Operating profit	22.5	21.4	26.2		22.4%
Finance income / expense	0.1	0.2	0.2		
Profit before tax	22.6	21.6	26.4		22.2%
Tax expense	-4.3	-3.9	-3.8		
Profit after tax	18.3	17.7	22.6		27.7%
Adjusted EPS, Fully Diluted (Pence)	17.9	21.1	24.6		16.6%

Indirect Business

The anticipated reductions in traditional business were more than offset by increasing sales of growth products

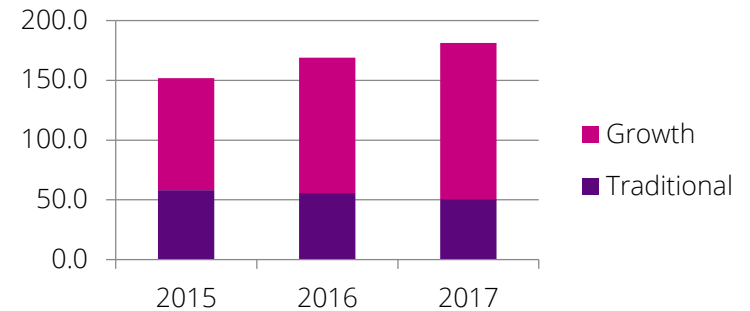
Strong increases in SIP Trunking and Cloud PBX – underlying growth and gross profit consistent with prior period

Data performing well in price-competitive market

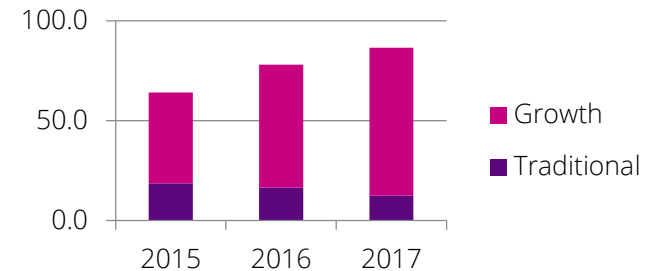
Mobile presents growth opportunity

Margin increased from 46.3% to 47.7% as mix moves to higher margin products

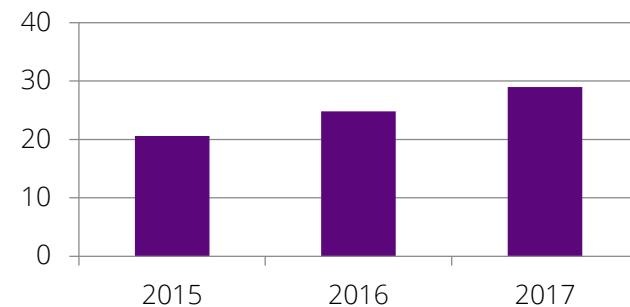
Revenue



Gross margin £(m)



Adj EBITDA



Direct Business

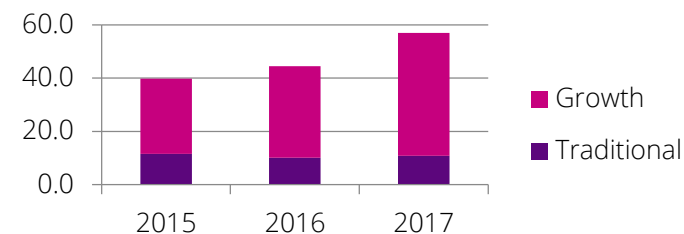
Direct business growing faster driven by Enterprise and Public Sector

Strong order book mentioned at year end now installed and billing

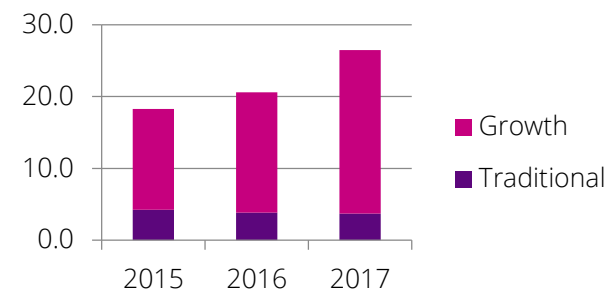
Margin increased slightly from 46.3% to 46.5% due to Public Sector equipment sale at negligible margin in the first half – underlying margins improving

Pipeline remains strong

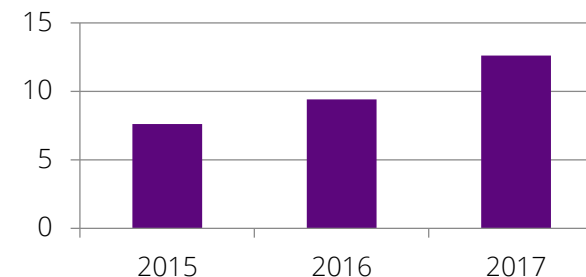
Revenue



Gross margin £(m)



Adj EBITDA



Balance Sheet and Cash Flow

Remain debt free with significant cash reserves

Cash conversion at 93.3% – pre-payment in H1 now unwound

Capex increase driven by success, underlying Capex at historical levels:

Maintenance Capex at £7.7m (2016: £8.6m)

Customer Premises Equipment at £11.5m (2016: £8.3m)

Network upgrade of £4.4m in H2

Balance Sheet as at			
31 December (£m)			
	2015	2016	2017
Non-current assets (incl. PPE)	35.8	45.3	55.8
Receivables and inventories	37.5	42.9	53.8
Cash	24.8	28.2	31.6
Current assets	62.3	71.1	85.4
Total assets	98.1	116.4	141.2
Non-current liabilities	1.8	2.1	1.8
Current liabilities	29.6	34.1	40.6
Total liabilities	31.4	36.2	42.4
Share capital	6.2	6.3	6.3
Other reserves	3.0	2.7	2.0
Retained earnings	57.5	71.2	90.5
Total Equity	66.7	80.2	98.8
Year to 31 December			
Cash Flow Statement as at			
31 December (£m)			
	2015	2016	2017
Adj EBITDA*	28.3	34.2	41.6
Net Cash inflow from Operations (pre-tax)	25.3	31.3	38.8
<i>Cash conversion</i>	<i>89.4%</i>	<i>91.5%</i>	<i>93.3%</i>
Laddering Cashflow	5.1	-	-
Taxation	-2.2	-4.8	-3.6
Capital Expenditure	-11.5	-19.6	-24.7
Cash inflow before Acquisitions and Financing	16.7	6.9	10.5

Accounting Standard Changes

Changes are IFRS15 “Revenue from Contracts with Customers” and IFRS16 “Leases”

In summary - IFRS15 (for 2017)

- Guidance given at end of first half still holds
 - EPS would have increased slightly to 24.7p from 24.6p
 - EBITDA reduces from £41.6m to £38.8m – cost of CPE now included in cost of sales not depreciation
-

Full reconciliation and explanation provided in RNS

Gamma will adopt IFRS16 early using “modified retrospection”

- No restatement for 2017
- Expected result for 2018 is to reduce operating costs by £1.6m and increase depreciation by £1.3m (which partially offsets the IFRS15 adjustment to EBITDA above) and additional interest charge of £0.2m
- Immaterial effect on EPS

Outlook



Upcoming Developments

Progressive launch of “Connect” converged fixed/mobile service to additional partners

PCI Compliance service added to Cloud PBX and SIP Trunking products - (H2 2018)

Adding further specific vertical market features and white label option on Cloud PBX - (H1 2018)

Introduction of Unified Communications services as overlay to Cloud PBX - (H2 2018)

Continue investments to reduce cost of access for data products and add additional capabilities such as 4G Fast-start and back-up, and embedded WiFi services with voice over WiFi calling

Final completion of new national fibre network and overlay of 100Gbit/s data network allowing customer access speeds up to 10Gbit/s

Outlook



The momentum in SIP Trunking expected to continue in the short-medium term with some consolidation amongst smaller operators

Cloud PBX market still in high growth phase and new capabilities help fuel that growth

Data volumes expanding rapidly, fuelled by fibre investments and Cloud

“Connect” – fixed/mobile converged – generating strong initial interest, represents significant opportunity for medium term, with high barriers to entry for competitors

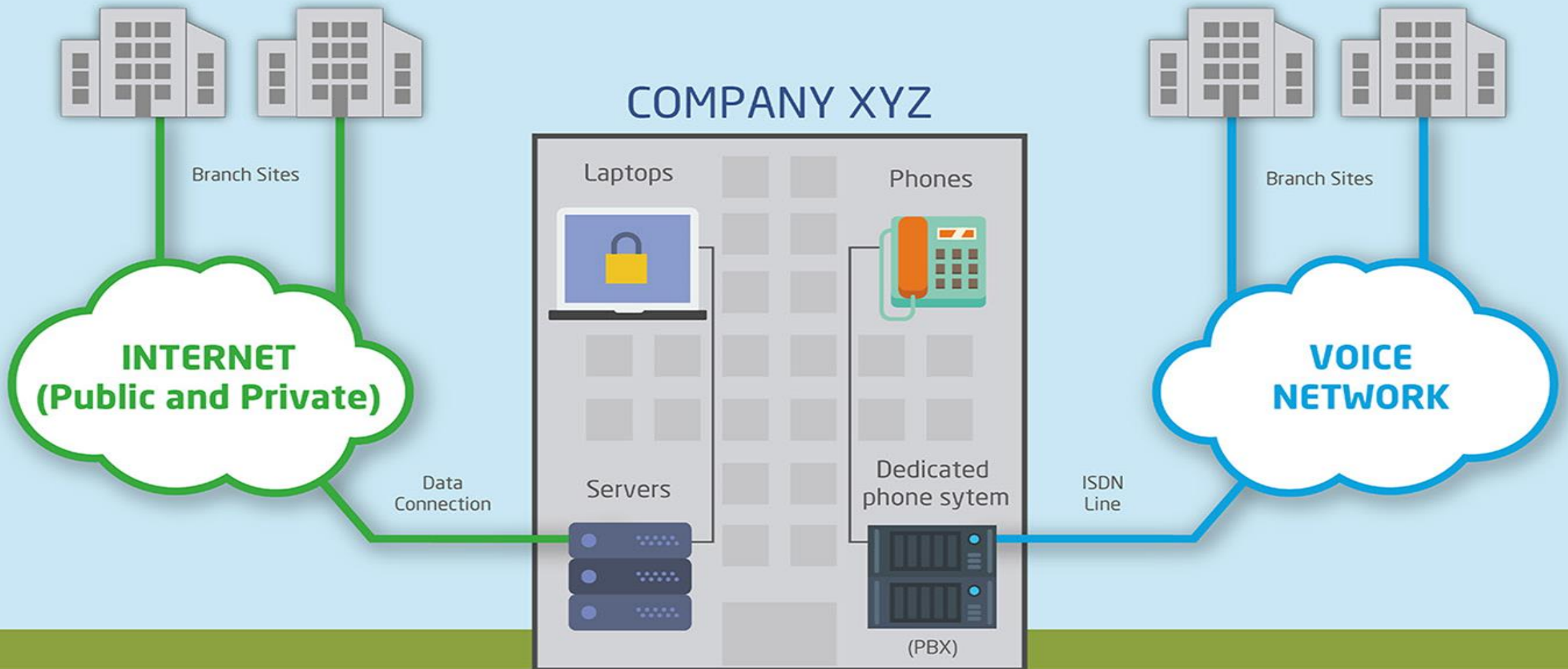
Cloud Compute has potential to take Gamma and its partners into new IT related services

Focus on growing our Channel Partners whilst strong pipeline directly in Enterprise and Public Sector

Appendix



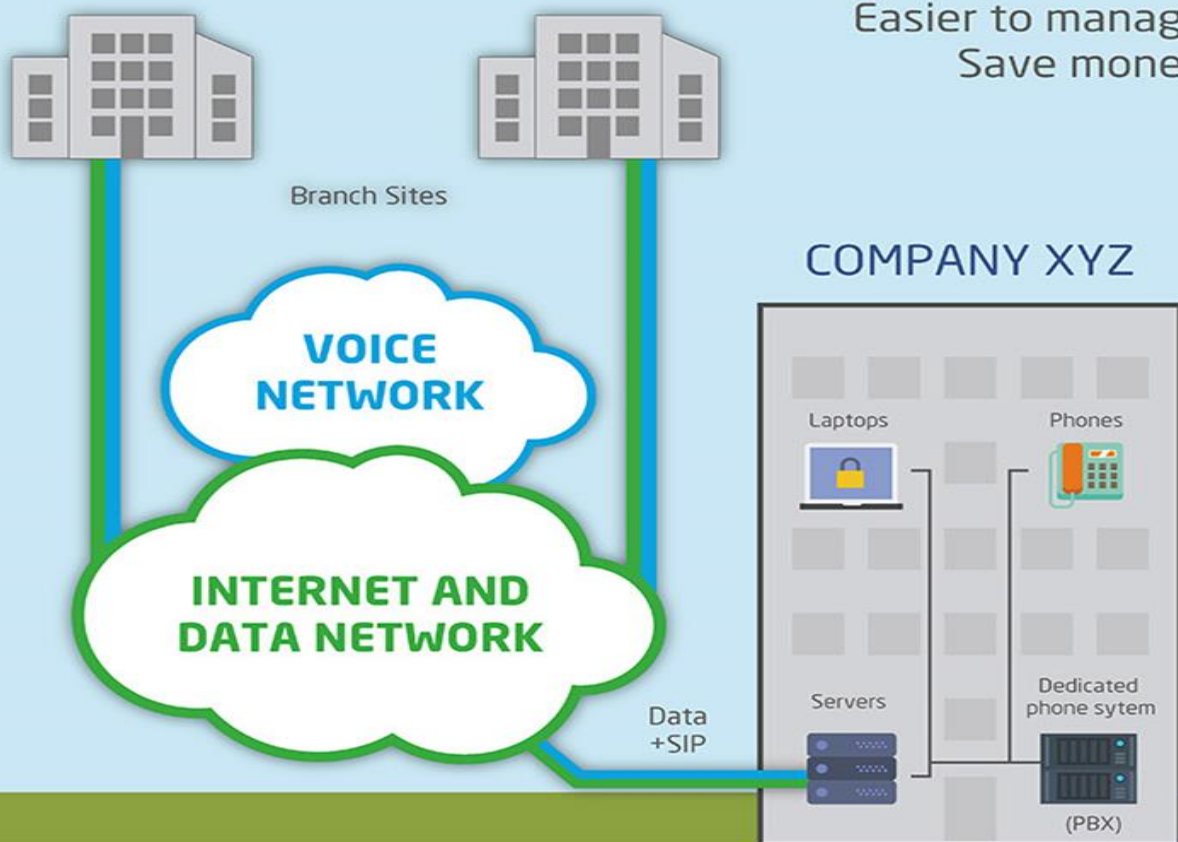
"BACK IN THE DAY"



"DRIVEN BY VOICE OVER IP - TWO OPTIONS EMERGED"

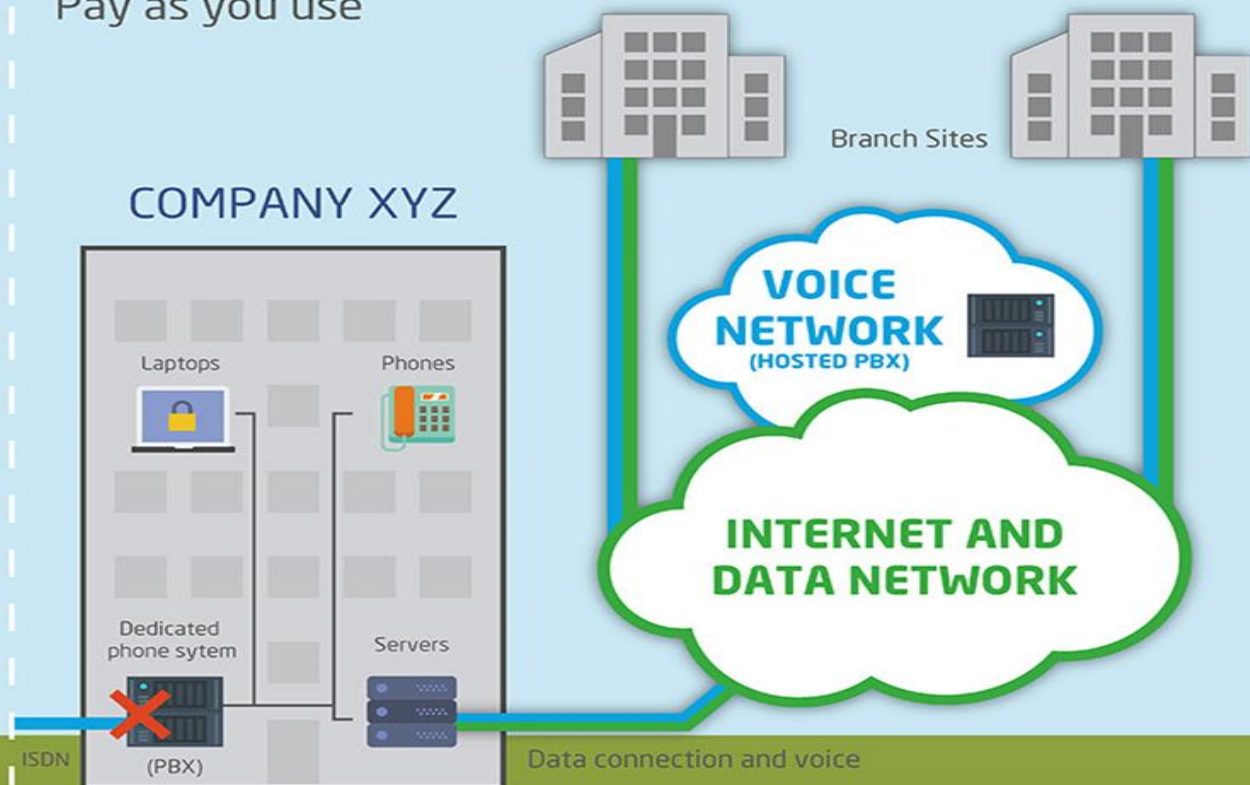
Option 1: SIP

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



Option 2: Hosted PBX

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



Service portfolio

