



# Gamma FY Results 2018

Andrew Taylor, CEO  
Andrew Belshaw, CFO





# Results 2018

## Agenda

FY 2018 Performance highlights & business update

Andrew Taylor

FY 2018 Financial Review

Andrew Belshaw

Gamma 2023 Strategic Plan

Andrew Taylor

Business Outlook and Priorities

Andrew Taylor

Q&A



# Performance Highlights & Business Update

# FY 2018 Business Highlights

## Strong financial performance:

Revenue	£284.9m	(+18% against FY2017)
EBITDA	£48.3m	(+34%)
Adjusted EPS	30.3p	(+31%)

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- Strong growth across all key products in the UK, with an ongoing focus on upselling and cross selling across all sales channels
- Indirect business grew very strongly – strengthened organisation & structure to better support existing & new channel partners
- Strong execution across all aspects of the direct business, driving significant sales and contracted backlog growth
- Acquisition of DX Groep (Dean One & Schiphol Connect) in October 2018 and Nimsys in February 2019
- Continued investment to develop our Cloud Telephony and UCaaS suite – Collaborate launch scheduled for 19<sup>th</sup> March 2019
- Phase-1 of our Digital transformation program will be implemented in H1 2019, enabling a more flexible and agile platform to support future growth across the Direct business
- As part of our infrastructure Investment programme, in H1 we delivered a new national IP network on schedule and on budget – this is performing to plan, and enabling Gamma to deliver advanced data services at 10Gb/s and above
- Established “Gamma 2023” - a clear vision and strategic plan that will deliver long-term sustainable growth for Gamma



# Product Performance

# 2018 Product Summary

Product	Unit Growth in 2018	Comments
SIP Trunking	680k to 856k (+26%)	<ul style="list-style-type: none"><li>• 6% Market Growth over the period*</li><li>• Margins consistent with previous periods</li><li>• Consolidated No 1 position in the market – growth in market share, now at 29% market share</li><li>• Increasing sale of SIP Trunk Call Manager, representing 20% of SIP Sales; improving competitiveness, protecting margin &amp; reducing churn</li></ul>
Horizon	331k to 435k (+31%)	<ul style="list-style-type: none"><li>• 24% Market Growth over the period*</li><li>• Margins consistent with previous periods</li><li>• Overall market share of 11%; No 1 in sub-500 seat market segment</li></ul>

\* Cavell Consulting forecast

# 2018 Product Summary

Product	Unit Growth in 2018	Comments
Business Broadband	76k to 94k (+24%)	<ul style="list-style-type: none"><li>• Good growth in a mature market – small market share of 3%</li><li>• 2.5% market growth (Business Broadband Market) during the period</li><li>• Cost base reductions throughout 2018 enabling keener pricing to improve competitiveness whilst maintaining margins</li></ul>
Ethernet	6,900 to 8,370 (+21%)	<ul style="list-style-type: none"><li>• Good growth in Ethernet connections &amp; increase in bandwidth of those connections</li><li>• 4% market growth over the period</li><li>• Market share of c.10%</li></ul>
Mobile	35k to 50k Connections (+43%)	<ul style="list-style-type: none"><li>• Connect product launched into all channels with positive feedback on functionality</li><li>• Continue to increase connections and mobile data consumption</li><li>• Strong Product Roadmap to enhance coverage with introduction of WiFi calling in H2</li></ul>



# Business Unit Performance



# 2018 Indirect Channel Summary

74% of Group revenue – £210.6m (2017: £184.9m)

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Active Channel Partners grew from 1,089 to 1,150 – Focus moving more towards “doing more” with existing partners

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Focus continues on enabling partners to take a larger share of the business market with targeted cross sell and upsell programmes

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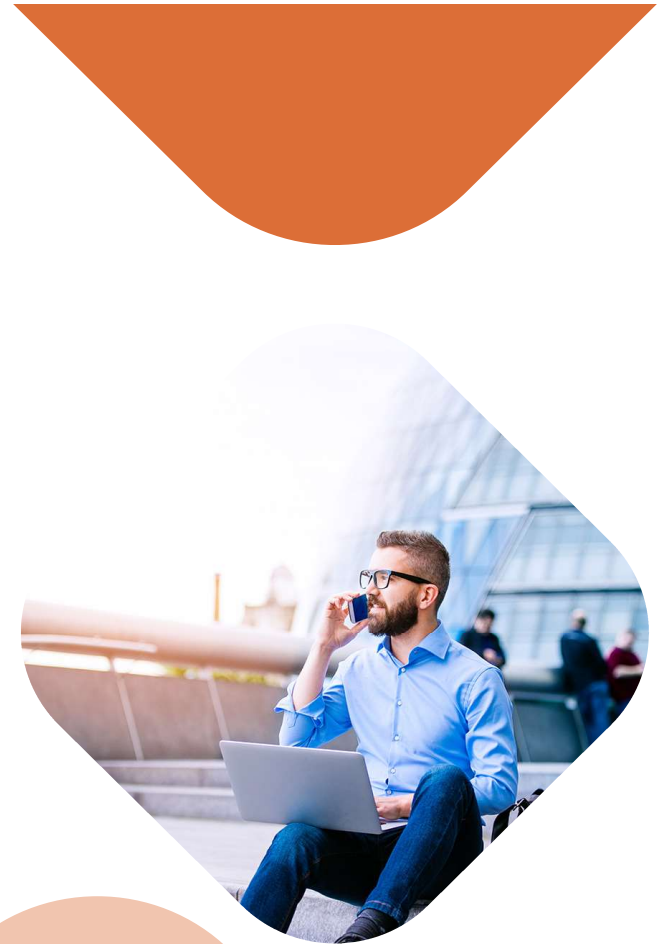
Revenues continue to be unconcentrated, with our Top 10 Partners contributing 15% of channel revenue, and our largest partner contributing 3% of channel revenue, which is similar to previous years.

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Academy – building on our partner training and enablement programmes, we delivered 16,602 training courses (8,349 in H1) to partners during 2018

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Accelerate – There was a significant increase in marketing campaigns run by Partners, with 732 Partners actively using the platform



# 2018 Direct Channel Summary

25% of Group Revenue – £70.9m (2017: £57.1m)

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Several new contract wins including ALDI (UK & Ireland), BGL Group, John Lewis Partnership and The London Stock Exchange Group.

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Significant increase in contracted revenue and margin backlog in both H1 and H2, providing positive growth through 2019

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Achieved Stage 2 compliance on HSCN accreditation (Health framework) a platform for delivering Public Sector growth and wins with Fife and Thurrock Councils

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Digital Transformation Programme to update our end user portal progressing well and on target for phase 1 completion during H1 2019

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Very strong pipeline development during the period, providing good revenue visibility and an overall positive outlook



# Acquisitions of DX Groep (Oct 2018) and Nimsys (Feb 2019)



## The Netherlands Market

- The Dutch cloud telephony market is highly attractive (4<sup>th</sup> largest in Europe with 28% penetration)
- The Netherlands is an attractive location to start the expansion to other key European markets

## Fit with Gamma

- A clear market challenger, with a product portfolio very similar to Gamma's (e.g. cloud telephony, mobile, SIP, data)
- Focused on SMEs and selling through Channel Partners
- Pro-forma revenue for Dutch group of EUR 19.3m for 2018 and EBITDA of EUR 2.5m
- Management team with experience across the broader European marketplace
- Enterprise wins through Schiphol Connect and Nimsys such as Honeywell and Spaces (part of Regus)

# FY 2018 Financial Review





# 2018 Financial Highlights

Strong growth – Revenue up 18% to £284.9m (mainly organic)

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EBITDA up 34% to £48.3m

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Adjusted EPS up 31% to 30.3p

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Cash generated by operations up 36% to £40.6m

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Dividend up 11% to 9.3p

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Cash balance £35.3m as at 31<sup>st</sup> December

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*Note that all figures are stated under new accounting policies and classifications*

# Income Statement

Changes in accounting standards and presentation – little effect on EPS

Netherlands included for Q4

Recurring revenue of 90%

Investment in headcount to support development and sales which will drive future growth

Further investment in digital strategy and long term growth strategy

Depreciation driven by success and investment – now trending to Capex level

Effective tax rate at 17.7%

Years ended 31 December (£m)	2016*	2017**	2018	Growth 17 vs 18
<b>Revenue</b>	<b>213.5</b>	<b>242.0</b>	<b>284.9</b>	<b>17.7%</b>
Cost of sales	-114.7	-133.3	-152.7	
<b>Gross profit</b>	<b>98.8</b>	<b>108.7</b>	<b>132.2</b>	<b>21.6%</b>
<i>Gross profit margin</i>	<i>46.3%</i>	<i>44.9%</i>	<i>46.4%</i>	
Operating expenses	-67.5	-72.7	-83.9	
<b>EBITDA</b>	<b>31.3</b>	<b>36.0</b>	<b>48.3</b>	<b>34.2%</b>
<i>EBITDA margin</i>	<i>14.7%</i>	<i>14.9%</i>	<i>17.0%</i>	
Depreciation and amortisation	-9.9	-10.4	-13.5	
Amortisation on business combination	-	-	-0.4	
Gain on disposal of PPE	-	0.7	-	
<b>Operating profit</b>	<b>21.4</b>	<b>26.3</b>	<b>34.4</b>	<b>30.8%</b>
Finance income / expense	0.2	0.2	0.1	
<b>Profit before tax</b>	<b>21.6</b>	<b>26.5</b>	<b>34.5</b>	<b>30.2%</b>
Tax expense	-3.9	-3.8	-6.1	
<b>Profit after tax</b>	<b>17.7</b>	<b>22.7</b>	<b>28.4</b>	<b>25.1%</b>
<b>Adjusted EPS, Fully Diluted (Pence)</b>	<b>21.1</b>	<b>23.1</b>	<b>30.3</b>	<b>31.2%</b>

\* shown under previous accounting policies

\*\* restated

# Indirect Business

Traditional business decline slowed; growth business continues to grow at same pace

SIP and Cloud PBX continue to grow strongly

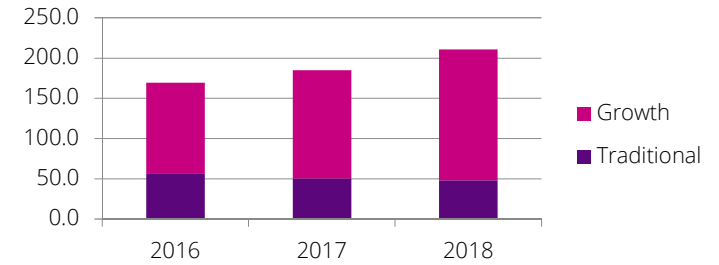
Data performing well in price-competitive market

Mobile steadily beginning to contribute to Gross Profit

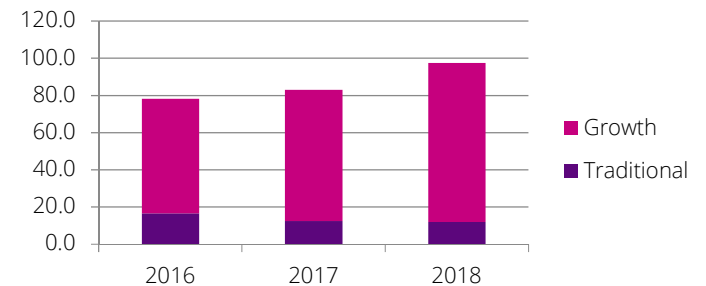
Margin increased from 44.9% (2017) to 46.3% but tending to limit as mix settles

*2016 figures under old policies; 2017 restated*

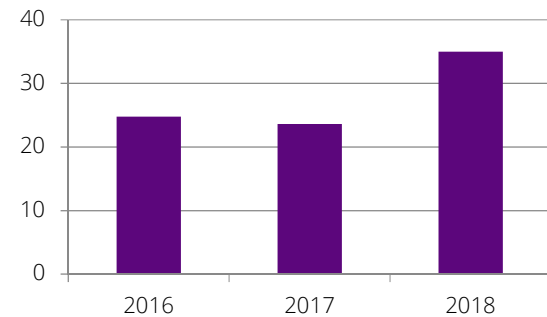
Revenue £m



Gross Profit £m



EBITDA £m

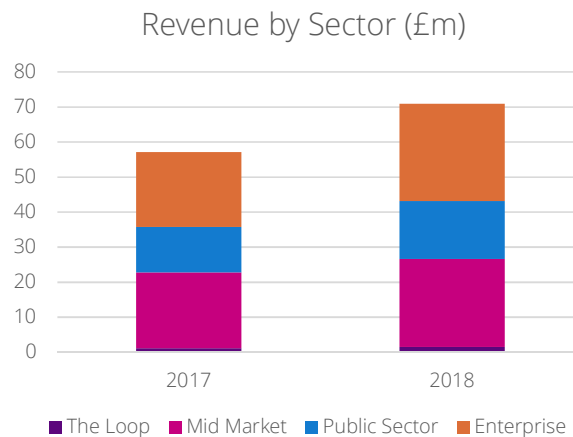


# Direct Business

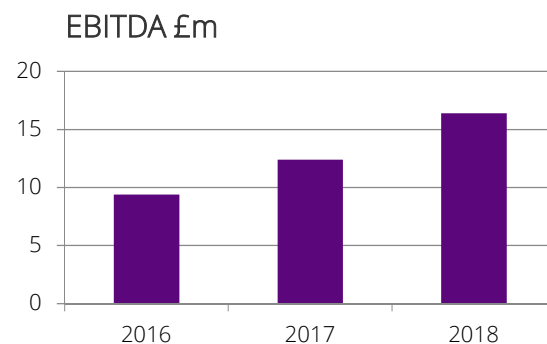
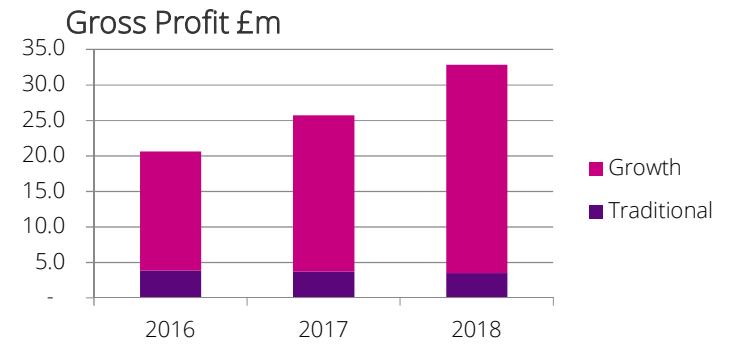
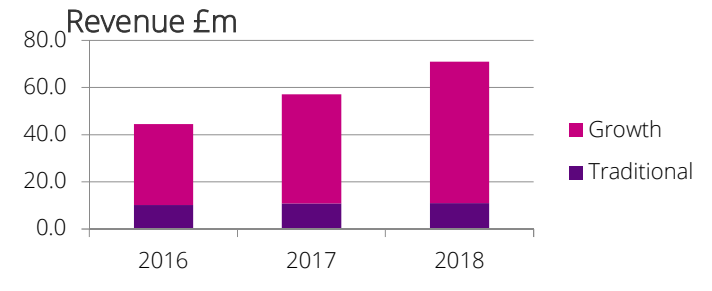
Direct business continues to grow fast, driven by Enterprise and Public Sector

Slight improvement in margins (2017 : 45.0%; 2018 : 46.3%) as mix settles

In H1 2019 will move to showing segmental analysis by market sector rather than growth / traditional



2016 figures under old policies; 2017 restated







# Netherlands - Dean One, Schiphol Connect and Nimsys

£3.4m contribution to revenue in 2018 and £0.3m of EBITDA

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EBITDA offset by costs of European acquisition strategy of £0.7m

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Pro-forma trading figures for FY 2018 (Dean / Nimsys combined) – Revenue £17.0m; EBITDA £2.3m

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Dean acquisition costs – EUR 13.2m paid; max will be EUR 27.0m based on 7.5x 2019 EBITDA

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Nimsys acquisition costs – EUR 4.0m paid; max will be EUR 7.6m based on 2019 / 2020 EBITDA

# Balance Sheet and Cash Flow

Remain debt free with strong cash reserves

Cash conversion was c90% but now at 84% under new accounting policies – accounting for CPE under IFRS 15 now affects working capital

Underlying Capex at “new normal” levels:

- Maintenance Capex at £11.6m (2017: £11.4m)  
– now includes software previously expensed
- Network upgrade of £1.1m – now complete (2017:£4.4m)
- Customer Premise Equipment (“CPE”) no longer capital item

<b>Balance Sheet as at</b>			
<b>31 December (£m)</b>	<b>2016*</b>	<b>2017**</b>	<b>2018</b>
Non-current assets (incl. PPE)	45.3	57.3	90.3
Receivables and inventories	42.9	64.8	69.0
Cash	28.2	31.6	35.5
Current assets	71.1	96.4	104.5
<b>Total assets</b>	<b>116.4</b>	<b>153.7</b>	<b>194.8</b>

Non-current liabilities	2.1	9.3	24.9
Current liabilities	34.1	49.1	48.2
<b>Total liabilities</b>	<b>36.2</b>	<b>58.4</b>	<b>73.1</b>

Share capital	6.3	6.3	7.1
Other reserves	2.7	2.0	2.2
Retained earnings	71.2	87.0	112.4
<b>Total Equity</b>	<b>80.2</b>	<b>95.3</b>	<b>121.7</b>

<b>Cash Flow Statement</b>	<b>Year to 31 December</b>		
<b>(£m)</b>	<b>2016*</b>	<b>2017**</b>	<b>2018</b>
<b>Adj EBITDA*</b>	<b>34.2</b>	<b>36.0</b>	<b>48.3</b>
<b>Net Cash inflow from Operations (pre-tax)</b>	<b>31.3</b>	<b>29.9</b>	<b>40.6</b>
<i>Cash conversion</i>	<i>91.5%</i>	<i>83.1%</i>	<i>84.1%</i>
Taxation	-4.8	-3.6	-4.3
Capital Expenditure	-19.6	-15.8	-12.7
<b>Cash inflow before Acquisitions and Financing</b>	<b>6.9</b>	<b>10.5</b>	<b>23.6</b>

\* shown under previous accounting policies

\*\* restated

# Accounting Standard Changes – Income Statement

Adopted IFRS 15 and IFRS 16 – the latter early and only affects 2018

Share Based Payments (“SBP”) no longer shown as “adjustment”

EBITDA depressed due to change in accounting for CPE

EBITDA and EPS effect greater in 2018 due to more “set up charges” which are now deferred

Consistent with 2017 presentation and accounting policy

Changes due to presentation  
 - Share Based Payments  
 Changes due to accounting policy  
 - IFRS 15  
 - IFRS 16

Consistent with 2018 presentation and accounting policy

Adjusted EBITDA			Adjusted EPS (FD)		
2018	2017	Growth	2018	2017	Growth
£m	£m		p	p	
54.6	41.6	31%	34.0	24.6	38%
-1.9	-2.0		-1.5	-1.5	
-5.8	-3.6		-2.5	-	
1.4	-		0.3	-	
<b>48.3</b>	<b>36.0</b>	<b>34%</b>	<b>30.3</b>	<b>23.1</b>	<b>31%</b>

# Accounting Standard Changes – Cashflow

Changes also affect cashflow classifications

CPE no longer capital spend – effectively shown as deferred payment (working capital demand)

Software purchases underpinning Cloud PBX now capitalised

Lease payments go against “debt”

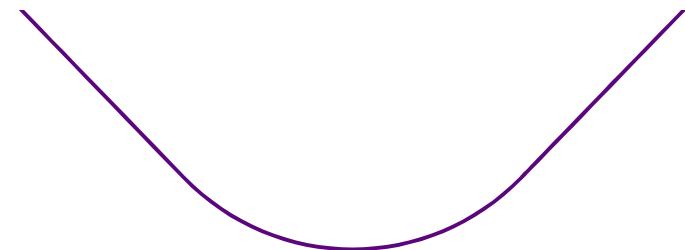
Used to guide on 90% cash conversion – now nearer 80%-85% but more chance of fluctuation due to CPE

Consistent with 2017 presentation and accounting policy

Changes due to accounting policy

- IFRS 15 – Customer Premises Equipment (“CPE”) Spend
- IFRS 15 – Software spend
- IFRS 16

Consistent with 2018 presentation and accounting policy



Cash generated by operations			Conversion of EBITDA		
2018	2017	Growth	2018	2017	
£m	£m				
48.0	38.8	24%	88%	93%	
-10.2	-11.5				
1.2	2.5				
1.6	-				
<b>40.4</b>	<b>29.8</b>	<b>36%</b>	<b>84%</b>	<b>83%</b>	



# Gamma 2023 Strategic Plan



# Core Gamma Foundations - What makes us different

Product and Network Quality	Driving innovation and on the back of strong network and product foundations (carrier grade, high availability, and rock solid end-user performance)
Channel Automation	Portal capabilities (built around the channel with overlay support geared to make Gamma easy to do business with)
Digital Platforms	Training (Academy) and Marketing enablement (Accelerate) to drive channel engagement and growth (providing the channel with the edge to be successful and grow their businesses)
Commercial Agility	Providing our partners leverage and flexibility (driving incentives and not causing price erosion) and selling on value and not price
People	Human aspect of channel and direct customer engagement (long standing, consistency, built on trust and a balance of strong business ethics) – culture, skills, and delivering against our mutual promises

# 2023 strategy plan based on four key strategic priorities

1 Evolve our strong cloud telephony position into the UCaaS market



2 Build on our Fixed and Mobile Telecom strength to differentiate our proposition from pure OTT's



3 Expand to Europe to gain continued growth and scale

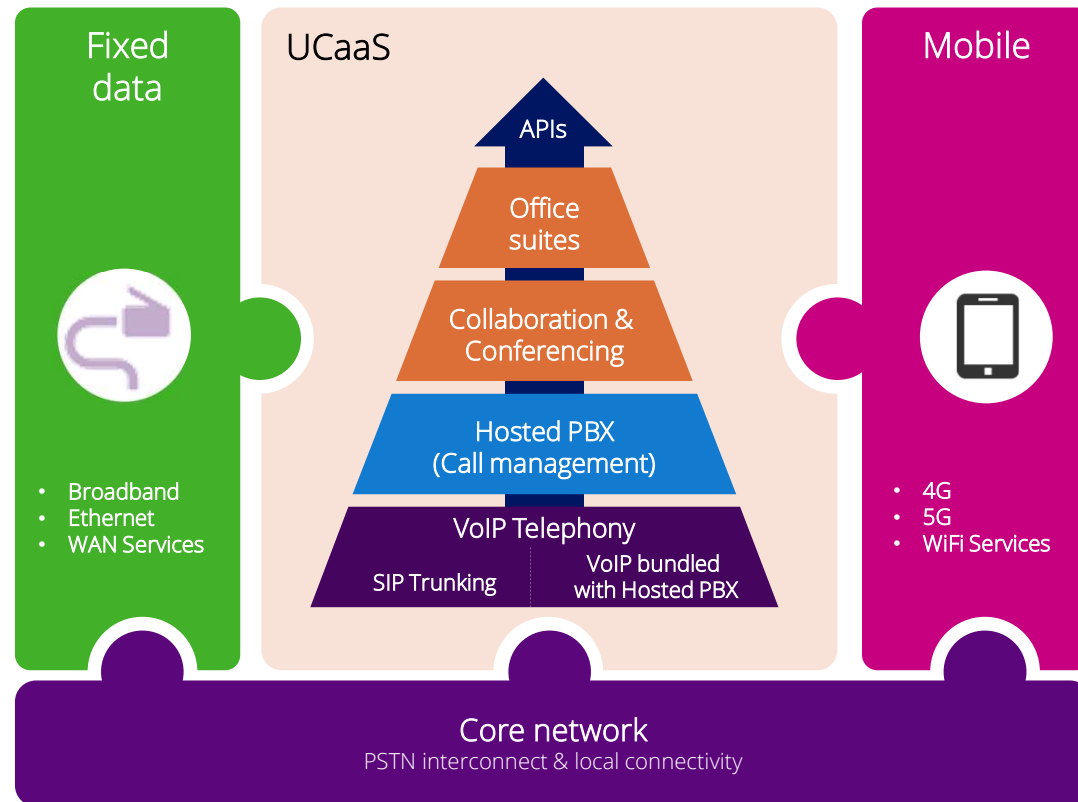


4 Continue to build on our digital capabilities to assure agility and sustain competitiveness



A full telecom wrap is a critical part of Unified Communications, to deliver a business quality user experience

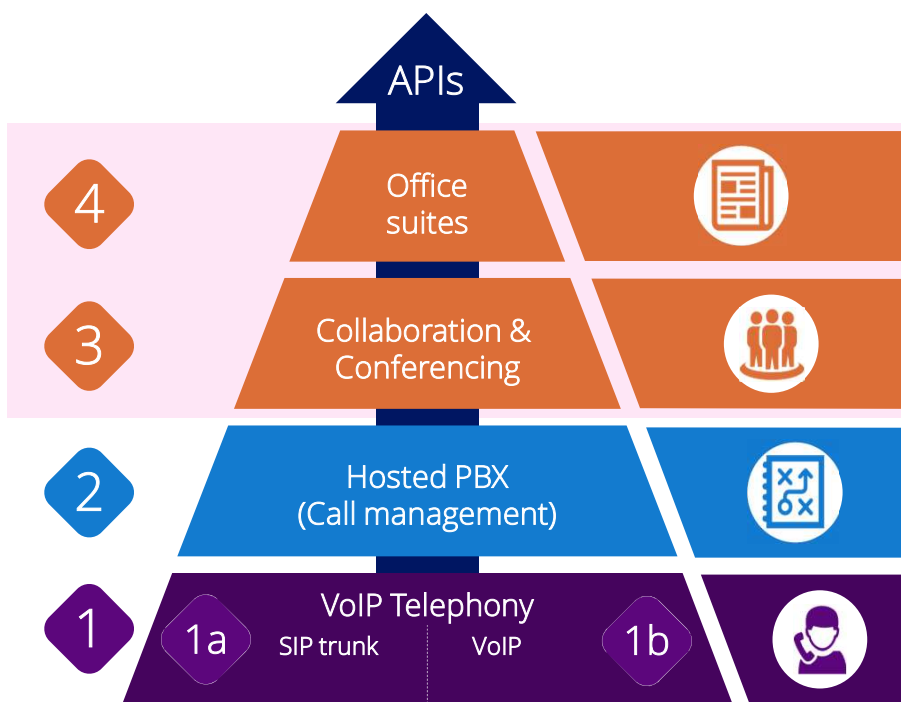
## UCaaS and the network wrap





# Evolve our strong cloud telephony position into the UCaaS market

## UCaaS technology stack

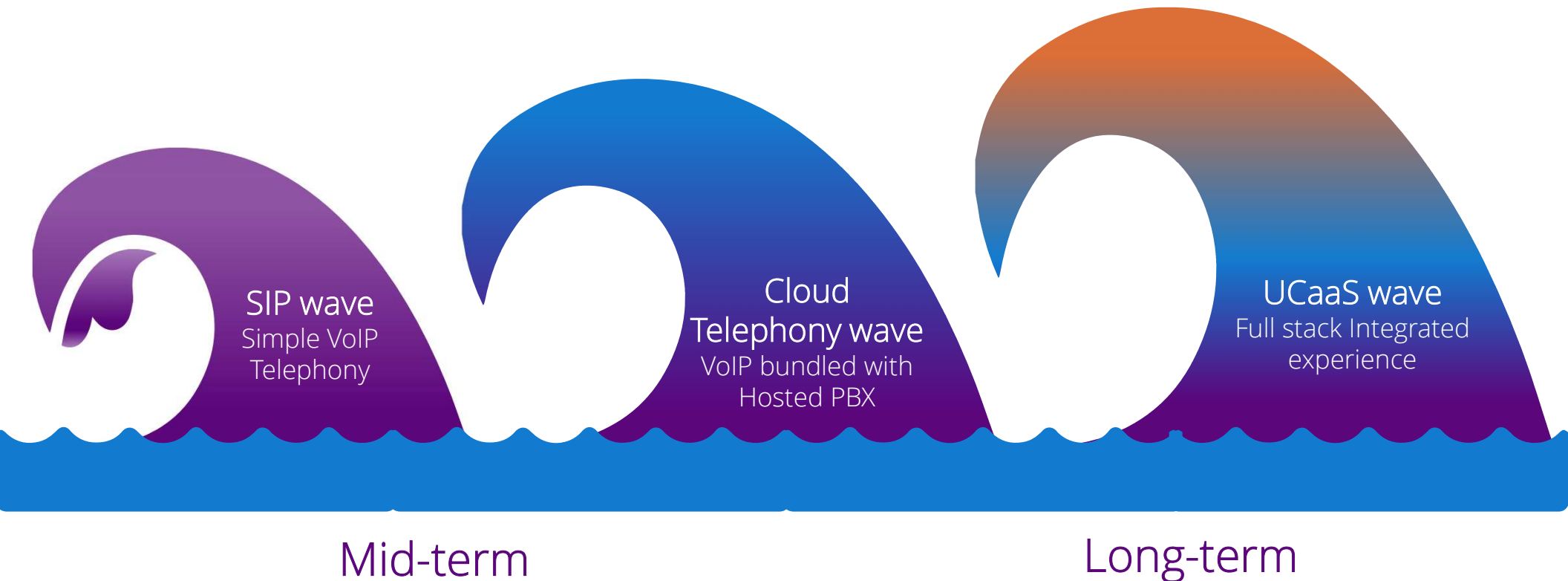


## UCaaS components

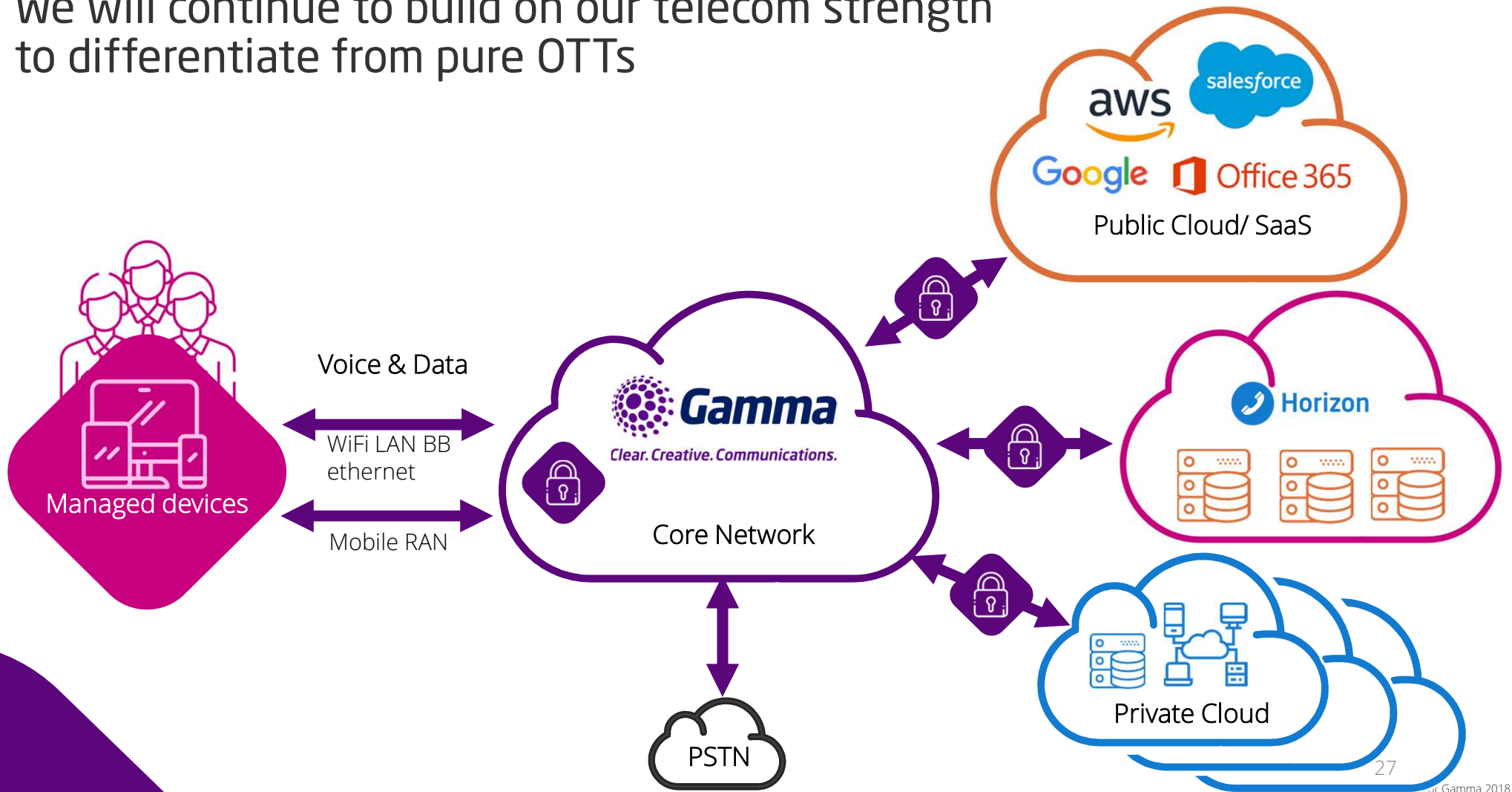
- Word processing, Spreadsheets, Slide presentations
- Collaborative creation and edition
- Email
- Calendar
- Real time voice and video conferencing, screen-sharing, whiteboarding
- Instant Messaging, file transfer, Presence
- Task management
- Employee networking and wikis
- Workspace
- IVR
- Extensions, queues, greetings
- Hunt groups
- Call recording, advanced voicemail
- High quality in-company calls
- PSTN calls channeled through SIP trunk or Seat VoiP

# Evolve our strong cloud telephony position into the UCaaS market

## Market opportunity

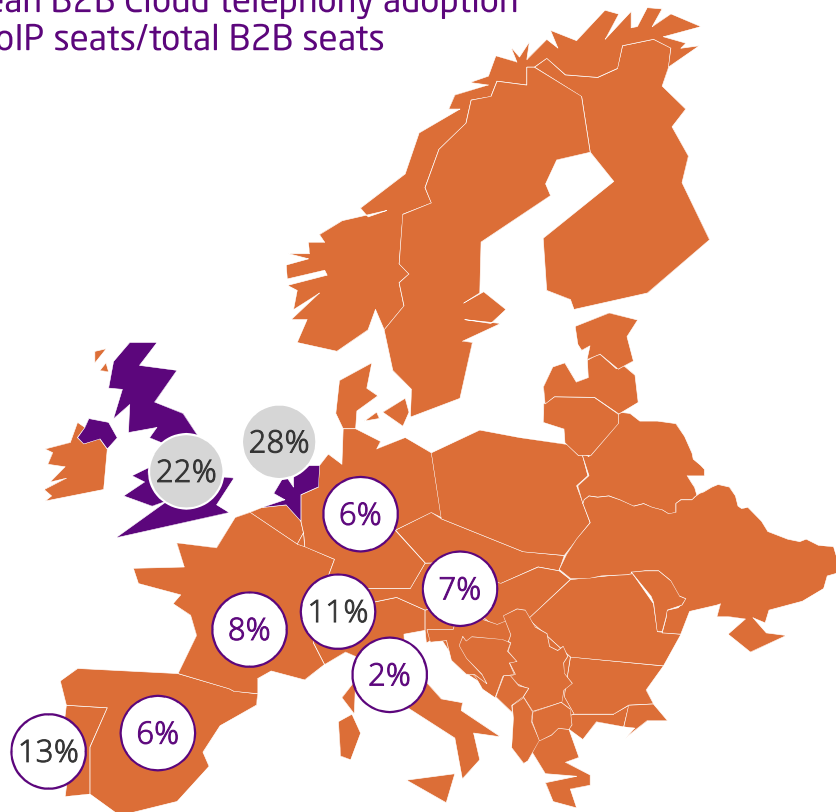


We will continue to build on our telecom strength to differentiate from pure OTTs



# Expand to Europe to gain continued growth and scale

European B2B Cloud telephony adoption  
% of VoIP seats/total B2B seats



Sources: Analysis Mason, Gartner, Cavell & Outvise/Gamma analysis

Gamma has developed unique UCaaS assets and know-how in the most advanced European market

Other European countries are now following the UK cloud telephony migration path, creating a significant market opportunity for Gamma

Gamma has started its geographical expansion with the acquisition of Dean One in the Netherlands

The slide features a background image of a modern office with several people working at desks. A large, semi-transparent purple circle is overlaid on the right side of the image. In the bottom right corner, there is a large, solid green shape. The title 'Business Outlook and Priorities' is written in white, sans-serif font on the left side of the slide.

# Business Outlook and Priorities

# Business Outlook and Priorities



Outlook continues to be positive, driven by strong growth drivers across our key products and markets

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Momentum in SIP Trunking is expected to continue in the short-medium term

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Cloud telephony market is in a rapid growth phase but increasing competition is a key market feature. Price attrition will be offset by the launch of Collaborate – due for launch 19th March 2019

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Data volumes expanding rapidly, driven by fibre investments and rapid cloud adoption, however margin pressure due to increasing competition will continue

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Dutch business focused on growth in cloud and mobile (driven by T-Mobile partnership & launch of “GO” portal)

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Key Product development activities include:

- Collaborate launch scheduled for 19<sup>th</sup> March 2019
  - Horizon subscription framework
  - Horizon active directory
  - Horizon provisioning API
- 

Execution of our “Gamma 2023 strategic growth plan”


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Reinforce and enhance the “One Gamma” corporate culture and values – making Gamma “a great place to work”

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Develop and strengthen the quality of the Gamma team – harnessing the skills and talent across the business

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# Q&A

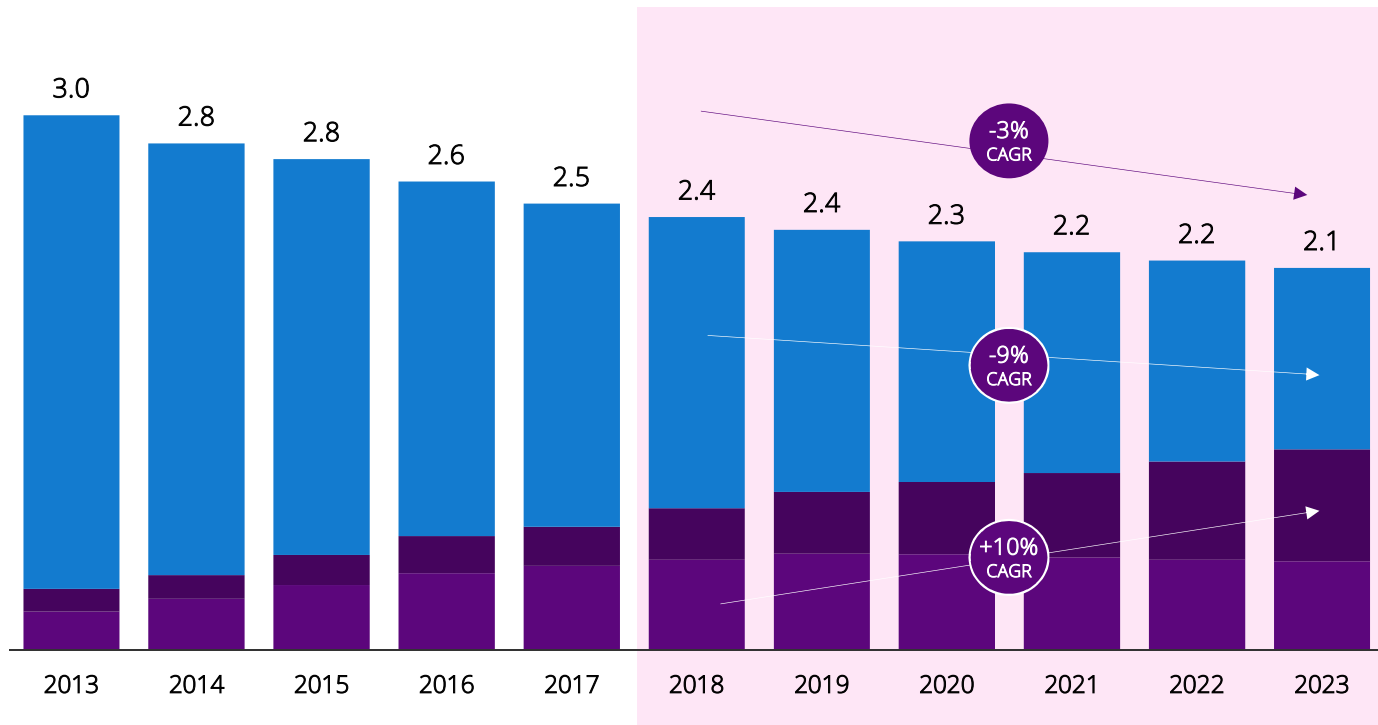
The background is a blurred office scene with a purple color overlay. In the foreground, two men in business attire are seated at a desk, engaged in conversation. The man on the left is looking towards the man on the right. The office behind them shows other employees at their desks, computer monitors, and a large wall display with a network diagram. A prominent green abstract shape is located in the bottom right corner, and a white curved line runs across the middle of the page. The word "Appendix" is written in white, sans-serif font in the center-left area.

# Appendix



# In the fixed voice market, traditional voice is rapidly migrating to IP voice

UK B2B fixed voice revenues  
£bn



Fixed voice market will fall at 3% CAGR

Traditional voice will fall at 9% CAGR

IP voice will grow at 10% CAGR

Note: VoIP telephony market is the sum of SIP trunk market (excluding SIP trunks sold to Hosted PBX platforms) + Voice component of "Hosted PBX + VoIP telephony" market

# Evolve our strong cloud telephony position into the UCaaS market

## UK SIP<sup>1</sup> Market

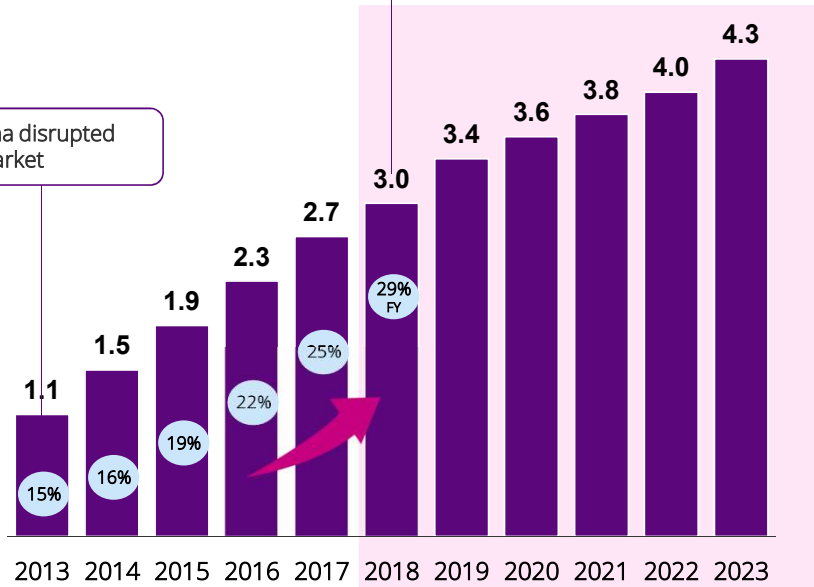
Total trunks m, Gamma market share

1a

Value migration from SIP to UCaaS

Gamma has a 29% market share of the UK SIP market

Gamma disrupted the market

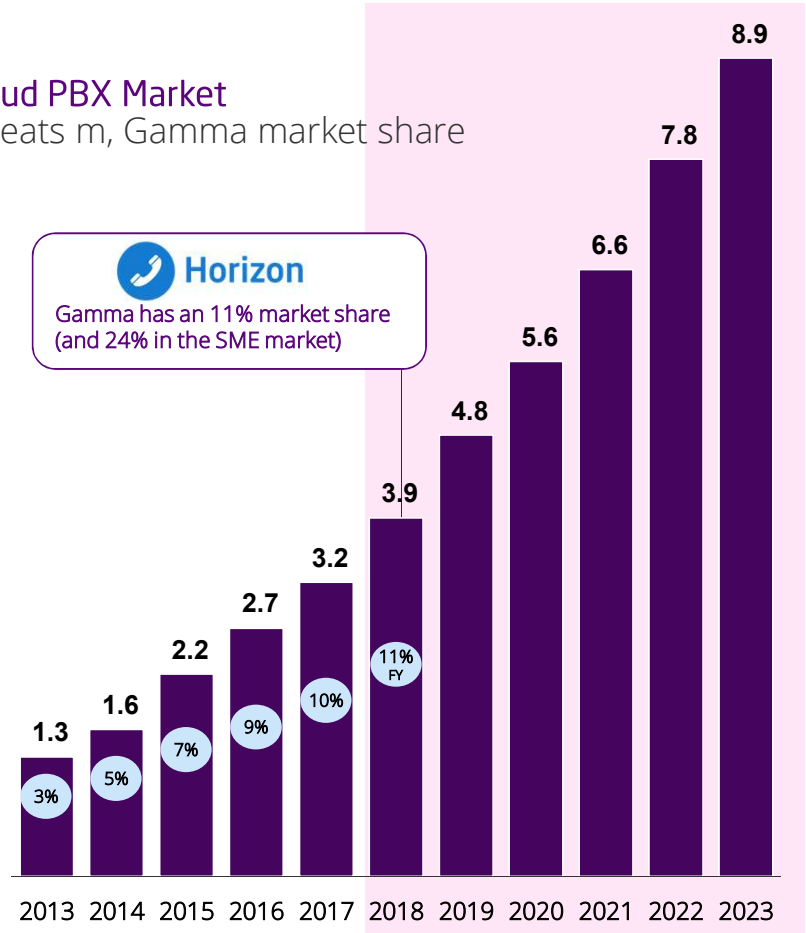


1b

## UK Cloud PBX Market

Total seats m, Gamma market share

 **Horizon**  
Gamma has an 11% market share (and 24% in the SME market)



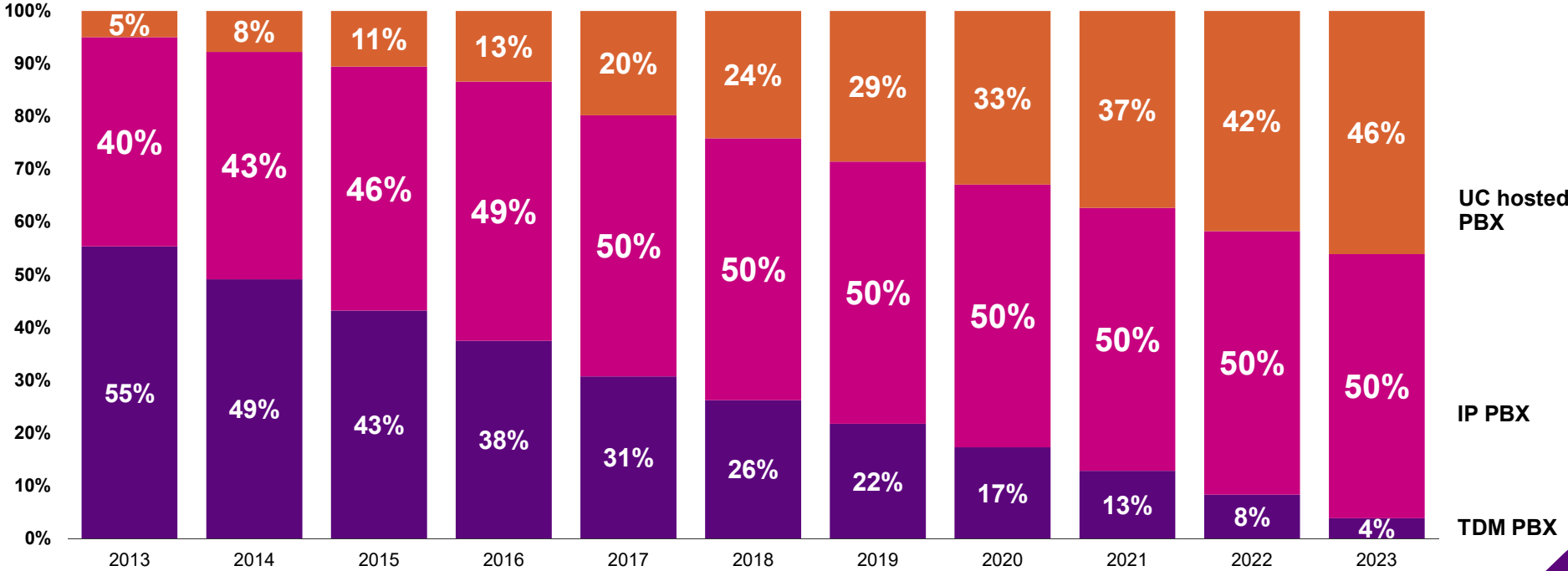
1 SIP trunk includes SIP trunks sold to Hosted PBX platforms

2 Horizon includes VoIP seat + Hosted PBX

Sources: Analysis Mason, Gartner, Cavell & Outwise/Gamma analysis

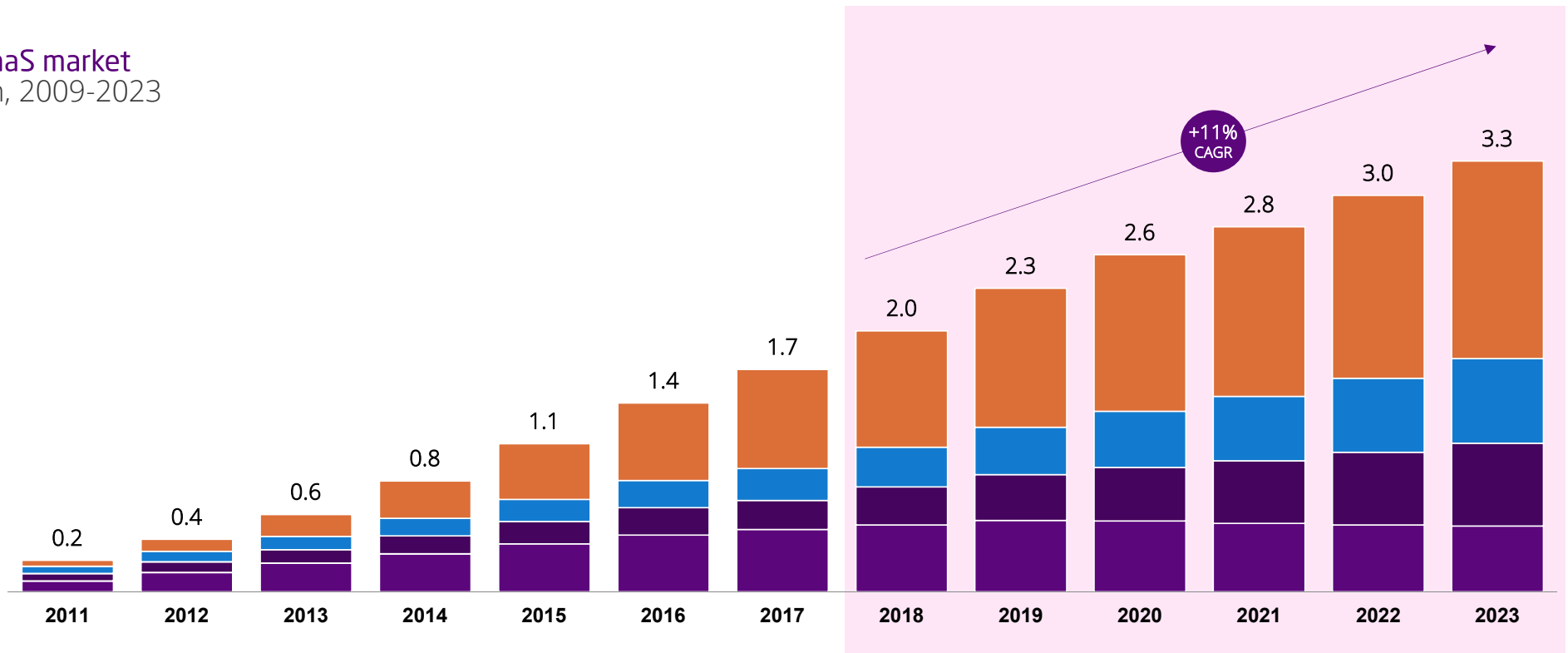
% Gamma Market Share of units (Trunks/Seats)

# In Hosted UK PBX Market - seats by technology



# Evolve our strong cloud telephony position into the UCaaS market

UCaaS market  
£bn, 2009-2023



22%

UK UCaaS Market penetration<sup>1</sup>

49%

<sup>1</sup> UCaaS penetration measured as "Cloud telephony seats"/Total PBX market seats; 100% = 19m seats  
Sources: Analysis Mason, Gartner, Cavell & Outwise/Gamma analysis

# Horizon Collaborate

## What are we launching?



Gamma Telecom Ltd [GB] | https://www.unlimitedhorizon.co.uk/webapp/

Horizon

Dashboard Users Site Management Call Groups Device Management Administration Recorded Calls Statistics

Add User Create Group

Calls per week

Inbound Outbound

Week	Inbound	Outbound
16/01	55	30
23/01	45	35
30/01	75	40
06/02	65	60
13/02	55	65
20/02	40	60

Horizon

File Edit Contacts Calls Conversations Window Help

Calls unavailable

Search and Dial

My Contacts (12)

- Beale, David
- Blackmore, Sean
- Bushell, James
- Cannon, Nigel
- Christofi, Christos
- Froud, Will
- Gooden, Mark
- Grice, Mark
- Mackie, Alan
- Mrs Farrow
- Robinson, Andrew
- Ruane, Liam



# Horizon Collaborate

What are we launching?



New Services



Application Sharing



Conferencing



Instant Messaging



Presence



Video



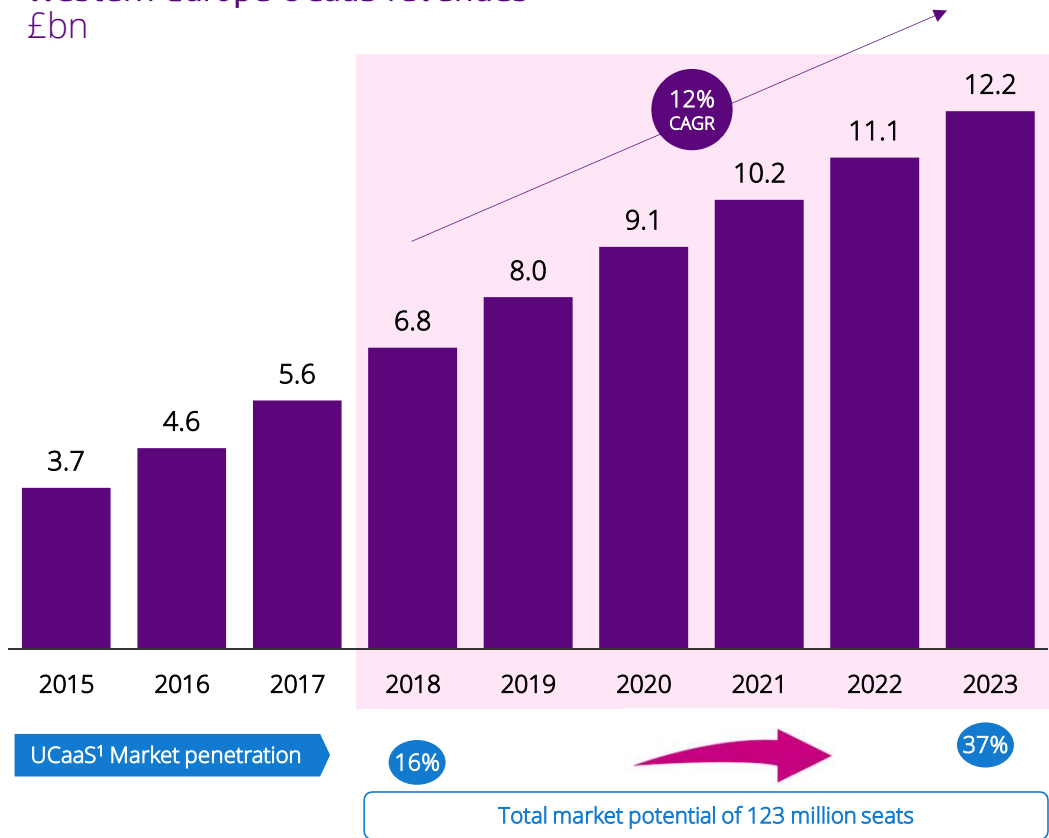
Desktop Client  
(Mac & Windows)



Mobile Client

# Expand to Europe to gain continued growth and scale

Western Europe UCaaS revenues  
£bn



Very large market with 123m seats and £6.8bn

Growing at 12% CAGR

16% Market penetration

At least two years behind UK and Netherlands

<sup>1</sup> UCaaS penetration measured as "Cloud telephony seats"/Total PBX market seats  
Sources: Analysis Mason, Gartner, Cavell & Outvise/Gamma analysis

# Continue to build on our digital capabilities to assure agility and sustain competitiveness

Improve customer experience



We have an opportunity to lead the provision of an end-to-end communications portal for the business market that evolves with channel and user behaviors

Improve ability to launch / adjust products fast



Ability to increase rate of innovation, based on more flexible and automated systems and networks

Ensure ability to be cost competitive & scalable



Operations and network digitalisation will have an impact on our operational costs and improve our margins





Thank you

