

# Gamma Communications plc

Bob Falconer	CEO
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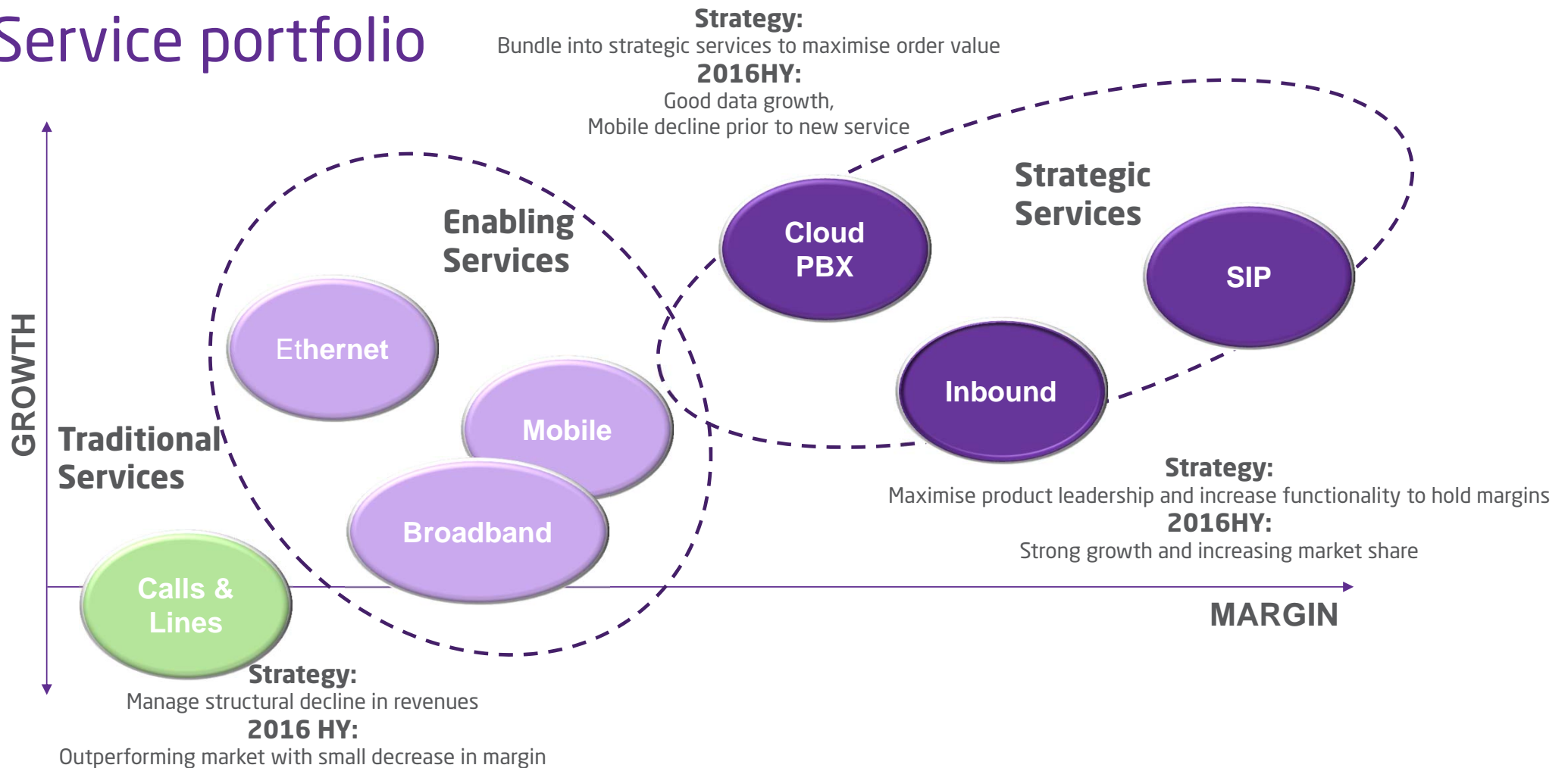


# Summary of Gamma

- 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
- Product development and innovation is a core strength
- 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



# 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



# 2016 H1 Business Highlights - strategy on track

- Strong SIP performance
- Positive Cloud PBX performance and market share increased
- New Mobile service soft launched end Q2, full launch in Q4
- Number of new Partners increased by 72 to 906 in total
- Key brand wins include Strutt & Parker, lastminute.com, Admiral Insurance, SAGA, Guinness and a “large financial institution”



# The Financials



# 2016 H1 Financial Highlights

- Revenue up 13.3% to £104.7m
- Adj EBITDA up 25.4% to £16.3m
- Adj EPS up 23.2% to 10.1p
- Pre-tax operating cashflow up 26.6% to £13.8m
- Interim Dividend up 13.6% to 2.5p



# Income statement

## Revenue and Gross Profit

- Continued organic growth continues to be driven by SIP and Cloud PBX
- Repeating revenues remain 90%+
- Improving gross margins due to favourable product mix – segmental analysis follows

## Other items

- Overheads increased due to spend on mobile platform support: £2.7m in first half (2015: £0.8m)
- Share based charges decreasing as float LTIP awards unwind
- Effective tax rate at 18.9%
- Strong growth in adj. EPS
- Interim dividend of 2.5p (2015: 2.2p)

	6 months ended 30 June		Year ended 31 Dec	Half on Half Growth
	2016	2015	2015	
<b>Revenue</b>	<b>104.7</b>	<b>92.4</b>	<b>191.8</b>	<b>13.3%</b>
Cost of sales	(57.0)	(53.2)	(109.5)	
<b>Gross profit</b>	<b>47.7</b>	<b>39.2</b>	<b>82.3</b>	<b>21.7%</b>
<i>Gross profit margin</i>	<i>45.6%</i>	<i>42.4%</i>	<i>42.9%</i>	
Adj operating expenses*	(31.4)	(26.2)	(54.0)	
<b>Adj EBITDA**</b>	<b>16.3</b>	<b>13.0</b>	<b>28.3</b>	<b>25.4%</b>
<i>Adj EBITDA margin</i>	<i>15.6%</i>	<i>14.1%</i>	<i>14.8%</i>	
Exceptional items	-	-	5.7	
Depreciation and amortisation	(4.4)	(3.6)	(7.4)	
Share based charges	(1.4)	(1.8)	(4.1)	
<b>Operating profit</b>	<b>10.5</b>	<b>7.6</b>	<b>22.5</b>	<b>38.2%</b>
Finance income / expense	0.1	-	0.1	
<b>Profit before tax</b>	<b>10.6</b>	<b>7.6</b>	<b>22.6</b>	<b>39.5%</b>
Tax expense	(2.0)	(1.4)	(4.3)	
<b>Profit after tax</b>	<b>8.6</b>	<b>6.2</b>	<b>18.3</b>	<b>38.7%</b>
<b>Adjusted EPS (Pence)</b>	<b>10.1</b>	<b>8.2</b>	<b>17.9</b>	<b>23.2%</b>

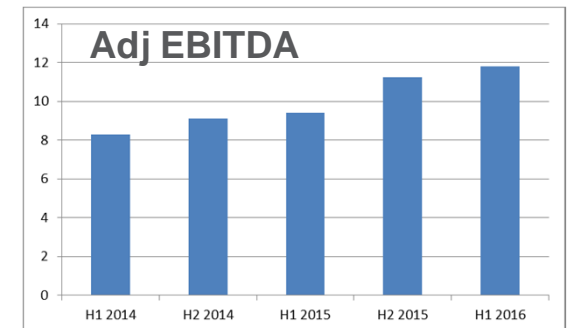
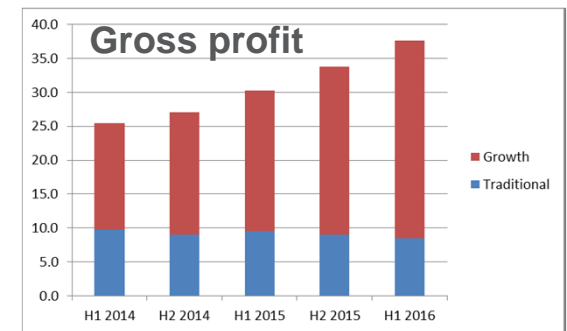
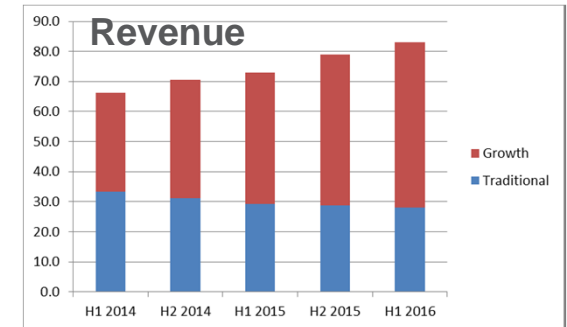
Notes: \*Operating expenses before IPO costs, depreciation, amortisation and share based charges  
\*\*EBITDA before share based payments and exceptional





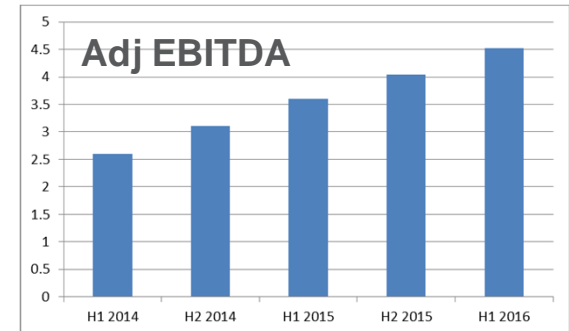
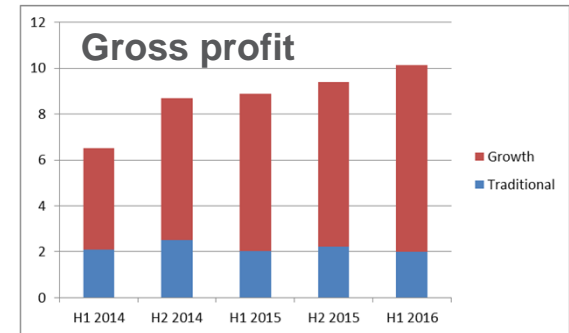
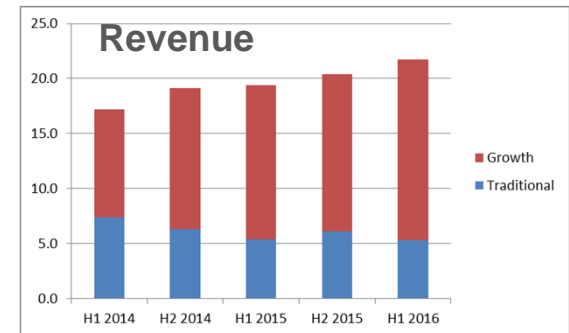
# Indirect business

- Positive shift in mix of Traditional and Growth services at both revenue and gross margin
- Strong increase in Strategic services – especially SIP Trunking and Cloud PBX
- First signs of decline in Gamma's traditional business
- Margin increased from 42% (H1 2015) to 45% due to product mix
- Adj. EBITDA margin increased to 14.2% but depressed due to increased mobile platform investment



# Direct business

- Direct business growing due to Strategic products
- Margin increased from 46% (H1 2015) to 47% - due to mix
- Adj. EBITDA margin increased from 18.6% to 20.7%
- Average contract length continues to increase



# Balance sheet and cash flow

- ☼ Debt free with significant cash reserves
- ☼ Cash conversion at 84.7% - slightly lower in first half
- ☼ Regular Capex at £6.8m (includes £3.7m of CPE)  
(2015: £4.0m including £1.6m of CPE)
- ☼ Investment Capex
  - £0.8m mobile platform (H1 2015: nil)
  - Data network build out – ongoing but nil in first half
- ☼ Network upgrade under consideration

	30-Jun		31-Dec
	2016	2015	2015
<b>Balance Sheet</b>			
<b>(£m)</b>			
Non-current assets (incl. PPE)	39.0	31.6	35.8
Receivables and inventories	42.4	35	37.5
Cash	27.8	16.1	24.8
Current assets	70.2	51.1	62.3
<b>Total assets</b>	<b>109.2</b>	<b>82.7</b>	<b>98.1</b>
Non-current liabilities	1.8	1.3	1.8
Current liabilities	35.0	26.9	29.6
<b>Total liabilities</b>	<b>36.8</b>	<b>28.2</b>	<b>31.4</b>
Share capital	6.2	5.9	6.2
Other reserves	1.9	2.6	3.0
Retained earnings	64.3	46	57.5
<b>Total Equity</b>	<b>72.4</b>	<b>54.5</b>	<b>66.7</b>

	Six months to 30 June		Year to 31 Dec
	2016	2015	2015
<b>Cash Flow Statement</b>			
Adj EBITDA*	16.3	13.0	28.3
<b>Net Cash inflow from Operations (pre-tax)</b>	<b>13.8</b>	<b>10.9</b>	<b>25.3</b>
Cash conversion	84.7%	83.8%	89.4%
Taxation	(1.9)	(0.8)	(2.2)
Capital Expenditure	(7.6)	(4.0)	(11.5)
<b>Cash inflow before Acquisitions and Financing</b>	<b>4.3</b>	<b>6.1</b>	<b>11.6</b>

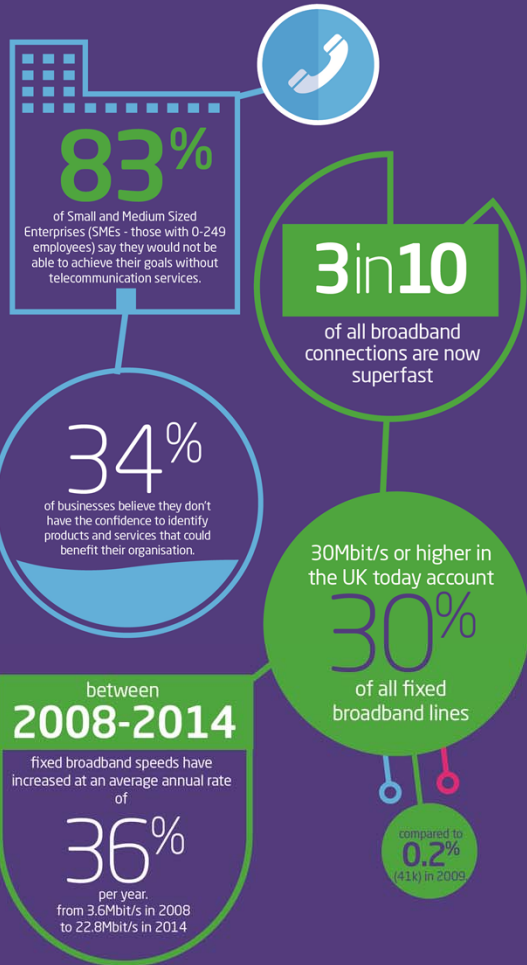
Notes: \*EBITDA post share based payments



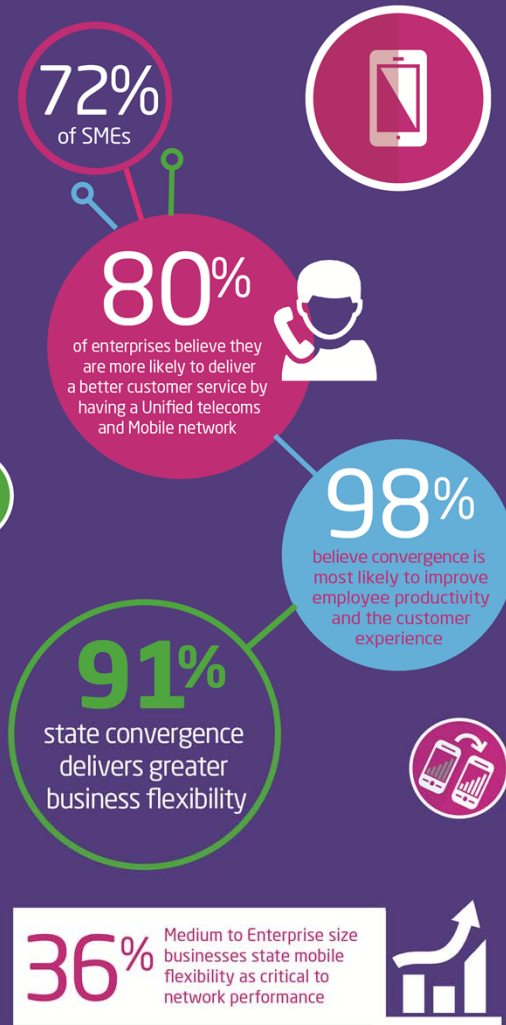
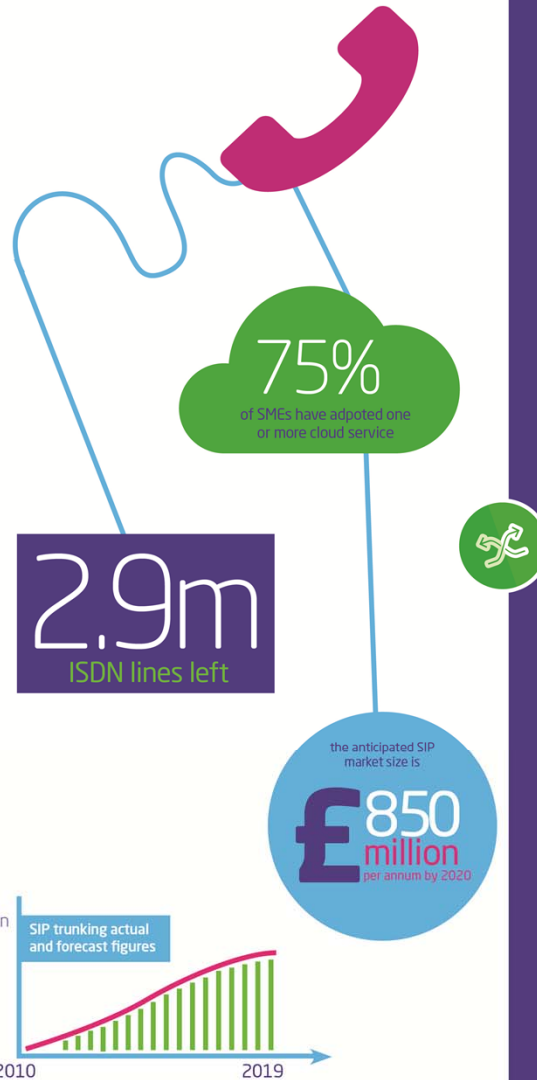
# Market Overview



## Key market trends



Sources: Illume Consulting, Ofcom, MZA, Comms Business, Connected Business Report (Loudhouse)



# How do we compete against .....



US/Euro market entrants



Smaller UK software

"Scalable, strong channel and complete service"

"Financially strong, strong channel and complete service"



"Agile, innovative, and good service"



The major telcos

## 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



# Growing Strategic Services

	Gamma growth H1 15 – H1 16	Market growth 2016#	Position in UK market and share	UK Market size by 2018	Update
<b>SIP Trunking</b> “Business grade VOIP” replacing ISDN	46%	14%	19%, No. 1*	£819m	<ul style="list-style-type: none"> <li>• Market share increasing</li> <li>• Installed base over 413,000</li> <li>• Still 50% of ISDN 30 market to convert</li> <li>• BT Wholesale and TalkTalk pricing aggressively</li> <li>• No significant partner losses</li> </ul>
<b>Cloud PBX</b> “Phone system in the cloud” replacing on-site hardware	80%	32%	8% Total 12% core mkt No. 1**	£650m	<ul style="list-style-type: none"> <li>• Market share increasing</li> <li>• Installed base 188,000</li> <li>• Some price competition from new entrants</li> <li>• Winning business in larger enterprises</li> </ul>



\* total market \*\*core market sub 500 emps

#Source: Illume



# Operational Review





# New key wins



Large  
Financial  
Institution



# Our new Mobile Service

Reminder - What is it ?	What we become	The future
<ul style="list-style-type: none"><li>• Gamma's core network</li><li>• Primary radio access from Three</li><li>• Full roaming Access</li><li>• Business grade services</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 IOT ?</li><li>• Enabling consumer MVNO's ?</li></ul>

## Progress

- Old Service - as expected volumes continue to erode due to lack of 4G
- New Service - ready for Service Q2
  - migrations started
  - formal launch Q4
- Converged Fixed and Mobile Services - development underway



# Summary



# Outlook

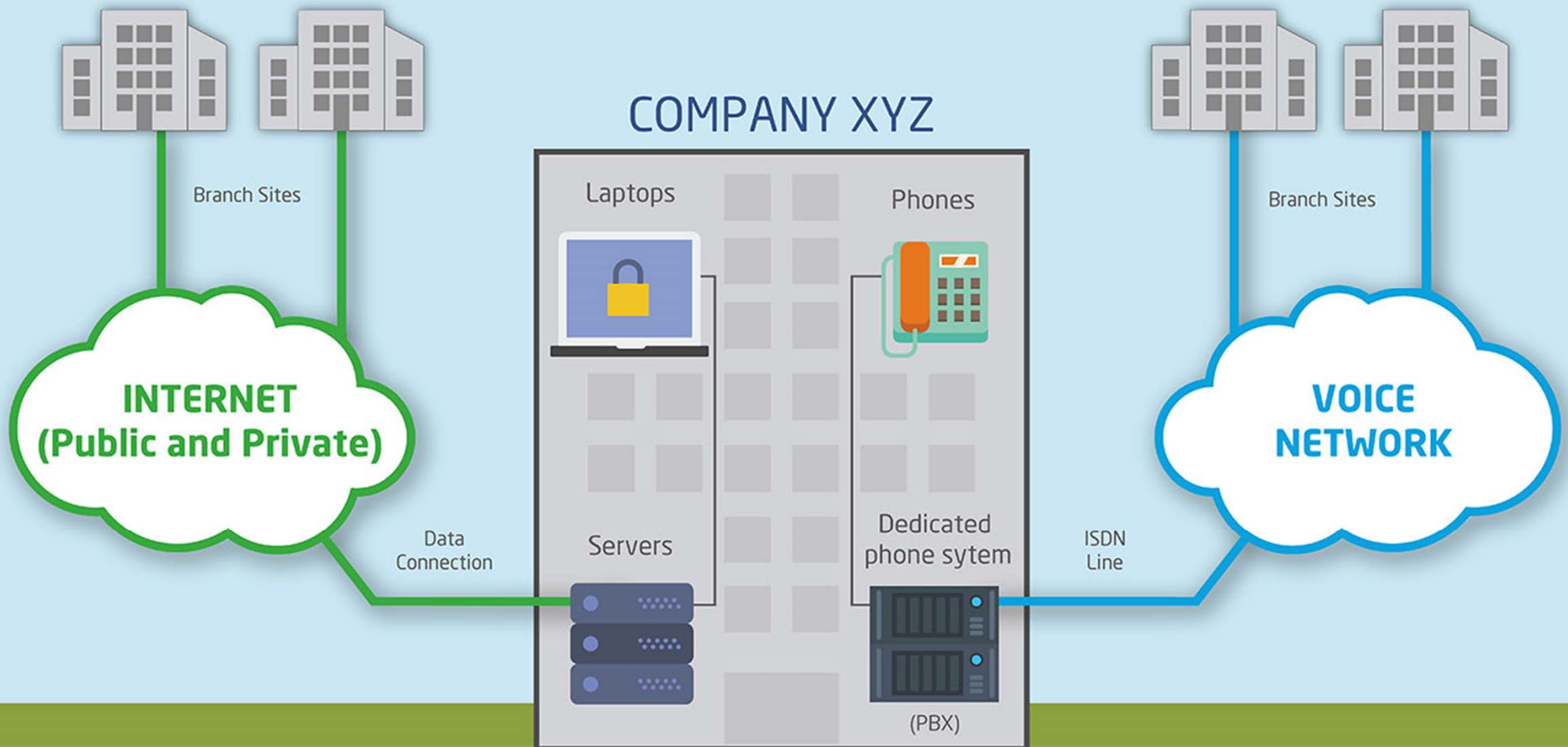
- A good first half for Gamma
- Channel and Direct outperforming – strong and growing reputation in Enterprise and Mid Market
- SIP continues to offer short-medium term growth; Cloud PBX offers medium-long term growth
- Gamma Mobile offers real opportunity for future service growth and differentiation
- Data growing and becoming more material – investing further to drive down access costs
- Healthy pipeline of new products and enhancements



# Thank You



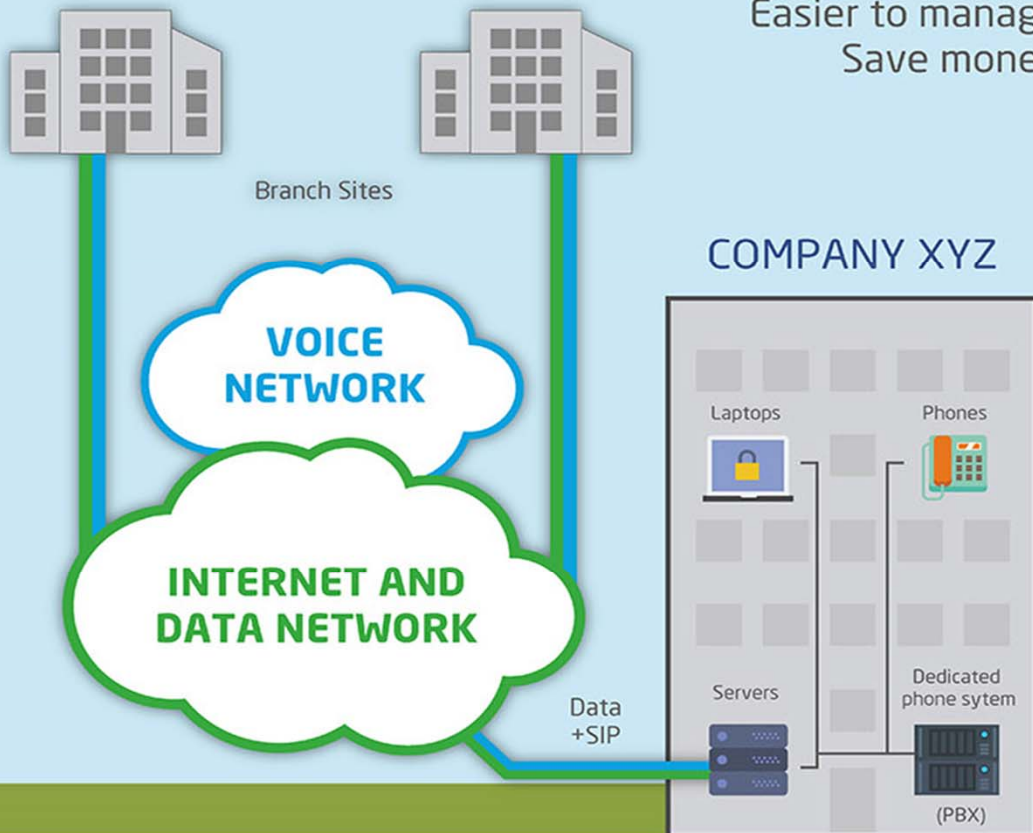
# "BACK IN THE DAY"



# "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

