

# Interim Results - 5 September 2017

Bob Falconer CEO  
Andrew Belshaw CFO



# Gamma Summary

## Who we are

- Gamma is a rapidly growing technology based provider of advanced communication services to the UK business market
- A UK based business employing 821 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



05/09/2017

# 2017 H1 Business Highlights

- Strong financial performance continues
- Revenue £115.0m (+9.8% against H1 2016); adjusted EBITDA £19.7m (+20.9%); adjusted EPS 11.6p (+14.9%)
- Growth drivers continue to be SIP and Cloud PBX (Indirect market) and Enterprise and Public Sector (Direct market)
- Number of active Channel Partners grew by 53 (to 1,023)
- Significant new Direct wins included Savills Plc, Care UK and Macmillan Cancer Support
- Thin MVNO now ceased and new Mobile service growing
- Product and product enhancement pipeline remains strong with regulatory compliant call recording
- PCI Compliance services and Converged Fixed/Mobile (branded “Connect”) are due for launch late 2017

# 2017 H1 Product Summary

## Strategic

Product	Unit Growth (H2 16 – H1 17)	Comments
SIP Trunking	511k to 605k (+18%)	<ul style="list-style-type: none"><li>• 10% Market Growth over period*</li><li>• Margins remain similar</li><li>• Consolidate No 1 position in market – growth in market share to 24%</li><li>• SIP Trunk Call Manager successfully preserving margins/reducing churn</li></ul>
Horizon	230k to 276k (+20%)	<ul style="list-style-type: none"><li>• 10% Market Growth over period*</li><li>• Margins remain similar</li><li>• Overall market share of 9%; No 1 in sub 500 seat markets</li></ul>



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Growth shown from 31.12.16 to 30.6.17

\*Source: Cavell Consulting Survey

# 2017 H1 Product Summary

## Enabling

Product	Unit Growth (H2 16 – H1 17)	Comments
<b>Mobile</b>	20Tbytes to 35 Tbytes (+75% from early volumes)	<ul style="list-style-type: none"> <li>• Data volumes on Full MVNO – still modest following late 2016 launch</li> <li>• Market share &lt;1%</li> <li>• Thin MVNO with Vodafone ceased</li> <li>• Direct pipeline strongest, channel growth slower to build</li> <li>• Further product enhancements planned</li> </ul>
<b>Ethernet</b>	3,500 to 4,300 (+23%)	<ul style="list-style-type: none"> <li>• Small market share c5%*</li> <li>• Market growth 7.7% pa<sup>^</sup></li> <li>• Signs of displacement of Broadband with Ethernet</li> <li>• Investments in 2016 have improved cost base and accelerated growth</li> <li>• TalkTalk added as new access partner in addition to Virgin and BT</li> <li>• Further investment opportunities being made to further improve competitiveness</li> </ul>
<b>Business Broadband</b>	54k to 65k (+20%)	<ul style="list-style-type: none"> <li>• Significant growth in a saturated market – small market share (&lt;3%)</li> <li>• Market growth 5.4% pa<sup>^</sup></li> <li>• Some margin sacrificed for volume growth</li> </ul>



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Growth shown from 31.12.16 to 30.6.17

\*source: Ovum

<sup>^</sup>source: Ofcom

# 2017 Channel Summary: Indirect

- 77% of Group revenue – £88.1m (H1 2016: £83.0m)
- Active Channel Partners grew from 970 to 1,023 – Channel is still attracting new entrants
- Largest partner contributed 3.4% of channel revenue
- Launch of “Accelerate” marketing programme for partners
- Gamma Academy – 4,700 employees from Channel Partners have accessed training material

## SME focus remains but also larger partner wins

<u>Partner</u>	<u>Partner's Customer</u>	<u>Service</u>
<b>Unify</b>	Addison Lee	c500 Horizon seats
<b>Sabio</b>	Homebase	Resilient Inbound call management
<b>Daisy</b>	Multiple local authorities	SIP trunking
<b>Ethos</b>	Investment management provider	600 Horizon seats
<b>IBT</b>	National Autistic Society	Data network across 150 sites
<b>G3</b>	Blackstar DC	SIP trunking



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# 2017 Channel Summary: Direct

- 23% of Group Revenue – £26.9m (H1 2016: £21.7m)
- ‘Large financial institution’ now live
- Significant and growing pipeline in delivery
- Mobile now key part of Gamma’s proposition

## Notable wins

<u>Company</u>	<u>Sector</u>	<u>Service</u>
<b>itsu</b>	Food retailer	70 site data network with Horizon
<b>Savills Plc</b>	Property	High speed managed data network
<b>Stackhouse Poland</b>	Insurance	Data, voice and mobile
<b>Care UK</b>	Health	Horizon to 80+ sites
<b>Macmillan Cancer Support</b>	Health Charity	Data, voice and mobility to 15 sites and 1500 staff
<b>Manchester Uni Hospitals NHS Trust</b>	Health	SIP trunking
<b>Shropshire Council</b>	Local government	Data, voice and mobile



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# The Financials



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# 2017 Financial Highlights

- Strong organic growth – Revenue up 9.8% to £115.0m
- Adjusted EBITDA up 20.9% to £19.7m
- Adjusted EPS up 14.9% to 11.6p
- Pre-tax operating cashflow up 10.9% to £15.3m
- Interim dividend up 12% to 2.8p

# Income Statement

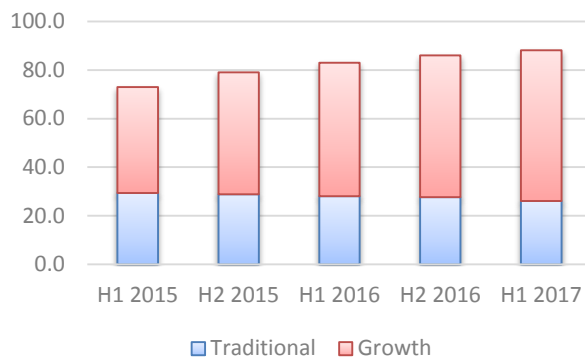
- Repeating revenues remain at over 90% – segmental analysis follows
- Overheads increased by £3.0m – increases in development and support costs offset by savings on fixed and mobile network charges
- Depreciation driven by success and investment
- Share based charges decreasing as float LTIP awards unwind
- Effective tax rate at 11.2% but underlying rate of 18.4% – tax item from previous years settled favourably
- Strong growth in adjusted EPS

	Six months ended 30 June		Year ended 31 December	
	2017	2016	2016	Growth
<b>Revenue</b>	<b>115.0</b>	<b>104.7</b>	<b>213.5</b>	<b>9.8%</b>
Cost of sales	-60.9	-57.0	-114.7	
<b>Gross profit</b>	<b>54.1</b>	<b>47.7</b>	<b>98.8</b>	<b>13.4%</b>
<i>Gross profit margin</i>	<i>47.0%</i>	<i>45.6%</i>	<i>46.3%</i>	
Adjusted operating expenses*	-34.4	-31.4	-64.6	
<b>Adjusted EBITDA**</b>	<b>19.7</b>	<b>16.3</b>	<b>34.2</b>	<b>20.9%</b>
<i>Adjusted EBITDA margin</i>	<i>17.1%</i>	<i>15.6%</i>	<i>16.0%</i>	
Depreciation and amortisation	-6.1	-4.4	-9.9	
Share based charges	-1.2	-1.4	-2.9	
<b>Operating profit</b>	<b>12.4</b>	<b>10.5</b>	<b>21.4</b>	<b>18.1%</b>
Finance income / expense	0.1	0.1	0.2	
<b>Profit before tax</b>	<b>12.5</b>	<b>10.6</b>	<b>21.6</b>	<b>17.9%</b>
Tax expense	-1.4	-2.0	-3.9	
<b>Profit after tax</b>	<b>11.1</b>	<b>8.6</b>	<b>17.7</b>	<b>29.1%</b>
<b>Adjusted EPS (Pence)</b>	<b>11.6</b>	<b>10.1</b>	<b>21.1</b>	<b>14.9%</b>

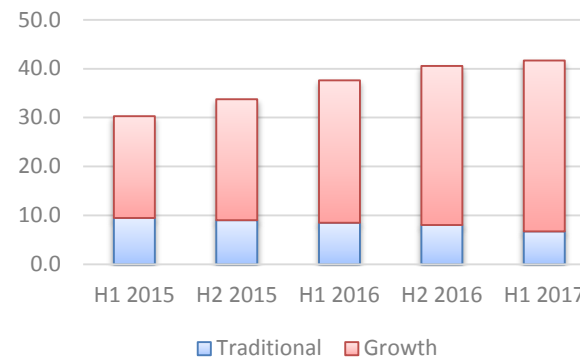
# Indirect Business

- The anticipated reductions in traditional business was 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 45.3% to 47.3% as mix moves to higher margin products

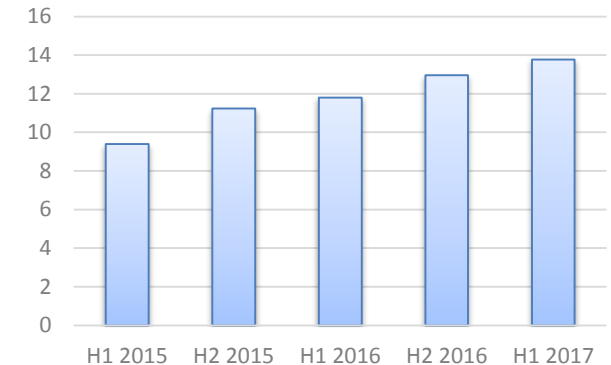
Revenue £(m)



Gross margin £(m)



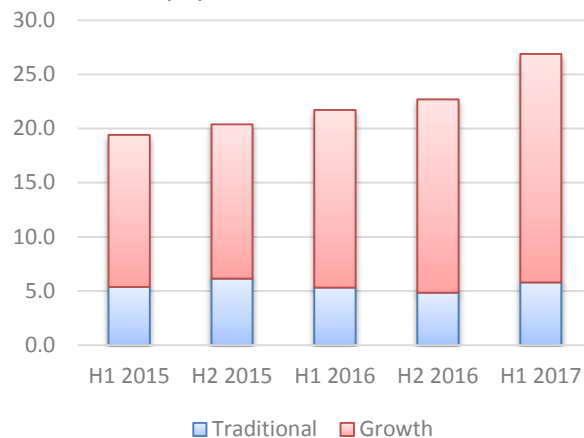
Adjusted EBITDA



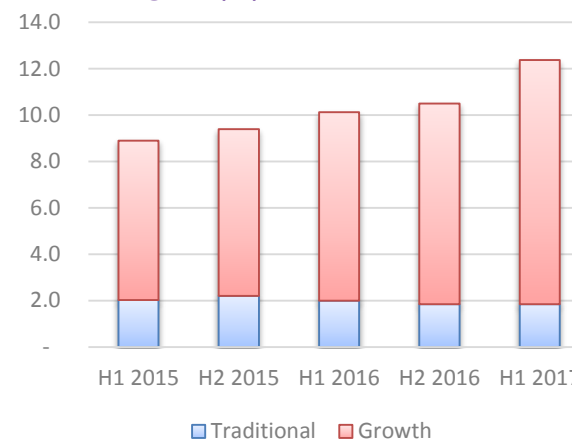
# Direct Business

- Direct business growing faster driven by Enterprise and Public Sector
- Strong order book mentioned at year end now installed and billing
- Margin reduced from 46.5% to 46.1% due to Public Sector equipment sale at negligible margin – underlying margins improving
- Pipeline remains strong

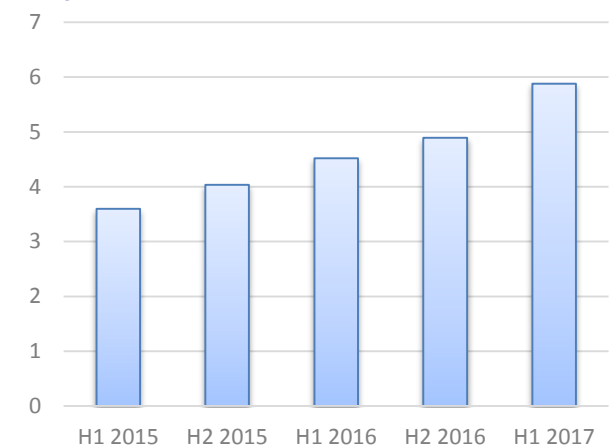
Revenue £(m)



Gross margin £(m)



Adjusted EBITDA



# Balance sheet and cash flow

- ☉ Remain debt free with significant cash reserves
- ☉ Cash conversion at 77.7% – would have been in line with historical levels but we paid a supplier early for better commercial terms
- ☉ Capex increase driven by success, underlying capex at historical levels –
  - Maintenance Capex at £3.5m (2016: £3.1m)
  - Mobile Capex at £0.5m (2016: £0.8m)
  - Customer Premises Equipment at £5.1m (2016: £3.7m)
  - Network upgrade of c£5m still to come in H2

Balance Sheet as at (£m)	30-Jun		31-Dec
	2017	2016	2016
Non-current assets (incl. PPE)	49.3	39.0	45.3
Receivables and inventories	55.1	42.4	42.9
Cash	28.7	27.8	28.2
Current assets	83.8	70.2	71.1
<b>Total assets</b>	<b>133.1</b>	<b>109.2</b>	<b>116.4</b>
Non-current liabilities	2.2	1.8	2.1
Current liabilities	43.4	35.0	34.1
<b>Total liabilities</b>	<b>45.6</b>	<b>36.8</b>	<b>36.2</b>
Share capital	6.3	6.2	6.3
Other reserves	1.5	1.9	2.7
Retained earnings	79.7	64.3	71.2
<b>Total Equity</b>	<b>87.5</b>	<b>72.4</b>	<b>80.2</b>

Cash Flow Statement as at	30-Jun		31-Dec
	2017	2016	2016
Adjusted EBITDA*	19.7	16.3	34.2
Net Cash inflow from Operations (pre-tax)	15.3	13.8	31.3
Cash conversion	77.7%	84.7%	91.2%
Taxation	-1.1	-1.9	-4.8
Capital Expenditure	-9.1	-7.6	-19.6
<b>Cash inflow before Acquisitions and Financing</b>	<b>5.1</b>	<b>4.3</b>	<b>6.9</b>

# Accounting Standard Changes

- Changes are IFRS15 “Revenue from Contracts with Customers” and IFRS16 “Leases”
- In summary (assuming similar leads and mix of trading) –
  - We do not expect EPS to be materially affected
  - We expect significant changes to EBITDA as items which were shown as depreciation are now shown “above the line” and vice-versa. Overall EBITDA will reduce
  - Gamma’s history of strong EPS and EBITDA growth would have occurred under either the new or the old accounting policies
- We will show a full reconciliation at year end
- Gamma intends to adopt both standards for the year ended 31 December 2018 (i.e. early adoption of IFRS16)

# Strategic Developments



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# Upcoming Developments

- Initial launch of a converged fixed/mobile service-branded “Connect” (H2 2017)
- MiFID II Compliant call recording available for fixed and mobile voice services (H2 2017)
- PCI Compliance service added to Horizon and SIP Trunking products (H2 2017)
- Adding further specific vertical market features and white label option on Horizon
- Continue investments to reduce cost of access for data products
- Acceptance of new national fibre network from Cityfibre, enabling increased capacity for high bandwidth customers



# Outlook

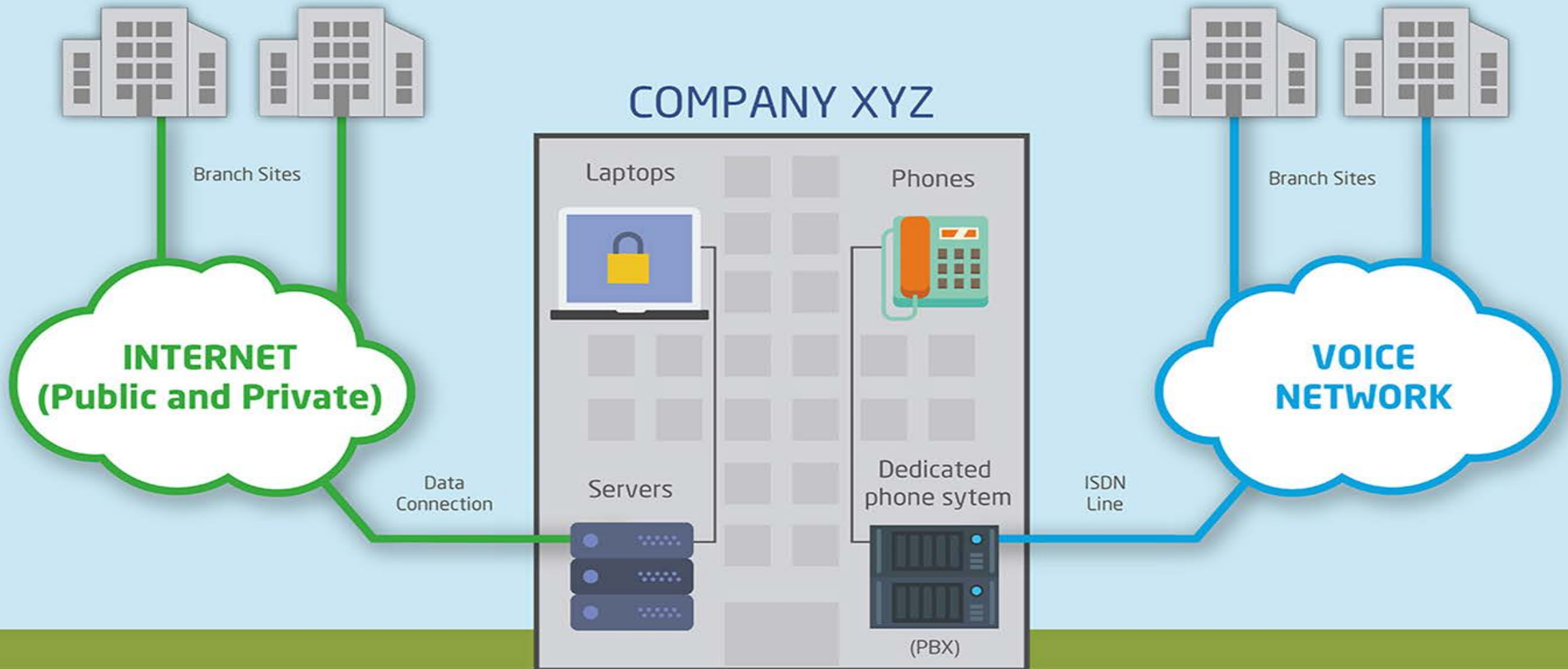
- The momentum in SIP and Horizon is expected to continue in the short term; additional features for Horizon anticipated to attract both new partners and end users
- Data products continue to grow – with upsell to both indirect and direct markets
- “Connect” – combination of Mobile and Cloud PBX – generating strong initial interest and represents a significant opportunity for the medium term with high barriers to entry for competitors
- Cloud Compute can take us into a new set of services
- Continued focus on the channel – helping our partners to grow and expand
- Pipeline in the direct business (Enterprise and Public Sector) remains strong

# Appendix



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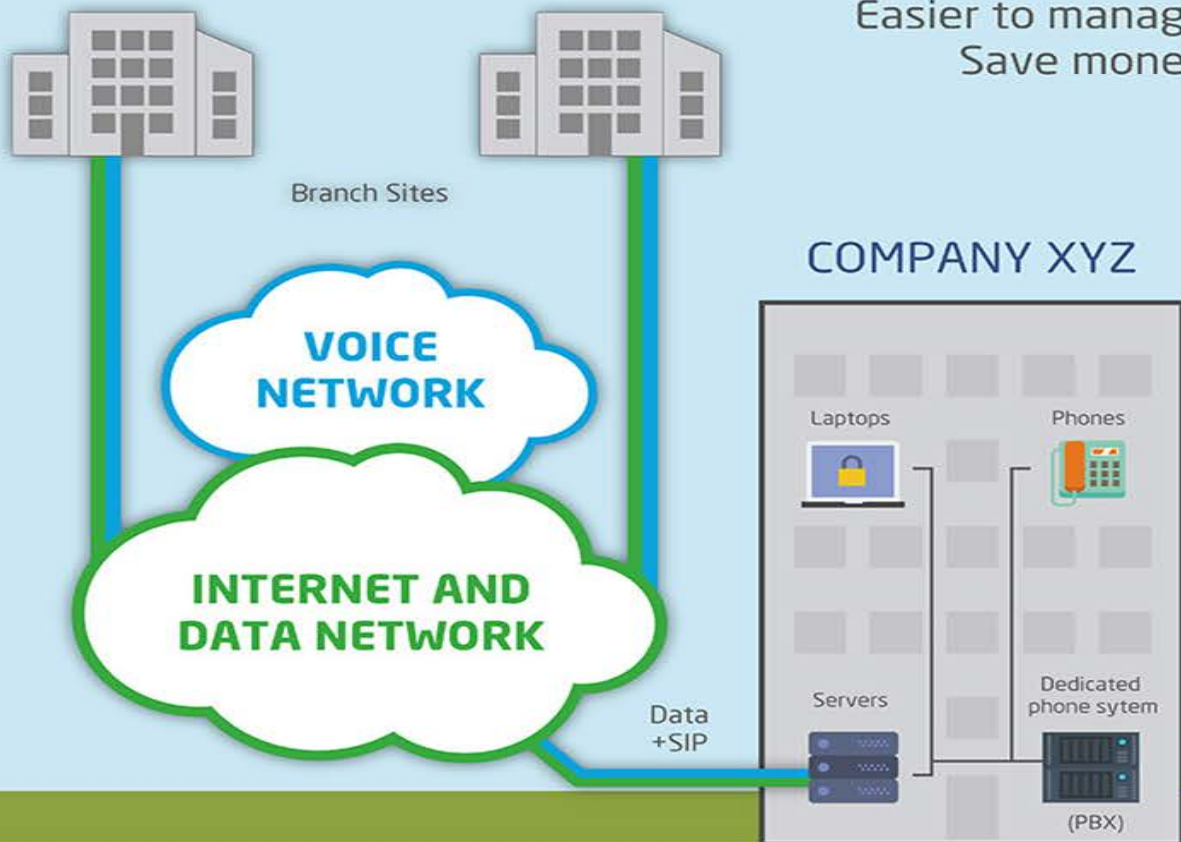
# "BACK IN THE DAY"



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

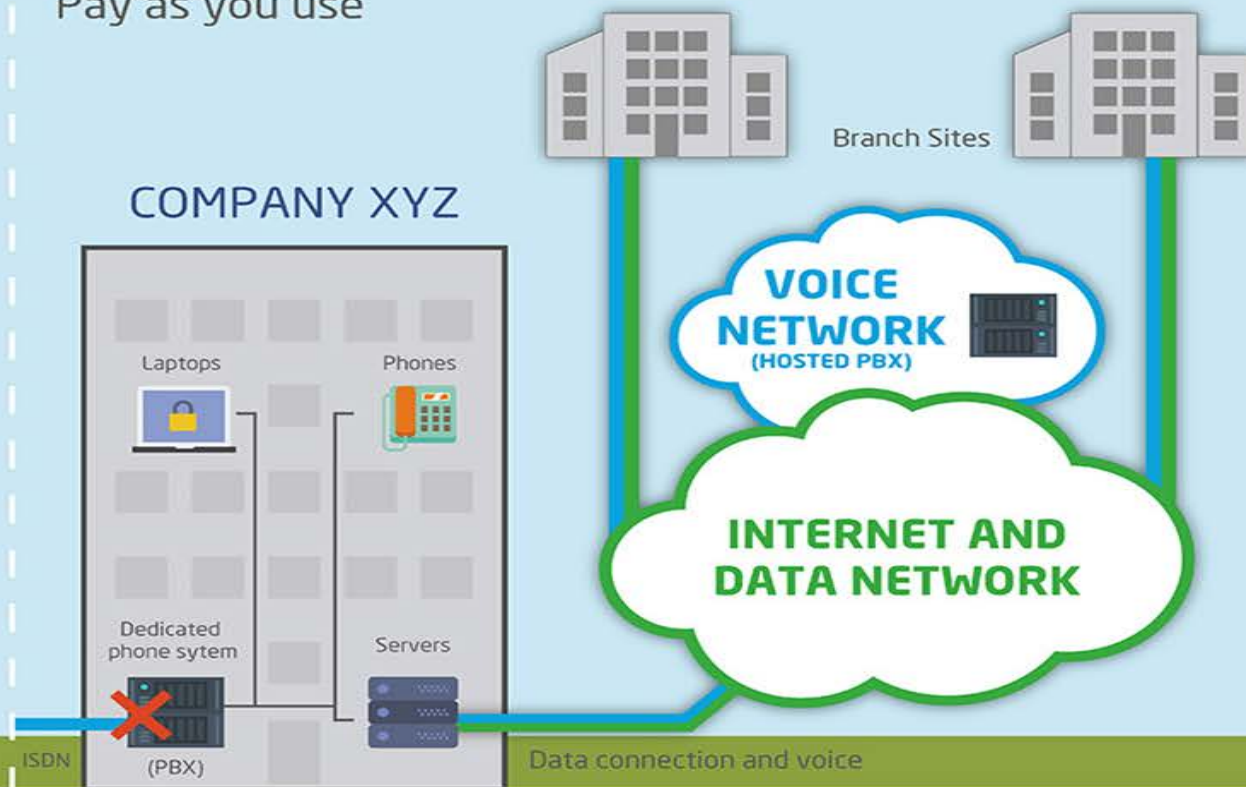
## Option 1: SIP

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



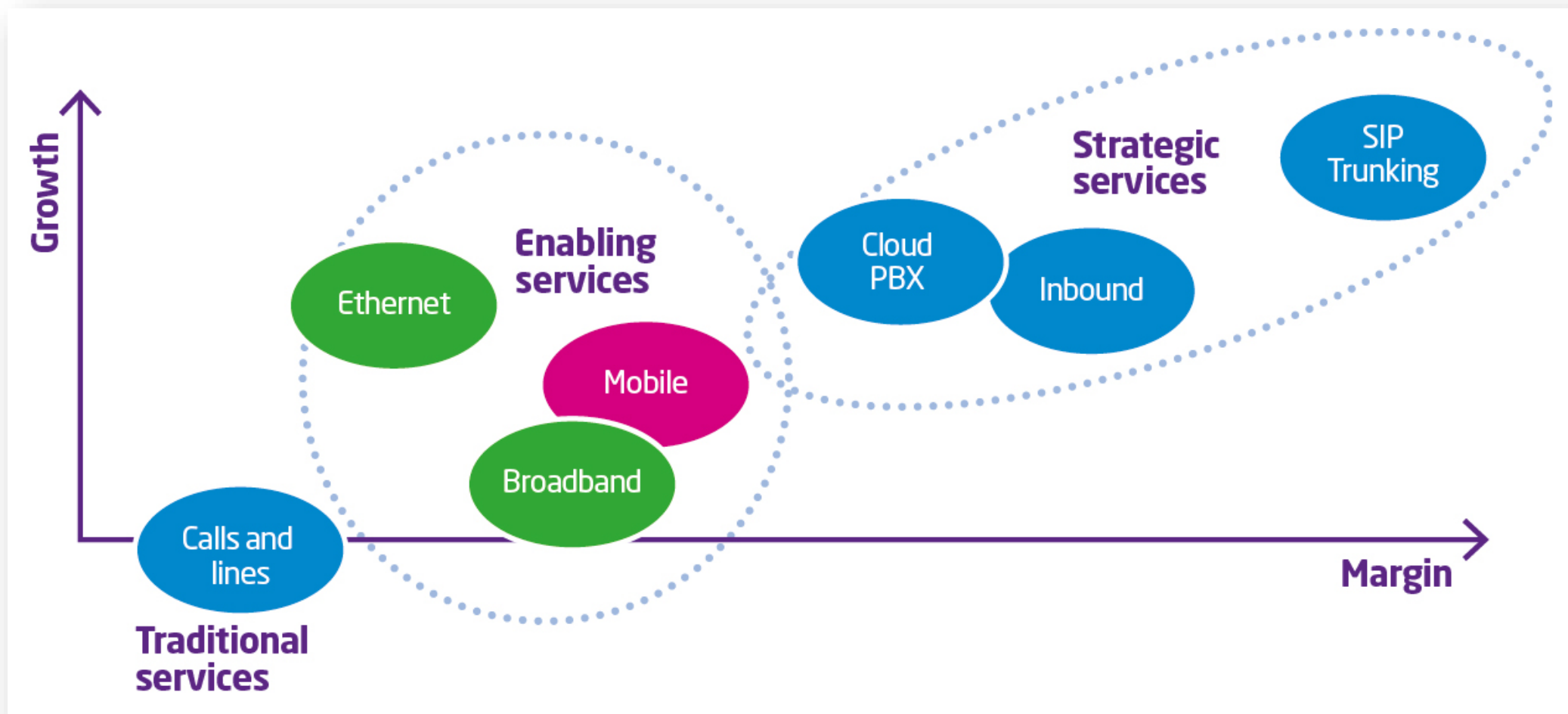
## Option 2: Hosted PBX

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



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# Service portfolio



# Who do we compete against ...

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

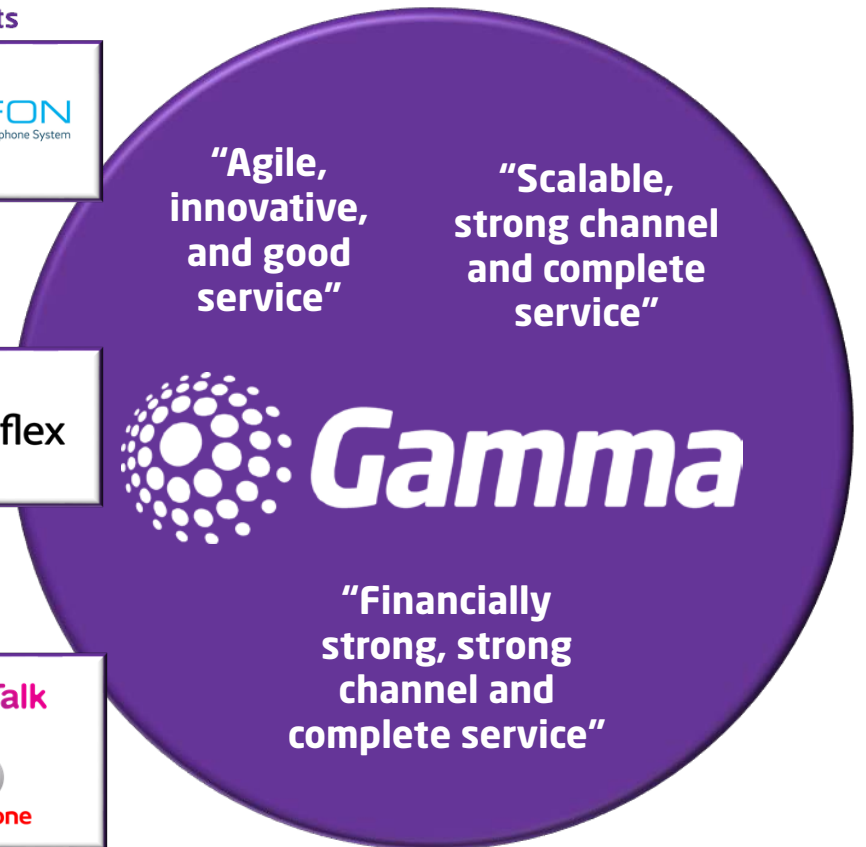
## ...US/Euro market entrants



## ...Smaller UK software



## ...The major telcos



**Gamma**

"Agile, innovative, and good service"

"Scalable, strong channel and complete service"

"Financially strong, strong channel and complete service"

# Thank you

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