



*Clear. Creative. Communications.*

# Gamma Results H1 2018

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# Results H1 2018

## Agenda

H1 2018 Performance highlights and business update  
Andrew Taylor

Initial priorities and observations  
Andrew Taylor

H1 2018 Financial Review  
Andrew Belshaw

Outlook and priorities moving forward  
Andrew Taylor

Q&A

# H1 Performance Highlights and Business Update



# H1 2018 Business Highlights

## Strong financial performance:

Revenue	£137.6m	(+18.3% against H1 2017)
EBITDA	£21.8m	(+30.5%)
Adjusted EPS	13.4p	(+28.8%)

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- Strong growth across all key products, with increased upselling and cross selling across all sales channels
- Continued focus on market development and investment to strengthen our Indirect Channel – enabling both existing and new channel partners to be successful
- Strong execution across all aspects of the direct business, continues to drive positive growth
- Continued investment across our key products, including the introduction of new products such as Connect
- Digital transformation program is progressing well and on track for phase-1 completion, enabling a more flexible and agile platform to support future growth across the Direct business
- As part of our infrastructure Investment programme, we delivered a new national IP network on schedule and on budget - enabling Gamma to deliver advanced data services at 10Gb/s and above
- Continued investment to develop and harness the quality and strength of the Gamma team



# Product Performance

# 2018 H1 Product Summary

Product	Unit Growth in H1 2018	Comments
SIP Trunking	680k to 766k (+13%)	<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</li><li>• Increasing sale of SIP Trunk Call Manager, representing 17% of SIP Sales; protecting margin &amp; reducing churn</li></ul>
Horizon	331k to 384k (+16%)	<ul style="list-style-type: none"><li>• 10% 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 H1 Product Summary

Product	Unit Growth in H1 2018	Comments
Business Broadband	76k to 85k (+12%)	<ul style="list-style-type: none"><li>• Good growth in a saturated market – small market share (3%)</li><li>• 2.5% market growth (Business Broadband Market) during the period</li><li>• Cost base reductions in Q2 enabling better pricing to improve growth and maintain margins</li></ul>
Ethernet	6,900 to 8,000 (+16%)	<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.8.8%</li></ul>
Mobile	35k to 42k Connections (+20%)	<ul style="list-style-type: none"><li>• Connect product “soft” launched into the indirect channel with positive feedback</li><li>• Continued focus on increasing connections and overall mobile data consumption</li><li>• Strong Product Roadmap to enhance coverage with introduction of WiFi calling in H2</li></ul>

# Business Unit Performance

Broadband

Business Continuity

MOBILE

OMNI

MPLS

SIP Trunks

Ethernet

Mobile



# 2018 H1 Indirect Channel Summary

75% of Group revenue – £103.1m (2017: £89.8m)

Active Channel Partners grew from 1,089 to 1,146 – Channel continues to attract new partners, with an increased number of IT focused Partners

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

We continue to “spread” revenue across more partners, with our Top 10 Partners contributing 16% of channel revenue, and our largest partner contributing 2.9% of channel revenue.

Academy – building on our partner training and enablement programs, we delivered 8,349 training courses to partners

Accelerate – There was a significant increase in marketing campaigns run by Partners, with 75% of Partners actively using the platform



# 2018 H1 Direct Channel Summary

25% of Group Revenue – £34.5m (2017: £26.5m)

Primary focus on Enterprise and Public Sector with several new contract wins and re-signs during the period

Significant increase in contracted revenue backlog, providing positive growth through 2018 and beyond

Achieved Stage-1 compliance on HSCN accreditation (Health framework) a platform for Public Sector growth

Digital Transformation Programme progressing well and on target for phase-1 completion during H2

Strong pipeline development during the period with several opportunities forecast to close during H2





# Priorities and initial observations

# First six months

## Priorities

Smooth transition and successful CEO handover  
(internally / externally with our partners and customers)

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Ensuring Business Continuity, and continued delivery of  
our business and financial commitments

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Understanding of our business, people and culture,  
including our priorities both today and in the future

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Developing our Vision and Strategy



# First six months

## Initial observations

Marketplace

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Gamma Culture and Core Values

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Gamma Team

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Products

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Customers and Channel Partners

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Business Model

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Vision and Strategy



# The Financials





# 2018 H1 Financial Highlights

Strong organic growth – Revenue up 18% to £137.6m

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EBITDA up 31% to £21.8m

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Adjusted EPS up 29% to 13.4p

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Cash generated by operations up 66% to £18.4m

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Interim dividend up 11% to 3.1p

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Cash balance £36.9m as at 30<sup>th</sup> June

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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

Revenue growth driven by data

Recurring revenue of 90%

Overheads increased by £5.8m – includes investment in digital strategy

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

Share based charges now at “run rate”

Effective tax rate at 18.1%

	Six months ended		Year ended	
	30 June	30 June	31 December	
	2018	2017	2017	
		(Restated)	(Restated)	Growth
<b>Revenue</b>	<b>137.6</b>	<b>116.3</b>	<b>242.0</b>	<b>18.3%</b>
Cost of sales	(75.3)	(64.7)	(133.3)	
<b>Gross profit</b>	<b>62.3</b>	<b>51.6</b>	<b>108.7</b>	<b>20.7%</b>
<i>Gross profit margin</i>	45.3%	44.4%	46.3%	
<b>Operating Expenses</b>				
Other operating expenses	(39.5)	(33.7)	(70.7)	
Share based payments	(1.0)	(1.2)	(2.0)	
<b>EBITDA</b>	<b>21.8</b>	<b>16.7</b>	<b>36.0</b>	<b>30.5%</b>
<i>EBITDA margin</i>	15.8%	14.4%	14.9%	
Depreciation and amortisation	(6.3)	(4.7)	(10.4)	
Gain on disposal of assets	0.0	0.0	0.7	
<b>Operating profit</b>	<b>15.5</b>	<b>12.0</b>	<b>26.3</b>	<b>29.2%</b>
Finance income / expense	0.0	0.1	0.2	
<b>Profit before tax</b>	<b>15.5</b>	<b>12.1</b>	<b>26.5</b>	<b>28.1%</b>
Tax expense	(2.8)	(1.4)	(3.8)	
<b>Profit after tax</b>	<b>12.7</b>	<b>10.7</b>	<b>22.7</b>	<b>18.7%</b>
<b>Adjusted EPS (Pence)</b>	<b>13.4</b>	<b>10.4</b>	<b>22.9</b>	<b>28.8%</b>



# Indirect Business

Traditional business held steady in H1 – carrier business offset “calls and lines” decline

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SIP and Cloud PBX continue to grow strongly

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Data performing well in price-competitive market

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Mobile steadily beginning to contribute to Gross Profit

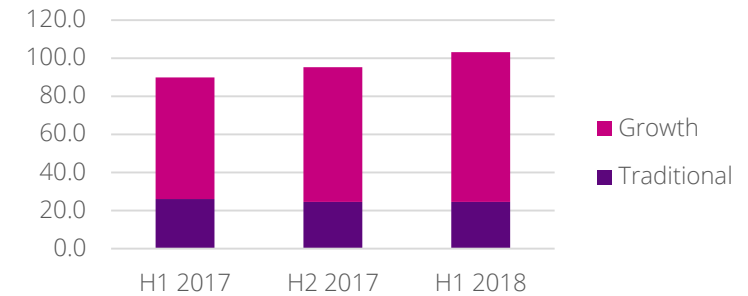
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Margin increased from 44.0% (2017:H1) to 45.2% (2018:H1) but tending to limit as mix settles

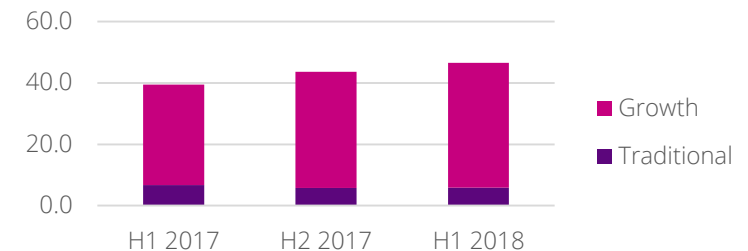
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H2 2017 flattered by £1m adjustment to costs relating to accounting policy changes

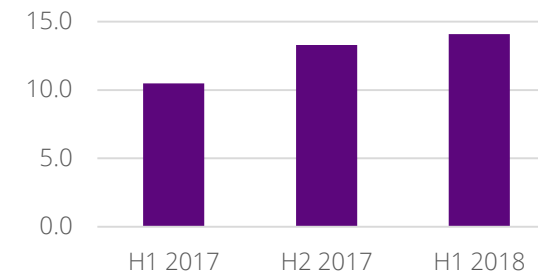
Revenue (£m)



Gross Profit (£m)



EBITDA (£m)



# Direct Business

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

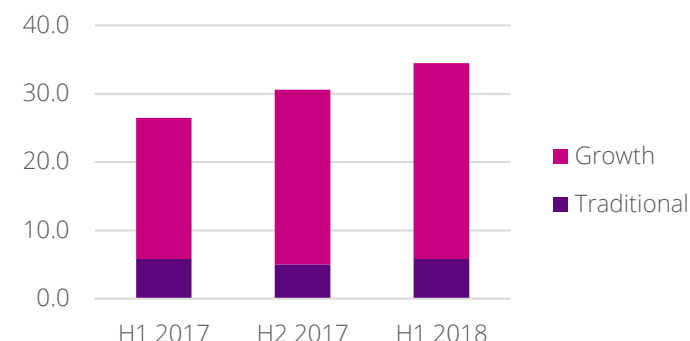
Margins settling around 45% (H1 2017 – 45.7%; H1 2018 – 45.5%) as mix settles

Changes in accounting for commissions make overhead look lumpy

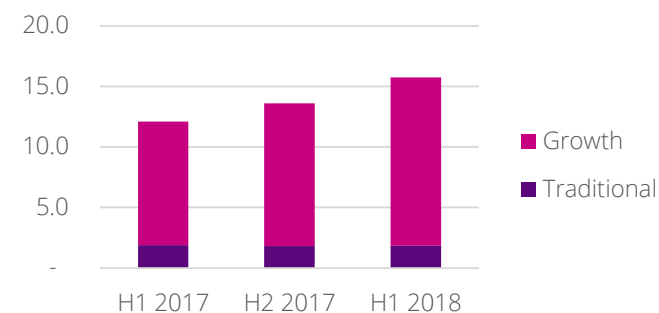
Digital strategy spend in H1 2018 – £0.6m

Pipeline remains very strong with and increasingly robust contracted revenue backlog

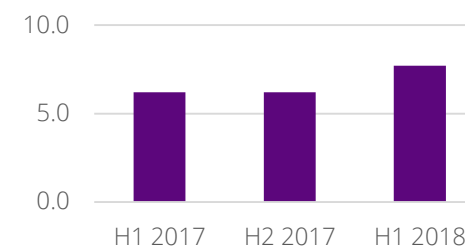
Revenue (£m)



Gross profit (£m)



EBITDA (£m)



# Balance Sheet and Cash Flow

Remain debt free with strong cash reserves

Cash conversion at 84.4% under new accounting policies – CPE supplies now affect working capital

Underlying Capex at “new normal” levels:

- Maintenance Capex at £5.2m (2017: £4.9m) – now includes software previously expensed
- Network upgrade of £1.1m – now complete
- Customer Premise Equipment (“CPE”) no longer capital item

Balance Sheet as at (£m)	30 June 2018	30 June 2017	31 Dec 2017
Non-current assets (incl. PPE)	63.1	50.5	57.3
Receivables and inventories	75.1	64.4	64.8
Cash	36.9	28.7	31.6
Current assets	112.0	93.1	96.4
<b>Total assets</b>	<b>175.1</b>	<b>143.6</b>	<b>153.7</b>
Non-current liabilities	14.6	9.1	9.6
Current liabilities	56.3	51.1	48.8
<b>Total liabilities</b>	<b>70.9</b>	<b>60.2</b>	<b>58.4</b>
Share capital	6.9	6.3	6.3
Other reserves	2	1.5	2
Retained earnings	95.3	75.6	87
<b>Total Equity</b>	<b>104.2</b>	<b>83.4</b>	<b>95.3</b>

Cash Flow Statement as at £m	30 June 2018	30 June 2017	31 Dec 2017
<b>EBITDA</b>	<b>21.8</b>	<b>16.7</b>	<b>36.0</b>
<b>Cash generated by operations</b>	<b>18.4</b>	<b>11.1</b>	<b>29.8</b>
<i>Cash conversion</i>	<i>84.4%</i>	<i>66.5%</i>	<i>82.8%</i>
Taxation	-1.8	-1.1	-3.6
Capital Expenditure	-6.3	-4.9	-15.7
<b>Cash inflow before Acquisitions and Financing</b>	<b>10.3</b>	<b>5.1</b>	<b>10.5</b>

# 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

EPS only depressed due to SBP –  
accounting changes have  
minimal effect

	Adjusted EBITDA		Growth	Adjusted EPS (FD)		Growth
	H1 2018	H1 2017		H1 2018	H1 2017	
	£m	£m		p	p	
Consistent with 2017 presentation and accounting policy	25.2	19.7	28%	14.4	11.6	24%
Changes due to presentation						
- Share Based Payments	-1.0	-1.2		-0.8	-0.9	
Changes due to accounting policy						
- IFRS 15 - Revenue	-3.0	-1.8		-0.1	-0.3	
- IFRS 16 - Leases	0.6	-		-0.1	-	
<b>Consistent with 2018 presentation and accounting policy</b>	<b>21.8</b>	<b>16.7</b>	<b>31%</b>	<b>13.4</b>	<b>10.4</b>	<b>29%</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% but more chance of fluctuation due to CPE

	Cash generated by operations		Growth	Conversion of EBITDA	
	H1 2018	H1 2017		H1 2018	H1 2017
	£m	£m			
Consistent with 2017 presentation and accounting policy	22.5	15.3	47%	89%	78%
Changes due to accounting policy					
- IFRS 15 – Revenue – CPE Spend	-5.2	-5.1			
- IFRS 15 – Revenue – Software spend	0.5	0.9			
- IFRS 16 – Leases	0.6	-			
<b>Consistent with 2018 presentation and accounting policy</b>	<b>18.4</b>	<b>11.1</b>	<b>66%</b>	<b>84%</b>	<b>66%</b>

# Outlook and Priorities moving forward



# Outlook

Mid-long term market outlook continues to be positive, driven by strong growth drivers in our key Products

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Momentum in SIP Trunking is expected to continue in the short-medium term with continued growth and anticipated consolidation amongst smaller operators

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Cloud telephony market is in a growth phase and new functionality and adoption will help fuel that growth, however we expect increasing competition to be a market feature

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

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Key Product Development activities include:

- WIFI Calling Application launch scheduled for Q4 2018
- 4G back-up service launch date scheduled Q4 2018
- “Horizon Collaborate” launch scheduled for Q1 2019
- 10Gbps Ethernet services scheduled for Q1 2019

# Priorities moving forward

Continue to execute against our commitments and strengthen our capabilities across Gamma's core products, channels and markets

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Continued focus on quality and operational excellence across our business

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Continue to focus effort on strengthening our capabilities to support the indirect channel to be successful

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Harness the skills and talent across our business and invest in developing and strengthening the quality of the team  
– making Gamma a great place to work!

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Reinforce and enhance the "One Gamma" culture and corporate values

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Establish a longer-term vision and growth strategy for Gamma:

- Based around a detailed strategic planning framework
- Dedicated resource & support to both establish and execute our plans
- Building on strong foundations and a solid platform to deliver long term sustainable growth







Q&A



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# Thank you



# Appendix - Products

