



# Gamma H1 2019 Results

Andrew Taylor, CEO  
Andrew Belshaw, CFO





# Results H1 2019

## Agenda

H1 2019 Performance Highlights & Business Update  
Andrew Taylor

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H1 2019 Financial Review  
Andrew Belshaw

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Gamma 2023 Strategic Plan – Update  
Andrew Taylor

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Business Outlook and Priorities  
Andrew Taylor

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Q&A



# Performance Highlights & Business Update

# HY 2019 - Highlights

## Strong financial performance:

Revenue	£158.2m	(+15% against HY 2018; organic growth was +9%)
EBITDA	£30.4m	(+39%)
Adjusted EPS	19.2p	(+43%)

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- Strong growth across all key products, with a continued focus on upselling and cross selling across all sales channels
- Indirect business grew strongly – strengthened organisation & structure delivering improved levels of channel engagement
- Excellent sales & delivery execution across our Direct business, driving strong sales pipeline and contracted backlog growth
- Established “Gamma 2023” - a clear vision and strategic plan that will deliver long-term sustainable growth for Gamma – very much moving into execution phase
- Development of our Cloud Telephony and UCaaS suite – Collaborate launched in March 2019 and has over 4,000 users
- Successfully implemented phase-1 of our Digital Transformation Program across our Direct Business
- Successful integration of our Dutch businesses (Nimsys acquired in February) which is overall performing to plan
- Ongoing review of other acquisition opportunities across the UK and Western Europe
- Good progress on both our Mobile and Data access strategies



# Product Performance

# 2019 - 1<sup>st</sup> Half Year Summary - Applications

Product	Unit Growth In H1 2019	Comments
SIP Trunking	856k to 938k (+10%)	<ul style="list-style-type: none"><li>• 5.5% market growth over the period*</li><li>• Margins consistent with previous periods</li><li>• Further consolidated No. 1 position in the market – growth in market share, now at 30% market share</li><li>• Increasing sale of SIP Trunk Call Manager, representing 48% of new SIP channel adds in the period; improving competitiveness, protecting margin &amp; reducing churn</li></ul>
Horizon	435k to 478k (+10%)	<ul style="list-style-type: none"><li>• 8.7% market growth over the period*</li><li>• Gamma approx. 23% of all new adds in the period in the target sub 50 user market</li><li>• Margins consistent with previous periods</li><li>• No 1 in the total UK Cloud PBX market, with overall market share of 11.1%*</li></ul>

\* Cavell Consulting

# 2019 Product Summary - Connectivity

Product	Unit Growth in H1 2019	Comments
Business Broadband	94k to 103k (+10%)	<ul style="list-style-type: none"> <li>• Good growth in a mature market – small but growing market share of 3.7%</li> <li>• 1.1% market growth (Business Broadband Market) during the period*</li> <li>• Cost base reductions throughout 2018 enabling keener pricing to improve competitiveness whilst maintaining margins in H1 2019</li> </ul>
Ethernet	8,370 to 11,000 (+31%)	<ul style="list-style-type: none"> <li>• Good growth in Ethernet connections &amp; increase in bandwidth of those connections and increases</li> <li>• Market growth overall flat for the period, market is driven by bandwidth upgrades and increases</li> <li>• Market share of c.5% of the sub 250 user business Dedicated Connections Market</li> </ul>
Mobile	50k to 60k (+20%)	<ul style="list-style-type: none"> <li>• Continue to increase connections and mobile data consumption</li> <li>• Focus is on enhancing the overall proposition and service for both our Direct and Indirect channels, while working with a strategic MNO partner</li> </ul>

\* Analysis Mason Consulting forecast for period

# Business Unit Performance



# H1 2019 Indirect Channel Summary

70% of Group revenue – £110.9m (H1 2018: £103.1m)

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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 16% of channel revenue, and our largest partner contributing 3.5% of channel revenue, which is similar to previous years.

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Academy – The Gamma Academy delivered 11,908 training courses to Channel Partners during H1 2019 (H1 2018: 8,349).

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Accelerate – Significant increase in marketing campaigns run by Partners, with 796 Partners actively using the platform in H1

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Channel Engagement – Significant number of events held across the UK to drive existing and new business

- over 750 channel partners attended our channel roadshow
- more than 140 attended our Collaborate launch



# H1 2019 Direct Channel Summary

25% of Group Revenue – £40.0m (2018: £34.5m)

Several new contract wins including HMRC, Hogg Robinson, Inchcape plc, Bourne Leisure, NHS Lanarkshire and HM Land Registry

Significant increase in contracted revenue and margin backlog

In the Public Sector, Gamma was successful in achieving accreditation in seven lots applied for by the Crown Commercial Service as an approved supplier on its new Network Services 2 framework agreement, (RM3808)

Successful delivery of phase 1 of the Digital Transformation Programme and phase 2 now in execution mode with delivery expected during H2

Strong pipeline development during the period with several opportunities forecast to close during H2  
- providing good revenue visibility and an overall positive outlook



# H1 2019 Overseas Summary

5% of Group revenue – £7.3m

Nimsys acquired in February and performing ahead of expectations. Customer wins include - Avanade, Whitepages, Scott Brownrigg, ING and Rosewood Hotel

Schiphol Connect successful in migrating customers from legacy products to next generation platform

Dean (Channel) business has done well but the legacy ISDN business has reduced more quickly than expected

Business now has over 20,000 Cloud PBX seats and benefiting from synergies with Gamma (e.g. handsets and licenses)

Mobile “Go” proposition launched to retail and wholesale partners and received very well in the market

Very structured and targeted approach to identify other acquisition opportunities in Western Europe





# H1 2019 Financial Review

# H1 2019 Financial Highlights

Strong growth – Revenue up 15% to £158.2m (organic growth of 9%)

Adjusted EBITDA up 39% to £30.4m

Adjusted EPS up 43% to 19.2p

Cash generated by operations up 49% to £27.4m

Interim Dividend up 13% to 3.5p

Cash balance £44.8m as at 30 June



# Income Statement

Organic revenue growth of 9% - NL revenue of £7.3m in H1

Recurring revenue remains at 90%+

Margins increased despite price pressure due to reductions in cost base and mix

£4.0m of Overhead "growth" is inorganic; remainder due to investment in sales, development and digital strategy

Exceptional items (non-cash) are driven by adjustment to DX Groep purchase price

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

Effective tax rate at 15%

	Six months ended		Year ended	
	30 June	30 June	31 December	
	2019	2018	2018	Growth
<b>Revenue</b>	<b>158.2</b>	<b>137.6</b>	<b>284.9</b>	<b>15.0%</b>
Cost of sales	(80.1)	(75.3)	(152.7)	
<b>Gross profit</b>	<b>78.1</b>	<b>62.3</b>	<b>132.2</b>	<b>25.4%</b>
<i>Gross profit margin</i>	49.4%	45.3%	46.3%	
<b>Operating Expenses</b>				
Other operating expenses	(47.7)	(40.5)	(83.9)	
<b>Adjusted EBITDA</b>	<b>30.4</b>	<b>21.8</b>	<b>48.3</b>	<b>39.4%</b>
<i>EBITDA margin</i>	19.2%	15.8%	17.0%	
Exceptional items	0.0	0.0	0.0	
Depreciation and amortisation	(7.5)	(6.3)	(13.5)	
Amortisation related to acquisitions	(1.1)	0.0	(0.4)	
<b>Operating profit</b>	<b>21.8</b>	<b>15.5</b>	<b>34.4</b>	<b>40.6%</b>
Finance income / expense	(0.1)	0.0	0.1	
<b>Profit before tax</b>	<b>21.7</b>	<b>15.5</b>	<b>34.5</b>	<b>40.0%</b>
Tax expense	(3.2)	(2.8)	(6.1)	
<b>Profit after tax</b>	<b>18.5</b>	<b>12.7</b>	<b>28.4</b>	<b>45.7%</b>
<b>Adjusted EPS (Pence)</b>	<b>19.2</b>	<b>13.4</b>	<b>30.3</b>	<b>43.3%</b>

# Indirect Business

Growth business increasing at Revenue and GP led by SIP and Cloud PBX continue to grow strongly

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Traditional business static at gross profit but low margin legacy “calls and lines” replaced by higher margin “IP Carrier”

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Data grew more slowly in H1 – competitive pressure

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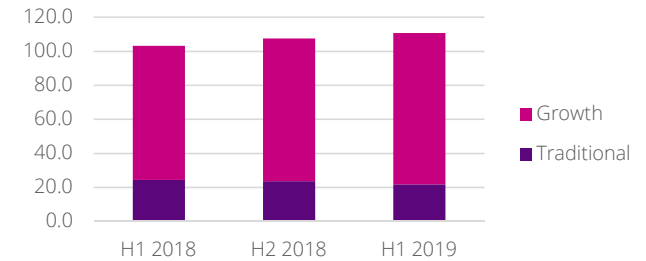
Mobile steadily beginning to contribute to Gross Profit

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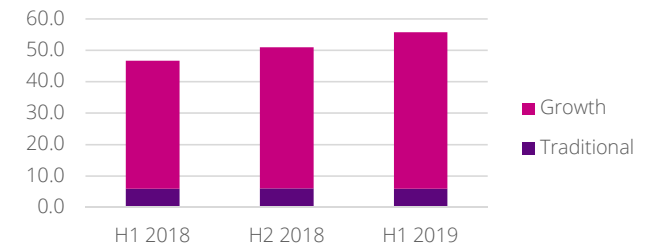
Margin increased from 45.2% (2018) to 50.4% due to reductions in cost base and mix – price pressure remains

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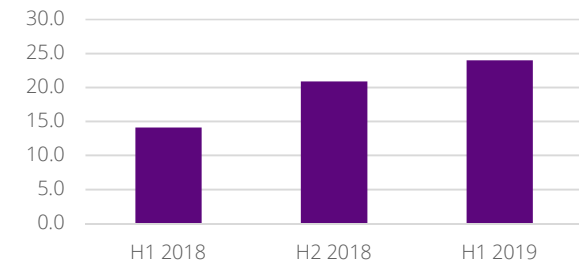
Revenue (£m)



Gross Profit (£m)



EBITDA (£m)



# Direct Business

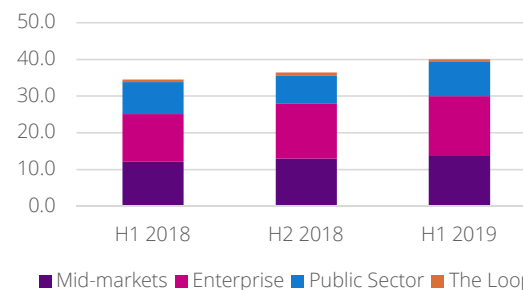
Direct business continues to grow fast, driven by Enterprise and Public Sector

Slight reduction in margins (2018: 45.5%; 2019: 44.8%) due to lower margins being earned in the Public Sector and some price pressure in Mid-Market

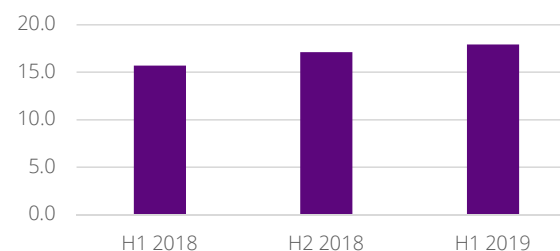
Overheads increased due to investment in sales team and digital strategy meaning that EBITDA fell against H2 2018

Digital strategy spend not part of ongoing run rate

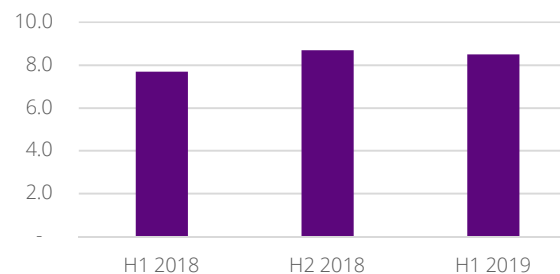
Revenue (£m)



Gross Profit (£m)



Adj EBITDA (£m)





# Netherlands - Dean One, Schiphol Connect and Nimsys

Overseas business contributed £7.3m to revenue in H1 2019 and £1.2m of EBITDA

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In addition £0.9m of costs spent evaluating other European opportunities (overall “overseas EBITDA” was £0.3m for the first half)

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Dean trading is driven by Cloud PBX and also by mobile since deal signed with T-Mobile in late 2018. Schiphol Connect and Nimsys trading well

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DX Groep acquisition costs – £11.5m paid; unlikely to be any further consideration due to fall in ISDN revenues affecting the 2019 results and hence reduces the contingent consideration

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Nimsys acquisition costs – £3.7m paid; max will be £6.9m (amount to be based on 2019 / 2020 EBITDA)

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Therefore total acquisition costs will be £15.2m – £18.4m

# Balance Sheet and Cash Flow

Remain debt free with strong cash reserves

Cash conversion increased to 90%


Capex consistent with prior year:

- Maintenance Capex of £5.2m (2018: £5.2m)
- No “one off” projects in first half – in H1 2018 we had a network upgrade of £1.1m

Payment of £3.4m (net of cash acquired) in H1 for acquisition of Nimsys

Balance Sheet as at (£m)	30 June 2019	30 June 2018	31 Dec 2018
Non-current assets (incl. PPE)	90.3	63.1	90.3
Receivables and inventories	85.8	75.1	69.0
Cash	44.8	36.9	35.5
Current assets	130.6	112.0	104.5
<b>Total assets</b>	<b>220.9</b>	<b>175.1</b>	<b>194.8</b>
Non-current liabilities	23.5	14.6	24.9
Current liabilities	62.2	56.3	48.2
<b>Total liabilities</b>	<b>85.7</b>	<b>70.9</b>	<b>73.1</b>
Share capital	7.2	6.9	7.1
Other reserves	2.2	2.0	2.2
Retained earnings	125.8	95.3	112.4
<b>Total Equity</b>	<b>135.2</b>	<b>104.2</b>	<b>121.7</b>

Cash Flow Statement as at £m	30 June 2019	30 June 2018	31 Dec 2018
<b>Adjusted EBITDA</b>	<b>30.4</b>	<b>21.8</b>	<b>48.3</b>
<b>Cash generated by operations</b>	<b>27.4</b>	<b>18.4</b>	<b>40.6</b>
<i>Cash conversion</i>	<i>90%</i>	<i>84%</i>	<i>84%</i>
Taxation	-2.7	-1.8	-4.3
Capital Expenditure	-5.2	-6.3	-12.7
<b>Cash inflow before Acquisitions and Financing</b>	<b>19.5</b>	<b>10.3</b>	<b>23.6</b>

The background features a dark purple aerial view of a city with a circuit board pattern overlaid. The circuit lines are light purple and form a complex grid. On the right side, there are two large, overlapping abstract shapes: a light purple one on top and a bright orange one on the bottom. A white curved line separates these shapes and extends across the page.

# Gamma 2023 Strategic Plan - update

# Gamma 2023 Key strategic priorities

Evolve our strong cloud telephony position into the UCaaS market



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



Expand to Europe to gain continued growth and scale



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



# Gamma 2023 Strategy - H1 update

Good progress in building detailed execution plans against each of our strategic priorities:

Launched our first complete UCaaS product “Collaborate” and fully assessed options to evolve our UCaaS proposition for different market sectors

In support of our objective to move to a ‘lighter’ MVNO model, we are working with our Mobile Network Operator partner to ensure we can provide our customers with the latest and most advanced services including 5G

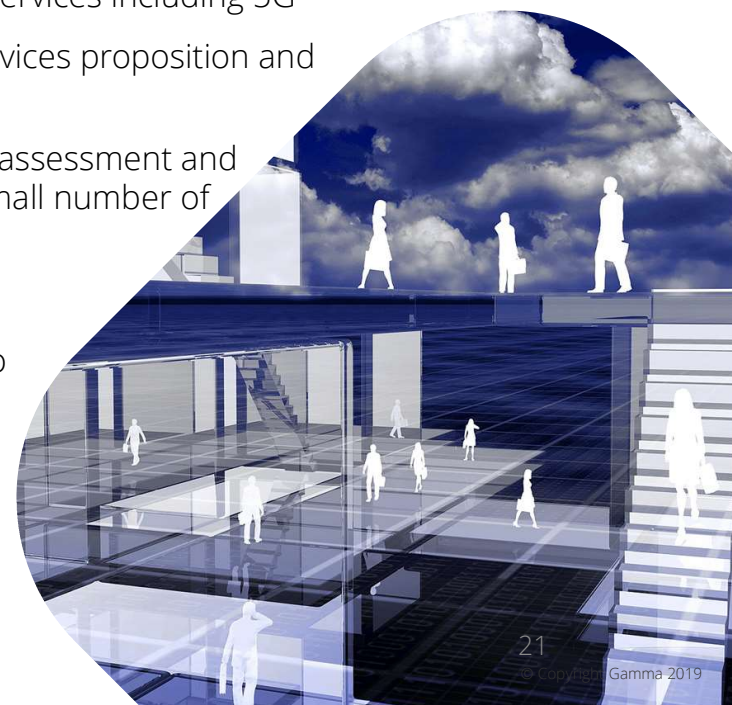
Completed a comprehensive assessment of our options to develop our fixed data services proposition and we are now planning the execution of the resultant strategy

Our European strategy has been developed in detail and we carried out a full market assessment and shortlisting of M&A targets in two key geographies. Discussions have started with a small number of potential targets

Acquisition of Nimsys as an extension to the Dean One business in the Netherlands

Further developed our Digital Strategy, resulting in a clear and realistic plan for how to build on our existing Digital capabilities, as user behaviours and expectations evolve.

As we enter H2, we are focused on building the overall programme of work to deliver these plans in a sustainable and pragmatic way, for the mid to long term benefit of the business



The slide features a background image of a modern office with people working at computers. A large, semi-transparent purple circle is positioned in the upper right, and a large, solid green shape is in the lower right. A white curved line separates the purple and green areas. The text 'Business Outlook and Priorities' is centered in white. In the background, a red circular icon with a white hand symbol is visible on the wall.

# Business Outlook and Priorities

# Business Outlook and Priorities

Despite political and economic uncertainties, the outlook continues to be positive, driven by growth across our key products and markets

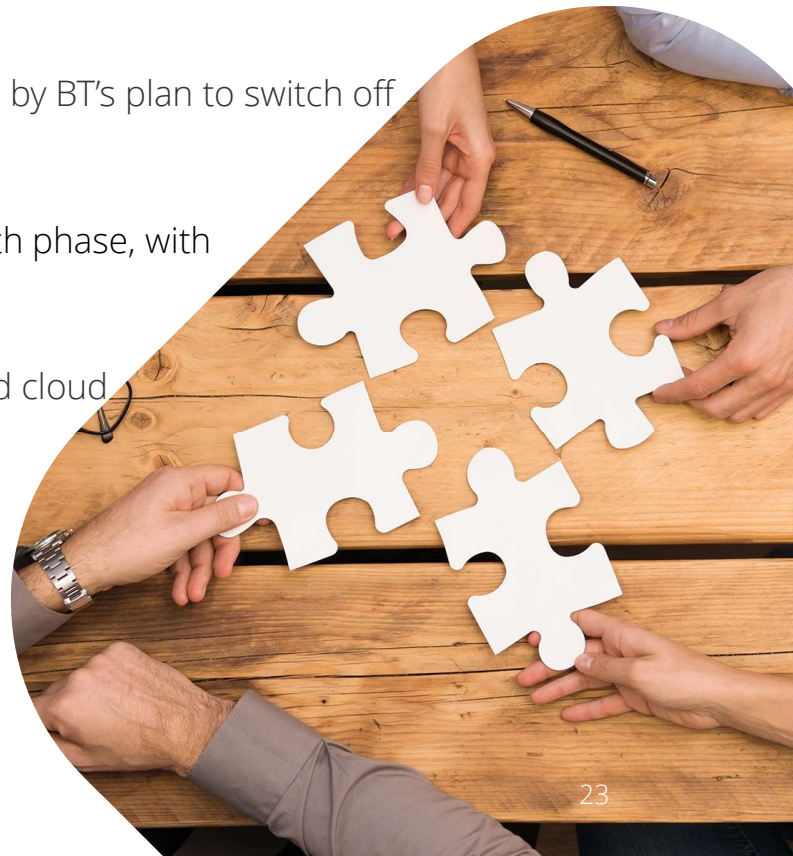
Momentum in SIP Trunking is expected to continue in the short term, driven by BT's plan to switch off ISDN in 2025

The UK Cloud Telephony and UCaaS market continues to be in a rapid growth phase, with increasing competition as a key market feature

Data volumes continue to grow rapidly, driven by fibre investments and rapid cloud adoption, which is driving demand for FTTX.

Margin pressure due to increasing competition is a feature.

European cloud telephony penetration continues to be very low, although uptake and overall market growth across all markets continues to increase



# Business Outlook and Priorities

Key Product development activities in H2 include:

- Enhanced Collaboration features, including a fully integrated in-room video solution
- Enhanced MiFiD compliant call recording solution
- SIP enhancements, to support the Microsoft Team market
- 4G Fast-start and back-up for our high speed Ethernet services
- A range of simple & managed Wi-Fi services for the business market

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Execution of our “Gamma 2023 strategic plan”

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

Continued development & strengthening of the Gamma team  
– harnessing and augmenting our skills and talent





The image features a dark purple background with large, semi-transparent letters 'Q', '&', and 'A' in shades of purple and blue. A white 'Q&A' text is centered on the 'Q'. Two white curved lines are overlaid on the design, one at the bottom left and one at the top right.

Q&A



Thank you

