

# GAMMA COMMUNICATIONS PLC

Interim results for the six months ended 30 June 2015



September 2015



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# Gamma summary

Gamma is a rapidly growing, technology-based, provider of communications services to the UK business market

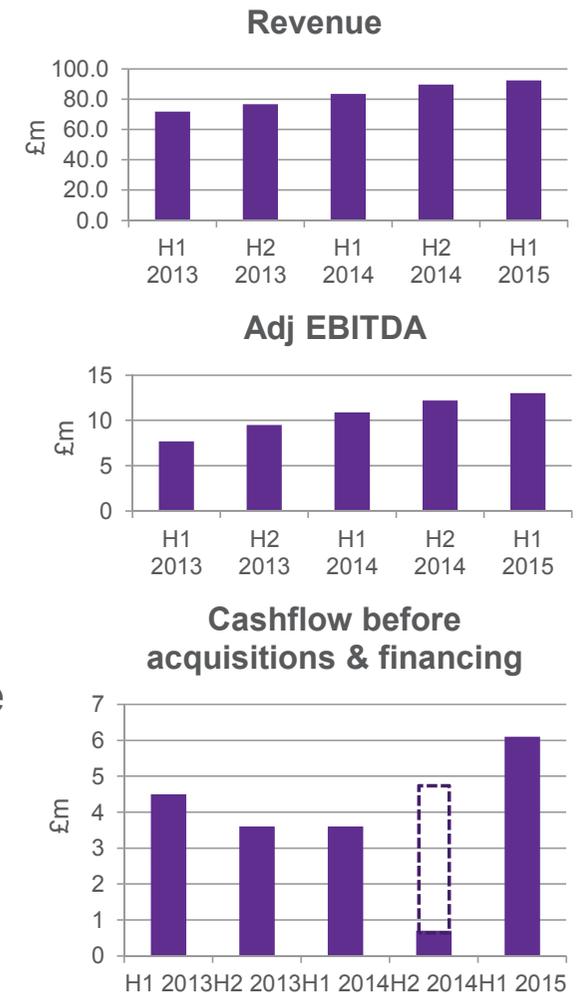
- Provides integrated voice, data, and mobile telecoms services and applications to businesses
- Strong organic growth since 2006 driven by repeating revenues
- Efficient indirect channel model with broad customer base and low customer concentration
- One of the UK's market leaders in SIP – differentiated by IP in internally developed software and systems
- Highly cash generative with resilient business model
- Consistent EBITDA growth with high margin new generation services
- Positioned for continued significant growth in specific segments
- Robust and scalable business model – underpinned by “Policy of One”



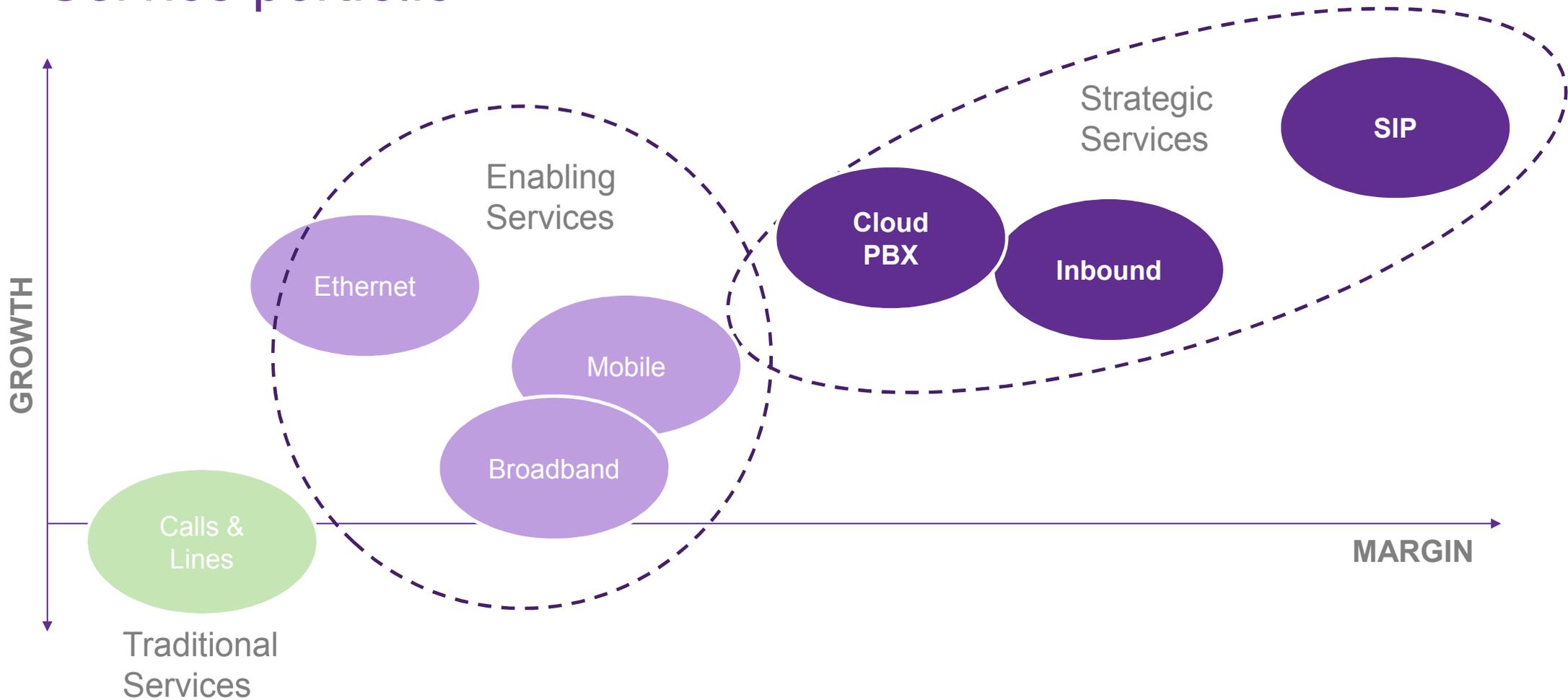
# Highlights of H1 2015

Strong organic growth across the business

- Good growth in Strategic Services whilst Traditional Services declined slightly
- Number of active channel partners increased from 725 to 782 (+8%)
- SIP Trunks increased from 234k to 283k (+21%) & Cloud PBX users increased from 80k to 107k (+34%)
- Strong revenue and margin growth in direct sales, with wins including Taylor Wimpey, The Law Society, Metrobank and Moneysupermarket
- Selected for 8 “Lots” on the Crown Commercial Service Network Service Agreement – a prerequisite for major public sector contracts
- Launched multi-site data network in June on time
- Strong product pipeline with continuing focus on development of new mobile offering, due in H1 2016



# Service portfolio



# Strategic services – increasing market share

	Gamma growth H1 14 - H1 15	Market CAGR 2014	Position in UK market & share	UK Market size by 2018*	Update
<b>SIP Trunking</b> “Business grade VOIP” replacing ISDN	44%	20%*	16% (#1)	£819m	<ul style="list-style-type: none"> <li>• Market share increasing</li> <li>• Installed base 280,000+</li> <li>• TalkTalk entered market</li> <li>• Biggest ever order – Central Gov’t Dep’t</li> <li>• Margin steady</li> </ul>
<b>Cloud PBX</b> “Phone system in the cloud” replacing on- site hardware	57%	22%*	6%	£650m	<ul style="list-style-type: none"> <li>• Market share increasing</li> <li>• Installed base 100,000+</li> <li>• Still no competitive threat from “major players”</li> <li>• Margin steady</li> </ul>

\* Source – illume consulting

Our brand as the No. 1 SIP provider is creating increasing number of opportunities

“Comprehensive hosted package” is driving success in the growing market



# H1 operational review – indirect and direct

Consistent growth across both channels

## Indirect

- Gross Profit increased from £25.5m to £30.3m (19%)
- 57 active new partners
- Named subcontractor for multiple partners on new public sector framework
- Platinum partner programme introduced with enhanced marketing to drive sales
- Major contracts committed for delivery in H2

## Direct

- Gross Profit increased from £6.5m to £8.9m (37%)
- Strong position on new public sector framework
- First FTSE 100 customer
- Increasing average margin per customer
- Average contract lengths increasing
- Increasing gross profit; upselling into existing base



# GAMMA COMMUNICATIONS PLC



## FINANCIALS



# Income statement

- Continued organic growth driven by strategic services (SIP, Cloud PBX and Inbound)
- Repeating revenues remains high
- 79% of revenue from indirect channel
- Improving gross profit margins due to favourable product mix
- Share based charges will remain at this level for next two years
- Strong growth in adj. EPS
- Interim dividend of 2.2p

	6 months ended 30 June		Year ended 31 Dec	
	2015	2014	2014	Growth
<b>Revenue</b>	<b>92.4</b>	<b>83.6</b>	<b>173.2</b>	<b>10.5%</b>
Cost of sales	-53.2	-51.6	-105.6	
<b>Gross profit</b>	<b>39.2</b>	<b>32.0</b>	<b>67.6</b>	<b>22.5%</b>
<i>Gross profit margin</i>	<i>42.4%</i>	<i>38.3%</i>	<i>39.0%</i>	
Adj operating expenses*	-26.2	-21.1	-44.5	
<b>Adj EBITDA**</b>	<b>13.0</b>	<b>10.9</b>	<b>23.1</b>	<b>19.3%</b>
<i>Adj EBITDA margin</i>	<i>14.1%</i>	<i>13.0%</i>	<i>13.3%</i>	
Exceptional items	-	-0.4	-2.0	
Depreciation and amortisation	-3.6	-2.8	-6.4	
Share based charges	-1.8	-0.5	-3.2	
<b>Operating profit</b>	<b>7.6</b>	<b>7.2</b>	<b>11.5</b>	<b>5.6%</b>
Finance income / expense	-	-	-	
<b>Profit before tax</b>	<b>7.6</b>	<b>7.2</b>	<b>11.5</b>	<b>5.6%</b>
Tax expense	-1.4	-1.4	-2.1	
<b>Profit after tax</b>	<b>6.2</b>	<b>5.8</b>	<b>9.4</b>	<b>6.9%</b>
<b>Adjusted Diluted EPS (pence)</b>	<b>8.2</b>	<b>7.1</b>	<b>15.0</b>	<b>15.5%</b>

Notes: \*Operating expenses before exceptional items, depreciation, amortisation and share based charges

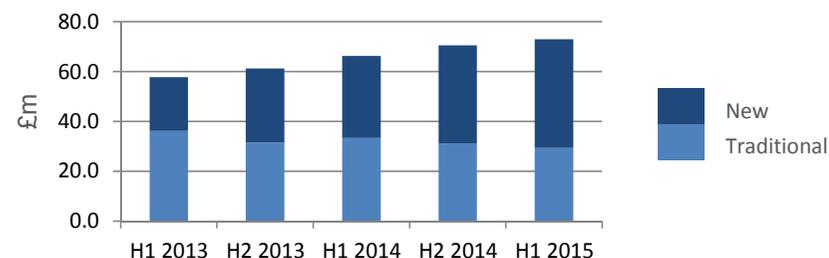
\*\*EBITDA before share based payments and exceptional items



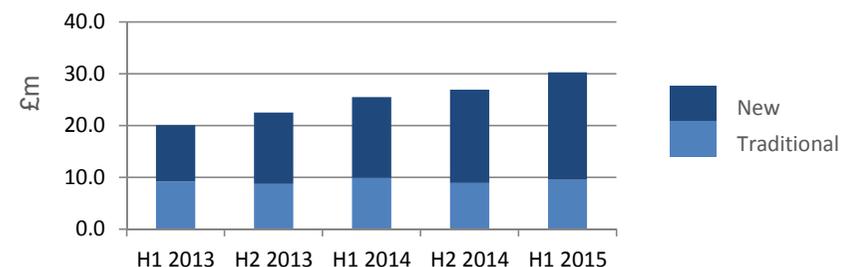
# Indirect business

- Strong revenue growth of 10% against first half 2014
- Positive shift in mix of traditional and new (strategic and enabling) services at both revenue and gross margin
- Strong increase in strategic services – especially SIP Trunking and Cloud PBX
- Traditional calls and lines – beating the market structural decline
- Gross margin increased from 38% (H1 2014) to 42%: mix and falling cost base
- Adj. EBITDA margin increased from 12.5% to 12.9%
- Underlying Adj. EBITDA margin is 14.0% correcting for £0.8m of mobile investment

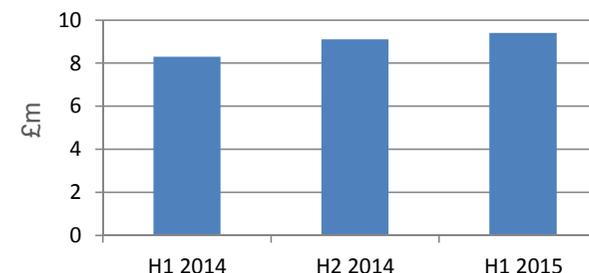
Revenue



Gross Profit



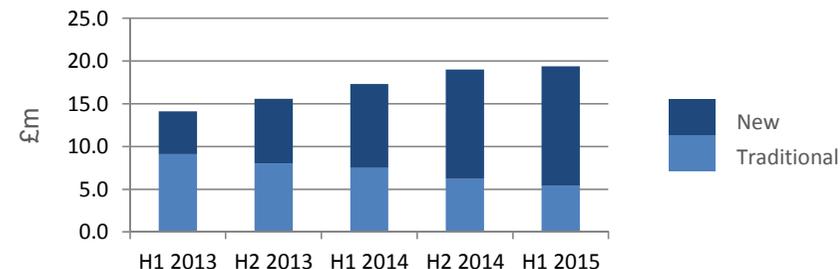
adj EBITDA



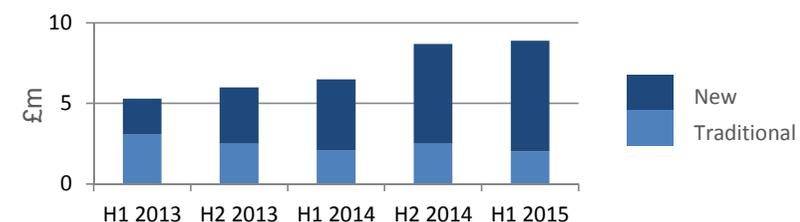
# Direct business

- Direct business growing due to strategic services, revenue up 12% against the first half of 2014
- Margin increased from 38% (H1 2014) to 46% - due to mix
- Adj. EBITDA margin increased from 15.0% to 18.6%
- “Pull through” yet to feature
- High level Early Termination Charges (ETC's) flatters H2 2014 gross profit

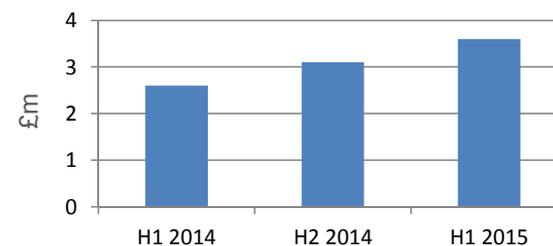
Revenue



Gross Profit



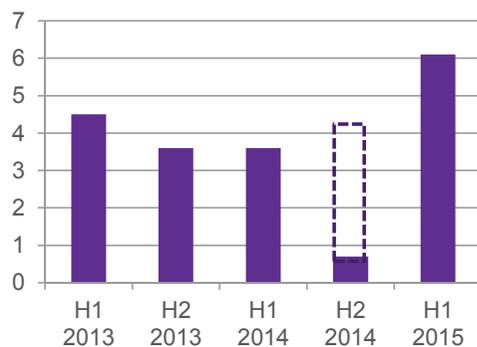
adj EBITDA



# Balance sheet and cash flow

- Significant cash reserves, and remain debt free
- Consistent cash generation – 84% conversion rate
- Capex in line with expectations (includes £1.6m of customer premises equipment)
- Other non-trading cash outflows:
  - £3.5m – dividend
  - £0.2m – share related items

Cashflow before acquisitions and financing



Notes: \*EBITDA before share based payments and exception items.



	30-Jun		31-Dec
	2015	2014	2014
<b>Balance Sheet</b>			
<b>(£m)</b>			
Non-current assets (incl. PPE)	31.6	25.7	32.0
Receivables and inventories	35.0	29.3	33.6
Cash	16.1	17.5	13.4
Current assets	51.1	46.8	47.0
<b>Total assets</b>	<b>82.7</b>	<b>72.5</b>	<b>79.0</b>
Non-current liabilities	1.3	2.8	1.1
Current liabilities	26.9	26.5	26.7
<b>Total liabilities</b>	<b>28.2</b>	<b>29.3</b>	<b>27.8</b>
Share capital (inc Merger Reserve)	5.9	2.5	5.7
Other reserves	2.6	1.5	2.4
Retained earnings	46.0	39.2	43.1
<b>Total equity</b>	<b>54.5</b>	<b>43.2</b>	<b>51.2</b>

	6 months to 30 June		Year to 31 Dec
	2015	2014	2014
<b>Cash Flow Statement as at</b>			
Adj EBITDA*	13.0	10.9	23.1
Net Cash inflow from Operations (pre-tax)	10.9	8.5	19.4
Cash conversion	83.8%	78.0%	84.0%
Taxation	-0.8	-1.3	-3.0
Capital Expenditure	-4.0	-3.6	-12.1
<b>Cash inflow before Acquisitions and Financing</b>	<b>6.1</b>	<b>3.6</b>	<b>4.3</b>

# GAMMA COMMUNICATIONS PLC



# Market new wins

Indirect Channel: Increasingly selling the Gamma brand (79% of revenue)

<p>System Integrator</p> <p>(36 of top UK 100 with Gamma*)</p> 	<p>Hardware Vendors</p> <p>Resellers of Cisco, Mitel, Avaya, etc</p> 	<p>Mobile Operators</p> 	<p>Resellers</p> <p>IT Voice Mobile</p> 	<p>Carriers</p> 	<p>Special Business Services</p> 
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Direct Channel (21% of revenue)

<p>SME</p> 	<p>Enterprise</p> 	<p>Public Sector</p> 
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Examples of major new SI Channel Partners include Dimension Data, Telent and SCC

Indirect Channel: **new customers** through Partners

Large Central Gov't Dept

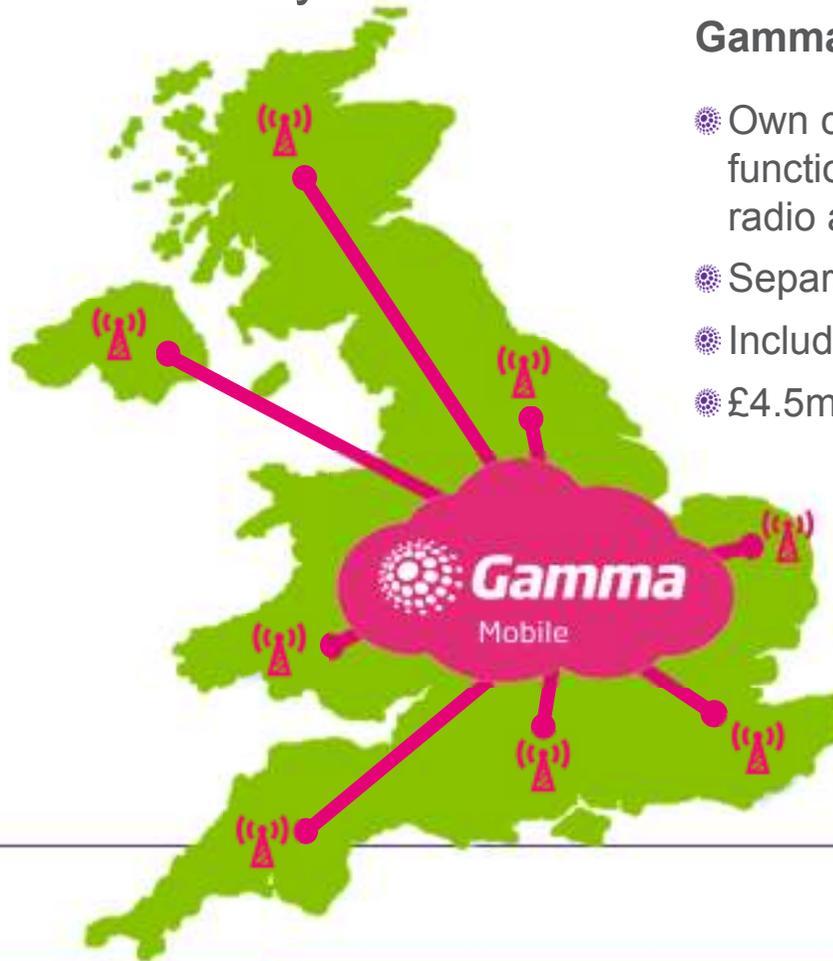


Source: \* The CRN top 100 SI-VARS 2013



# The Gamma Mobile network

“Masters of our own destiny”



## Gamma's Mobile Network

- Own core infrastructure, with comparable functionality to a mobile operator, using 3<sup>rd</sup> party radio access
- Separate roaming agreement under negotiation
- Includes 4G high speed data services
- £4.5m out of £5.5m initial investment spent

## What does it give us?

- Better margin and service on existing business
- Opens up new markets and opportunities
- Acts as platform for converged offerings



# Competitive Positioning

- Businesses increasingly planning to buy communications services from a single supplier
- Larger operators and current consolidation focussed on bundled residential offerings (e.g. BT/EE)
- New entrants to UK SIP market (e.g. TalkTalk for Business) and hosted PBX market (more from US and Europe)
- Channel continues to be dynamic, with many players entering the market or diversifying and building comprehensive ICT businesses (e.g. Daisy)
- UK Government focus on expanding the supply chain for telecoms services
- OFCOM Strategic Review will drive change



# H1 in summary

- SIP and Hosted continue to drive growth
- Indirect business growing ahead of plan
- Direct business winning bigger customers
- Mobile development on track for release in H1 16
- Public sector now offers significant opportunity – direct and indirect

**The Board are confident of meeting full year expectations**



# Looking Forward

## Medium term

- New converged offerings being developed
  - Market research concluded
  - Concept designs identified

## Longer term

- Gamma becomes one of a very small number of players with in depth technical infrastructure and know-how in Voice, Data, Mobile and related Applications



# THANK YOU

[www.gamma.co.uk](http://www.gamma.co.uk)



# Appendix



# GAMMA COMMUNICATIONS PLC



## MANAGEMENT AND OWNERSHIP



# Board & Senior Management

## Senior Management



Bob Falconer  
CEO  
Telecoms – 35+ yrs  
Gamma – 2003



Andrew Belshaw  
CFO  
Telecoms – 7+ yrs  
Gamma – 2007



Richard Bligh  
Marketing  
Telecoms – 20+ yrs  
Gamma – 2004



David Macfarlane  
Solutions  
Telecoms – 20+ yrs  
Gamma – 2012



Paul Peel  
Development  
Telecoms – 11+ yrs  
Gamma – 2003



Malcolm Goddard  
Commercial  
Telecoms – 10+ yrs  
Gamma – 2005



John Haw  
Sales  
Telecoms – 15+ yrs  
Gamma – 2005



Andy Morris  
Operations  
Telecoms – 20+ yrs  
Gamma – 2006



Alan Mackie  
Products  
Telecoms – 20+ yrs  
Gamma – 2006

## Board of Directors (includes Bob Falconer & Andrew Belshaw)



Richard Last,  
Chairman

Also chair:  
Servelec plc,  
Arcontech plc,  
Lighthouse plc



Alan Gibbins,  
INED

Ex-Ptnr  
PWC LLP  
NED Bluebay  
asset mgmt. plc



Martin Lea,  
INED

Ex-CEO  
Invitel



Andrew Stone,  
NED



Wu Long Peng,  
NED

## Employees (as at 30 June 2015)

- 614 employees
- Operating across six main locations (Newbury, Fareham, Manchester, Glasgow, London & Budapest)



# Ownership

Name	Percentage holding	Type
Hoxton Assets Ltd	23%	Founder – Kuok Family
Stone Family	11%	Founder – Stone Family
Liontrust Investment Partners LLP	11%	Institution
Standard Life	6%	Institution
Octopus Investments Nominees Limited	6%	Institution
River and Mercantile Asset Management LLP	5%	Institution
Robert Falconer, CEO	5% (note 1)	Management

Note 1 – Management own c8%



# GAMMA COMMUNICATIONS PLC



## THE BUSINESS



# Phases of growth

Establishment:  
rapid growth of voice  
(2001 – 2006)

Network transformation:  
scale and differentiation  
(2006 – 2010)

Broadening portfolio  
(2010 – 2014)

FUTURE GROWTH  
(2015 – onwards)

91 Partners

350 Partners

750 Partners

- **Opportunistic acquisitions** of;
  - Atlantic Telecom - assets
  - Telia - UK reseller base
  - Uniworld – direct sales channel

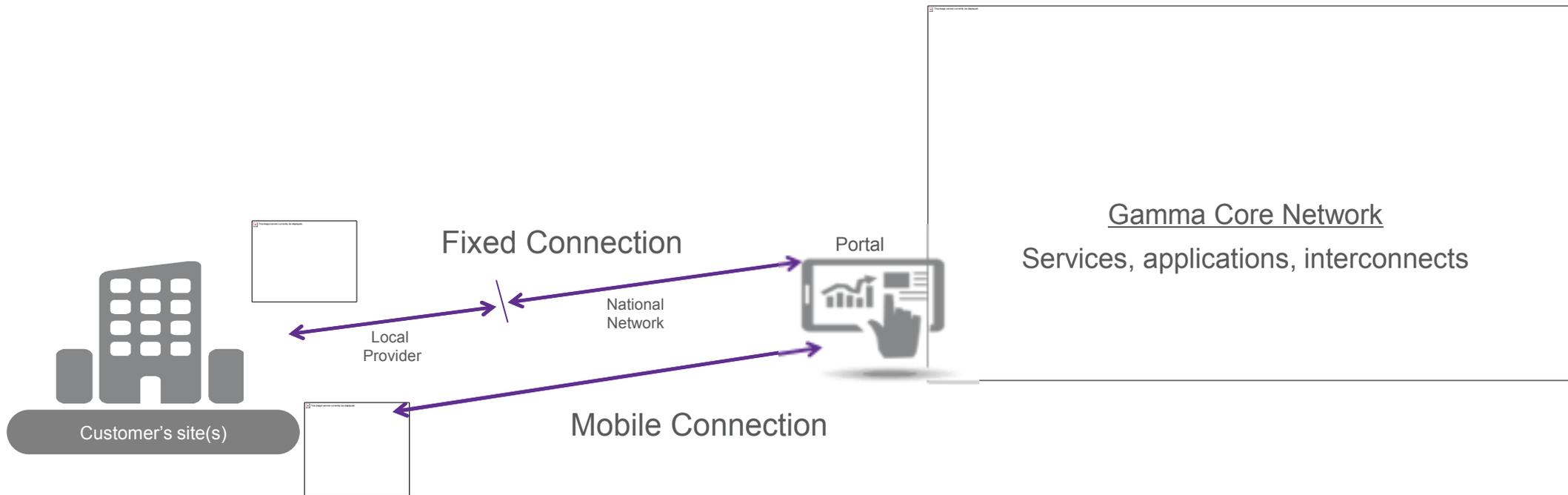
- **£10m investment** to introduce advanced IP-based services)
- **Acquired critical software skills;**
  - Asylum Telecom:
  - Lifecycle Software

- **Launched one of the UK's market leading SIP services;**
  - Business VoIP
  - Cloud PBX
  - Mobile
  - Data

- **Aiming to;**
  - Integrate services ahead of the competition
  - Build brand directly in the business market



# What we do for customers



What we **don't** do – “last mile connectivity”, hardware distribution, bespoke solutions



# Case studies

	The problem	Gamma's solution	Customer satisfaction
	<ul style="list-style-type: none"> <li>• Demand for real time audio, video and imaging at users' desks</li> <li>• Improvements to communication infrastructure to suit mobile &amp; global workforce</li> </ul>	<ul style="list-style-type: none"> <li>• Replaced 600 legacy PSTN lines &amp; ADSL links with Ethernet</li> <li>• Implemented SIP to allow for Lync</li> <li>• All mobile devices brought under the Gamma umbrella</li> </ul>	<ul style="list-style-type: none"> <li>• Created a "rock solid" architecture with ability to increase network capacity 40x, <b>delivered big cost savings and fully supported BYOD</b></li> </ul>
	<ul style="list-style-type: none"> <li>• Acquisition strategy leading to complex unreliable solutions across the group</li> </ul>	<ul style="list-style-type: none"> <li>• Created a national capability for local brands with unique simple pricing model</li> <li>• Moved business apps "to the cloud"</li> </ul>	<ul style="list-style-type: none"> <li>• Reliable, higher speed infrastructure accommodating growth and change, and <b>enabling a local brand with a centralised capability</b></li> </ul>
	<ul style="list-style-type: none"> <li>• Legacy technology network with separate voice and data solutions</li> </ul>	<ul style="list-style-type: none"> <li>• Data network and voice solution employed across branch network, including international sites</li> </ul>	<ul style="list-style-type: none"> <li>• Higher speed, more secure network with faster POS transactions and <b>increased internal efficiency</b></li> </ul>
	<ul style="list-style-type: none"> <li>• Historically struggled with peak calling period during August clearing</li> </ul>	<ul style="list-style-type: none"> <li>• By utilising SIP and Inbound all year round, Gamma increased capacity, queued calls in the network and reduced costs</li> </ul>	<ul style="list-style-type: none"> <li>• Universities able to quickly scale for peak periods and capture more student calls and <b>fill courses at £30k a head</b></li> </ul>



# Competition

When selling Strategic services, competing against:

Example software and hardware competitors



Look to differentiate on basis of completeness of service, scale, channel size and depth

When selling Traditional services, competing against:

Example Infrastructure competitors

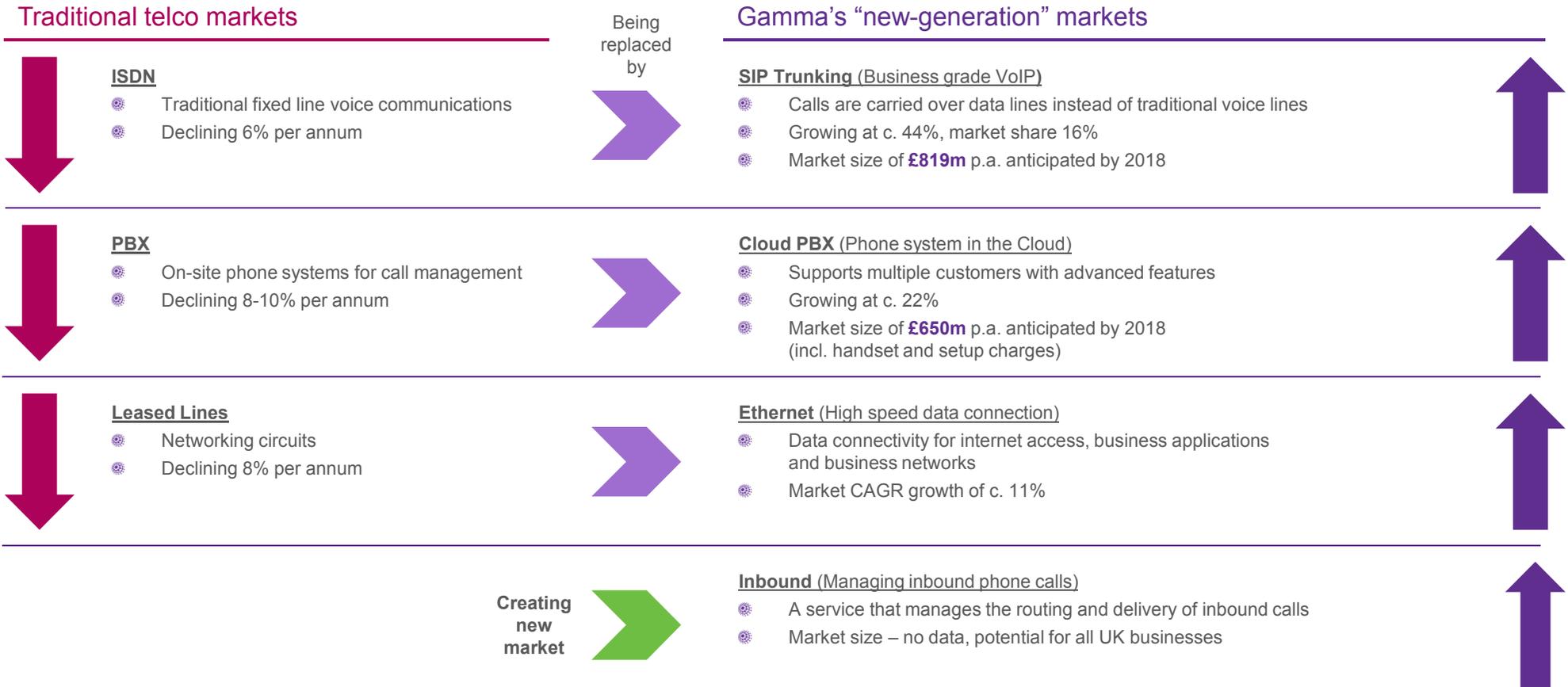


Look to differentiate on basis of responsiveness, speed to market, quality, offering channel a future

Rooted in our “Policy of One” IT strategy and motivated staff



# Our position in the market



Sources: Illume Consulting - Hosted VoIP Report and Forecast (2014-2018) ‡ Estimated channel market



# Converged fixed and mobile products

- Currently have a 'light' mobile virtual network – longer term strategic objective is to provide integrated fixed and mobile service
- In December 2014 we opportunistically acquired the 'core' of a mobile network – materially reduces the timescales and costs to deliver upon our strategy
- Following development activity planned for 2015, we anticipate bringing the assets into active use in 2016
- This will both reduce the cost of sale and enable more converged services



# Commercial model

## ● Indirect Contractual model

- Framework agreements with channel partners
- Partners engaging in multi-service term agreements 1 – 3 years
- Partner owns end-user relationship and is billed by Gamma

## ● Customer concentration

- Largest Channel Partner contributed <4% revenue; and
- Top 10 Channel Partners contribute c. 23% revenue

## ● Revenue visibility

- Over 90% is repeating revenue, the remainder is largely connection and install charges for services which generate future repeat revenue
- Good visibility of revenue over 6 to 12 months
- Stickiness: sticky services which are difficult to move
- Generally long-term relationships: easy to do business with and provide sales support

