7 September 2021

Gamma Communications plc
Unaudited results for the six months ended 30 June 2021

Increase in Revenues, profit and cash generation

Gamma Communications plc ("Gamma" or "the Group"), a leading provider of Unified Communications as a Service ("UCaaS") into the UK and European business markets, is pleased to announce its unaudited results for the six months ended 30 June 2021.

	Six months ended 30 June		
	2021	**2020**	**Change (%)**
Revenue	£217.4m	£177.3m	*+23%*
Gross profit	£111.7m	£93.1m	*+20%*
Gross margin	*51%*	*53%*	
Profit from operations	£32.9m	£26.3m	*+25%*
Adjusted EBITDA*	£46.0m	£36.1m	*+27%*
PBT	£32.4m	£26.2m	*+24%*
Adjusted PBT*	£37.0m	£28.0m	*+32%*
EPS (Fully Diluted, "FD")	27.0p	22.1p	*+22%*
Adjusted EPS (FD)*	30.6p	23.5p	*+30%*
Interim dividend per share	4.4p	3.9p	*+13%*
Cash generated by operations	£43.1m	£32.2m	*+34%*
Cash generated by operations / adjusted EBITDA	*94%*	*89%*	
Cash and Cash Equivalents less Borrowings ("net cash")	£25.6m	£38.7m	*-34%*

**All adjusted measures set out above and throughout this document which are described as "adjusted" represent Alternative Performance Measures ("APMs") and are separately presented within the statement of profit or loss or reconciled in the Financial Review section or segment note and are applied consistently. Where reference is made to adjusted EPS this is stated on a fully diluted basis. Definitions of APMs are included in the Financial Review. Our policy on the use of APMs is included in note 2.*

Key Highlights

The Group had a strong financial performance with good growth across all key product categories in the first half. COVID-19 had only a minor impact on the overall financial performance of the business.

Financial highlights

The main business units continued to perform well:

- Revenue grew by 23% from £177.3m to £217.4m. The UK Revenue growth in the period (which was largely organic) was 9% (from £166.8m to £182.0m). The European Business grew revenues from £10.6m to £35.4m which includes the inorganic growth from the acquisitions in Spain and Germany.
- Recurring Revenue (being Revenue which is recognised "over time" as per note 3) grew from £166.7m to £194.3m (being 89% of total Revenue; H1 2020 – 94%). The reduction is due to the acquisition of HFO in Germany which includes mobile Revenues which are commission based (and hence not recurring). This business also has lower margins and therefore the group Gross Margin has reduced from 53% to 51%.
- UK Indirect Business continued to grow strongly with a focus on the existing partner base. Gross profit increased from £64.5m in H1 2020 to £69.2m in H1 2021 (+7%).
- UK Direct Business continued to deliver very positive growth, with Gross Profit increased from £22.4m in H1 2020 to £26.4m in H1 2021 (+18%). The 2021 figures include the results of Mission Labs since its acquisition on 3 March 2021 and also reflect the exclusion of revenues from The Loop subsequent to its sale on 31 December 2020.

- The European Business saw Gross Profit increase from £6.2m in H1 2020 to £16.1m in H1 2021, primarily as a result of the inclusion of six full months of trading results for acquisitions which happened in 2020. The level of Gross Profit was consistent with that earned in the second half of 2020 albeit with less favourable exchange rates and harder trading conditions in Spain.

Cash generation has remained strong but the Net Cash figure has reduced due to the acquisition of Mission Labs Limited ("Mission Labs") as described below.

Product launches

In its core UK market, Gamma has successfully launched a number of key products (all of which have been well received by both Channel Partners and end users) -

- PhoneLine+ is a cloud based voice application replacement service for a basic telephone line. It is easier to adopt than a full UCaaS solution, and was made possible through our acquisition of Mission Labs as described below.
- Horizon Contact is a Cloud Contact Centre solution which is fully integrated with Gamma's Horizon cloud service.
- An enhanced mobile service which deepens Gamma's existing relationship with Three and gives end users access to both 5G and Wifi calling.
- SoGEA Broadband which provides end users with broadband without the need for a traditional phone line.

Following the end of the half we also launched a product enhancement that allows both new and existing Gamma customers to fully integrate their Horizon Cloud PBX service with Microsoft Teams.

In the Netherlands, we introduced a Webex video calling and conferencing service which is fully integrated with our existing cloud PBX product.

Product highlights

There continues to be strong growth across the major product groups in the United Kingdom:

- The number of installed SIP Trunks as at 30 June 2021 increased by 14.3% to 1,354,000 from 1,185,000 at 31 December 2020 confirming our leading position in this market; these figures include sales of the MS Teams Direct Routing product and seats on Exactive's Cloud UCX platform.
- Overall Cloud seats increased by 7% to 695,000 as at 30 June 2021 from 646,000 at 31st December 2020 (this includes Horizon, Collaborate and our Cloud Contact Centre). Within this, the number of Horizon (Cloud PBX) users increased by 6% to 638,000 from 601,000 and the number of Horizon users taking the additional Collaborate service increased by 20% from 46,000 to 55,000.
- The number of Cloud PBX seats in our European business increased by 6% to 121,000 from 114,000 at 31 December 2020 – the same rate of growth as we are experiencing in the UK.

Acquisitions

On 3 March 2021 we acquired Mission Labs . The initial consideration (net of cash acquired) was £40.8m with up to an additional £6.0m contingent deferred consideration payable over the next three years assuming certain development milestones are met.

We had been partnering with Mission Labs over the previous 18 months on various projects such as PhoneLine+. The addition of the Mission Labs team has accelerated Gamma's ability to take advantage of structural changes in the market which are leading to a greater adoption of cloud services. The capabilities acquired will allow the Group to bring additional new products and services into the markets in which we operate.

We will continue to actively appraise acquisition targets to gain further scale and to strengthen technology, product and people capabilities across the Group.

Andrew Taylor, Chief Executive Officer, commented:

"We have delivered a strong business performance and a very good set of financial results in the first six months of 2021, with both our UK and European businesses continuing to develop positively. We have begun to successfully knit together our desired Western European footprint and as part of a structured group operating model and growth strategy, we are working with our local management teams to both further enable and accelerate our long-term Cloud PBX growth across Europe.

"Despite the economic and business market impact of the COVID-19 pandemic, our product performance was very robust and we continued to broaden and strengthen our market capabilities through the development and launch of new products and services. During the period we have reinforced the execution of our UCaaS strategy, which is progressing very well, with the strengthening of both our overall technology and product capabilities. As ever, we have continued to invest and strengthen both our direct and indirect channel propositions across all markets, with a focus on positively enabling our partners and our end-customers to be competitive and highly successful in their respective markets."

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Chairman's statement

I am pleased to present the unaudited results for the six months ended 30 June 2021.

Overview of results

Group Revenue for the six months ended 30 June 2021 increased by £40.1m to £217.4m (H1 2020: £177.3m) an increase of 23%. The UK Revenue growth in the period was mainly organic and increased by 9% from £166.7m to £182.0m. Our Revenue in Europe grew from £10.6m to £35.4m the improvement being attributable mainly to our acquisitions in Spain (April 2020) and Germany (July 2020). Adjusted EBITDA for the Group increased by 27% to £46.0m (H1 2020: £36.1m). Fully diluted earnings per share for the half year increased by 22% to 27.0p (H1 2020: 22.1p). Adjusted fully diluted earnings per share for the half year increased by 30% to 30.6p (H1 2020: 23.5p).

The cash generated by operations for the first half was £43.1m compared to £32.2m in H1 2020. The closing gross cash balance for the period was £30.8m compared to £42.5m at the end of December 2020. This was impacted by £47.3m which we invested on acquisitions, including £6.5m of deferred consideration and option payments made in respect of past acquisitions. Throughout the pandemic we took no government support and we have continued to pay shareholders a dividend in line with our progressive policy and this resulted in a cash outflow of £7.5m in the first half.

The first half of 2021 continued to be dominated by the COVID-19 pandemic with further periods of lockdown in all of the territories in which we operate. This has been challenging for all businesses and restricted our normal level of sales effort.

Throughout the pandemic, Gamma has continued to support its customers.
Our financial performance remained strong because our commercial model means that the majority of sales are on a recurring basis.

I am pleased to report that we have significantly expanded our development capability through the acquisition of Manchester based Mission Labs on 3 March 2021. Mission Labs is a well-respected UCaaS technology business founded in 2016, which has built a reputation for creating technologically advanced solutions and delivering great service to its customers and partners. The experienced management team are remaining with the business and leading their team through the next stage of Mission Labs' growth.

Gamma had been partnering with Mission Labs for over 18 months on projects such as PhoneLine+. The acquisition gives Gamma additional capabilities in the rapidly evolving markets of Cloud Contact Centre and Cloud Communications.

The acquisition also enables Gamma to accelerate our direct digital channel strategy. Mission Labs has developed CircleLoop (www.circleloop.com), a UCaaS technology platform which provides a cloud-based telephony product fully serviced through web, desktop and mobile applications and aimed at the micro-business market. This capability will enable Gamma to address a key market opportunity in the UK and Europe.

Our market

The COVID crisis has highlighted the importance of our products and services for end users. During the crisis they were able to carry on their business and many new customers have enjoyed the benefits of using a UCaaS product for the first time. As businesses move to new post-pandemic working practices, many are finding that a UCaaS solution will assist them with home-working or hybrid-working. We are seeing traffic volumes increase as the economy rebounds.

The PSTN switch off in 2025 is also a driver for businesses to move to a UCaaS solution – we estimate that 3m PSTN lines used by micro businesses will need to be migrated.

We are finding that businesses of all sizes are now embracing UCaaS and the pipelines for both our Direct business and our Channel Partners are strong. As our CEO describes below we now have a number of solutions for businesses of different sizes. This bodes well for our future growth.

Board and Governance

During the first half of the year we had two planned retirements from the Board. Andrew Stone, a founder-shareholder, and Alan Gibbins (Chair of the Audit Committee since our IPO in 2014) both stood down as Non-Executive Directors at the recent AGM (20 May 2021).

I would like to thank Andrew and Alan for their dedication and contribution to Gamma over the past years.

Following Alan's retirement, Charlotta Ginman has taken over as Chair of the Audit Committee. She is currently chair of the audit committees at Keywords Studios plc, Pacific Asset Trust plc and Polar Capital Technology Trust plc.

We continue to comply with the QCA Corporate Governance Code (2018 edition) (the 'QCA Code').

Employees

Gamma had 1,686 employees at 30 June 2021 (30 June 2020: 1,355). The Board recognises the high levels of dedication shown by Gamma's employees during the pandemic period which enabled us to provide uninterrupted services to our customers, some of which have been delivering critical services.

We invest in all our employees and in particular we assist apprentices to gain valuable work experience, to continue their education and to obtain nationally recognised qualifications.

We continue to encourage all employees to own shares in the Company. In the UK we launched this year's SAYE scheme in April 2021 and 402 employees subscribed which brought the total employees in the SAYE scheme to 759. We also have 160 employees who are buying shares monthly through our SIP scheme and 836 in total who hold shares through the SIP Trust. We are currently working to establish the most efficient way for our new colleagues in Europe to own Gamma shares should they wish to do so.

Environment, Social and Governance ("ESG")

Gamma has always taken its ESG responsibilities seriously and has been offsetting its carbon emissions from the UK business for the past fifteen years.

During the period we have appointed an Environmental Data Manager who will work with all of our Business Units to evaluate our emissions and to form a plan for when we target net zero. We are also evaluating the various frameworks and standards which are emerging and have engaged consultants to helps us to ensure that we further enhance our emissions measurement and reporting to ensure that we measure and disclose the appropriate metrics both for ourselves and our stakeholders. We will be consulting with our stakeholders and we welcome their input.

Dividend

Gamma remains committed to a progressive dividend policy which has meant that our dividend has increased between 10-15% every year since our IPO in 2014. Gamma has paid one third of the dividend as an interim dividend with the final two thirds paid as a final dividend once the results for the full year are known.

The Board is pleased to declare an interim dividend, in respect of the six months ended 30 June 2021, of 4.4 pence per share (2020: 3.9 pence). This is an increase of 13%. It will be payable on Thursday 21 October 2021 to shareholders on the register on Friday 24 September 2021.

Current trading and outlook

Our performance subsequent to 30 June 2021 has continued to be healthy.

During the various periods of lockdown, we have not seen any increase in bad debts from our historical low levels. Our new sales activity at the start of the crisis was slightly below its normal level and this affected our growth in a small way. As we are now coming out of the period of uncertainty created by the pandemic sales activity has returned to normal and we continue to be optimistic about Gamma's future growth prospects.

As a consequence, the Board expects that revenue for the full year ending 31 December 2021 will be within the range of current market expectations (which was raised following our trading updates issued on 20 May and 13 July) and that our adjusted EBITDA and adjusted EPS are expected to be in the upper half of current market expectations. Company compiled analyst market expectations for the full year are Revenue (£446.8m-£460.0m), adjusted EBITDA (£90.5m-£95.0m) and adjusted EPS (57.6p-63.1p).

Richard Last
Chairman

Chief Executive Review

I would like to start by welcoming our new colleagues into the Gamma family. We acquired Mission Labs on 3 March 2021, and I am pleased to report that our integration plan is progressing very well. The Mission Labs technology, product and people skills and capabilities are already making a positive contribution to the development and acceleration of our UCaaS strategy.

I am pleased to say that all of our business units have performed well, and despite the ongoing COVID-19 related economic headwinds experienced across all markets, I am happy to report another excellent set of financial results for the first half of 2021. Supporting this performance, we delivered positive net additional growth across all of our UCaaS products, and all of our business market segments and geographies, which was in line with our expectations and included a small but net positive contribution from those products which we launched during the last 6-12 months. These are discussed in more detail below.

The markets which we serve in the UK and Europe have proven to be robust and in addition to completing the Mission Labs acquisition and the disposal of The Loop, we were pleased to deliver strong organic growth across our UK business during the period. We have continued to save on costs in some areas due to the COVID-19 pandemic (for example in travel and marketing), however it is important to note that we have continued to invest in our UCaaS technology platform, products, and team development, which has and will in the future enable us to deliver new and exciting products into the market via both our indirect and direct channels. This is an exciting part of our long-term growth strategy, and we are very pleased with progress.

We continue to assess the impact that the COVID-19 pandemic is having on the cloud communications market and consider that the long-term structural changes and shift towards a more flexible and remote working environment, will lead to an increase in adoption of UCaaS services and an acceleration in the use of these services across businesses of all sizes. We see this as a long-term growth opportunity across the markets in which we operate, and the quality and competitiveness of our products and the strength of our direct and indirect channel businesses in the UK and in Europe provides confidence that we will continue to perform well and that the long-term growth prospects for our sector and for Gamma will continue to be positive.

European Expansion

One of our key strategic pillars continues to be to expand our business into Europe, to benefit from low cloud penetration levels and a long-term sustainable growth opportunity in these markets – we plan to do this both organically using the businesses we have acquired as cloud growth platforms and by gaining scale within each market through making additional bolt-on acquisitions. We have made no further acquisitions in mainland Europe during the first half, but we have delivered net additional cloud product growth which is in line with our UK business and considered a good performance given the difficult COVID-19 related market conditions experienced during the period.

The number of hosted PBX seats in our European business increased by 6% to 121,000 from 114,000 as at 31 December 2020, representing approximately 14% of our total cloud seats across the Group

As highlighted previously, we expect to see an acceleration of cloud adoption across Europe where markets are still at the early stage of penetration and this will lead to a corresponding reduction in revenues from traditional telephony. The adoption of UCaaS across the business market is expected to double over the next five years which both justifies and reinforces our “land and expand” strategy across Europe.

Development of UCaaS product capability

Another of our strategic pillars is to exploit our strength in the Cloud PBX market to develop a full UCaaS suite of products and services.

As the UCaaS market develops, we realise that different segments of the business market will have differing requirements for their internal and external communications and therefore we need to supply each segment with different products and services. The business market is not homogenous, and we are therefore focused on developing products for three different categories of businesses: Micro, SME and Enterprise.

Micro-business

Micro businesses are smaller than the SMEs we have served historically and typically have below ten employees. Micro businesses are beginning to realise the benefit of cloud communications services. One key difference from SMEs is that micro businesses require greater simplicity in how products are delivered and many have a preference to consume these products digitally over the web.

In a micro business, customer service is vital, and a growing business must appear capable and reliable. Employees needs to be available and contactable all the time. Our fully digital web enabled Circle Loop product allows very small businesses to have a communications product which is “always on” and give a professional appearance. Micro Businesses can self-provision telephony services using Circle Loop in a very short space of time and with no need for outside assistance. Pricing starts from just £5 per user per month and is therefore both accessible and affordable for every small business.

The UK PSTN switch off is fast approaching (in 2025) and this creates an opportunity for Gamma as small businesses will be looking for an alternative cloud solution which we believe Gamma and our partners are very well positioned to provide.

Our plan during the months and years ahead is to broaden the digital reach and strengthen the recognition of the Circle Loop brand across our UK target market, with a view to significantly increasing the contribution that Circle Loop makes to our overall Cloud performance. In addition to this, the Circle Loop platform will, in due course, be launched as a digital proposition outside of the UK.

SME

Gamma has served the SME market in the UK for twenty years and it is the market segment where we have historically been strongest and lead the market in UCaaS. SMEs have more complex core communication needs which differ by industry, and whilst many discovered Cloud Communications some time ago, the fact that the businesses tend to be dynamic means they demand more innovative solutions. Hence there is an ongoing need for us to continue to develop our core Horizon product as well as providing additional modules for those who need additional functionality. Examples of additional modules are Call Recording and Collaborate (which allows video and audio conferencing as well as instant messaging and screen sharing).

SMEs usually need a Channel Partner to help them derive the most value from the product set which we offer. Gamma’s mantra of “being easy to do business with” ensures that we continue to be strong in this market. We help Channel Partners to help end users by making sure that our product is technically flexible and that we are commercially reasonable.

During the first half we launched our Cloud Contact Centre product – Horizon Contact. This is a fully integrated additional module that attaches to our core Horizon Cloud product. It was developed by Gamma’s in-house development team (including the team of developers who joined the Group following our Telsis acquisition in 2019).

Many SME businesses will derive benefit from the capabilities that the module offers even if they don't operate a traditional contact centre. For example, a small travel agent or a car dealership that wants to provide continuity of experience for a customer would benefit from the multiple communications channels that the product brings together. For both Gamma and our partners, the module changes the definition of a Contact Centre opportunity. Initial response to the product has been pleasing and early unit sales are encouraging. As well as driving sales of the module, the ability to offer the product is also driving sales of Horizon seats which we otherwise may not have won.

Whilst our own Collaborate module is doing well in the market and attachment rates have increased to 9%, we recognise that some end users choose to use other UCaaS products alongside our Cloud PBX offering. In July 2021, we launched a product enhancement which allows users to integrate their Horizon Cloud product with Microsoft Teams. We also continue to offer a variant of SIP called Microsoft Teams Direct Routing which is now our fastest growing SIP offering.

To complement our UCaaS product set, we provide access services to our customers. Customers may choose to access our applications using fixed fiber (such as Ethernet and Broadband) or through a mobile based application. During the first half we launched SoGEA Broadband which allows customers to take a broadband service without having a traditional phone line, and we also launched an enhanced mobile service which deepens our existing relationship with Three and gives users access to both 5G and Wi-Fi calling. Both services have been received positively in the market and initial early sales are encouraging.

Enterprise

Enterprise customers have more complex needs often because of the need for integration into a wide range of business management applications. We therefore tend to deal with them directly and we often supply a degree of service management as well as the core products.

Typically a larger business has existing infrastructure so this segment has only recently begun to embrace the shift to Cloud Communications.

Enterprise customers need multiple products and don't tend to procure everything in one big deal. Instead, they buy from multiple vendors and integration of the offering becomes key. We are pragmatic in our approach to this segment and we know that our capabilities may need to be supplemented by services and components from third parties.

Notwithstanding this, we sometimes work with partners to supply certain solutions initially but eventually we may bring that capability "in house". As an example, the acquisition of Exactive in 2020 allowed us to assist our Enterprise customers with complex Microsoft Teams implementations. The acquisition of Mission Labs has allowed us to assist customers who wish to install Amazon Connect as their Cloud Contact Centre. Mission Labs provides bespoke developer services to Connect customers as well as supplying its own module – Smart Agent – which can be used with Amazon Connect to give an enhanced experience to both agents and customers.

Summary and outlook

As highlighted previously, we have continued to perform very well throughout the COVID-19 “lockdown” period in each country where we operate. This is despite the resulting economic headwinds experienced during this period, which although slowly but surely improving have impacted business market confidence across each country. We have a robust business model based on recurring monthly billing which has ensured we have continued to be cash generative. This strong earnings visibility has enabled us to plan effectively and importantly, ensure that we have continued to invest in delivering both our short- and longer-term commitments.

On this point, I continue to be very pleased with the execution of our short-term business objectives and our longer-term strategy, and I have been particularly impressed and proud of how our teams have engaged to support colleagues, partners and our end customers – I believe this is what truly sets Gamma apart from others and positions us very much as a caring organisation, with a very high degree of personal, professional and corporate integrity.

The COVID-19 pandemic has driven a shift in demand to UCaaS away from networks to applications, and because of this we have grown and re-shaped our capabilities to respond to the opportunity. The integration work we have done with Microsoft Teams during the period is a good example of this. We expect this positive trend to continue, and we also see a future opportunity as end business users consider their long-term strategic solutions over the short term tactical fixes they may have put in place during the COVID-19 pandemic.

In summary, this has been a very strong first half performance and I have been particularly impressed with how the business market, our customers and our partners have responded to the difficult circumstances. Although the economic recovery is at different stages across the markets where we operate, businesses are back trading and things are trending slowly towards a future state of “normality”. Notwithstanding the possibility of future “lockdowns” across Europe, our long-term outlook is positive and in addition to executing against our longer-term strategic commitments, we will continue to focus on delivering a high level of service for both our Channel Partners and end users, while ensuring we enable them to be competitive and highly successful in the markets where they operate.

Andrew Taylor
Chief Executive Officer

Financial review

Revenue and Gross Profit

Gamma has performed well during the six months ended 30 June 2021, increasing Revenue by 23% to £217.4m (H1 2020: £177.3m) and Gross Profit by 20% to £111.7m (H1 2020: £93.1m). The UK businesses have seen growth in Revenue of £15.3m (+9%) and Gross Profit of £8.7m (+10%). The growth in the Revenue of the European Business of £24.8m from £10.6m to £35.4m is primarily due to a full six months of results of businesses acquired in 2020. Adjusted EBITDA increased by 27% to £46.0m (2020: £36.1m). Adjusted EPS (FD) increased by 30% to 30.6p (2020: 23.5p).

UK Indirect

	H1 2021 £m	H1 2020 £m	Increase
Revenue	**130.1**	119.5	+9%
Gross Profit	**69.2**	64.5	+7%
Gross Margin	***53.2%***	*54.0%*	

Overall, the growth in the UK Indirect Business unit has been strong. The growth is entirely organic, whereas in other segments the results include the impact of acquisitions, but it should be noted that the performance in H1 2020 (which is the comparator period) was weaker than normal due to the first Covid lockdown – this "low base" therefore slightly flatters growth.

Gross Margin has been broadly consistent with previous periods which is a change in trend following many years of growth. The historical growth was largely driven by an improving mix of high margin UCaaS products against lower margin legacy and access products. We have been guiding for some time that this would eventually reach a consistent level of mid-50s and we believe that this has now happened. We do not expect Gross Margin to increase as the mix of UCaaS and access products stays broadly constant.

UK Direct

	H1 2021 £m	H1 2020 £m	Increase
Revenue	**51.9**	47.2	10%
Gross Profit	**26.4**	22.4	18%
Gross Margin	***50.9%***	*47.5%*	

The UK Direct business continued to grow. There was some inorganic growth driven by the Mission Labs acquisition in March 2021. This delivered £2.3m of Revenue in the year. This growth was in part offset by the disposal of The Loop Manchester Limited in 2020 which contributed £0.7m in the first half of 2020.

Whilst the headline growth has therefore been 10%, the organic Revenue growth (correcting for Mission Labs and The Loop) was £3.1m or 7%. We had expected the growth percentage in 2021 to be lower than in previous years as the COVID-19 pandemic impacted the sales pipeline in 2020 resulting in fewer new projects starting in the first half of 2021. Notwithstanding, the growth was better than expected due to some upsell and projects starting earlier.

The gross margin has increased due to mix – first, as a result of Mission Labs which is a higher margin as a result of being a SaaS model; and second, there is also an increase in gross margin in the organic business due to a lack of installations and hardware sales which are lower margin.

Europe

	H1 2021 £m	H1 2020 £m	Increase
Revenue	**35.4**	10.6	234%
Gross Profit	**16.1**	6.2	160%
Gross Margin	***45.5%***	*58.5%*	

Our European business saw growth primarily as a result of the inclusion of a full six months of results of the acquisitions made in 2020 – Voz Telecom in Spain (acquired April 2020), HFO in Germany (July 2020) and Gamma Communications Benelux expanded in July 2020 with the acquisition of gnTel.

Gross margins have decreased from the prior year as a result of "high revenue/ low margin" business within the Epsilon subsidiary of the HFO business which offers mobile connections – this was acquired in July 2020. The margins on a product by product basis are consistent with those in the UK.

Compared to the run rate in the second half of 2020 (i.e. following the acquisitions), the European Revenue has reduced (and the Gross Margin has increased) as the mix of sales moves from legacy products towards UCaaS products (where the rate of increase in seats is consistent with the UK). The Gross Profit has been static (against an expectation of growth) and there are two reasons for this. First, the exchange rate has been less favourable in H1 2021 compared to the end of 2020 which has reduced the Gross Profit by 4% (£0.6m). Second, our small direct business in Spain has faced very difficult trading conditions due to the pandemic and we estimate that this has reduced the GP of that business by £0.4m.

Operating expenses

Operating expenses grew from £66.8m in H1 2020 to £78.8m.

We break these down as follows:

	H1 2021 £m	**H1 2021 £m**	**H1 2020 £m**	**H1 2020 £m**	**Growth**
Expenses included within cash generated from operations					
- UK Businesses	49.7		48.5		3%
- European Business	12.0		5.2		131%
- Central Costs	4.0		3.3		21%
		65.7		57.0	
Depreciation and amortisation					
- tangible and intangible assets	7.2		7.0		3%
- right of use assets	1.3		1.0		30%
- acquisition	4.6		1.8		156%
		13.1		9.8	
Operating expenses		**78.8**		**66.8**	**18%**

Movements in expenses were driven by:

- The UK Businesses' operating expenses growing by 2.5% (compared to Gross Profit growth of 10.0%). This growth has been lower than originally expected as a result of continued lockdowns in 2021 resulting in unexpected cost savings for example, travel and subsistence expenses continue to be significantly lower. Not all of these savings are expected to continue in the long run as "normality" returns post Covid.

- Drivers of the increase in the overhead include expenses relating to Mission Labs (acquired in March 2021) of £1.8m as well as increases in share based payments costs (+£1.5m) which continued to increase during the period. The latter is because of the increasing take up of the all-staff schemes such as SAYE (which drives the cost of running the scheme). In addition, the rising share price has continued to make the costs of employers NI for share grants higher than in previous years. We would expect both of these overhead drivers to continue as we increase our levels of development investment and more employees take advantage of our share plans.
- The increase in European costs is reflective of the cost base growing by acquisitions (that is to say that it is not organic growth).
- Central costs have increased from the prior period which is due to continued growth in the Group function which is required to support the businesses we have acquired around Europe as well as an increase in governance costs.

Depreciation and amortisation on tangible and intangible assets have increased slightly from £7.0m in H1 2020 to £7.2m in H1 2021. This is driven by acquisitions in the prior year but has been part offset by a decrease in depreciation in the UK business as the assets associated with our previous mobile platform became fully written down. Our new mobile proposition requires less capital investment and hence this reduction will be permanent. The annual depreciation charge is now in line with the annual capital expenditure spend and is not expected to increase significantly.

Research and development costs in the year increased in part due to the acquisition of Mission Labs but also the increasing levels of development being undertaken. The charge to the income statement was £6.7m (H1 2020 £5.1m) in addition to £0.7m (H1 2020 £1.1m) which was capitalized.

Exceptional Items

There were no exceptional items in the current period or in H1 2020.

Alternative performance measures

Our policy for alternative performance measures is set out in note 2.

The tables below reconcile the alternative performance measures used in this document:

Measure	**Statutory basis**	**Deprection and amortisation on business combinations**	**Adjusting tax items**	**Adjusted basis**
2021				
PBT (£m)	32.4	4.6	-	37.0
PAT* (£m)	26.2	4.6	(1.1)	29.7
EPS (FD) (p)	27.0	4.7	(1.1)	30.6
2020				
PBT (£m)	26.2	1.8	-	28.0
PAT (£m)	21.2	1.8	(0.4)	22.6
EPS (FD) (p)	22.1	1.8	(0.4)	23.5

** PAT is the amount attributable to the ordinary equity holders of the Company*

We believe that these measures provide a user of the accounts with important additional information by providing the following alternative performance metrics:

- Profit before tax is adjusted for the amortisation of intangibles which were created on acquisition. This enables a user of the accounts to compare performance irrespective of whether the Group has grown by acquisition or organically.
- Profit after tax is adjusted in the same way as Profit before tax but it also considers the tax impact of these items. To exclude the items without excluding the tax impact would not give a complete picture.
- Adjusted earnings per share takes into account all of the factors above and gives users of the accounts information on the performance of the business that management is more directly able to influence and on a basis comparable from year to year.

In addition to the above we add back the depreciation and amortisation charged in the year to Profit from Operations (2021: £32.9m; 2020: £26.3m) to calculate a figure for EBITDA (2021: £46.0m; 2020: £36.1m) which is commonly quoted by our peer group internationally and allows users of the accounts to compare our performance with those of our peers.

EBITDA (being also "Adjusted EBITDA")

Adjusted EBITDA grew from £36.1m to £46.0m. The UK adjusted EBITDA grew by 20% to £45.9m. The European business contributed an additional £3.1m as a result of acquisitions in 2020 which was in part offset by an increase in central costs of £0.7m.

Taxation

The effective tax rate for the first half of 2021 was 18.5% (2020: 19.1%). The rate in the current year is slightly below the statutory UK rate of 19% as a result of the introduction of the 130% super-deduction capital allowance on qualifying plant and machinery investments. This is in part offset by a tax rate change to 25% for deferred tax in the UK and also disallowable expenditure. We would expect the tax rate to increase in future years as a result of an increasing impact of higher taxation rates in the UK and Europe.

Net cash and cash flows

The Group has net cash of £25.6m. The gross cash balance at the end of the period was £30.8m and the Group had borrowings of £5.2m which are held by trading subsidiaries outside of the UK which pre-dated their acquisition by Gamma.

In addition, we estimate that we will have to pay an additional £11.9m in future in relation to acquisitions made (this is a mix of contingent consideration and the exercise of options over shares not yet acquired); these payments will be between 2022 and 2024. We do not class contingent consideration as debt for the purposes of quoting a net cash figure.

Cash conversion from trading increased from previous years due to short term working capital movements. The ratio of adjusted EBITDA to cash generated from operations was 94% (2019: 89%). We do not expect the future conversion ration to remain at levels above 90% and we continue to target a range of between 85% and 90%.

Items which are not directly related to trading were:

- Capital spend was £6.1m, which is in line with the prior period.
- £40.8m was paid for the acquisition of Mission Labs net of cash acquired (2020: £19.8m – Exactive and Voz Telecom).
- £6.5m was paid in deferred consideration and option exercises (2020: £1.7m) of which £1.5m was for Exactive and £5.0m was for HFO.
- £4.6m was received from the issue of shares (2020: £0.3m). This significant increase on the prior period was as a result of reinvestment in Gamma by former shareholders of Missions Labs (£2.8m) and HFO (£0.7m) as well as part payment of deferred consideration for Exactive in shares (£0.3m). The other shares issues relate to exercise of options held by employees.
- £7.5m was paid as dividends (2020: £6.6m).

Adjusted EPS (FD) and Statutory EPS (FD)

Adjusted EPS (FD) increased from 23.5p to 30.6p (30%). The growth in adjusted EPS (FD) has been driven by the continued growth in a difficult market as well as the acquisitions. Adjusted EPS is EPS as adjusted for exceptional items (if any, there are none in the period and prior period) and other items as defined in note 2 and a reconciliation to the statutory measure is shown in the table above.

EPS (FD) grew from 22.1p to 27.0p (11%). The growth is lower than the adjusted metric because, in the current period, there is an increase in the amortisation relating to business combinations.

Going Concern

The Group's business activities, together with the factors likely to affect its future development, performance and position, are consistent with those set out in the Annual Report for the year ended 31 December 2020. In assessing going concern management and the Board has considered:

- The principal risks faced by the Group are set out in Note 1 to the interim financial statements and are consistent with those found in the Annual Report for the year ended 31 December 2020.
- The financial position of the Group including budgets and financial plans.
- The strong cash position - at 30 June 2021 the Group had cash and cash equivalents of £30.8m (year ended 31 December 2020: £53.9m). Net cash (being cash and cash equivalents less borrowings) was £25.6m (year ended 31 December 2020: £48.0m). All borrowings were acquired with acquisitions made in previous years.
- Future cashflows including liquidity, borrowings and the acquisition of Mission Labs (which was £40.2m on a cash free basis). We have performed sensitivity analysis which has shown that EBITDA is our biggest sensitivity and would need to decrease by 59% for the Group to need additional borrowing (assuming no mitigating actions had been taken). We consider this to be highly unlikely. Notwithstanding, lenders have indicated to management that they would provide additional debt funding if required.
- The ongoing impact of COVID-19. Whilst this impacted new wins in 2020, to be delivered in 2021, the Group has continued to grow. In the medium term, as a result of COVID-19, the adoption of cloud services will accelerate and this reinforces our overall UCaaS strategy.

The Directors are satisfied that the Group has adequate financial resources to continue in operational existence for the foreseeable future, a period of at least twelve months from the date of this report. Accordingly, the going concern basis of accounting continues to be used in the preparation of the condensed consolidated financial statements.

Dividends

The Board has declared an interim dividend of 4.4p (2020: 3.9p). This is an increase of 13% and is in line with our progressive dividend policy. The interim dividend is payable on Thursday 21 October 2021 to shareholders on the register as at Friday 24 September 2021.

Andrew Belshaw
Chief Financial Officer

MANAGEMENT STATEMENT

This Interim Management Report (IMR) has been prepared solely to provide additional information to shareholders to assess the Group's strategies and the potential for those strategies to succeed. The IMR should not be relied on by any other party or for any other purpose.

The IMR contains certain forward-looking statements. These statements are made by the Directors in good faith based on the information available to them up to the time of their approval of this report but such statements should be treated with caution due to the inherent uncertainties, including both economic and business risk factors, underlying any such forward-looking information.

RESPONSIBILITY STATEMENT

We confirm that to the best of our knowledge:

- the condensed set of interim financial statements has been prepared in accordance with IAS 34 "Interim Financial Reporting";
- the Interim Management Report includes a fair review of the information required by DTR 4.27R (indication of important events during the first six months and description of principal risks and uncertainties for the remaining six months of the year); and
- the Interim Management Report includes a fair review of the information required by DTR 4.28R (disclosure of related party transactions and changes therein).

By the order of the Board
6 September 2021

INDEPENDENT REVIEW REPORT TO GAMMA COMMUNICATIONS PLC

We have been engaged by the Company to review the condensed set of financial statements in the half-yearly financial report for the six months ended 30 June 2021 which comprises the condensed consolidated statement of profit or loss, the condensed consolidated statement of comprehensive income, the condensed consolidated statement of financial position, the condensed consolidated statement of changes in equity, the condensed consolidated statement of cash flows and related notes 1 to 11. We have read the other information contained in the half-yearly financial report and considered whether it contains any apparent misstatements or material inconsistencies with the information in the condensed set of financial statements.

Directors' responsibilities

The half-yearly financial report is the responsibility of, and has been approved by, the directors. The directors are responsible for preparing the half-yearly financial report in accordance with the AIM Rules of the London Stock Exchange.

As disclosed in note 1, the annual financial statements of the group will be prepared in accordance with United Kingdom adopted International Financial Reporting Standards. The condensed set of financial statements included in this half-yearly financial report has been prepared in accordance with United Kingdom adopted International Accounting Standard 34, "Interim Financial Reporting".

Our responsibility

Our responsibility is to express to the Company a conclusion on the condensed set of financial statements in the half-yearly financial report based on our review.

Scope of review

We conducted our review in accordance with International Standard on Review Engagements (UK and Ireland) 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Financial Reporting Council for use in the United Kingdom. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing (UK) and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the condensed set of financial statements in the half-yearly financial report for the six months ended 30 June 2021 is not prepared, in all material respects, in accordance with United Kingdom adopted International Accounting Standard 34 and the AIM Rules of the London Stock Exchange.

Use of our report

This report is made solely to the company in accordance with International Standard on Review Engagements (UK and Ireland) 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Financial Reporting Council. Our work has been undertaken so that we might state to the company those matters we are required to state to it in an independent review report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company, for our review work, for this report, or for the conclusions we have formed.

Deloitte LLP
Statutory Auditor
Reading, United Kingdom
6 September 2021

Condensed consolidated statement of profit or loss

For the six months ended 30 June 2021

	Note	**Six months ended 30 June 2021 £m Unaudited**	Six months ended 30 June 2020 £m Unaudited	Year ended 31 December 2020 £m Audited
Revenue	3	**217.4**	177.3	393.8
Cost of sales		**(105.7)**	(84.2)	(193.0)
Gross profit		**111.7**	93.1	200.8
Operating expenses		**(78.8)**	(66.8)	(125.1)
Earnings before depreciation, amortisation and exceptional items		**46.0**	36.1	79.0
Exceptional items		**-**	-	19.6
Earnings before depreciation and amortisation		**46.0**	36.1	98.6
Depreciation and amortisation (excluding business combinations)		**(8.5)**	(8.0)	(16.9)
Depreciation and amortisation arising due to business combinations		**(4.6)**	(1.8)	(6.0)
Profit from operations		**32.9**	26.3	75.7
Finance income		**-**	0.3	0.4
Finance expense		**(0.5)**	(0.4)	(1.1)
Profit before tax		**32.4**	26.2	75.0
Tax expense	4	**(6.0)**	(5.0)	(10.6)
Profit after tax		**26.4**	21.2	64.4
Profit is attributable to:				
Equity holders of Gamma Communications plc		**26.2**	21.2	64.2
Non-controlling interests		**0.2**	-	0.2
		26.4	21.2	64.4
Earnings per share attributable to the ordinary equity holders of the Company:				
Basic per ordinary share (pence)	5	**27.4**	22.3	67.5
Diluted per ordinary share (pence)	5	**27.0**	22.1	66.6

Adjusted earnings per share is shown in note 5

Condensed consolidated statement of comprehensive income

For the six months ended 30 June 2021

	Six months ended 30 June 2021 £m Unaudited	Six months ended 30 June 2020 £m Unaudited	Year ended 31 December 2020 £m Audited
Profit for the period after tax	**26.4**	21.2	64.4
Other comprehensive income			
Items that may be reclassified subsequently to the income statement (net of tax effect)			
Exchange difference on translation of foreign operations	**(2.2)**	0.7	(0.1)
Total comprehensive income	**24.2**	21.9	64.3
Total comprehensive income for the period attributable to:			
Equity holders of Gamma Communications plc	**24.0**	21.9	64.1
Non-controlling interests	**0.2**	-	0.2
	24.2	21.9	64.3

Condensed consolidated statement of financial position

As at 30 June 2021

	Note	**30 June 2021 £m Unaudited**	30 June 2020 £m Unaudited	31 December 2020 £m Audited
Assets				
Non-current assets				
Property, plant and equipment	7	**35.7**	31.1	36.3
Right of use assets		**11.4**	12.5	11.5
Intangible assets	8	**133.5**	74.8	95.3
Trade and other receivables		**18.6**	16.6	5.7
Deferred tax asset		**5.9**	2.7	14.8
		205.1	137.7	163.6
Current assets				
Inventories		**7.2**	9.8	8.1
Trade and other receivables		**99.7**	85.7	93.7
Cash and cash equivalents		**30.8**	42.5	53.9
Current tax asset		**2.7**	1.7	2.6
		140.4	139.7	158.3
Total assets		**345.5**	277.4	321.9
Liabilities				
Non-current liabilities				
Other payables		**9.6**	5.4	9.8
Provisions		**1.0**	1.5	1.9
Borrowings		**3.9**	2.8	4.6
Lease Liabilities		**10.6**	12.0	10.8
Contingent consideration		**3.6**	1.2	1.2
Put option liability		**1.0**	-	5.6
Deferred tax		**9.2**	6.1	9.0
		38.9	29.0	42.9
Current liabilities				
Trade and other payables		**66.4**	72.6	62.5
Provisions		**1.1**	-	0.6
Borrowings		**1.3**	1.0	1.3
Lease Liabilities		**2.4**	1.7	2.3
Contingent consideration		**2.5**	3.1	1.8
Put option liability		**4.8**	-	5.6
Current tax		**0.2**	-	0.5
		78.7	78.4	74.6
Total liabilities		**117.6**	107.4	117.5
Net assets		**227.9**	170.0	204.4
Equity				
Share capital	10	**0.2**	0.2	0.2
Share premium reserve		**13.6**	7.8	9.0
Other reserves		**4.5**	6.3	6.1
Retained earnings		**214.3**	155.7	197.5
Equity attributable to owners of Gamma Communications plc		**232.6**	170.0	212.8
Non-controlling interests		**2.0**	-	3.0
Written put options over non-controlling interests		**(6.7)**	-	(11.4)
Total equity		**227.9**	170.0	204.4

Condensed consolidated statement of cash flows
For the six months ended 30 June 2021

	Note	**Six months ended 30 June 2021 £m Unaudited**	Six months ended 30 June 2020 £m Unaudited	Year ended 31 December 2020 Audited
Cash flows from operating activities				
Profit for the period before tax		**32.4**	26.2	75.0
Adjustments for:				
Depreciation of property, plant and equipment	7	**4.0**	4.8	9.7
Depreciation of right of use assets		**1.3**	1.0	2.2
Amortisation and reduction in value of intangible assets	8	**7.8**	4.0	11.0
Change in fair value of contingent consideration		**-**	-	(0.1)
Share-based payment expense		**2.6**	1.1	3.5
Interest income		**-**	(0.3)	(0.4)
Finance cost		**0.5**	0.4	1.1
Gain on disposal of subsidiary undertaking		**-**	-	(19.5)
		48.6	37.2	82.5
Increase in trade and other receivables		**(8.2)**	(3.5)	(6.1)
Decrease/(Increase) in inventories		**0.9**	(1.4)	0.3
Increase/(Decrease) in trade and other payables		**2.8**	0.2	(6.1)
Decrease in contract liabilities		**(0.6)**	(1.0)	(1.2)
(Decrease)/Increase in provisions and employee benefits		**(0.4)**	0.7	0.9
Cash generated by operations		**43.1**	32.2	70.3
Taxes paid		**(7.6)**	(7.9)	(14.1)
Net cash flows from operating activities		**35.5**	24.3	56.2
Investing activities				
Purchase of property, plant and equipment	7	**(3.6)**	(3.1)	(9.5)
Purchase of intangible assets	8	**(2.5)**	(3.0)	(5.9)
Interest received		**-**	0.3	0.4
Acquisition of subsidiaries net of cash acquired	9	**(47.3)**	(21.5)	(47.7)
Disposal of subsidiary net of disposed cash		**-**	-	19.4
Net cash used in investing activities		**(53.4)**	(27.3)	(43.3)
Financing activities				
Lease liability repayments		**(1.7)**	(0.9)	(2.1)
Repayment of borrowings		**(0.5)**	(1.1)	(1.6)
Interest paid		**(0.1)**	(0.1)	(0.3)
Share issues		**4.6**	0.3	1.5
Dividends		**(7.5)**	(6.6)	(10.4)
Net cash used in financing activities		**(5.2)**	(8.4)	(12.9)
Net decrease in cash and cash equivalents		**(23.1)**	(11.4)	-
Cash and cash equivalents at beginning of period		**53.9**	53.9	53.9
Cash and cash equivalents at end of period		**30.8**	42.5	53.9

Condensed consolidated statement of changes in equity

For the six months ended 30 June 2021

	Share capital	Share premium reserve	Other reserves	Retained earnings	**Total**	Non-controlling interests	Written put options over non-controlling interests	**Total equity**
	£m	£m	£m	£m	**£m**	£m	£m	**£m**
1 January 2020	0.2	6.6	4.8	140.9	152.5	-	-	152.5
Issue of shares	-	1.2	(0.3)	0.2	1.1	-	-	1.1
Share-based payment expense	-	-	1.1	-	1.1	-	-	1.1
Dividends paid	-	-	-	(6.6)	(6.6)	-	-	(6.6)
Transactions with owners	-	1.2	0.8	(6.4)	(4.4)	-	-	(4.4)
Profit for the half year	-	-	-	21.2	21.2	-	-	21.2
Other comprehensive income	-	-	0.7	-	0.7	-	-	0.7
Total comprehensive income	-	-	0.7	21.2	21.9	-	-	21.9
30 June 2020	**0.2**	**7.8**	**6.3**	**155.7**	**170.0**	**-**	**-**	**170.0**
1 January 2021	0.2	9.0	6.1	197.5	212.8	3.0	(11.4)	204.4
Issue of shares	-	4.6	(1.7)	1.6	4.5	-	-	4.5
Share-based payment expense	-	-	2.3	-	2.3	-	-	2.3
Non-controlling interest	-	-	-	1.2	1.2	(1.2)	-	-
Equity put rights	-	-	-	(4.7)	(4.7)	-	4.7	-
Dividends paid	-	-	-	(7.5)	(7.5)	-	-	(7.5)
Transactions with owners	-	4.6	0.6	(9.4)	(4.2)	(1.2)	4.7	(0.7)
								-
Profit for the half year	-	-	-	26.2	26.2	0.2	-	26.4
Other comprehensive income	-	-	(2.2)	-	(2.2)	-	-	(2.2)
Total comprehensive income	-	-	(2.2)	26.2	24.0	0.2	-	24.2
30 June 2021	**0.2**	**13.6**	**4.5**	**214.3**	**232.6**	**2.0**	**(6.7)**	**227.9**

Other reserves comprise the following:

	Merger reserve	Share option reserve	Foreign exchange reserve	Own shares	Total other reserves
	£m	£m	£m	£m	£m
1 January 2020	2.3	3.8	(0.6)	(0.7)	4.8
Issue of shares	-	(0.3)	-	-	(0.3)
Share-based payment expense	-	1.1	-	-	1.1
Other comprehensive income	-	-	0.7	-	0.7
30 June 2020	**2.3**	**4.6**	**0.1**	**(0.7)**	**6.3**
1 January 2021	2.3	5.2	(0.7)	(0.7)	6.1
Issue of shares	-	(1.7)	-	-	(1.7)
Share-based payment expense	-	2.3	-	-	2.3
Other comprehensive income	-	-	(2.2)	-	(2.2)
30 June 2021	**2.3**	**5.8**	**(2.9)**	**(0.7)**	**4.5**

Notes to the interim financial information
For the six months ended 30 June 2021

1. Basis of preparation

The condensed consolidated interim financial information (interim financial information) included in this half-yearly financial report has been prepared in accordance with International Accounting Standard 34 'Interim Financial Reporting', as adopted by the United Kingdom. The interim financial statements do not constitute statutory accounts within the meaning of the Companies Act 2006 and should be read in conjunction with the Group's Annual Report and Accounts for the year ended 31 December 2020, which was prepared in accordance with IFRS as adopted by the United Kingdom.

There are no additional standards or interpretations requiring adoption that are applicable to the Group for the accounting period commencing 1 January 2021.

Principal risks and uncertainties

The principal risks faced by the Group continue to be service disruption, data loss and cyber attacks, customer service experience, reliance on key suppliers, market landscape, legal and regulatory, attracting and retaining people, M&A and climate change. Further details can be found in the Annual Report for the year ended 31 December 2020. There is an emerging risk of the possibility of a shortage of inventory of handsets as a result of the chip shortage which the Group is doing its best to try to mitigate.

2. Accounting policies, judgements and estimates

The accounting policies adopted are consistent with those followed in the preparation of the audited statutory financial statements for the year ended 31 December 2020.

Preparation of the consolidated financial statements requires the Group to make certain estimations, assumptions and judgements regarding the future. Estimates and judgements are continually evaluated based on historical experience and other factors, including best estimates of future events. In the future, actual experience may differ from these estimates and assumptions. The estimates and assumptions that have a significant risk of causing a material adjustment within the next financial year are discussed below.

Critical accounting judgements

Critical judgements, apart from those involving estimations, applied in the preparation of the consolidated financial statements are discussed below:

(a) Principal vs agent classification of channel partners

The Group receives payment for products and services from channel partners who onwardly sell to end users. The Group has considered whether channel partners are acting as a principal or an agent under the criteria in IFRS 15.

Where a channel partner has the primary responsibility for providing the products or services to the end user, carries the inventory risk, is free to establish its own prices and bears the credit risk for the amount receivable from the end user then the channel partner is treated as the principal in that transaction. The Group therefore recognises Revenue earned in this way based on the transactions with the channel partner and not the end user. For more information on the Group's Revenue please see note 3, Segment information.

(b) Revenue recognition

Revenue recognition on contracts may involve providing services over multiple years and involving a number of products. In such instances, judgement is required to identify the date of transaction of separable elements of the contract and the fair values which are assigned to each element. The Group also regularly assesses customer credit risk inherent in the carrying amounts of receivables, contract costs and estimated earnings. For more information on the Group's Revenue recognition policy please see accounting policies.

Key accounting estimates

(a) Put option liability

On 1 July 2020, the Group acquired 80.25% of HFO Holding GmbH (formerly AG) (HFO) and an additional 7.9% in H1 2021. The remaining 11.85% can be purchased in two tranches via put and call options. When calculating the liability, management has made an estimate of the 2021 EBITDA and the 2022 run rate monthly net additional cloud seats. The Group has a put option liability of £5.8m at 30 June 2021. This is calculated on an expected returns approach. The liability relating to the second put option based on the 2021 EBITDA result is highly sensitive to a small change in the results. If there were to be further lockdowns as a result of COVID-19 which would adversely impact the results then there could be a decrease in the put liability of up to £2.6m (€3m). In addition the number of net additions to cloud seats could change the put option liability by an increase of £2.6m (€3m).

Alternative Performance Measures

Adjustments to the income statement have been presented because the Group believes that adjusted performance measures (APMs) provide valuable additional information for users of the financial statements in assessing the Group's performance. Moreover, they provide information on the performance of the business that Management is more directly able to influence and on a basis comparable from year to year.

The measures are adjusted for the following items:

(a) Depreciation and amortisation

Depreciation and amortisation relate to the assets which were acquired by the Group. These are omitted from adjusted operating expenses to allow users of the accounts to compare against other external data sources.

(b) Depreciation and amortisation arising due to business combinations

This adjustment is made to improve the comparability between acquired and organically grown operations, as the latter cannot recognise internally generated intangible assets. Adjusting for amortisation provides a more consistent basis for comparison between the two.

(c) Change in fair value of acquisitions

The change in fair value of deferred consideration and put option liability is adjusted for to improve the comparability between acquired and organically grown operations, providing a more consistent basis for comparison between the two.

(d) Exceptional items

The Group treats certain items which are considered to be one-off or not representative of the underlying trading of the Group as exceptional in nature.

The Directors apply judgement in assessing the particular items, which by virtue of their scale or nature should be classified as exceptional items. The Directors consider that separate disclosure of these items is relevant to an understanding of the Group's financial performance. Any changes to items that are initially identified as exceptional in one year will consistently be treated as exceptional in subsequent periods.

Changes in deferred consideration, reduction of intangible assets and goodwill, and profit upon disposal of a subsidiary are considered to be exceptional where of a certain scale as they are not representative of the primary activities of the Group.

(e) Adjusting tax items

Where movements to tax balances arise and these do not relate to the underlying trading current year tax charge, these are adjusted in determining certain APMs as they do not reflect the underlying performance in that year.

The tables below reconcile the alternative performance measures used in this document:

Measure	**Statutory basis**	**Depreciation and amortisation on business combinations**	**Adjusting tax items**	**Adjusted basis**
2021				
PBT (£m)	32.4	4.6	-	37.0
PAT* (£m)	26.2	4.6	(1.1)	29.7
EPS (FD) (p)	27.0	4.7	(1.1)	30.6
2020				
PBT (£m)	26.2	1.8	-	28.0
PAT (£m)	21.2	1.8	(0.4)	22.6
EPS (FD) (p)	22.1	1.8	(0.4)	23.5

*PAT is the amount attributable to the ordinary equity holders of the Company (as defined in the CFO Report earlier).

In addition to the above we add back the depreciation and amortisation charged in the year to Profit from Operations (2021: £32.9m; 2020: £26.3m) to calculate a figure for EBITDA (2021: £46.0m; 2020: £36.1m) which is commonly quoted by our peer group internationally and allows users of the accounts to compare our performance with those of our peers.

3. Segment information

The Group's main operating segments are outlined below:

→ UK Indirect – This division sells Gamma's products and services to channel partners based in the UK and contributed 60% (2020: 67%) of the Group's external Revenue.

→ UK Direct – This division sells Gamma's products and services to end users based in the UK. It contributed 24% (2020: 27%) of the Group's external Revenues.

→ European - This division consists of sales made in Europe by Gamma Communications Benelux group in the Netherlands, Voz group in Spain and HFO group in Germany contributing 16% (2020: 6%) of the Group's external Revenues; and

→ Central functions – This is not a Revenue generating segment but is made up of the central management team and wider Group costs.

Factors that management used to identify the Group's reportable segments

The Group's reportable segments are strategic business units that offer products and services into different markets. They are managed separately because each business requires different marketing strategies and are reported separately to the Board and management team.

Measurement of operating segment profit or loss, assets and liabilities

The accounting policies of the reporting segments are the same as those described in the summary of significant accounting policies. The Group evaluates performance on the basis of profit or loss from operations but excluding non-recurring losses, such as goodwill impairment. Inter-segment sales are priced in line with sales to external customers, with an appropriate discount being applied to encourage use of Group resources at a rate acceptable to local tax authorities. This policy was applied consistently throughout the current and prior period.

Period to 30 June 2021	UK Indirect £m	UK Direct £m	European £m	Central functions £m	Total £m
Segment Revenue	141.8	51.9	35.4	-	229.1
Inter-segment Revenue	(11.7)	-	-	-	(11.7)
Revenue from external customers	**130.1**	**51.9**	**35.4**	**-**	**217.4**
Timing of Revenue recognition					
At a point in time	7.6	2.1	13.4	-	23.1
Over time	122.5	49.8	22.0	-	194.3
	130.1	51.9	35.4	-	217.4
Total Gross Profit	**69.2**	**26.4**	**16.1**	**-**	**111.7**
Operating expenses	(43.7)	(13.7)	(17.4)	(4.0)	(78.8)
Earnings before depreciation and amortisation	**32.2**	**13.7**	**4.1**	**(4.0)**	**46.0**
Depreciation and amortisation (excluding business combinations)	(6.1)	(0.4)	(2.0)	-	(8.5)
Depreciation and amortisation arising due to business combinations	(0.6)	(0.6)	(3.4)	-	(4.6)
Profit/(loss) from operations	**25.5**	**12.7**	**(1.3)**	**(4.0)**	**32.9**

External customer Revenue has been derived principally in the geographical area of the operating segment and no single customer contributes more than 10% of Revenue.

Period to June 2021	UK Indirect £m	UK Direct £m	European £m	Central functions £m	Total £m
Additions to non-current assets	5.4	0.8	1.1	-	7.3
Reportable segment assets	217.0	44.4	84.1	-	345.5
Reportable segment liabilities	60.9	22.2	34.5	-	117.6

Period to 30 June 2020	UK Indirect £m	UK Direct £m	European £m	Central functions £m	Total £m
Segment Revenue	130.2	47.6	10.6	-	188.4
Inter-segment Revenue	10.7	0.4	-	-	11.1
Revenue from external customers	119.5	47.2	10.6	-	177.3
Timing of Revenue recognition					
At a point in time	7.0	1.9	1.7	-	10.6
Over time	112.5	45.3	8.9	-	166.7
	119.5	47.2	10.6	-	177.3
Total Gross Profit	**64.5**	**22.4**	**6.2**	**-**	**93.1**
Operating expenses	(44.3)	(11.8)	(7.4)	(3.3)	(66.8)
Earnings before depreciation and amortisation	**27.7**	**10.7**	**1.0**	**(3.3)**	**36.1**
Depreciation and amortisation (excluding business combinations)	(7.1)	-	(0.9)	-	(8.0)
Depreciation and amortisation arising due to business combinations	(0.4)	(0.1)	(1.3)	-	(1.8)
Profit/(loss) from operations	**20.2**	**10.6**	**(1.2)**	**(3.3)**	**26.3**

External customer Revenue has been derived principally in the geographical area of the reporting segment and no single customer contributes more than 10% of Revenue.

Period to June 2020	UK Indirect £m	UK Direct £m	European £m	Central functions £m	Total £m
Additions to non-current assets	8.4	0.1	0.6	-	9.1
Reportable segment assets	188.4	67.0	22.0	-	277.4
Reportable segment liabilities	34.8	46.8	25.8	-	107.4

4. Taxation on profit on ordinary activities

Tax expense is recognised based on management's best estimate of the weighted average effective annual tax rate expected for the full financial year. The estimated average annual tax rate used for the period to 30 June 2021 is 19%, compared to 19% for the six months ended 30 June 2020.

5. Earnings per share

	Six months ended 30 June 21	Six months ended 30 June 20
Earnings per Ordinary Share – basic (pence)	**27.4**	22.3
Earnings per Ordinary Share – diluted (pence)	**27.0**	22.1

The calculation of the basic and diluted earnings per share is based on the following data:

	Six months ended 30 June 21	Six months ended 30 June 20
	£m	£m
Earnings		
Profit after tax attributable to equity holders of the Company	**26.2**	21.2
Shares	**Number**	Number
Basic weighted average number of Ordinary Shares	**95,522,758**	94,858,245
Effect of dilution resulting from share options	**1,406,872**	1,180,577
Diluted weighted average number of Ordinary Shares	**96,929,630**	96,038,822

In April 2021 certain vendors of Mission Labs reinvested £2.8m in Gamma (182,086 shares). In June 2021 £0.3m of Ordinary Shares (15,844 shares) were issued as part of deferred consideration for the acquisition of Exactive Holdings Limited. In June 2021 the vendors of HFO have reinvested £0.7m in Gamma (37,294 shares).

Adjusted earnings per share is detailed below:

	Six months ended 30 June 21	Six months ended 30 June 20
Adjusted earnings per Ordinary Share – basic (pence)	**31.1**	23.8
Adjusted earnings per Ordinary Share – diluted (pence)	**30.6**	23.5

Adjusted profit used in the calculation of adjusted earnings per share is detailed below:

	Six months ended 30 June 21	Six months ended 30 June 20
Earnings	**£m**	£m
Profit for the period attributable to equity holders of the Company	**26.2**	21.2
Amortisation arising on business combinations	**4.6**	1.8
Adjusting tax items	**(1.1)**	(0.4)
Adjusted profit after tax for the period	**29.7**	22.6

6. Dividends

A final dividend of 7.8p was paid on the 24 June 2021 (2020: 7.0p).

The Board has declared an interim dividend of 4.4p per share payable on Thursday 21 October 2021 to shareholders on the register as at Friday 24 September 2021. In the prior year an interim dividend of 3.9p was paid.

7. Property, plant and equipment

	Land and building £m	Network assets £m	Computer equipment £m	Fixtures and fittings £m	Total £m
Cost					
At 1 January 2021	4.8	71.9	11.6	2.0	90.3
Additions	-	3.0	0.5	0.1	3.6
Acquisition of subsidiary	-	-	0.1	-	0.1
Disposals	-	(0.1)	-	-	(0.1)
Exchange differences	(0.2)	-	(0.1)	(0.1)	(0.4)
At 30 June 2021	**4.6**	**74.8**	**12.1**	**2.0**	**93.5**
Depreciation					
At 1 January 2021	0.1	44.7	7.9	1.3	54.0
Charge for the period	0.1	3.1	0.5	0.3	4.0
Exchange differences	-	(0.2)	-	-	(0.2)
At 30 June 2021	**0.2**	**47.6**	**8.4**	**1.6**	**57.8**
Net book value					
At 1 January 2021	4.7	27.2	3.7	0.7	36.3
At 30 June 2021	**4.4**	**27.2**	**3.7**	**0.4**	**35.7**

8. Intangible assets

	Goodwill £m	Customer contracts £m	Brand £m	Development costs £m	Software £m	Total £m
Cost						
At 1 January 2021	55.0	48.6	2.4	17.6	16.6	140.2
Additions	-	-	-	0.9	1.6	2.5
Acquisition of subsidiary	38.7	1.5	0.9	5.2	-	46.3
Exchange differences	(1.5)	(1.8)	-	(0.2)	-	(3.5)
Reclassifications	-	-	-	0.8	(0.8)	-
At 30 June 2021	**92.2**	**48.3**	**3.3**	**24.3**	**17.4**	**185.5**
Amortisation						
At 1 January 2021	8.8	13.5	0.7	10.1	11.8	44.9
Charge for the period	-	3.9	0.6	1.9	1.4	7.8
Exchange Differences	(0.1)	(0.6)	-	-	-	(0.7)
Reclassifications	-	-	-	0.4	(0.4)	-
At 30 June 2021	**8.7**	**16.8**	**1.3**	**12.4**	**12.8**	**52.0**
Net book value						
At 1 January 2021	46.2	35.1	1.7	7.5	4.8	95.3
At 30 June 2021	**83.5**	**31.5**	**2.0**	**11.9**	**4.6**	**133.5**

Amortisation on intangible assets is charged to the consolidated statement of profit or loss and included in operating expenses.

Voz was acquired in April 2020 and the company is still in its early integration life cycle stage within the Group. The headroom between the recoverable amount (determined based on a value in use model) and the carrying value of the Voz CGU is modest at £10m at 30 June 2021. We expect the headroom to increase in future periods as the business delivers its UCaaS growth strategy. We have considered reasonably possible changes in key assumptions that could cause an impairment at 30 June 2021, and have identified two key assumptions relating to the cash flows in years 1 to 5, being:

(1) The Group's value in use cash flows assumes a double digit Revenue CAGR over the five year period. A decrease in the forecast Revenue CAGR by 4% over this period, would see the headroom reduced to nil.

(2) To breakeven, the EBITDA margin percentage would need to reduce by 2.4% each year.

9. Business combinations

Summary of acquisitions

On the 3 March 2021 the Group acquired 100% of Mission Labs Limited and its subsidiaries. ("Mission Labs"). Mission Labs is a leading developer of applications to manage cloud contact centres and enhance customer experience.

The provisional asset and liabilities recognised as a result of the acquisitions are as follows:

	Mission Labs £m
Tangible fixed assets	0.1
Right of use assets	0.1
Intangible - development costs	5.2
Intangible - customer contracts	1.5
Intangible - brand	0.9
Cash	2.4
Trade receivables	1.0
Other receivables	0.3
Trade payables	(0.3)
Other payables	(0.5)
Borrowings	(0.2)
Deferred tax liability	(1.3)
Net identified assets acquired	9.2
Add: Goodwill	38.7
Net assets acquired	**47.9**

	Mission Labs £m
Satisfied by:	
Cash paid	43.2
Contingent consideration[1]	4.7
Total purchase consideration	**47.9**

[1] Contingent consideration is based on Mission Labs achieving milestones in 2021,2022 and 2023. Consideration of up to £6.0m may be payable. The fair value of £4.7m at acquisition is based on a payout of £5.7m which takes into account the weighted probability of success.

Net cash outflow on acquisitions:

	Mission Labs £m	Total £m
Cash consideration	43.2	43.2
Less: cash acquired	(2.4)	(2.4)
Net outflow of cash for acquisitions in the period	40.8	40.8
Contingent consideration payment in the period	-	1.5
Put option liability payment in the period	-	5.0
Net outflow of cash - Investing activities	40.8	**47.3**

Valuations of intangible assets

Customer contracts were valued under the Replacement Cost and Distributor approach as appropriate. Technology was valued under the Multi-period excess earning model and Brand under the Relief-from-royalty methodology.

Goodwill

The goodwill encapsulates the ability to grow through new technology and attracting new customers as well as the synergies gained through bringing Mission Labs into the Group and is not deductible for tax purposes.

Acquired receivables

The fair value of acquired trade receivables for Mission Labs is £1.0m. The gross contractual amount for trade receivables due is £1.0m.

Revenue and Profit

Mission Labs contributed Revenues of £2.3m and loss after tax of £(0.6)m to the Group for the period from 3 March 2021 to 30 June 2021.

If the acquisition had occurred on 1 January 2021, consolidated Revenue and loss after tax for the six months to 30 June would have been £4.0m and £(0.3)m respectively.

10. Share capital

	Number	£m
1 January 2021		
Ordinary Shares of £0.0025 each	95,402,437	0.2

	Number	
At 1 January 2021	95,402,437	
Movement:		
January	5,629	(a)
March	8,305	(a)
April	23,715	(a)
April	182,086	(b)
May	47,400	(a)
June	359,377	(a)
June	37,294	(c)
June	15,844	(d)
At 30 June 2021	96,082,087	

(a) Ordinary shares were issued to satisfy options which have been exercised.
(b) Ordinary shares were issued to certain vendors of Mission Labs as a result of reinvestment in Gamma
(c) Ordinary shares were issued to a certain vendor of HFO Holding GmbH as a result of reinvestment in Gamma
(d) Ordinary shares were issued as consideration to the shareholders of Exactive Holdings Limited

	Number	£m
30 June 2021		
Ordinary Shares of £0.0025 each	96,082,087	0.2

11. Events after the reporting date

There have been no significant events affecting the Group since 30 June 2021.