

# GAMMA COMMUNICATIONS PLC FY14 RESULTS

March 2015



# Disclaimer

This presentation is issued on behalf of Gamma Communications plc (the “**Company**”). This presentation does not constitute an admission document or prospectus, nor does it constitute or form part of any offer or invitation to sell or issue, or any solicitation of any offer to purchase or subscribe for or otherwise acquire any securities of the Company or of a subsidiary undertaking of the Company, nor does it constitute or form part of any invitation or inducement to engage in investment activity under section 21 of the Financial Services and Markets Act 2000 (the “**FSMA**”), nor does it constitute a recommendation regarding securities of the Company, nor shall it or any part of it form the basis of or be relied on in connection with any contract or investment decision. Nothing in this presentation should be construed as constituting any form of investment advice, recommendation, guidance or proposal of a financial nature in respect of any investment issued by the Company or any transaction in relation to the Company. If you are considering engaging in any investment activity, you should seek appropriate independent advice and make your own assessment.

This presentation may not be copied, distributed, reproduced or passed on, directly or indirectly, in whole or in part, or disclosed by any recipient, to any other person (whether within or outside such person’s organisation or firm) or published in whole or in part, for any purpose or under any circumstances.

The information in this presentation is provided as at the date of this presentation and as such is preliminary in nature, has not been fully verified by the Company or Investec Bank plc (“**Investec**”) and is subject to material amendment, updating and change. Neither the Company nor Investec undertake any obligation to provide any recipient of this presentation with access to any additional information or to update this presentation or any additional information or to correct any inaccuracies in any such information which may become apparent. This document sets out certain features of the Company and does not purport to provide a complete description of the Company or the shares in the Company.

The information contained in this presentation is not for distribution, directly or indirectly, in or into the United States, Canada, Australia, New Zealand, the Republic of South Africa or Japan or in any other country where such distribution may lead to a breach of any law or regulatory requirement. In this respect, neither the Company, Investec nor any of their advisers or connected persons accepts any liability to any person in relation to the distribution or possession of this presentation to or in any such jurisdiction.

This presentation may contain forward-looking statements relating to the Company’s expected operations that are based on management’s current expectations, estimates and projections. Words such as “expects”, “intends”, “plans”, “projects”, “believes”, “estimates”, and similar expressions are used to identify such forward-looking statements. These statements are not warranties or guarantees of future performance and involve certain risks, uncertainties and assumptions that are difficult to predict. Therefore, actual outcomes and results may differ materially from what is expressed or forecast in such forward-looking statements.

By their nature forward-looking statements involve risk and uncertainty because they relate to events and depend on circumstances that may occur in the future. Although the Company believes the expectations reflected in such statements are reasonable, no assurance can be given that such expectations will prove to be correct. There are a number of factors, many of which are beyond the control of the Company, which could cause actual results and developments to differ materially from those expressed or implied by forward-looking statements.

No representation or warranty, express or implied, is made as to the fairness, accuracy or completeness of the information contained in this presentation and no reliance should be placed upon it. Save in the case of fraud, no liability is or will be accepted for such information by the Company or Investec or any of their respective directors, officers, employees, agents or advisers or any other person. In particular it should be noted that information about past performance is not a guide as to future performance. These materials do not cover all matters that may be relevant for any prospective investment. Prospective investors should not treat these materials as advice in relation to legal, taxation or investment matters and should take steps to ensure that the risks are fully and completely understood. Investors are recommended to consult their own advisers in relation to any such issues.

Investec, which is authorised and regulated by the Financial Conduct Authority, is acting for the Company only and will not be responsible to any other person for providing the protection afforded to clients of Investec or for advising such person on the matters referred to in this presentation. Investec has not approved the contents of, or any part of, this presentation for the purposes of the FSMA.

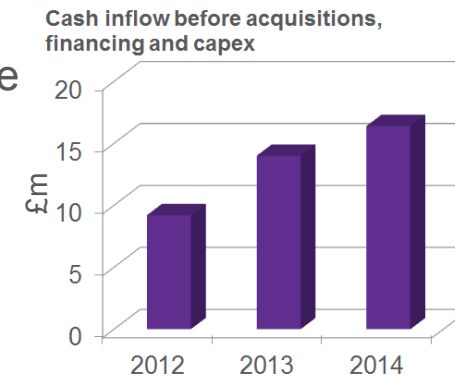
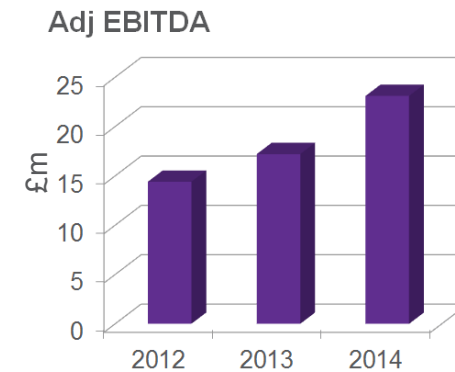
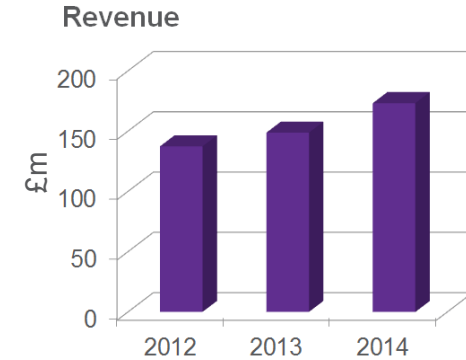


# Highlights of the year

## Strong growth across the business

	Dec 2013	Dec 2014	Growth %
Channel Partners	627	725	+16%
SIP Trunks	161,000	234,000	+45%
Cloud PBX users	43,000	80,000	+86%

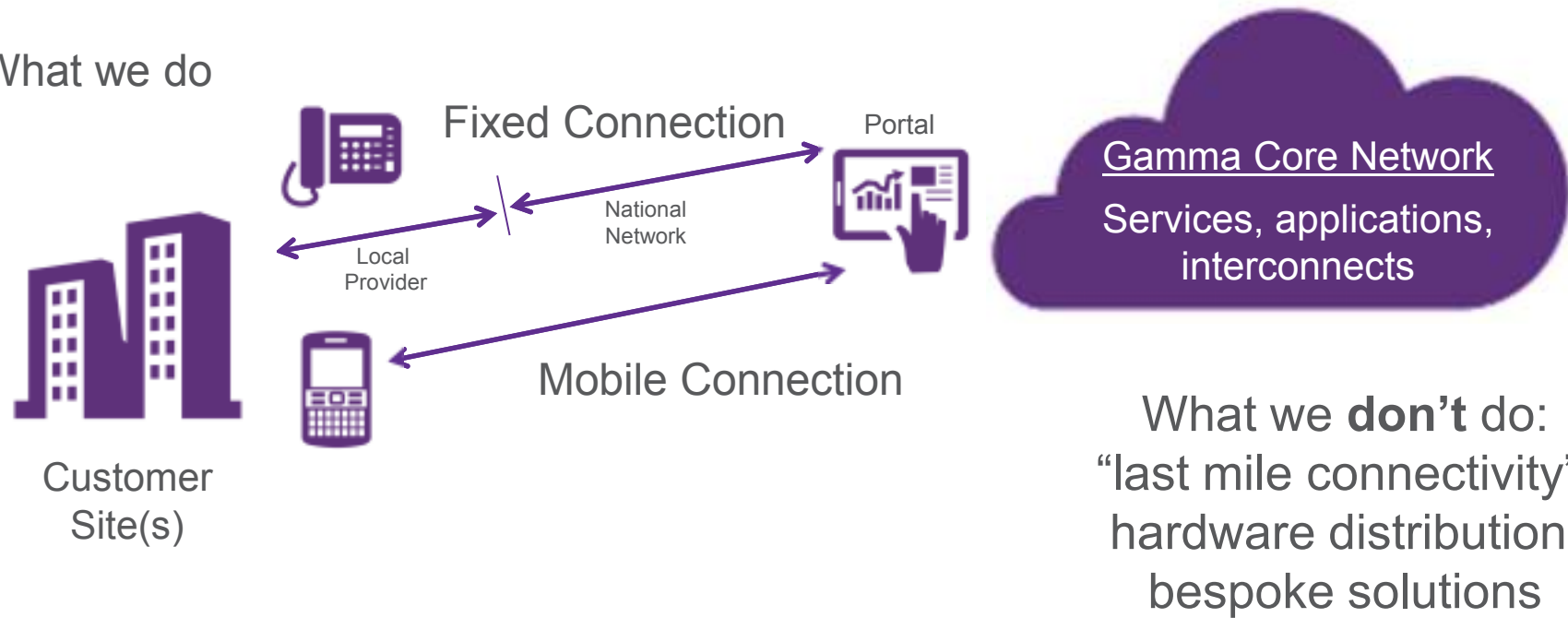
- Good growth in other services and traditional services held steady
- 72% of Gross profit came from partners selling > 4 key products (2013:62%)
- Strong revenue and margin growth in direct sales, with wins including BDO, London Stock Exchange, Hearst Magazines, Moore Stevens, Oxford, Bristol, and Ulster Universities
- Strong product pipeline with continuing focus on development
- Opportunistic but strategic capital investment in fixed/mobile convergence
- Final earn out payment for Varidion of incremental £2.6m



# Gamma overview

Gamma is a technology based provider of advanced communications services to the UK business market with c80% of its sales via the channel

What we do



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



# Our position in the market

## Traditional telco markets



### ISDN

- Traditional fixed line voice communications
- Declining 6% per annum

Being replaced by



## Gamma's "new-generation" markets

### SIP Trunking (Business grade VoIP)

- Calls are carried over data lines instead of traditional voice lines
- Growing at c. 45%, market share 16%
- Market size of **£819m** p.a. anticipated by 2018



### PBX

- On-site phone systems for call management
- Declining 8-10% per annum



### Cloud PBX (Phone system in the Cloud)

- Supports multiple customers with advanced features
- Growing at c. 22%
- Market size of **£650m** p.a. anticipated by 2018 (incl. handset and setup charges)



### Leased Lines

- Networking circuits
- Declining 8% per annum



### Ethernet (High speed data connection)

- Data connectivity for internet access, business applications and business networks
- Market CAGR growth of c. 11%



Creating new market



### Inbound (Managing inbound phone calls)

- A service that manages the routing and delivery of inbound calls
- Market size – no data, potential for all UK businesses



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



# 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
- Exceptional items are principally IPO costs (£1.2m) and book loss on settlement of Varidion earn out (£0.6m)
- Share based charges reflect levels of options granted pre-float – will remain at this level for next three years
- Strong growth in adj. EPS
- Proposed final dividend of 3.95p

Years ended 31 December (£m)	2012	2013	2014	Growth
<b>Revenue</b>	<b>137.2</b>	<b>148.7</b>	<b>173.2</b>	<b>+16.4%</b>
Cost of sales	(92.3)	(94.8)	(105.6)	
<b>Gross profit</b>	<b>44.9</b>	<b>53.9</b>	<b>67.6</b>	<b>+25.4%</b>
<i>Gross profit margin</i>	32.7%	36.2%	39.0%	+280bps
Adj operating expenses*	(30.5)	(36.7)	(44.5)	
<b>Adj EBITDA**</b>	<b>14.4</b>	<b>17.2</b>	<b>23.1</b>	<b>+34.3%</b>
<i>Adj EBITDA margin</i>	10.5%	11.6%	13.3%	
Exceptional items	-	-	(2.0)	
Depreciation and amortisation	(4.5)	(4.8)	(6.4)	
Share based charges	(0.2)	(0.9)	(3.2)	
<b>Operating profit</b>	<b>9.7</b>	<b>11.5</b>	<b>11.5</b>	<b>Nil</b>
Finance income / expense	-	-	-	
<b>Profit before tax</b>	<b>9.7</b>	<b>11.5</b>	<b>11.5</b>	<b>Nil</b>
Tax expense	(2.0)	(2.2)	(2.1)	
<b>Profit after tax</b>	<b>7.7</b>	<b>9.3</b>	<b>9.4</b>	<b>+1.0%</b>
<b>Adjusted EPS (Pence)</b>	<b>8.5</b>	<b>10.8</b>	<b>15.0</b>	<b>+38.9%</b>

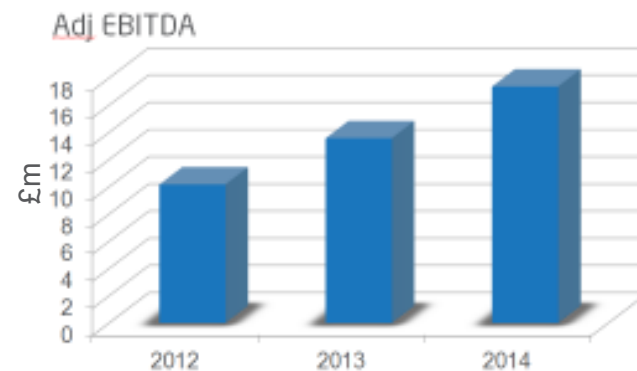
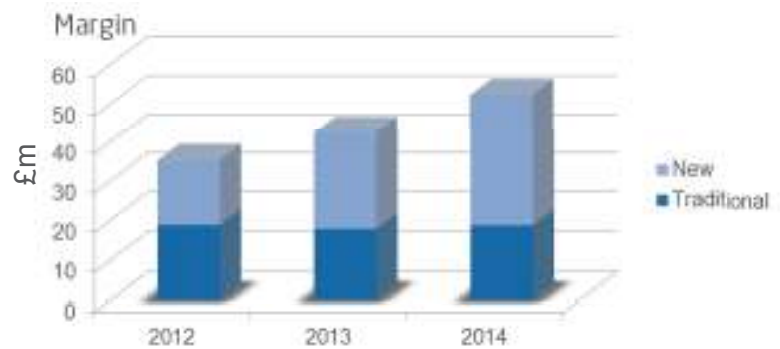
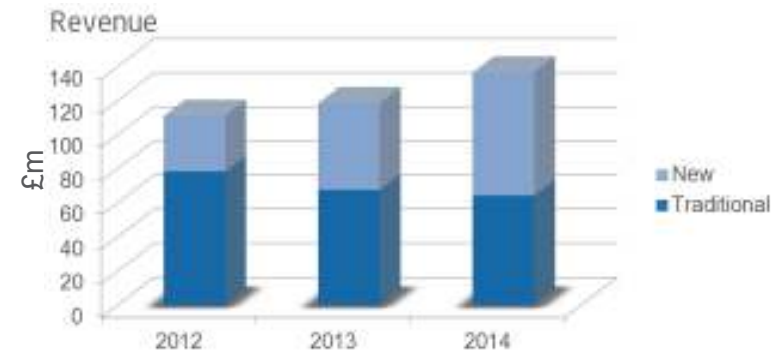
Notes: \*Operating expenses before IPO costs, depreciation, amortisation and share based charges

\*\*EBITDA before share based payments and exceptional



# Indirect business

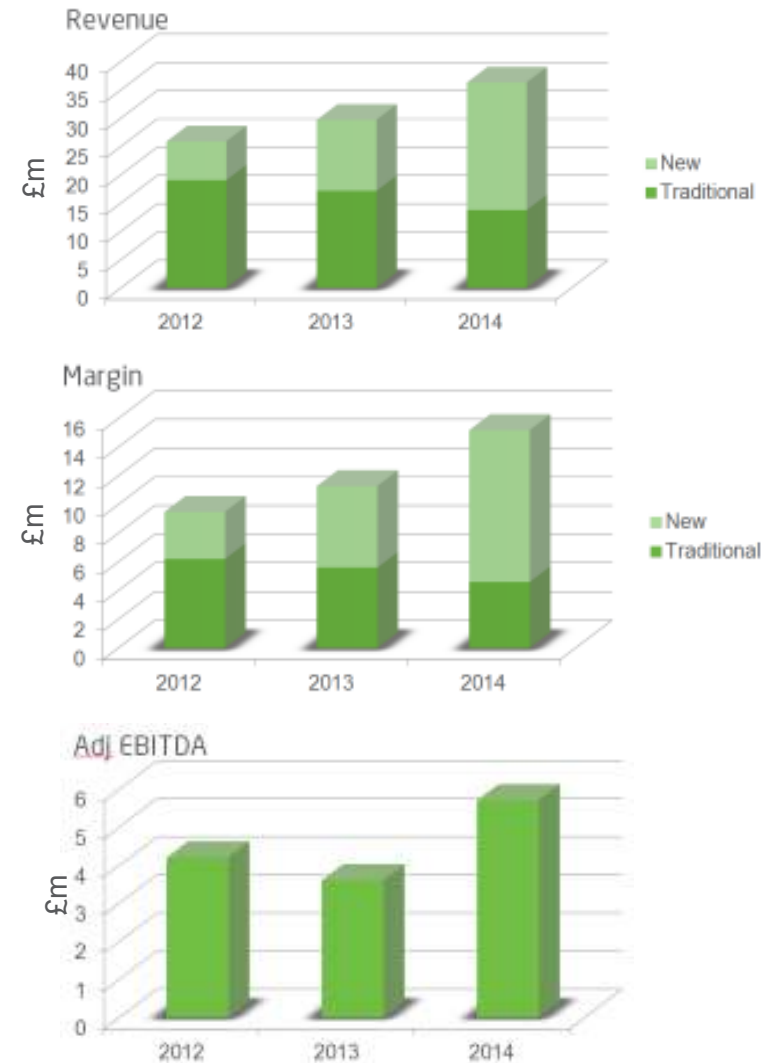
- Positive shift in mix of Traditional and New (Strategic and Enabling) services at both revenue and gross margin
- Strong increase in Strategic services—especially SIP Trunking and Cloud PBX
- Traditional calls and lines holding up and beating the market structural decline
- Margin increased from 36% (2013) to 38%: mix and falling cost base
- Adj. EBITDA margin increased from 11.4% to 12.7%





# Direct business

- Direct business growing due to Strategic services
- Margin increased from 38% (2013) to 42% - due to mix
- Adj. EBITDA margin increased from 12.1% to 15.7% (2013 was suppressed due to significant commission payments made to mobile dealers (written off as incurred))



# Balance sheet and cash flow

- Significant cash reserves, and remain debt free
- Capex in year high:
  - £10.2m on capital items
  - £0.9m of internal development
  - £1.0m of Customer Premises Equipment – expected to grow
- Consistent cash generation
- Cash conversion 84% average over three years (2014 lower due to IPO)
- Other non-trading cash outflows:
  - £2.6m – Deferred consideration
  - £3.1m – Share buybacks and cancelations

<b>Balance Sheet as at 31 December (£m)</b>	<b>2012</b>	<b>2013</b>	<b>2014</b>
Non-current assets (incl. PPE)	23.3	24.6	32.0
Receivables and inventories	22.6	26.9	33.6
Cash	7.2	14.6	13.4
Current assets	29.8	41.5	47.0
<b>Total assets</b>	<b>53.1</b>	<b>66.1</b>	<b>79.0</b>
Non-current liabilities	3.1	3.3	1.1
Current liabilities	22.2	25.9	26.7
<b>Total liabilities</b>	<b>25.3</b>	<b>29.2</b>	<b>27.8</b>
Share capital	2.5	2.5	5.7
Other reserves	0.7	1.1	2.4
Retained earnings	24.6	33.3	43.1
<b>Total Equity</b>	<b>27.8</b>	<b>36.9</b>	<b>51.2</b>

<b>Cash Flow Statement as at 31 December (£m)</b>	<b>2012</b>	<b>2013</b>	<b>2014</b>
<b>Adj EBITDA*</b>	<b>14.4</b>	<b>17.2</b>	<b>23.1</b>
<b>Net Cash inflow from Operations (pre-tax)</b>	<b>10.4</b>	<b>16.3</b>	<b>19.4</b>
<i>Cash conversion</i>	72.2%	94.8%	84.0%
Taxation	(1.2)	(2.3)	(3.0)
Capital Expenditure	(2.6)	(5.9)	(12.1)
<b>Cash inflow before Acquisitions and Financing</b>	<b>6.6</b>	<b>8.1</b>	<b>4.3</b>

Notes: \*EBITDA post share based payments



# OPERATING REVIEW



# Indirect business

- Revenue up 15% to £136.9m (FY13: £119.0m)
- Gross margin up 23% to £52.4m (FY13: £42.6m)

## Channel partners

- Growth from 627 to 725 channel partners billing in excess of £500/mth
- Estimated indirect sales force of c10,000
- Top 10 are 26% of group revenue – major channel partners include Alternative Networks, Azzurri, Daisy, Capita IT, Focus, HighNet, Sabio
- Over a third (and growing) of partners sell Horizon (Cloud PBX)
- Much greater diversity amongst new channel partners - from start-ups to public companies; IT Companies to SIs to on-line and call centre retailers
- Full white label “Simplicity” services helping growth
- 850 people trained on services in 2014



# Direct business

- Revenue up 22% to £36.3m (FY13: £29.7m)
- Gross margin up 35% to £15.2m (FY13: £11.3m)

## Enterprise and Public Sector

- Services in this sector may be tailored and non-standard services selectively introduced
- Major enterprise wins include BDO, London Stock Exchange, Hearst Magazines & Moore Stephens
- 65% of wins were for converged voice and data services
- Public Sector wins include Catalyst and East Thames Housing Trusts
- University wins include Oxford, LSE, Bristol & Ulster Universities – total Universities *directly* supplied now 33
- Awaiting response on delayed new Public Sector ‘Network Services’ Framework application



# Direct business (cont'd)

## SME and Mid-Market

[NB – focussed on standard products to the mid-market]

- Solid growth with many new wins e.g. West Bromwich BS, Haymarket Media, Home Energy, Concur Technologies
- New customers double the size of leaving customers
- Many contract renewals and expansions e.g. American Golf
- Very strong position with multi-sited businesses
- Customer service perceived highly (NPS +22.3%)



# Growth strategy

## External influences

- Consolidation amongst larger operators (e.g. BT & EE) focussed on bundled residential offerings
- Ofcom announcement of wide ranging Strategic Review of the market
- Businesses increasingly planning to buy communications services from a single supplier

## Our plan

- To focus on expanding in high growth markets where our position and proposition is strong
- Manage decline in Traditional services
- Focus on developing converged services for the business 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 costs of sale and enable more converged services





# The Future

## Short term

- Exploit market leading position on SIP Trunks and Cloud PBX (Horizon)
- Launch bundled services for SMEs to encourage cross-selling by partners
- Launch of multi-site private data networks in June
- Continue to invest in tools and processes to improve operational gearing

## Medium term

- Examine strategic and accretive acquisition opportunities and potential new products such as video and hosted contact centres
- Develop new mobile service and converged offerings
- Massive opportunity to lead the market



# THANK YOU

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

