

GAMMA COMMUNICATIONS

SOFTWARE AND COMPUTER SERVICES

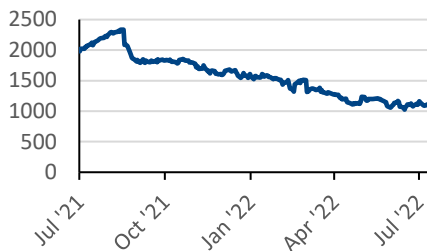
2 August 2022

GAMA.L

1108p

Market Cap: £1060.6m

SHARE PRICE (p)



12m high/low 2,335p/1,026p

Source: LSE Data (priced as at prior close)

KEY DATA

Net (Debt)/Cash	£72.6m (at 30/06/22)
Enterprise value	£1000.6m
Index/market	AIM
Next news	Interims Sept. '22
Shares in Issue (m)	95.7
Chairman	Richard Last
Chief Executive	Andrew Belshaw
CFO	Bill Castell

COMPANY DESCRIPTION

Gamma provides a broad range of communications products and services in the UK and Europe

www.gamma.co.uk

GAMMA COMMUNICATIONS IS A RESEARCH
CLIENT OF PROGRESSIVE

ANALYSTS

Gareth Evans

+44 (0) 20 7781 5301

gevans@progressive-research.com



Ian Robertson

+44 (0) 20 7781 5318

irobertson@progressive-research.com



www.progressive-research.com

The growth story continues

Gamma's H1 trading update, released today, reaffirms guidance and confirms that, despite wider market concerns, the company is seeing strong year-on-year adjusted EBITDA growth, with healthy progress in the UK and Europe, while meeting the challenges of inflation and the hardware supply chain.

- UK Indirect – solid growth.** This UK Indirect business continues to make healthy progress, consistent with the last update in May, helped by good sales traction with new products, including Horizon Contact.
- UK Direct – interesting wins.** The story for UK Direct is also in accordance with the May update, with reference to revenue growth approaching 10% year on year. UK Direct has seen notable success with MS Teams, with several significant contract wins including the Home Office and DWP.
- Inflation – challenges being met.** The release states that overhead spend in the UK has been within expectations in H1. We are confident that management will maintain an active, effective approach to this challenge in H2, in the UK and Europe.
- Europe – more encouraging progress.** UCaaS helped business in Germany to a good first half, although the smaller Spanish business found itself working against 'headwinds'. MS Team Operator Connect was launched in the Netherlands in H1, with plans for roll-out in Germany and Spain. Gamma's contact centre product is also due to launch in Spain in H2.
- Strong cash generation – £72.6m.** Net cash at the end of H1 was c.£72.6m vs £49.5m at year-end FY21 and £54.0m at end April 2022. This would appear consistent with our year-end forecast for net cash of £87.5m.
- Guidance reaffirmed – forecasts held.** The statement reaffirms guidance in the May Q1/AGM statement that FY22 adjusted EBITDA and adjusted EPS will be in the upper half of the forecast range (£102.3-106.8m and 67.1-74.6p, respectively). We maintain our forecasts but look forward to the interims on 6 September as an opportunity to refine our estimates.

Today's statement provides yet further evidence of the robustness of Gamma and its growth story, not only continuing to build in the UK but also making progress in Europe and addressing the challenge of inflation. With recent share price weakness, perhaps the market hasn't noticed that Gamma's growth hasn't stopped – or even slowed.

FYE DEC (£M)	2019	2020	2021	2022E	2023E
Revenue	328.9	393.8	447.7	488.0	545.0
Adjusted EBITDA	63.5	79.0	95.4	104.0	116.1
Adjusted PBT	48.0	61.3	76.7	83.7	95.4
Adjusted Dil. EPS	40.8	51.3	63.1	68.6	74.4
EV/Sales (x)	3.0x	2.5x	2.2x	2.1x	1.8x
EV/ Adj. EBITDA (x)	15.8x	12.7x	10.5x	9.6x	8.6x
P/E (x)	27.2x	21.6x	17.6x	16.1x	14.9x

Source: Company Information and Progressive Equity Research estimates.

This publication should not be seen as an inducement under MiFID II regulations.

Please refer to important disclosures at the end of the document.

Financial Summary: Gamma Communications

Year end: December (£m unless shown)

	2019	2020	2021	2022E	2023E
PROFIT & LOSS					
Revenue	328.9	393.8	447.7	488.0	545.0
Adj EBITDA	63.5	79.0	95.4	104.0	116.1
Adj EBIT	46.4	56.1	68.3	74.3	86.0
Reported PBT	45.2	75.0	67.2	74.2	85.9
Fully adj PBT	48.0	61.3	76.7	83.7	95.4
NOPAT	39.2	50.2	77.8	83.8	95.5
Reported EPS	36.1	66.6	55.2	60.8	67.0
Fully adj EPS	40.8	51.3	63.1	68.6	74.4
Dividend per share	10.5	11.7	13.2	13.9	15.2
CASH FLOW & BALANCE SHEET					
Operating cash flow	54.0	70.3	82.0	83.6	98.0
Free Cash flow	32.3	36.2	51.4	57.8	67.3
FCF per share	33.8	37.6	52.9	59.3	69.1
Acquisitions	(7.5)	(47.7)	(49.3)	(6.7)	(1.3)
Disposals	0.0	19.4	0.0	0.0	0.0
Shares issued	2.0	1.5	5.9	0.0	0.0
Net cash flow	18.4	(5.9)	(3.6)	38.0	52.3
Overdrafts / borrowings	0.0	(5.9)	(3.3)	(2.3)	(1.3)
Cash & equivalents	53.9	53.9	52.8	89.8	141.1
Net (Debt)/Cash (exc. Lease liabilities)	53.9	48.0	49.5	87.5	139.8
NAV AND RETURNS					
Net asset value	152.5	204.4	251.6	311.4	362.9
NAV/share	160.9	214.3	261.2	323.3	376.8
Net Tangible Asset Value	115.1	109.1	123.1	194.6	257.9
NTAV/share	121.4	114.4	127.8	202.0	267.8
Average equity	137.1	182.7	235.8	281.8	330.7
Post-tax ROE (%)	25.2%	35.3%	22.9%	21.0%	19.7%
METRICS					
Revenue growth	15.4%	19.7%	13.7%	9.0%	11.7%
Adj EBITDA growth	31.5%	24.4%	20.7%	9.1%	11.6%
Adj EBIT growth	34.9%	20.9%	21.7%	8.8%	15.8%
Adj PBT growth	37.9%	27.7%	25.1%	9.1%	14.0%
Adj EPS growth	34.7%	25.7%	23.0%	8.8%	8.3%
Dividend growth	12.9%	11.0%	13.3%	5.3%	9.4%
Adj EBIT margins	14.1%	14.2%	15.2%	15.2%	15.8%
VALUATION					
EV/Sales	3.0	2.5	2.2	2.1	1.8
EV/EBITDA	15.8	12.7	10.5	9.6	8.6
EV/NOPAT	25.5	19.9	12.9	11.9	10.5
PER	27.2	21.6	17.6	16.1	14.9
Dividend yield	0.9%	1.1%	1.2%	1.3%	1.4%
FCF yield	3.0%	3.4%	4.8%	5.4%	6.2%

Source: Company information and Progressive Equity Research estimates

Disclaimers and Disclosures

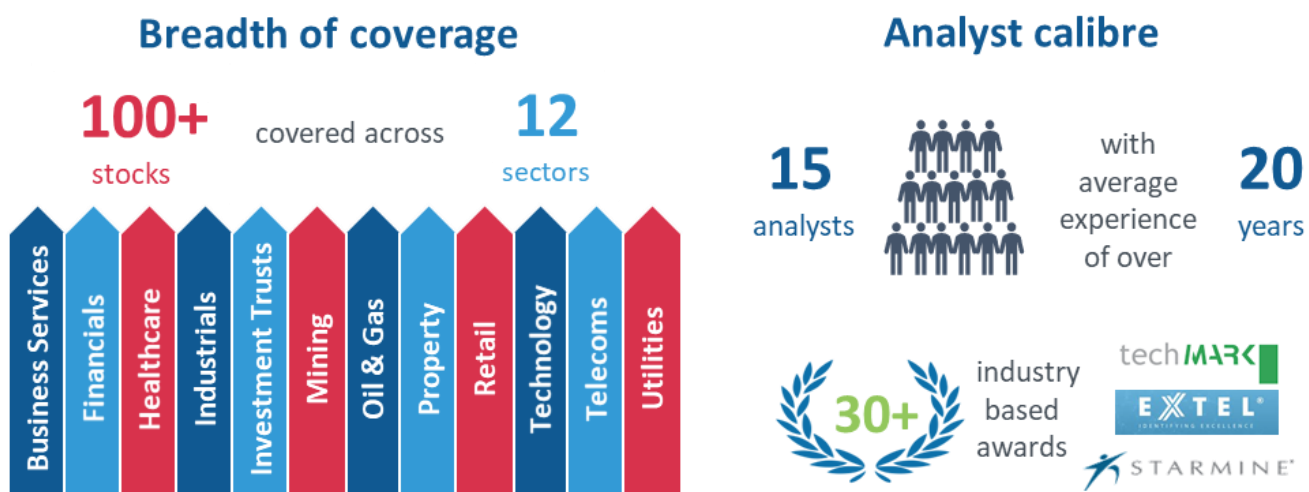
Copyright 2022 Progressive Equity Research Limited (“PERL”). All rights reserved. Progressive’s research is commissioned by the subject company under contract and is freely available to the public and all institutional investors. Progressive does not offer investors the ability to trade securities. Our publications should not, therefore, be considered an inducement under MiFID II regulations. PERL provides professional equity research services, and the companies researched pay a fee in order for this research to be made available. This report has been commissioned by the subject company and prepared and issued by PERL for publication in the United Kingdom only. All information used in the publication of this report has been compiled from publicly available sources that are believed to be reliable; however, PERL does not guarantee the accuracy or completeness of this report. Opinions contained in this report represent those of the research department of PERL at the time of publication, and any estimates are those of PERL and not of the companies concerned unless specifically sourced otherwise. PERL is authorised and regulated by the Financial Conduct Authority (FCA) of the United Kingdom (registration number 697355).

This document is provided for information purposes only, and is not a solicitation or inducement to buy, sell, subscribe, or underwrite securities or units. Investors should seek advice from an Independent Financial Adviser or regulated stockbroker before making any investment decisions. PERL does not make investment recommendations. Any valuation given in a research note is the theoretical result of a study of a range of possible outcomes, and not a forecast of a likely share price. PERL does not undertake to provide updates to any opinions or views expressed in this document.

This document has not been approved for the purposes of Section 21(2) of the Financial Services & Markets Act 2000 of the United Kingdom. It has not been prepared in accordance with the legal requirements designed to promote the independence of investment research. It is not subject to any prohibition on dealing ahead of the dissemination of investment research.

PERL does not hold any positions in the securities mentioned in this report. However, PERL’s directors, officers, employees and contractors may have a position in any or related securities mentioned in this report. PERL or its affiliates may perform services or solicit business from any of the companies mentioned in this report.

The value of securities mentioned in this report can fall as well as rise and may be subject to large and sudden swings. In addition, the level of marketability of the shares mentioned in this report may result in significant trading spreads and sometimes may lead to difficulties in opening and/or closing positions. It may be difficult to obtain accurate information about the value of securities mentioned in this report. Past performance is not necessarily a guide to future performance.



To arrange a meeting with the management team, or for further information about Progressive, please contact:

Keith Hodgskiss
+44 (0) 20 7781 5300
khodgskiss@progressive-research.com