

GAMMA COMMUNICATIONS

SOFTWARE AND COMPUTER SERVICES

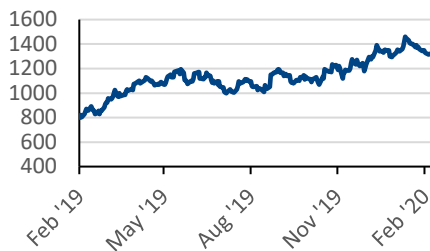
19 February 2020

GAMA.L

1320p

Market Cap: £1240.5m

SHARE PRICE (p)



12m high/low

1,460p/804p

Source: LSE Data

KEY DATA

Net (Debt)/Cash	£35.5m
Enterprise value	£1209.4m
Index/market	AIM
Next news	Finals, 17 March 2020
Shares in Issue (m)	94.0
Chairman	Richard Last
Chief Executive	Andrew Taylor
Finance Director	Andrew Belshaw

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

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Acquisition in Spain

Strategic deal to tap significant potential

Gamma has made an offer to acquire VozTelecom (currently trading on the Mercado Alternativo Bursátil), one of the leading Cloud PBX providers in Spain, for an implied enterprise value of around €30.5 million (£25.3 million). In our view, the deal represents further progress in delivering on the Group's strategy of expanding its footprint in Western Europe through an acquisition in another of its previously-identified target markets. Spain has a sizeable PBX market with a low level of cloud penetration and provides Gamma with the opportunity to invest in accelerating VozTelecom's growth in an attractive market. The price implies an EV/EBITDA multiple of 12.2x VozTelecom's pro forma (including recent M&A) 2019 EBITDA compared to our respective estimate of 19.3x for Gamma. Gamma's net cash position stood at £53.8 million at the end of 2019 and the deal will be financed from that cash resource. We leave estimates unchanged ahead of Gamma's upcoming full-year results and note that the acquisition will progress as a takeover offer under the relevant Spanish legislation.

- VozTelecom is one of the leading Cloud PBX providers in Spain with c40,000 seats - a market share of around 5%. Outside the major fixed line and mobile network operators, VozTelecom is the largest Cloud PBX business in Spain.
- It provides services to end users both directly and through an established partner channel. The announcement notes that VozTelecom enjoys 'an excellent reputation' for delivery.
- Only slightly smaller than the UK market, Spain has around 18 million PBX seats but, crucially, cloud penetration is only around 5%. Consequently, the market opportunity for Gamma lies in the forecast for rapid growth in Cloud PBX in Spain.
- VozTelecom's recent trading update provided 2019 pro forma group turnover and adjusted EBITDA of €15.6million (£13.0million) and €2.5 million (£2.1 million) respectively, including annualised contributions from recent acquisitions.
- Gamma's January trading update for the FY 2019E year-end had confirmed that its European business was tracking well, with the Nimsys deal integration on plan and Cloud PBX and Mobile both ahead of local market growth.

FYE DEC (€M)	2017	2018	2019E	2020E	2021E
Revenue	242.0	284.9	328.2	358.5	392.0
Adjusted EBITDA	36.0	48.3	62.5	69.7	77.6
Adjusted PBT	26.2	34.8	46.1	53.2	60.3
Adjusted EPS	23.1	30.3	39.6	45.7	51.8
EV/Sales (x)	5.0x	4.2x	3.7x	3.4x	3.1x
EV/ Adj. EBITDA (x)	33.6x	25.0x	19.3x	17.4x	15.6x
P/E (x)	57.2x	43.6x	33.3x	28.9x	25.5x

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)

	2017	2018	2019E	2020E	2021E
PROFIT & LOSS					
Revenue	242.0	284.9	328.2	358.5	392.0
Adj EBITDA	36.0	48.3	62.5	69.7	77.6
Adj EBIT	25.6	34.4	45.2	52.1	59.9
Reported PBT	26.5	34.6	45.7	52.8	59.9
Fully adj PBT	26.2	34.8	46.1	53.2	60.3
NOPAT	21.6	28.7	36.9	42.5	60.3
Reported EPS	24.0	30.1	40.3	45.3	51.4
Fully adj EPS	23.1	30.3	39.6	45.7	51.8
Dividend per share	8.4	9.3	10.3	11.3	12.5
CASH FLOW & BALANCE SHEET					
Operating cash flow	29.8	40.6	52.0	59.0	65.6
Free Cash flow	10.7	23.8	31.4	35.2	40.8
FCF per share	11.3	25.1	33.3	37.3	43.2
Acquisitions	0.0	(11.1)	(1.7)	0.0	0.0
Disposals	0.0	0.0	0.0	0.0	0.0
Shares issued	0.0	0.0	0.0	0.0	0.0
Net cash flow	3.4	3.9	20.7	25.4	29.9
Overdrafts / borrowings	0.0	0.0	0.0	0.0	0.0
Cash & equivalents	31.6	35.5	56.2	81.5	111.4
Net (Debt)/Cash	31.6	35.5	56.2	81.5	111.4
NAV AND RETURNS					
Net asset value	95.3	121.7	150.7	183.5	221.2
NAV/share	104.1	129.5	160.3	195.2	235.3
Net Tangible Asset Value	79.8	83.7	114.5	149.8	190.2
NTAV/share	87.2	89.1	121.8	159.4	202.3
Average equity	87.8	108.5	136.2	167.1	202.2
Post-tax ROE (%)	25.9%	26.3%	27.9%	25.6%	24.0%
METRICS					
Revenue growth	13.3%	17.7%	15.2%	9.2%	9.3%
Adj EBITDA growth	5.3%	34.2%	29.5%	11.4%	11.3%
Adj EBIT growth	5.3%	34.4%	31.4%	15.3%	14.9%
Adj PBT growth	10.4%	32.8%	32.4%	15.5%	13.3%
Adj EPS growth	16.4%	31.2%	30.8%	15.4%	13.3%
Dividend growth	12.0%	10.7%	10.2%	10.2%	10.6%
Adj EBIT margins	10.6%	12.1%	13.8%	14.5%	15.3%
VALUATION					
EV/Sales	5.0	4.2	3.7	3.4	3.1
EV/EBITDA	33.6	25.0	19.3	17.4	15.6
EV/NOPAT	55.9	42.1	32.7	28.4	20.1
PER	57.2	43.6	33.3	28.9	25.5
Dividend yield	0.6%	0.7%	0.8%	0.9%	0.9%
FCF yield	0.9%	1.9%	2.5%	2.8%	3.3%

Source: Company information and Progressive Equity Research estimates

Disclaimers and Disclosures

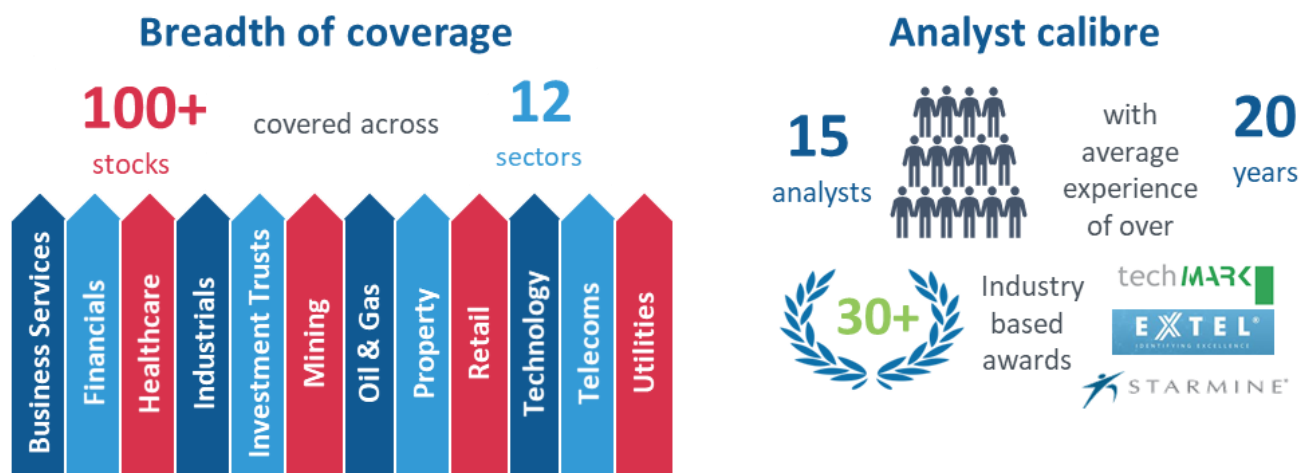
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