

# GAMMA COMMUNICATIONS

## SOFTWARE AND COMPUTER SERVICES

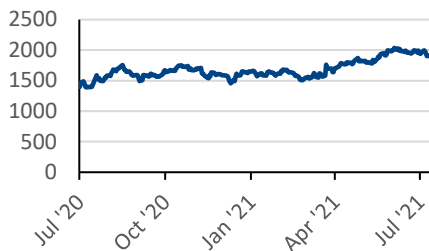
13 July 2021

### GAMA.L

1906p

Market Cap: £1824.5m

#### SHARE PRICE (p)



12m high/low 2,035p/1,390p

Source: LSE Data

#### KEY DATA

Net (Debt)/Cash	£25.4m (at 30/06/21)
Enterprise value	£1811.7m
Index/market	AIM
Next news	Interims, Sep 2021
Shares in Issue (m)	95.7
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](http://www.gamma.co.uk)

**GAMMA COMMUNICATIONS IS A RESEARCH CLIENT OF PROGRESSIVE**

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## Another good half year of growth

Gamma's trading update for H1 2021E notes another good performance, with growth in line with market expectations for that of the full year. Management expects that the full year results will be in the upper half of the range of market consensus estimates and we upgrade our numbers accordingly for FY 2021E with knock-on increases for the subsequent two years of our forecast horizon. Despite the restrictions associated with the pandemic, the Group continues to show the financial resilience that comes from its high level of recurring revenue (>90%) and monthly billing. In addition, cancellations remain at very low levels and bad debt remains 'negligible'. Gamma continues to deliver well in a positive long-term growth market with all trends leading to an ongoing increase in the adoption of cloud services.

- In the UK Indirect business, net additions across all Unified Communications as a Service (UCaaS) products have been in line with the previous period while the Direct business is slightly ahead of management expectations. Growth in the latter has been close to that of previous years reflecting less of an impact than anticipated from the reduced order intake in 2020. Gamma has been awarded a number of new contracts. The integration of Mission Labs (acquired in March 2021) has 'gone well' and it is performing slightly ahead of expectations.
- Although COVID-19 has continued to influence market conditions for Gamma's European businesses, progress has continued in line with management expectations. Despite the pandemic and the early stage of development of those markets, each of Gamma's overseas businesses continues to grow its Cloud seat base while experiencing positive net growth of both SIP and Mobile.
- Gamma launched a number of key products in the UK during the first half of 2021 including Phone Line + and Horizon Contact. They were among demonstrations of three of Gamma's UCaaS and Cloud Contact Centre (CCaaS) products during its recent Capital Markets Day (CMD). Our last note – *CMD underlines strategic progress* – picked up on some of the main points of interest from the CMD. The CMD also highlighted the market opportunity and how the Group has focused its efforts on serving its Enterprise, SME and Micro Company customers.
- Despite having paid £40.2m for Mission Labs and making a further payment of £5.0m in respect of the 2020 acquisition of HFO, strong cash generation meant that closing net cash at the half year was approximately £25.4m versus £48.0m at the end of FY 2020.

FYE DEC (£M)	2019	2020	2021E	2022E	2023E
Revenue	328.9	393.8	455.6	505.3	555.3
Adjusted EBITDA	63.5	79.0	92.5	103.0	114.1
Adjusted PBT	48.0	61.3	74.3	84.2	95.0
Adjusted Dil. EPS	40.8	51.3	61.9	69.7	78.7
EV/Sales (x)	5.5x	4.6x	4.0x	3.6x	3.3x
EV/ Adj. EBITDA (x)	28.5x	22.9x	19.6x	17.6x	15.9x
P/E (x)	46.7x	37.2x	30.8x	27.3x	24.2x

Source: Company Information and Progressive Equity Research estimates.

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

## Trading update confirms positive momentum

### Well positioned

The trading update for the first half of Gamma's current financial year shows, in our view, that the Group continues to execute on its strategy, producing consistent delivery of strong financial performances in successive periods. We believe that Gamma remains well positioned to take advantage of evolving markets in the UK and Europe. Having established and grown its technology and product capabilities, the Group is now addressing the complete communications market across all business market segments. Hence, we continue to expect good growth across our forecast horizon.

### Estimate changes

Given management's guidance, we upgrade our FY 2021E estimates to place our numbers in the upper part of the consensus range highlighted in the announcement. There are 'knock-on' changes to the two subsequent years as we look to maintain a similar growth profile to that of our previous numbers. Revenue estimates increase by 2% in each of our forecast years, leading to associated upgrades in Adjusted EBITDA of 4% to 5% and 5% to 6% in Adjusted diluted EPS.

#### Estimate changes

£m unless stated	FY21E			FY22E			FY23E		
	Old	New	Change (%)	Old	New	Change (%)	Old	New	Change (%)
Revenue	447.3	455.6	1.9%	495.3	505.3	2.0%	545.3	555.3	1.8%
Adj EBITDA	89.2	92.5	3.6%	98.6	103.0	4.5%	108.8	114.1	4.9%
Fully adj PBT	71.1	74.3	4.5%	79.8	84.2	5.5%	89.7	95.0	6.0%
Fully adj. Dil. EPS (p)	59.2	61.9	4.5%	66.0	69.7	5.5%	74.2	78.7	6.0%

Source: Progressive estimates

**Financial Summary: Gamma Communications**

Year end: December (£m unless shown)

	2019	2020	2021E	2022E	2023E
<b>PROFIT &amp; LOSS</b>					
Revenue	328.9	393.8	455.6	505.3	555.3
Adj EBITDA	63.5	79.0	92.5	103.0	114.1
Adj EBIT	46.4	56.1	66.3	76.2	87.0
Reported PBT	45.2	75.0	66.3	76.2	87.0
Fully adj PBT	48.0	61.3	74.3	84.2	95.0
NOPAT	39.2	50.2	74.3	84.2	95.0
Reported EPS	36.1	66.6	55.2	63.1	72.0
Fully adj EPS	40.8	51.3	61.9	69.7	78.7
Dividend per share	10.5	11.7	12.8	13.9	15.2
<b>CASH FLOW &amp; BALANCE SHEET</b>					
Operating cash flow	54.0	70.3	76.5	88.1	97.0
Free Cash flow	32.3	36.2	52.6	62.0	69.7
FCF per share	33.8	37.6	54.5	64.1	72.1
Acquisitions	(7.5)	(47.7)	(48.0)	(6.7)	(1.3)
Disposals	0.0	19.4	0.0	0.0	0.0
Shares issued	2.0	1.5	0.0	0.0	0.0
Net cash flow	18.4	(5.9)	(6.8)	42.8	54.7
Overdrafts / borrowings	0.0	(5.9)	(4.9)	(3.9)	(2.9)
Cash & equivalents	53.9	53.9	46.1	87.9	141.6
Net (Debt)/Cash (exc. Lease liabilities)	53.9	48.0	41.2	84.0	138.7
<b>NAV AND RETURNS</b>					
Net asset value	152.5	204.4	254.4	306.2	362.2
NAV/share	160.9	214.3	266.6	321.0	379.7
Net Tangible Asset Value	115.1	109.1	124.4	184.7	249.3
NTAV/share	121.4	114.4	130.4	193.6	261.3
Average equity	137.1	182.7	233.8	279.0	331.2
Post-tax ROE (%)	25.2%	35.3%	22.8%	21.9%	21.0%
<b>METRICS</b>					
Revenue growth	15.4%	19.7%	15.7%	10.9%	9.9%
Adj EBITDA growth	31.5%	24.4%	17.0%	11.5%	10.8%
Adj EBIT growth	34.9%	20.9%	18.3%	14.9%	14.2%
Adj PBT growth	37.9%	27.7%	21.3%	13.3%	12.9%
Adj EPS growth	34.7%	25.7%	20.7%	12.6%	12.9%
Dividend growth	12.9%	11.0%	9.4%	9.0%	9.4%
Adj EBIT margins	14.1%	14.2%	14.6%	15.1%	15.7%
<b>VALUATION</b>					
EV/Sales	5.5	4.6	4.0	3.6	3.3
EV/EBITDA	28.5	22.9	19.6	17.6	15.9
EV/NOPAT	46.2	36.1	24.4	21.5	19.1
PER	46.7	37.2	30.8	27.3	24.2
Dividend yield	0.6%	0.6%	0.7%	0.7%	0.8%
FCF yield	1.8%	2.0%	2.9%	3.4%	3.8%

Source: Company information and Progressive Equity Research estimates

**Disclaimers and Disclosures**

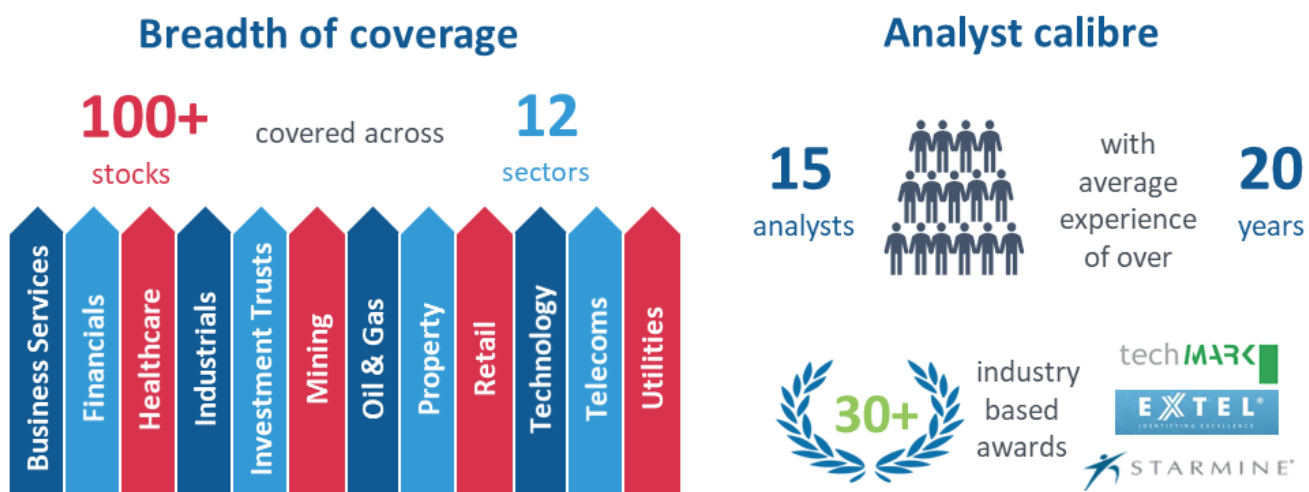
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