21 March 2023

Gamma Communications plc

Results for the year ended 31 December 2022

Strong resilient business, with growth in line with expectations, delivering significant 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 results for the year ended 31 December 2022.

	Year ended 31 December		
	2022	**2021**	**Change (%)**
Revenue	**£484.6m**	£447.7m	+8%
Gross profit	**£247.7m**	£228.5m	+8%
Gross margin	***51%***	*51%*	
Profit from operations**	***£65.4m***	*£68.3m*	*-4%*
Adjusted EBITDA*	**£105.1m**	£95.4m	+10%
Profit before tax ("PBT")**	**£64.9m**	£67.2m	*-3%*
Adjusted PBT*	**£87.8m**	£77.2m	+14%
Earnings Per Share ("EPS") (fully diluted)**	**50.6p**	55.2p	-8%
Adjusted EPS (fully diluted)*	**71.8p**	64.0p	+12%
Total dividend per share	**15.0p**	13.2p	+14%
Cash generated by operations	**£99.1m**	£89.8m	+10%
Cash generated by operations / adjusted EBITDA	***94%***	*94%*	
Cash and Cash Equivalents less Borrowings ("net cash")*	**£92.5m**	£49.5m	*+87%*

*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.

** In 2022 Profit from operations, statutory EPS and the statutory PBT figures include exceptional items relating to impairment of the Spanish cash generating unit (CGU) and disposal of ComyMedia in Spain.

Key Highlights

Financial highlights

The Group delivered a strong financial performance with good gross profit growth flowing through to Adjusted EBITDA and significant cash generation.

- Revenue and gross profit each grew by 8% to £484.6m and £247.7m respectively (2021: £447.7m and £228.5m), with gross margin being maintained at 51%. Recurring revenue (being revenue which is recognised "over time" as per note 3) remaining high at 89% (2021: 89%).
- UK Indirect Business continued to grow strongly with increased volumes. Revenue grew by 10% to £295.9m (2021: £270.2m) and gross profit increased by 9% to £155.6m (2021: £143.2m).
- UK Direct Business showed increased growth as a result of significant new customer wins with revenue growing by 10% to £115.5m (2021: £104.8m) and gross profit increasing 9% to £57.4m (2021: £52.6m).
- European Business delivered revenue growth of 1% to £73.2m (2021: £72.7m) despite challenging macroeconomic and associated market conditions.
- Group adjusted EBITDA grew by 10% to £105.1m (2021: £95.4m) ahead of 8% growth in revenue as a result of continued active cost control.
- Profit from operations reduced by 4% to £65.4m (2021: £68.3m) principally as a result of non-cash exceptional items of £12.5m relating to an impairment of goodwill in Spain and a small loss on disposal within the Spanish business (note 4).

Product highlights

There continued to be significant growth across the major product groups:

- The increased adoption of voice for Microsoft Teams has led to an increase in the number of SIP trunks:

(‘000s)	**2022**	2021	Change (%)
Trunks supporting traditional hardware PBX	**1,053**	1,010	+4%
Trunks being used by a non Gamma Cloud PBX product	**367**	298	+23%
Trunks to voice enable users of Microsoft Teams	**356**	124	+187%
Total	**1,776**	1,432	+24%

- In addition, the number of Cloud PBX seats has increased:

(‘000s)	**2022**	2021	Change (%)
UK – (Horizon)	**751**	676	+11%
Europe	**164**	128	+28%
Total	**915**	804	+14%

In the UK sales of the Collaborate bolt-on module grew faster than the core Horizon module, increasing 16% from 63,000 to 73,000 and supported a stable Average Revenue Per User (“ARPU”).

The growth in European cloud seats was mainly driven by Germany and was assisted by the acquisiton of NeoTel 2000 S.L.U (“NeoTel”), a leading developer of applications to manage cloud contact centres and enhance customer experience in the Spanish market.

- Gamma continued to invest in its Group wide product portfolio. It has invested through its own software development capability in the UK, including Phoneline+, core cloud PBX technology and bolt-ons. In addition products have started to expand from the UK into Europe such as Operator Connect and CircleLoop.

Andrew Belshaw, Chief Executive Officer, commented,

“I am pleased to be presenting the first set of annual results since I was appointed as Chief Executive. Gamma has had another strong year with double digit adjusted EBITDA growth and generated almost £100m of cash from operations. The popularity of voice enablement of Microsoft Teams has driven expansion of both our UK Direct and Indirect businesses – which each grew revenues by 10%. Our Cloud seat growth in the UK was pleasing as we added 75,000 seats and our European business also performed robustly, increasing the number of Cloud seats by 28% despite a difficult European market.”

“Gamma remains well placed to navigate any macro-economic headwinds that may occur. We have a product set that is business critical to customers and telephony services have typically been resilient during periods of economic stress. We have a high degree of recurring revenue and expect to continue to be strongly cash generative. We have a healthy balance sheet that will allow us to continue investing in the business as well as supporting organic growth with acquisitions.”

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Cautionary Statement

Certain statements in this Full Year results announcement are forward-looking. Although Gamma believes that the expectations reflected in these forward-looking statements are reasonable, we can give no assurance that these expectations will prove to have been correct. Because these statements contain risks and uncertainties, actual results may differ materially from those expressed or implied by these forward-looking statements. We undertake no obligation to update any forward-looking statements whether as a result of new information, future events or otherwise.

Chair's statement

Having joined the Board as Chair prior to its IPO in 2014, I have seen nearly a decade of uninterrupted growth in adjusted profit before tax and dividends at Gamma. It is hugely inspiring to have seen the business build from 511 employees to 1,760, expand internationally and provide excellent customer service to so many businesses especially during the pandemic. As announced earlier today, I am approaching nine years' service. Therefore the Board has engaged a search agency to look for a successor. This process is being led by Henrietta Marsh as Senior Independent Director. It is intended that I will step down, as Chair and Director, from the Board at the later of the conclusion of the AGM, to be held on 17 May 2023, and the date on which my successor's appointment commences. I shall be leaving a healthy and vibrant business with exceptional opportunities for further growth.

Overview of results

Revenue for the year ended 31 December 2022 increased by £36.9m to £484.6m (2021: £447.7m), an increase of 8% on the prior year, and adjusted EBITDA increased by £9.7m (10%) to £105.1m (2021: £95.4m). Statutory Profit Before Tax for the year was £64.9m, a decrease of 3% from the prior year figure of £67.2m, due primarily to the exceptional items of £12.5m in 2022 (2021: nil) relating to an impairment of the goodwill of our Spanish cash generating unit and the disposal of a small subsidiary in Spain. Adjusted earnings per share (fully diluted) for the year increased by 12% to 71.8p (2021: 64.0p). Fully diluted earnings per share for the year decreased by 4.6p to 50.6p (2021: 55.2p).

Gamma's operations continued to generate strong levels of cash amounting to £99.1m compared to £89.8m in 2021. The closing net cash balance for the year was £92.5m (2021: £49.5m), after investing £20.7m on capital expenditure (including capitalisation of development costs), £9.8m on acquisitions and paying £13.3m in dividends to shareholders. This is testament to the continuing strong focus on cash generation from management.

Board and governance

There have been a number of Executive and Non-Executive changes to the composition of our Board in 2022, as summarised below:

<u>Non-Executive Directors</u>

As part of our planned succession changes, Wu Long Peng stepped down as a Director at the 2022 AGM and Martin Lea has announced that he will retire at the 2023 AGM. I would like to thank both Long Peng and Martin for their substantial support, both during our successful IPO in 2014 and in the years that followed. In recent years we have seen a significant increase in the workload of Non-Executive Directors. Long Peng as a member of the Audit Committee, and Martin, as our Senior Independent Director ("SID") until December 2022, and the Chair of the Risk and ESG Committees, have served the company and its shareholders well. Their extensive experience, wise counsel and dedication to the Company over the last nine years has been exceptional and much appreciated.

I was delighted to welcome Shaun Gregory and Rachel Addison to the Board as Independent Non-Executive Directors on 1 July 2022 and 3 October 2022 respectively. Shaun has had an extensive career across media and advertising spanning over 30 years and is currently the Chief Executive Officer of EMG Group. It is intended that Shaun will become Chair of the ESG Committee. Rachel is a chartered accountant, bringing nearly 30 years of finance and operational management experience and has most recently been CFO of Future plc. She is currently a Non-Executive Director at Marlowe plc, Hyve Group plc, Mango Publishing Group and Watkin Jones plc. It is intended that Rachel will take over as Chair of the Risk Committee from Martin Lea on his retirement.

On 20 December 2022 Henrietta Marsh took over the role of Senior Independent Director from Martin Lea. Henrietta has been a Non-Executive Director of Gamma since April 2019 and is the Chair of the Remuneration Committee. In her role as Senior Independent Director, Henrietta is leading the search for my replacement as Board Chair.

<u>Executive Directors</u>

Having been promoted from Chief Financial Officer to Deputy Chief Executive Officer on 3 May 2022, as part of a structured plan to strengthen and broaden the scope and capacity of Gamma's management team, Andrew Belshaw was appointed as Interim Chief Executive Officer on 4 July 2022 after Andrew Taylor notified the Board of his intention to retire. I would like to take the opportunity to thank Andrew Taylor formally for his leadership over the past four years. He has played a key role in shaping Gamma's strategy and he leaves the business in an excellent position to further develop and grow. After a formal process to identify a successor I was pleased to confirm the appointment of Andrew Belshaw as Chief Executive Officer on 30 November 2022.

Bill Castell joined the Company and the Board as Chief Financial Officer on 1 May 2022 having previously been Chief Financial Officer at Ovo Energy and acting CFO at Virgin Media. Bill has already made a valuable contribution to Gamma and is now well established as a key member of the senior team.

Company Secretary

On 25 January 2023 we appointed Rachael Matzopoulos as Company Secretary taking over from Malcolm Goddard in preparation for his retirement in March this year. Malcolm has acted as Commercial Director and Company Secretary since 2005 and as Company Secretary of Gamma Communications plc since 2014. I offer my best wishes to Rachael and would like to thank Malcolm for his support to me and the rest of the Board since Gamma's IPO in 2014.

Board Evaluation

We completed our first externally facilitated Board evaluation in 2022, the process for and results of which can be found in the Nomination Committee report which will be published in the Annual Report and Accounts. I will work with the Board and Company Secretary to agree which of those recommendations we will prioritise for implementation in 2023.

We continue to adhere to the QCA Corporate Governance Code (2018 edition) (the "QCA Code").

Employees

During the year I was pleased to welcome the staff of NeoTel into the Gamma Group.

In 2022 we saw higher levels of staff turnover and recruitment became harder than previous years; I am pleased to report that these pressures started to ease at the beginning of 2023. Like many other businesses we have seen inflationary pressure on wages. However, we continue to see the Gamma culture as a differentiator which allows us to recruit the talented individuals that we need to drive the business forwards.

The Board and I would like to express our thanks to all of our staff for their dedication, hard work and enthusiasm.

Dividend

Gamma remains committed to a progressive dividend policy which has seen the dividend increase by 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 as a final dividend once the results for the full year are known. We intend to continue this policy.

The Board is pleased to propose a final dividend, in respect of the year ended 31 December 2022, of 10.0 pence per share (2021: 8.8 pence), an increase of 14%. Subject to shareholder approval at the forthcoming AGM, this dividend will be payable on Thursday 22 June 2023 to shareholders on the register on Friday 2 June 2023. When added to the 5.0 pence interim dividend (2021: 4.4 pence) this makes a total dividend of 15.0 pence for the year (2021: 13.2 pence) an increase of 14%.

Environmental

Gamma remains committed to developing from a Carbon Neutral business to a Carbon Net-Zero business by 2042, and we expect to reduce Scope 1 and 2 emissions (made directly and indirectly) by 90% by 2030. In 2022 we committed to setting near and long-term Company-wide emission reductions in line with the Science-Based Target initiative (SBTi). This work is in progress and we will seek validation of our target within the 24-month SBTi timeframe.

Current Trading and Outlook

Gamma continues to deliver against its short and long-term growth strategy. Gamma is investing in developing a product and solution set which facilitates working for businesses of all sizes, building on an already strong reputation for operational excellence and service quality. We are in a strong financial position, enabling us to continue to invest in extending our product portfolio across our European footprint.

The Board is positive about the outlook for the Group in 2023 and beyond. We believe that more and more businesses of all sizes are seeing the advantages of Unified Communication as a Service ("UCaaS") and we expect to see continuing growth.

Richard Last

Chair

Chief Executive Review

This is my first full year report since I was appointed as Gamma's CEO. I would like to start by thanking Andrew Taylor for the platform he has established and also extending my thanks to Richard Last and Martin Lea for their support as Chair and SID respectively since our listing in 2014.

As the Chair has already explained, our results for 2022 were strong and Gamma is in a good position to capitalise on the opportunities which exist in the markets where we operate. Bill Castell will explain the drivers for the growth we have seen in 2022 in the Financial review below.

Markets

In our half year results, we signposted the continued growth in markets for UCaaS products and services in the UK and particularly in Europe as being a strong driver for future growth.

UK Market Growth

The majority of businesses in the UK still have a physical hardware PBX rather than a Cloud-based software PBX solution. Cloud based solutions offer many advantages to businesses and we expect that the UK market for our products will continue to expand as physical PBX estates are replaced by Cloud-based software PBX solutions. We are well positioned to capture this significant opportunity both through sales of our own Cloud PBX product and sales of SIP trunks which will support third party Cloud PBXs. During the year we added 75,000 Cloud PBX seats in the UK on our Horizon product.

This increase in seats is consistent with our growth in previous years which is pleasing given the economic uncertainty which prevailed in the second half of 2022. As we enter 2023, the rate of new seat acquisition remains steady.

Seats are typically sold on a multi-year contract bringing in recurring monthly revenues. This makes our business model robust and provides a good level of certainty over our income.

As the PSTN switch off, scheduled for 2025, approaches there is a tail of businesses that will have to migrate their ISDN lines. We are well placed to increase our share of this voice business. The PSTN switch off will also accelerate the migration of data services from legacy products (such as ADSL) to newer products which are not centred on the existence of the PSTN (such as SoGEA). This will continue to provide an opportunity for volume growth but with lower margin business internet products.

European Market growth

Through our targeted European acquisition strategy, we have developed a network capability and channel relationships in Spain, the Netherlands and Germany. Between them, these countries already have more than twice as many UCaaS business users as the UK. Moreover, the average penetration rate across those three countries is much lower than the UK, which means there is scope for long term future growth.

In the short term, the European business has shown moderate growth with mixed financial performance across our European footprint not helped by the macroeconomic uncertainty which was a feature of the second half of 2022. The rate of Cloud PBX adoption in our European markets has been slower than had been forecast but we are pleased to report that we continue to grow our UCaaS product penetration in line with those markets. Our European Cloud PBX seats grew by 28% over the last year as we added 36,000 seats in mainland Europe. In Germany we won our first two customers taking over 1,000 seats each. We sold a 7,400 seat installation via our partner Bisping and Bisping (a German ISP) and a further 1,700 seats to Diakonie HochFranken (which operates retirement homes).

We continue to evaluate opportunities to grow by acquisition either into new geographies or to augment our existing sales channels and increase scale in countries where we already operate. In October 2022 we completed the acquisition of NeoTel, a Spanish UCaaS/CCaaS business. This acquisition gives us greater scale in Spain and opens up the market in the south of the country; it is already improving the sales performance of the Spanish business.

Strategy

In early 2022, we began a five-year strategic review mapping the competitive and market landscape out to the end of 2026. This was undertaken in the context of the COVID pandemic and the resulting changes in the market.

As a result of this review we have identified four strategic priorities. We will:

- Develop a common pan-European product set for UCaaS and CCaaS for SMEs.
- Develop multiple routes to market in each country in which we operate.
- Become a trusted partner to Enterprises across Europe, transforming their communications estates.
- Create an organisation that engages all our people with a common set of values and goals.

This is an evolution of our previous strategy, rather than a change in direction, and we expect it to take us to being a leading provider of UCaaS in Western Europe.

We will develop a common pan-European product set for UCaaS and CCaaS for SMEs.

Due to our European acquisition history, we are – as of today – running multiple product platforms in different countries. This has been unavoidable as we have acquired to expand our market presence. However, it is inefficient in the longer term.

While we have a product set which satisfies the needs of customers in each market in which we operate today, we expect the customers' requirements to become more sophisticated. To address this, we will target our technology development capabilities and resources on a focussed set of products which will incorporate our own software and third-party software in combinations which will meet customer needs in the future.

Over time, we will evolve to a common product set and will ultimately retire a number of our existing products. This will mean that we have a single product set to develop and support clients across all the territories in which we operate.

In the UK we have used our development expertise to produce additional software-based products which have enabled us to stabilise ARPUs (which had started to decline). Since 2006, Gamma has sold a Cloud PBX solution in the UK – a product which now has 751,000 seats (31 December 2021: 676,000). Over the course of the last three years our in-house team has developed a number of additional modules that are fully integrated with that core Cloud PBX solution. These are:

- Call recording – launched in 2019 using our own technology – 96,000 seats.
- Horizon Collaborate – was originally launched in 2020 but has now been re-architected using software we have built ourselves – 73,000 seats. Collaborate enables video calling and is especially designed for the needs of small businesses. It is not designed to challenge Microsoft Teams, which is typically adopted by larger SMEs through to Enterprise.
- Microsoft Teams integration – some larger companies prefer to use Microsoft Teams as a Collaboration product (as opposed to Horizon Collaborate) and hence we launched an option to integrate our Cloud PBX (Horizon) with Microsoft Teams (for an additional charge) in July 2021 - 7,000 seats.
- Multi-Channel Communications (Contact Centre functionality) – was launched in April 2021 (using technology obtained through our Telsis acquisition) – over 11,000 seats.

Each of the above modules were built by Gamma's development team; each is sold on a "per month/per seat" basis and provides us with a recurring revenue stream.

These are not standalone products; they augment our core Horizon Cloud PBX product. When a customer chooses to take these additional modules alongside the core Horizon product, it increases the ARPU of a Horizon seat. I am pleased to report that the percentage growth of the additional modules is higher than the growth of the core product and, as a result, this is helping to maintain our ARPU.

At the moment, the European market is less mature than the UK which means that not all of the above features are required by our customers. In the future we plan to launch the entire suite of products across our European footprint. We have already launched our Contact Centre capability in Spain for example.

Aside from Cloud PBX, our cross-border teams have worked together to successfully build, deploy and launch Operator Connect, the Microsoft Teams voice enablement product, in the Netherlands. This has been well received and has brought new channel partners to us. We will launch Operator Connect in Germany, Spain and Belgium in 2023.

We will develop multiple routes to market in each country in which we operate.

In the UK we have focused on the indirect route to market through our valued channel partners for SME customers and have sold to Enterprise and Public Sector customers directly. In Europe there are a variety of sales models including wholesale, resale, dealer and direct.

We plan to develop our products and solutions such that we can reach end users through whichever route to market is most appropriate.

We see the digital channel as important and we have recently launched CircleLoop (our digital proposition) into Germany and the Netherlands.

In addition, we continue to invest in the Gamma Hub (a user portal) which is used by our Enterprise customers in the UK to interact with us. The portal allows our customers to place orders which both gives them a better experience and reduces our overhead due to the high level of automation. We continue to invest in this to consistently give our customers excellent service.

We will become a trusted partner to Enterprises across Europe, transforming their communications estates.

Our Enterprise business has been a constant driver of our UK business performance and we expect it to drive growth across both the UK and in Europe in the future.

The Enterprise business sells the full range of Gamma products (sometimes augmented by third party products which provide a niche solution) and these solutions are often sold as part of a managed service. Increasingly we provide additional capability to customers who wish to voice enable their Microsoft Teams installation or install Amazon Connect as a contact centre solution. The capabilities which we have developed while supporting these "digital giants" are transferable outside of the UK.

The growth in deployment of Microsoft Teams provides Gamma with a number of opportunities to further grow recurring revenue.

Currently we believe that fewer than 5% of Microsoft Teams users have "voice enabled" their installations but that percentage is expected to increase, and Teams voice usage is predicted to rise by more than 3.5m users in the UK by 2026. Gamma can provide a range of services to support and benefit from this opportunity to sell a number of complementary services:

- We are able to provide a SIP service to Teams users to enable them to make and receive calls to and from the PSTN. We call this service Microsoft Teams Direct Routing or "Operator Connect" when it is sold through Microsoft's accredited portal. Today we offer this in the UK and the Netherlands and we will shortly also make it available in Germany, Spain and Belgium. Where we have launched the service in the Netherlands, we have built relationships with new channel partners which has opened up parts of the market which we had not previously served.
- If customers want Teams with a fully integrated PBX capability we are able to integrate our Horizon Cloud PBX product.
- Through our acquisition of Exactive we can perform complex integrations of Teams with other platforms. In order to do this, customers buy our Cloud UCX product which generates more value for us than a basic SIP trunk. This capability has enabled us to win a number of contracts for complex Microsoft Teams installations in central government.

The increasing usage of Microsoft Teams is now the main driver of our SIP growth.

Our SIP base which supports hardware PBX grew slightly in the year in the UK (31 December 2022 – 1,053,000 versus 1,010,000 in the prior year). In addition, we have seen growth from SIP users who are using the service to voice enable Microsoft Teams. At the end of 2022 we had 356,000 trunks deployed in this way (up from 124,000 at the start of the year). Also, 208,000 of the 356,000 trunks were taking our Cloud UCX product (a software-based product sold on a recurring revenue basis).

We will create an organisation that engages all our people with a common set of values and goals.

Gamma has undergone significant transformation over the past three years. We have added businesses in the UK, the Netherlands, Germany and Spain to the Group. We have bought businesses which are culturally aligned to Gamma and we have now codified a common vision of our brand, culture and values.

Our marketing and people teams have worked together to define the things which are important for us as employees of Gamma.

We now describe our purpose to be “To empower the people at the heart of good business”. Gamma supports businesses of all sizes, charities and the public sector across Europe. Business is based on people, people need to communicate and Gamma facilitates this communication for our customers

We want to be at the heart of good business not only because we support good businesses but also because we believe that business should be done well – we are honest and transparent in our dealings with our customers, suppliers and employees.

We also identified four key values which are at the core of Gamma:

- “We’re there and we care” – caring for our employees, our customers, our environment and other stakeholders;
- “We love to grow” – not only growing as a business but also reflecting that we are made up of individuals who strive for personal growth;
- “We do the right thing” – we act openly in our relationships both within and outside of Gamma;
- “We step up and own it” – everyone within our organisation takes hold of problems and helps one another to solve them.

These values describe what it means to be a part of Gamma and we believe that exhibiting these values will enable us to empower the people at the heart of good business.

Our employees regularly go above and beyond to help one another and to help our customers and I thank each one of them for the hard work that underpins this set of results.

Outlook

I look forward to working with our customers, partners and colleagues as we continue to grow the business over the coming years. We have identified growth opportunities in the UK and Europe, and in SME and Enterprise (using both our own products and those of third parties, for example, the voice enablement of Teams). We believe our products and services will meet the communications challenges which businesses are facing today and in the future.

Despite the gloomy macro-economic commentary which pervaded in the second half of 2022, we continued to grow. We expect growth to continue in 2023 as we add more users both in the UK and Europe. We have a robust business model based on recurring revenue from products and solutions that are critical to the businesses which use them. Our continued profitability, strength in cash generation and healthy net cash balance leave us well placed to maximise the opportunity even in challenging macro-economic times.

Mindful of these short-term challenges, but looking to capitalise on our markets and our positioning, we continue to invest in organic growth, new product development and acquisitions to further build scale and capability. I believe that the business is in a good position to continue to grow, and I am delighted to have been given the opportunity to lead Gamma in the next phase of its development.

Andrew Belshaw

Chief Executive Officer

Financial review

Overview

Gamma has performed well during the year increasing revenue by 8% to £484.6m (2021: £447.7m) and gross profit by 8% to £247.7m (2021: £228.5m). Group adjusted EBITDA increased by 10% to £105.1m (2021: £95.4m). EPS (FD) decreased to 50.6p (2021: 55.2p) whilst adjusted EPS (FD) increased by 12% to 71.8p (2021: 64.0p).

Revenue and gross profit

UK Indirect

	2022 **£m**	2021 £m	Increase
Revenue	**295.9**	270.2	+10%
Gross Profit	**155.6**	143.2	+9%
Gross Margin	**52.6%**	53.0%	

Overall, the performance of the UK Indirect Business unit has been strong. Growth has been driven by both UCaaS and data products. ARPU has been supported through the successful up-sell of additional modules to UCaaS customers. Gross margin has been broadly consistent with previous periods, in line with expectations, as the mix of UCaaS and connectivity products is now reasonably stable.

UK Direct

	2022 **£m**	2021 £m	Increase
Revenue	**115.5**	104.8	+10%
Gross Profit	**57.4**	52.6	+9%
Gross Margin	**49.7%**	50.2%	

The significant levels of sales activity in late 2021 that started to flow through to the financials in early 2022 led to a 10% growth in revenue and 9% growth in gross profit. There were a number of significant SIP contract wins driven by Microsoft Teams users, including the Department for Work and Pensions. Minimal impact from the well-publicised supply chain shortage was seen in 2022. As expected, there has been a small decrease in the gross margin due to mix, with a slightly higher proportion of installations and hardware sales.

Europe

	2022 **£m**	2021* £m	Increase
Revenue	**73.2**	72.7	+1%
Gross Profit	**34.7**	32.7	+6%
Gross Margin	**47.4%**	45.0%	

*In 2022 there was a review and alignment of European commission presentation between cost of sales and operating expenses resulting in an immaterial £1.6m reduction in cost of sales and equivalent increase in operating expenses in 2022. For comparative purposes, applying this alignment in 2021 gross profit would have been £34.3m resulting in year-on-year growth of 1%, with gross margin at 47.1%.

Overall there was modest growth in European revenue and gross profit. The revenue and gross profit growth in UCaaS in our German business was relatively strong along with a good performance in the Epsilon business (our mobile focused distribution business in that market). Challenging local market economic conditions mean achievement of future business performance targets will take longer than originally forecast resulting in an impairment of the Spanish cash generating unit in 2022. The Spanish business started to show the benefit of the NeoTel acquisition in the second half of the year offsetting a small decrease in the Netherlands as a result of call usage, with a reduction in pay as you go traffic (“PAYG”) mix. The decline in our traditional products was in line with expectations.

Operating expenses

Operating expenses grew from £160.2m in 2021 to £182.3m (£169.8m net of £12.5m exceptional items outlined below). We break these down as follows:

	2022	2021	Change
	£m	£m	
Expenses included within cash generated from operations	**142.6**	133.1	7%
Depreciation and amortisation (excluding business combinations)	**17.7**	17.6	0%
Depreciation and amortisation arising due to business combinations	**9.5**	9.5	0%
Exceptional items	**12.5**	-	Not applicable
Total Operating Expenses	**182.3**	160.2	14%

Of the movements in "Expenses included within cash generated from operations" shown above, which increased by 7% (or a 6% increase when taking into account the immaterial £1.6m German commission reclassification from cost of sales to operating expenses):

- The UK Businesses' operating expenses grew by 5% (compared to gross profit growth of 9%). These expenses (the majority of which relate to staff) have been tightly controlled. These and other inflationary pressures have been actively managed and partially offset by pricing actions towards the end of the year.
- The underlying increase in European costs was 3%, after taking into account the immaterial reallocation of £1.6m between cost of sales and operating costs, as a result of tightly managed cost control.
- Central costs have increased from the prior period due to continued growth in the Group functions 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 (excluding business combinations) has increased slightly to £17.7m (2021: £17.6m). The annual depreciation and amortisation charge is below the annual capital expenditure spend but is expected to increase in future as more of our own developed software products come into service.

Exceptional Items

There were two exceptional items in the year (2021: none).

Impairment of goodwill on the Spain cash generating unit (CGU)

A non-cash impairment of the Spanish CGU has been recognised (£12.2m). This CGU has been impacted by challenging local market economic conditions and it is anticipated that the achievement of future business performance targets may take longer than originally forecast. This, combined with an increase in discount rates applied, has resulted in an impairment.

Disposal of a subsidiary

On 5 August 2022 Gamma completed the sale of ComyMedia, previously part of the Spanish CGU, for €1. ComyMedia specialised in IT solutions and had little fit with the rest of our European business. An exceptional loss of £0.3m was recognised relating to proceeds on disposal less the book value of the net assets of the business. ComyMedia generated a negligible EBITDA contribution in 2022 prior to disposal.

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 to statutory measures:

Measure	Statutory Basis	Depreciation and amortisation from business combinations	Change in fair value of acquisitions	Exceptional items **	Adjusting tax items	Adjusted basis
2022						
PBT (£m)	**64.9**	9.5	0.9	12.5	-	**87.8**
PAT* (£m)	**49.3**	9.5	0.9	12.5	(2.2)	**70.0**
EPS (FD) (p)	**50.6**	9.8	0.9	12.8	(2.3)	**71.8**
2021						
PBT (£m)	67.2	9.5	0.5	-	-	77.2
PAT* (£m)	53.6	9.5	0.5	-	(1.5)	62.1
EPS (FD) (p)	55.2	9.8	0.5	-	(1.5)	64.0

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

** See note 4 for further details.

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 exceptional items and also adjusted for the depreciation and amortisation of intangibles which were created on acquisition and the change in the fair value of acquisitions. This enables a user of the accounts to compare the core operational performance of the Group.
- Profit after tax is adjusted in the same way as Profit before tax but 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 comparable basis from year to year.

In addition to the above adjustments to statutory measures, we add back the depreciation and amortisation charged in the year to Profit from Operations (2022: £65.4m; 2021: £68.3m) to calculate a figure for EBITDA (2022: £92.6m; 2021: £95.4m) which is commonly quoted by our peer group internationally and allows users of the accounts to compare our performance with those of our peers. We further adjust EBITDA for exceptional items as this gives a reader of the accounts a view of the trading picture which is comparable from year to year (adjusted EBITDA: 2022: £105.1m; adjusted EBITDA: 2021: £95.4m).

An adjustment to the cash has 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 as Net Cash is a better measure of liquidity. We do not consider contingent consideration or IFRS 16 lease liabilities as debt for the purpose of quoting a net cash figure.

	2022	2021
	£m	£m
Cash and cash equivalents	**94.6**	52.8
Borrowings	**(2.1)**	(3.3)
Net Cash	**92.5**	49.5

Adjusted EBITDA

Adjusted EBITDA grew from £95.4m to £105.1m (10%) driven by the revenue growth in the UK and group-wide cost control.

Taxation

The effective tax rate for 2022 was 24% (2021: 20%). The effective tax rate in 2022 applied to trading profits was above the 19% statutory UK rate due to expenses that are not deductible in determining taxable profit relating to the exceptional items. Excluding the exceptional items would result in an effective tax rate of 19%. The prior year rate was above the UK effective rate as a result of a change in the rate on deferred tax. The UK corporation tax rate increases to 25% on 6 April 2023 which will affect EPS growth from 2022 to 2023.

Net Cash and cash flows

The Group has Net Cash of £92.5m (2021: £49.5m). Cash generated by operations was £99.1m (2021: £89.8m). The ratio of cash generated from operations as a percentage of adjusted EBITDA was 94% (2021: 94%).

Items which are not directly related to trading were:

- Capital spend was £20.7m, which is an increase from £16.8m in the comparative period. This is discussed below.
- £9.8m was the total payment for acquisitions net of cash acquired (2021: £49.3m) of which £4.3m was paid for the acquisition of NeoTel (net of cash acquired), £1.6m was paid in deferred consideration for the acquisition of Mission Labs, £0.1m was paid in deferred consideration for the acquisition of Voz Telecom Andalucia and £3.8m for the exercise of options relating to acquiring some of the residual minority interests in HFO.
- £3.1m was received from the issue of shares (2021: £5.9m). This significant decrease on the prior year was as a result of the reinvestment in Gamma by former shareholders of Mission Labs in 2021 (£2.8m).
- £13.3m was paid as dividends to shareholders (2021: £11.7m).

Gamma's Group treasury policy is governed by the Audit Committee. Gamma manages cash centrally and seeks to maximise value and return whilst balancing associated risks. The policy manages concentration risk by setting an appropriate limit on the amount that can be placed with any one institution, and manages credit risk by setting a minimum requirement around the credit rating of the financial Institution. Given 85% of Group revenue is generated from our UK business, all deposit balances are held with large established UK financial institutions. Cash in Europe is held for working capital purposes and follows the same Group policy as set out above.

Capital spend

Capital spend in 2022 was £20.7m (2021: £16.8m) as follows:

- £6.8m related to the core network, including increasing capacity as well as other minor items such as IT and fixtures and fittings (2021: £9.1m).
- £13.1m was the capitalisation of development costs incurred during the period (2021: £4.8m). The increase is due to development of our own voice applications products (in part using the capabilities acquired with Mission Labs) and is partially offset by the amounts paid to third parties as seen below.
- £0.8m was spent with third-party software vendors for the software which underpins our Cloud PBX products (2021: £2.9m).

Adjusted EPS (fully diluted) and Statutory EPS (fully diluted)

Adjusted EPS (fully diluted) increased from 64.0p to 71.8p (12%). Adjusted EPS is EPS adjusted for exceptional and other items as defined in note 2 and a reconciliation to the statutory measure is shown in the table above.

EPS (fully diluted) decreased from 55.2p to 50.6p (-8%). This is lower than the adjusted metric as a result of the exceptional charge relating to the impairment of the Spanish CGU and the disposal of ComyMedia.

Going Concern

The Group's business activities, together with the factors likely to affect its future development, performance and position, are set out in the Strategic Report contained in the Annual Report for the year ended 31 December 2022. In assessing going concern management and the Board has considered:

- The principal risks faced by the Group, discussed further in the Annual Report for the year ended 31 December 2022.
- The financial position of the Group.
- The strong cash position – at 31 December 2022 the Group had cash and cash equivalents of £94.6m (2021: £52.8m). Net Cash (being cash and cash equivalents less borrowings) was £92.5m (2021: £49.5m). All borrowings were acquired with acquisitions made in previous years.
- Budgets, financial plans and associated future cash flows including liquidity and borrowings.

- Sensitivity analysis, which has shown that EBITDA would need to decrease by 100% for the Group to need additional borrowing (assuming no mitigating actions had been taken). We consider this to be highly unlikely.

The Directors are satisfied that the Group and Company has adequate financial resources to continue in operational existence for the foreseeable future, being 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 Annual Report for the year ended 31 December 2022.

Dividends

As described above by the Chair, the Board is proposing a final dividend of 10.0p (2021: 8.8p). This is an increase of 14% and is in line with our progressive dividend policy.

Subject to shareholder approval, the final dividend is payable on Thursday 22 June 2023 to shareholders on the register on Friday 2 June 2023.

Bill Castell

Chief Financial Officer

Consolidated statement of profit or loss

For the year ended 31 December 2022

	Note	**2022 £m**	2021 £m
Revenue	3	**484.6**	447.7
Cost of sales		**(236.9)**	(219.2)
Gross profit		**247.7**	228.5
Operating expenses		**(182.3)**	(160.2)
Earnings before depreciation, amortisation and exceptional items		**105.1**	95.4
Exceptional items	4	**(12.5)**	-
Earnings before depreciation and amortisation		**92.6**	95.4
Depreciation and amortisation (excluding business combinations)		**(17.7)**	(17.6)
Depreciation and amortisation arising due to business combination		**(9.5)**	(9.5)
Profit from operations		**65.4**	68.3
Finance income		**0.8**	0.1
Finance expense		**(1.3)**	(1.2)
Profit before tax		**64.9**	67.2
Tax expense	5	**(15.4)**	(13.2)
Profit after tax		**49.5**	54.0
Profit is attributable to:			
Equity holders of Gamma Communications plc		**49.3**	53.6
Non-controlling interests		**0.2**	0.4
		49.5	54.0
Earnings per share attributable to the ordinary equity holders of the company:			
Basic per Ordinary Share (pence)	6	**51.1**	55.9
Diluted per Ordinary Share (pence)	6	**50.6**	55.2

Adjusted earnings per share is shown in note 6

All income recognised during the year was generated from continuing operations.

Consolidated statement of comprehensive income

For the year ended 31 December 2022

	2022	2021
	£m	£m
Profit for the year	**49.5**	54.0
Other comprehensive profit/(loss)		
Items that may be reclassified to profit or loss (net of tax effect)		
Exchange differences on translation of foreign operations	**2.9**	(3.5)
Total comprehensive income for the year	**52.4**	50.5
Total comprehensive income for the year attributable to:		
Equity holders of Gamma Communications plc	**52.2**	50.1
Non-controlling interests	**0.2**	0.4
	52.4	50.5

Consolidated statement of financial position

As at 31 December 2022

	Note	**2022 £m**	2021 £m
Assets			
Non-current assets			
Property, plant and equipment	8	**33.8**	36.8
Right of use assets		**9.1**	10.2
Intangible assets	9	**124.3**	129.3
Deferred tax asset		**5.5**	7.0
Trade and other receivables		**13.0**	14.3
		185.7	197.6
Current assets			
Inventories		**10.2**	7.9
Trade and other receivables		**109.4**	98.4
Cash and cash equivalents		**94.6**	52.8
Current tax asset		**6.9**	5.1
		221.1	164.2
Total assets		**406.8**	361.8
Liabilities			
Non-current liabilities			
Other payables		**2.7**	2.0
Borrowings		**1.7**	2.5
Lease liabilities		**8.6**	9.8
Provisions		**0.9**	1.1
Contract liabilities		**7.8**	10.0
Contingent consideration		**1.5**	3.7
Put option liability		**-**	2.3
Deferred tax		**11.3**	10.0
		34.5	41.4
Current liabilities			
Trade and other payables		**54.0**	48.1
Borrowings		**0.4**	0.8
Lease liabilities		**2.5**	2.1
Provisions		**0.7**	0.9
Contract liabilities		**9.2**	7.4
Contingent consideration		**3.5**	2.6
Put option liability		**1.8**	3.4
Current tax		**0.5**	0.9
		72.6	66.2
Total liabilities		**107.1**	107.6
Net assets		**299.7**	254.2
Equity			
Share capital	11	**0.2**	0.2
Share premium reserve		**18.0**	14.9
Other reserves		**9.0**	4.5
Retained earnings		**273.9**	239.1
Equity attributable to owners of Gamma Communications plc		**301.1**	258.7
Non-controlling interests		**0.8**	2.2
Written put options over non-controlling interests		**(2.2)**	(6.7)
Total equity		**299.7**	254.2

Consolidated statement of cash flows

For the year ended 31 December 2022

	Note	2022 £m	2021 £m
Cash flows from operating activities			
Profit for the year before tax		**64.9**	**67.2**
Adjustments for:			
Depreciation of property, plant and equipment	8	**9.5**	8.3
Depreciation of right of use asset		**2.8**	2.7
Amortisation of intangible assets	9	**14.9**	16.1
Impairment of goodwill	4	**12.2**	-
Change in fair value of contingent consideration/put option liability		**(0.9)**	-
Share based payment expense		**4.3**	4.8
Interest income		**(0.8)**	(0.1)
Finance cost		**1.3**	1.2
Gain on disposal of subsidiary undertaking		**0.3**	-
		108.5	**100.2**
Increase in trade and other receivables		**(10.1)**	(5.4)
(Increase)/decrease in inventories		**(2.6)**	0.2
Increase/(decrease) in trade and other payables		**4.1**	(6.2)
(Decrease)/increase in contract liabilities		**(0.4)**	1.5
Decrease in provisions		**(0.4)**	(0.5)
Cash generated by operations		**99.1**	**89.8**
Taxes paid		**(14.4)**	(13.3)
Net cash flows from operating activities		**84.7**	**76.5**
Investing activities			
Gain on disposal of property, plant and equipment		**0.4**	0.1
Purchase of property, plant and equipment	8	**(6.8)**	(9.1)
Purchase of intangible assets	9	**(13.9)**	(7.7)
Interest received		**0.8**	0.1
Acquisition of subsidiaries net of cash acquired	10	**(9.8)**	(49.3)
Disposal of subsidiary net of disposed cash		**(0.3)**	-
Net cash used in investing activities		**(29.6)**	**(65.9)**
Financing activities			
Lease liability repayments		**(2.8)**	(3.1)
Repayment of borrowings		**(0.7)**	(2.3)
Interest paid		**(0.1)**	(0.5)
Share issues		**3.1**	5.9
Dividends		**(13.3)**	(11.7)
Net cash used in financing activities		**(13.8)**	**(11.7)**
Net increase in cash and cash equivalents		**41.3**	(1.1)
Cash and cash equivalents at beginning of the year		**52.8**	53.9
Effects of exchange rate changes on cash and cash equivalents		**0.5**	-
Cash and cash equivalents at end of the year		**94.6**	52.8

Consolidated statement of changes in equity

For the year ended 31 December 2022

	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 2021	0.2	9.0	6.1	197.5	212.8	3.0	(11.4)	204.4
Issue of shares	-	5.9	(2.2)	2.2	5.9	-	-	5.9
Recognition of share-based payment expense	-	-	4.1	-	4.1	-	-	4.1
Tax on share-based payment expense								
- Current	-	-	-	1.7	1.7	-	-	1.7
- Deferred	-	-	-	(0.7)	(0.7)	-	-	(0.7)
Non-controlling interests	-	-	-	1.2	1.2	(1.2)	-	-
Equity put rights	-	-	-	(4.7)	(4.7)	-	4.7	-
Dividends paid	-	-	-	(11.7)	(11.7)	-	-	(11.7)
Transactions with owners	-	5.9	1.9	(12.0)	(4.2)	(1.2)	4.7	(0.7)
Profit for the year	-	-	-	53.6	53.6	0.4	-	54.0
Other comprehensive expense	-	-	(3.5)	-	(3.5)	-	-	(3.5)
Total comprehensive (expense)/income	-	-	(3.5)	53.6	50.1	0.4	-	50.5
31 December 2021	**0.2**	**14.9**	**4.5**	**239.1**	**258.7**	**2.2**	**(6.7)**	**254.2**
1 January 2022	0.2	14.9	4.5	239.1	258.7	2.2	(6.7)	254.2
Issue of shares	-	3.1	(2.7)	2.7	3.1	-	-	3.1
Recognition of share-based payment expense	-	-	4.3	-	4.3	-	-	4.3
Tax on share-based payment expense							-	
- Current	-	-	-	0.1	0.1	-	-	0.1
- Deferred	-	-	-	(1.1)	(1.1)	-	-	(1.1)
Non-controlling interests	-	-		1.6	1.6	(1.6)	-	-
Equity put rights	-	-		(4.5)	(4.5)	-	4.5	-
Dividends paid	-	-		(13.3)	(13.3)	-	-	(13.3)
Transactions with owners	-	3.1	1.6	(14.5)	(9.8)	(1.6)	4.5	(6.9)
Profit for the year	-	-	-	49.3	49.3	0.2	-	49.5
Other comprehensive income	-	-	2.9	-	2.9	-	-	2.9
Total comprehensive income	-	-	2.9	49.3	52.2	0.2	-	52.4
31 December 2022	**0.2**	**18.0**	**9.0**	**273.9**	**301.1**	**0.8**	**(2.2)**	**299.7**

Notes to the consolidated financial statements

For the year ended 31 December 2022

1. Basis of preparation

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS), issued by the International Accounting Standards Board ('IASB') as adopted by the United Kingdom ('adopted IFRS'). The financial statements are presented in sterling and, unless otherwise stated, have been rounded to the nearest 0.1 million (£m).

The financial statements have been prepared on a historical cost basis.

The financial information contained in this statement does not constitute statutory financial statements within the meaning of the Companies Act 2006. They are an extract from the full accounts for the year ended 31 December 2022 on which the auditor has expressed an unqualified opinion and do not include any statement under section 498 of the Companies Act 2006. The full accounts contain a detailed statement of the accounting policies which have been used to prepare this summary. The accounts are available at the Gamma Communications plc website and will be posted to shareholders prior to the AGM and subsequently filed at Companies House.

There are no additional standards or interpretations requiring adoption that are applicable to the Group for the accounting period commencing 1 January 2022.

A full set of the audited statutory accounts will be available at:

www.gammacommunicationsplc.com/investors/financial-results-and-shareholder-communications/

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 2022.

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 the Annual Report and Accounts for the year ended 31 December 2022.

Key accounting estimates

There are no key accounting estimates that will have a significant risk of causing a material adjustment within the next financial period.

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, and also represent the underlying performance of the Group. These are also used by the Board and management as KPIs to understand how the business is performing. Moreover, they provide information on the trading performance of the business that management is more directly able to influence and on a basis comparable from year to year. Reference to 'underlying' reflects the trading results of the Group without the impact of depreciation and amortisation of acquired intangible assets, exceptional items, changes in fair value consideration and any tax related effects that would otherwise impact the users understanding of the Group's performance. The Directors believe that adjusted results provide additional useful information on the core operational performance of the Group, and review the results of the Group on an adjusted basis internally.

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 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 as wide a range of 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 or loss 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 from business combinations	Change in fair value of acquisitions	Exceptional items **	Adjusting tax items	Adjusted basis
2022						
PBT (£m)	**64.9**	9.5	0.9	12.5	-	**87.8**
PAT* (£m)	**49.3**	9.5	0.9	12.5	(2.2)	**70.0**
EPS (FD) (p)	**50.6**	9.8	0.9	12.8	(2.3)	**71.8**
2021						
PBT (£m)	67.2	9.5	0.5	-	-	77.2
PAT* (£m)	53.6	9.5	0.5	-	(1.5)	62.1
EPS (FD) (p)	55.2	9.8	0.5	-	(1.5)	64.0

*PAT is the amount attributable to the ordinary equity holders of the Company. ** See note 4 for further details.

In addition to the above we add back the depreciation and amortisation charged in the year to Profit from Operations (2022: £65.4m; 2021: £68.3m) to calculate a figure for EBITDA (2022: £92.6m; 2021: £95.4m) which is commonly quoted by our peer group internationally and allows users of the accounts to compare our performance with those of our peers. We further adjust EBITDA for exceptional items as this gives a reader of the accounts a view of the underlying trading picture which is comparable from year to year (2022: £105.1m; 2021: £95.4m).

An adjustment to the cash has 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 as Net Cash is a better measure of liquidity. We do not consider contingent consideration or IFRS 16 lease liabilities as debt for the purpose of quoting a net cash figure.

	2022	2021
	£m	£m
Cash and cash equivalents	**94.6**	52.8
Borrowings	**(2.1)**	(3.3)
Net Cash	**92.5**	49.5

3. Segment information

The Group's main operating segments are outlined below:

- UK Indirect – This division sells Gamma's products to channel partners and contributed 61% (2021:60%) of the Group's external revenue.
- UK Direct – This division sells Gamma's products to end users in the SME, Enterprise and Public sector together with an associated service wrap. It contributed 24% (2021:24%) of the Group's external revenues.
- European – This division consists of sales made in Europe by Gamma Communications Benelux B.V. and its subsidiaries in the Netherlands, by Voz Telecom Oigaa360 S.A.U. and its subsidiaries in Spain and by Gamma DE and its subsidiaries in Germany contributing 15% (2021:16%) of the Group's external revenues.
- 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 Executive Committee to use for decision making. Management are reviewing the go to market segments and will start to report against the new segments during 2023.

Measurement of operating segment profit or loss, assets and liabilities

The accounting policies of the reportable 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 and other exceptional items. 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 year.

2022	UK Indirect £m	UK Direct £m	European £m	Central functions £m	Total £m
Segment revenue	320.5	116.4	73.4	-	510.3
Inter-segment revenue	(24.6)	(0.9)	(0.2)	-	(25.7)
Revenue from external customers	295.9	115.5	73.2	-	484.6
Timing of revenue recognition					
At a point in time	17.5	6.7	28.7	-	52.9
Over time (recurring)	278.4	108.8	44.5	-	431.7
	295.9	115.5	73.2	-	484.6
Total gross profit	**155.6**	**57.4**	**34.7**	**-**	**247.7**
Operating expenses	(93.8)	(29.3)	(48.8)	(10.4)	(182.3)
Earnings before depreciation, amortisation and exceptional items	**76.7**	**29.8**	**9.0**	**(10.4)**	**105.1**
Exceptional items	-	-	(12.5)	-	(12.5)
Earnings before depreciation and amortisation	**76.7**	**29.8**	**(3.5)**	**(10.4)**	**92.6**
Depreciation and amortisation (excluding business combinations)	(12.7)	(1.3)	(3.7)	-	(17.7)
Depreciation and amortisation arising due to business combinations	(2.2)	(0.4)	(6.9)	-	(9.5)
Profit/(loss) from operations	**61.8**	**28.1**	**(14.1)**	**(10.4)**	**65.4**

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.

2022	UK Indirect £m	UK Direct £m	European £m	Central functions £m	Total £m
Additions to non-current assets	18.7	0.9	3.2	-	**22.8**
Reportable segment assets	295.7	49.6	61.5	-	**406.8**
Reportable segment liabilities	50.9	25.6	30.6	-	**107.1**

2021	UK Indirect £m	UK Direct £m	European £m	Central functions £m	Total £m
Segment revenue	293.6	104.8	72.7	-	471.1
Inter-segment revenue	(23.4)	-	-	-	(23.4)
Revenue from external customers	270.2	104.8	72.7	-	447.7
Timing of revenue recognition					
At a point in time	17.5	2.7	27.4	-	47.6
Over time (recurring)	252.7	102.1	45.3	-	400.1
	270.2	104.8	72.7	-	447.7
Total gross profit	**143.2**	**52.6**	**32.7**	**-**	**228.5**
Operating expenses	(90.3)	(27.6)	(34.3)	(8.0)	(160.2)
Earnings before depreciation, amortisation and exceptional items	**66.7**	**27.3**	**9.4**	**(8.0)**	**95.4**
Exceptional items	-	-	-	-	-
Earnings before depreciation and amortisation	**66.7**	**27.3**	**9.4**	**(8.0)**	**95.4**
Depreciation and amortisation (excluding business combinations)	(12.8)	(0.9)	(3.9)	-	(17.6)
Depreciation and amortisation arising due to business combinations	(1.0)	(1.4)	(7.1)	-	(9.5)
Profit/(loss) from operations	**52.9**	**25.0**	**(1.6)**	**(8.0)**	**68.3**

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.

2021	UK Indirect £m	UK Direct £m	European £m	Central functions £m	Total £m
Additions to non-current assets	13.3	2.4	2.7	-	18.4
Reportable segment assets	241.7	18.9	101.2	-	361.8
Reportable segment liabilities	56.1	17.0	34.5	-	107.6

4. Exceptional items

	2022	2021
	£m	£m
Impairment of goodwill[1]	**12.2**	-
Loss on disposal of subsidiary[2]	**0.3**	-
Total exceptional items	**12.5**	**-**

[1]An impairment of the Spanish CGU has been recognised. This CGU has been impacted by the challenging local market economic conditions. It is anticipated that the achievement of future business performance targets may take longer than originally forecast as a result of the timing of growth in the Spanish UCaaS market. This, combined with the increase in discount rates applied has resulted in an impairment.

[2]Relates to the sale of ComyMedia, previously part of the Spanish CGU, on 5 August 2022.

5. Taxation on profit on ordinary activities

	2022	2021
	£m	£m
Current tax expense		
Current tax on profits for the year	**13.7**	13.4
Adjustment in respect of prior year	**(0.4)**	0.6
Overseas tax	**1.1**	1.0
Total current tax	**14.4**	15.0
Deferred tax expense		
Origination and reversal of temporary differences	**(0.2)**	(1.7)
Adjustment in respect of prior years	**0.2**	(0.5)
Tax rate change	**1.0**	0.4
Total deferred tax	**1.0**	(1.8)
Total tax expense	**15.4**	13.2

The reasons for the difference between the actual tax charge for the year and the standard rate of corporation tax in the United Kingdom applied to profits for the year are as follows:

	2022	2021
	£m	£m
Profit before income taxes	**64.9**	67.2
Expected tax charge based on the standard rate of United Kingdom corporation tax at the domestic rate of 19% (2021:19%)	**12.3**	12.8
Effects of:		
Tax effect of expenses that are not deductible in determining taxable profit	**2.8**	0.2
Effect of different tax rates of subsidiaries operating in other jurisdictions	**(0.2)**	(0.1)
Tax rate change	**1.0**	0.4
Other tax items	**(0.3)**	(0.2)
Adjustment in respect of prior years	**(0.2)**	0.1
Total tax expense	**15.4**	13.2

6. Earnings per share

	2022	2021
Earnings per Ordinary Share – basic (pence)	**51.1**	55.9
Earnings per Ordinary Share – diluted (pence)	**50.6**	55.2

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

	2022	2021
	£m	£m
Earnings		
Profit after tax attributable to the ordinary equity holders of the Company	**49.3**	53.6
Shares	**Number**	Number
Basic weighted average number of Ordinary Shares	**96,543,985**	95,894,913
Effect of dilution resulting from share options	**948,689**	1,166,725
Diluted weighted average number of Ordinary Shares	**97,492,674**	97,061,638

In 2022, as part of Gamma's acquisition of Gamma Holding GmbH (formerly HFO) the vendor reinvested £0.5m and purchased 44,558 Ordinary Shares.

Adjusted earnings per share is detailed below:

	2022	2021
Adjusted earnings per Ordinary Share – basic (pence)	**72.5**	64.8
Adjusted earnings per Ordinary Share – diluted (pence)	**71.8**	64.0

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

	2022	2021
	£m	£m
Profit attributable to the ordinary equity holders of the Company	**49.3**	53.6
Depreciation and amortisation arising on business combinations	**9.5**	9.5
Movement in fair value on put option liability and deferred consideration	**0.9**	0.5
Exceptional items (disposal of subsidiary)	**0.3**	-
Exceptional items (impairment of goodwill)	**12.2**	-
Tax effect of adjusting items	**(2.2)**	(1.5)
Adjusted profit after tax for the year	**70.0**	62.1

7. Dividends

The following dividends were paid by the Group to its shareholders:

	2022	2021
	£m	£m
Final dividends for the year ended 31 December 2020 of 7.8p per ordinary share	**-**	7.5
Interim dividend for the year ended 31 December 2021 of 4.4p per ordinary share	**-**	4.2
Final dividends for the year ended 31 December 2021 of 8.8p per ordinary share	**8.5**	-
Interim dividend for the year ended 31 December 2022 of 5.0p per ordinary share	**4.8**	-
	13.3	11.7

A final dividend of 10.0p will be proposed at the 2023 Annual General Meeting but has not been recognised as it requires shareholder approval. The total amount of dividends proposed for the year ended 31 December 2022 is 15.0p. The payments of these dividends do not have any tax consequences for the Group.

8. Property, plant and equipment

	Land and buildings	Network assets	Computer equipment	Fixtures and fittings	Total
	£m	£m	£m	£m	£m
Cost					
At 1 January 2022	4.5	78.7	12.3	2.4	97.9
Additions	0.2	5.5	1.0	0.1	6.8
Acquisition of subsidiary	-	-	0.1	-	0.1
Disposals	-	(16.7)	-	-	(16.7)
Disposal of subsidiary	-	-	(0.1)	-	(0.1)
Exchange differences	-	(0.1)	0.2	0.3	0.4
At 31 December 2022	**4.7**	**67.4**	**13.5**	**2.8**	**88.4**
Depreciation					
At 1 January 2022	0.3	50.3	9.0	1.5	61.1
Charge for the year	0.1	7.5	1.6	0.3	9.5
Disposals	-	(16.3)	-	-	(16.3)
Disposal of subsidiary	-	-	(0.1)	-	(0.1)
Exchange difference	(0.1)	0.3	0.2	-	0.4
At 31 December 2022	**0.3**	**41.8**	**10.7**	**1.8**	**54.6**
Net book value					
At 1 January 2022	4.2	28.4	3.3	0.9	36.8
At 31 December 2022	**4.4**	**25.6**	**2.8**	**1.0**	**33.8**

	Land and buildings	Network assets	Computer equipment	Fixtures and fittings	Total
	£m	£m	£m	£m	£m
Cost					
At 1 January 2021	4.8	71.9	11.6	2.0	90.3
Additions	-	7.5	1.1	0.5	9.1
Acquisition of subsidiaries	-	-	0.1	-	0.1
Disposals	-	(0.6)	(0.3)	(0.1)	(1.0)
Exchange differences	(0.3)	(0.1)	(0.2)	-	(0.6)
At 31 December 2021	**4.5**	**78.7**	**12.3**	**2.4**	**97.9**
Depreciation					
At 1 January 2021	0.1	44.7	7.9	1.3	54
Charge for the year	0.2	6.1	1.7	0.3	8.3
Disposals	-	(0.5)	(0.3)	(0.1)	(0.9)
Exchange difference	-	-	(0.3)	-	(0.3)
At 31 December 2021	**0.3**	**50.3**	**9**	**1.5**	**61.1**
Net book value					
At 1 January 2021	4.7	27.2	3.7	0.7	36.3
At 31 December 2021	**4.2**	**28.4**	**3.3**	**0.9**	**36.8**

9. Intangible assets

	Goodwill	Customer contracts	Brand	Development costs	Software	Total
	£m	£m	£m	£m	£m	£m
Cost						
At 1 January 2022	91.8	47.6	2.2	28.1	18.5	188.2
Additions	-	-	-	13.1	0.8	13.9
Acquisition of subsidiaries	4.0	1.3	0.1	-	-	5.4
Disposal of subsidiary	-	-	-	(0.2)	-	(0.2)
Disposals	-	-	(0.9)	(0.8)	-	(1.7)
Exchange differences	1.7	2.0	-	0.2	-	3.9
At 31 December 2022	**97.5**	**50.9**	**1.4**	**40.4**	**19.3**	**209.5**
Amortisation						
At 1 January 2022	8.7	20.2	0.9	14.8	14.3	58.9
Charge for the year	-	7.9	0.7	4.0	2.3	14.9
Impairment charge	12.2	-	-	-	-	12.2
Transfer	-	-	-	(0.2)	-	(0.2)
Disposals	-	-	(0.9)	(0.8)	-	(1.7)
Exchange differences	(0.1)	1.0	-	0.2	-	1.1
At 31 December 2022	**20.8**	**29.1**	**0.7**	**18.0**	**16.6**	**85.2**
Net book value						
At 1 January 2022	83.1	27.4	1.3	13.3	4.2	129.3
At 31 December 2022	**76.7**	**21.8**	**0.7**	**22.4**	**2.7**	**124.3**

In 2022 an impairment of the goodwill of the Spanish CGU was recognised, for more detail see note 4.
Included in development costs are assets not yet in service of £10.2m (2021: £1.4m).
Amortisation on intangible assets is charged to the consolidated statement of profit or loss and included in operating expenses.

	Goodwill	Customer contracts	Brand	Development costs	Software	Total
	£m	£m	£m	£m	£m	£m
Cost						
At 1 January 2021	55.0	48.6	2.4	17.6	16.6	140.2
Additions	-	-	-	4.8	2.9	7.7
Acquisition of subsidiaries	38.7	1.5	0.9	5.2	-	46.3
Transfer	-	-	-	0.8	(0.8)	-
Disposals	-	-	(1.0)	-	-	(1.0)
Exchange differences	(1.9)	(2.5)	(0.1)	(0.3)	(0.2)	(5.0)
At 31 December 2021	**91.8**	**47.6**	**2.2**	**28.1**	**18.5**	**188.2**
Amortisation						
At 1 January 2021	8.8	13.5	0.7	10.1	11.8	44.9
Charge for the year	-	7.4	1.3	4.3	3.1	16.1
Transfer	-	-	-	0.4	(0.4)	-
Disposals	-	-	(1.0)	-	-	(1.0)
Exchange differences	(0.1)	(0.7)	(0.1)	-	(0.2)	(1.1)
At 31 December 2021	**8.7**	**20.2**	**0.9**	**14.8**	**14.3**	**58.9**
Net book value						
At 1 January 2021	46.2	35.1	1.7	7.5	4.8	95.3
At 31 December 2021	**83.1**	**27.4**	**1.3**	**13.3**	**4.2**	**129.3**

10. Business combinations

Summary of acquisitions

On 11 October 2022, the Group acquired 100% of NeoTel. NeoTel is a leading developer of applications to manage cloud contact centres and enhance customer experience in the Spanish market.

The final fair value of identifiable assets acquired and liabilities assumed are as follows:

	NeoTel
	£m
Tangible fixed assets	0.1
Intangible – customer contracts	1.3
Intangible – brand	0.1
Cash	0.2
Other receivables	0.3
Other payables	(0.4)
Deferred tax liability	(0.4)
Net identified assets acquired	1.2
Add: Goodwill	4.0
Net assets acquired	**5.2**
Satisfied by:	
Cash paid	4.5
Deferred consideration[1]	0.5
Contingent consideration[2]	0.2
Fair value of purchase consideration	**5.2**

[1] An amount equal to 10% of the initial purchase payment shall be retained for 18 months from closing date. Once the period has elapsed and provided that the retained amount has not been offset against the price adjustment or against claims or damages and losses the amount will be released to the seller.

[2] Contingent consideration is based on the growth rate for the 12 month period ending 30 June 2023. Consideration of up to £3.1m may be payable. The fair value of £5.2m at acquisition is based on a payout of £0.2m which takes into account the weighted probability of expected payout.

Net cash outflow on acquisitions:

	NeoTel	Other	Total
	£m	£m	£m
Cash consideration	4.5	-	4.5
Less: cash acquired	-0.2	-	-0.2
Net outflow of cash for acquisitions in the year	**4.3**	**-**	**4.3**
Contingent consideration payments during the year	-	1.7	1.7
Put option liability payment in the year	-	3.8	3.8
Net outflow of cash - Investing activities	**4.3**	**5.5**	**9.8**

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 is attributable to the acquired entity. The goodwill is not deductible for tax purposes.

Acquired receivables

The fair value of acquired trade receivables for NeoTel was £0.0m. The gross contractual amount for trade receivables due is £0.0m.

Revenue and Profit Contribution

From the date of acquisition, NeoTel has contributed £0.5m of revenue and £0.0m of profit after taxation attributable to the equity holders of Gamma Communications plc. If the acquisition occurred on 1 January 2022, NeoTel would have contributed £2.0m revenue and £0.5m profit after taxation attributable to the equity holders of Gamma Communications plc. These amounts are unaudited.

Summary of Disposal

During the year ended 31 December 2022, the Group completed the disposal of ComyMedia for consideration of £0.0m. The assets and liabilities disposed of were as follows:

	ComyMedia
	£m
Inventories	0.3
Trade and other receivables	0.7
Cash and cash equivalents	0.3
Deferred tax asset	0.3
Trade and other payables	(0.7)
Bank loans	(0.6)
Net assets disposed	**0.3**
Consideration/Equity value	-
Loss on disposal	**0.3**

11. Share capital

At 31 December the share capital was as follows:

	Number	£m
1 January 2022		
Ordinary Shares of £0.0025 each	96,323,054	0.2

	Number	
At 1 January 2022	96,323,054	
Movement:		
January	5,291	(a)
March	10,516	(a)
April	14,401	(a)
June	13,591	(a)
July	264,824	(a)
July	44,558	(b)
September	91,911	(a)
October	43,264	(a)
November	11,655	(a)
December	24,236	(a)
At 31 December 2022	**96,847,301**	

(a) Ordinary Shares were issued to satisfy options which had been exercised.
(b) Ordinary shares were issued to a certain vendor of HFO Holding GmbH as a result of reinvestment in Gamma.

	Number	£m
31 December 2022		
Ordinary Shares of £0.0025 each	**96,847,301**	**0.2**

12. Other Reserves

	Merger reserve	Share option reserve	Foreign exchange reserve	Own shares	Total other reserves
	£m	£m	£m	£m	£m
1 January 2021	2.3	5.2	(0.7)	(0.7)	6.1
Issue of shares	-	(2.2)	-	-	(2.2)
Share-based payment expense	-	4.1	-	-	4.1
Other comprehensive expense	-	-	(3.5)	-	(3.5)
31 December 2021	**2.3**	**7.1**	**(4.2)**	**(0.7)**	**4.5**
1 January 2022	2.3	7.1	(4.2)	(0.7)	4.5
Issue of shares	-	(2.7)	-	-	(2.7)
Share-based payment expense	-	4.3	-	-	4.3
Other comprehensive income	-	-	2.9	-	2.9
31 December 2022	**2.3**	**8.7**	**(1.3)**	**(0.7)**	**9.0**

13. Events after the reporting date

There have been no significant events affecting the Group since 31 December 2022.