

Exit Gamma Communications: Autumn Budget risks and SME exposure¹

Company:	Gamma Communications (GAMA)	Market Cap:	£908m (984p)
Industry:	B2B Communications	Debt:	£30m
Country:	UK, Germany, Benelux, Spain	Revenue:	£579m
Entry Date:	2 nd September 2025	Operating profit:	£102m
Dividend:	£50m buyback + £17.3m div (7%)	Free cash flow:	£80m (excl. working cap)
Entry:	£990m (1075p)	Exit:	£967m or 1049p (-2.5%)

Why exit Gamma Communications?

- Some leaks of the Autumn Budget revealed VAT registry will be compliant from £30k revenue per annum vs. £90k currently, which would hit SMEs
- Most companies are reporting weakness in the UK, which is likely to impact SMEs more than larger firms, and as a result, impacting Gamma
- German growth is uncertain given their historic market entries in Netherlands or Spain, which faded away slowly
- Market has left Gamma undervalued for a long time in 2023 without reason, which could repeat

SME exposure is too risky

When I first ran the numbers of Gamma, I could not understand why the company is valued at such low valuations given the constant growth in both, revenues and profits. However, I made a few mistakes in buying Gamma shares at this point in time. Number one, the SME exposure is very high (Gamma Business is around 60% of revenue²). In times when nearly all companies comment on a weak UK market, SMEs will be hit first. Number two, their historic success in entering other markets, such as the Netherlands or Spain,

¹ all assumptions and observations are based on internal modelling and data analysis

² <https://gammagroup.co/wp-content/uploads/2025/09/Interim-Results-for-six-months-to-30-June-2025.pdf> p. 25

has been very limited, in my opinion. During their Capital Markets Day in 2021, Gamma stated how their growth in UK will be replicated in Spain, Benelux and DACH regions³. Fast forward to today, Spain and Netherlands have become niche markets with ambitions dialed back⁴. Hence, there remain some questions about their growth in Germany, which the market will discount and require confirmation over time. Finally, there is a question about why a company would pick Gamma compared to the established telecoms, such as BT, Vodafone in the UK, DT Telekom or Vodafone in Germany, etc. Only in the UK the so called “altnets” have really gained traction. And this could be related to Gamma’s relative success in the UK, in my opinion, as they have a long-term agreement with altnet Cityfibre (according to their management) to use their fibre optic cables, helping them to largely avoid established telecoms like BT or Vodafone.

Technicals can repeat

The valuation of Gamma is currently at the lowest point since early 2019, whilst their free cash flow has more than doubled. This appears to be mispriced, in my opinion, and there could be a turnaround. However, during 2023, Gamma’s valuation did not move at all despite continuous growth in revenues and profits. What this means to me is that Gamma remains very attractively valued and should be part of a diversified portfolio. In a concentrated portfolio, however, the capital can be deployed more intelligently, and I expect the market to value Gamma at a low valuation for at least the next 6 months – purely based on market valuation in recent years and how this evolved. This is a very simple analysis, if one wants to call this an analysis. Nonetheless, timing pivot points can often involve charts/trends, and the timing might not be now.



Source: Google Finance



³ https://gammagroup.co/wp-content/uploads/2024/03/Capital-Markets-Day-08_11_2021-ver-11.0-final.pdf

⁴ <https://gammagroup.co/wp-content/uploads/2025/09/Investor-Presentation-Interim-2025.pdf> p. 5

Legal Disclaimer

The contents of this document have been prepared solely for the purpose of providing information about David Herrmann trading as AozoraStep and the services and products he is offering, which are targeted for professional investors only. AozoraStep is a trading name of Vittoria & Partners LLP ("V&P"). V&P will be appointed to as the investment manager or adviser to any AozoraStep related products. V&P has seconded David Herrmann (IRN: DXH02219) to undertake regulated activities under the trading name. V&P is authorised and regulated by the Financial Conduct Authority (FRN: 709710). This document is intended for Professional Clients only. The opinions and views expressed are those of David Herrmann and may change without notice and should not be construed as investment, tax, legal or other advice. David Herrmann and V&P do not guarantee the completeness and accuracy of the information provided and all content can become out of date. Potential products or services mentioned in this presentation are subject to legal and regulatory requirements in applicable jurisdictions and may not be available in all jurisdictions. Accordingly, persons are required to inform themselves and observe any such restrictions. In respect to investments described in this document, past performance is not a guide to future performance. The value of investments and the income of any financial instruments mentioned in this document may fall as well as rise and may have tax consequences. The performance of the investment strategy that David is planning to offer is based on a personal track record and approved by Sedulo for the time period Q1 2019 - Q1 2021 and by HiCloud Accounting for the time period 2020 - 2024, only with further examinations being done on an occasional basis. All references to AozoraStep in this presentation should be read in the context of David Herrmann's secondment to V&P to undertake regulated activities.