

Gamma Communications: A growth company priced like one in decline¹

Company:	Gamma Communications (GAMA)	Market Cap:	£985m (1069p)
Industry:	B2B Communications	Debt:	£30m
Country:	UK, Germany, Benelux, Spain	Revenue:	£579m
Entry Date:	1 st August 2025	Operating profit:	£102m
Dividend:	£50m buyback + £17.3m div (7%)	Free cash flow:	£80m (excl. working cap)
Entry:	£990m (1075p)	Target:	£1.4bn or 1520p (+44%)

Why Gamma Communications?

- Consistent growth profile with revenue growing 7-20% a year and 18% CAGR EBITDA growth over a 10-year period
- Recent acquisitions in Germany establishes Gamma as the #1 challenger in this growth market
- UK Public Switched Telephone Network (PSTN) switch off in January 2027 requires businesses to switch from landline to Voice over Internet Protocol (VoIP)/cloud telephony, which especially benefits Gamma
- More complex solutions and a move towards the cloud benefits Gamma

Risks

- UK SMEs are struggling and are reducing their spending. National Insurance Contribution hike has led to a reduction in employees for some companies
- PSTN switch off could be delayed again – OFCOM sets a definite deadline by 2030
- Gamma is not investing much in AI, as they feel they can't compete against Cisco's \$1bn annual R&D capex. This could lead to lower margins
- Growth in Europe could disappoint

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

About Telecommunications

Before I talk about Gamma, I thought it might make sense to explain the development of telecommunications in recent years. Businesses used to have a simple phone line to communicate externally via copper cables owned by BT and the likes (Public Switched Telephone Network – PSTN). With the emergence of the internet, these copper cables were being replaced with fibre optic cables as well as satellites and Voice over Internet Protocol (VoIP) became the more scalable, flexible and more cost-effective solution for communication². The Session Initiation Protocol (SIP PBX) trunk initially implemented VoIP with a hardware kit that runs on fibre optic cables³. These hardware kits can transfer not only voice, but also other forms of data, such as video and text messages. The next development then came with the cloud, where no hardware kit is required, and everything runs from data centres that are connected with fibre optic cables, i.e. Cloud business phone system (Cloud PBX)⁴. There are two specific cloud-based communication services: UCaaS (Unified Communications as a Service for internal communication) and CCaaS (Contact Centre as a Service for call centres/customer communication). The final development in communication is Artificial Intelligence (AI), which does not require additional infrastructure other than more data centre power and use cases are in contact centres⁵, cybersecurity⁶ or functionality such as cancelling out background noise. The chart below will help in understanding where Gamma fits in and is explained in the next section.



Source: <https://gammagroup.co/wp-content/uploads/2025/03/Full-Year-Results-Presentation-2024.pdf> p. 4

² <https://focusgroup.co.uk/resources/blog/life-after-the-pstn-switch-off>

³ <https://gammagroup.co/resources/blog/what-is-a-voip-phone/>

⁴ <https://www.gradwell.com/sip-trunks>

⁵ <https://help.webex.com/en-us/article/nvvv1zb/Cisco-AI-Assistant-for-Webex-Contact-Center>

⁶ <https://www.cisco.com/site/us/en/products/security/artificial-intelligence-ai/index.html#tabs-9da71fbd27-item-1288c79d71-tab>

About Gamma Communications

I've had a 1.5hr call with Gamma's investor relations person to fully understand their business. For those data points where there is no footnote, this information was taken from this call and might not be 100% accurate. Gamma Communications is one of the top three B2B communications providers in the UK (13-14% market share, 2nd behind BT with 18% share and ahead of Vodafone) and Germany (behind DT Telekom and Vodafone) according to Gamma. Gamma also serves other European market such as Benelux and Spain with a lower market share. What does Gamma enable to compete with the large telecoms on business telecommunication? It is all about giving businesses a broad set of functionalities and access to multiple providers. In the UK, the chart above describes Gamma's three main segments:

1. Cloud-based communications solutions:

- a. Gamma PhoneLine+ is their proprietary cloud-based communications solution, which is the cheapest product Gamma sells for £4 per user per month with over 80% gross margins
- b. Horizon is also a proprietary cloud-based communications solution, which costs £7 per user per month for basic functionality, but has add-ons, such as links to Teams, contact centre capabilities and call recording functionality
- c. iPECS is similar to Horizon, but developed by Ericsson-LG, which has over 400 software developers working on improvements and Gamma has the strong distribution channel of over 1,500 partners in the UK to sell this product to SMEs, generating 50% gross margins for Gamma
- d. Cisco spends around £1bn on R&D each year to develop their cloud-based communication solutions with strong AI capabilities, generating also 50% gross margins for Gamma

2. Voice Enablement

- a. SIP Trunking is Gamma's proprietary hardware kit used for VoIP. In the UK, Gamma holds 1/3 market share in this sector with 900k trunks (remaining 2/3 market share is share between BT and Vodafone). This product generates slightly lower gross margins than PhoneLine+ at just below 80% and charged at £1.25 per user per month
- b. Teams is plugged into Gamma, as Gamma has access to phone numbers, which is key because you need a regulatory license for each country to issue phone numbers to users
- c. Gamma Service Provider is again simply providing telephone network connections to be enable Google Meets or Teams make telephone calls

3. Connectivity

- a. Ethernet, Gamma Business Broadband and Mobile are three different types of internet connections to which Gamma has access to via third parties like BT and Vodafone, and recently also some of the altnets. Gamma also has its own fibre optic cables through a 25-year lease agreement with CityFibre. Margins are lower at 20-30%, but this business makes up 35% of Gamma's UK revenue

The key takeaway is that Gamma can offer multiple products to businesses of all sizes and can be summarized as:

1. Access to 1,500 channel partners, including Daisy, Onecom, Focus Group, Babble, ARO, but also many smaller ones that directly contact small businesses to sell communications solutions
2. Regulatory approval to issue phone numbers in over 20 countries
3. Its own low-cost, high-margin products enabling SMEs to use cloud-based communication solutions
4. Strong connections with the largest communications providers, such as Cisco, MS Teams and Amazon Connect, to sell their services on top of Gamma's own services

Finally, according to Gamma the UK cloud telephony market has over 60% penetration, whilst Germany's cloud telephony market only has 20% penetration as of now. And this is where it gets exciting for Gamma, as the company slowly establishes the same breath of market access as it has in the UK through acquisitions in the German market, where cloud communications have a lot more headroom to grow.

Gamma's German Communication Capabilities



Source: <https://gammagroup.co/wp-content/uploads/2025/03/Full-Year-Results-Presentation-2024.pdf> p. 32

Selected business units and profitability (Gamma), including simplified assumptions

Region	Type	Product	Seats	Price per user per month (£)	Revenue (£m)	Margin (%)	Gross profit (£m)
UK	Cloud-based communications solutions (UCaaS, CCaaS)	PhoneLine+	34,000	4	2	80%	1
		Horizon	900,000	7	76	65%	49
		IPECS, Cisco	106,000	30	38	50%	19
	Voice enablement (SIP PBX)	SIP Trunking, Teams, etc.	900,000	1.25	14	75%	10
	Connectivity	Connectivity: Ethernet, broadband, mobile			175	25%	131
Germany	Cloud-based communications solutions	STARFACE	225,000	7	19	65%	12
		HFO	42,000	4	2	75%	2
		Placetel	269,000	4	13	75%	10
	Voice enablement (SIP PBX)	STARFACE (hardware)	360,000	1.25	5	75%	4
		HFO (hardware)	199,000	1.25	3	75%	2

Source: Annual report Gamma 2024, <https://gammagroup.co/wp-content/uploads/2025/04/Gamma-Annual-Report-2024.pdf>, Investor relations call, figures are likely inaccurate as add-ons are not counted in and German prices and margins are estimated

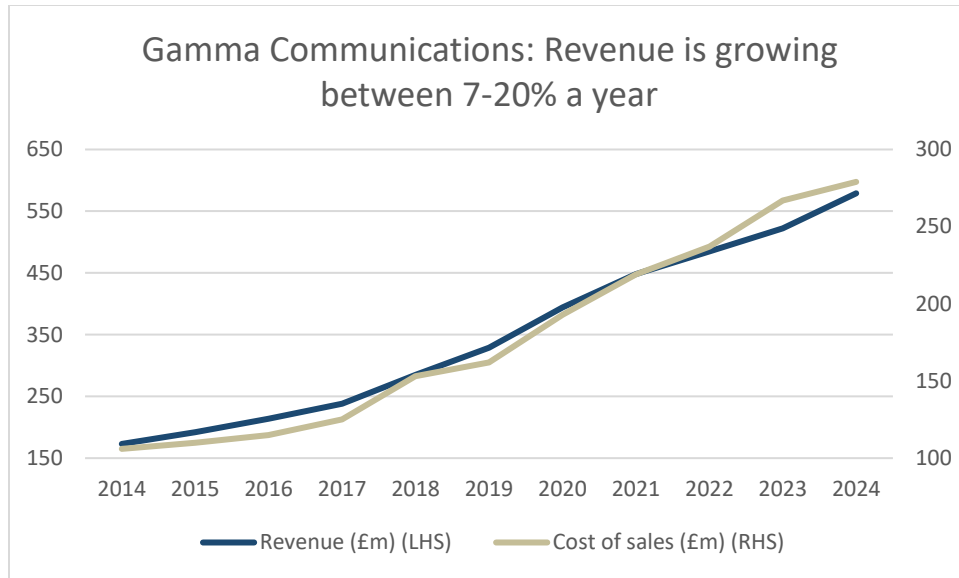
A strong compounder

This section provides a chart deck that summarises the strong financials of Gamma and how the company has grown over the last decade. Over the last 10 years, free cash flow (FCF) has grown on average 20% per annum, revenue was up between 7-20% per annum and adjusted EBITDA grew by 18% CAGR⁷. At the same time, Gamma's enterprise value today is the same as it was 6 years ago in 2019. The main reason for this low valuation is likely the fear that UK growth is topping out. The National Insurance Contribution hike has likely led to some job losses in SMEs⁸ and according to IR there is some "down trading" from Horizon to PhoneLine+. Whilst this is obviously negative, the company is emphasizing the strong growth in Germany, which is likely more than offsetting any weakness in the UK. The company also did not issue a trading update, which suggests that they stick to their £139.4-146m adjusted EBITDA range compared to £125.5m in 2024⁹.

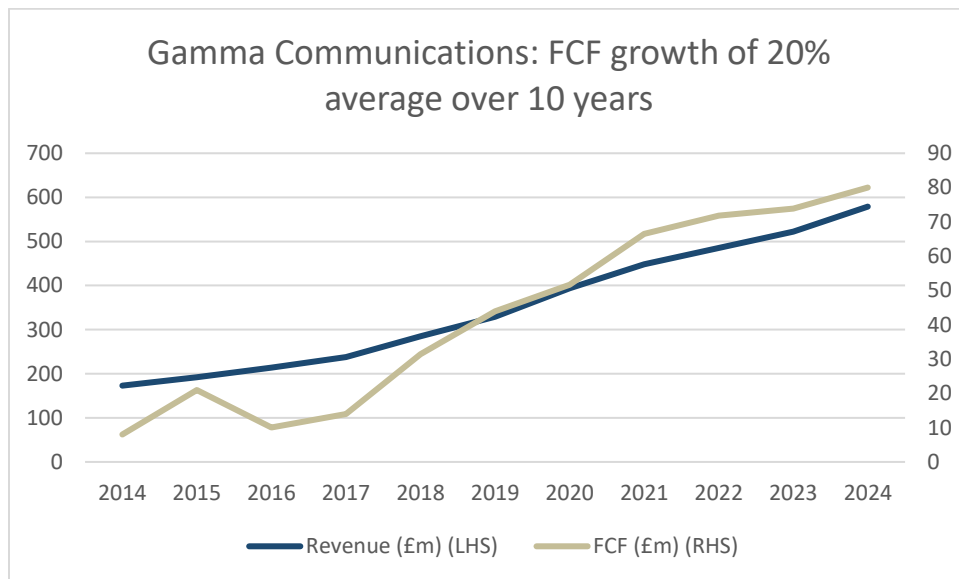
⁷ <https://gammagroup.co/wp-content/uploads/2025/04/Gamma-Annual-Report-2024.pdf> and annual reports from all prior years

⁸ <https://startups magazine.co.uk/article-smes-cut-jobs-cope-hike-employer-national-insurance>

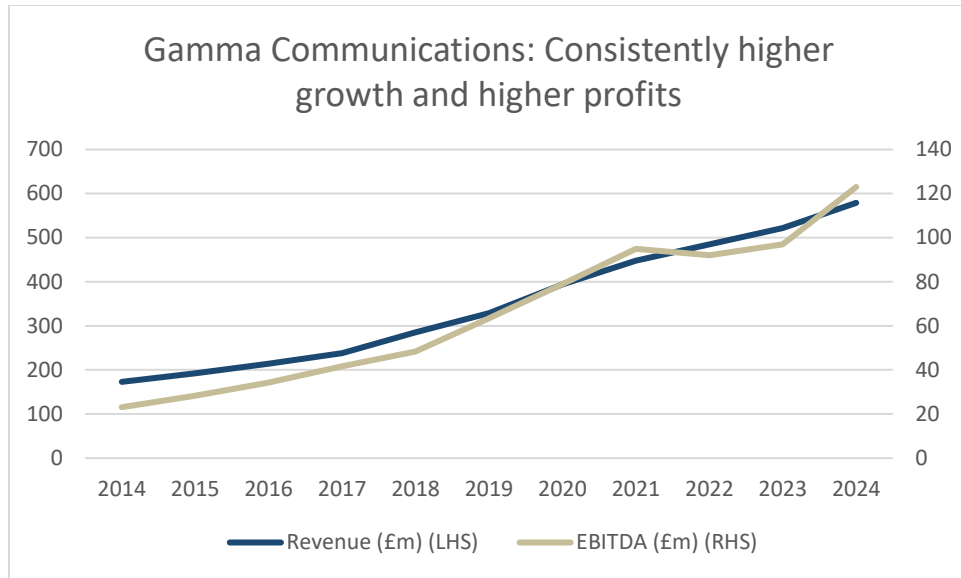
⁹ https://otp.tools.investis.com/clients/uk/gamma_telecom1/rns/regulatory-story.aspx?cid=950&newsid=1943576



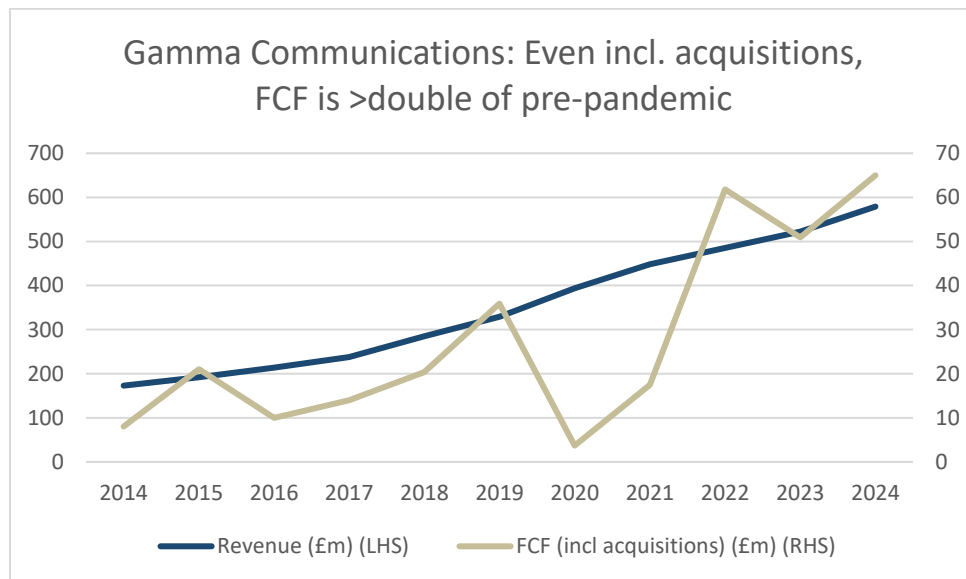
Source: Gamma Communications annual reports



Source: Gamma Communications annual reports

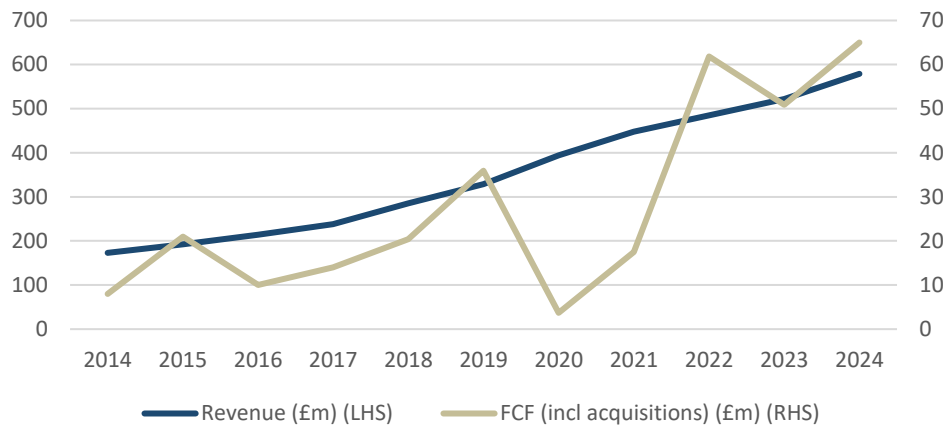


Source: Gamma Communications annual reports



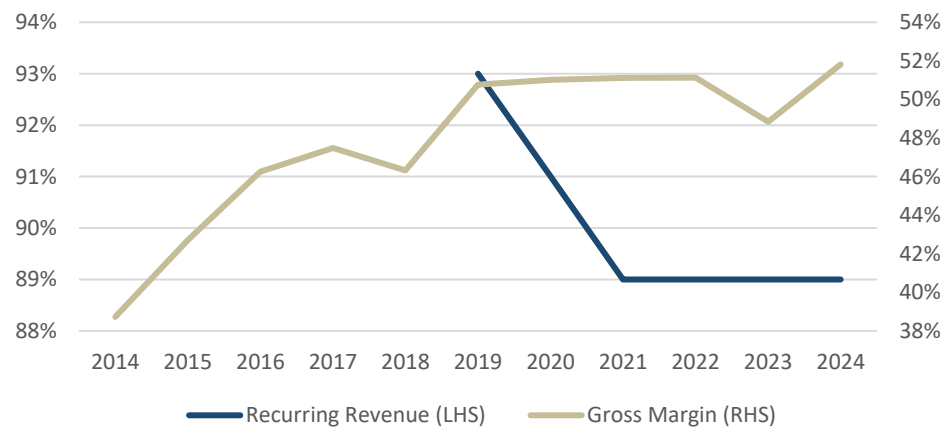
Source: Gamma Communications annual reports

Gamma Communications: Even incl. acquisitions, FCF is >double of pre-pandemic

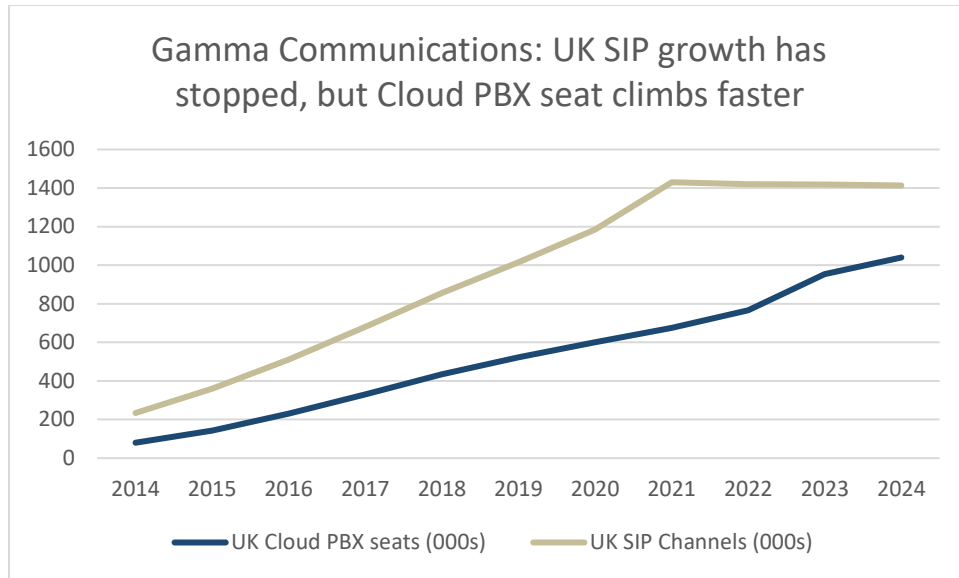


Source: Gamma Communications annual reports

Gamma Communications: High gross margins and strong client retention remains



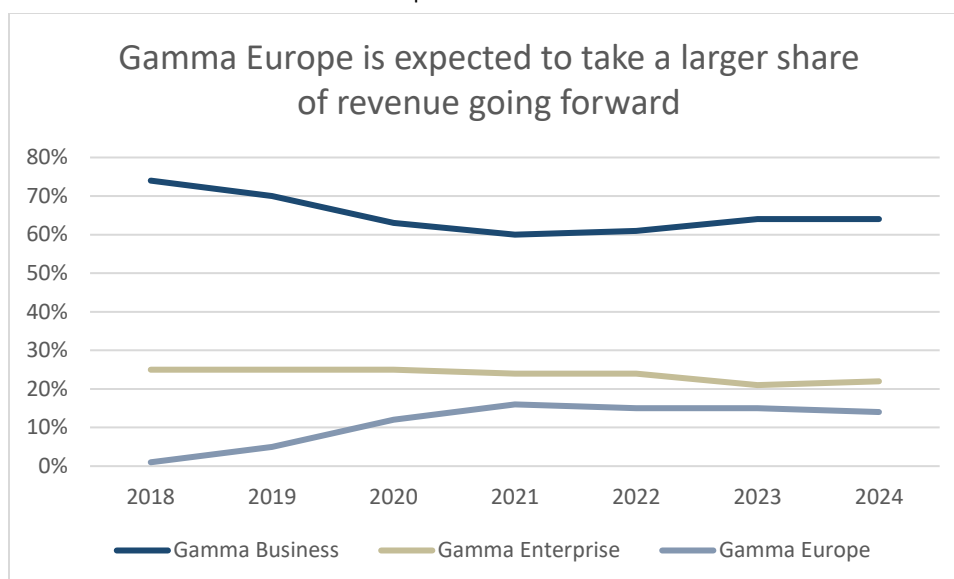
Source: Gamma Communications annual reports



Source: Gamma Communications annual reports

Acquisitions are driving growth

Whilst the UK remains by far the most important region for Gamma, the firm has acquired multiple businesses in the Netherlands, Spain and Germany in recent years. This has grown its share of revenues in Europe to 15%. However, Gamma struggled to compete against the established telecom providers in both, Netherlands and Spain. With the acquisition of STARFACE for £164m, Gamma is now the #1 challenger in Germany and seeks to take market share amidst the generally low cloud penetration of just 20% compared to 60% in the UK. If Gamma can now prove that they can compete against the established telecom players in Germany, it could use this expertise and give it another push in the Netherlands and Spain or other regions with the key being to enable a full spectrum of cloud communications, voice and connectivity. Potential further acquisitions could then include the #2 challenger in Germany, NFON, which is claiming to have proprietary AI functionality, and the #2 challenger in the UK, 8x8, which is listed in the US and provides a much more global offering, including proprietary AI functionality.



Source: Gamma Communications annual reports

Gamma Communications acquisitions

Acquired year	Acquisition	Details	Price (£m)	Category
2025	STARFACE	225k cloud seats, 360k hardware solutions seats Germany	164	Europe
2024	Coolwave	Communication services in 20 countries	6.3	Business
2024	Placetel	260k cloud seats previously owned by Cisco	13	Europe
2024	BrightCloud	Cisco's leading European enterprise partner for CCaaS	8.7	Enterprise
2023	EnableX/Pragma	UCaaS, partnership with Ericsson-LG with 130k seats iPECS	18.9	Business
2023	Satisnet	Cyber security specialist MSSP	8.3	Enterprise
2022	NeoTel	Spanish UCaaS/CCaaS provider	4.3	Europe
2021	Mission Labs	SmartAgent solution that enhances AWS Connect platform (16k customers)	40.8	Business / Europe
2020	Exactive	MS Teams	3.2	Business
2020	HFO	SIP PBX provider with 146k seats	18.5	Europe
2020	Voz Telecom	Spanish Cloud PBX communications provider with 40k seats (5% market share Spain)	16.6	Europe
2020	gnTel	Dutch Cloud provider	6.8	Europe
2019	Nimsys	IT and communication services in Netherlands	3.7	Europe
2019	Telsis	UCaaS provider	4.3	Business / Europe
2018	DX Groep	Netherlands: Dean One for SMEs and Schiphol Connect	11.5	Europe

Source: Annual reports Gamma Communications



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