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Gamma Communications

Technology

9 September 2025

H125 lays down strong roots for future growth

Gamma Communications makes no secret of the headwinds it is experiencing, but investors should continue to look through this and focus instead on the extremely stable and highly cash-generative business model. Management is deploying the group's cash flow wisely, incorporating well-timed acquisitions into an increasingly pan-European operating model. Any future price weakness could be of interest to long-term investors.

Financials

H125 revenues were £316.6m (90% recurring), up 12% y-o-y (1% organic), with adjusted EBITDA up 14% (3% organic) to £70.9m. Gross profit grew 18% to £172.0m (H124: £145.8m). Cash conversion of 90%, offset by £142.8m of cash acquisition costs and £34.9m of share buybacks, contributed to net debt of £21.6m (H124: £142.9m net cash). Major German acquisition STARFACE Group (February 25) achieved double-digit pro forma revenue growth year-on-year, helping Gamma add 23,000 seats in H125 (H124: 48,000) and resulting in 565,000 cloud seats in Germany compared to 1,063,000 in the UK. The H125 interim dividend is up 14% y-o-y to 7.4p per share. Management expects FY25 adjusted EBITDA to be in line with current market expectations, with FY25 adjusted EPS slightly ahead.

Strategy: Building for the future

While the need for more complex communications solutions continues to rise, economic reality means that Gamma's small and medium-sized enterprise customers might struggle to find the necessary investment. Other headwinds include UK Ethernet pricing and lower margins on UK legacy solution alternatives. Given this, the group's German expansion programme brings welcome relief, and the focus on simplifying group infrastructure (eg communications portals and finance systems) positions the group well for more rapid growth in the future, both organic and via acquisition.

Valuation: Long-term attraction

Since entering the UK 250 index in June, the shares have languished somewhat, and the market's positive response to the H125 results announcement goes some way to addressing this. Any price volatility caused by the shareholder churn following Gamma's move to a main listing will take time to resolve, and we believe this will be seen as an opportunity by longer-term investors.

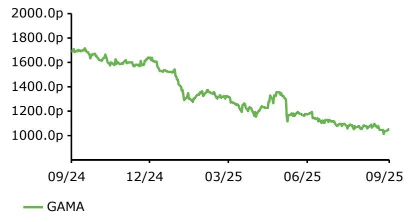
Consensus forecasts

Year end	Revenue (£m)	EBITDA (£m)	PBT (£m)	EPS (p)	DPS (p)	EV/EBITDA (x)	P/E (x)	Yield (%)
12/23	521.7	114.3	97.9	75.10	17.10	9.7	15.7	1.4
12/24	579.4	125.5	97.5	84.90	19.10	8.9	13.9	1.6
12/25e	654.1	140.8	114.2	91.80	21.00	7.9	12.9	1.8
12/26e	685.4	148.2	120.0	97.10	24.40	7.5	12.2	2.1

Source: LSEG Data & Analytics, company data. Note: EBITDA, PBT and EPS are adjusted for exceptional items.

Price	**1,182.00p**
Market cap	**£1,089m**

Share price performance



Share details

Code	GAMA
Listing	LSE
Shares in issue	92.2m
Net cash(debt) as at 30 June 2025	£(21.6)m

Business description

Gamma Communications is a provider of unfied communications as a service (UCaaS) into the UK, Dutch, Spanish and German business markets, supplying communication solutions via channel partners and also directly.

Bull points

- Highly cash-generative business model.
- Strong market positions in the UK and Germany.
- Key strategic market position between global technology providers and local distributors.

Bear points

- Competitive market in the Netherlands.
- Arguably sub-scale in Spain and the Netherlands.
- UK market uncertainty after the Public Switched Telephone Network switch-off in 2027.

Analysts

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