

14 January 2025

Gamma Communications plc
Gamma agrees to acquire STARFACE

Gamma Communications plc ("Gamma"), a leading provider of technology-based communication services across Europe, announces that it has reached an agreement to acquire the entire issued share capital of SF Technologies Holding GmbH (the "Company", trading as STARFACE), subject to customary regulatory clearance (which is expected to be received within two months).

Delivering on our German strategy

Germany holds strategic importance for Gamma, as it represents the largest, and growing, cloud PBX market in Europe, with significantly lower cloud penetration in a larger SME market than the UK. The acquisition of STARFACE delivers on our strategy to establish a new anchor in the European business, alongside our well-established UK business.

Gamma has an ambition to be the leading challenger to the incumbent telecommunication providers, Deutsche Telekom and Vodafone Germany, in the German cloud communication market. Gamma entered the German market through the acquisition of HFO in July 2020. In September 2024, Gamma further expanded its presence through the acquisition of Placetel, a German Cloud PBX² provider, enabling German companies to buy Cisco Collaboration solutions both digitally and through local partners.

Founded in 2005, STARFACE is a market leader in the provision of proprietary business communication and collaboration software solutions, tailored to fit the needs of the German market. The company predominantly serves SME businesses in Germany, as well as enterprises and the public sector via its nationwide channel partner network, which also covers Austria and Switzerland. Headquartered in Karlsruhe, Southwest Germany, the business has additional offices in Munich and Starnberg and employs around 260 people. An experienced management team is led by founder Florian Buzin, who will continue to lead the business.

Acquisition rationale

The acquisition positions Gamma as a market leader in the German SME cloud communications market. It will provide an additional 210,000 cloud PBX seats which increases Gamma's number of cloud seats sold in Germany to over 500,000. This represents approximately half the number of cloud seats that Gamma currently has in the UK, which is a more developed cloud communications market. This acquisition complements Gamma Germany's SIP³ business and Placetel's digital first approach.

STARFACE has a focus on transitioning on-premise SIP PBX users onto cloud solutions and still has a hardware PBX base of approximately 360,000 seats, using a proprietary hardware solution which can be seamlessly converted to a cloud solution over time without the need for manual intervention. Furthermore, STARFACE offers solutions which help to bridge the gap between hardware-based solutions and cloud solutions.

It will also bring key partner relationships, with STARFACE's network of over 2,000 channel partners enhancing Gamma's existing distribution network, and significantly increasing our reach into the German SME market.

Consideration

STARFACE is being acquired, excluding transaction costs, for a cash payment of €196m (c.£165m) for the purchase of 100% of the equity of the Company on a debt-free / cash-free basis.

The acquisition is expected to be primarily funded through approximately £125m from Gamma's existing cash resources, with the remaining £40m funded through a new £130m multicurrency Revolving Credit Facility. The undrawn portion of the facility will be available for further uses, in line with Gamma's balanced approach to capital allocation. The debt facility will have a three-year term, with an option to extend for an additional 12 months.

STARFACE Financial Performance

For the year ended 31 December 2024, STARFACE is expected to deliver unaudited consolidated group revenues of approximately €44m and Adjusted EBITDA of approximately €15m. These figures are presented on an IFRS pro forma basis, to reflect a small acquisition made by STARFACE in November 2024.

The business has a historical growth track record, with a high single digit CAGR for reported EBITDA from FY22 to expected FY24, and a similarly high operating cash conversion to Gamma. Gamma anticipates an increased near-term investment in the business in 2025, with both integration costs and plans to accelerate the transition of customers from non-recurring licence sales to a recurring SaaS model. In 2024, recurring revenues accounted for approximately 70% of total revenue. The acquisition is expected to be accretive to Adjusted EPS in FY25. Given the potential timing of the closure of the transaction, the Group expects to disclose the provisional accounting for the acquisition in the H1 2025 interim results. Purchase price accounting adjustments are expected to include goodwill, intangible assets and deferred revenue.

Andrew Belshaw, Chief Executive, Gamma, commented:

"This acquisition marks a significant milestone for Gamma as we further strengthen our position in Europe's cloud communications market. By combining STARFACE's strong partner ecosystem and technical expertise with Gamma's established connectivity capabilities, we're delivering unmatched value to our customers and partners. Together, we're not only strengthening our position in the German market but also shaping the future of business communications for SMEs across Europe."

Florian Buzin, Chief Executive and founder, STARFACE, commented:

"We are thrilled to join forces with Gamma, a company that shares our vision of empowering SMEs with cutting-edge communication solutions. This partnership builds on STARFACE's legacy of innovation and channel excellence while unlocking new opportunities for growth and collaboration. Together, we are in an excellent position to lead the next chapter of cloud communications in Germany and beyond."

¹ Private Branch Exchange (PBX) is a private telephone network used within a company that connects calls between internal users, and allows them to share and utilise external phone lines. Traditionally a PBX would be hardware based and connected to the wider telephony network through a SIP trunk. Increasingly they are provided in the cloud.

² Cloud PBX is a virtual PBX system rooted in the internet, which automatically answers all calls and routes them to the right department or user extension.

³ Session Initiation Protocol (SIP) is a signalling protocol, widely used for voice and video calls over the internet.

This announcement contains inside information. The person responsible for arranging the release of this announcement on behalf of Gamma is Rachael Matzopoulos, Company Secretary.

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Notes for editors:

Gamma Communications plc is a leading provider of technology-based communication services across Europe. Gamma is admitted to trading on AIM and employs approximately 2,000 people. Offering a range of Unified Communications, mobile, security and connectivity services, Gamma provides robust and secure end-to-end business communication solutions, enabling organisations to communicate, collaborate and offer a better customer experience.

Gamma's vision is for a better-connected world in which it can work smarter for the benefit of business, people, and the planet. Its primary market is the UK, where it delivers network-based services to SME, Public Sector, and Enterprise markets through its extensive network of trusted channel partners and direct sales and support capabilities. Expanding its presence in Europe, Gamma is continuing to grow its group of businesses focused on digital transformation by delivering services to customers via a network of channel partners in Germany, Spain, and the Benelux region.

For more information about Gamma and its comprehensive range of products and services, please visit www.gammagroup.co

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