Annual Report
2018/2019

dotdigital GROUP PLC

Contents

Engagement Cloud is the SaaS platform of dotdigital Group Plc (LSE: DOTD). It's the platform of choice for businesses seeking to engage customers across all touchpoints. The platform's features empower 4,000+ brands across 150 countries to acquire, convert, and retain customers. Users can connect customer data, surface powerful insights, and automate intelligent messages across email, SMS, social, and many more.

£51.3m
Revenue
↑ 19% from £43.1m

£11.8m
Adjusted operating profit
↑ 25% from £9.4m*

3.93p
Adjusted basic earnings per share
↑ 33% from 2.95p*

£19.3m
Cash position
↑ 29% from £15.0m

* Adjusted for continuing operations.

Chairman's report

Tink Taylor
Interim Chairman

This has been another year of strong financial performance and operational success. It has been built on the foundation of the businesses' three core pillars of growth, product innovation, geographic expansion and strategic partnerships.

This year we have seen revenues grow from £43.1m in 2018 to £51.3m. Adjusted operating profit also increased in the period from £9.4m in 2018 to £11.8m from continuing operations in 2019. Combined with a heathy balance sheet, our cash reserves now stand at £19.3m, up from £15.0m in 2018 and there is no significant debt in the business.

The business continues to deliver double digit organic growth in all regions. With average revenue per user (ARPU by customer) continuing to rise, as do overall numbers. Further traction has been made in our international efforts with sales growing by 83% in APAC and 27% in the US.

To support the international growth, the operational board has been restructured to allow for additional appointments of General Managers in both the EMEA and US regions to augment the General Manager already in place within the APAC region. Equally, additional support has been brought into the operational board in areas such as marketing, product, and IT systems. This coincides with additional hires and office openings in areas such as Los Angeles and Singapore, with the Netherlands opening soon.

This year saw a significant shift in how the business marketed itself following a major rebrand of the business from dotmailer to dotdigital. As a continuation, the platform is now known as 'Engagement Cloud' following the successful integration of the technology that enables the platform to send messages on other channels beyond email, which was acquired as part of the Comapi deal completed in late 2017.

Having the word 'mail' in the name of the business simply did not reflect the product innovation and all its capabilities. The rebranding process was rolled out seamlessly. Whilst it was not a substantial change, it has achieved its goal. Marketers and partners alike were keen to understand the reason for the change and went away with a full understanding of the platform becoming a truly cross-channel marketing automation platform.

Not only has the platform transformed into a cross-channel marketing automation platform, innovations have also been made to further enhance the Artificial Intelligence and Machine Learning capabilities. This was demonstrated with the recent launch of commerce intelligence tools, which allows our customers to more accurately predict, select and market to the right channels. This in turn has resulted in helping to drive revenues for their own customer base. Consequently, we have seen a continued increase in revenues from additional functionality and messaging capabilities, especially when factoring in the 'mobile first' demand we see in Asian markets.

This year has also seen the continued deepening relationships with our core strategic partners. Post the acquisition of Magento Commerce by Adobe, we have seen revenues increase through this channel. This is primarily as a result of our Core Bundled Extension which sees dotdigital's Engagement Cloud embedded into the Magento 2 core code, which can be enabled by the flick of a switch. Combined with this we have also been seeing additional traction in the e-commerce space through our strategic partnerships with other e-commerce platforms. As we progress into next year additional resources have already been recruited to grow our CRM strategic partnerships, particularly in the Microsoft Dynamics space.

I am delighted to say that our global user conference the 'dotdigital Summit' continues to blossom with attendance up 15% this year. The event has now moved from one-day to a two-day conference to facilitate a partner day dedicated to numerous agencies and system integrators that we partner with around the globe. This goes hand in hand with the significant increase in localised educational events staged for our customers, prospects and partners in all regions of the world. The marketing team has already begun actioning this year's marketing plan which includes a significant increase in investment for our overseas operations.

The Board proposes a dividend of 0.67p per share, an increase from last year when the dividend was 0.64p per share.

Another year of strong financial performance and success operationally

This year the focus is on maximising the opportunities following our rebranding and repositioning as a cross-channel marketing automation platform. This enables us to offer our platform and services to a broader spectrum of clients and upsell our newer functionalities to our existing clients. We will continue to look for growth from our existing overseas operations and identify opportunities for growth outside of our existing areas of operation.

The dotdigital team, often referred to as dotfamily, has continued to expand whilst retaining its culture of being enthused, highly skilled and highly motivated. This is complemented by our operational board driven by our Chief Executive Officer, Milan Patel. I would like to thank them all for their hard work and endeavours over the last year and the continued success they will bring to dotdigital moving forward.

Corporate governance

This year saw Frank Beechinor-Collins step down as Non-Executive Chairman and Peter Simmonds step down as a Non-Executive Director, I would like to take this opportunity to thank them for their service and help in driving the business over the years.

Richard Kellett-Clarke also stepped down as temporary Non-Executive Chairman for personal reasons, again I would like to thank Richard for his service. As a result, I was appointed temporary Non-Executive Chairman on 3 April 2019.

In order to fully comply with the QCA Code, the Nominations Committee has been busy working hard shortlisting and interviewing several candidates to fulfil the roles of Non-Executive Chairman and Non-Executive Directors. In parallel with these efforts an external agency has recently been deployed to assist with this task and to run all those shortlisted through the same rigorous process.

As part of this process we formally appointed Boris Huard as a Non-Executive Director on 26 March 2019. Boris comes with significant corporate and marketing experience and big data knowledge, most recently at Experian.

The Nominations Committee continues to evaluate the balance of the Board going forward.

The Board carries out an evaluation of its performance annually, taking into account the Financial Reporting Council's Guidance on Board Effectiveness.

Outlook

The outlook for the business is positive as is it well placed to take advantage of the continued growth within the marketing automation market, which is predicted to grow to $25.1bn by 2023 according to Forrester Research. Given the rebrand and repositioning as a cross-channel marketing automation platform combined with aligning itself further to AI-driven and Machine Learning capabilities, the business has every opportunity for continued growth. This is strengthened by its deepening strategic partnerships in the e-commerce and CRM sectors.

We continue to monitor the market for additional acquisition opportunities in this space that will enhance our geographical footprint and enhance our technical resources and capabilities.

As a result, we foresee another strong year ahead.

Tink Taylor
Interim Chairman
15 October 2019

Empowering customers with intelligent tools and people

dotdigital Engagement Cloud empowers multidisciplinary teams to plan, test, execute, and optimize cross-channel marketing campaigns. We empower 4,000+ brands across 150 countries and help marketers connect with their target audience at scale, through engaging messages that drive significant customer value.

What does Engagement Cloud do?

Engagement Cloud is a SaaS-based cross-channel marketing automation platform that enables aspiring global brands to send data-triggered campaigns and communications across channels such as email, SMS, social, push and more. Our technology integrates with key existing e-commerce and CRM platforms to create a powerful and robust marketing engine that supports key insight-driven activities and supercharges business growth.

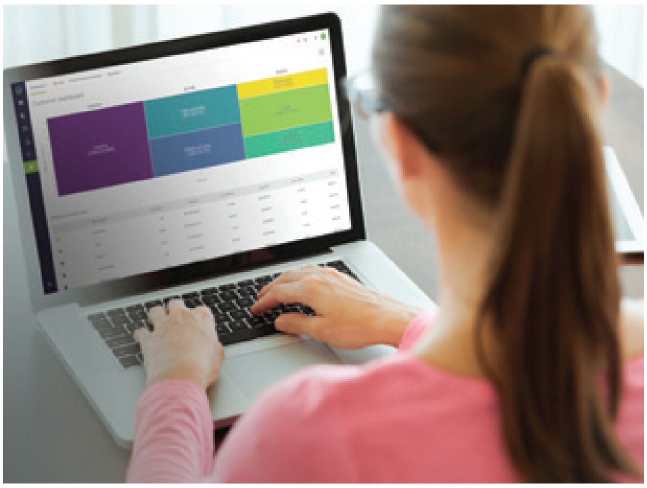
How do we empower marketers?

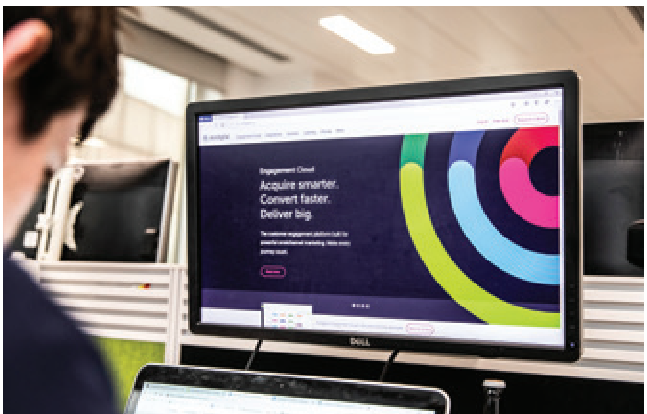
We empower marketers by making data accessible to them. Data sits at the heart of our platform because it's the key in unlocking every single valuable engagement. Users can personalize, segment, and automate revenue-generating campaigns in minutes with easy, time-saving tools. We help marketers scale quickly to maximize the returns of every channel, such as email which has a return on investment of £42/$51 for every £1/$1 spent.

Why do customers choose dotdigital?

We want our customers to be confident in knowing that our platform is future-proof. Our technology is market leading, and our product managers are passionate about enhancing Engagement Cloud to make it the best choice for aspiring marketers. We are attentive towards customer feedback and industry practice; together they help shape our platform's and customers' future.

Service is integral to our customers' delight. We know that sometimes it is easier to outsource tasks when there aren't enough hands on deck. Our experienced professional services team is always on hand to lend a hand; we design, code and build automated campaigns for global brands every day.





I can honestly say that the platform is excellent. It's simple to use, packed with great (and constantly evolving) functionality and its modular nature makes it very flexible. Perhaps more importantly, I've found the team super-accommodating and incredibly helpful.

Ben Scholes
CarShop

Engagement Cloud

Connecting data to channels via intelligent tools

Data

Our addressable market increases with quality and quantity of data inputs

Magento
An Adobe Company

shopify

Microsoft Dynamics 365

BIGCOMMERCE

Other CRM systems

Other e-commerce

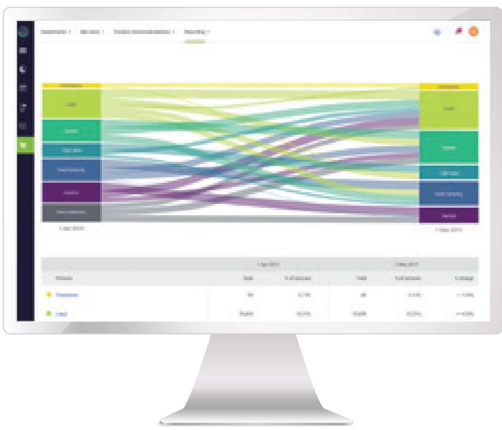
Integrations

Data capture

Empowerment layer

Better control and use of data combined with smart features helps customers achieve their desired outcomes

dotdigital engagement cloud



Features

Our fast and easy-to-use features enable advanced marketing

Channels

Increased number of outputs maximises the usefulness and reach

Email

SMS

Social

Ads

Mobile

Website

Chat

Offline

Investment case

dotdigital is a leading, global, cross-channel, SaaS and marketing automation platform, that enables our clients to communicate with their customers at the right time, with the right message, to the right person through the right channel.

Strategy

Clear and compelling strategy

- Focused on two complementary markets – e-commerce and B2B
- Rapid product innovation supporting up and cross-sell opportunities
- International growth based on proven blueprint
- Brand success extended through global strategic partners

Scalable

Highly scalable platform and predictable financial model

- Software sold as a service
- Predictable and transparent financial model
- Very diverse customer base with no customer accounting for more than 1% of revenue
- Profitable with significant cash balances
- 86% recurring revenues
- Strong contracted revenues

Growth

Attractive industry growth

- Email marketing automation has a proven superior ROI for marketers
- Global marketing automation spend, according to Forrester Research, is growing at double digit and predicted to be $25.1bn by 2023
- Marketers are predicted to send more emails in next five years complemented with cross-channel features
- New messaging channels as customers create cross-channel experiences

Independence

Leadership

Outlook

The successful dotdigital culture

- Highly talented and motivated people focused on customer success
- Creative marketing approach to empower customers
- Flexible, extendable and effective product that drives retention and beats the competition
- Unique industry position with many competitors distracted

Experienced management team

- Executive team with proven track record of success
- Non-Executive Board steeped in the marketing automation story
- Wider management team with the motivation to continue the profitable growth story
- All employees aligned to the strategic priorities of geographic growth, product innovation and building strong strategic partnerships

Strong growth outlook

- Innovation to support marketing move to cross-channel and artificial intelligence
- Ability to supplement with sensible technology acquisitions
- Attract further world-class partners to increase the addressable market
- New geographical markets with greater potential than UK alone

Thoughts of the Chief Executive Officer

Continuous progress against our framework for growth.

It is with great pleasure that I share with you my thoughts on the past 12 months. In a time of market uncertainty, we have welcomed innovation through continued development and investment, the move to cross-channel messaging following the full integration of Comapi and implementing new ways of working and scaling up across all our regional hubs. This has set the foundation for our future growth.

We have continued to deliver on my vision of expanding our geographic footprint and increasing our addressable market through the integrations we built into our key strategic partners. Following the acquisition of Comapi in 2017, over the past 12 months we have successfully completed the incorporation of the people into our company culture and the full integration of all functionality into the Engagement Cloud. As a direct consequence of this, it has now enabled us to fully focus on our high margin core Engagement Cloud offering by way of discontinuing the low margin wholesale SMS business, which was the heritage of Comapi.

We have persisted with our goal of optimising both our sales and customer success processes, listening to feedback from our customers, investing in high calibre people to support all their needs, educating our customers on GDPR and building functionality within the platform that assists customers with their compliance. The platform has evolved to be the best-of-breed player within the data-driven, cross-channel, marketing automation space and continues to empower our customers on creating experiences with all their recipients.

Strong progress has been made through our continuous investment in our international hubs, from the addition of people in region to support our customers by addressing all their requirements. This has occurred alongside investing and strengthening relationships with our key strategic partners in both the e-commerce and CRM space. In addition, we have started the process of creating management bandwidth and solidifying the foundations in the regions by hiring General Managers who are responsible for regional decision making, thereby allowing us to quickly scale up.

By strengthening the foundations of the business, both from a platform and people perspective, this has set up a strong position for us to take up opportunities that arise for long-term growth. This will be achieved via a combination of leadership training and development programmes to support the growth of our people. Therefore, I can only feel confident about the business's future and the direction we are traveling in. This year also saw the opening of additional offices in Singapore and Los Angeles as we continue to work with our partners within these regions to help expand market share in Asia and the US.

With all these changes that have occurred in the year, our focus remains on three key themes across the whole business: 'Focus' on our growth pillars; 'Simplicity' in our offering; and 'Empowerment' of our employees and partners.

Although there was a slight slowdown in organic growth in the EMEA region, growth remained double digit, during a time of macro-economic uncertainty where our customers were embedding key regulation changes and implementing the data privacy policies. However, our international organic growth accelerated in the year, bringing with it both substantial and commendable growth across all our international regions.

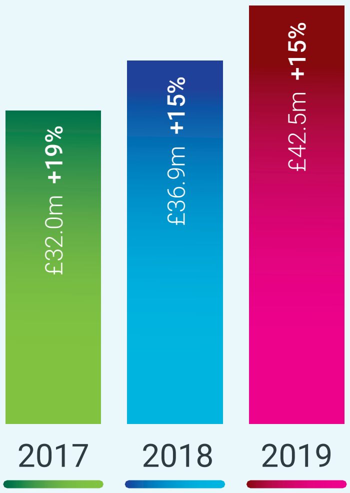
I hope that you enjoy reading more about our strategic progress in this annual report.

We use our key performance indicators (KPIs) to measure our business. These indicators provide us with the visibility of both our strategic and financial performance which is set by the Board at the start of every year. Employee remuneration is specifically linked to these KPIs.

Financial

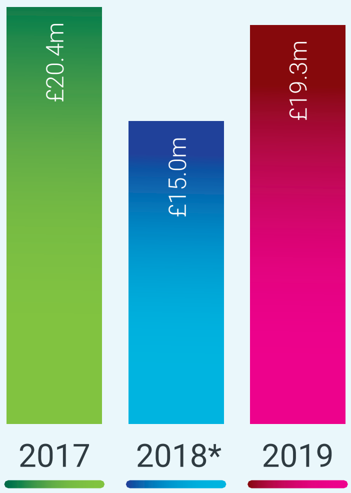
Revenue (continued)

We aim to deliver double-digit organic revenue growth from continuing operations.



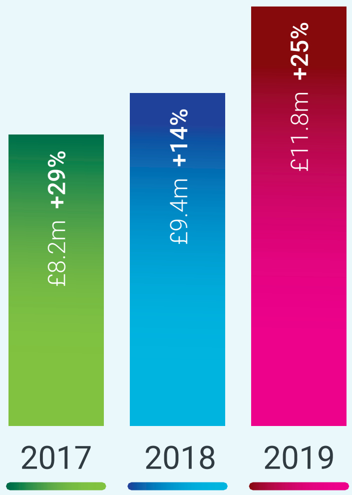
Cash position

We aim to have a strong cash position.



Adjusted operating profit (continued)

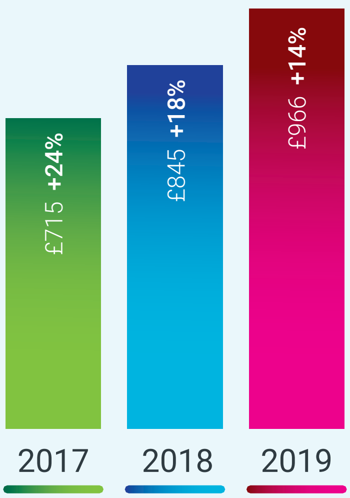
We aim to have double-digit adjusted operating profit growth from normal business.



Strategic**

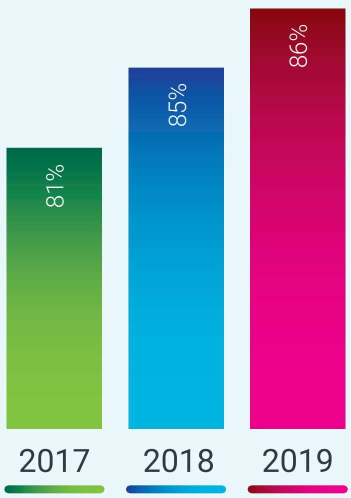
ARPU

We aim to continue to grow Average Revenue Per User (ARPU).



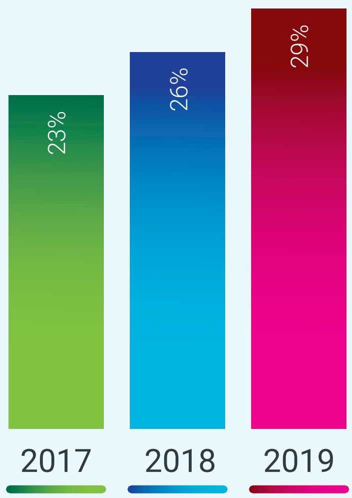
Recurring revenue

We aim to have recurring revenues of over 70%.



International

We aim to expand revenue from outside the UK.



* after spending £10.7m on the acquisition of Comapi, paid in full using cash resources.

** continuing only.

Case study

Driving life-long loyalty with hyper-personalised automation

Tottenham Hotspur is a world-famous professional football club based in North London that competes in the Premier League. Founded in 1882, the club is synonymous with playing entertaining football, which, together with a history of success on the pitch, has enabled it to build a truly global fan base with millions of fans around the world.

Off the pitch, the club has a strong and successful business model centered around building a platform for long-term success, which includes a new world-class stadium.

The club always aims to provide fans, members, and partners with unforgettable digital experiences. With email as the key channel for ticketing and membership, as well as partner, retail, and soccer school operations, finding a platform powerful enough to meet the club's high demands was crucial.

Challenge

Arriving through multiple sources, supporters and followers that enter the club's database can be volatile, with initial engagement often difficult to achieve. They can also arrive in high volumes at different times throughout the season or pre-season periods.

Tottenham Hotspur needed to create a strong first impression to capitalise on these early opportunities. This meant choosing a platform that had the power to handle vast quantities of data and deliver tailored customer journeys from the very beginning.

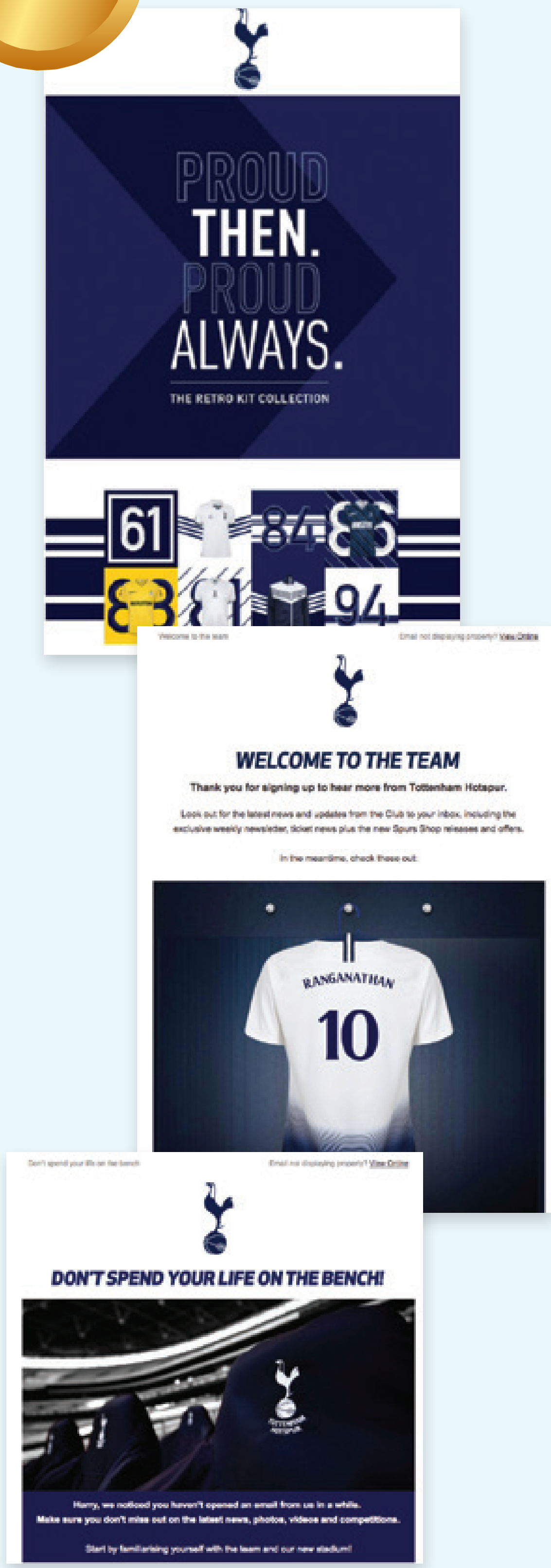
Solution

The welcome program was immediately identified as being essential.

Tottenham Hotspur's previous welcome program delivered an open rate anywhere between 5% and 20%, and fans who failed to open would then be classified as unengaged. As a result, they would not receive soft-sell campaigns such as weekly newsletters.

To maximise this opportunity, Tottenham Hotspur launched a strategic two-month program, specifically designed to engage unopened welcome emails. The new program offered fans six additional opportunities to open emails before they were categorized as completely unengaged.

To guarantee the success of this new program, the Club utilised Engagement Cloud's dynamic personalisation capabilities to spur a highly emotive response from their audience. Combining attention-grabbing subject lines with hyper-personalised images in the email body, Tottenham Hotspur wanted to create an extra-special bond with fans, no matter how they entered the database.



233% increase in retail revenue attributed to email campaigns.

Results

Introducing hyper-personalised content was a game changer.

Triggered once fans entered the database, the improved welcome program enjoyed a consistent open rate of 36% since launch. The number of engaged fans has exceeded expectations, meaning Tottenham Hotspur is now retaining the 20% of recipients it was losing as part of the previous welcome program.

Thanks to this boost in fan retention, the brand's mailing list for soft-sell campaigns has grown, leading to a massive 233% increase in retail revenue attributed to these email campaigns.

Chief Executive Officer's report and financial review

Milan Patel
Chief Executive Officer

Key Highlights

	30.6.19 (£m)	30.6.18 (£m)	% Increase
Group Revenue (Continued & Discontinued)	**51.3**	43.1	19%
Revenue (Continued)	**42.5**	36.9	15%
Adj. operating profit (Continued)	**11.8**	9.4	25%
Adj. EBITDA (Continued)	**14.7**	11.8	24%
Net Assets	**41.5**	36.6	13%
Adj. Basic EPS (p) (Continued)	**3.93**	2.95	33%
Cash	**19.3**	15.0	29%

Operational Review

Total revenue increased by 19% to £51.3m, however this includes the discontinued operations of the business. Organic revenue growth from the core business ('continuing operations') remained strong at 15%, taking revenue to £42.5m from £36.9m in 2018. This was as a direct consequence of higher value new client wins, a strong level of customer sign-ups, ability to continually monetise advanced features and additional marketing channels adopted by existing clients. This was evident by revenues from enhanced functionality and monthly recurring license fees now achieving £12.4m, a significant increase of 39%.

We have also seen substantial progress in the international markets, with revenues outside of the UK market, excluding discontinued operations, growing by 28% and now representing 29% of Group revenues. The focus on international revenues continues as international expansion remains a core pillar in our overall organic growth strategy and the Group continues to invest in key geographies.

During the year, dotdigital Engagement Cloud's average revenue per user (ARPU) rose by 14% to £966 per month. This was the result of continued focus on mid-market and enterprise clients plus customers that use the Magento integration, who on average spend over £1,500 per month. Overall the volume of messages sent out by the platform increased by 11% to 16.0bn from 14.4bn in 2018, reflecting the change in demographic and increasing both the recurring revenue growth and ARPU. We now have circa. 86% of group revenues are now recurring, of which 90% is contracted giving good visibility on revenues.

The cash position of the Group, £19.3m at year end, remains strong with no significant debt in the business, thereby allowing us to make strategic decisions to deploy cash where we see increased returns from either further investing in our organic growth pillars or earnings enhancing acquisitions.

Market

The marketing automation market is set to expand to $25.1bn by 2023 according to Forrester Research. Currently email marketing automation represents c.30% of the global market, closely followed by other channels such as mobile application marketing and social media marketing. According to Forrester Research, email marketing is anticipated to dominate the marketing automation market, due to the increased adoptions of digitalisation and the channel's status as a relatively low cost but effective marketing method.

North America, Europe and Asia is expected to lead the way with the fastest growth forecasted to be in these markets. The Group currently has three separate hubs that mirror each market, with a user interface translated into multiple languages and a scalable infrastructure that has in-region data processing and storage to mirror these growth areas. The Board believes the Group is therefore well placed to capture market shares in these areas.

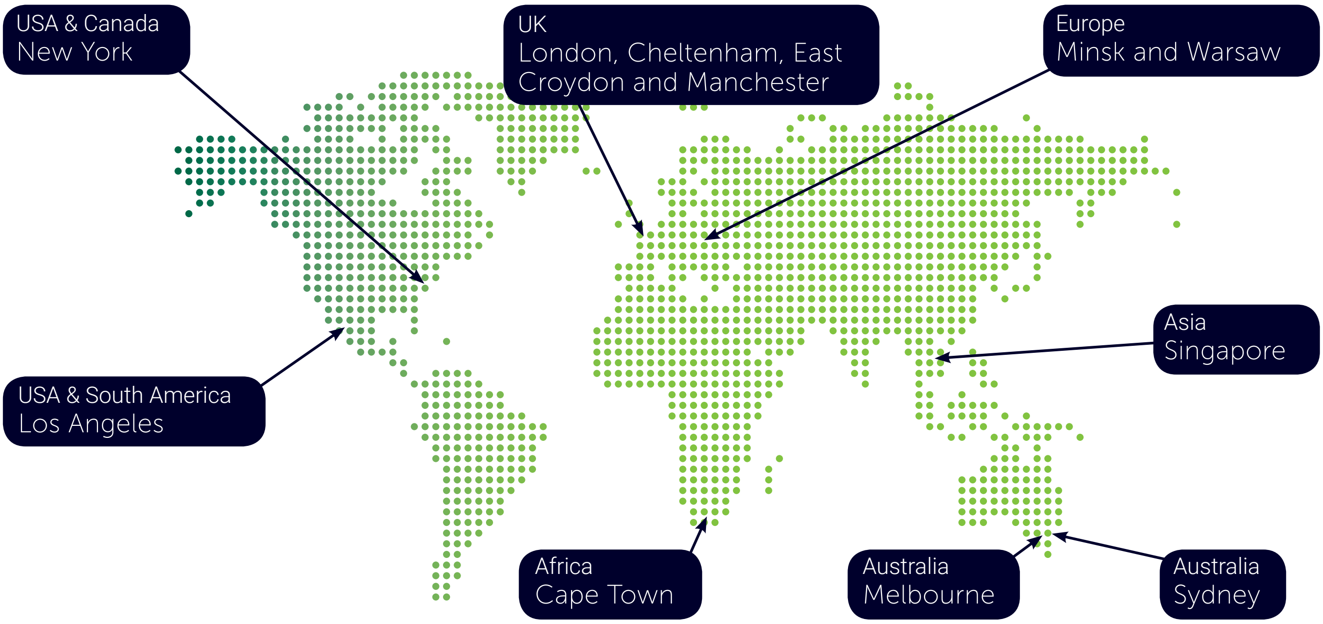
Geographic Progress

EMEA

EMEA saw revenue growth for continued operations of 10% in the year from £30.4m to £33.5m. We still see strong double-digit growth from the region despite the ongoing impact of GDPR in the first half of the financial year. Message volume growth has also moved closer to the levels seen prior to the introduction of the new legislation in Europe.

The continued focus on the Nordics and Benelux region, has resulted in stronger partnerships and a growing revenue stream in the area. Brand awareness continues to be achieved in the market within the e-commerce space through integrations into our partners' platforms. We have begun to investigate hiring local people in the region in addition to opening an office in the Netherlands to support our customers and partners in these

A Global Company



geographies. The Benelux market has seen the strongest revenue growth outside of the UK as our strategic partners are also seeing their strongest growth.

The majority of Comapi's clients operate within the UK market and following the decision that both Dynmark and Donky businesses were non-core to the Group's operations, this business will be wound down. A small team now remains in place to support the current clients and partners.

North America

Our North American region revenue showed strong organic growth. Revenue grew 27% to $9.0m from $7.1m following strong collaborations with our strategic partners and system integrators and further raising brand awareness in the market, which has significantly enhanced this growth. Our aim to support our customers and partners in region was strengthened through the increased investment in people and through the new offices opened on both the West and East Coast to support their needs. In H2, the region also saw deeper partnerships relations and additional investment via marketing, in our Microsoft Dynamics Connector, which enabled us to increase the addressable market in North America. In order to scale up the hub in region we have accelerated our search for a General Manager to provide both local experienced leadership and quicker decision making.

APAC

The APAC region saw the fastest growth of 83%, ahead of management expectation, albeit from a smaller base, growing from AUS$2.1m to AUS$3.8m. This was due to higher order values and customer numbers won in the year. Traction continues to be gained in the Far East through our presence in Singapore which is still a relatively new market for the Group. The addition of mobile functionality added to our core offering has helped increase the pipeline for these services, which typically tend to be a more mobile-first approach. We continue to enhance our relationships with the channel partners in region, thereby assisting us in improving sales conversion rates.

Product Innovation

It is our ambition to be the world's best data-driven marketing and customer engagement platform and we are therefore continually investing in developing new technology. We plan on scaling the platform and adding new features across all regions.

Our concentration remains on e-commerce companies which currently represents 50% of our customer base. During the year we have enhanced our commerce intelligence functionality though the introduction of RFM (Recency, Frequency and Monetary) reporting, together with automated segments, which are both easy to use and provide increased value and insights around their data in the platform. Further improvements were also made to Artificial Intelligence ("AI") and Machine Learning ("ML") for our product recommendations. In addition, an affinity finder solution has been built that will be launching soon, as part of our commitment to infuse the platform with AI and ML. The key differentiator with our algorithms is that it uses the customer's data to enhance the return on investment as opposed to having a generic algorithm which may not work.

Post the addition of an integrated cross-channel messaging service, we have made notable progress in customers using more than one channel in their marketing campaigns. New channels outside of email now include push messaging, chat, SMS, RCS (Rich Communication Service) plus other messaging services such as Facebook Messenger, Twitter DM and WhatsApp to name but a few.

Chief Executive Officer's report and financial review continued

dotdigital is an absolute breath of fresh air, we needed a flexible platform that allowed us to access the power held within our data; simply, quickly and effectively. My team left their onboarding session with beaming smiles and enthusing wildly about the functionality, ease of use and hugely excited how we can use it to drive our programme forward.

Richard Jones
T.M. Lewin

By using this enhanced offering, our customers can now use the data they import into the platform to stay relevant and personalise, thereby leading them to target the right person, with the right message, at the right time, through the right channels.

Recurring revenue from enhanced product functionality and upgrades, taken by both our existing and new customers, has increased by 39% compared with the same period last year. This shows that not only is the platform adoption increasing but marketeers are placing greater value in data and are becoming more sophisticated in their marketing strategies. We are therefore confident that we will continue to see an increase in the adoption of what we have built to date, including the new innovative features we are adding. The strongest adoption was the use of templates of drip programs to automate customers' marketing.

Therefore, we expect to see this increasing as we continue to monetise our development efforts and place greater value in the functionality. Enhanced product functionality now represents 34% (2018: 28%) of the recurring Group revenues.

Strategic partnerships

Revenue from customers using our Magento integration grew 27% from £9.3m to £11.8m and brand awareness remains strong in this space. All new customers Magento adds to their own platform ships with dotdigital Engagement Cloud pre-installed, and all that is needed is to sign a contract with dotdigital to get started. As a result of our deep relationship with Magento, we work together on a joint marketing strategy. Sign-up of clients across all regions remains strong with ARPU increasing from our clients, and this now stands at approximately £1,500 per month. In the year we added 219 customers bringing the total to 664 using the integration.

Our partnership with Shopify has continued to strengthen by way of building on our value proposition for e-commerce merchants through connecting into Shopify Flow. This allows customers of Shopify to seamlessly create, segment and use the engagement cloud messaging channels to create a personalised and targeted experience for their merchant's customer. This has also allowed a seamless integration of process automation between e-commerce and marketing platforms. We now have 56 clients using the Shopify connector and expect this to increase as we go into the new year.

Big Commerce in the period also named us as a global elite partner and work is ongoing in building this relationship and a joint go-to-market strategy. This should enable us to increase our addressable market across all regions.

As part of our commitment to our B2B marketing customers, we have continued to invest in our dedicated platform and channel management resource to build on our strategic relationship with Microsoft as we look to integrate our product in to Microsoft Dynamics. We have seen our revenues from the Dynamics connector grow by 10% to £3.9m with ARPUs remaining over £1,000 per month.

People

This year we focused on creating a management structure that sets the foundations for future growth as the business expands internationally. We have upskilled the senior management team as well as creating regional leaders for local decision making and control. This has enabled us to increase management bandwidth and develop new skills whilst still maintaining the culture within our business.

We have invested in sales, customer success, marketing and product development in the year, thus supporting our product innovation goals, but also allowing us to further develop our global brand awareness. The largest investment in people was made in our international hubs where we continue to see success in providing our customers with a scalable business model and support the overall business growth.

We firmly believe our people are crucially important to our business and its future; further investment will be made in the training and development of all our employees coupled with onboarding the new headcount to get up to speed as quickly as possible.


dotdigital

dotdigital

dotdigital
engagement cloud

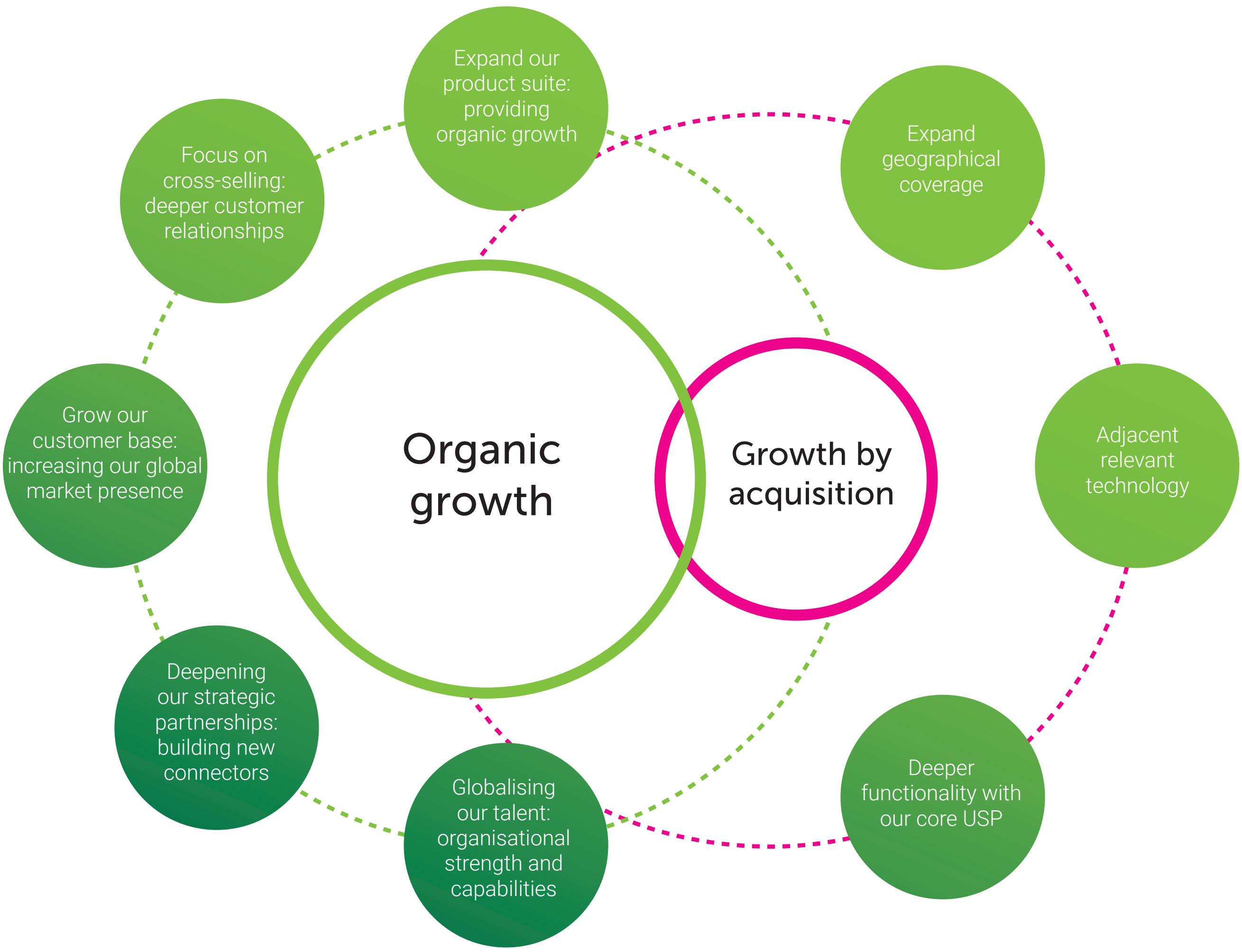
Welcome_Automation


It’s hard for me to say how much easier my job has become since coming onboard with dotdigital. The platform’s ease of use has enabled me to share my email responsibility with the wider team; they’re now more empowered than ever to create

Shaun Munoz
Virgin Active

Growth Strategy

Our strong financial position and management team mean we are ideally placed to add growth by acquisition



Engagement Cloud's smart automation capabilities have taken our customer engagement to the next level. 150% increase in email open rates YoY. Exceptional customer service, second to none. dotdigital's technical experts always know what they're talking about. Friendly and helpful advice, every time.

Marketing Team
Hafelle UK

Acquisitions

In the year we completed the full integration of Comapi, however the decision was made to discontinue both the Dynmark and Donky business units. The acquisition provided the Group with:

- Extending the Group's marketing automation platform to provide an industry-leading solution offering fully integrated cross-channel and conversational commerce support to marketers
- Enabling the Group to deliver aligned conversational messaging across-channels including email, mobile push, SMS, Facebook messenger, Apple business messenger, Twitter and live chat
- Enabling the customers to meet consumer demand for a more personalised communication experience and;
- Positioning us as the most advanced platform on the market and making dotdigital more relevant in the strategic mobile-first Asian market.

We will continue to investigate earnings enhancing opportunities beyond organic growth but have very strict value enhancing criteria to finding these strategic acquisitions. The areas we would consider making an acquisition in, are:

1) Companies that can help us expand into new geographic markets or allow us to grow faster in a market that we currently operate within
2) Companies that have relevant adjacent technology, beginning initially in the mobile and social marketing space; and
3) Companies that can add new functionality (e.g. artificial intelligence) that will add value to our customer base within the mid- and small enterprise market.

Financial review

Revenues

The Group achieved revenue growth of 19% (15% from continuing operations; 2018: 15%), which delivered record overall revenues of £51.3m (£42.5m from continuing operations; 2018: £36.9m). The quality of the revenue growth is evidenced by continued stable recurring revenues of 86% (2018: 85%). The Group continued to grow outside of the UK with international revenues now accounting for 29% of the continuing operations' total.

Business model

The Group generates the majority of its revenues from annual message plans across multiple channels, which are recognised equally over the life of the contract. In addition, we sell upgrade packages to customers allowing them to use additional modules and features of our platform. For more sophisticated customers we offer customised functionality and integrations so that they can maximise the use of their customer data. These professional services are recognised as revenue as the work is performed and completed.

Gross margins

The gross margin for the period for continuing operations was 90%, (2018: 87%). We continue to see the value in both direct and partnership models of selling in our international regions, and hence continue to invest in building long-term annuity revenues.

Operating expenses

Adjusted operating profit from continuing operations grew by 25% from £9.4m to £11.8m. Part of this growth was due to the margin improvement achieved via our cloud infrastructure as we see the benefits of scaling. Investments made previously within product development, sales and marketing also continue to pay off.

Operating expenses from continuing operations as a percentage of revenues remained at 62%, reflecting the growth in revenue combined with the careful investment in areas which provided the best rate of return. dotdigital continues to invest in people particularly within the areas of development, sales and marketing, with regional offices seeing the largest investment. This investment enables us to continue enhancing and adding to the product suite.

Chief Executive Officer's report and financial review continued

> It's fair to say that migrating to Engagement Cloud has transformed our ability to engage with our customers. Now we can directly track around half of our sales to email activity.

Mark Lippmann
Deborah Lippmann

Balance sheet

There was strong cash management in the year with cash generated from continuing operations of £12.5m (2018: £11.2m). The cash balance at the end of the period was £19.3m (2018: £15.0m). The Group continues to be debt free and maintains a healthy balance sheet. A combination of a highly efficient cash collection process and an incentivisation push to move more customers onto Direct Debit and automated credit card collection helped with the year-end position.

Trade receivables have only grown by 6% in the year reflecting revenue growth and good cash management. Overall receivables have declined 6% as a result of a decrease in prepayments due to better pricing achieved for the hybrid cloud infrastructure.

The Group continues to invest heavily in the engagement cloud to increase functionality around cross-channel messaging, enhance the Artificial Intelligence and Machine Learning capabilities of the platform and improve connectors to e-commerce and CRM platforms to allow our customers to make the most of their data and provide excellent customer engagement. This continued investment is demonstrated by the increase in product development to £5.5m from £4.4m in 2018.

Goodwill

£9.1m of Goodwill reflects the acquisition of Comapi in 2017/18, for a cash consideration of £10.7m. Identifiable intangible assets included £1.2m of technology and £1.2m of customer relationships. The former of these has been impaired as a result of discontinuing this part of the business and hence reducing the expected lifetime of the contracts from nine years to three years.

Tax

Profitability from continuing operation continues to grow, however, this is not reflected within the tax charge, which is now £0.06m (2018: £0.7m) with an effective tax rate of 0.5%, the principal reason for the continuation of the low rate being enhanced R&D tax credits.

EPS

In the year the adjusted basic EPS from continuing operations increased by 33% to 3.93p (2018: 2.95p) and adjusted diluted EPS from continuing operations increased to 3.88p (2018: 2.91p). The increase in adjusted EPS is driven by the increased profitability and the reduction in the effective tax rate to 0.5% from 3.1%.

Dividend policy

As announced last year, the Board conducted its review of its organic business plan for the following three years. This included evaluating the cash needs required for opportunities in organic growth to increase shareholder value and capital expenditure. The Board decided that it will continue to keep a progressive dividend in line with Group EBITDA growth. Therefore, subject to approval at the AGM in December 2019, the Board proposes that the Group will pay a final dividend of 0.67 pence per ordinary share (2018: 0.64p); to be payable at the end of January 2020.

Outlook

The Group is very excited with the opportunities from an organic growth perspective through the technology innovations, geographic expansion and strategic partnerships it has invested in. With the additional investments in people across all regions it sets the foundations for scalable growth for AI infused marketing and data driven cross-channel Marketing Automation.

Although relatively early on, Q1 of the 2019/20 financial year has started well with trading in line with expectations. With 86% of our revenues recurring, a high proportion under contract and strong client relationships we continue to have good visibility into our earnings. We are confident in delivering continued organic growth across our core organic growth pillars.

Milan Patel
Chief Executive Officer
15 October 2019

Paraag Amin
Chief Financial Officer
15 October 2019

The dotdigital difference

Empowering technology
Super-powerful and easy to use – so you can do it all yourself.

Learning
We help you get smarter with inspiring events and action-packed content.

Service
If you’re busy or short-staffed, we can do it all for you.

Expertise
We’ve been by your side for 20 years; our combined heritage and experience puts you in good hands.

Innovation
Our freedom to innovate means we’re always looking ahead.

Case study

icelolly.com boosts conversions using Facebook Audiences in automation programs

Founded in 2005, icelolly.com is the UK's fastest growing comparison website. Customers can compare and save on millions of package holidays, cruises, flights, and car rentals from leading UK travel companies.

Challenge

The marketing team at icelolly.com works tirelessly to deliver personalised customer experiences. This was no better highlighted than in the brand's 2018 dotties win: combining tech power to innovate.

As part of its personalisation strategy, the brand decided to add the Facebook Extension into its business-as-usual marketing programs in Engagement Cloud. The tool would retarget engaged email subscribers who had stated their preferences. The brand would move audiences along the customer journey – from awareness to consideration and conversion – by providing highly relevant Facebook ads.

17% conversion rate from Facebook

Solution

icelolly.com recognised that increasing its reach across other channels, like Facebook, would help drive conversions. Using Engagement Cloud, icelolly.com has been able to push data from one channel to another and achieve an cross-channel approach to marketing. So far, the brand has engaged seven audience types.

Engaged contacts are served with targeted ads that reflect their individual data, such as location (i.e. local airport), which maximizes the relevancy of the message.

icelolly.com currently uses the all-inclusive preference list as an active audience to target on Facebook. Those who say they are interested in all-inclusive packages or holidays (in the brand's preference centre) will receive highly relevant targeted ads on Facebook.

People will be encouraged to continue their search – a seamless way of returning potential customers to the path to purchase.

Destination price alert triggers, which generate open and click rates of 41% and 35% respectively in email, are a key example of retargeting. For example, subscribers who have signed up for destination alerts will be further notified through targeted ads on their social feed. Combined with email, the Facebook Audience extension increases relevancy in the overall customer journey.

Results

icelolly.com generated a 17% conversion rate from Facebook. What's more, retargeting ads have seen a 3% higher conversion rate than general social ads – which can be attributed to increased relevancy. Delivering the right message to the right person at the right time has also bolstered customer satisfaction – Trustpilot reviews are at an all-time high.

Risks, impact and mitigations

Risk area	Impact	Mitigation of risk
Data privacy	Certain laws and regulations such as the General Data Protection Regulation ("GDPR") require or may require the Group and its customers to implement privacy and security policies, permit consumers to access, correct or delete personal information stored or maintained by such companies, inform individuals of security incidents that affect their personal information, and, in some cases, obtain consent to use personal information for certain purposes. Other proposed legislation could impose additional requirements and prohibit the use of certain technologies, such as those that track individuals' activities on web pages or record when individuals click on an in-email link. Such laws and regulations could restrict customers' ability to collect and use email addresses, web browsing data and personal information, which may reduce demand for its products.	• Operation of an open-door policy, including the sharing of policies relating to security, compliance and data privacy. • Maintenance of a public-facing Trust Centre communicating important information. • Research into the impact of new or altered legislation to inform free resources. The Group actively contributes to the digital marketing and messaging space to advocate best practice and make sure its customers' needs are represented. • Provisioning of global instances of the platforms, allowing customers in certain regions to overcome data sovereignty constraints. • Ongoing monitoring of processes and policies in compliance with GDPR. • Ongoing monitoring of the regulatory environment, including any guidance from supervisory authorities or compliance actions made under GDPR and developments of the California Consumer Privacy Act and e-Privacy Regulation.
Use of public cloud service suppliers	The Group utilises public cloud suppliers to host its platforms and products. An event resulting in multiple cloud data centre failing, for any significant period, or termination of services by a cloud supplier, may negatively impact the Group's business, operating results and financial condition. The nature of cloud computing means that the majority of the platforms are on a shared infrastructure that is more of a target for cyber attacks.	• Informed choice of best-of-breed cloud computing suppliers (the Group has selected Microsoft Azure, CloudFlare, Amazon AWS, and Google Cloud Platform), the architecture of which facilitates high uptime SLAs and a quick recovery in the event of a single region failure. • Due diligence of cloud computing supplier security and incident handling processes, penetration testing results, change management and security and privacy accreditations. • Development and implementation of resilient global instances of the platform to serve local customers and avoid global customer impact in the event of a regional outage. • Regular simulation of Disaster Recovery plans to recover computing resources in a secondary region. • Build strong relationships with cloud suppliers at an executive level.
Supplier and computer hardware related risks	An event resulting in a loss of functionality at, or a total loss of, a data centre that hosts message send components for a prolonged period will result in sub-optimal service, potentially leading to a loss in revenues. In addition, events preventing or obstructing the platform's communication abilities, such as the blacklisting of IP addresses at major internet service providers will incur revenue loss. The Group relies on a range of upstream suppliers to deliver SMS messages; a change in relationship with one or more of these suppliers, or one or more of these suppliers no longer being able to operate, could impact the Group's profitability.	• The platforms are architected with resilience to cater for single points of failure, including having multiple upstream and internet suppliers that can keep delivering messages in the event a single supplier fails. • Frequently reviewing the most profitable upstream supplier routing options, and negotiating contracts regularly based on current and anticipated volume. • Tracking of message metrics regular reviewed and monitored by the executive team. • Continual evaluation of suppliers and technologies with the prioritisation of send volume, scalability and resiliency, and business continuity. • Continual investment in and maintenance of the Group's currently owned IP addresses to ensure global reputability and use optimisation.

Risk area	Impact	Mitigation of risk
Information security and cyber risks	The ever-evolving, sophisticated nature of the cyber threat landscape poses an ongoing risk to the Group. Revenue depends on the protection of the Confidentiality, Integrity, and Availability of data and computer systems, and a trust in the Group's brand. A successful cyber-attack against the Group's digital assets could significantly impact the Group's ability to function, as well as its ability to retain and attract business.	• Continual investment in a defined Information Security programme, under the leadership of the dedicated information security function. • Attainment of the UK government-backed Cyber Essentials Plus Certification, in addition to the implementation of further technical controls such as regular vulnerability scanning, third-party penetration testing, Intrusion Detection/Protection, and security update schedules to proactively detect and remediate against the latest threats. • The continual promotion of a security culture within the business via various awareness initiatives. • The transference of some risk by the introduction of Cyber Insurance.
Internet service providers (ISPs), reputation and internet browser-related risks	As a large proportion of the Group's revenue is derived by charging a price per message for sending emails and SMS on behalf of customers, the impact of not being able to deliver these or deliver these without engagement tracking for any reason is significant. If internet browsers detect hyperlinks as a phishing threat, abuse complaints from providers are not dealt with properly, bad customer data generates multiple complaints through ISPs or third-party spam are blacklisted, these impact the platform's overall ability to effectively deliver messages.	• Provision of, and investment into, platform functionality to help customers comply with industry best practice, EU, Asia Pacific or US anti-spam regulations. • Demonstration of commitment to anti-abuse through admittance to various industry groups, such as the Messaging, Malware and Mobile Anti-Abuse Working Group (M3AAWG), the Email Sender and Provider Coalition (ESPC). • Continued investment into functionality that reduces rogue trial account sign-ups and link checkers on outbound messages to alert in case of phishing or fraud. • Proactive handling of abuse complaints generated by customer messaging, including account suspension and agreement termination.
Risks related to key platform integrations	The Group is increasingly investing in integration with third-party platforms to provide an enhanced product feature set – for example, Shopify, Facebook, and Google. These platforms all have various contractual bases for access and the Group maintains its obligations carefully. However, any future change in the terms granting the Group access may impact our continued ability to integrate our product with these platforms.	• Creation and maintenance of strong relationships with these platforms. • Where possible, creation of revenue-sharing arrangements so there is mutual commercial benefit. • Continuous review of competing functionality from other vendors. • Ensuring our platform policies align with the third parties.
Brexit	The Group has a large business footprint within the United Kingdom; both in terms of staff headcount, and in terms of the customer base. Brexit (the expected departure of the United Kingdom from the European Union at the end of October 2019) still has a number of unknowns and these present some amount of risk with regards to the Group. Many of our UK-based staff are citizens from other EU countries; at the time of this report being released, there is not yet a full understanding of their right to work in the UK post-Brexit. In addition, a changing legislative environment between a post-Brexit UK, and EU, may place additional regulatory burdens on the Group which make it harder to operate with EU-based companies.	• Internal HR team reviewing strategies for dealing with EU staff, depending on Brexit negotiation outcomes. • Research and monitoring of legislative environment, particularly in relation to data transfers between the UK and EU and visa-versa. • Internal departments reviewing strategies to address data storage and transfer, depending on Brexit negotiations outcomes.

Risks, impact and mitigations continued

Risk area	Impact	Mitigation of risk
Competitive environment	The sector the Group operates in is competitive. The impact of competitors having more features, increased financial backing, better brand recognition and better global coverage increases the risk to the Group's business.	• Continual revenue growth year-on-year and reinvestment in new product features, best-in-class customer support and service offerings, enhanced brand recognition and improved service delivery. • A global marketing presence to attract new customers. • Further improvement of the products' renowned user experience, including hiring dedicated user experience professionals. • Increased tighter integration of the group's newly acquired business unit Comapi, in order to provide a broader and more competitive product feature set.
Geography specific market changes	Reliance on revenues relating to a single region increases the risk of revenue loss if that region were to experience an economic decline. Further, the Group's geographic expansion increases the risk of certain successful UK policies and practices proving less successful and providing a poorer level of service and assurance in new territories.	• Continual increase in international revenues outside of the UK. • Successful exploration into options relating to geographic expansion above and beyond the UK, US and APAC – specifically Singapore and Netherlands. • Constant review by the executive team for growth opportunities in additional territories.
Maximise investment in growing high-performance teams	Failure to attract, hire, develop and retain high-performing individuals will reduce the ability to achieve the Group's goals.	• Commitment to the delivery of a comprehensive programme of formal and informal learning and development opportunities aligned to the needs and goals of the business. • Continued commitment to organisational structures, internal communications tools and processes to enable cross-team collaboration. • Regular evaluation of the benefits to ensure market competitiveness. • Investment into existing and new office spaces that make talent feel valued. • Expansion into new territories increases accessible talent pools the Group can hire in.
Development and maintenance of products	There is a definite risk that without continued growth in investment into new products, maintenance and enhancement of old products and expansion into areas that a maturing marketing and customer engagement market is expecting, the growth of the Group will be impaired.	• Continued realisation of revenue growth and customer retention from product investment. • Innovation and increased development of new core product offerings in the customer engagement space, facilitating new revenue opportunities and increasing the average recurring revenue of the Group's existing customers. • A constant focus on enabling unrestrained customer growth through the ease and flexibility of the Group's best-of-breed integrations. • Continued evaluation and optimisation of product performance in the technology landscape to reduce maintenance overheads.

Risk area	Impact	Mitigation of risk
Evolving technology and customer requirements	Failure to anticipate or respond to evolving technological channels and customer requirements or to introduce competitive enhancements and new features may impact growth and customer retention. The introduction of new solutions by competitors potentially makes the Group's solutions less competitive.	• Remaining a credible provider of omnichannel customer engagement SaaS solutions through constant investment in and development of new solutions, partnerships and enhancements. • Development of a strategy that facilitates the implementation of rapidly changing technologies, anticipating client requirements and frequent product enhancements. • Dedication to remaining relevant to both the B2B and B2C verticals, reducing risk through the breadth of the platform's solutions. • Continued emphasis on recruiting and retaining leading experts. • Continued focus on combining email marketing and automation capabilities with the market-driven need for supporting more conversational channels and leveraging data to drive decisions.
Loss of a strategic partnership	Revenues could be impacted if a strategic technology partner had lost market share or customers on mass e.g. if they had significant change, loss of service, disaster or data breach. In such an event, customers may re-platform to a technology partner who the Group doesn't have a connector with. If a strategic technology partner blocked access to or no longer accepted a connection to our products, there is also the risk that customers may leave or migrate to a competitor who has a connection, rather than re-platforming away from the technology partner.	• Continued investment to strengthening or relationships with our key strategic technology partners. • Contractual arrangements and SLAs to mitigate the risk where possible. • A product and development strategy that continues to build connectors into leading market share e-commerce and CRM platforms, to reduce reliance on a single strategic technology partner. • Research and development into the competitive environment and e-commerce/CRM market to make informed decisions on connector research and development. • Services and functionality, to enable customers to migrate between different technology partners, as well as out of the box connectors they can use. • Continued work with new and emerging partners about providing connector functionality to their products. • Connectors built into intermediary integration platforms and data synchronization functionality to hundreds of platforms at one time.

dotdigital remains focussed on the impact of our Corporate Social Responsibility (CSR), on our employees, partners and the broader communities.

Clients

As a SaaS business it is vital we continue to invest in our product to ensure it effectively reflects and meets the needs of all our clients, partners and prospects. This has been achieved by maintaining the investment in our product team and allowing time and resource to capture feedback and suggestions from all users. In addition, our programme of "dotlive" events ensures we can share our knowledge and capture our client and partner ideas to influence the product roadmap.

Employees

Every territory of the Group has seen additional team members hired in to join the business in support of our continued growth. However, we are always keen to support the growth and development of our existing employees which is demonstrated by over 30% of roles in the Group being filled by our team through promotion or transfer to different teams, offices and even country. We are committed to growth from within as the first port of call.

Our programme of Wellbeing Awards for employees continues to show great engagement. The programme allows employees access to a modest fund designed to encourage activities that support personal wellbeing and a healthy lifestyle. Activities such as gym classes, yoga, music and singing lessons all feature in this year's activities.

Community and business partnership

We continue to see interest from our employees in our Volunteer Programme with requests to support a wide range of charities including; fund raising for a Mental Health charity, and physical endeavours such as the Three Peak Challenge to raise money for charity, working parties for Animal Rescue centres, night shelters for the homeless and serving at local community kitchens.

This year saw the first of a programme of diversity-based events aimed at our clients, prospects and partners. 'Women at Work' was a sold out event held at our London Bridge Office where we heard presentations from our own employees and prominent business leaders who shared their thoughts and experiences around women at work. We will be running a series of similar diversity-focussed events throughout the next year.

Charitable support

Our dotCommunity group is run by our employees for our employees. They provide support and encouragement for all our employees to get involved and raise money for charities. Endeavours as varied as climbing mountains to baking cakes have been completed by our employees both as part of organised events and on their own initiative.

MACMILLAN CANCER SUPPORT

In addition, we regularly support charities such as Macmillan with employee events and have the pleasure to welcome the Macmillan fundraising team at one of the recent bake sales.

Environmental partnership

We are delighted when our strategic decisions also have environmental benefits. Our continued investment from physical data rooms to the 'Cloud' means we can support environmentally positive technology such as Microsoft Azure which has been carbon neutral since 2014.

Internally, we have invested in audio/video technology which has allowed us to focus on reducing travel time and costs for many meetings which can now be completed very efficiently using the AV technology.

We continue to assess and consider additional technologies that can provide efficiencies that impact costs and the environment.

Strategic report

The strategic report was approved by a duly authorised committee of the Board of Directors on 15 October 2019 and signed on its behalf by:

Milan Patel
Chief Executive Officer
15 October 2019

Board of Directors

Milan Patel FCCA ACSI
Chief Executive Officer

Milan joined the Company in 2007 and was appointed Group Company Secretary in 2009, CFO in 2015 and CEO in 2016. Milan is a fellow member of the Association of Chartered Certified Accountants and an associate member of the Chartered Institute of Securities and Investments. He has been responsible for the Group's admission to ISDX and the introduction to AIM.

Milan was responsible for the Group's functions in financial management and reporting, regulatory compliance, legal and corporate governance for the business prior to being made CEO of the Group. He also brings substantial strategic financial and commercial experience to the Board. As well as financial acumen, he has developed a broad range of operational competencies, a grasp of strategic objectives, clear leadership, international business development, mergers and acquisition and strong decisive management skills.

Milan is now responsible for leading the executive team, vision and growth strategy for the business. More specifically Milan is leading our international growth strategy, accelerated product innovation, developing strategic partnerships and investigation of potential acquisitions. He has a strong track record of delivery of performance against plan.

Paraag Amin CFA
Chief Financial Officer

Paraag was appointed to the Board in February 2018. He has significant public market experience having held senior roles at a number of investment banks within equity asset management, research and specialist sales, totaling 15 years, as well as previously founding his own business in the digital marketing space.

Paraag qualified as a Chartered Financial Analyst in 2004 with Goldman Sachs. He also held senior roles within equities at Citi, ABN Amro, RBS, Credit Suisse, Peel Hunt and Canaccord Genuity.

He is responsible for the Group's functions in financial management and reporting, regulatory compliance and legal and corporate governance for the business.

Tink Taylor
Interim Chairman

Tink is Founder and President of dotdigital Group PLC (founded in 1999). He has over 20 years' experience in the field of digital communications and has introduced digital marketing to companies large and small.

Tink has been pivotal in the development of digital marketing since its outset in both the UK, the USA and in APAC.

Tink has served as an elected member of the UK Direct Marketing Association's Email Marketing Council, Chairing the Partnership and Deliverability working parties.

Tink has judged and later chaired the Email, Mobile and Agency categories at the UK DMA's awards for over half a decade. He also served on the Email Marketing Council at UK Internet Advertising Bureau.

In 2014, Tink was elected to the Board of the US Direct Marketing Association's Email Experience Council (EEC). He chairs the nomination committee and since 2016 has acted as a judge for the EEC email marketing awards.

Tink first launched dotdigital in the US in Q4 2012 and later took dotdigital to APAC in 2015.

Tink is currently a strategic advisor to dotdigital and the PLC Board. He constantly strives to help individual organisations, and the industry as a whole, develop and progress whilst acting as a serial tech advisor and investor outside of dotdigital. In 2018, Tink was invited to judge the UK Tech Founder and Great British Entrepreneur Awards along with the ANA ECHO awards in the USA.

Boris Huard
Non-Executive Director

Boris joined the Board on 26 March 2019 and is the UK&I Managing Director for Experian Decision Analytics, bringing present day experience of running software, big data and analytics businesses – topics of key importance to dotdigital.

Boris joined Experian in 2014, having held previously roles in the technology industry for 15 years, ranging from divisional Managing Director at Logica, Board Director with Maxima Plc, to Chief Executive at Sword CTSpace.

During those years, he delivered sustainable organic growth and executed bolt-on acquisitions. From turnaround to successful public to public exit transactions, Boris drove performance through hands-on P&L management, international business development, cross-continents operations, mergers and acquisitions and company restructurations and integrations.

Corporate governance report

As an AIM-quoted company, we recognise the importance of applying sound governance principles in the successful running of the Group. The Board has elected to comply with the Quoted Companies Alliance (QCA) Corporate Governance Code and will report annually on our compliance with the code and any exceptions.

Compliance statement

1. *Establish a strategy and business model which promotes long-term value for shareholders (fully complies)*
   The strategy and business operations of the Group are set out in the Strategic Report on pages 2 to 27 of the Group's annual report. The risk section of the annual report are on pages 22 to 25 and deals with the challenges the business faces and how these challenges are mitigated/addressed.

   The Chief Executive is responsible for the leadership and day-to-day management of the Group. This includes formulating and recommending the Group's strategy for Board approval and then executing the approved strategy. You can find a full description of the roles of the Board and the founder at www.dotdigitalgroup.co.uk.

   Our simple and transparent business model has consistently delivered value to our shareholders.

2. *Seek to understand and meet shareholders' needs and expectations (fully complies)*
   The Group seeks regular dialogue with both existing and potential new shareholders either through the management team, investor relations or through sector analysts, ensuring its strategy, business model and performance are clearly understood as well as to understand the needs and expectations of shareholders.

   The Chief Executive and Chief Finance Officer meet regularly with investors and analysts via investor roadshows, attend investor conferences and carry out capital markets days to provide updates on the Group's business and obtain feedback regarding the market's expectations of the Group through the brokers or direct feedback to the management team.

   The Board invites communication from its private investors and encourages attendance by them at the Annual General Meeting (AGM). All Board members are present at the AGM and are available to answer questions from shareholders. Notice of the AGM is at the least 21 clear days and the business of the meeting is conducted with separate resolutions, voted by proxy and with the result of the voting being clearly indicated throughout the meeting. The results of the AGM are subsequently published on the Company's corporate website and are announced through a regulatory information service.

   Our Senior Independent Director, Boris Huard, is available to shareholders where concerns have not been resolved through the normal channels of communication with the Board and for when such contact with certain members of the Board would be inappropriate.

   The Board believes that they have successfully engaged with their shareholders in the past and will continue to do so going forward.

3. *Take into account wider stakeholder and social responsibilities and their implications for long-term success (fully complies)*
   We are committed to meeting with customers to seek their regular feedback to ensure a high level of customer service and to improve our platform. We have various channels for customers and prospects to communicate with the Group whether it be through the messaging channels or the customer success executives. The feedback is then reviewed on a regular basis by the senior management team of the Group.

   The Group is mindful of its corporate social responsibilities and the need to build and maintain strong relationships across a range of stakeholder groups. As a Company, we regard this as a key principle in what we do. The Group has established a Social Committee that consists of employees across all departments and seniority levels to engage with stakeholders to help enrich communities. The corporate social responsibility report can be found on page 26.

   The Group is fully committed to encouraging the 'employee voice' and acting on the feedback we receive. Whether by informal discussion or by our annual employee satisfaction survey, the opinion and feedback provided by our employees is vital to shaping the business. Our employees are at the heart of our business and we consistently strive to train and develop them for career progression.

   The Board closely monitors the results of the Company's Employee Engagement Survey to address where possible any concerns raised and ensure the alignment of interests between the Company and its employees. This alignment is vital to shaping the business. An example of this has been the successful roll-out of a new benefit programme for all staff as a result of staff feedback.

4. *Embed effective risk management, considering both opportunities and threats, throughout the organisation (fully complies)*
   The Group's system of internal controls, identification of significant risks and reviewing its effectiveness are the responsibility of the Board. These systems are designed to mitigate the risk of failure to achieve the business objectives. These systems can only provide reasonable, but not absolute, assurance against material misstatement or loss.

   There is an ongoing process for identifying, evaluating and managing the Group's significant risks and this is regularly reviewed by the Risk Committee and the Board. The Group also keeps an active risk register which is also formally reviewed by the Committee on a quarterly basis.

   The internal control procedures are delegated to Executive Directors and senior management in the Group, operating within clearly defined terms set by the Risk Committee. The Board regularly reviews the internal control procedures in light of the ongoing assessment of the Group's significant risks and is reviewed on a quarterly basis.

   On a monthly basis, the management accounts, including a comprehensive financial report, are reviewed by the Board in order to provide effective monitoring of financial performance.

   A summary of the principal risks and uncertainties facing the Group, as well as mitigating actions, are set out on pages 22 to 25.

	Board		Audit Committee		Risk Committee		Remuneration Committee		Nomination Committee	
	Attended	Total	Attended	Total	Attended	Total	Attended	Total	Attended	Total
Executive Directors										
Milan Patel	11	11			3	3				
Paraag Amin	11	11			3	3				
Non-Executive Directors										
Frank Beechinor-Collins	5	7	1	1			2	2	1	1
Richard Kellett-Clarke	8	8	1	1	3	3	2	2	1	1
Peter Simmonds	6	7			3	3			1	1
Tink Taylor	11	11								
Boris Huard	4	4								

5. *Maintain the Board as a well-functioning, balanced team led by the Chair (partially complies)*
   The Group is managed by a Board of Directors chaired in the interim while the Group searches for a permanent Non-Executive Chairman by Tink Taylor. The Board is responsible for taking all major strategic decisions and addressing any significant operational matters. In addition, the Board reviews the risk profile along with the Risk Committee of the Group and ensures that an adequate system of internal control is in place.

   Management information systems are in place to enable the Board to make informed decisions to properly discharge their duties. A formal schedule of Matters Reserved for the Board was adopted by the Board on 25 September 2018 and is reviewed annually. The Board currently consists of two Executive Directors, one Founder and one Independent Non-Executive Director. As part of ensuring the Board complies with this principle the Nominations Committee have started a formal process to appoint a Non-Executive Chairman and another independent Non-Executive Director and once appointed the Group will fully comply with this principle.

   Each of the Non-Executives spends a minimum of two days a month on dotdigital Group business matters. Both the Independent Non-Executive Directors are considered by the Board to be independent of management and free from any business or other relationship that could materially interfere with the exercise of their independent judgement in accordance with the QCA Code.

   Tink Taylor or Boris Huard, Non-Executive Chairman and Senior Independent Director respectively, are available to shareholders where concerns have not been resolved through the normal channels of communication with the Board and for when such contact would be inappropriate. The Board has sufficient members to contain the appropriate balance of skills and experience to effectively operate and control the business. Roles of the Chairman and the Chief Executive are separate, with their roles and responsibilities clearly defined and set out in writing.

   The Chairman's main responsibility is the leadership and management of the Board and its governance. He meets regularly and separately with the Chief Executive and the Non-Executive Directors to discuss matters for the Board.

   The Chief Executive is responsible for the leadership and day-to-day management of the Group. This includes formulating and recommending the Group's strategy for Board approval and executing the approved strategy. The Board meets monthly, at least 12 times a year, and more frequently if necessary. In addition to this the Board attends an annual strategy meeting which also includes senior Directors outside of the Board which are part of the Leadership Team.

   The table above shows attendance for the period July 2018 to June 2019.

6. *Ensure that, between them, the Directors have the necessary up-to-date experience, skills and capabilities (partially complies)*
   The Board considers its current composition adequate with the current situation and overall size to be both appropriate and suitable with the adequate skills, experience and capabilities to make informed decisions, evaluate performance and constructively criticise strategy. However, it has decided to appoint an independent permanent Non-Executive Chairman and Non-Executive Director and has retained a search firm to start the formal process.

   The composition of the Board is reviewed annually by the Nomination Committee, which is currently evaluating the gender composition of the Board. The Board is fully committed to the appointment of the right skills that are required to grow shareholder value. One third of the Directors retire at the AGM in rotation in accordance with the Company's Articles of Association, thereby providing shareholders the ability to decide on the election of the Company's Board. Their biographical details can be found on pages 28 and 29.

   The Nomination Committee, through a thorough evaluation of the skills, knowledge and experiences of a proposed new Director, makes recommendations to the Board who then make the final decision on the appointment of a new member. Throughout the year, the Directors receive updates on corporate governance matters from either the Company Secretary or the Company's Nominated Advisors.

   To ensure that the Board continue to develop their skills and keep up to date with market developments they have access to independent professional advice which will be at the expense of the Company. In addition, all members of the Board have access to the support and advice of the Company Secretary who is responsible for the induction programme of new members.

7. *Evaluate Board performance based on clear and relevant objectives, seeking continuous improvement (partially complies)*
The Nominations Committee is responsible for Board evaluation. The Committee in the past has carried out informal Board performance evaluations but has now embarked on this formal process for the Board and questionnaires have been circulated to ensure they comply with this principle. The learnings from this process will be addressed in the coming months. The Nominations Committee intends to conduct an internal evaluation on an annual basis, and that process will be repeated for each of the Committees of the Board. The results will be used by the Nominations Committee for its approach to succession planning.

8. *Promote a corporate culture that is based on ethical values and behaviours (fully comply)*
We are committed to acting ethically and with integrity in all our business relationships. The Company recognises the benefits of a diverse workforce and is committed to providing a working environment that is free from discrimination. The Company seeks to promote the principles of equality and diversity in all its dealings with employees, workers, job applicants, clients, customers, suppliers, contractors, agencies and the public. Our people are the difference – hence we aim to hire, keep and train the best. We continue to encourage our unique and supportive culture, which we believe sets us apart from other companies. Our comprehensive set of policies and procedures cover all of our operations. Our policies and procedures are constantly updated and communicated to relevant employees. Within the organisation we also have numerous policies that are communicated to all employees that have been adopted by the Group for us to be compliant with our ethical and cultural values that we promote within the business.

9. *Maintain governance structures and processes that are fit for purpose and support good decision-making by the Board (fully comply)*
The Board is supported by a Remuneration Committee, Audit Committee and Nomination Committee. Any matters that fall outside of the responsibility of these committees are then dealt with by the Board. The role and responsibilities of the Chairman, Chief Executive and other Directors can be found separately. The details of the committees are contained within their written terms of reference which can be found on the Group's website.

   Throughout the year the Chairman of each committee feeds back to the Board any issues which require further consideration by the Board. Each of the Board committees has the ability to use external advisors as they see fit in furtherance of duties which are at the Company's expense. Further details of the composition and meetings of these committees can be found within the annual report.

10. *Communicate how the Group is governed and is performing by maintaining a dialogue with shareholders and other relevant stakeholders (fully comply)*
The Company is committed to open communication with all its shareholders. Communications with shareholders is predominantly through the annual report and AGM. The last AGM results can be found on the Group's website. Other communications are in the form of full-year and half-year announcements, periodic market announcements (as appropriate), one-to-one meetings and investor road shows. The Remuneration Committee report is included on pages 34 to 38.

    The Group's website www.dotdigitalgroup.co.uk is regularly updated and users can register to be alerted via email when announcements or details of presentations and events are posted on the website. Annual reports and notices of meetings for at least the last five years can be found on the Group's website.

The Audit Committee is a sub-committee of the Board. The responsibilities of the committee include:

- Reviewing the half-yearly and full-year accounts and results announcements of the Group and any other formal announcements relating to the Group's financial performance and recommending them to the Board for approval;
- Reviewing the Group's systems for internal financial control and risk management;
- Monitoring and reviewing the effectiveness of the Group's internal accounting function and considering regular reports which arise;
- Considering the appointment of the external auditors, overseeing the process for their selection and making recommendations to the Board in relation to their appointment to be put to shareholders for approval at a general meeting;
- Monitoring and reviewing the effectiveness and independence of the external auditors, agreeing the nature and scope of their audit, agreeing their remuneration, and considering their reports on the Group's accounts, reports to shareholders and their evaluation of the systems of internal financial control and risk management.

Composition of the Audit Committee

The Audit Committee comprises of Tink Taylor and Boris Huard. The temporary Chairman of the Audit Committee is Boris Huard as the Company continues to actively search for a new Chairman. The Committee meets separately with the external auditors without management being present.

The Secretary to the committee is Company Secretary, George Kasparian.

Main activities of the Audit Committee

At its meeting on 2 October 2019 the Audit Committee reviewed the Group's preliminary announcement of its results for the financial year to 30 June 2019 and the draft report and accounts for that year. The Audit Committee received reports from the external auditors on the conduct of their audit, their review of the accounts, including accounting policies and areas of judgement, and their comments on risk management and control matters.

The external auditors also presented their proposed fees and scope for the forthcoming year's audit. The Audit Committee also reviewed the performance of both the internal accounting function and external auditors. The review of the external auditors was used to confirm the appropriateness of their reappointment and included assessment of their independence, qualification, expertise and resources, and effectiveness of their audit process.

The Audit Committee also reviewed the effectiveness of the Company's systems for internal financial control and risk management. The Committee reviewed the Group's credit control procedures and risks concerning IT controls.

Independence of external auditors

Both the Board and the external auditors have safeguards in place to avoid the possibility that the auditors' objectivity and independence could be compromised. Our policy in respect of services provided by the external auditors is as follows:

- Audit-related services – the external auditors are invited to provide services which, in their position as auditors, they must or are best placed to undertake. This includes formalities relating to borrowings, shareholders and other circulars, various other regulatory reports and work in respect of acquisitions and disposals;
- Tax consulting – in cases where they are best suited, we use the external auditors. All other significant tax consulting work is put out to tender;
- General consulting – in recognition of public concern over the effect of consulting services on auditors' independence, our policy is that the external auditors are not invited to tender for general consulting work.

Internal management accounting

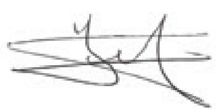
The Audit Committee reviewed the performance of the internal accounting function, the department's resource requirements and also approved the internal budgets for the year ending 30 June 2020. The Committee concluded that these budgets were both prudent and realistic in the context of the Group's ambitions.

Whistleblowing

The Group has in place a whistleblowing policy which sets out the formal process by which an employee of the Group may, in confidence, raise concerns about possible improprieties in financial reporting or other matters.

Approval

This report was approved by the Board on 2 October 2019 and signed on its behalf by:



Boris Huard
Interim Chairman of the Audit Committee

Remuneration Committee report

Statement from the Chairman of the Remuneration Committee

I am pleased to present the Remuneration Committee report for 2019, which sets out the remuneration earned and paid to the Directors in the year ended 30 June 2019.

As an AIM-listed company, dotdigital Group Plc is not required to comply with the remuneration reporting requirements applicable to fully listed companies in the UK. However, the Remuneration Committee has considered these regulations in the preparation of this report for the year as a matter of best practice.

The Remuneration Committee operates under a defined set of Terms of Reference, which were approved and adopted at year end and which can be found at https://www.dotdigitalgroup.com/wp-content/uploads/2018/09/Remmuneration-committee-Terms-of-Reference.pdf. It is intended that these will be kept under continuous review to ensure they remain appropriate and reflect any changes in legislation, regulation or best practice.

The annual report on remuneration provides details of the amounts earned in respect of the year ended 30 June 2019 and how the Directors' remuneration policy has operated.

The annual report on remuneration, detailed on pages 34 to 38, is subject to an advisory shareholder vote at the 2019 AGM.

Review of the year ended 30 June 2019

During the year, the Remuneration Committee worked to embed the Company Share Option Plan ('CSOP') into the Group incentive mechanism for the Senior Directors and employees in the Group. This will allow employees to be able to own shares in the Group which closer aligns them with shareholder value creation and will increase employee retention. The first awards under this plan will be granted in October 2019 for employees that are not part of the long-term incentive plan.

As described earlier in the annual report the Group has performed well during the year, delivering strong revenues of £42.5m from continuing operations and total profit before tax from continuing operations excluding exceptional costs and share based payments of £11.8m. Consequently, the Executive Directors earned an annual cash bonus equivalent to 53% of base salaries for FY18/19.

The Remuneration Committee remains committed to a fair and responsible approach to executive pay whilst ensuring it remains in line with best practice and appropriately incentivises Executive Directors over the longer term to deliver the Group's strategy. The Board remains focused on ensuring that the Group retains and develops the talents needed to deliver on its growth targets.

Accordingly, the Remuneration Committee determined it was appropriate to award the Chief Executive Officer and the Chief Financial Officer a salary increase in the year to closely align the base pay to bring them closer to the median pay of AIM 100 companies.

Outlook for 2020

A key focus in the year will be to fully comply by the governance requirements for AIM-listed companies and how these will be applied to both the remuneration and Corporate Governance of the business.

An annual review of the effectiveness of the Committee by both the Board and the Committee itself is underway and changes will be made as a result of feedback from the review.

As the company share option plan (CSOP) plan is now established the Remuneration Committee will work closely with the executive team to grant the first options under the plan in October 2019 to employees that are not part of the LTIP.

On behalf of the Board

Boris Huard
Chairman of the Remuneration Committee
15 October 2019

Directors' Remuneration Policy

This section sets out the Directors' remuneration policy. The Remuneration Committee considers the remuneration policy annually to ensure that it continues to underpin the Group's strategy.

Key principles

The main aim of the Group's policy is to align the interests of Executive Directors with the Group's growth strategy and long-term creation of shareholder value. The policy is designed to remunerate the Executive Directors competitively and appropriately and allows them to share in this success and the value delivered to shareholders.

The policy is based on the following principles:

- Promote shareholder value creation and support the business growth strategy;
- Ensure that the interests of the Directors are aligned with the long-term interests of shareholders;
- Deliver a competitive level of pay for the Directors sufficient to attract, retain and motivate individuals; and
- Ensure that an appropriate proportion of the package is determined by targets linked to the Group's performance.

Executive Directors' Remuneration Policy

Component	Purpose and link to strategy	Operation	Maximum	Performance measure
Base salary	Fixed remuneration to provide a competitive base salary to attract, motivate and retain Directors with the experience and capabilities to achieve the strategic aims.	Reviewed annually against salary surveys for market rate, Group performance, role and experience.	No overall maximum has been set however they are reviewed in the wider context of the Group.	Not applicable
Benefits	To provide market-competitive benefits package.	Receive benefits in line with market practice, these include company car/allowance, private medical, income protection and death in service insurance.	Set a level deemed appropriate by the Remuneration Committee.	Not applicable
Pension	To provide an appropriate level of retirement benefit.	Executive Directors are eligible to participate in the Group's pension plan.	Pension contributions are up to a maximum of 5% of base salary and are paid in addition to base salary.	Not applicable
Annual bonus	Rewards performance against annual targets which supports the strategic direction of Group.	Awards are based on annual performance. Amount paid out is determined by the Committee after the year end based on performance against targets. Any bonus earned is paid in cash.	The maximum annual bonus opportunity is 100% of base salary.	Performance measures are set at the start of the year annually and are aligned with key financial, strategic and/or personal targets. Currently 60% of the bonus is based on total profit before tax (PBT) performance and the remainder 40% is based on hitting revenue growth.
LTIP	To drive and reward the achievement of longer-term objectives, support retention and promote share ownership for Executive Directors.	The Company has adopted a new LTIP. Awards can be made over conditional shares and/or nil cost or nominal cost share options. Vesting will be subject to the achievement of specified performance conditions over a period of three years. Awards may be subject to malus provisions at the discretion of the Committee.	The normal maximum LTIP opportunity is 150% of the individual's base salary where annual grants are to be made or 450% of salary where end-to-end awards are made rather than annual grants.	Relevant performance measures are set that reflect underlying business performance. For awards granted in 2017, the vesting of awards will be subject to three years cumulative total shareholder return. Stretching targets are required for maximum pay out.

Remuneration Committee report continued

Directors' Remuneration Policy continued

Explanation of Performance Measures

Performance measures are selected that are aligned with the performance of the Group and the interests of shareholders. Stretching performance targets are set each year for the annual bonus and long-term incentive awards. When setting these performance targets, the Committee will consider several different reference points, which may include the Group's business plan and strategy and the economic environment.

The annual bonus is based on PBT performance which is a key financial performance metric of the Group. As we look at future years the bonus will be weighted towards achieving PBT and the remaining 40% based on revenue growth.

The LTIP is based on total shareholder return performance as the Committee considers this to be a key measure of long-term business performance.

The Committee retains the ability to adjust or set different performance measures if events occur which cause the Committee to determine that the measures are no longer appropriate, and that amendment is required so that they can achieve their original purpose.

Awards and options may be adjusted in the event of a variation of share capital in accordance with the rules of the LTIP.

Employee Incentive Schemes

The Group has awarded share options under Enterprise Management Incentive (EMI), an approved share option scheme, to key employees who had completed their probation period at the date of grant. As the business has exceeded the size of company thresholds no further grants will be made on this scheme and therefore it is now closed. The CSOP scheme has now been adopted as per the approval by the shareholders at last year's Annual General Meeting. The Board considers the performance of staff in conjunction with the Group during the annual review process. Discretionary bonuses are awarded based on individual and Group performance.

Non-Executive Directors' Remuneration Policy

The remuneration policy for the Non-Executive Directors is to pay fees necessary to attract an individual of the talent required, taking into consideration the size of the business and the time commitment of the role.

Details are set out in the table below:

Approach to setting fees	Basis of fees	Other Items
The fees of the Non-Executive Directors are agreed by the Chairman and Chief Executive. Fees are reviewed annually. Fees are set taking into account the level of responsibility, relevant experience and specialist knowledge of each Non-Executive Director.	Fees may include a basic fee and additional fees for further responsibilities. Fees are paid in cash.	Non-Executive Directors do not receive any benefits or pension contributions. Travel and other reasonable expenses incurred in the course of performing their duties are reimbursed.

Details of current Executive Directors' contracts

The Executive Directors each entered into a service contract with the Group. Each appointment runs for one year from that date and is terminable by six months' notice by either party to expire at the end of that year or at any time thereafter. The agreement contains restrictive covenants. Upon termination, no benefits (other than those accruing during the notice period) are due to the Director.

Statement of consideration of shareholder views

The Committee considers shareholder feedback received on remuneration matters, including issues raised at the AGM as well as any additional comments received during any other meetings with shareholders.

Remuneration

The Directors' emoluments for the year ended 30 June 2019 are as follows:

	12-month period to 30.06.19							
Executive Directors	Salary/Fees £'000	Benefits £'000	Bonus £'000	Ex-gratia payment £'000	Pension £'000	Share-based payment* £'000	Total £'000	Number of outstanding options
P Amin	164	6	86	–	8	99	363	875,000
M Patel	285	12	150	–	13	289	749	1,375,000
	449	**18**	**236**	**–**	**21**	**388**	**1,112**	**2,250,000**

Non-Executive Directors	Salary/Fees £'000	Benefits £'000	Bonus £'000	Ex-gratia payment £'000	Pension £'000	Share-based payment £'000	Total £'000	Number of outstanding options
F Beechinor-Collins	32	–	–	–	–	–	32	–
R Kellet-Clarke	27	–	–	17	–	–	44	–
P Simmonds	29	–	–	–	–	–	29	–
S Bird	2	–	–	–	–	–	2	–
T Taylor	138	–	–	–	–	–	138	–
B Huard	9	–	–	–	–	–	9	–
	237	**–**	**–**	**17**	**–**	**–**	**254**	**–**

* The share-based payment calculation is determined on the end to end share option awards allocated to Milan Patel post the AGM in December 2017 and to Paraag Amin as of October 2018, which could be awarded at the end of a 3-year performance period. These are based on an aggressive total shareholder return performance criterion. Under IFRS 2, the group has to provide an estimate for the costs based on a Black Scholes model valuation each year, as if they fully paid out at the end of the performance period in December 2020 and October 2021 for Paraag. To be fully paid out, the group must achieve a compounded 35% TSR over a 3-year period.

	12-month period to 30.06.18							
Executive Directors	Salary/Fees £'000	Benefits £'000	Bonus £'000	Ex-gratia payment £'000	Pension £'000	Share-based payment** £'000	Total £'000	Number of outstanding options
P Amin	70	–	10	–	4	–	84	–
S Bird	22	–	–	–	1	–	23	–
P Blundell	67	–	–	40	5	–	112	–
M Patel	265	12	130	–	13	145	565	1,375,000
T Taylor	125	2	–	–	3	–	130	–
	549	**14**	**140**	**40**	**26**	**145**	**914**	**1,375,000**

** Share-based payment charge relates to the outstanding end-to-end LTIP options that were approved at the AGM on 19 December 2018 at the year end.

Non-Executive Directors	Salary/Fees £'000	Benefits £'000	Bonus £'000	Ex-gratia payment £'000	Pension £'000	Share-based payment £'000	Total £'000	Number of outstanding options
F Beechinor-Collins	41	–	–	–	–	–	41	–
R Kellet-Clarke	35	–	–	–	–	–	35	–
P Simmonds	45	–	–	–	–	–	45	–
	121	**–**	**–**	**–**	**–**	**–**	**121**	**–**

Remuneration Committee report continued

Directors' interests

The respective interests, all of which are beneficial, in the shares of the Company for the members of the Board at the year-end are stated below:

	No of shares held	% Holding
M Patel	1,575,927	0.53
T Taylor	29,776,667	9.99
	31,352,594	**10.52**

Directors' interest in share options

Under the Group's executive share option scheme, the following Director has the right to acquire Ordinary shares:

Director	Grant date	No. of share options granted	Option price (pence)	Date first exercisable	Expiry date
M Patel	19/12/17	1,375,000	0.5	18/12/20	18/12/22
P Amin	24/10/18	875,000	0.5	23/10/21	23/10/23

The options granted to Milan Patel and to Paraag Amin can only be exercised at the end of a 3-year performance period, based on an aggressive total shareholder return performance criterion. Under IFRS 2, the Group has to provide an estimate for the costs based on a Black Scholes model valuation each year, as if they fully paid out at the end of the performance period in December 2020 to Milan Patel and October 2021 for Paraag Amin. To be fully paid out, the Group must achieve a compounded 35% TSR over a 3-year period.

Composition of the Remuneration Committee

The Remuneration Committee comprises independent Non-Executive Directors, namely Boris Huard (Chairman) and Tink Taylor. The Committee makes recommendations to the Board on Executive Directors' service agreements and remuneration. In doing so it has undertaken relevant research to ensure that remuneration levels are competitive with the industry average. The Committee met two times during the year.

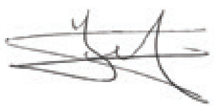
The Chief Executive attends meetings and provides information and support as requested. He is not present when his remuneration package is considered.

Advisors

During the year, the Remuneration Committee did not receive any external advice.

Approval

This report was approved by the Board on 15 October 2019 and signed on its behalf by:



Boris Huard
Chairman of Remuneration Committee

The Directors present their report with the financial statements of the Company and the Group for the year ended 30 June 2019.

Information relating to principal activity, review of business, key performance indicators and future outlook is included within the strategic report.

Principal activity

The principal activity of the Group in the year under review was that of providing intuitive software as a service ("SaaS") via a leading cross-channel marketing automation platform and managed services to digital marketing professionals.

Review of business

During the year the Group has shown significant growth from continuing operations (Core) in customer numbers, sales and profits. Revenues grew from £36.9m in the year ended June 2018 to £42.5m for the year ended June 2019, an increase of 15%.

Adjusted operating profit grew from £9.4m in the 12 months to June 2018 to £11.8m for the year ended June 2019, an increase of 25%.

Key performance indicators

The operations as a whole and the individual business units are managed and controlled using a variety of key performance indicators appropriate to the goals they have been set. Examples of key performance indicators from the continuing operations are:

	2019	2018	% increase
Revenue	£42.5m	£36.9m	15%
Adjusted operating profit	£11.8m	£9.4m	25%
ARPU	£966	£845	14%

Dividends

The Board proposes a dividend payment of £1,996,805 comprising an ordinary dividend of 0.67p per ordinary share (2018: £1,903,171 ordinary dividend of 0.64p per ordinary share) to be distributed to shareholders in respect of the Group's reported performance.

The Board's dividend policy will be reviewed annually in line with the cash needs required for opportunities in organic growth to increase shareholder value and capital expenditure.

Highest paid Director

The Companies Act 2006 requires certain disclosures about the remuneration of the highest paid Director taking into account emoluments, gains on exercise of share options and amounts receivable under long-term incentive schemes. On this basis, the highest paid Director in the year was Milan Patel and details of his remuneration are disclosed in the Remuneration Committee Report.

Strategic report

The strategic report covers pages 2 to 27.

Supplier payment policy

The Group's policy is to settle the terms of payment with suppliers when agreeing the terms of each transaction and to ensure that suppliers are made aware of the terms of payment and to abide by the terms of payment. The average trade creditors for the Group, expressed as a number of days, was 94 days (2018: 156 days).

Directors' interests

The Directors who served during the period and their beneficial interests in the shares of the Group as recorded in the Register of Directors' interests at 30 June 2019 are as follows:

	30.06.19		30.06.18	
Director	Number of shares held	Percentage shareholding %	Number of shares held	Percentage shareholding %
F Beechinor-Collins	–	–	199,194**	0.07
S Bird	–	–	13,558,996	4.55
R Kellett-Clarke	–	–	390,000	0.13
M Patel	1,575,927	0.53	1,575,927	0.53
P Simmonds	–	–	2,491,470*	0.84
T Taylor	29,776,667	9.99	29,776,667	9.99

* Frank Nominees Limited holds 1,477,972 shares in respect of Peter Simmonds holding/voting rights acting as nominee for Alliance Trust Pensions Limited. Frank Nominees is a vehicle used by Kleinwort Benson Limited to hold securities for clients, trusts, SIPPs etc. The beneficiary of the SIPP is Peter Anthony Simmonds.

** The 199,194 shares shown as being held by Frank Beechinor-Collins are owned by Curra Trust, a trust established for the benefit of his children and in which he has no beneficial interest.

The Directors who served during the period and their beneficial interests in share options in the Group, as recorded in the Register of Directors' interests as at 30 June 2019 are as follows:

Director	30.6.19 Number of options held	30.6.18 Number of options held
M Patel	1,375,000	1,375,000
P Amin	875,000	–

The options granted to Milan Patel and Paraag Amin can only be exercised at the end of a 3-year performance period, based on an aggressive total shareholder return performance criterion. Under IFRS 2, the group has to provide an estimate for the costs based on a Black Scholes model valuation each year, as if they fully paid out at the end of the performance period in December 2020 to Milan Patel and October 2021 for Paraag Amin. To be fully paid out, the group must achieve a compounded 35% TSR over a 3-year period.

Substantial interests

On 30 September 2019, the following parties had notified the Group of a beneficial interest that represents 3% or more of the Group's issued share capital at that date:

Shareholder:-	Number of shares held	Percentage shareholding %
Lion Trust Asset Management	57,951,955	19.44
Tink Taylor, Interim Chairman	29,776,667	9.99
Slater Investments Ltd	17,470,492	5.86
Highclere International Investors	12,444,575	4.18
Franklin Templeton Fund Management	12,000,000	4.03

Report of the Directors continued

Future outlook
The Group provides cross-channel marketing technology and services. Each of these areas has shown market growth significantly above that of the UK economy. The Board believes that our widespread brand recognition and strong product will continue to present opportunities to expand and diversify profitability in the coming year.

Directors
The Directors shown below have held office during the whole of the period from 1 July 2018 to the date of this report.

P Amin
F Beechinor-Collins (resigned 26 March 2019)
S Bird (resigned 9 August 2018)
B Huard (appointed 26 March 2019)
R Kellett-Clarke (resigned 3 April 2019)
M Patel
P A Simmonds (resigned 26 March 2019)
T Taylor

Indemnity of officers
The Group purchases Directors and officers insurance against their costs in defending themselves in legal proceedings taken against them in that capacity, and in respect of damages resulting from the unsuccessful defence of any proceedings.

Financial instruments
Details of the Group's risk management objectives and policies together with its exposure to financial risk are set out in note 23 to the financial statements.

The purpose of the policies is to ensure that adequate cost-effective funding is available to the Group and exposure to financial risk – interest rate, liquidity and credit risk is minimised.

Product development
In the markets in which the Group operates, effective development is vital to maintaining competitive advantage and securing future income streams.

Going concern
After making appropriate enquiries, the Directors consider that the Company and the Group has adequate resources to continue in operational existence for the foreseeable future. For this reason, they continue to adopt the going concern basis in preparing the financial statements.

Events after the reporting period
There are no events after the date of this report or the date the financial statements were approved by the Board of Directors which impact on the figures as presented.

Listing
The Group's ordinary shares have been traded on London Alternative Investment Market (AIM) since 29 March 2011. Canaccord Genuity are the Group's nominated advisor and together with Finncap and N+1 Singer are the joint brokers. The closing mid-market share price at 30 June 2019 was 105.5p (2018: 75.0p).

Related party transactions
Disclosures relating to related party transactions are set out in note 26 to the Consolidated financial statements.

Charitable and political donations
No charitable or political donations were made by the Company.

Charitable donations made by the Group in the year were £715 (2018: £1,694).

Employees
The number of employees and their remuneration is set out in note 4.

Applications for employment by disabled persons are always fully considered, bearing in mind the aptitudes of the applicant concerned. In the event of members of staff becoming disabled every effort is made to ensure that their employment with the Group continues and that appropriate training is arranged. It is the policy of the Group that the training, career development and promotion of disabled persons should, as far as possible, be identical to that of other employees.

The Group complies with all applicable labour laws in the respective jurisdictions in which it operates.

Statement of Directors' Responsibilities
The Directors are responsible for preparing the annual report and the financial statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors have elected to prepare the financial statements in accordance with International Financial Reporting Standards as adopted by the European Union. Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and the Group and of the profit or loss of the Group for that period. In preparing these financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether the Group and Parent Company financial statements have been prepared in accordance with IFRSs as adopted by the European Union subject to any material departures disclosed and explained in the financial statements and;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's and the Group's transactions and disclose with reasonable accuracy at any time the financial position of the Company and the Group and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Company and the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Statement as to disclosure of information to Auditors

So far as the Directors are aware, there is no relevant audit information (as defined by Section 418 of the Companies Act 2006) of which the Group's auditors are unaware, and each Director has taken all the steps that he ought to have taken as a Director in order to make himself aware of any relevant audit information and to establish that the Group's auditors are aware of that information.

Auditors

The auditors, Jeffreys Henry LLP, will be proposed for reappointment at the forthcoming Annual General Meeting.

On behalf of the Board

Milan Patel
Chief Executive Officer
15 October 2019

Report of the independent auditor

Opinion

- We have audited the financial statements of dotdigital Group Plc (the 'parent Company') and its subsidiaries (the 'Group') for the year ended 30 June 2019 which comprise the consolidated income statement, consolidated statement of comprehensive income, consolidated statement of changes in equity, company statement of changes in equity, consolidated statement of financial position, company statement of financial position, consolidated statement of cash flows, company statement of cash flows and notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in the preparation of the Group financial statements is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union. The financial reporting framework that has been applied in the preparation of the parent Company financial statements is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union, as applied in accordance with the provision of the Companies House Act 2006.

In our opinion:

- the financial statements give a true and fair view of the state of the Group's and of the parent Company's affairs as at 30 June 2019 and of the Group's profit for the year then ended;
- the Group financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union;
- the parent Company financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union as applied in accordance with the provisions of the Companies Act 2006; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006;

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard as applied to listed entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the Directors' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the Directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the Group's or the parent Company's ability to continue to adopt the going concern basis of accounting for a period of at least 12 months from the date when the financial statements are authorised for issue.

Our audit approach

Overview

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) we identified, including those which had the greatest effect on: the overall audit strategy, the allocation of resources in the audit; and directing the efforts of the engagement team. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. This is not a complete list of all risks identified by our audit.

- Capitalisation of development costs
- Valuation of investments and intangible assets
- Revenue recognition and customer contracts

These are explained in more detail below.

Audit scope

- We conducted audits of the complete financial information of dotdigital Group plc, dotdigital EMEA Limited, dotdigital Inc., dotmailer SA Pty Limited, dotmailer Development Limited, dotmailer LLC, dotdigital SG Pte Limited, Dynmark International Ltd, Donky Networks Ltd and Dynmark S.p. z.o.o.
- We performed specified procedures over certain account balances and transaction classes at other Group companies.
- Taken together, the Group companies over which we performed our audit procedures accounted for 100% of the absolute profit before tax (i.e. the sum of the numerical values without regard to whether they were profits or losses for the relevant reporting units) and 100% of revenue.

Key audit matters

Key audit matter	*How our audit addressed the key audit matter*
Capitalisation of Development costs During the year the Group capitalised internally generated development costs of £5,507,539 (30 June 2018 - £4,376,645) These capitalised costs are being amortised over five years. The development cost additions represents resources the Group has invested in the development of new innovative technology products for marketing professionals. The adjusted consolidated profit before tax, which is considered by management to be a key metric and is discussed in their discussion of KPIs, is directly impacted by the amount of costs capitalised and the amounts included in the reconciliation of the adjusted income measures. The Directors have assessed whether the costs meet the criteria for capitalisation and whether there are any indicators of impairment.	We focused on whether the costs capitalised met the criteria for capitalisation and whether, those costs were classified as ongoing projects or process improvements costs. We considered whether the nature of the costs met the criteria for the costs to be capitalised. We vouched a sample of the costs capitalised that relate to specific projects and created add on functions with the system. We agreed a sample of the internal staff costs capitalised to supporting calculations, time records and payroll calculations. In both cases, we considered whether the nature of the costs met the criteria for the costs to be capitalised. We considered whether the Directors' policy for the treatment of such costs was reasonable and, on a sample basis, assessed whether the costs included in the reconciliation were in line with the Directors' policy.
Investments / Intangibles carrying value The Company had investments of £15,147,156 at the year ended 30 June 2019 (30 June 2018: £15,147,156). The Group had intangible assets of £11,702,561 at the year ended 30 June 2019 (30 June 2018: £9,787,354). Impairment of assets ("IAS 36") states that assets must be assessed for indicators of impairment at each reporting period, for all cash-generating units ("CGUs"). Should such indicators exist the recoverable amount of the asset will be compared to the carrying value, and if they carrying value exceeds the recoverable amount, the difference is recorded as an impairment loss. The Group had goodwill of £9,679,608 at the year ended 30 June 2019 (30 June 2018: £9,679,608).	The net assets of the main subsidiary exceeds that of the investment carrying value, supported by robust performance with no going concern issues. The analysis work undertaken by the Directors shows that the Group is expected to remain cash generative and profitable based on their technology. We have understood and assessed methodology used by the Directors in this analysis and determined it to be reasonable. Intangibles are only assessed for impairment when indicators of impairment exist. We have considered the life cycle, public perception through the share price of the Company and the fair value of intangibles held by the Company. The Group capitalised intangibles relate to products that dotdigital and Comapi is using to enhance its product we consider it reasonable that no further impairment has been recognised in the period. We tested management's assumption that no impairment existed by carrying out sensitivity analysis through changing the assumptions used and re-running the cash flow forecast.
Revenue recognition and customer contracts The Group provides goods and services for no charge. Under IFRS 15, goods and services provided for no charge are required to be recognised and accounted for as separate performance obligations. Management are satisfied that the prices specified and the contracts for those services charged for are representative of their stand-alone selling prices as they are referenced to a standard rate card for the volumes purchased. Management have adopted the modified retrospective transition method and an adjustment of £2,298,428 has been made to Group retained reserves. dotdigital requested a third-party expert to perform the IFRS 15 transition impact study. Further detail on the Group's approach to the recognition of revenue is set out within accounting policies note in note 2. Details of IFRS 15 restatement can be found in note 33.	We reviewed the work performed by the third-party expert on the IFRS 15 transition impact study. We reviewed a sample of contracts and discussed arrangements in place with management to obtain an understanding of the agreements in place. We considered and challenged management in relation to the accounting for such arrangements in the context of IFRS 15. We tested a sample of revenue entries to agreed arrangements with customers to evidence that the correct accounting treatment had been applied.

Report of the independent auditor continued

Our application of materiality

The scope of our audit was influenced by our application of materiality. We set certain quantitative thresholds for materiality. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures on the individual financial statement line items and disclosures and in evaluating the effect of misstatements, both individually and in aggregate on the financial statements as a whole.

Based on our professional judgement, we determined materiality for the financial statements as a whole as follows:

	Group financial statements	*Company financial statements*
Overall materiality	£524,000 (30 June 2018: £545,000).	£165,000 (30 June 2018: £172,000).
How we determined it	Based on 5% of profit before tax.	Based on 1% of gross assets.
Rationale for benchmark applied	We believe that profit before tax is a primary measure used by shareholders in assessing the performance of the Group whilst gross asset values and revenue are a representation of the size of the Group; both are generally accepted auditing benchmarks.	We consider an asset-based measure to reflect the nature of the Company which acts as a parent holding company for the Group's investments.

For each component in the scope of our Group audit, we allocated a materiality that is less than our overall Group materiality. The range of materiality allocated across components was between £3,000 and £520,000.

We agreed with the Audit Committee that we would report to them misstatements identified during our audit above £26,200 (Group audit) (30 June 2018: £27,250) and £8,250 (Company audit) (30 June 2018: £8,600) as well as misstatements below those amounts that, in our view, warranted reporting for qualitative reasons.

An overview of the scope of our audit

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the financial statements. In particular, we looked at where the Directors made subjective judgments, for example in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. As in all of our audits we also addressed the risk of management override of internal controls, including evaluating whether there was evidence of bias by the Directors that represented a risk of material misstatement due to fraud.

How we tailored the audit scope

We tailored the scope of our audit to ensure that we performed enough work to be able to give an opinion on the financial statements as a whole, taking into account the structure of the Group and the Company, the accounting processes and controls, and the industry in which they operate.

The Group financial statements are a consolidation of 11 reporting units, comprising the Group's operating businesses and holding companies.

We performed audits of the complete financial information of dotdigital Group plc, dotdigital EMEA Limited, dotdigital Inc., dotmailer SA Pty Limited, dotmailer Development Limited, dotmailer LLC, dotdigital SG Pte Limited, Dynmark International Ltd, Dynmark S.p z.o.o., and Donky Networks Ltd reporting units, which were individually financially significant and accounted for 100% of the Group's revenue and 100% of the Group's absolute profit before tax (i.e. the sum of the numerical values without regard to whether they were profits or losses for the relevant reporting units). We also performed specified audit procedures over goodwill and other intangible assets, as well as certain account balances and transaction classes that we regarded as material to the Group at the 11 reporting units, one based in the United States of America, one in Australia, one in Belarus, one in Singapore and another in South Africa.

Other information

The Directors are responsible for the other information. The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Opinions on other matters prescribed by the Companies Act 2006

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the strategic report and the Directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the strategic report and the Directors' report have been prepared in accordance with applicable legal requirements.

Matters on which we are required to report by exception

In the light of the knowledge and understanding of the Group and parent Company and its environment obtained in the course of the audit, we have not identified material misstatements in the strategic report or the Directors' report.

We have nothing to report in respect of the following matters in relation to which the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept by the parent Company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent Company financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of Directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Responsibilities of Directors

As explained more fully in the Directors' responsibilities statement set out on page 40, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the Directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Directors are responsible for assessing the Group's and parent Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Directors either intend to liquidate the Group or the parent Company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at:

www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Other matters which we are required to address

The non-audit services prohibited by the FRC's Ethical Standard were not provided to the Group or the parent Company and we remain independent of the Group and the parent Company in conducting our audit.

Our audit opinion is consistent with the additional report to the audit committee.

Use of this report

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Sanjay Parmar
Senior Statutory Auditor
For and on behalf of

Jeffreys Henry LLP, Statutory Auditor
Finsgate
5-7 Cranwood Street
London EC1V 9EE

15 October 2019

Financial Statements

Contents

Consolidated income statement

For the year ended 30 June 2019

	Notes	30.6.19 £'000	(Restated) 30.6.18 £'000
Continuing operations			
Revenue from contracts with customers	3	42,522	36,891
Cost of sales	7	(4,377)	(4,625)
Gross profit		**38,145**	**32,266**
Administrative expenses	7	(26,380)	(22,849)
Operating profit from continuing operations pre-share based payments and exceptional costs		**11,765**	**9,417**
Share-based payments		(565)	(450)
Exceptional costs	5	(179)	(279)
Operating profit from continuing operations		**11,021**	**8,688**
Finance income	6	19	9
Profit before income tax from continuing operations	7	**11,040**	**8,697**
Income tax expense	8	(58)	(683)
Profit for the year from continuing operations	12	**10,982**	**8,014**
Discontinuing operations			
(Loss)/Profit for the year from discontinued operations	12	(2,457)	544
Attributable to the owners of the parent:			
Profit for the period from continuing operations		10,982	8,014
(Loss)/Profit for the period from discontinued operations		(2,457)	544
Profit for the period attributable to the owners of the Company		**8,525**	**8,558**
Earnings per share from all operations (pence per share)			
Basic	11	2.86	2.88
Diluted	11	2.82	2.85
Adjusted Basic	11	3.36	3.16
Adjusted Diluted	11	3.31	3.12
Earnings per share from continuing operations (pence per share)			
Basic	11	3.68	2.70
Diluted	11	3.63	2.67
Adjusted Basic	11	3.93	2.95
Adjusted Diluted	11	3.88	2.91
Earnings per share from discontinued operations (pence per share)			
Basic	11	(0.82)	0.18
Diluted	11	(0.81)	0.18
Adjusted Basic	11	(0.57)	0.21
Adjusted Diluted	11	(0.57)	0.21

Consolidated statement of comprehensive income

For the year ended 30 June 2019

	Notes	30.6.19 £'000	30.6.18 £'000
Profit for the year		**8,525**	**8,558**
Other comprehensive income			
Items that may be subsequently reclassified to profit and loss:			
Exchange differences on translating foreign operations		(42)	(20)
Total comprehensive income attributable to:			
Owners of the parent		**8,483**	**8,538**
Total comprehensive income for the year			
Comprehensive income from continuing operations		**10,940**	**7,997**
Comprehensive income from discontinued operations		**(2,457)**	**541**

Consolidated statement of financial position

For the year ended 30 June 2019

	Notes	30.6.19 £'000	30.6.18 £'000
Assets			
Non-current assets			
Goodwill	13	9,680	9,680
Intangible assets	14	11,702	9,787
Property, plant and equipment	15	1,037	1,046
		22,419	**20,513**
Current assets			
Trade and other receivables	17	12,222	12,953
Cash and cash equivalents	18	19,320	15,005
		31,542	**27,958**
Total assets		**53,961**	**48,471**
Equity attributable to the owners of the parent			
Called up share capital	19	1,490	1,490
Share premium	20	6,791	6,791
Reverse acquisition reserve	20	(4,695)	(4,695)
Other reserves	20	720	661
Retranslation reserve	20	16	(26)
Retained earnings	20	37,161	32,331
Total equity		**41,483**	**36,552**
Liabilities			
Non-current liabilities			
Deferred tax	24	1,377	1,697
Current liabilities			
Trade and other payables	21	11,096	10,217
Financial liabilities – borrowings			
– Interest bearing loans		5	5
		11,101	10,222
Total liabilities		**12,478**	**11,919**
Total equity & liabilities		**53,961**	**48,471**

The financial statements were approved and authorised for issue by the Board of Directors on 15 October 2019 and were signed on its behalf by:

Milan Patel

Director

Company registration number: 06289659 (England and Wales)

Company statement of financial position

For the year ended 30 June 2019

	Notes	30.6.19 £'000	30.6.18 £'000
Assets			
Non-current assets			
Investments	16	15,147	15,147
		15,147	**15,147**
Current assets			
Trade and other receivables	17	808	882
Cash and cash equivalents	18	594	646
		1,402	**1,528**
Total assets		**16,549**	**16,675**
Equity attributable to the owners of the parent			
Called up share capital	19	1,490	1,490
Share premium	20	6,791	6,791
Other reserves	20	720	661
Retained earnings	20	3,515	5,761
Total equity		**12,516**	**14,703**
Liabilities			
Current liabilities			
Trade and other payables	21	4,033	1,972
Total liabilities		**4,033**	**1,972**
Total equity & liabilities		**16,549**	**16,675**

The financial statements were approved and authorised for issue by the Board of Directors on 15 October 2019 and were signed on its behalf by:

Milan Patel
Director
Company registration number: 06289659 (England and Wales)

Consolidated statement of changes in equity

For the year ended 30 June 2019

	Called up share capital £'000	Retained earnings £'000	Share premium £'000
Balance as at 1 July 2017	**1,481**	**25,306**	**6,290**
Issue of share capital	9	–	501
Dividends	–	(1,627)	–
Transfer in reserves	–	94	–
Share-based payments	–	–	–
Transactions with owners	9	(1,533)	501
Profit for the year	–	8,558	–
Other comprehensive income	–	–	–
Total comprehensive income	–	8,558	–
Balance as at 30 June 2018	**1,490**	**32,331**	**6,791**
Dividends	–	(1,903)	–
IFRS 15 restatement	–	(2,837)	–
Deferred tax asset on IFRS 15	–	539	–
Transfer in reserves	–	506	–
Share-based payment	–	–	–
Transactions with owners	–	(3,695)	–
Profit for the year	–	8,525	–
Other comprehensive income	–	–	–
Total comprehensive income	–	8,525	–
Balance as at 30 June 2019	**1,490**	**37,161**	**6,791**

	Retranslation reserve £'000	Reverse acquisition reserve £'000	Other reserves £'000	Total equity £'000
Balance as at 1 July 2017	**(46)**	**(4,695)**	**305**	**28,641**
Issue of share capital	–	–	–	510
Dividends	–	–	–	(1,627)
Transfer in reserves	–	–	(94)	–
Share-based payments	–	–	450	450
Transactions with owners	–	–	356	(667)
Profit for the year	–	–	–	8,558
Other comprehensive income	20	–	–	20
Total comprehensive income	20	–	–	8,578
Balance as at 30 June 2018	**(26)**	**(4,695)**	**661**	**36,552**
Dividends	–	–	–	(1,903)
IFRS 15 restatement	–	–	–	(2,837)
Deferred tax asset on IFRS 15	–	–	–	539
Transfer in reserves	–	–	(506)	–
Share-based payments	–	–	565	565
Transactions with owners	–	–	59	(3,636)
Profit for the year	–	–	–	8,525
Other comprehensive income	42	–	–	42
Total comprehensive income	42	–	–	8,567
Balance as at 30 June 2019	**16**	**(4,695)**	**720**	**41,483**

Share capital is the amount subscribed for shares at nominal value.

Retained earnings represents the cumulative earnings of the Group attributable to equity shareholders.

Share premium represents the excess of the amount subscribed for share capital over the nominal value net of the share issue expenses.

Retranslation reserve relates to the retranslation of foreign subsidiaries into the functional currency of the Group.

The reverse acquisition reserve relates to the adjustment required to account for the reverse acquisition in accordance with International Financial Reporting Standards.

Other reserves relate to the charge for the share-based payment in accordance with International Financial Reporting Standard 2 and shares repurchased in the year classified as treasury shares.

Company statement of changes in equity

For the year ended 30 June 2019

	Called up share capital £'000	Retained earnings £'000	Share premium £'000	Other reserves £'000	Total equity £'000
Balance as at 1 July 2017	**1,481**	**2,239**	**6,290**	**305**	**10,315**
Issue of share capital	9	–	501	–	510
Dividends	–	(1,627)	–	–	(1,627)
Transfer in reserves	–	94	–	(94)	–
Share-based payments	–	–	–	450	450
Transactions with owners	9	(1,533)	501	356	(667)
Profit for the year	–	5,055	–	–	5,055
Total comprehensive income	–	5,055	–	–	5,055
Balance as at 30 June 2018	**1,490**	**5,761**	**6,791**	**661**	**14,703**
Issue of share capital	–	–	–	–	–
Dividends	–	(1,903)	–	–	(1,903)
Transfer in reserves	–	506	–	(506)	–
Share-based payments	–	–	–	565	565
Transactions with owners	–	(1,397)	–	59	(1,338)
Profit for the year	–	(849)	–	–	(849)
Total comprehensive income	–	(849)	–	–	(849)
Balance as at 30 June 2019	**1,490**	**3,515**	**6,791**	**720**	**12,516**

Share capital is the amount subscribed for shares at nominal value.

Retained earnings represents the cumulative earnings of the Company attributable to equity shareholders.

Share premium represents the excess of the amount subscribed for share capital over the nominal value net of the share issue expenses.

Other reserves relate to the charge for the share-based payment in accordance with International Financial Reporting Standard 2 and shares repurchased in the year classified as treasury shares.

Consolidated statement of cash flows

For the year ended 30 June 2019

	Notes	30.6.19 £'000	(Restated)** 30.6.18 £'000
Cash flows from operating activities			
Cash generated from operations	29	12,493	11,220
Tax paid		(207)	(1,010)
Net cash generated from operating activities		**12,286**	**10,210**
Net cash generated from continuing operating activities		13,288	10,413
Net cash generated from discontinued operating activities		(1,002)	(203)
Cash flows from investing activities			
Purchase of subsidiary, net of cash acquired*		–	(9,578)
Purchase of intangible fixed assets		(5,617)	(4,471)
Purchase of tangible fixed assets		(456)	(475)
Sale of tangible fixed assets		–	4
Interest received		19	9
Net cash flows used in investing activities		**(6,054)**	**(14,511)**
Net cash generated from continuing investing activities		(5,168)	(4,452)
Net cash generated from discontinued investing activities		(886)	(10,059)
Cash flows from financing activities			
Equity dividends paid		(1,903)	(1,627)
Loan repayments		(14)	(5)
Share issue		–	510
Net cash flows from financing activities		**(1,917)**	**(1,122)**
Net cash generated from continuing financing activities		(1,903)	(1,117)
Net cash generated from discontinued financing activities		(14)	(5)
(Decrease)/Increase in cash and cash equivalents		**4,315**	**(5,423)**
Cash and cash equivalents at beginning of year	30	15,005	20,428
Cash and cash equivalents at end of year	30	**19,320**	**15,005**

* Cash acquired £157,884.

** The comparatives above have been restated to reflect the re-classification between the net cash flows used in investing activities and the net cash generated from operating activities and continuing and discontinuing operations.

Company statement of cash flows

For the year ended 30 June 2019

	Notes	30.6.19 £'000	30.6.18 £'000
Cash flows from operating activities			
Cash generated from operations	29	1,851	10,909
Net cash generated from operating activities		**1,851**	**10,909**
Cash from investing activities			
Purchase of investments		–	(9,737)
Net cash flows from investing activities		**–**	**(9,737)**
Cash flows from financing activities			
Equity dividends paid		(1,903)	(1,627)
Share issue		–	510
Net cash flows from financing activities		**(1,903)**	**(1,117)**
Increase in cash and cash equivalents		**(52)**	**55**
Cash and cash equivalents at beginning of year	30	646	591
Cash and cash equivalents at end of year	30	**594**	**646**

Notes to the consolidated financial statements

For the year ended 30 June 2019

1. General information

dotdigital Group Plc ("dotdigital") is a company incorporated in England and Wales and quoted on the AIM market. The address of the registered office is disclosed on the inside back cover of the financial statements. The principal activity of the Group is described on page 39.

2. Accounting policies

Basis of preparation

These financial statements have been prepared in accordance with International Financial Reporting Standards as adopted by the European Union (IFRSs as adopted by the EU) and those parts of Companies Act 2006 applicable to companies reporting under IFRS. The financial statements have been prepared under the historical cost convention.

The Group has applied all accounting standards and interpretations issued by the International Accountancy Standards Board and International Accounting Interpretations Committee effective at the time of preparing the financial statements.

New and amended standards adopted by the Company

The Group has applied IFRS 9 Financial Instruments and IFRS 15 Revenue from Contracts with Customers for the first time for the period commencing 1 July 2018.

Impact of initial application of IFRS 9 Financial Instruments

In the current year, the Group has applied IFRS 9 Financial Instruments (as revised in July 2014) and the related consequential amendments to other IFRS Standards that are effective for an annual period that begins on or after 1 January 2018. IFRS 9 Financial Instruments, which replaces IAS 39 Financial Instruments: Recognition and Measurement, impacts the classification and measurement of the Group's financial instruments and requires certain additional disclosures. The transition provisions of IFRS 9 allow an entity not to restate comparatives.

IFRS 9 introduced new requirements for:

1 The classification and measurement of financial assets and financial liabilities,

2 Impairment of financial assets, and

3 General hedge accounting.

IFRS 9 has not had a material impact in the presentation of the accounts of the Group.

Impact of application of IFRS 15 Revenue from Contracts with Customers

In the current year, the Group has applied IFRS 15 Revenue from Contracts with Customers (as amended in April 2016) which is effective for an annual period that begins on or after 1 January 2018. IFRS 15 introduced a 5-step approach to revenue recognition. Far more prescriptive guidance has been added in IFRS 15 to deal with specific scenarios. The Group's accounting policies for its revenue streams are disclosed in detail in note 2 below. The Group has applied IFRS 15 in accordance with the modified retrospective transitional approach. In addition to providing more extensive disclosures for the Group's revenue transactions, the application of IFRS 15 has had an impact on the financial position and/or financial performance of the Group which is disclosed in note 33.

Standards, interpretations and amendments to published standards that are not yet effective

The following new standards, amendments to standards and interpretations have been issued, but are not effective for the financial year beginning 1 July 2018 and have not been early adopted. The full impact of their adoption has not yet been fully assessed; however, management do not expect the changes to have a material effect on the Financial Statements unless otherwise indicated:

Reference	Title	Summary	Application date of standard	Application date of Group
IAS 1 and IAS 8	Definition of material	Clarifies the definition of 'material' and align the definition used in the Conceptual Framework and the standards.	Periods beginning on or after 1 Jan 2020	1 July 2020
IAS 19	Plan Amendment, Curtailment or Settlement	Amendments in Plan Amendment, Curtailment or Settlement	Periods beginning on or after 1 January 2019	1 July 2019
IAS 28	Investment in Associates and Joint Ventures	Clarifies that an entity applies IFRS 9 Financial Instruments to long-term interests in an associate or joint venture that form part of the net investment in the associate or joint venture but to which the equity method is not applied.	Periods beginning on or after 1 January 2019	1 July 2019
IFRS 9	Financial Instruments	Amendment regarding termination rights in order to allow measurement at amortised cost even in the case of negative compensation payments.	Periods beginning on or after 1 January 2019	1 July 2019
IFRS 3, IFRS 11, IAS 12 and IAS 23	Annual Improvements to IFRS Standards 2015–2017 Cycle	Annual improvements	Periods beginning on or after 1 January 2019	1 July 2019
IFRS 16	Leases	Original issue	Periods beginning on or after 1 January 2019	1 July 2019

New Standards and interpretations not yet adopted
IFRS 16 Leases was issued in January 2016 but is not mandatory for the year ending 30 June 2019 and has not been adopted early by the Group. As a consequence of this new standard, this will result in all leases being recognised on the balance sheet by lessees, as the distinction between operating and finance leases is removed. Thereby resulting in an asset and a financial liability to pay rentals being recognised on the Statement of Financial Position.

As at the reporting date, the Group has non-cancellable operating lease commitments of £5.4m (see note 22), which will be recognised on a straight-line basis as an expense in the income statement. At the date of transition, being 1 July 2019, and in the year after transition, there will be an impact on the Group's consolidated income statement where the fixed rental expense (currently recognised within administrative expenses) is replaced by a depreciation charge and an interest expense. This will lead to a reduction in operating profit as a result of removing the operating lease expense net of the new leased asset depreciation charge. The Group expects to recognise right-of-use assets of approximately £5.5m and lease liabilities of £5.5m (after adjustments for prepayments and accrued lease payments recognised as at 30 June 2019). The Group expects a reduction in operating cost of approximately £1.1m with a corresponding increase in depreciation of £1.1m and an increase of £0.5m in finance costs, resulting in an overall reduction in profit after tax by approximately by £0.5m for the year ended 30 June 2020 as a result of adopting the new rules.

Changes in Accounting Policies and Disclosures

(a) *New and amended standards adopted by the Group*

The Group has applied any applicable new standards, amendments to standards and interpretations that are mandatory for the financial year beginning on or after 1 January 2018. However, none of them has a material impact on the Group's Consolidated Financial Statements.

(b) *Impact of IFRS 15 – Revenue from contracts with customers*

In the current year, the Group has applied IFRS 15 Revenue from Contracts with Customers (as amended in April 2016) which is effective for an annual period that begins on or after 1 January 2018. IFRS 15 introduced a 5 step approach to revenue recognition. Far more prescriptive guidance has been added in IFRS 15 to deal with specific scenarios.

The Group's accounting policies for its revenue streams are disclosed in detail in note 2 below. The Group has applied IFRS 15 in accordance with the modified retrospective transitional approach. Apart from providing more extensive disclosures for the Group's revenue transactions, the application of IFRS 15 has not had a significant impact on the current financial position and/or financial performance of the Group. However, via the implementation of the modified retrospective transitional approach this did have a significant impact on the financial position of the Group. Further details can be seen in Note 33.

The financial statements are presented in sterling (£), rounded to the nearest thousand pounds.

Basis of consolidation
In the period ended 2009 the Company acquired via a share for share exchange the entire issued share capital of dotdigital EMEA (previously dotmailer Limited), whose principal activity is that of providing SaaS via a leading cross-channel marketing automation platform and managed services to digital marketing professionals.

Under IFRS 3 'Business combinations' the dotdigital EMEA (previously dotmailer Limited) share exchange has been accounted for as a reverse acquisition. Although these consolidated financial statements have been issued in the name of the legal parent, the Company it represents in substance is a continuation of the financial information of the legal subsidiary, dotdigital EMEA (previously dotmailer Limited). The following accounting treatment has been applied in respect of the reverse acquisition:

- The assets and liabilities of the legal subsidiary, dotdigital EMEA (previously dotmailer Limited), are recognised and measured in the consolidated financial statements at their pre-combination carrying amounts, without restatement to their fair value;
- The retained reserves recognised in the consolidated financial statements for the beginning of the prior period reflect the retained reserves of dotdigital EMEA (previously dotmailer Limited) to 30 April 2008. However, in accordance with IFRS3 'Business combinations', the equity structure appearing in the consolidated financial statements reflects the equity structure of the legal parent dotdigital Group Plc, including the equity instruments issued under the share exchange to affect the business combination;
- A reverse acquisition reserve has been created to enable the presentation of a consolidated balance sheet which combines the equity structure of the legal parent with the non-statutory reserves of the legal subsidiary;
- Comparative numbers are prepared on the same basis.

The following accounting treatment has been applied in respect of the acquisition of dotdigital Group Plc:

- The assets and liabilities of dotdigital Group Plc are recognised and measured in the consolidated financial statements at their fair value at the date of acquisition.
- The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued, and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. Identifiable assets acquired and liabilities assumed in a business combination are measured initially at their fair values at the date of acquisition, irrespective of the extent of any minority interest. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill. If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognised directly in the income statement.

Notes to the consolidated financial statements continued

For the year ended 30 June 2019

2. Accounting policies continued

Subsidiaries

A subsidiary is an entity whose operating and financing policies are controlled by the Group. Subsidiaries are consolidated from the date on which control was transferred to the Group. Subsidiaries cease to be consolidated from the date the Group no longer has control. Intercompany transactions, balances and unrealised gains on transactions between Group companies have been eliminated on consolidation.

The Group applies the acquisition method to account for business combinations. In the statement of financial position, the acquiree's identifiable assets and liabilities are initially recognised at their fair values at the acquisition date.

As a result of applying reverse acquisition accounting since 30 January 2009, the consolidated IFRS financial information of dotdigital Group Plc is a continuation of the financial information of dotdigital EMEA (previously dotmailer Limited).

Revenue recognition

Revenue comprises the fair value of the consideration received or receivable for the sale of services in the ordinary course of the Group's activities. Revenue is shown net of value added tax returns, rebates and discounts after eliminating sales within the Group.

The Group recognises revenue when the amount of revenue can be reliably measured and it is probable that the future economic benefits will flow to the entity. The Group bases its estimates on historical results, taking into consideration the type of customer, the type of transaction and the specifics of each arrangement.

The Group sells cross-channel marketing services to other businesses, and services are either provided on a usage basis or fixed price bespoke contract. All revenue is from contracts signed with new customers and upgrades and additional functional recurring revenue sold to existing contracted clients. Revenue from contracts is recognised under percentage of completion method based on a percentage of services performed to date as a percentage of the total services to be performed.

Professional services at no charge: The Group sells professional services to its customers and there are occasions when these services are provided at no cost as part of the contract sold. The services provided for no charge are recognised and accounted for as separate performance obligations when the service occurs. The amount allocated to the services is deducted from the contract value and the remainder of the contract value is spread evenly over the term of the contract.

Prepaid contracts: The Group sells 12-, 24- and 36-month contracts to its customers. This revenue is recognised monthly over the period of the contract. Where a customer prepays their contract, this is recognised over the period of the contract irrespective of materiality.

Term Contract billing: The Group raises the first invoice to its new customers when the service agreement is signed. Occasionally, the service does not start in the same month as when the service agreement is signed but is invoiced in the month where the service agreement is signed. The revenue is then recognised over the period of the contract irrespective of materiality.

Going concern

The Directors, at the time of approving the financial statements, have a reasonable expectation that the Company and the Group have adequate resources to continue in operational existence for the foreseeable future. Thus, they continue to adopt the going concern basis of accounting in preparing the financial statements. Further detail is contained in the Directors' report.

Operating profit

Operating profit is stated after charging operating expenses but before finance costs.

Dividends

Final dividend distributions to the Company's shareholders are recognised as a liability in the financial statements in the period in which the dividends are approved by the Company's shareholders while interim dividends distributions are recognised in the period in which the dividends are declared and paid.

Goodwill

Goodwill represents the excess of the fair value of the consideration over the fair values of the identifiable net tangible and intangible assets acquired and is allocated to cash generating units.

Under IFRS 3 "Business Combinations", goodwill arising on acquisitions is not subject to amortisation but is subject to annual impairment testing. Any impairment is recognised immediately in the income statement and not subsequently reversed.

Investments in subsidiaries

Investments are held as non-current assets at cost less any provision for impairment. Where the recoverable amount of the investment is less than the carrying amount, impairment is recognised.

Intangible assets

Intangible assets are recorded as separately identifiable assets and recognised at historical cost less any accumulated amortisation. These assets are amortised over their useful economic lives of four to five years, with the charge included in administrative expenses in the income statement.

Intangible assets are reviewed for impairment annually. Impairment is measured by determining the recoverable amount of an asset or cash generating unit (CGU) which is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset or CGU. For the purpose of impairment testing, assets that cannot be tested individually are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or CGUs.

- *Domain names*
  Acquired domain names are shown at historical cost. Domain names have a finite life and are carried at cost less accumulated amortisation. Amortisation is calculated using straight-line method to allocate the cost of domain names over their useful lives of four years.

- *Software*
  Acquired software and websites are shown at historical cost. They have a finite life and are carried at cost less accumulated amortisation. Amortisation is calculated using straight-line method to allocate the cost of software and websites over their useful lives of four years.
- *Product development*
  Product development expenditure is capitalised when it is considered that there is a commercially and technically viable product, the related expenditure is separately identifiable and there is a reasonable expectation that the related expenditure will be exceeded by future revenues. Following initial recognition, product developments are carried at cost less any accumulated amortisation and any accumulated impairment losses. The useful lives of these intangible assets are assessed to have a finite life of five years. Amortisation is charged on assets with finite lives, and until economic benefit can be received and recognised, this expense is taken to the income statement and useful lives are reviewed on an annual basis. Amortisation is charged from the point when the asset is available for use.

  Other development expenditures that do not meet these criteria are recognised as an expense as incurred. Capitalised development costs are recorded as intangible assets and amortised from the point at which they are ready for use on a straight-line basis over their useful life.

  Costs incurred on development projects (relating to the design and testing of new or improved products) are recognised as intangible assets when the following criteria are fulfilled:

  – It is technically feasible to complete the intangible asset so that it will be available for use or resale;
  – Management intends to complete the intangible asset and use or sell it;
  – There is an ability to use or sell the intangible asset;
  – It can be demonstrated how the intangible asset will generate possible future economic benefits;
  – Adequate technical, financial and other resource to complete the development and to use or sell the intangible asset are available; and
  – The expenditure attributable to the intangible asset during its development can be reliably measured.
- *Technology*
  Technology represents the cost that would be incurred to build the entire Comapi platform had the acquisition not occurred. The useful life of this intangible asset is assessed to have a finite life of 10 years. Amortisation is charged on assets with finite lives, and until economic benefit can be received and recognised, this expense is taken to the income statement and useful lives are reviewed on an annual basis. Amortisation is charged from the point when the asset is available for use.
- *Customer relationships*
  This represents the value of high-value customer contracts within Comapi. The useful life of this intangible asset is assessed to have a finite life of three years. Amortisation is charged on assets with finite lives, and until economic benefit can be received and recognised, this expense is taken to the income statement and useful lives are reviewed on an annual basis. Amortisation is charged from the point when the asset is available for use.
- *Impairment of non-financial assets (excluding goodwill)*
  At each balance sheet date, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where the asset does not generate cash flows that are independent from other assets, the Group estimates the recoverable amount of the cash generating unit to which the asset belongs. An intangible asset with an indefinite useful life is tested for impairment annually and whenever there is an indication that the asset may be impaired.

Property, plant and equipment
Tangible non-current assets are stated at historical cost less accumulated depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the assets' carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits are associated with the item will flow to the Company and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other repairs and maintenance are charged to the income statement during the financial period in which they are incurred. Depreciation is provided at the following rates in order to write off each asset over its estimated useful life and is based on the cost of assets less residual value. Significant components of individual assets are assessed and if a component has a useful life that is different from the remainder of that asset, that component is depreciated separately.

Short leasehold:	over the term of the lease
Fixtures and fittings:	25% on cost
Computer equipment:	25% on cost

The assets' residual values and useful economic lives are reviewed and adjusted, if appropriate, at each reporting date. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable value.

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognised within other (losses) or gains in the income statement.

Capital risk management
The Group manages its capital to ensure it is able to continue as a going concern while maximising the return to stakeholders through the optimisation of the debt and equity balance. The capital structure of the Group consists of cash equivalents and equity attributable to the owners of the parent as disclosed in the statement of changes in equity.

Notes to the consolidated financial statements continued

For the year ended 30 June 2019

2. Accounting policies continued

Taxation

The tax expense for the year comprises current and deferred tax. Tax is recognised in the income statement, to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case, the tax is also recognised in other comprehensive income or directly in equity, respectively.

Current tax

Current taxes are based on the results shown in the financial statements and are calculated according to local tax rules, using tax rates enacted or substantially enacted by the balance sheet date.

Deferred taxation

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements.

Deferred income tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary difference will be utilised.

Deferred income tax is determined using tax rates that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred income asset is realised or deferred income tax liability is settled.

Operating leases

Rent payable under operating leases is not recognised in the Group's statement of financial position. Such costs are expensed on a straight-line basis over the term of the lease. Lease incentives received are recognised as an integral part of the total expense, over the term of the lease.

Financial instruments

Financial assets and financial liabilities are recognised on the statement of financial position when an entity becomes a party to the contractual provisions of the instruments. Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in the income statement.

- *Financial assets*

  The Group's accounting policies for financial assets are set out below.

  Management determine the classification of its financial assets at initial recognition depending on the purpose for which the financial assets were acquired and, where allowed and appropriate, revaluate this designation at every reporting date.

  All financial assets are recognised on a trade date when, and only when, the Group becomes a party to the contractual provisions of an instrument. When financial assets are recognised initially, they are measured at fair value plus transaction costs, except for those finance assets classified as at fair value through profit or loss ('FVPL'), which are initially measured at fair value.

  Financial assets are classified into the following specified categories: financial assets at FVPL, 'amortised cost' or 'fair value through other comprehensive income' ('FVOCI'). The classification depends on the nature and purpose of the financial assets and is determined at the time of recognition.

  Financial assets are assessed for indicators of impairment at each balance sheet date. Financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been impacted.

  For certain categories of financial asset, such as trade receivables, assets that are assessed not to be impaired individually, the Group recognises lifetime expected credit losses ('ECL') when there has been a significant increase in credit risk since initial recognition. However, if the credit risk on the financial instrument has not increased significantly since initial recognition, the Group measures the loss allowance for that financial instrument at an amount equal to 12-month ECL.

  Lifetime ECL represents the expected credit losses that will result from all possible default events over the expected life of a financial instrument. In contrast, 12-month ECL represents the portion of lifetime ECL that is expected to result from default events on a financial instrument that are possible within 12 months after the reporting date.

  On derecognition of a financial asset measured at amortised cost, the difference between the asset's carrying amount and the sum of the consideration received and receivable is recognised in profit or loss.

- *Cash and cash equivalents*

  Cash and cash equivalents comprise cash at bank and on hand, demand deposits with banks and other financial institutions, and short-term, highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, having been within three months of maturity at acquisition. Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management are also included as a component of cash and cash equivalents for the purpose of the consolidated statement of cash flows.

- *Trade receivables*

  Trade receivables are recognised initially at the lower of their original invoiced value and recoverable amount. A provision is made when it is likely that the balance will not be recovered in full. Terms on receivables range from 30 to 90 days.

- *Financial liabilities and equity*

  Financial liabilities and equity are recognised on the Group's statement of financial position when the Group becomes a party to a contractual provision of an instrument. Financial liabilities and equity instruments issued by the Group are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument. An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities. Equity instruments issued by the Group are recognised at the proceeds received, net of transaction costs.

The Group's financial liabilities include trade payables and accrued liabilities.

- *Trade payables*
  Trade payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method. Terms on accounts payable range from 10 to 90 days.

Foreign currency risk
Currency risk is the risk that the holding of foreign currencies will affect the Group's position as a result of a change in foreign currency exchange rates. The Group has no significant foreign currency risk as most of the Group's financial assets and liabilities are denominated in functional currencies of relevant Group entities. Accordingly, no quantitative market risk disclosures or sensitivity analysis for currency risks have been prepared.

The results and financial position of all the Group entities (none of which has the currency of a hyper-inflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

(a) assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;

(b) income and expenses for each income statement are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the rate on the dates of the transactions); and

(c) all resulting exchange differences are recognised in other comprehensive income.

Equity
Share capital is the amount subscribed for shares at their nominal value.

Share premium represents the excess of the amount subscribed for the share capital over the nominal value of the respective shares net of share issue expenses.

Retained earnings represent the cumulative earnings of the Group attributable to equity shareholders.

The reverse acquisition reserve relates to the adjustment required by accounting for the reverse acquisition in accordance with IFRS 3 'Business combinations'.

Other reserves relate to the charge for share-based payments in accordance with IFRS 2 'Share-Based Payments'.

Share-based payments

For equity-settled share-based payment transactions the Group, in accordance with IFRS 2 'Share-Based Payments' measures their value, and the corresponding increase in equity, indirectly, by reference to the fair value of the equity instruments granted. The fair value of those equity instruments is measured at the grant date using the trinomial method. The expense is apportioned over the vesting period of the financial instrument and is based on the number which is expected to vest and the fair value of those financial instruments at the date of grant. If the equity instruments granted vest immediately, the expense is recognised in full.

Functional currency translation

- *Functional and presentation currency*
  Items included in the financial statements of the Company are measured using the currency of the primary economic environment in which the entity operates (functional currency), which is mainly pounds sterling (£) and it is this currency the financial statements are presented in.
- *Transaction and balances*
  Foreign currency transactions are translated into the functional currency using exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at the year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement.

Employee benefit costs
The Group operates a defined contribution pension scheme. Contributions payable by the Group's pension scheme are charged to the income statement in the period in which they relate.

Segment reporting
Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision maker, who is responsible for allocating resources and assessing performance of the operating segments as identified by the Board of Directors.

Critical accounting estimates and judgements
The Group makes certain estimates and assumptions regarding the future. Estimates and judgements are continually evaluated based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. 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 to the carrying amounts of assets and liabilities within the next financial year are discussed below:

Judgements
(a) Capitalisation of development costs
Our business model is underpinned by our email and data-driven cross-channel marketing automation platform, dotmailer. Internal activities are continually undertaken to enhance and maintain the product in a bid to stay ahead of our competition. Management review the work of developers during the period and make the following judgements:

- Internal work relating to product development is reviewed against IAS 38 criteria and will be capitalised if management feel the criteria have been met.

Notes to the consolidated financial statements continued

For the year ended 30 June 2019

2. Accounting policies continued

– Internal work relating to the maintenance of existing products is expensed to the income statement and accounted for in payroll costs.

(b) Valuation of intangibles

The recognition of business combinations requires the excess of the purchase price of acquisitions over the net book value of assets acquired to be allocated to the assets and liabilities of the acquired entity. The Group makes judgements and estimates in relation to the fair value allocation of the purchase price. If any unallocated portion is positive it is recognised as goodwill and if negative, it is recognised in the consolidated income statement.

Judgement is required in determining the fair value of identifiable assets, liabilities and contingent assets and liabilities assumed in a business combination and the fair value of the consideration payable. Calculating the fair values involves the use of significant estimates and assumptions, including expectations about future cash flows, discount rates and the lives of assets following purchase.

Estimates and assumptions

(a) Estimated impairment of goodwill

The Directors have carried out a detailed impairment review in respect of goodwill. The Group assesses at each reporting date whether there is an indication that an asset may be impaired, by considering the net present value of discounted cash flow forecasts which have been discounted at 10%. The cash flow projections are based on the assumption that the Group can realise projected sales. A prudent approach has been applied with no residual value being factored.

Further details on the estimates and assumptions we make in our annual impairment testing of goodwill are included in note 13 to the Financial Statements. At the period end, based on the assumptions, there was no indication of impairment to the carrying value of goodwill.

(b) Share-based compensation

Key management believe that there will not be only one acceptable choice for estimating the fair value of share-based payment arrangements. The judgements and estimates that management apply in determination of the share-based compensation are summarised as follows:

– Selection of a valuation model

– Making assumptions used in determining the variables used in a valuation model

 i expected life

 ii expected volatility

 iii expected dividend yield

 iv interest rate

Further detail on the estimates and assumptions we make in our share-based compensation are included in note 28 to the financial statements. The charge made to income statement for period is also disclosed here.

(c) Depreciation and amortisation

The Group depreciates short leasehold, fixtures and fittings, computer equipment and amortises computer software, internally generated development costs and domain names on a straight-line method over the estimated useful lives. The estimated useful lives reflect the Directors' estimate of the periods that the Group intends to derive future economic benefits from the use of the Group's short leasehold fixtures and fittings, computer equipment, computer software, internally generated development costs and domain names.

(d) Bad debt provision

The Group performs ongoing credit evaluations of its customers and grant credit based upon past payment history, financial condition and anticipated industry conditions. Customer payments are regularly monitored and the Group recognises lifetime expected credit losses ("ECL") when there has been a significant credit risk since initial recognition based upon specific situations and overall industry conditions. However, if the credit risk on the trade receivables has not increased significantly since initial recognition, the Group measures the loss allowance at an amount equal to 12-month ECL. Hence the provision is maintained for potential credit losses based upon management's assessment of the expected collectability of all accounts receivable. In making this assessment, management take into consideration (i) any circumstances of which we are aware regarding a customer's inability to meet its financial obligations and (ii) our judgements as to potential prevailing economic conditions in the industry and their potential impact on the Group's customers.

3. Segmental reporting

dotdigital's single line of business remains the provision of data-driven cross-channel marketing automation. The chief operating decision maker considers the Group's segments to be by geographical location, this being EMEA, US and APAC operations and by business activity, this being core Engagement Cloud and CPaaS as shown below:

Geographical revenue and results

	30.6.2019			
	EMEA £'000	US £'000	APAC £'000	Total £'000
Income statement				
Revenue	42,215	6,957	2,113	51,285
Gross profit	32,039	6,099	1,926	40,064
Profit before income tax	5,672	2,812	389	8,873
Total comprehensive income attributable to the owners of the parent	**5,441**	**2,657**	**385**	**8,483**
Financial position				
Total assets	52,100	1,717	144	53,961
Net current assets	16,771	2,938	732	20,441

Revenue from external customers is attributed to the geographical segments noted above based on the customers' location. There were no customers who account for more than 10% revenue (2018: none).

All revenue is from contracts signed with new customers and upgrades and additional functional recurring revenue sold to existing contracted clients. Revenue from contracts is recognised under percentage of completion method based on a percentage of services performed to date as a percentage of the total services to be performed.

	30.6.2018			
	EMEA £'000	US £'000	APAC £'000	Total £'000
Income statement				
Revenue	36,563	5,257	1,274	43,094
Gross profit	28,224	4,578	1,218	34,020
Profit/(loss) before income tax	7,993	1,877	(627)	9,243
Total comprehensive income attributable to the owners of the parent	**7,450**	**1,738**	**(650)**	**8,538**
Financial position				
Total assets	45,497	2,130	844	48,471
Net current assets	15,280	1,804	652	17,736

Business activity revenue and results

	30.6.2019		
	Core £'000	CPaaS* £'000	Total £'000
Income statement			
Revenue	42,522	8,763	51,285
Gross profit	38,145	1,919	40,064
Profit/(loss) before income tax	11,040	(2,167)	8,873
Total comprehensive income attributable to the owners of the parent	**10,940**	**(2,457)**	**8,483**
Financial position			
Total assets	52,263	1,698	53,961
Net current assets/(liabilities)	21,177	(736)	20,441

Notes to the consolidated financial statements continued

For the year ended 30 June 2019

3. Segmental reporting continued

	30.6.2018		
	dotmailer £'000	Comapi* £'000	Total £'000
Income statement			
Revenue	36,891	6,203	43,094
Gross profit	32,266	1,754	34,020
Profit before income tax	8,697	546	9,243
Total comprehensive income attributable to the owners of the parent	**7,997**	**541**	**8,538**
Financial position			
Total assets	44,612	3,859	48,471
Net current assets/(liabilities)	17,944	(208)	17,736

*The numbers included within Comapi are from the date of acquisition – 21 November 2017.

4. Employees and Directors

	30.6.19 £'000	30.6.18 £'000
Wages and salaries	17,029	14,149
Social security costs	1,728	1,562
Other pension costs	354	291
	19,111	16,002

The average monthly number of employees during the year is as follows:

	30.6.19	30.6.18
Directors	6	5
Sales and Marketing product	177	150
Development and system engineers	100	71
Administration	63	53
	346	279

During the year the Group also capitalised staff-related costs of £4,924,505 (2018: £4,023,222) in relation to internally generated development costs.

5. Exceptional costs

Continuing exceptional costs incurred in the year relate to the ongoing acquisition costs of Comapi of £58,824 (2018: £208,805) and amortisation of acquired intangibles of £120,000 (2018: £70,000).

Discontinued exceptional costs in the year relate to the amortisation of acquired intangibles of £401,709 (2018: £78,110) and impairment of acquired intangibles of £344,235 (2018: Nil)

6. Net finance income

	30.6.19 £'000	30.6.18 £'000
Finance income:		
Deposit account interest	19	9
	19	**9**

7. Operating profit

Costs by nature

Profit from continuing operations has been arrived after charging:

	30.6.19 £'000	30.6.18 £'000
Direct marketing	2,625	2,482
Outsourcing and other costs	1,752	2,143
Total cost of sales	**4,377**	**4,625**

	30.6.19 £'000	30.6.18 £'000
Staff-related costs (inc Directors emoluments)	17,374	15,232
Operating leases: Land and buildings	1,162	886
Operating leases: Other	39	38
Audit remuneration	42	59
Amortisation of intangibles	2,520	1,934
Depreciation charge	436	482
Legal, professional and consultancy fees	386	423
Computer expenditure	2,364	2,031
Bad debts	753	22
Foreign exchange (gains)/losses	15	117
Travel and subsistence costs	576	481
Office running	75	109
Staff welfare	454	396
Other costs	982	639
Management charge	(798)	–
Total administration costs	**26,380**	**22,849**

During the year the Group obtained the following services from the Group's auditor at costs detailed below:

	30.6.19 £'000	30.6.18 £'000
Fees payable to the Company's auditor for the audit of Parent Company and consolidated financial statements	20	8
Fees payable to the Company's auditor for other services		
– audit of Company subsidiaries	47	37
– non-audit fees: Tax and review of interim accounts	5	4
	72	**49**

8. Income tax expense

Analysis of the tax charge from continuing operations:

	30.6.19 £'000	30.6.18 £'000
Current tax on profits for the year	129	259
Deferred tax on origination and reversal of timing differences	(71)	426
	58	**685**
Tax charge from continuing operations	58	683
Tax charge from discontinued operations	290	2
	348	**685**

Notes to the consolidated financial statements continued

For the year ended 30 June 2019

8. Income tax expense continued

Factors affecting the tax charge:

	30.6.19 £'000	30.6.18 £'000
Profit on ordinary activities before tax	**8,873**	**9,243**
Profit on ordinary activities multiplied by the standard rate of corporation tax in the UK of 19% (2018: 19%)	1,686	1,756
Effects of:		
Expenses not deductible	151	137
Research and development enhanced claim	(2,327)	(1,908)
Expenditure permitted on exercising options	–	(217)
Overseas tax losses	(70)	72
Capital allowances in excess of depreciation	689	419
Total income tax	**129**	**259**

Deferred tax was calculated using the rate 19% (2018: 19%). For further details on deferred tax see note 24.

Taxation for each region is calculated at the rates prevailing in the respective jurisdiction.

A reduction in the UK corporation tax rate to 19% (effective from 1 April 2017) and to 18% (effective 1 April 2020) were substantively enacted on 26 October 2015, and an additional reduction to 17% (effective 1 April 2020) was substantively enacted on 6 September 2016. This will reduce the Company's future current tax charge accordingly. UK deferred tax assets and liabilities have been recognised at the rate applying in the period they are expected to unwind.

9. Profit of Parent Company

As permitted by Section 408 of the Companies Act 2006, the profit and loss account of the parent Company is not presented as part of these financial statements. The parent Company's loss for the financial year was £848,539 (2018: profit: £5,055,276).

10. Dividends

Amounts recognised as distributions to equity holders in the period.

	30.6.19 £'000	30.6.18 £'000
Paid dividend for year end 30 June 2019 of 0.64p (2018: 0.505p) per share	1,903	1,505
Proposed dividend for the year end 30 June 2019 of 0.67p (2018: 0.64p) per share	**1,997**	**1,907**

The proposed final dividend is subject to approval by the shareholders at the Annual General Meeting and has not been included as a liability in these financial statements.

11. Earnings per share

Earnings per share data is based on the consolidated profit using and the weighted average number of shares in issue of the parent Company. Basic earnings per share are calculated by dividing the earnings attributable to ordinary shareholders by the weighted average number of ordinary shares outstanding during the period.

Diluted earnings per share is calculated using the weighted average number of shares adjusted to assume the conversion of all dilutive potential ordinary shares. Adjusted earnings per share is based on the consolidated profit deducting the acquisition related exceptional costs and share-based payment.

A number of non-IFRS adjusted profit measures are used in this annual report and financial statements. Adjusting items are excluded from our headline performance measures by virtue of their size and nature, in order to reflect management's view of the performance of the Group. Summarised below is a reconciliation between statutory results to adjusted results. The Group believes that alternative performance measures such as adjusted EBITDA are commonly reported by companies in the markets in which it competes and are widely used by investors in comparing performance on a consistent basis without regard to factors such as depreciation and amortisation, which can vary significantly depending upon accounting methods (particularly when acquisitions have occurred), or based on factors which do not reflect the underlying performance of the business. The adjusted profit after tax earnings measure is also used for the purpose of calculating adjusted earnings per share.

Reconciliations to earnings figures used in arriving at adjusted earnings per share are as follows:

From all operations	30.6.19 £'000	30.6.18 £'000
Profit for the year attributable to the owners of the parent	8,525	8,558
Impairment of acquisition-related intangible fixed asset (see note 14)	344	–
Amortisation of acquisition-related intangible fixed asset (see note 14)	522	148
Other exceptional costs	59	209
Share-based payment	565	450
Adjusted profit for the year attributable to the owners of the parent	**10,015**	**9,365**
Adjusted profit for the year attributable to the owners of the parent for continuing operations	11,726	8,743
Adjusted profit for the year attributable to the owners of the parent for discontinued operations	(1,711)	622

Management does not consider the above adjustments to reflect the underlying business performance. The other exceptional costs relate to ongoing acquisition costs of Comapi.

		30.6.19	
From all operations	Earnings £'000	Weighted average number of shares	Per share Amount Pence
Basic EPS			
Profit for the year attributable to the owners of the parent	8,525	298,030,565	2.86
Adjusted Basic EPS			
Adjusted profit for the year attributable to the owners of the parent	10,015	298,030,565	3.36
Options and warrants	–	4,390,083	–
Diluted EPS			
Profit for the year attributable to the owners of the parent	8,525	302,420,648	2.82
Adjusted Diluted EPS			
Adjusted profit for the year attributable to the owners of the parent	**10,015**	**302,420,648**	**3.31**

		30.6.19	
From continung operations	Earnings £'000	Weighted average number of shares	Per share Amount Pence
Basic EPS			
Profit for the year attributable to the owners of the parent	10,982	298,030,565	3.68
Adjusted Basic EPS			
Adjusted profit for the year attributable to the owners of the parent	11,726	298,030,565	3.93
Options and warrants	–	4,390,083	–
Diluted EPS			
Profit for the year attributable to the owners of the parent	10,982	302,420,648	3.63
Adjusted Diluted EPS			
Adjusted profit for the year attributable to the owners of the parent	**11,726**	**302,420,648**	**3.88**

		30.6.19	
From discontinued operations	Earnings £'000	Weighted average number of shares	Per share Amount Pence
Basic EPS			
Loss for the year attributable to the owners of the parent	(2,457)	298,030,565	(0.82)
Adjusted Basic EPS			
Adjusted loss for the year attributable to the owners of the parent	(1,711)	298,030,565	(0.57)
Options and warrants	–	4,390,083	–
Diluted EPS			
Loss for the year attributable to the owners of the parent	(2,457)	302,420,648	(0.81)
Adjusted Diluted EPS			
Adjusted loss for the year attributable to the owners of the parent	**(1,711)**	**302,420,648**	**(0.57)**

Notes to the consolidated financial statements continued

For the year ended 30 June 2019

11. Earnings per share continued

	30.6.18		
From all operations	Earnings £'000	Weighted average number of shares	Per share Amount Pence
Basic EPS			
Profit for the year attributable to the owners of the parent	8,558	296,596,304	2.88
Adjusted Basic EPS			
Adjusted profit for the year attributable to the owners of the parent	9,365	296,596,304	3.16
Options and warrants	–	3,728,052	–
Diluted EPS			
Profit for the year attributable to the owners of the parent	8,558	300,324,356	2.85
Adjusted Diluted EPS			
Adjusted profit for the year attributable to the owners of the parent	**9,365**	**300,324,356**	**3.12**

	30.6.18		
From continuing operations	Earnings £'000	Weighted average number of shares	Per share Amount Pence
Basic EPS			
Profit for the year attributable to the owners of the parent	8,014	296,596,304	2.70
Adjusted Basic EPS			
Adjusted profit for the year attributable to the owners of the parent	8,743	296,596,304	2.95
Options and warrants	–	3,728,052	–
Diluted EPS			
Profit for the year attributable to the owners of the parent	8,014	300,324,356	2.67
Adjusted Diluted EPS			
Adjusted profit for the year attributable to the owners of the parent	**8,743**	**300,324,356**	**2.91**

	30.6.18		
From discontinued operations	Earnings £'000	Weighted average number of shares	Per share Amount Pence
Basic EPS			
Profit for the year attributable to the owners of the parent	544	296,596,304	0.18
Adjusted Basic EPS			
Adjusted profit for the year attributable to the owners of the parent	622	296,596,304	0.21
Options and warrants	–	3,728,052	–
Diluted EPS			
Profit for the year attributable to the owners of the parent	544	300,324,356	0.18
Adjusted Diluted EPS			
Adjusted profit for the year attributable to the owners of the parent	**622**	**300,324,356**	**0.21**

Weighted average number of shares

	30.6.19 Shares	30.6.18 Shares
Basic EPS	298,030,565	296,596,304
Diluted EPS	302,420,648	300,324,356

12. Continuing and discontinuing operations

The analysis between continuing and discontinued operation is as follows:

Year ended 30 June 2019	Continuing operations £'000	Discontinuing operations £'000	Total £'000
Revenue	42,522	8,763	51,285
Cost of sales	(4,377)	(6,844)	(11,221)
Gross profit	38,145	1,919	40,064
Administrative expense	(26,380)	(3,340)	(29,720)
Shared-based payments	(565)	–	(565)
Exceptional costs	(179)	(746)	(925)
Operating profit	**11,021**	**(2,167)**	**8,854**
Finance income	19	–	19
Profit before income tax	**11,040**	**(2,167)**	**8,873**
Income tax expense	(58)	(290)	(348)
Profit for the year	**10,982**	**(2,457)**	**8,525**

Year ended 30 June 2018	Continuing operations £'000	Discontinuing operations* £'000	Total £'000
Revenue	36,891	6,203	43,094
Cost of sales	(4,625)	(4,449)	(9,074)
Gross profit	32,266	1,754	34,020
Administrative expense	(22,849)	(1,130)	(23,979)
Shared-based payments	(450)	–	(450)
Exceptional costs	(279)	(78)	(357)
Operating profit	**8,688**	**546**	**9,234**
Finance income	9	–	9
Profit before income tax	**8,697**	**546**	**9,243**
Income tax expense	(683)	(2)	(685)
Profit for the year	**8,014**	**544**	**8,558**

* The numbers included within discontinued operations relate to Comapi from the date of acquisition being 21 November 2017.

13. Goodwill

Group

Cost	30.6.19 £'000	30.6.18 £'000
At 1 July	13,192	4,121
Additions	–	9,071
At 30 June	13,192	13,192
Amortisation		
At 1 July	3,512	3,512
Impairment	–	–
At 30 June	3,512	3,512
Net book value	**9,680**	**9,680**

On 21 November 2017, the Group acquired all the voting rights of Comapi for a cash consideration of £10.7m (which includes the payment of loans in Comapi) in exchange for all Comapi shares, with a potential consideration of £1.2m in share options for the management team, dependent on them achieving specific performance targets over a two-year post acquisition period and remaining with the business. Comapi's business is the provision of omni-channel messaging and cloud communication.

The Directors believe the acquisition will:

- Extend dotdigital's marketing automation platform to provide an industry-leading solution offering fully integrated cross-channel and conversational commerce support to marketers
- Enable dotdigital to deliver aligned conversational messaging across channels including email, mobile push, SMS, Facebook messenger, Apple business messenger, Twitter and live chat
- Enable dotdigital customers to meet consumer demand for a more personalised communication experience and
- Position dotdigital as the most advanced platform on the market and make dotdigital more relevant in the strategic mobile-first Asian market.

13. Goodwill continued

Goodwill of £9.1m was recognised on the acquisition, being the excess of the purchase consideration over the provisional fair value of net assets acquired as set out below and represents Comapi's platform, key customer relationships, employee knowledge and skills and the acceleration of bringing the technology to our platform rather than building in-house.

Goodwill is allocated to the Group's two cash generating units identified, that being Core and CPaaS. The goodwill addition in the year ended 30 June 2018 relates to the acquisition of Comapi and the goodwill at the beginning of the period relates to dotdigital.

Goodwill arising on business combinations is not amortised but is reviewed for impairment on an annual basis, or more frequently if there are indications that goodwill may be impaired. Goodwill acquired in a business combination is allocated, at acquisition, to cash generating units (CGUs) that are expected to benefit from that business combination.

The carrying amount of goodwill relates to the Group's two trading activities and business segments. This has been tested for impairment during the current period by comparison with the recoverable amounts of the CGU. Recoverable amounts for CGUs are based on the higher of value in use and fair value less costs to sell. The recoverable amounts of the CGU have been determined from value in use calculations. These calculations use pre-tax cash flow projections based on financial budgets approved by management covering a five-year period. The key assumptions for the value in use calculations are those regarding discount rates, growth rates, and expected changes in margins. Management estimates discount rates using pre-tax rates that reflect the current market assessment of the time value of money and the risks specific to the CGUs. Changes in income and expenditure are based on past experience and expectations of the future changes in the market. The pre-tax discount rate used to calculate the value in use is 6.2% (2018: 10%). The valuations indicate sufficient headroom such that a reasonably possible change in key assumptions would not result in impairment of goodwill.

14. Intangible assets

Group	Customer relationships £'000	Technology £'000	Computer software £'000	Internally generated development costs £'000	Domain names £'000	Totals £'000
Cost						
At 1 July 2018	1,205	1,200	806	15,286	37	18,534
Additions	–	–	105	5,508	4	5,617
At 30 June 2019	**1,205**	**1,200**	**911**	**20,794**	**41**	**24,151**
Amortisation						
At 1 July 2018	78	70	611	7,957	31	8,747
Amortisation for the year	402	120	86	2,749	1	3,358
Impairment for the year	344	–	–	–	–	344
At 30 June 2019	**824**	**190**	**697**	**10,706**	**32**	**12,449**
Net book value						
At 30 June 2019	**381**	**1,010**	**214**	**10,088**	**9**	**11,702**

Group	Customer relationships £'000	Technology £'000	Computer software £'000	Internally generated development costs £'000	Domain names £'000	Totals £'000
Cost						
At 1 July 2017	–	–	497	10,351	16	10,864
Additions	–	–	94	4,377	–	4,471
Introduced on acquisition	1,205	1,200	215	558	21	3,199
At 30 June 2018	**1,205**	**1,200**	**806**	**15,286**	**37**	**18,534**
Amortisation						
At 1 July 2017	–	–	320	6,009	16	6,345
Amortisation for the year	–	–	76	1,891	4	1,971
Introduced on acquisition	78	70	215	57	11	431
At 30 June 2018	**78**	**70**	**611**	**7,957**	**31**	**8,747**
Net book value						
At 30 June 2018	**1,127**	**1,130**	**195**	**7,329**	**6**	**9,787**

Development cost additions represents resources the Group has invested in the development of new, innovative and ground-breaking technology products for marketing professionals. This platform allows them to create, send and automate marketing campaigns. Following development of the products the Group intends to licence the use of the platform.

Technology represents the cost that would be incurred to build the entire Comapi platform had the acquisition not occurred. Customer relationships represent the value of high-value customer contracts within Comapi. At the year-end an impairment review was conducted on both whereby it was found that technology required no impairment due to the full integration of Comapi. However, customer relationships did result in an impairment due to a reduction in the anticipated lifetime of the contracts.

15. Property, plant and equipment

Group	Short leasehold £'000	Fixtures & fittings £'000	Computer equipment £'000	Totals £'000
Cost				
At 1 July 2018	612	643	2,000	3,255
Additions	32	133	291	456
Exchange differences	2	3	3	8
At 30 June 2019	**646**	**779**	**2,294**	**3,719**
Depreciation				
At 1 July 2018	340	481	1,388	2,209
Depreciation for the year	61	71	333	465
Exchange differences	1	2	5	8
At 30 June 2019	**402**	**554**	**1,726**	**2,682**
Net book value				
At 30 June 2019	**244**	**225**	**568**	**1,037**

Group	Short leasehold £'000	Fixtures & fittings £'000	Computer equipment £'000	Totals £'000
Cost				
At 1 July 2017	499	534	1,393	2,426
Additions	46	88	341	475
Disposals	–	(28)	(18)	(46)
Introduced on acquisition	68	50	284	402
Exchange differences	(1)	(1)	–	(2)
At 30 June 2018	**612**	**643**	**2,000**	**3,255**
Depreciation				
At 1 July 2017	214	379	800	1,393
Depreciation for the year	62	91	342	495
Eliminated on disposals	–	(24)	(17)	(41)
Introduced on acquisition	64	34	264	362
Exchange differences	–	1	(1)	–
At 30 June 2018	**340**	**481**	**1,388**	**2,209**
Net book value				
At 30 June 2018	**272**	**162**	**612**	**1,046**

Notes to the consolidated financial statements continued

For the year ended 30 June 2019

16. Investments

Company	Shares in Group undertakings 30.6.19 £'000	Shares in Group undertakings 30.6.18 £'000
Cost		
At 1 July	18,666	8,706
Additions	–	9,960
At 30 June	**18,666**	**18,666**
Amortisation		
At 1 July and 30 June	3,519	3,519
Net book value		
At 30 June	**15,147**	**15,147**

The Group's or the Company's investments at the balance sheet date in the share capital of companies include the following:

Subsidiaries	Nature of business	Class of share	Proportion of voting power held %
dotdigital EMEA Limited	Cross-channel marketing automation	Ordinary	100
		Ordinary A	100
dotsurvey Limited	Dormant	Ordinary	100
dotsearch Europe Limited	Development hub	Ordinary	100
dotcommerce Limited	Dormant	Ordinary	100
doteditor Limited	Dormant	Ordinary	100
dotSEO Limited	Dormant	Ordinary	100
dotagency Limited	Dormant	Ordinary	100
dotdigital Inc	Cross-channel marketing automation	Ordinary	100
dotdigital APAC Pty Limited	Cross-channel marketing automation	Ordinary	100
dotmailer Development Ltd	Holding company	Ordinary	100
dotmailer SA Pty	Development hub	Ordinary	100
dotmailer LLC	Development hub	Ordinary	100
dotdigital SG Pte Limited	Cross-channel marketing automation	Ordinary	100
Dynmark International Ltd	Omnichannel communication platform	Ordinary	100
Dynmark S.p z.o.o	Omnichannel communication platform	Ordinary	100
Donky Networks Ltd	Omnichannel communication platform	Ordinary	100

All of the above subsidiaries have been included within the consolidated results. All the above companies with the exception of dotdigital Inc, dotmailer SA Pty, dotmailer LLC, dotdigital APAC Pty Limited, dotdigital SG Pte. Limited and Dynmark S.p. z.o.o were incorporated in England and Wales. dotdigital Inc was incorporated in Delaware (US), dotdigital APAC Pty Limited was incorporated in New South Wales (Australia), dotmailer SA Pty was incorporated in South Africa, dotdigital SG Pte. Limited was incorporated in Singapore, dotmailer LLC was incorporated in the Republic of Belarus and Dynmark S.p. z.o.o. was incorporated in Poland.

17. Trade and other receivables

	Group		Company	
	30.6.19 £'000	30.6.18 £'000	30.6.19 £'000	(restated) 30.6.18 £'000
Current:				
Trade receivables	9,155	8,677	–	–
Less: Provision for impairment of trade receivables	(999)	(403)	–	–
Trade receivables – net	8,156	8,274	–	–
Other receivables	218	151	–	–
Amounts owed by Group undertakings	–	–	692	743
VAT	–	–	14	12
Tax receivables	392	312	–	–
Prepayments and contract income	3,456	4,216	102	127
	12,222	**12,953**	**808**	**882**

Further details on the above can be found in note 23. Included within prepayments is an amount of £662,912 (2018: £852,504) in relation to deferred commission which is considered to be long term.

18. Cash and cash equivalents

	Group		Company	
	30.6.19 £'000	30.6.18 £'000	30.6.19 £'000	30.6.18 £'000
Bank accounts	19,320	15,005	594	646
	19,320	**15,005**	**594**	**646**

Further details on the above can be found in note 23.

19. Called up share capital

Allotted, issued, fully paid number	Nominal value	30.6.19 £'000	30.6.18 £'000
298,030,565 (2018: 298,030,565)	£0.005	1,490	1,490
		1,490	**1,490**

20. Reserves

Group	Retained earnings £'000	Share premium £'000	Reverse acquisition reserve £'000	Retranslation reserve £'000	Other reserves £'000	Totals £'000
As at 1 July 2018	32,331	6,791	(4,695)	(26)	661	35,062
Dividends	(1,903)	–	–	–	–	(1,903)
Profit for the year	8,525	–	–	–	–	8,525
Transfer of reserves	506	–	–	–	(506)	–
IFRS 15 reclassification	(2,837)	–	–	–	–	(2,837)
IFRS 15 Deferred tax adjustment	539	–	–	–	–	539
Other comprehensive income: Currency translation	–	–	–	42	–	42
Share-based payments	–	–	–	–	565	565
Balance as at 30 June 2019	**37,161**	**6,791**	**(4,695)**	**16**	**720**	**39,993**

Group	Retained earnings £'000	Share premium £'000	Reverse acquisition reserve £'000	Retranslation reserve £'000	Other reserves £'000	Totals £'000
As at 1 July 2017	25,306	6,290	(4,695)	(46)	305	27,160
Issue of share capital	–	501	–	–	–	501
Dividends	(1,627)	–	–	–	–	(1,627)
Profit for the year	8,558	–	–	–	–	8,558
Transfer of reserves	94	–	–	–	(94)	–
Other comprehensive income: Currency translation	–	–	–	20	–	20
Share-based payments	–	–	–	–	450	450
Balance as at 30 June 2018	**32,331**	**6,791**	**(4,695)**	**(26)**	**661**	**35,062**

Company	Retained earnings £'000	Share premium £'000	Other reserves £'000	Totals £'000
As at 1 July 2018	5,761	6,791	661	13,213
Issue of share capital	–	–	–	–
Dividends	(1,903)	–	–	(1,903)
Loss for the year	(849)	–	–	(849)
Transfer of reserves	506	–	(506)	–
Share-based payments	–	–	565	565
As at 30 June 2019	**3,515**	**6,791**	**720**	**11,026**

Notes to the consolidated financial statements continued

For the year ended 30 June 2019

20. Reserves continued

Company	Retained earnings £'000	Share premium £'000	Other reserves £'000	Totals £'000
As at 1 July 2017	2,239	6,290	305	8,834
Issue of share capital	–	501	–	501
Dividends	(1,627)	–	–	(1,627)
Profit for the year	5,055	–	–	5,055
Transfer of reserves	94	–	(94)	–
Share-based payments	–	–	450	450
As at 30 June 2018	**5,761**	**6,791**	**661**	**13,213**

21. Trade and other payables

	Group		Company	
	30.6.19 £'000	30.6.18 £'000	30.6.19 £'000	30.6.18 £'000
Current:				
Trade payables	3,975	6,184	59	15
Amounts owed to Group undertakings	–	–	3,932	1,913
Social security and other taxes	81	480	–	–
Other payables	150	60	–	–
VAT	1,162	989	–	–
Accruals and contract liabilities	5,728	2,504	42	44
	11,096	**10,217**	**4,033**	**1,972**

Further details on liquidity and interest rate risk can be found in note 23.

22. Leasing agreements

Minimum lease payments under non-cancellable operating leases fall due as follows:

	30.06.19		
	Land & buildings £'000	Others £'000	Totals £'000
Within one year	1,243	44	1,287
Between two to five years	4,052	31	4,083
	5,295	**75**	**5,370**

	30.06.18		
	Land & buildings £'000	Others £'000	Totals £'000
Within one year	1,094	45	1,139
Between two to five years	1,310	55	1,365
	2,404	**100**	**2,504**

Operating leases represent rents payable by the Group for its office properties and car leases. Leases are negotiated for an average term of five years and rentals are fixed on an average of two years with the option to extend for a further five years at the prevailing market rate at the time.

23. Financial instruments and risk management

The Group's activities expose it to a number of financial risks that include credit risk, liquidity risk, currency risk and interest rate risk. These risks and the Group's policies for managing them have been applied consistently during the year and are set out below.

The Group holds no financial or other non-financial instruments other than those utilised in the working operations of the Group and that are listed in this note. It is the Group's policy not to trade in derivative contracts.

Principal financial instruments

The principal financial instruments used by the Group, from which financial instrument rate risk arises, are as follows:

- Trade receivables
- Cash and cash equivalents
- Trade and other payables

Financial instruments by category

The following table sets out the financial instruments as at the reporting date:

	Group		Company	
	30.6.19 £'000	30.6.18 £'000	30.6.19 £'000	30.6.18 £'000
Financial assets				
Trade and other receivables	12,222	12,953	808	882
Bank balances	19,320	15,005	594	646
	31,542	27,958	1,402	1,528
Financial liabilities				
Trade payables	3,975	6,184	59	15
Amounts owed to Group undertakings	–	–	3,932	1,913
Accrued liabilities and other payables	7,121	4,033	42	44
	11,096	10,217	4,033	1,972

The fair value of the financial assets and financial liabilities is equal to their carrying values. All financial assets are categorised as loans and receivables and all financial liabilities are categorised as financial liabilities at amortised costs.

General objectives, policies and processes

The Board has overall responsibility for the determination of the Group's risk management objectives and policies and whilst retaining ultimate responsibility for them, it has delegated the authority for designing and operating processes that ensure the effective implementation of the objectives and policies to the Group's risk committee. The Board receives quarterly reports from the Risk Committee through which it reviews the effectiveness of the processes put in place and the appropriateness of the objectives and policies it sets.

The overall objective of the Board is to set policies that seek to reduce risk as far as possible without unduly affecting the Company's competitiveness and flexibility. Further details regarding these policies are set out below:

Interest rate risk

The Group's interest rate risk arises from interest-bearing assets and liabilities. The Group has in place a policy of maximising finance income by ensuring that cash balances earn a market rate of interest offsetting where possible cash balances, and by forecasting and financing its working capital requirements. As at the reporting date the Group was not exposed to any movement in interest rates as it has no external borrowings and therefore is not exposed to interest rate risk. No sensitivity analysis has been prepared.

The Group's working capital requirements are managed through regular monitoring of the overall cash position and regularly updated cash flow forecasts to ensure there are sufficient funds available for its operations.

Liquidity risk

The Group's working capital requirements are managed through regular monitoring of the overall position and regularly updated cash flow forecasts to ensure there are funds available for its operations. Management forecasts indicate no new borrowing facilities will be required in the upcoming financial period.

Trade and other payables of £5,287,000 (2018: £7,233,000) are expected to mature in less than a year.

Notes to the consolidated financial statements continued

For the year ended 30 June 2019

23. Financial instruments and risk management continued

Credit risk

Credit risk arises principally from the Group's trade receivables, as there are no trade receivables within the Company, which comprise amounts due from customers. Prior to accepting new customers a credit check is obtained. As at 30 June 2019 there were no significant debts past their due period which had not been provided for. The maturity of the Group's trade receivables is as follows:

	30.6.19 £'000	30.6.18 £'000
0-30 days	6,408	6,172
30-60 days	521	720
More than 60 days	2,226	1,785
	9,155	**8,677**

The maturity of the Group's provision for impairment is as follows:

	30.6.19 £'000	30.6.18 £'000
0-30 days	27	–
30-60 days	–	–
More than 60 days	972	403
	999	**403**

The movement in the provision for the impairment is as follows:

	30.6.19 £'000	30.6.18 £'000
As at 1 July	403	502
Provision for impairment	621	40
Receivable written off in the year	(5)	(72)
Unused amount reversed	(20)	(67)
As at 30 June	**999**	**403**

The Group minimises its credit risk by profiling all new customers and monitoring existing customers of the Group for changes in their initial profile. The level of trade receivables older than the average collection period consisted of a value of £2,053,528 (2018: £2,041,922) of which £972,221 (2018: £402,985) was provided for. The Group felt that the remainder would be collected post year end as they were with long-standing relationships, and the risk of default is considered to be low and write-offs due to bad debts are extremely low. The Group has no significant concentration of credit risk, with the exposure spread over a large number of customers.

The credit risk on liquid funds is low as the counterparts are banks with high credit ratings assigned by international credit rating bodies. The majority of the Company's cash holdings are held at NatWest Bank which has a BBB+ credit rating.

The carrying value of both financial assets and liabilities approximates to fair value.

Capital policy

The Group's objectives when managing capital are to safeguard its ability to continue as a going concern in order to provide optimal returns for shareholders and to maintain an efficient capital structure to reduce the cost of capital.

In doing so the Group's strategy is to maintain a capital structure commensurate with a strong credit rating and to retain appropriate levels of liquidity headroom to ensure financial stability and flexibility. To achieve this, the Group monitors key credit metrics, risk and fixed charge cover to maintain this position. In addition the Group ensures a combination of appropriate short-term and long-term liquidity headroom.

During the year the Group had a short-term loan balance of £nil (2018: £nil) and amounts payable over one year are nil (2018: £nil). The Group had a strong cash reserve to utilise for any short-term capital requirements that were needed by the Group.

The Group has continued to look for a further long-term investments or acquisitions and therefore, to maintain or realign the capital structure, the Group may adjust when dividends are paid to shareholders, return capital to shareholders, issue new shares or borrow from lenders.

24. Deferred tax

	30.6.19 £'000	30.6.18 £'000
As at 1 July	1,697	814
IFRS 15 adjustment	(539)	–
Current year provision	219	426
Provision on recognition of intangibles on acquisition	–	457
	1,377	**1,697**

The deferred tax liability above comprises the following temporary differences:

	30.6.19 £'000	30.6.18 £'000
Acquired intangibles	264	429
Capital allowances in excess of depreciation	65	178
R&D relief in excess of amortisation	1,919	1,204
Share option relief	(332)	(114)
IFRS 15 prior year deferred tax	(539)	–
	1,377	**1,697**

Deferred tax provision relates to taxes to be levied by the same authority on the same entity expected to be settled at the same time. As such deferred tax assets and liabilities have been offset.

25. Capital commitments

The Company and Group have no capital commitments as at the year end.

26. Related party disclosures

Transactions between the Company and its subsidiaries, which are related parties, have been eliminated on consolidation and are not disclosed in this note.

Group

The following transactions were carried out with related parties:

			30.6.19 £'000	30.6.18 £'000
Sale of services				
Cadence Performance	Entity under common directorship (up to 31 March 2019)	Email marketing services	2	2
Cloudcall Group Plc	Entity under common directorship (up to 31 March 2019)	Email marketing and cross-channel services	12	16
			14	**18**
Year end balances arising from sale of services				
Cloudcall Group Plc	Entity under common directorship (up to 31 March 2019)	Email marketing and cross-channel services	1	16
			1	**16**

Directors

	30.6.19 £'000	30.6.18 £'000
Aggregate emoluments	835	701
Ex-gratia payment	–	40
Company contributions to money purchase pension scheme	21	26
Share-based payments from the LTIP options granted	389	145
	1,245	**912**

Directors' pay summary does not include Non-Executive Directors.

Notes to the consolidated financial statements continued

For the year ended 30 June 2019

26. Related party disclosures continued

Information in relation to the highest paid Director is as follows:

	30.6.19 £'000	30.6.18 £'000
Salaries	435	395
Other benefits	12	12
Pension costs	13	13
Share-based payments on the LTIP options granted	289	145
	749	565

Company

The following transactions were carried out with related parties:

			30.6.19 £'000	30.6.18 £'000
Year end balances arising from sales/purchase of services				
dotdigital EMEA Limited	Subsidiary	Payables	651	(5,350)
			651	**(5,350)**

The receivables and payables are unrestricted in nature and bear no interest. No provisions are held against receivables from related parties.

Loans to/from related parties

		30.6.19 £'000	30.6.18 £'000
dotdigital EMEA Limited	Subsidiary		
As at 1 July		(2,559)	9,950
Loans advanced		51	97
Loans repaid		(2,072)	(12,606)
		(4,580)	**(2,559)**

27. Ultimate controlling party

There is no ultimate controlling party of the Group. dotdigital Group Plc acts as the parent Company to dotdigital EMEA Limited, dotsearch Europe Limited, dotdigital Inc, dotdigital APAC Pty Limited, dotagency Limited (Dormant), dotsurvey Limited (Dormant), dotSEO Limited (Dormant), dotcommerce Limited (Dormant), doteditor Limited (Dormant), dotmailer Developments Limited, dotmailer SA Pty, dotmailer LLC, dotdigital SG Pte. Limited, Dynmark International Ltd, Dynmark S.p. z.o.o. and Donky Networks Ltd.

28. Share-based payment transactions

The measurement requirements of IFRS 2 have been implemented in respect of share options that were granted after 7 November 2002. The expense recognised for share-based payment made during the year is £565,000 (2018: £450,000).

Vesting conditions of the options dictate that employees must remain in the employment of the Group for the whole period to qualify.

Movement in issued share options during the year

The table illustrates the number and weighted average exercise price (WAEP) of, and movements in, share options during the period. The options outstanding at 30 June 2019 had a WAEP of 49.16p (2018: 9.43p) and a weighted average contracted life of 3.66 years (2018: 4.16 years) and their exercise prices ranged from 28.5p to 68.50p. All share options are settled in form of equity issued.

	30.06.19		30.6.18	
	No. of options	WAEP	No. of options	WAEP
Outstanding at the beginning of the period	3,732,262	9.43p	2,540,145	33.35p
Granted during the year	2,305,000	50p	2,984,197	0.5p
Forfeited/cancelled during the period	(1,609,198)	50p	–	0p
Exchanged for shares	–	0p	(1,792,080)	28.46p
Outstanding at the end of the period	4,428,064	49.16p	3,732,262	9.43p
Exercisable at the end of the period	748,065	45.05p	517,080	34.57p

The weighted average share price at the date of the exercise for share options exercised during the period was £nil (2018: 28.46p).

	24 October 2018	19 December 2017	20 June 2017	25 November 2015	28 November 2014
Number of options granted	2,305,000	1,375,000	230,985	809,160	1,525,000
Share price at grant date	77.50p	85.95p	68.50p	40.50p	29.00p
Exercise price	0.50p	0.50p	68.50p	40.25p	28.50p
Option life in years	5 years	5 years	5 years	5 years	5 years
Risk-free rate	1.23%	1.33%	1.33%	1.33%	1.35%
Expected volatility	30%	30%	30%	30%	30%
Expected dividend yield	1%	1%	1%	1%	0.4%
Fair value of options/warrants	52.70p	65.03p	12.04p	6.46p	5.33p

Expected volatility was determined by calculating the historical volatility of the Group's share price from the date it listed to the grant date of the share option. The expected life used in the model is based on management's best estimate, for the effects of non-transferability, exercise restrictions and behavioural considerations.

The share options granted on 24 October 2018 were following the approval of the LTIP scheme at the AGM on 19 December 2017 and the end-to-end awards that were granted to key personnel.

29. Group reconciliation of profit before corporation tax to cash generated from operations

	Group		Company	
	30.6.19 £'000	(restated) 30.6.18 £'000	30.6.19 £'000	30.6.18 £'000
Current				
Profit before tax from all operations	8,873	9,243	(849)	5,055
Currency revaluation	42	20	–	–
Amortisation	3,358	1,971	–	–
Depreciation	465	495	–	–
Exceptional costs	344	148	–	–
Finance lease non-cash movement	12	–	–	–
IFRS 15 reclassification	(2,837)	–	–	–
Gain/(loss) on disposal of fixed assets	–	3	–	–
Share-based payments	565	450	565	450
Finance income	(19)	(9)	–	–
	10,803	**12,321**	**(284)**	**5,505**
Decrease/(Increase) in trade receivables	811	(3,638)	74	3,528
Increase in trade payables	879	2,537	2,061	1,876
Cash generated from operations	**12,493**	**11,220**	**1,851**	**10,909**

30. Group cash and cash equivalents

The amounts disclosed in the statement of cash flow in respect of cash and cash equivalents are in respect of these statements of financial position amounts:

	Group £'000	Company £'000
As at 1 July 2017	20,428	591
As at 30 June 2018	15,005	646
As at 30 June 2019	**19,320**	**594**

Notes to the consolidated financial statements continued

For the year ended 30 June 2019

31. Project development

During the period the Group incurred £5,507,539 (2018: £4,376,645) in development investments. All resources utilised in development have been capitalised as outlined in the accounting policy governing this area.

32. Post balance sheet events

There are no post balance sheet events which impact the Group's financial statements.

33. IFRS 15 restatement

The Group has adopted IFRS 15 as at 1 July 2018 and applied the modified retrospective approach. Comparatives for the 12 months ended 30 June 2018 have not been restated and the cumulative impact on adoption has been recognised as a decrease to retained earnings with the corresponding increase in current liabilities at 1 July 2018 as follows:

	01.07.18 £'000
Retained earnings:	
Revenue	2,837
Deferred tax reserve	(539)
Total impact at 1 July 2018	**2,298**
Current liabilities:	
Trade and other payables	2,837
Non-current liabilities:	
Deferred tax	(539)
Total impact at 1 July 2018	**2,298**

IFRS 15 has had an impact on retained earnings as outlined below.

Professional services at no charge: The Group sells professional services to its customers and there are occasions when these services are provided at no cost as part of the contract sold. Historically, the Group did not recognise these services as they were fully discounted. Under IFRS 15, the services provided for no charge are recognised and accounted for as separate performance obligations when the service occurs. The amount allocated to the services is deducted from the contract value and the remainder of the contract value is spread evenly over the term of the contract. This revised treatment in respect of professional services provided at no cost has accelerated the recognition of revenue and resulted in lower deferred income at adoption on 1 July 2018.

Prepaid contracts: The Group sells 12-, 24- and 36- month contracts to its customers. This revenue is normally recognised monthly over the period of the contract. Historically there have been instances where a customer prepays their contract and due to its immaterial nature, the revenue was recognised at the date of invoice. Under IFRS 15, the prepaid contracts are recognised over the period of the contract irrespective of materiality.

Term Contract billing: The Group raises the first invoice to its new customers when the service agreement is signed. Occasionally, the service does not start in the same month as when the service agreement is signed. Historically, the Group has recognised the revenue in the month invoiced due to its immaterial nature. Under IFRS 15, the upfront billing is recognised over the period of the contract irrespective of materiality.

	Year ended 30 June 2019			
	Amounts pre IFRS 15 £'000s	Transition Adjustment £'000s	In period adjustment £'000s	Amounts as reported £'000s
All operations				
Revenue	51,422	–	(137)	51,285
Cost of sales	(11,221)	–	–	(11,221)
Gross profit	40,201	–	(137)	40,064
Administrative expenses	(29,720)	–	–	(29,720)
Share-based payments	(565)	–	–	(565)
Exceptional costs	(925)	–	–	(925)
Operating profit from all operations	**8,991**	**–**	**(137)**	**8,854**
Finance income	19	–	–	19
Profit before income tax from all operations	**9,010**	**–**	**(137)**	**8,873**
Income tax expense	(374)	–	26	(348)
Profit for the year from continuing operations	**11,093**	**–**	**(111)**	**10,982**
Profit for the year from discontinuing operations	**(2,457)**	**–**	**–**	**(2,457)**
Profit for the period attributable to the owners of the parent	**8,636**	**–**	**(111)**	**8,525**
Assets				
Non-current assets				
Goodwill	9,680	–	–	9,680
Intangible assets	11,702	–	–	11,702
Property, plant and equipment	1,037	–	–	1,037
	22,419	–	–	22,419
Current assets				
Trade and other receivables	12,196	–	26	12,222
Cash and cash equivalents	19,320	–	–	19,320
	31,516	–	26	31,542
Total assets	**53,935**	**–**	**26**	**53,961**
Equity attributable to the owners of the parent				
Called up share capital	1,490	–	–	1,490
Share premium	6,791	–	–	6,791
Reverse acquisition reserve	(4,695)	–	–	(4,695)
Other reserves	720	–	–	720
Retranslation reserve	16	–	–	16
Retained earnings	39,570	(2,298)	(111)	37,161
Total equity	**43,892**	**(2,298)**	**(111)**	**41,483**
Liabilities				
Non-current liabilities				
Deferred tax	1,916	(539)	–	1,377
	1,916	(539)	–	1,377
Current liabilities				
Trade and other payables	8,122	2,837	137	11,096
Financial liabilities – borrowings:				
- Interest bearing loans	5	–	–	5
	8,127	2,837	137	11,101
Total liabilities	**10,043**	**2,298**	**137**	**12,478**
Total equity and liabilities	**53,935**	**–**	**26**	**53,961**

Company information

For the year ended 30 June 2019

Directors:
P Amin
M Patel
F Beechinor-Collins (resigned 26 March 2019)
R Kellett-Clarke (resigned 3 April 2019)
P A Simmonds (resigned 26 March 2019)
T Taylor
B Huard (appointed 26 March 2019)

Company Secretary:
G Kasparian

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Registered number:
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Statutory Auditor
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Nomad/broker:
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EC2R 7AE

Joint broker:
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Solicitors:
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Our clients

Barnardo's	abi and joseph	Accolade Wines	Action on Hearing Loss	British Airways
Alex Woo Made in New York	Barbour	Winsor & Newton	reeves	Copa Airlines
Arlo & Jacob	DHL	Leisure Pass Group	Bodybuilding Warehouse	Vita Student
Tottenham Hotspur	Bremont Chronometers	Cats Protection	Help for Heroes	Explorer Travel Insurance
City & Guilds	Macmillan Cancer Support	deborah lippmann	itv Studios	great run The World's Favourite Run
Vet Shop Max	travelplanners service beyond the call	Teach First	NHS Blood and Transplant	The Jockey Club Since 1750
dormify	colart	brush-baby	Virgin active	Times Square Alliance
Winsor & Newton	British Heart Foundation	Team GB	icelolly.com	spicerhaart be moved
selco Builders Warehouse	Neville Johnson Design without compromise	The Crystal Maze Live Experience	Est 1898 T.M. Lewin Jermyn St. London	Villa Plus
Citylit	Derby County Football Club	Danone	Grenson England 1866	Lefranc Bourgeois Paris
Häfele	Ipswich Town Football Club	Leisure Pass Group	RNIB	Select Property Group
SiS Science in Sport	Liverpool John Moores University	Monster Pet Supplies	Naylors	Monin
Fred Perry	Hornby	Crystal Palace	Paul Smith	Jet2.com

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