dotdigital GROUP PLC

Annual Report 2019/2020

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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.

£47.4m
*Revenue
↑ 12% from £42.5m

£13.1m
*Adjusted operating profit
↑ 11% from £11.8m

£18.2m
*Adjusted EBITDA
↑ 24% from £14.7m

£25.4m
Cash position
↑ 31% from £19.3m

* Adjusted for continuing operations.

Chairman's report

"The strong fundamentals of the business have been vital in navigating the situation, but it is our colleagues that have been the driving force behind our continued progress."

Michael O'Leary
Non-Executive Chairman

Overview

One of dotdigital's key strengths is its contracted recurring revenue model and there can be few more rigorous stress tests for it than the outbreak of a global pandemic. From the onset we have adapted well and delivered a strong set of results with progress made against all of our strategic pillars despite the disruption in Q4.

Our continued double-digit revenue growth clearly demonstrates the value that organisations attach to our platform which, for many, has been a vital tool for continuing to drive sales and maintain customer engagement through the time of the pandemic.

It remains difficult to predict how the pandemic will play out, but we have shown our ability to weather the most challenging of commercial environments. There is no room for complacency, but having started the new financial year well and with demand for our products continuing to grow, we can look to the future with measured confidence.

The strong fundamentals of the business have been vital in navigating the situation, but it is our colleagues that have been the driving force behind our continued progress. On behalf of the Board I would like to thank them all for their efforts.

Strategic progress

2019/20 represents the first full financial year since the Group and its platform were rebranded as dotdigital and Engagement Cloud respectively to reflect better the complementary, omni-channel nature of the offering. The progress the Group has made since that pivot in strategy – both in building out the product and expanding its reach to new and exciting markets around the world – has been remarkable. As a relative newcomer to the business, I have been hugely impressed by the ability of our teams to meet the evolving needs of marketeers in an increasingly digital world, underpinned by an unwavering commitment to innovation and an ambitious, supportive and inclusive company culture.

As a result of a lot of hard work, we now have one of the most comprehensive, easy-to-use, reliable and secure digital marketing platforms available, and are constantly looking at ways in which we can enhance it further. Beyond email marketing, we now offer SMS, push notifications, live chat and social ad functionality all in one solution. The global appeal of the platform is evident from the increase in the contribution of non-UK sales this year.

In further validation of the strategic developments that have taken place at dotdigital in the past two years, the Company was for the first time recognised as a "strong performer" by Forrester in its Email Marketing Service Providers Q2 2020 report. As one of the "13 providers that matter most", the report said dotdigital "presented itself for the first time in this study as earnest, honest, and winning clients at a rate unmatched by all of its larger competitors… Marketers who sell direct in their emails should consider this marketing cloud alternative". As an influential voice in the industry, this award is an important endorsement of our competitive edge in the space.

People

Despite the challenging economic backdrop, we continued to hire through the year to support our growth ambitions. While we have strengthened teams across the Group, we have been most active in recruiting to build out an already exceptional international team, ensuring we have the very best senior talent available with knowledge and experience of working in specific overseas markets. More detail is available in the geographic progress section of the Chief Executive's Review.

At Board level, I joined in January of this year as Non-Executive Chairman, having spent more than 35 years working with listed companies with a focus on software and technology. In May, we welcomed Liz Richards to the Board as Independent Non-Executive Director and Chair of the Audit Committee. Liz has had a highly successful career as CFO and Chair of Audit and brings with her a wealth of PLC experience that will be of great benefit to the Group.

Moving forwards, we will continue to hire in line with our international expansion plans, adding new skills and increasing management bandwidth where necessary, while also investing in the development of our existing colleagues around the world.

Dividend

The Board has agreed to maintain a progressive dividend in line with Group EBITDA growth. Therefore, subject to approval at the AGM in December 2020, the Board proposes that the Group will pay a final dividend of 0.83p per ordinary share (2019: 0.67p).

Michael O'Leary
Non-Executive Chairman
17 November 2020

"We wanted to use dotdigital to understand how to better communicate with our customers in a conceptual and personal manner. The RFM personas have enabled us to refine our customer database and build improved segments while delivering tailored campaigns for existing and new customers alike."

Diana Uribe | *Digital Specialist at Caruso's Natural Health*

Empowering customers with intelligent tools and people

dotdigital Engagement Cloud empowers multidisciplinary teams to plan, test, execute and optimise omni-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 omni-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 personalise, segment, and automate revenue-generating campaigns in minutes with easy, time-saving tools. We help marketers scale quickly to maximise 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.

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

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, omni-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 both B2B and B2C digital experiences for our customers

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 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 and no debt

High levels of 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 the next five years complemented with omni-channel features

New messaging channels as customers create omni-channel experiences

"We are empowering our customers through our commitment to platform innovation and investment in international growth."

Independence

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

Leadership

Experienced management team

Executive team with proven track record of success

Strong Non-Executive Board with experiences of scaling businesses of this size

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

Outlook

Strong growth outlook

Innovation to support marketing move to omni-channel and Artificial Intelligence

Ability to supplement with sensible technology acquisitions

Attract further world-class partners to increase the addressable market

New geographic markets with greater potential than UK alone

Thoughts of the Chief Executive Officer

"It is with great pleasure that I share with you my thoughts on the past 12 months. In a time of global market uncertainty, we have remained focused on innovation through continuous investment in research and development, the move to being a data-centric omni-channel messaging platform, and hiring new talent across all our international hubs to increase management bandwidth and help scale our regions. This has set the foundation for future growth."

We have continued to deliver on our vision of expanding our geographic footprint and increasing our addressable market through the integrations we have built into our key strategic partners in both the e-commerce and CRM spaces. Global awareness of the dotdigital brand and what it can do is growing.

We have continued to pursue our goal of optimising both our sales and customer success processes, listening to feedback from our customers, investing in talent to support their needs, educating the market on omni-channel and building functionality within the platform that helps customers bring their data together for relevancy and personalisation. The platform has evolved to be the best-of-breed player within the data-driven, omni-channel, marketing automation space and continues to empower our customers to create engagement with all their recipients. Next year will see an increase in investment to further solidify our competitive advantage in the data platform market.

By strengthening the foundations of the business, both from a platform and people perspective, we are better placed to capitalise on the opportunities to increase our addressable market and sustain long-term growth. I am confident about the business and our direction of travel. This year has been unique with the global pandemic creating market uncertainties, however our business model, focused around our three pillars of growth and strong fundamentals in the business, has helped us navigate these turbulent times.

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, continued operations growth remained at double-digit levels, during a time of macro-economic uncertainty where our customers were pausing for breath trying to understand how they needed to adapt their business models during the global lockdowns. As we entered the last few months of the financial year, we saw some normalisation in the number of new customers coming on board and growth in existing customer spend.

As part of our focus on the environment, this year we were able to commission a project to make us ISO 14001 compliant and have made progress in this area. We have been able to reach carbon neutral a year earlier than planned, which has been a fantastic achievement.

I would like to take this opportunity to thank our people who have adapted fantastically to new ways of working so quickly and their continued commitment to the success of the business.

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

Milan Patel
Chief Executive Officer
17 November 2020

↑98.0%
2019: 97.4%
2018: 97.0%

Customer Support Satisfaction score (CSAT)

↑98.9%
2019: 98.5%
2018: 98.1%

Email delivery rate

↓15mins
2019: 26 mins
2018: 38 mins

Mean email delivery time

↑21.1bn
2019: 16.5bn
2018: 14.9bn

Message sending volume

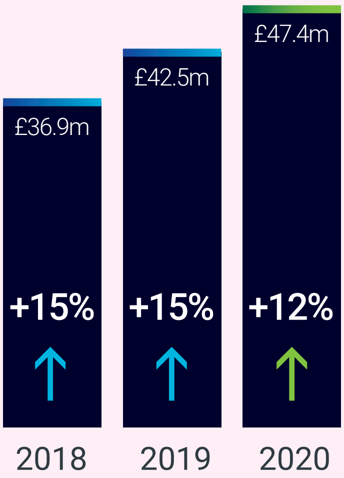
Key Performance Indicators

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. Our non-financial KPIs provide us with an indication of our platform's ability and measurement of how successful we are in supporting our customers. Both elements are crucial to the success of our business. Employee remuneration is specifically linked to these KPIs.

Financial

Revenue (continued)

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

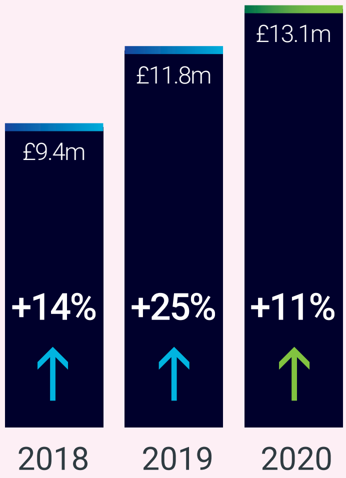


Cash position

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.



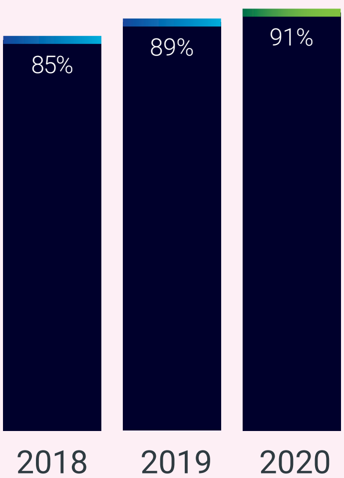
Strategic**

ARPC

We aim to continue to grow Average Revenue Per Customer (ARPC).

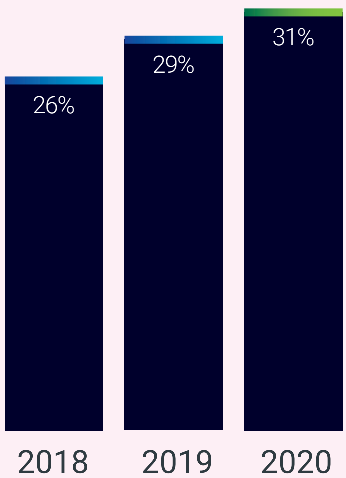
Recurring revenue

We aim to have recurring revenues of over 90%.



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.

** does not include the acquisition of Comapi.

*** adjusted operating profit excludes share-based payment, exceptional costs and amortisation of intangibles on acquisition.

Remedy integrates dotdigital automated solutions to strengthen its digital presence and transform customer engagement

Founded in 2012, by Melbourne-based couple Sarah and Emmet Condon, Remedy has become the market leader in fermented beverages in Australia and New Zealand. With a mission to make tasty and healthy drinks available to people everywhere, Remedy has since expanded overseas into the UK, US, Canada, and Singapore.

The brand has grown in popularity, building a loyal following for Remedy Kombucha starting in health food stores, independent supermarkets, and cafes; recently expanding to convenience stores and major supermarkets. Besides Kombucha, Remedy also produces Coconut Water Kefir, Switchel, Tepache and Soda, all with no sugar naturally.

Challenge

With the growing popularity and expansion of its brand and customer database, Remedy recognised an opportunity to better engage with consumers in the digital space, with tailored and personalised content.

15%

increase in revenue from emails

Solution

In early 2019, Remedy partnered with dotdigital to explore its automation functionalities and solutions. As well as being integrated with their e-commerce platform, Magento, dotdigital's capability to capture, funnel, and segment customer data was one of the main reasons driving this decision. Currently, Remedy is running automated customer engagement programs such as a welcome series, abandoned cart notifications, product education programs, and review email campaigns.

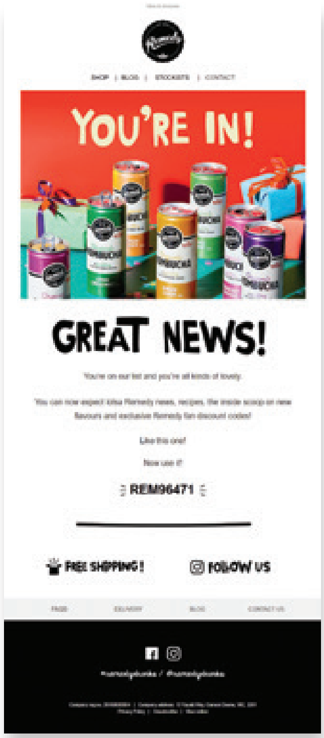
Results

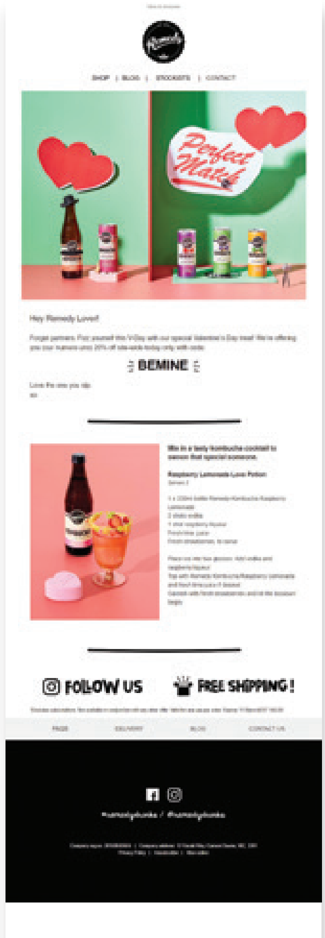
According to Tom Melenhorst, Digital Marketing & Ecommerce Manager at Remedy, partnering with dotdigital has enabled Remedy to effectively implement a comprehensive engagement strategy with its customers. dotdigital's automated platform helped Remedy to use email to its maximum potential, deliver consistent messaging, and engage with their customers with highly relevant content. Utilising dotdigital Engagement Cloud enabled the company to access real-time data and run better-personalised campaigns, giving a facelift to its digital efforts.

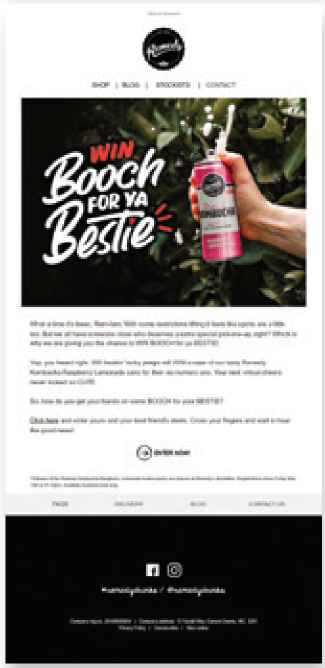
"Another benefit of using dotdigital is its flawless onboarding process, accompanied by their user-friendly platform. Over the last year, the segmentation and quality research of the data through different automated programs has allowed us to have an in-depth understanding of our customer preferences, ultimately targeting them with personalised products and campaigns," commented Tom.

The user-friendly interface made it easy for Remedy to work around the content, channel it into customised automated programs, and streamline the electronic direct mail (EDM) process. By using dotdigital, the company has not only enhanced its customer experience but also built a stronger approach towards brand recognition, as well as customer retention. In the past 12 months, Remedy has also seen 15% of its revenue come from emails.

Remedy intend to create a wider focus on its customers by enhancing re-engagement programs and different types of automated triggered emails – including transactional emails. The re-engagement campaign will help the brand approach its existing customers with relevant content in a dynamic fashion.







Chief Executive Officer's report and financial review

Milan Patel
Chief Executive Officer

Key Highlights

	30.6.20 (£m)	30.6.19 (£m)	% Increase
Group Revenue (Continued & Discontinued)	**54.9**	51.3	7%
Revenue (Continued)	**47.4**	42.5	12%
Adjusted operating profit (Continued)*	**13.1**	11.8	11%
Adjusted EBITDA (Continued)**	**18.2**	14.7	24%
Net Assets	**50.7**	41.5	22%
Cash	**25.4**	19.3	31%

* adjusted operating profit excludes share based payment, exceptional costs and amortisation of intangibles on acquisition

** adjusted EBITDA excludes share based payment, exceptional costs and amortisation of intangibles on acquisition

Overview

The Group delivered organic revenue growth from continuing operations of 12% to £47.4m (2019: £42.5m) and adjusted EBITDA growth of 24% to £18.2m. Recurring revenues represented 91% of overall Group revenues (2019: c.89%), of which c.90% is contracted, giving good visibility. Recurring revenues derived from enhanced product functionality grew by 16% to £14.4m (2019: £12.4m), an important indicator of the value created by our focused R&D programme. The Group is cash generative and maintains a strong balance sheet with no debt and net cash balances of £25.4m at year end (2019: £19.3m), giving the Group scope to continue to invest in order to drive long-term, sustainable growth.

During the year, the platform's average revenue per customer (ARPC) continued its upward trend, growing by 12% from approximately £966 per month to £1,083 per month. This was largely the result of increased spend, both from additional messaging and additional functionality being used to drive a more personalised experience, along with signing up larger customers. Overall, the volume of messages sent out by the platform increased by 28% to 21.1bn from 16.5bn in 2019, reflecting both an increase in existing customer message volume growth and message volume growth from the new customers that we added during the year.

Impact of Covid-19

As a business, we transitioned quickly and smoothly to working from home. There was minimal operational impact, with all our teams, from engineers and customer support to sales and marketing, continuing to function at full capacity.

As previously reported, in the early stages of the pandemic we saw a slowdown of new business wins as decision making took longer for prospects. This mainly had an impact on sales in April, but at the same time we saw a reduction in churn, and trading improved on a monthly basis through to the end of the financial year. Our platform is sector and geography agnostic, and we saw the benefits of the diversity of our customer base throughout the pandemic, faring better than some of our peers with more concentrated end markets. The strong contracted recurring nature of our business model and our disciplined approach meant that cash collection remained robust throughout the year.

We retained all our colleagues during the pandemic, and none were furloughed, reflecting the continued high levels of demand for our platform and the confidence we have in the financial strength of the business.

Market

There is no doubt pandemic-related lockdowns and travel restrictions have accelerated the general trend towards digitalisation. Reporting strong top line growth in its Q3 results at the end of April on the back of accelerated adoption of its Teams communication and collaboration platform, Microsoft CEO Satya Nadella said the pandemic had driven "two years' worth of digital transformation in two months".

Perhaps not to the same extreme, a similar sentiment can be applied to the pandemic's impact on the marketing industry. Digital has been growing as a proportion of overall marketing budgets for some time, but the pandemic has meant that to continue cultivating leads and maintaining effective communication with customers, marketing teams – many of which had previously relied on face-to-face interactions – have had no choice but to make greater use of digital channels, with email taking on an increasingly significant role.

> "As the Covid-19 crisis was unfolding we understood the importance of a strong ecommerce presence and acted accordingly. Thanks to dotdigital automated programs, we were able to surface customer data and use that intelligence to create personalised customer experiences."
>
> **Carl Hartmann** | *Co-Founder of Lyre's*

According to a recent survey of Fortune 1000 marketers by Chief Marketer, a leading content portal for marketers, email is now second only to social media as the most likely source of B2C conversion post-Covid, having taken significant share from in-person sales and live events. Respondents also reported a dramatic increase in the effectiveness of email as a source of B2C engagement. This is consistent with what we have been seeing, with healthy levels of new business acquisition from May onwards and more frequent and extensive use of email by existing customers.

We have also seen an increase in uptake of our omni-channel offering during the pandemic, with 23% of customers now using more than one channel. Organisations are keen to increase the number of touch points with customers and prospects against a backdrop of heightened economic uncertainty and reduced consumer spending. SMS revenues have increased significantly, and we have seen an increase in the number of customers making use of our real-time messaging capabilities such as in-browser live chat. We have also seen a trend towards an increase in the use of data-driven digital marketing, as marketing strategies become mature and customer-centric in ensuring they have a relevant and targeted message at every touchpoint between the customer or prospect and the brand.

Marketers will continue to shift and adapt their strategies as the recovery from Covid-19 continues, but now more than ever organisations recognise the power of email and other digital marketing channels, and these are likely to remain vital components of marketing strategies around the world as we emerge from the crisis. dotdigital understands the evolving needs of its customers and is committed to continuing to develop and enhancing its platform to help them be successful.

Geographic progress

All regions grew during the period, with the success of our international expansion strategy evident in that revenue from outside the UK was 31% of Group revenue for the year, up from 29% in FY19. We expect this to trend to continue as we deploy more investment in international regions.

International expansion is a key tenet of our growth strategy and has been a significant area of investment in the period. We have continued to strengthen our presence and enhance our prospects across all territories, despite the challenges posed by the pandemic, and expect to see that flow through to an improved top line growth rate in our overseas businesses as we move into FY 20/21 and beyond.

Growth strategy

dotdigital's organic growth strategy continues to be focused around its three core pillars:

Chief Executive Officer's report and financial review continued

> "Our account manager has been an absolute champion. It would be an understatement to say that she has just helped us build our programs, because she's not only done that, but made us rethink and rebuild our email strategy as a whole."
>
> **Damien Finecott** | *Brand & Project Development Manager at Goggles4u*

EMEA

EMEA revenue grew 9% to £36.3m despite market uncertainties in the second half of the financial year. Sales cycles lengthened during the initial lockdown as prospects delayed technology decisions and existing customers delayed project completions. As lockdowns started to ease, we saw an uptick in momentum both from a pipeline and sales conversion perspective.

North America

Revenues from North America were up 17% to US$10.5m from US$9.0m in 2019. North America is a key growth market and we have invested heavily in the region, including the appointment of an experienced General Manager to lead an already strong team, create more management bandwidth and bring greater experience of growing companies in this region.

Our focus remains on growing relationships with partners to help us build our presence while increasing brand awareness. We made a great deal of progress on both fronts in the period – particularly with Dynamics, Microsoft's line of enterprise resource planning and customer relationship management software applications. In May, we hired a partner manager who has experience in the space to enhance our relationship. They have already made significant progress, giving us confidence of increased traction in the space moving forwards.

In the current financial year, we intend to hire more sales and marketing resource in the region to accelerate our expansion plans and help us achieve our scale ambitions.

APAC

APAC saw the highest levels of growth in the year, albeit from a smaller base, with revenues growing 37%, from AUS$3.8m in 2019 to AUS$5.2m. We continued to invest in our Singapore team in the period and expect to see numbers of customer sign-ups through partners and direct sales continue to increase as we build out our presence there.

Product innovation

Functionality recurring revenues in the period grew 16% to £14.4m (2019: £12.4m), illustrating continued growth in the uptake of enhanced features, increased use of data and demonstrating our ability to successfully drive more value from our platform.

R&D investment in the year was £6.5m (2019: £5.5m), consistent with management expectations. Despite the disruption caused by the pandemic in the second half, we continued to execute against our product strategy and our roadmap has continued to develop as anticipated.

Our areas of focus for continued product innovation remain as follows:

- Data and intelligence – joining all data together to create a single customer view and help our customers better target their campaigns from a personalisation perspective. We have dedicated a great deal of resource to this in response to increasingly sophisticated customer requirements and will continue to do so through FY 20/21, culminating in significant upgrades to the platform.
- Marketing automation – harnessing artificial intelligence and machine learning across targeted parts of the platform's architecture. This included the launch of sector-tailored product packages for commerce customers and enhanced product recommendations capabilities.
- Building out further omni-channel functionality – to assist businesses through the full customer journey at every touch point. This included the launch of a new live chat solution through the Engagement Cloud and additional SMS capabilities, with an increase in take-up of both in the period.

A further area of focus in the period has been our reporting and analytics capability. The level of recency, frequency, and monetary insight we can provide has been enhanced, allowing customers to better target individuals through the engagement curve.

Other key developments in the period include improving the end user interface, bolstering our transactional email and messaging capability for all of our integrations, and introducing concepts of loyalty into the platform.

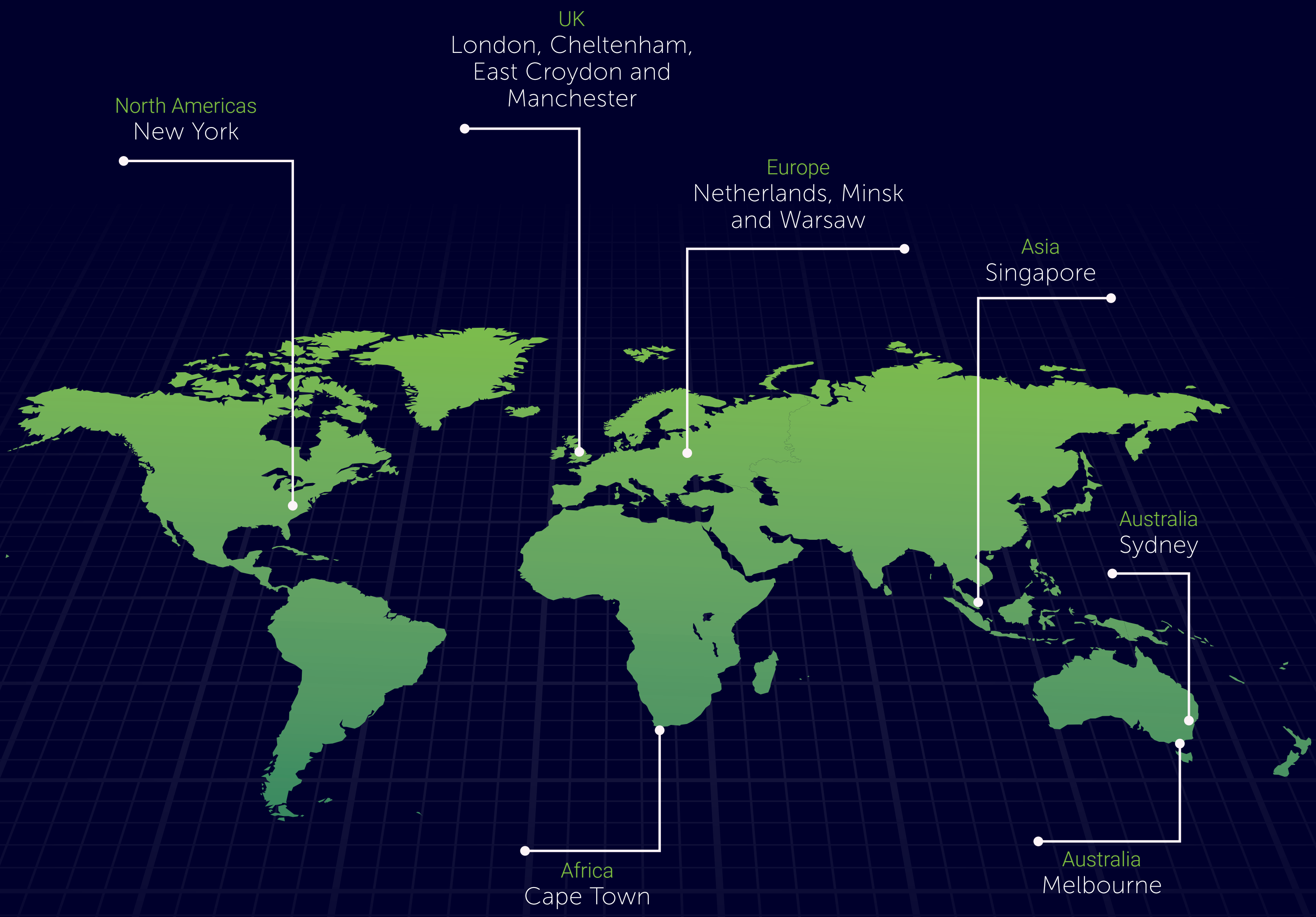
Developing strategic partnerships

We have continued to invest in all our strategic partner relationships, which are important in raising brand awareness in the regions and verticals in which we integrate, and are pleased with the progress we have made in developing them and refining our joint go-to-market strategies. Sales through connectors into strategic partners increased 10% to £22.2m (2019: £20.3m).

At the same time, from a technical perspective, we have made marked progress in optimising our integrations through both improving our connectors, software architecture that models interactions with our strategic partners' respective platforms, and the rules that govern those interactions. The combination of these continues to improve conversion rates.

Enhanced brand awareness alongside the additional functionality we developed for e-commerce merchants drove further growth in the Magento space. Sign-up of customers through Magento in all regions remained strong – in the period we added 206 Magento customers to the platform, taking the total to 716 as at the end of June 2020. Revenue from Magento customers in the period grew 10% from £11.8m to £13.0m.

Global office network



Chief Executive Officer's report and financial review continued

GROWTH STRATEGY

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

"Another benefit of using dotdigital is its flawless on-boarding process, accompanied by their user-friendly platform".

Tom Melenhorst | *Digital Marketing & Ecommerce Manager at Remedy*

All new Magento users continue to ship as standard with dotdigital messaging capabilities and now also get our chat functionality pre-installed, providing marketeers an increased value proposition for their digital marketing strategies. The new functionality allows us to capture the online conversations for segmenting upon, for relevancy and better machine learning for product recommendations and marketing automation. The introduction of chat functionality allows us to add an additional source of lead generation from the Magento community. Our respective teams continue to work together on our joint marketing strategy and enhanced development of our integration.

At the end of the financial year, we had 83 customers using the Shopify connector versus 56 at the corresponding time last year. In the year, revenue from Shopify customers grew 36% from £0.9m to £1.2m. With the inclusion of the dotdigital platform in Shopify's Plus Certified App Program, which is intended to make it easier for Shopify Plus merchants to discover carefully selected, best-of-breed apps, and our relationship continues to go from strength to strength. In addition, we have seen an increasing pipeline resulting from the integration that we have built with Shopify Flow, which allows e-commerce merchants a seamless connection to easily deploy campaigns from the dotdigital platform. We continue to build relationships with system integrators in the partner ecosystem to drive demand for the platform.

As Big Commerce's global elite partner, we continue to deepen our strategic relationship, formulating a joint go-to market plan through offers for e-commerce merchants, and joint marketing efforts to the user base. This will enable us to increase our addressable market across all regions, and we are already starting to see more customers using the integration as a result.

As previously mentioned, in May we hired a North American partner manager to build our strategic relationship with Microsoft for the integration of our platform into Dynamics 365, where we see a significant opportunity. Revenues from customers using our Dynamics connector were broadly flat at £3.8m in the period. We expect to see this grow in the current financial year as we begin to build on the strong foundations we have laid and take market share.

Financial Review

Revenue

The Group achieved continuing operations revenue growth of 12% (2019: 15%), which delivered record overall revenues of £47.4m, despite the impact of the pandemic in the fourth quarter of our financial year. The quality of the revenue growth is evidenced by increased recurring revenues of 91%. The Group continued to grow internationally with revenues accounting for 31% of the total (2019: 29%).

Business model

The Group generates the majority of its revenues from annual message plans 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 contracts are recognised as revenue as the work is performed. Over the past year we have built other messaging channels into our core platform, including SMS and Live Chat, and access to these channels are sold separately.

Gross margin

The gross margin for the period for continuing operations was 87% (2019: 90%). The decline in gross margin comes from the growth of non-email messaging channels, and in particular SMS. We continue to see value in both the direct and indirect 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 11% from £11.8m to £13.1m. Operating expenses as a percentage of revenues dropped from 62% to 59%, reflecting the growth in revenue. dotdigital continues to invest in people in the areas of development, sales and marketing, particularly within the regional offices, to continue enhancing and adding to the product suite.

Balance sheet

There was strong cash management in the year with net cash generated from continuing operations of £18.2m (2019: £13.3m). The cash balance at the end of the period was £25.4m (2019: £19.3m). 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 8% in the year, reflecting revenue growth and good cash management. Overall receivables have grown 6% due to the deferment of marketing expenditure such as tradeshows and conferences which have been postponed due to Covid-19 and deferred commission.

Chief Executive Officer's report and financial review continued

"Perhaps the most important aspect of working with dotdigital is that they have taken the time to understand our business and objectives."

Ashley Read | *Managing Director at Science in Sport*

The Group continues to invest heavily in the platform to increase functionality around marketing automation, increasing the number of messaging channels and surfacing data and providing insights for our customers to provide excellent customer engagement. This continued investment is demonstrated by the increase in product development to £6.5m from £5.5m in 2019.

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 has been fully amortised in the year. As the Comapi CPaaS technology was successfully fully integrated into the Engagement Cloud platform, this has now become part of the dotdigital offering, leading to goodwill reflecting the technology and know-how of the Engagement Cloud platform, as opposed to the discontinued operational part of Comapi.

Tax

Profitability from continuing operations continues to grow. This is reflected within the tax charge, which is now £0.8m with an effective tax rate of 6%, with a lower than standard rate due to enhanced R&D tax credits.

EPS

In the year the continued operations adjusted basic EPS was 3.84p (2019: 3.93p) and adjusted diluted EPS was 3.79p (2019: 3.88p). Despite a higher level of pre-tax profit, the decrease in adjusted EPS is driven by an increased tax rate of 6% (2019: 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 EBITDA growth. Therefore, subject to approval at the AGM in December 2020, the Board proposes that the Group will pay a final dividend of 0.83 pence per ordinary share (2019: 0.67p); to be payable at the end of January 2021.

Current trading and outlook

As reported in the trading update published in October, the new financial year has started well with a strong first quarter sales performance driven by existing customer growth, new customer wins and significant take up of non-email channels.

This strong performance has continued into October and the Board now expects to deliver a greater rate of revenue growth this financial year versus current consensus expectations. The strong performance has been driven by continued take up of non-email channels, predominantly SMS, which is a lower margin product than email. The incremental margin will be reinvested in the business to drive future growth, in line with the previously stated strategy and the Board is confident on achieving consensus earnings and cash for the full year to 30 June 2021.

It is critical we remain alert to external factors and continue to monitor the international Covid-19 response closely, but with encouraging momentum in the business, good revenue visibility and continued strong cash generation, we find ourselves in a position of relative strength. Confident FY21 will be another year of substantial growth and good progress against our strategy.

Our balance sheet is in good shape and we intend to continue to invest in our platform to cement our market-leading position and ensure we continue to grow sustainably and profitably for many years to come.

I would like to take this opportunity to again thank all our colleagues around the world for the way they have responded to the events of the past few months. They have demonstrated exceptional levels of commitment and have worked tirelessly under unprecedented circumstances to ensure we continue to deliver a first-class service to our customers and move forward as a business.

Milan Patel
Chief Executive Officer
17 November 2020

Paraag Amin
Chief Financial Officer
17 November 2020

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

Science in Sport uses email to increase AOV and sales revenue

Science in Sport (SiS) pushes the boundaries of science and nutrition to empower athletic performance. Working with elite global athletes, SiS has become the world's number one endurance nutrition brand, selling everything from energy and hydration products to protein supplements and vitamins.

Challenge

Under new leadership, the brand recognised the potential to widen the market to cover every athlete: from Olympian to hobby cyclist. The new owners began to diversify into high-street retailers and major supermarkets. The website was also poised to become the number one sales channel, so the owners set out to build a digital presence that would integrate with their retail activities.

However, SiS operated an infrastructure that included website, email, social media, CRM, and sales systems – all of which were disconnected. These legacy platforms didn't support the ambition of an integrated digital presence across all channels.

33%

of online sales revenue was attributed to email in the first eight months after implementing Engagement Cloud.

Solution

SiS started profiling market data, identifying its customers (between the ages of 18 and 44) as online-savvy, time-poor, and moderately wealthy. Once the analysis came in, the brand found that rather than being predominately cyclists, which the family owners had targeted almost exclusively, the customer base covered every kind of endurance sport.

> "We recognised that market opportunity ranged from elite athletes to serious amateurs."

Engagement Cloud for Salesforce

One of the first activities dotdigital carried out when SiS came on board was to integrate Engagement Cloud with Salesforce CRM. This opened up the ability to segment not only on interests and purchase history, but also email activity and website behavior.

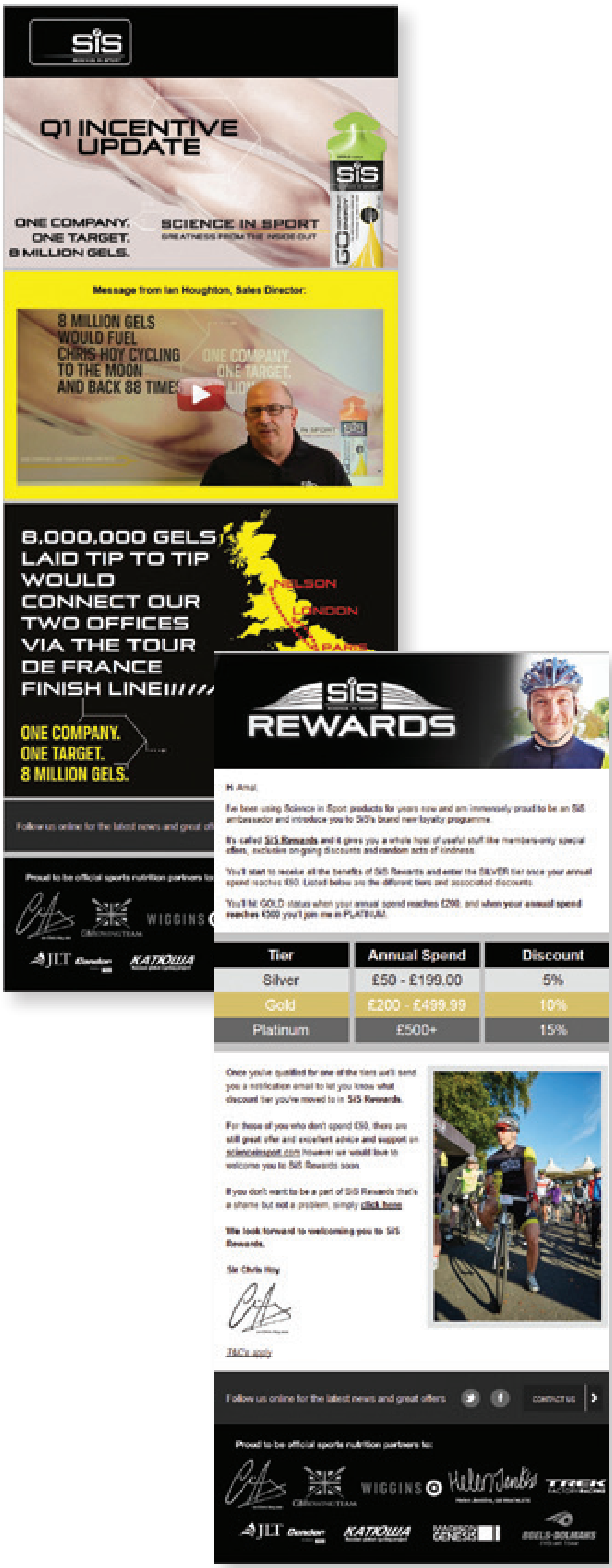
Moreover, Google Analytics provided rich data on content performance. This valuable insight helped build a case for more editorial material to complement promotional emails. SiS would communicate the core science behind the brand to educate people on how using effective sports nutrition can help athletes perform better.

Results

This shift in messaging is reflected in other digital activities and is delivering a strong year-on-year sales growth of 23% – 15% above the industry average. Better targeting brought more revenue: 33% of online sales revenue was attributed to email in the first eight months after implementing Engagement Cloud. That's an increase of nearly 15%. What's more, SiS experienced an uplift in average order value from £26 to £38 – a growth of 46%.

> "Perhaps the most important aspect of working with dotdigital is that they have taken the time to understand our business and objectives."

Ashley Read | Managing Director



Risks, impact and mitigations

Our risk management framework enables a consistent approach to the identification, management and oversight of risks. This consistency is valuable as it allows us to take a holistic approach to risk management and to make meaningful comparisons of the risks we face and how we manage them across the globe, which is essential to achieve our strategic objectives.

Using our risk management framework, the Group identifies the risks that could affect the strategy and operations in order to implement risk mitigation plans. Departments within the organisation identify the risks that could affect their strategic and operational plans. The consolidated risks are consolidated under a single Group wide risk register. These risks are scored based on impact and likelihood and reviewed on a regular basis. Principal risks scored over a threshold are highlighted and reviewed by the Group's Risk Committee. Members of the Risk Committee are assigned to principal risks and these become executive owners responsible for confirming adequate controls are in place and the necessary action plans are implemented. The Chairman of the Risk Committee reports on the principal risks to the CFO who in turn reports to the Board.

Key improvements

- Aligned all risks under a single risk management framework and tools aligned to ISO best practice standards, enabling tracking of risks across all risk management meetings;
- Increased cadence of Risk Committee meetings to six per annum;
- Continued to develop the link between risk and budgeting to inform the capital deployment in a timely manner;
- Implemented a process for tracking risk treatment plans to manage our principal risks; and
- Further enhanced our risk processes reflecting lessons learned from the Covid-19 pandemic to be better prepared in the future.

Strategic	Financial	Technological	Operational
The influence of stakeholders and industry on our business	Our financial status, standing and continued growth	The platform, technology and systems that support our business and the data they hold	The ability to achieve our optimal business model

Risk area	Impact	Mitigation of risk
Global economic disruption Financial Movement: Increased	Disruption caused by global external events, such as pandemics (e.g. Covid-19), that impacts our financial performance.	• Continued building of recurring contracted revenue stream • Sufficient liquidity resources so that we can cope for prolonged period of time without accessing the capital markets • Increasing flexibility for customers around payment terms • Quickly executable scenario plans reviewed to prepare for varying levels of financial impact to reserves • Continued investment into Business Continuity planning to enable staff availability, building accessibility and for hardware failure
Geography specific market and political environments Financial Movement: Increased	Reliance on revenues and resources relating to a single region increases the risk to our financial performance if that region were to experience an economic decline or political unrest.	• Continual increase in international revenues outside of the UK • Successful exploration into options relating to geographic expansion above and beyond the UK, US and Australia – specifically Singapore and Netherlands • Constant review by the executive team for growth opportunities in additional territories • Monitoring of the market conditions and political environment in regions we have offices, staff, target prospects and customers • Continue to distribute critical staff and engineering teams across regions for resilience

Risk area	Impact	Mitigation of risk
Optimising and growing high-performance teams Operational Movement: Increased	Failure to attract, hire, develop, support and retain high-performing individuals will reduce the ability to achieve our goals.	• Delivery of a comprehensive programme of formal and informal learning and development opportunities aligned to the needs and goals of the business • Investment into flexible working arrangements, home office environments and wellbeing programmes to support our staff through global events, such as pandemics • Continued commitment to organisational structures, internal communication tools and processes to enable cross-team collaboration • Regular evaluation of staff benefits to ensure market competitiveness • Supporting our staff through our dotcommunity programme, creating a listening culture, one of openness where staff can discuss all types of issues whether, social, political and environmental • Expansion into new territories increases accessible talent pools we can hire in
Brexit Operational Movement: Stable	We have a large business footprint within the United Kingdom; both in terms of staff headcount, and in terms of the customer base. Brexit still has a number of unknowns (mainly whether the UK will reach a trade deal with the EU as to the nature of their post-Brexit relationship) and these present some amount of risk. 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 the EU, may place additional regulatory burdens on us which make it harder to operate with EU-based companies.	• Review of our supplier and customer contracts to ensure appropriate safeguards are in place to protect the flow of data from the EU to the UK and entering into Model Contract Clauses as appropriate • Research and monitoring of legislative environment, particularly in relation to data transfers between the UK and EU and vice-versa • Monitoring whether those countries deemed adequate by the EU have maintained unrestricted personal data flows and adequacy decision with the UK • Internal HR team reviewing strategies for dealing with EU staff, depending on post-Brexit negotiation outcomes • Monitoring the potential impact based on amendments that could be made to indirect taxes regime within the UK and between other EU countries
Data privacy Operational Movement: Stable	Certain laws and regulations such as the General Data Protection Regulation ("GDPR") require or may require us and our 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. We actively contribute 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 and California Consumer Privacy Act (CCPA) • Ongoing monitoring of the regulatory environment, including any guidance from supervisory authorities or compliance actions made under GDPR and the CCPA and developments to the proposed e-Privacy Regulation

Risks, impact and mitigations continued

Risk area	Impact	Mitigation of risk
Environmental Operational Movement: Increased	As awareness on the climate challenge increases, it is expected there will be increasing legislation and customer pressure to provide sustainable business operations.	• Promote our services as digital first alternative to traditional marketing strategies • Monitor key environmental impacts and aspects that come from our operations • Benchmark key environmental data, reporting regularly on current performance • Set internal objectives around improvement • Partner with organisations to support quality initiatives to offset our primary impacts and aspects demonstrating our commitment to sustainability • Be transparent to customers through a public-facing Trust Centre communicating what we do and the impact to the environment • Implement controls and processes with our vendors to provide more sustainable services • Foster an internal culture of improvement and sustainability • Align with internationally recognised standards like ISO 14001
Evolving technology and customer requirements Operational Movement: Stable	Failure to anticipate or respond to evolving messaging channels and customer requirements or to introduce competitive enhancements or maintain existing products may impact growth and customer retention. The introduction of new solutions by competitors potentially makes our solutions less competitive.	• Remaining a credible provider of customer engagement SaaS solutions through constant investment in development and monetisation of new solutions, partnerships and enhancements • A product development strategy that facilitates the implementation of rapidly changing technologies, new enhancements and maintaining the existing products to a high standard • Dedication to continuing to remain relevant in maturing B2B and B2C verticals, reducing risk through the relevancy of the platform to the challenges these customer face • Continued focus on combining email marketing and automation capabilities with the market-driven need for supporting more conversational channels and leveraging data, machine learning and orchestration to drive decisions • Continued evaluation and optimisation of product performance in the technology landscape to reduce maintenance overheads • A constant focus on enabling customer growth through the ease and flexibility of our best-of-breed integrations
Competitive environment Strategic Movement: Stable	The sector we operate in is competitive. The impact of competitors having more features, increased financial backing, better brand recognition and better global coverage increases the risk to our business. We focus on customers operating across different verticals – e.g. retail, commerce, B2B, education and not for profit – by definition make for a large competitive landscape.	• Reinvestment in new product features, best-in-class 24/7 customer support and service offerings, enhanced brand recognition and improved service delivery • A global marketing presence and PR strategy to attract new customers • Further improvement of the products' renowned user experience, including hiring dedicated user experience professionals • Continued focus on increasing content, delivery and personalisation capabilities across established and emerging messaging channels • An enhanced focus of investment on our data, AI, reporting and machine learning capabilities and applying these to surprise and delight existing and prospective customers • Continuing to listen to our customers and the market to solve real customer problems in an intuitive way

Risk area	Impact	Mitigation of risk
Internet service providers (ISPs), reputation and internet browser-related risks Strategic Movement: Stable	As a large proportion of our 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) and the Email Sender and Provider Coalition (ESPC) • Continued investment into technology that can proactively block trial account sign-ups and automated bots • Development of a risk-based vetting approach of prospective customers and their data acquisition practices • Continued investment in a deliverability, anti-abuse and compliance team, under the leadership of the deliverability and compliance functions. With swift handling of abuse complaints generated by customer messaging, including where necessary account suspension and agreement termination • Explore and implement alternative message routes for upstream providers for channels that this is supported e.g. SMS
Key platform integrations Strategic Movement: Stable	We are increasingly investing in integration with third-party platforms to provide an enhanced product feature set – for example WhatsApp, Facebook, Twitter and Google. These platforms all have various contractual bases for access and we maintain our obligations carefully. However, any future change in the terms granting access may impact our continued ability to integrate our product with these platforms.	• Maintain strong relationships with these platforms • Ensuring our platform policies align with the third parties • Continuous review of competing functionality from other vendors • Continued investment into the capabilities of each key integration, to ensure continued relevancy for customers and compliance with any third-party or statutory changes
Loss of a strategic partnership Strategic Movement: Stable	Revenues could be impacted if a strategic technology partner was acquired, changed contractual terms, had lost market share or their customers en masse. On such an event, customers may re-platform to a technology partner who we do not have a integration with. If a strategic technology partner significantly changed partner terms, 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 strengthen relationships with our key strategic technology partners • Contractual arrangements in place and service level agreements 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 • 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 to enable data synchronisation functionality to hundreds of platforms at one time

Risks, impact and mitigations continued

Risk area	Impact	Mitigation of risk
Use of public cloud service suppliers Technological Movement: Decreased	We utilise public cloud suppliers to host our 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 our 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 (we have selected Microsoft Azure, CloudFlare, Amazon AWS, and Google Cloud Platform), the architecture and contracts of which facilitates high uptime SLAs and a quick recovery in the event of a single region failure • 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 • Continued investment into reducing platform Recovery Time Objectives (RTO), either by optimising processes, using enhanced technology or adding database replicas in secondary public cloud regions • Regular simulation of Disaster Recovery plans to recover computing resources in a secondary region • Build strong relationships with cloud suppliers at an executive level • Due diligence of cloud computing supplier security and incident handling processes, penetration testing results, change management and security and privacy accreditations
Supplier and computer hardware related risks Technological Movement: Stable	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. We rely 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 our 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 • Research and migration to technologies and public cloud services that can host the message send components reducing the impact of a loss of a data centre • 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 our currently owned IP addresses to ensure global reputability and use optimisation • Frequently reviewing the most profitable upstream supplier routing options, and negotiating contracts regularly based on current and anticipated volume
Information security and cyber risks Technological Movement: Stable	The ever-evolving, sophisticated nature of the cyber threat landscape poses an ongoing risk. Revenue depends on the protection of the confidentiality, integrity, and availability of data and computer systems; and a trust in our brand reputation. A successful cyber attack against our digital assets could significantly impact the its ability to function, as well as its ability to retain and attract business.	• Implementation of an externally audited ISO 27001 certified Information Security Management System (ISMS) and pursuit of further ISO best practice standards • Continual investment in a defined information security programme and technology, 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, Web Application Firewalls, Rate Limiting 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

Corporate social responsibility report

This year we, like many other companies, have been dramatically affected by the Covid-19 pandemic. Our rapid response during this trying time has seen us place a newfound focus on the health and wellbeing of our employees, clients and communities.

As well as comprehensively supporting staff and clients as they adapted to new circumstances, we have continued to support learning and development across the board.

Supporting our employees

Our response to the Covid-19 pandemic prioritised the safety and wellbeing of our people, right from the very beginning. The business took swift action as various levels of lockdown swept across the countries in which we operate. Clear decision making and a well-coordinated business continuity plan ensured that we maintained business as usual for our clients and partners as we helped staff adapt to new ways of working.

The move to working from home for staff across our 12 global offices was an exceptional organisational effort, but, due to quick actions and clear communication, it has received overwhelming support.

Throughout this time, the development, retention, and recruitment of top-class talent remained a key goal for dotdigital. The internal recruitment market for our employees remains strong, with over 20% of positions being filled by internal applicants. This continues to be an important factor of our employee development and is supported by the increased availability of positions open to our employees wherever possible.

Supporting our clients

Customer success continues to be a central pillar for dotdigital's customer strategy. This year we have sustained constant investment in our client facing teams as well as promoting a client-first culture across the organisation.

This culture was evident as we supported clients around the world to transition during phases of lockdown. To help customers mitigate the potential economic impact of the pandemic, we offered customers enhanced access to the dotdigital platform. This included access to our recently launched Chat feature and an additional email marketing account to connect with internal stakeholders, free of charge.

We have also maintained and strengthened our free learning events for clients. Our highly successful educational seminars, dotlives, have smoothly evolved into webinars with further reach than ever before. We now run separate events for clients in the Americas region to ensure all clients have access to our unparalleled learning resources.

Supporting our communities

As well as supporting employees and customers through this difficult year, dotdigital understands the role we play in the communities in which we operate. We are committed to doing our utmost to support a wide diverse range of causes, movements, charities, and organisations.

This year we have continued to support our named charities Macmillan Cancer Support, Save the Children and Alternatives. We have also built on the momentum of our women at work 'In common' events with mental health and environment-themed talks. As we shifted to working from home, dotdigital decided to redistribute funds from our monthly dotlunches for staff to be donated to local hospitals and nurses fighting the virus.

Recognising the importance of our role as an ally to the Black Lives Matter movement, we decided to take an open and honest stance on this issue. Staff were given a learning day to commemorate Juneteenth in order to educate themselves on the history and actions behind the movement. As an organisation we have pledged our ongoing support to black communities everywhere.

MACMILLAN CANCER SUPPORT

Save the Children

ALTERNATIVES
Youth Shaping Positive Chang

Corporate social responsibility report continued

"We are delighted that dotdigital have joined as a Corporate Member of the Woodland Trust and are grateful for their funding of £5,000 which will help us address both the nature and climate crisis by protecting woods and trees UK-wide. dotdigital have been a supplier of the Trust for five years so it's especially heartwarming to see that our relationship will continue to grow in different ways to support delivery of our cause."

Darren Moorcroft | *CEO, Woodland Trust*

First environmental policy

The last year saw us launch our first ever environmental policy. In this policy, we have committed to adopting environmental best practices in alignment with ISO 14001 and implemented an Integrated Management System (IMS).

To align ourselves to the international standards set out in ISO 14001 we rolled out a global training program to educate internal stakeholders about sustainability. In light of the new working practices employees have adopted due to the Covid-19 pandemic, we adapted our training to include pointers about how to work from home in an environmentally friendly way.

Optimising energy consumption

Renewable energy

Over the last year we made significant headway in our goal to become a platform powered 100% by renewable energy. We have switched to vendors and service providers who have strong green credentials.

Microsoft Azure, which supplies the dotdigital service, uses 100% renewable energy and is carbon neutral with goals to become carbon negative by 2030. Google Cloud Platform, which plays a similar role at dotdigital, is also carbon neutral and 100% renewable.

We are excited to now be a 100% renewable energy platform in Europe. We aim to achieve this high standard in all regions by June 2021.

Carbon emissions

Last year we have made our offices, business travel, cloud services, and data centres carbon neutral. This represents the vast majority of our global emissions. Working within the framework of ISO 14001 and following the Oxford Offsetting Principles, we have developed a carbon offset and mitigation strategy in order to combat the climate crisis and ecological emergency.

As part of this initiative, we are offsetting all of our Scope 1 and Scope 2 emissions and going further to include specific Scope 3 emissions. We are proud to be supporting international initiatives that help reduce our carbon emissions. These include:

1. Gyapa efficient cook stoves – These efficient cooking stoves reduce the use of coal and wood by 50%. This lowers rates of deforestation, reduces instances of respiratory disease caused by toxic smoke, and has prevented 3 million tons of CO_2 to date.
2. Burn efficient cook stoves – Based in East Africa, this project has similar benefits to Gyapa, along with the employment of over 200 local people (half of whom are women), who support the manufacturing, sales, and distribution of these stoves.
3. Aqua Clara water purification – This project helps communities gain access to safe drinking water by making affordable household purifiers. In doing so, it also reduces the need to boil water which effectively lowers rates of deforestation in surrounding areas.

Additionally, we extended our carbon mitigation by becoming a corporate member of and donating to our longstanding customer the Woodland Trust.

Green initiatives

Over the past year we have launched a range of activities designed to engage internal and external stakeholders with our commitment to improving our environmental impact.

Project dotgreen encapsulates the business's efforts to minimise our negative impact on the environment and promote positive environmental behaviours. We engaged with our wider community through Project dotgreen's involvement in the 'In common' webinar series, posting on the external blog for World Environment Day and posting updates on the website's Trust Center.

Internally, we have assembled a team of 'Environmental Champions' to promote green behaviours in all UK and other global offices. Project dotgreen has introduced referral codes to encourage staff to choose green energy suppliers for their homes. We have extended our staff wellbeing rewards to be used for greener living, such as gardening and fruit and vegetable growing. This is all in addition to our long-standing travel loans to encourage use of public transport to commute and Cycle to Work scheme.

Strategic report

The strategic report was approved by a duly authorised committee of the Board of Directors on 17 November 2020 and signed on its behalf by:

Milan Patel
Chief Executive Officer

Board of Directors

Milan Patel FCCA ACSI
Chief Executive Officer

Paraag Amin CFA
Chief Financial Officer

Milan joined the Group 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 (now Aquis – AQSE) 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 permanent 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 acquisitions 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 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, totalling 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.

Michael (Mike) O'Leary
Non-Executive Chairman

Mike joined the Board of dotdigital in January 2020 as Chairman. He has over 35 years of main board experience with AIM, FTSE 250 and FTSE 100 listed companies, during which he has consistently created value for shareholders through organic and acquisitive growth. He has experience of running UK and international operations in a broad range of business environments with a focus on the software and technology sector.

Mike is currently also a Non-Executive Director and Chair of the Remuneration Committee of Epwin Group plc. His prior experience includes: main board Director and Joint Chief Operating Officer of Misys Group plc, Chief Executive of Huon Corporation, Chief Executive of Marlborough Stirling plc, Chairman of Digital Healthcare Ltd, Non-Executive Director and Chair of Remuneration Committee of Headlam Group plc, Non-Executive Director and Chair of Remuneration Committee of Psion Group plc, Non-Executive Director and Chair of Remuneration Committee of Stroud & Swindon Building Society, Non-Executive Director and senior independent Director of Helphire Group, Chief Executive Officer of West Bromwich Albion Group PLC and Chairman of EMIS Group plc.

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 previously held 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.

Elizabeth (Liz) Richards ACA
Non-Executive Director

Liz Joined the Board on 1 May 2020 and also chairs the Audit Committee. She is a highly experienced executive and Non-Executive Director with a career spanning the Financial Services, Data and Software sectors. After an early career with Lloyds Bank, Liz qualified as a Chartered Accountant with Ernst & Young.

Liz was Chief Financial Officer for Callcredit (now Transunion), a successful consumer data business, where as a founder member, she oversaw its rapid growth from start-up in 2000 to a £150m revenue business by 2015. During that period, she was instrumental in the purchase and integration of several successful acquisitions and has end-to-end experience of significant private equity and trade corporate transactions.

Liz currently also holds Non-Executive Director and Audit Committee Chair positions at both LINK Scheme Ltd and Tracsis plc, as well as two pro bono roles - Governor and Chair of Audit for Leeds Trinity University and Trustee and Chair of Finance and Investment for Yorkshire Cancer Research.

She brings experience of high-growth acquisitive business, and financial, audit and governance expertise to the Board at dotdigital.

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 29 of the Group's annual report. The risk section of the Annual Report is on pages 22 to 26 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 at www.dotdigitalgroup.com.

   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 the Company 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 them with 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 participation 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 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 pages 27 to 29.

   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.

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 26.

	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			1	1				
Paraag Amin	11	11			1	1				
Non-Executive Directors										
Tink Taylor	5	5	1	1			2	2		
Boris Huard	11	11	1	1			2	2		
Michael O'Leary	6	6								
Elizabeth Richards	2	2								

5. *Maintain the Board as a well-functioning, balanced team led by the Chair (fully complies)*

The Group is managed by a Board of Directors chaired by Mike O'Leary. The Board is responsible for taking all major strategic decisions and also 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 as at the Board on 28 January 2020 and will be reviewed annually.

The Board currently consists of two Executive Directors and three Independent Non-Executive Directors. The Non-Executives spend a minimum of two days a month on dotdigital Group business matters. 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.

The Board believes it is appropriate to have a Senior Independent Non-Executive Director and Boris Huard currently fulfils this role. Mike is 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.

The 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 11 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. The table above shows attendance for the period July 2019 to June 2020.

6. *Ensure that, between them, the Directors have the necessary up-to-date experience, skills and capabilities (fully complies)*

The Board considers its current composition 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.

The composition of the Board is reviewed annually by the Nomination Committee. 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 with the ability to decide on the election of the Company's Board. Non-Executive Directors that do not meet the independence criteria will also stand for election annually, which will allow shareholders to voice their opinion. Their biographical details can be found on pages 30 and 31.

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.

Corporate governance report continued

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 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 complies)*
   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. They are constantly updated and communicated to relevant employees. We also, within the organisation, 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 complies)*
   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 Committee 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 the 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 complies)*
    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 36 to 40.

    The Group's website www.dotdigitalgroup.com 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.

Audit Committee report

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 reports from the Group's auditors relating to the systems of internal financial control and risk management;
- 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.

Composition of the Audit Committee

The Audit Committee comprises Liz Richards as Chairperson and Boris Huard, with Mike O'Leary, Milan Patel and Paraag Amin as attendees as appropriate. 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 13 November 2020 the Committee reviewed the Group's preliminary announcement of its results for the financial year to 30 June 2020 and the draft report and accounts for that year. The 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 Committee also reviewed the report from the external auditors regarding the performance of the internal accounting function. The review of the external auditors was used to assess their performance and to confirm the appropriateness of their reappointment and included assessment of their independence, qualification, expertise and resources, and effectiveness of their audit process.

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.

Approval

This report was approved by the Board on 17 November 2020 and signed on its behalf by:

Liz Richards
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 2020, which sets out the remuneration earned and paid to the Directors in the year ended 30 June 2020.

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 Committee has taken a number of these regulations into account in the preparation of this report for the year as a matter of best practice.

The Committee's Terms of Reference, which are reviewed annually to ensure they reflect any changes in legislation, regulation and best practice, can be found at www.dotdigitalgroup.com.

The Annual Report on Remuneration, detailed on pages 36 to 40, provides details of the amounts earned in respect of the year ended 30 June 2020 and how the Directors' Remuneration Policy has operated and will be subject to an advisory shareholder vote at the 2020 AGM.

Review of the year ended 30 June 2020

As described earlier in the annual report, the Group has performed well during the year, delivering strong revenue of £47.4 million and total profit before tax excluding exceptional costs and share based payments of £13.1m. Consequently, the Executive Directors earned an annual cash bonus against sliding scale revenue (40% of potential) and profit before tax (60% of potential) targets equivalent to 42% of salary out of a maximum of 100% of salary.

No share awards held by the Executive Directors vested in the year ended 30 June 2020 although the Performance Share Plan ("PSP") award granted to the Chief Executive Officer in December 2017 is expected to vest in December 2020 at circa 70% of the maximum against stretching absolute Total Shareholder Return targets. Full details of this vesting will be set out in next year's Directors' Remuneration Report.

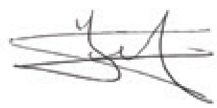
Outlook for 2021

The 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. In respect of operating the Remuneration Policy for 2020/21:

- the Committee determined it was appropriate that base salaries for the Chief Executive Officer and Chief Finance Officer should remain unchanged at the 1 July 2020 review date;
- Annual bonus provision should remain capped at 100% of salary with targets based on revenue and profit before tax. For 2020/21, revenue and profit targets will be weighted equally; and
- As a result of the 2017 PSP award nearing the end of the performance period, an annual PSP grant policy will be adopted going forwards. As such, the Chief Executive Officer is expected to receive a PSP award over shares equal to 150% of salary in December 2020 (and then annually thereafter) with stretching performance targets based on Total Shareholder Return and Earnings Per Share. Full details of the award will be set out in next year's Directors Remuneration Report.

Finally, 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.

On behalf of the Board



Boris Huard
Chairman of the Remuneration Committee
17 November 2020

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	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.	5% of base salary.	Not applicable
Annual bonus	To reward performance against annual targets which supports the strategic direction of Group.	Awards are based on annual performance and are normally paid in cash	100% of salary	Sliding scale financial (e.g. revenue and/or profit) and/or personal/strategic targets
PSP	To drive and reward the achievement of longer term objectives, support retention and promote share ownership for Executive Directors.	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, normally over a period of three years. Awards may be subject to malus provisions at the discretion of the Committee.	150% of salary (or 450% of salary where end-to-end awards, rather than annual grants)	Performance metrics will be linked to financial and/or share price and/or strategic performance
Shareholding guidelines	To promote share ownership for Executive Directors.	Executive Directors are expected to build a shareholding in the Group over time.	200% of salary for the Chief Executive and 100% of salary for other Executive Directors	Not applicable

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 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 CSOP scheme has now been adopted. 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 as follows:

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 2020 are as follows:

12-month period to 30.06.20

Executive Directors	Salary/Fees £’000	Benefits £’000	Bonus £’000	Pension £’000	Share-based payment** £’000	Total £’000	Number of outstanding options
P Amin	190	6	80	10	149	435	875,000
M Patel	310	17	130	15	289	761	1,375,000
	500	**23**	**210**	**25**	**438**	**1,196**	**2,250,000**

Non-Executive Directors	Salary/Fees £’000	Benefits £’000	Bonus £’000	Pension £’000	Share-based payment** £’000	Total £’000	Number of outstanding options
T Taylor	75	–	–	–	–	75	–
B Huard	35	–	–	–	–	35	
M O’Leary	46	–	–	–	–	46	–
E Richards	8	–	–	–	–	8	–
	164	**–**	**–**	**–**	**–**	**164**	**–**

** 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 vesting period. These are based on challenging absolute total shareholder return performance targets. 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 Amin. To be fully paid out, the Group must achieve an annual compounded TSR of 35% over a 3-year period.

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	290	750	1,375,000
	449	**18**	**236**	**–**	**21**	**389**	**1,113**	**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 Amin. To be fully paid out, the Group must achieve an annual compounded TSR of 35% over a 3-year period.

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
B Huard	22,700	0.01
	1,598,627	**0.54**

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 awards granted to Milan Patel and to Paraag Amin can only be exercised at the end of a 3-year vesting period, based on challenging absolute total shareholder return performance targets. 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 and October 2021 for Paraag Amin. To fully vest, the Group must achieve an annual compounded TSR of 35% over a c.3 year period.

Composition of the Remuneration Committee

The Remuneration Committee comprises independent Non-Executive Directors, namely Boris Huard (Chairman), Mike O'Leary and Liz Richards. 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.

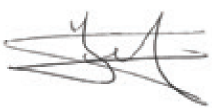
The Chief Executive attends meetings and provides information and support as requested. He is not present when his remuneration package is considered.

Advisors

The Committee receives independent advice from FIT Remuneration Consultants LLP when required.

Approval

This report was approved by the Board on 17 November 2020 and signed on its behalf by:



Boris Huard
Chairman of Remuneration Committee

Report of the Directors

The Directors present their report with the financial statements of the Company and the Group for the year ended 30 June 2020.

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 omni-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 in customer numbers, sales and profits. Revenues grew from £42.5m in the year ended June 2019 to £47.4m for the year ended June 2020, an increase of 12%.

Adjusted operating profit grew from £11.8m in the 12 months to June 2019 to £13.1m for the year ended June 2020, an increase of 11%.

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:

	2020	2019	% increase
Revenue	£47.4m	£42.5m	12%
Adjusted operating profit	£13.1m	£11.8m	11%
ARPC	£1,083	£966	12%

Dividends

The Board proposes a dividend payment of £2,480,334 comprising an ordinary dividend of 0.83p per ordinary share (2019: £1,996,805 ordinary dividend of 0.67p 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 29.

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 34 days (2019: 94 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 2020 are as follows:

	30.06.20		30.06.19	
Director	Number of shares held	Percentage shareholding %	Number of shares held	Percentage shareholding %
M Patel	1,575,927	0.53	1,575,972	0.53
T Taylor	29,776,667	9.97	29,776,667	10.05
B Huard	22,700	0.01	–	–

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 2020 are as follows:

Director	30.6.20 Number of options held	30.6.19 Number of options held
M Patel	1,375,000	1,375,000
P Amin	875,000	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 October 2020, 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	53,900,058	18.09%
Tink Taylor, Founder and President	29,776,667	10.00%
Octopus Investments	20,161,685	6.77%
Investec Wealth & Investment	16,376,100	5.50%
Slater Investments Ltd	16,322,743	5.48%
Franklin Templeton Fund Management	14,550,000	4.88%
Highclere International Investors	8,958,299	3.01%

Future outlook

The Group provides omni-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 2019 to the date of this report.

P Amin
B Huard
M O'Leary (appointed 17 January 2020)
M Patel
E Richards (appointed 1 May 2020)
I Taylor (resigned 17 January 2020)

Report of the Directors continued

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.

Streamlined energy and carbon reporting
The Group is committed to reducing its environmental impact. The new Streamlined Energy and Carbon Reporting (SECR) regulations require us to report on our energy use.

Greenhouse (GHG) emissions
The Group's scope 1 and 2 GHG emission sources are from office building energy use as the Group has no business fleet vehicles.

GHG Impact Areas	Total	Per
Scope 1 Gas	428,750 kWh	1,250 kWh/FTE
Scope 2 Electricity	385,875 kWh	1,125 kWh/FTE
Total energy	**814,625 kWh**	**2,375 kWh/FTE**
Total GHG Emissions	**177,455 Kg CO2e**	**517Kg CO2e/FTE**
		0.00374kg CO2e/£ revenue

The Group are in serviced offices with little visibility on energy consumption from landlords. The energy use and GHG emissions were calculated by using UK average per staff member office gas and electricity use and then applying the UK government's 2019 GHG emission conversion factors to calculate the carbon footprint. The Group is gathering data in Scope 3 GHG emissions sources from business travel, data servers and hosting, waste and water use.

The Group is in compliance with the Streamlined Energy and Carbon Reporting requirements as a quoted company.

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 Singers are the joint brokers. The closing mid-market share price at 30 June 2020 was 102p (2019: 105.5p).

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 political donations were made by the Company.

Charitable donations made by the Group in the year were £2,032 (2019: £715).

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 by the directors in performance of their statutory duties in accordance with s172 (1) Companies Act 2006
The Board of Directors of dotdigital Group PLC consider, both individually and together, that they have acted in the way they consider, in good faith, would be most likely to promote the success of the Group for the benefit of its members and shareholders as a whole and, in doing so have regard (amongst other matters) to:

- the likely consequences of any decisions in the long-term;
- the interests of the Group's employees;
- the need to foster the Group's business relationships with suppliers, customers and others;
- the impact of the Group's operations on the community and environment;
- the desirability of the Group maintaining a reputation for high standards of business conduct; and
- the need to act fairly as between shareholders of the Group.

As part of a director's induction they are briefed on their duties and they can access professional advice on these, either from the Company Secretary, the NOMAD or any other independent advisor if necessary. The directors fulfil their duties partly through a governance framework that delegates day-to-day decision-making within authority levels to senior employees of the Group.

The following paragraphs summarise how the Directors fulfil their duties:

Risk management
We provide business critical technology for our clients across many industries and sectors. As we grow, our business and our risk environment also become more complex. It is therefore vital that we effectively identify, evaluate, manage and mitigate the risks we face,

and that we continue to evolve our approach to risk management. A Risk Committee exists within the business that meets bi-monthly to make sure all aspects of risks are registered, mitigated or solutions are found and executed to reduce these.

For details of our principal risks and uncertainties, and how we manage our risk environment, please see pages 22 to 26.

Our People

The Group is committed to being a responsible business. Our behaviour is aligned with the expectations of our people, clients, investors, communities and society as a whole. People are at the heart of our business. The Group has found the balance in culture to succeed along with managing our people's performance and development and bringing through the talent while ensuring we operate as efficiently as possible. We continue to ensure we share common values that inform and guide our behaviour, so we achieve our goals in the right way.

For further details on our people, please see page 27.

Business relationships

Our strategy prioritises organic growth, driven by cross-selling and upselling our services to our existing customers, as well as recommending our partners, to help our customers to drive a better return on investment from their digital marketing and bringing new clients into the Group. To do this, we need to develop strong relationships with both the customers and the strong partner ecosystem we have built. We value our suppliers and have multi-year contracts with our key suppliers. We have a goal in the business to make sure we aim to pay all our suppliers within their credit terms to help develop a healthy relationship.

For further details on how we work with our clients, please see page 27.

Community and environment

The Group's approach is to use our position of strength to create positive change for the people and communities with which we interact. We are also undergoing an audit and assessment for ISO 14001 on environmental management with the implementation of an Integrated Management System (IMS). This year the Group will be carbon neutral and we aim to achieve this standard into the foreseeable future.

For further details on how we interact with communities and the environment, please see pages 27 to 29.

Shareholders

The Board is committed to openly engaging with our shareholders, as we recognise the importance of a continuing effective dialogue, whether with institutional investors, private or employee shareholders. It is important to us that our stakeholders understand our strategy and objectives, so these must be explained clearly, feedback heard, and any issues or questions raised, properly considered.

For further details on how we engage with our shareholders, please see page 32.

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.

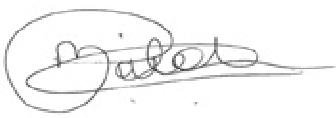
Statement as to disclosure of information to Auditors

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 Director
17 November 2020

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 2020 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 2020 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
- Accounting for adoption of IFRS 16 – leases

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 Development Limited, dotdigital APAC Pty Limited, dotmailer SA Pty Limited, dotmailer LLC, dotdigital SG Pte Limited, dotdigital BV, 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 £6,461,313 (30 June 2019 - £5,507,539). These capitalised costs are being amortised over five years. The development cost additions represent resources the Group has invested in for 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 noted 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 improvement costs. We vouched a sample of the costs capitalised that relate to specific projects and created add on functions within the system. We agreed a sample of the internal staff costs capitalised to supporting calculations, time records and payroll calculations. 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. We have reviewed the report and study carried out by a third party expert regarding the Research & Development claim in respect of these costs capitalised.
Valuation of investments and intangible assets The Company had investments of £15,142,000 at the year ended 30 June 2020 (30 June 2019: £15,147,156). The Group had intangible assets of £14,059,000 at the year ended 30 June 2020 (30 June 2019: £11,702,561). 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 the 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 2020 (30 June 2019: £9,679,608).	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. We reviewed the impairment review performed by management. 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. As all the capitalised intangibles relate to products that the Group are using to enhance its product we consider it reasonable that no impairment has been recognised in the period. We have assessed management's key assumptions for the impairment review. 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.
Accounting for adoption of new accounting standard – IFRS 16 – Leases The Group applied IFRS 16 lease retrospectively from 1 July 2019 and has not restated comparative information and recognised the cumulative effect of initially applying the Standard as an adjustment to the opening balance of retained earnings as disclosed in note 22.	We have performed the following audit procedures: Obtained an understanding of the accounting of the Group's adoption of IFRS 16. Verifying the completeness of underlying lease contracts considered as to applicable for IFRS 16 as at the date of transition. Verifying the accuracy of recognised right of use assets and lease liabilities both on the transition date as well as the reporting date. Ensured the reasonableness of the incremental borrowing rate used for discounting the future lease payments. Verifying whether the lease term used is the enforceable lease term in accordance with IFRS 16. Assessing the key judgements applied and estimates made by the management and verifying whether the disclosures within the financial statements are in accordance with IFRSs. We are satisfied that the disclosure of the expected impact of IFRS 16 is in accordance with the Group's stated accounting policy.

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 judgment, we determined materiality for the financial statements as a whole as follows:

	Group financial statements	*Company financial statements*
Overall materiality	£590,000 (30 June 2019: £524,000).	£164,000 (30 June 2019: £165,000).
How we determined it	Based on 5% of profit before tax.	Based on 1% of gross assets.
Rationale for	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 £79,000 and £538,000.

We agreed with the Audit Committee that we would report to them misstatements identified during our audit above £29,500 (Group audit) (30 June 2019: £26,200) and £7,300 (Company audit) (30 June 2019: £8,250) 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 12 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 Development Limited, dotdigital APAC Pty Limited, dotmailer SA Pty Limited, dotmailer LLC, dotdigital SG Pte Limited, dotdigital BV, 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 12 reporting units, one based in the United States of America, one in Australia, one in Belarus, one in Singapore, one in Netherlands 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 43, 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

17 November 2020

Financial Statements

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Financial statements

Consolidated income statement

For the year ended 30 June 2020

	Notes	30.6.20 £'000	30.6.19 £'000
Continuing operations			
Revenue from contracts with customers		47,404	42,522
Cost of sales	7	(6,366)	(4,377)
Gross profit		**41,038**	**38,145**
Administrative expenses	7	(27,976)	(26,380)
Operating profit from continuing operations pre share-based payments and exceptional costs		**13,062**	**11,765**
Share-based payments		(682)	(565)
Exceptional costs	5	(136)	(179)
Operating profit from continuing operations		**12,244**	**11,021**
Finance costs	6	(98)	–
Finance income	6	40	19
Profit before income tax from continuing operations	7	**12,186**	**11,040**
Income tax expense	8	(1,550)	(58)
Profit for the year from continuing operations		**10,636**	**10,982**
Loss for the year from discontinued operations	12	**(378)**	**(2,457)**
Profit for the period attributable to the owners of the Company		**10,258**	**8,525**
Earnings per share from all operations (pence per share)			
Basic	11	3.44	2.86
Diluted	11	3.39	2.82
Adjusted Basic	11	3.84	3.36
Adjusted Diluted	11	3.79	3.31
Earnings per share from continuing operations (pence per share)			
Basic	11	3.57	3.68
Diluted	11	3.52	3.63
Adjusted Basic	11	3.84	3.93
Adjusted Diluted	11	3.79	3.88
Earnings per share from discontinued operations (pence per share)			
Basic	11	(0.13)	(0.82)
Diluted	11	(0.13)	(0.81)
Adjusted Basic	11	(0.00)	(0.57)
Adjusted Diluted	11	(0.00)	(0.57)

Consolidated statement of comprehensive income

For the year ended 30 June 2020

	Notes	30.6.20 £'000	30.6.19 £'000
Profit for the year		**10,258**	**8,525**
Other comprehensive income			
Items that may be subsequently reclassified to profit and loss:			
Exchange differences on translating foreign operations		34	(42)
Total comprehensive income attributable to:			
Owners of the parent		**10,292**	**8,483**
Total comprehensive income for the year			
Comprehensive income from continuing operations		10,670	10,940
Comprehensive income from discontinued operations		(378)	(2,457)

Consolidated statement of financial position

For the year ended 30 June 2020

	Notes	30.6.20 £'000	30.6.19 £'000
Assets			
Non-current assets			
Goodwill	13	9,680	9,680
Intangible assets	14	14,059	11,702
Property, plant and equipment	15	5,262	1,037
		29,001	**22,419**
Current assets			
Trade and other receivables	17	12,987	12,222
Cash and cash equivalents	18	25,383	19,320
		38,370	**31,542**
Total assets		**67,371**	**53,961**
Equity attributable to the owners of the parent			
Called up share capital	19	1,493	1,490
Share premium	20	6,967	6,791
Reverse acquisition reserve	20	(4,695)	(4,695)
Other reserves	20	1,372	720
Retranslation reserve	20	50	16
Retained earnings	20	45,514	37,161
Total equity		**50,701**	**41,483**
Liabilities			
Non-current liabilities			
Lease liabilities	22	3,399	–
Deferred tax	24	2,169	1,377
		5,568	**1,377**
Current liabilities			
Trade and other payables	21	9,796	11,096
Financial liabilities – Interest bearing loans and borrowings		–	5
– Lease liabilities	22	1,068	–
Current tax payable		238	–
		11,102	**11,101**
Total liabilities		**16,670**	**12,478**
Total equity and liabilities		**67,371**	**53,961**

The financial statements were approved and authorised for issue by the Board of Directors on 17 November 2020 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 2020

	Notes	30.6.20 £'000	30.6.19 £'000
Assets			
Non-current assets			
Property, plant and equipment		3	–
Investments	16	15,142	15,147
		15,145	**15,147**
Current assets			
Trade and other receivables	17	797	808
Cash and cash equivalents	18	396	594
		1,193	**1,402**
Total assets		**16,338**	**16,549**
Equity attributable to the owners of the parent			
Called up share capital	19	1,493	1,490
Share premium	20	6,967	6,791
Other reserves	20	1,372	720
Retained earnings	20	3,550	3,515
Total equity		**13,382**	**12,516**
Liabilities			
Current liabilities			
Trade and other payables	21	2,956	4,033
Total liabilities		**2,956**	**4,033**
Total equity and liabilities		**16,338**	**16,549**

The financial statements were approved and authorised for issue by the Board of Directors on 17 November 2020 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 2020

	Called up share capital £'000	Retained earnings £'000	Share premium £'000	Retranslation reserve £'000	Reverse acquisition reserve £'000	Other reserves £'000	Total equity £'000
Balance as at 1 July 2018	**1,490**	**32,331**	**6,791**	**(26)**	**(4,695)**	**661**	**36,552**
Issue of share capital	–	–	–	–	–	–	–
Dividends	–	(1,903)	–	–	–	–	(1,903)
IFRS 15 restatement	–	(2,837)	–	–	–	–	(2,837)
Deferred tax asset on IFRS 15	–	539	–	–	–	–	539
Transfer in reserves	–	506	–	–	–	(506)	–
Share-based payment	–	–	–	–	–	565	565
Transactions with owners	–	(3,695)	–	–	–	59	(3,636)
Profit for the year	–	8,525	–	–	–	–	8,525
Other comprehensive income	–	–	–	42	–	–	42
Total comprehensive income	–	8,525	–	42	–	–	8,567
Balance as at 30 June 2019	**1,490**	**37,161**	**6,791**	**16**	**(4,695)**	**720**	**41,483**
Issue of share capital	3	–	176	–	–	–	179
Dividends	–	(1,996)	–	–	–	–	(1,996)
IFRS 16 restatement	–	61	–	–	–	–	61
Transfer in reserves	–	30	–	–	–	(30)	–
Share-based payment	–	–	–	–	–	682	682
Transactions with owners	3	(1,905)	176	–	–	652	(1,074)
Profit for the year	–	10,258	–	–	–	–	10,258
Other comprehensive income	–	–	–	34	–	–	34
Total comprehensive income	–	10,258	–	34	–	–	10,292
Balance as at 30 June 2020	**1,493**	**45,514**	**6,967**	**50**	**(4,695)**	**1,372**	**50,701**

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.

Company statement of changes in equity

For the year ended 30 June 2020

	Called up share capital £'000	Retained earnings £'000	Share premium £'000	Other reserves £'000	Total equity £'000
Balance as at 1 July 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**
Issue of share capital	3	–	176	-	179
Dividends	–	(1,996)	-	-	(1,996)
Transfer in reserves	–	30	-	(30)	-
Share-based payments	–	–	-	682	682
Transactions with owners	3	(1,966)	176	652	(1,135)
Profit for the year	–	2,001	–	–	2,001
Total comprehensive income	–	2,001	–	–	2,001
Balance as at 30 June 2020	**1,493**	**3,550**	**6,967**	**1,372**	**13,382**

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.

Consolidated statement of cash flows

For the year ended 30 June 2020

	Notes	30.6.20 £'000	30.6.19 £'000
Cash flows from operating activities			
Cash generated from operations	29	15,907	12,493
Tax paid		(124)	(207)
Net cash generated from operating activities		**15,783**	**12,286**
Net cash generated from continuing operating activities		18,214	13,288
Net cash generated from discontinued operating activities		(2,431)	(1,002)
Cash flows from investing activities			
Purchase of intangible fixed assets		(6,505)	(5,617)
Purchase of tangible fixed assets		(277)	(456)
Interest received		40	19
Net cash flows used in investing activities		**(6,742)**	**(6,054)**
Net cash generated from continuing investing activities		(6,741)	(5,168)
Net cash generated from discontinued investing activities		(1)	(886)
Cash flows from financing activities			
Equity dividends paid		(1,996)	(1,903)
Payment of lease liabilities		(1,127)	–
Loan repayments		–	(14)
Share issue		179	–
Net cash flows from financing activities		**(2,944)**	**(1,917)**
Net cash generated from continuing financing activities		(2,884)	(1,903)
Net cash generated from discontinued financing activities		(60)	(14)
Increase in cash and cash equivalents		**6,097**	**4,315**
Cash and cash equivalents at beginning of year	30	19,320	15,005
Effect of foreign exchange rate changes		(34)	–
Cash and cash equivalents at end of year	30	**25,383**	**19,320**

Company statement of cash flows

For the year ended 30 June 2020

	Notes	30.6.20 £'000	30.6.19 £'000
Cash flows from operating activities			
Cash generated from operations	29	1,622	1,851
Net cash generated from operating activities		**1,622**	**1,851**
Cash from investing activities			
Purchase of tangible fixed assets		(3)	–
Net cash flows from investing activities		**(3)**	–
Cash flows from financing activities			
Equity dividends paid		(1,996)	(1,903)
Share issue		179	–
Net cash flows from financing activities		**(1,817)**	**(1,903)**
Increase in cash and cash equivalents		**(198)**	**(52)**
Cash and cash equivalents at beginning of year	30	594	646
Cash and cash equivalents at end of year	30	**396**	**594**

Notes to the consolidated financial statements

For the year ended 30 June 2020

1. General information

dotdigital Group Plc ("dotdigital") is a public limited 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 41.

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 Accounting Standards Board and the IFRS Interpretations Committee effective at the time of preparing the financial statements.

New and amended standards adopted by the Company

The Group has applied IFRS 16 Leases for the first time for the year commencing 1 July 2019. The Group has applied the modified approach from 1 July 2019 but has not restated comparatives for the year ended 30 June 2019, as permitted under the specific transitional provisions in the standard. The reclassifications and the adjustments arising from the new leasing rules are therefore recognised in the opening balance sheet on 1 July 2019.

On adoption of IFRS 16, the Group recognised lease liabilities in relation to leases which had previously been classified as 'operating leases' under the principles of IAS 17 Leases. These liabilities were measured at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate as of 1 July 2019. The weighted average lessee's incremental borrowing rate applied to the lease liabilities on 1 July 2019 was 2.7%.

For leases previously classified as finance leases, the Group recognised the carrying amount of the lease asset and lease liability immediately before transition as the carrying amount of the right-of-use asset and the lease liability at the date of initial application. The measurement principles of IFRS 16 are only applied after that date. These finance leases were not remeasured at the date of initial application as they are considered immaterial.

The associated right-of-use assets for property leases and other right-of-use assets were measured at the amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to that lease recognised in the balance sheet as at 30 June 2019. There were no onerous lease contracts that would have required an adjustment to the right-of-use assets at the date of initial application.

In applying IFRS 16 for the first time, the Group has used the following practical expedients permitted by the standard:

- the use of a single discount rate to a portfolio of leases with reasonably similar characteristics
- reliance on previous assessments on whether leases are onerous
- the accounting for operating leases with a remaining lease term of less than 12 months as at 1 July 2019 as short-term leases
- the exclusion of initial direct costs for the measurement of the right-of-use asset at the date of initial application, and
- the use of hindsight in determining the lease term where the contract contains options to extend or terminate the lease.

The Group has also elected not to reassess whether a contract is, or contains, a lease at the date of initial application. Instead, for contracts entered into before the transition date, the Group relied on its assessment made applying IAS 17 and IFRIC 4 Determining whether an Arrangement contains a lease.

New standards and interpretations not yet adopted

There are no standards that are not yet effective and that would be expected to have a material impact on the entity in the current or future reporting periods and on foreseeable future transactions.

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 Limited, whose principal activity is that of providing SaaS via a leading omni-channel marketing automation platform and managed services to digital marketing professionals.

Under IFRS 3 'Business combinations' the dotdigital EMEA 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 Limited. The following accounting treatment has been applied in respect of the reverse acquisition:

- the assets and liabilities of the legal subsidiary, dotdigital EMEA 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 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 effect 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.

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 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 omni-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. The impact of Covid-19 is discussed within the CEO report and Risk section in the front end of the 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.

Notes to the consolidated financial statements continued

For the year ended 30 June 2020

2. Accounting policies continued

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.

Right of use assets:	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.

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.

Leases

As described in note 1, the Group has applied IFRS 16 using the modified retrospective approach with effect from 1 July 2019 and therefore comparative information has not been restated. Comparative information is therefore still reported under IAS 17 and IFRIC 4.

Accounting policy applicable before 1 July 2019:

Rentals applicable to operating leases where substantially all of the benefits and risks of ownership do not transfer to the lessee are charged to the income statement on a straight line basis over the period of the lease.

Accounting policy applicable from 1 July 2019:

On adoption of IFRS 16, the Group recognised lease liabilities in relation to leases which had previously been classified as ‘operating leases’ under the principles of IAS 17 Leases. These liabilities were measured at the present value of the remaining lease payments, discounted using the lessee’s incremental borrowing rate as of 1 July 2019. The weighted average lessee’s incremental borrowing rate applied to the lease liabilities on 1 July 2019 was 2.7%.

For leases previously classified as finance leases, the Group recognised the carrying amount of the lease asset and lease liability immediately before transition as the carrying amount of the right-of-use asset and the lease liability at the date of initial application. The measurement principles of IFRS 16 are only applied after that date. These finance leases were not remeasured at the date of initial application as they are considered immaterial.

	2019 £’000s
Operating lease commitments disclosed as at 30 June 2019	5,370
Discounted using the incremental borrowing rate at 1 July 2019	5,760
Add: finance lease liabilities recognised as at 30 June 2019	5
Lease liability recognised as at 1 July 2019	5,765
Of which are:	
Current lease liabilities	985
Non-current lease liabilities	4,780
	5,765

The associated right-of-use assets for property leases and other right-of-use assets were measured at the amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to that lease recognised in the balance sheet as at 30 June 2019. There were no onerous lease contracts that would have required an adjustment to the right-of-use assets at the date of initial application.

The recognised right-of-use assets relate to the following types of assets:

	30 June 2020 £’000s	1 July 2019 £’000s
Properties	5,376	5,678
Motor vehicles	82	82
Total right-of-use assets	**5,458**	**5,760**

Notes to the consolidated financial statements continued

For the year ended 30 June 2020

2. Accounting policies continued

The change in accounting policy affected the following items in the balance sheet on 1 July 2019:

- Right-of-use assets - increased by £5,760,374
- Accruals and contract liabilities – decreased by £78,034
- Lease liabilities – increase by £5,760,374
- The net impact on retained earnings on 1 July 2019 was a decrease of £78,034

Impact on segment disclosures and earnings per share

Adjusted EBITDA, segment assets and segment liabilities for the year ended 30 June 2020 all increased as a result of the change in accounting policy. Lease liabilities are now included in segment liabilities, whereas finance lease liabilities were previously excluded from segment liabilities. The following segments were affected by the change in policy:

	Adjusted Profit before income tax £'000s	Segment assets £'000s	Net current assets £'000s
EMEA	11,109	61,016	25,905
US	666	4,857	845
APAC	(39)	1,574	(546)
	11,736	**67,447**	**26,204**

	Adjusted Profit before income tax £'000s	Segment assets £'000s	Net current assets £'000s
Core	12,113	65,181	27,977
CPaaS	(377)	2,266	(1,773)
	11,736	**67,447**	**26,204**

Adjusted earnings per share for all operations and for continuing operations decreased by 0.03p per share for the year to 30 June 2020 as a result of the adoption of IFRS 16. There was no impact on the adjusted earnings per share for discontinued operations for the year to 30 June 2020.

Practical expedients applied

In applying IFRS 16 for the first time, the Group has used the following practical expedients permitted by the standard:

- the use of a single discount rate to a portfolio of leases with reasonably similar characteristics
- reliance on previous assessments on whether leases are onerous
- the accounting for operating leases with a remaining lease term of less than 12 months as at 1 July 2019 as short-term leases
- the exclusion of initial direct costs for the measurement of the right-of-use asset at the date of initial application, and
- the use of hindsight in determining the lease term where the contract contains options to extend or terminate the lease.

The Group has also elected not to reassess whether a contract is, or contains, a lease at the date of initial application. Instead, for contracts entered into before the transition date the Group relied on its assessment made applying IAS 17 and IFRIC 4 Determining whether an Arrangement contains a lease.

The Group's leasing activities and how these are accounted for

The Group leases various offices, equipment and cars. Rental contracts are typically made for fixed periods of 1 to 10 years but may have extension options as described in (i) below.

Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. The lease agreements do not impose any covenants, but leased assets may not be used as security for borrowing purposes.

Until 30 June 2019, leases of property, plant and equipment and cars were classified as either finance or operating leases. Payments made under operating leases (net of any incentives received from the lessor) were charged to the income statement on a straight-line basis over the period of the lease.

From 1 July 2019, leases are recognised as a right-of-use asset and a corresponding liability at the date at which the leased asset is available for use by the Group. Each lease payment is allocated between the liability and finance cost. The finance cost is charged to the income statement over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The right-of-use asset is depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis.

Assets and liabilities arising from a lease are initially measured on a present value basis. Lease liabilities include the net present value of the following lease payments:

- fixed payments (including in-substance fixed payments), less any lease incentives receivable
- variable lease payment that are based on an index or a rate
- amounts expected to be payable by the lessee under residual value guarantees
- the exercise price of a purchase option if the lessee is reasonably certain to exercise that option, and
- payments of penalties for terminating the lease, if the lease term reflects the lessee exercising that option.

The lease payments are discounted using the interest rate implicit in the lease. If that rate cannot be determined, the lessee's incremental borrowing rate is used, being the rate that the lessee would have to pay to borrow the funds necessary to obtain an asset of similar value in a similar economic environment with similar terms and conditions.

Right-of-use assets are measured at cost comprising the following:

- the amount of the initial measurement of lease liability
- any lease payments made at or before the commencement date less any lease incentives received
- any initial direct costs, and
- restoration costs.

Payments associated with short-term leases and leases of low-value assets are recognised on a straight-line basis as an expense in the income statement. Short-term leases are leases with a lease term of 12 months or less. Low-value assets comprise IT equipment and small items of office furniture.

Extension and termination options
Extension and termination options are included in a number of property and equipment leases across the Group. These terms are used to maximise operational flexibility in terms of managing contracts. The majority of extension and termination options held are exercisable only by the Group and not by the respective lessor. None of the total lease payments made in the period to 30 June 2020 were optional.

In determining the lease term, management considers all facts and circumstances that create an economic incentive to exercise an extension option, or not exercise a termination option. Extension options (or periods after termination options) are only included in the lease term if the lease is reasonably certain to be extended (or not terminated). Potential future cash outflows have not been included in the lease liability because it is not reasonably certain that the leases will be extended (or not terminated), the amount of these cash flows is uncertain as several rounds of rent reviews are due before this extension date.

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 ('FVTPL'), which are initially measured at fair value.

Financial assets are classified into the following specified categories: financial assets at FVTPL, 'held-to-maturity' investments, 'available for sale' (AFS) financial assets and loans and receivables. The classification depends on the nature and purpose of the financial assets and is determined at the time of recognition.

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.

Notes to the consolidated financial statements continued

For the year ended 30 June 2020

2. Accounting policies continued

- *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.

Foreign currency exchange rate risk

The Group has certain investments in foreign operations, whose net assets are exposed to foreign currency translation risk. As well as naturally mitigating this risk by offsetting its cost base in the same currencies where possible, currency exposure arising from the net assets of the Group's foreign operations is managed through cash balances denominated in the relevant foreign currencies.

The Group is mainly exposed to the US Dollar, Australian Dollar, Singaporean Dollar, Euro, Belarusian Ruble, South African Rand and Polish Zloty currencies.

The table overleaf details the Group's sensitivity to a 10% increase or decrease in sterling against the relevant foreign currencies. 10% is the sensitivity rate which represents management's assessment of the reasonable possible change in foreign exchange rates. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the period end of a 10% change in foreign currency rates. A positive number below indicates an increase in profit where sterling strengthens

10% against the relevant currency. For a 10% weakening of sterling against the relevant currency, there would be an equal and opposite impact on the profit and other equity, and the balances below would be negative or positive.

	30.6.20 £'000	30.6.19 £'000
US Dollar	55	77
Australian Dollar	7	34
Singaporean Dollar	(15)	(8)
Euro*	(22)	–
Belarusian Ruble	11	(2)
South African Rand	2	1
Polish Zloty	(15)	2
	23	**104**

* there was no foreign currency exchange rate risk against the Euro in the prior year as dotdigital B.V was incorporated in September 2019.

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 omni--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.
- 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 6.2%. 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 below:

- 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

We perform ongoing credit evaluations of our customers and grant credit based upon past payment history, financial conditions and anticipated industry conditions. Customer payments are regularly monitored and a provision for doubtful accounts is established based upon specific situations and overall industry conditions. 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.

Notes to the consolidated financial statements continued

For the year ended 30 June 2020

2. Accounting policies continued

Where a general provision is set then specific rationale will be set against this which will be a combination of looking at historical data to ascertain the percentage of debt which goes bad. Plus set against debts within a specific business sector which might be facing financial difficulty, thereby leading to a deemed higher risk of defaulting on their debts.

(e) Lease accounting – incremental borrowing rate

IFRS 16 "Leases" requires lease payments to be discounted using the lessee's incremental borrowing rate. The Group's incremental borrowing rate, as at the date of adoption of IFRS 16, has been based on local commercial bank loans. Management have taken the view that specific costs of borrowing should be applied to each lease as this reflects the different economic conditions within each geography and hence is more representative of the funding facilities available in those countries.

3. Segmental reporting

dotdigital's single line of business remains the provision of data-driven omni-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

	30.6.2020			
	EMEA £'000	US £'000	APAC £'000	Total £'000
Income statement				
Revenue	43,810	8,325	2,777	54,912
Gross profit	33,044	7,420	2,496	42,960
Profit/(loss) before income tax	11,256	598	(46)	11,808
Total comprehensive income attributable to the owners of the parent	**10,098**	**291**	**(97)**	**10,292**
Financial position				
Total assets	60,959	4,846	1,566	67,371
Net current assets/(liabilities)	26,732	1,006	(470)	27,268

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% of revenue (2019: 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.

	30.6.2019			
	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% of 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.

Business activity revenue and results

	30.6.2020		
	Core £'000	CPaaS £'000	Total £'000
Income statement			
Revenue	47,404	7,508	54,912
Gross profit	41,038	1,922	42,960
Profit/(loss) before income tax	12,186	(378)	11,808
Total comprehensive income attributable to the owners of the parent	**10,670**	**(378)**	**10,292**
Financial position			
Total assets	65,114	2,257	67,371
Net current assets/(liabilities)	28,991	(1,723)	27,268

	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

4. Employees and Directors

	30.6.20 £'000	30.6.19 £'000
Wages and salaries	16,448	17,029
Social security costs	1,698	1,728
Other pension costs	290	354
	18,436	**19,111**

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

	30.6.20	30.6.19
Directors	4	6
Sales and marketing product	164	177
Development and system engineers	103	100
Administration	67	63
	338	**346**

During the year the Group also capitalised staff-related costs of £4,803,204 (2019: £4,924,505) 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 £15,714 (2019: £58,824) and amortisation of acquired intangibles of £120,000 (2019: £120,000).

Discontinued exceptional costs in the year relate to the amortisation of acquired intangibles of £381,072 (2019: £401,709) and impairment of acquired intangibles of £nil (2019: £344,235).

Notes to the consolidated financial statements continued

For the year ended 30 June 2020

6. Net finance income

	30.6.20 £'000	30.6.19 £'000
Finance income:		
Deposit account interest	40	19
Finance cost:		
Finance lease interest	(98)	–
	(58)	**19**

7. Operating profit

Costs by nature

Profit from continuing operations has been arrived after charging:

	30.6.20 £'000	30.6.19 £'000
Direct marketing	1,727	2,625
Outsourcing and other costs	4,639	1,752
Total cost of sales	**6,366**	**4,377**

	30.6.20 £'000	30.6.19 £'000
Staff-related costs (inc Directors' emoluments)	17,929	17,374
Operating leases: Land and buildings	–	1,162
Operating leases: Other	–	39
Auditor's remuneration	64	42
Amortisation of intangibles	3,647	2,520
Depreciation charge	1,475	436
Legal, professional and consultancy fees	479	386
Computer expenditure	2,404	2,364
Bad debts	1,248	753
Foreign exchange (gains)/losses	(120)	15
Travel and subsistence costs	509	576
Office running	176	75
Gain on disposal of tangible asset	(3)	–
Staff welfare	399	454
Other costs	531	982
Management charge	(762)	(798)
Total administration costs	**27,976**	**26,380**

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

	30.6.20 £'000	30.6.19 £'000
Fees payable to the Company's auditor for the audit of Parent Company and consolidated financial statements	22	20
Fees payable to the Company's auditor for other services		
– audit of Company subsidiaries	47	47
– tax and review of interim accounts	3	5
	72	**72**

8. Income tax expense

Analysis of the tax charge from continuing operations:

	30.6.20 £'000	30.6.19 £'000
Current tax on profits for the year	758	129
Deferred tax on origination and reversal of timing differences	792	(71)
	1,550	**58**

Analysis of the tax charge from discontinuing operations:

	30.6.20 £'000	30.6.19 £'000
Current tax on profits for the year	–	290
Deferred tax on origination and reversal of timing differences	–	–
	–	**290**

Factors affecting the tax charge:

	30.6.20 £'000	30.6.19 £'000
Profit on ordinary activities before tax	**11,808**	**8,873**
Profit on ordinary activities multiplied by the average rate of corporation tax suffered globally: 19% (2019: 19%)	2,244	1,686
Effects of:		
Expenses not deductible	359	151
Research and development enhanced claim	(2,069)	(2,327)
Expenditure permitted on exercising options	(98)	–
Overseas tax losses	(20)	(70)
Depreciation in excess of capital allowances	843	689
Group relief losses brought forward	(501)	–
Current tax on profit for the year	**758**	**129**
Deferred tax on origination and reversal of timing differences	792	(71)
Total tax charge for the year	**1,550**	**58**

Deferred tax was calculated using the rate 19% (2019: 19%). For further details on deferred tax see note 24.

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

The main rate of UK corporation tax in the period was 19%. In March 2020, the Chancellor announced that the planned reduction in the corporation tax rate to 17% from 1 April 2020 would no longer take place, and the rate would remain at 19% going forwards. Following a Budget resolution on 17 March 2020, the 19% rate was substantively enacted. Accordingly, UK deferred balances have been recognised at 19% in the period.

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 profit before exceptional items for the financial year was £2,698,172 (2019: loss: £848,539).

10. Dividends

Amounts recognised as distributions to equity holders in the period.

	30.6.20 £'000	30.6.19 £'000
Paid dividend for year end 30 June 2020 of 0.67p (2019: 0.64p) per share	1,996	1,903
Proposed dividend for the year end 30 June 2020 of 0.83p (2019: 0.67p) per share	**2,480**	**1,997**

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 on the next page 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.

Notes to the consolidated financial statements continued

For the year ended 30 June 2020

11. Earnings per share continued

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

From all operations	30.6.20 £'000	30.6.19 £'000
Profit for the year attributable to the owners of the parent	10,258	8,525
Impairment of acquisition-related intangible fixed asset (see note 14)	–	344
Amortisation of acquisition-related intangible fixed asset (see note 14)	501	522
Other exceptional costs	16	59
Share-based payment	682	565
Adjusted profit for the year attributable to the owners of the parent	**11,457**	**10,015**

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

	30.6.20 £'000	30.6.19 £'000
Adjusted profit for the year attributable to the owners of the parent for continuing operations	11,454	11,726
Adjusted profit for the year attributable to the owners of the parent for discontinued operations	3	(1,711)
Adjusted profit for the year attributable to the owners of the parent	**11,457**	**10,015**

	30.6.20		
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	10,258	298,306,813	3.44
Adjusted Basic EPS			
Adjusted profit for the year attributable to the owners of the parent	11,457	298,306,813	3.84
Options and warrants	–	3,883,050	–
Diluted EPS			
Profit for the year attributable to the owners of the parent	10,258	302,189,863	3.39
Adjusted Diluted EPS			
Adjusted profit for the year attributable to the owners of the parent	**11,457**	**302,189,863**	**3.79**
From continuing operations			
Basic EPS			
Profit for the year attributable to the owners of the parent	10,636	298,306,813	3.57
Adjusted Basic EPS			
Adjusted profit for the year attributable to the owners of the parent	11,454	298,306,813	3.84
Options and warrants	–	3,883,050	–
Diluted EPS			
Profit for the year attributable to the owners of the parent	10,636	302,189,863	3.52
Adjusted Diluted EPS			
Adjusted profit for the year attributable to the owners of the parent	**11,454**	**302,189,863**	**3.79**
From discontinued operations			
Basic EPS			
Loss for the year attributable to the owners of the parent	(378)	298,306,813	(0.13)
Adjusted Basic EPS			
Adjusted loss for the year attributable to the owners of the parent	3	298,306,813	(0.00)
Options and warrants	–	3,883,050	–
Diluted EPS			
Loss for the year attributable to the owners of the parent	(378)	302,189,863	(0.13)
Adjusted Diluted EPS			
Adjusted loss for the year attributable to the owners of the parent	**3**	**302,189,863**	**(0.00)**

From all operations	Earnings £'000	30.6.19 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**
From continuing operations			
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**
From discontinued operations			
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)**

Weighted average number of shares

	30.6.20 Shares	30.6.19 Shares
Basic EPS	298,306,813	298,030,565
Diluted EPS	302,189,863	302,420,648

Notes to the consolidated financial statements continued

For the year ended 30 June 2020

12. Continuing and discontinuing operations

The analysis between continuing and discontinued operation is as follows:

Year ended 30 June 2020	Continuing operations £'000	Discontinuing operations £'000	Total £'000
Revenue	47,404	7,508	54,912
Cost of sales	(6,366)	(5,586)	(11,952)
Gross profit	41,038	1,922	42,960
Administrative expense	(27,976)	(1,917)	(29,893)
Shared-based payments	(682)	–	(682)
Exceptional costs	(136)	(381)	(517)
Operating profit	**12,244**	**(376)**	**11,868**
Finance income	40	–	40
Finance costs	(98)	(2)	(100)
Profit before income tax	**12,186**	**(378)**	**11,808**
Income tax expense	(1,550)	–	(1,550)
Profit for the year	**10,636**	**(378)**	**10,258**

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**

13. Goodwill

Group

	30.6.20 £'000	30.6.19 £'000
Cost		
At 1 July	13,192	13,192
Additions	–	–
At 30 June	13,192	13,192
Impairment		
At 1 July	3,512	3,512
Impairment	–	–
At 30 June	3,512	3,512
Net book value	**9,680**	**9,680**

Goodwill is allocated to the Group's two cash generating units identified, that being dotdigital and Comapi.

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. Cash flows beyond the five-year period are extrapolated using the estimated growth rate for the continuing operations of the Group. These long-term growth rates are management's estimates. The discount rates used are pre-tax and reflect specific risks relating to the continuing operations of the Group.

The key assumptions for the value in use calculations are those regarding discount rates, growth rates, and expected changes in margins.

Discount rate

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. The pre-tax discount rate used to calculate the value in use is 6.2% (2019: 6.2%).

Growth rates

The growth rate is stated as the compound annual growth rates in the initial five years for the continuing operations of the Group which are then used for impairment testing. These are performed using the projected cash flows based on budgets approved by management over a five-year period. Cash flow projections from the sixth year onwards are based on an estimated constant growth rate. The growth rate used to calculate the value in use is 12% (2019: 19%).

Gross profit margin

Changes in income and expenditure are based on experience and expectations of the future changes in the market. The impairment review is based on these estimated gross profit margins which were included with the budgets approved by management over a five-year period. From the sixth year onwards, an assumed constant margin is used. The gross profit margin used to calculate the value in use is 86% (2019: 90%).

The valuations indicate sufficient headroom such that a reasonably possible change in key assumptions would not result in impairment of goodwill.

Sensitivity analysis

The principal variables used, being both the discount rate and growth rates, these would need to change before an impairment is required, this being 155% discount rate and growth rate of (17%).

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 2019	1,205	1,200	911	20,794	41	24,151
Additions	–	–	43	6,461	1	6,505
At 30 June 2020	**1,205**	**1,200**	**954**	**27,255**	**42**	**30,656**
Amortisation						
At 1 July 2019	824	190	697	10,706	32	12,449
Amortisation for the year	381	120	96	3,549	2	4,148
At 30 June 2020	**1,205**	**310**	**793**	**14,255**	**34**	**16,597**
Net book value						
At 30 June 2020	**–**	**890**	**161**	**13,000**	**8**	**14,059**

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**

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.

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15. Property, plant and equipment

Group	Right of Use assets £000	Short leasehold £'000	Fixtures & fittings £'000	Computer equipment £'000	Totals £'000
Cost					
At 1 July 2019	–	646	779	2,294	3,719
Additions	63	78	22	177	340
Disposals	–	–	(30)	–	(30)
Adjustment on transition of IFRS 16	5,335	–	–	–	5,335
Exchange differences	60	6	(1)	2	67
At 30 June 2020	**5,458**	**730**	**770**	**2,473**	**9,431**
Depreciation					
At 1 July 2019	-	402	554	1,726	2,682
Depreciation for the year	1,122	63	77	286	1,548
Disposals	(61)	–	–	–	(61)
Exchange differences	(3)	–	1	2	–
At 30 June 2020	**1,058**	**465**	**632**	**2,014**	**4,169**
Net book value					
At 30 June 2020	**4,400**	**265**	**138**	**459**	**5,262**

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**

Included in the net carrying amount of property, plant and equipment as at 30 June 2020 are the right-of-use assets as follows:

Group	Properties £'000	Motor vehicles £'000	Totals £'000
Cost			
Transition on adoption of IFRS 16	5,678	82	5,760
Re-measurement of existing lease liabilities	(156)	–	(156)
Termination of leases	(269)	–	(269)
Additions	63	–	63
Foreign currency translation	60	–	60
At 1 July 2019	**5,376**	**82**	**5,458**
Depreciation			
Depreciation for the year	1,079	43	1,122
Termination of leases	(61)	–	(61)
Foreign currency translation	(3)	–	(3)
At 30 June 2020	**1,015**	**43**	**1,058**
Net book value			
At 30 June 2020	**4,361**	**39**	**4,400**

16. Investments

Company

	Shares in Group undertakings 30.6.20 £'000	Shares in Group undertakings 30.6.19 £'000
Cost		
At 1 July	18,666	18,666
Disposals	(5)	–
At 30 June	**18,661**	**18,666**
Impairment		
At 1 July and 30 June	3,519	3,519
Net book value		
At 30 June	**15,142**	**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	Web and email marketing	Ordinary	100
		Ordinary A	100
dotdigital Inc	Web and email marketing	Ordinary	100
dotdigital APAC Pty Limited	Web and email marketing	Ordinary	100
dotdigital B.V.	Web and email marketing	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	Development hub	Ordinary	100
Dynmark International Ltd	Omni-channel communication platform	Ordinary	100
Dynmark S.p z.o.o	Omni-channel communication platform	Ordinary	100

All of the above subsidiaries have been included within the consolidated results. dotdigital EMEA Limited and Dynmark International Limited were incorporated in England and Wales. dotdigital Inc was incorporated in Delaware (US), dotdigital APAC Pty Limited was incorporated in New South Wales (Australia), dotdigital B.V. was incorporated in Netherlands, dotdigital SG Pte Ltd was incorporated in Singapore, dotmailer SA Pty was incorporated in South Africa, 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 30.6.20 £'000	Group 30.6.19 £'000	Company 30.6.20 £'000	Company 30.6.19 £'000
Current:				
Trade receivables	10,364	9,155	–	–
Less: Provision for impairment of trade receivables	(1,589)	(999)	–	–
Trade receivables – net	8,775	8,156	–	–
Other receivables	194	218	3	–
Amounts owed by Group undertakings	–	–	694	692
VAT	–	–	11	14
Tax receivables	–	392	–	–
Prepayments and contract assets	4,018	3,456	89	102
	12,987	**12,222**	**797**	**808**

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

Included within prepayments is an amount of £404,150 (2019: £662,912) in relation to deferred commission which is considered to be long term. The Group has applied IFRS 9 simplified approach to measuring expected credit losses, the balances have been assessed based on each entitiy's ability to repay amounts owed and no expected credit loss has been recognised.

Notes to the consolidated financial statements continued

For the year ended 30 June 2020

18. Cash and cash equivalents

	Group		Company	
	30.6.20 £'000	30.6.19 £'000	30.6.20 £'000	30.6.19 £'000
Bank accounts	25,383	19,320	396	594
	25,383	**19,320**	**396**	**594**

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

19. Called up share capital

Allotted, issued, fully paid number	Nominal value	30.6.20 £'000	30.6.19 £'000
298,547,645 (2019: 298,030,565)	£0.005	1,493	1,490
		1,493	**1,490**

During the reporting period the Company undertook the following transactions involving the issuing of share capital:

On 18 December 2019 an employee exercised their share options, increasing the issued share capital by 250,000 shares at a premium price of 28p.

On 18 December 2019 an employee exercised their share options, increasing the issued share capital by 267,080 shares at a premium price of 39.75p.

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 2019	37,161	6,791	(4,695)	16	720	39,993
Issue of share capital	–	176	–	–	–	176
Dividends	(1,996)	–	–	–	–	(1,996)
Profit for the year	10,258	–	–	–	–	10,258
Transfer of reserves	30	–	–	–	(30)	–
IFRS 16 restatement	61	–	–	–	–	61
Other comprehensive income:						
Currency translation	–	–	–	34	–	34
Share-based payments	–	–	–	–	682	682
Balance as at 30 June 2020	**45,514**	**6,967**	**(4,695)**	**50**	**1,372**	**49,208**

	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**

Company	Retained earnings £'000	Share premium £'000	Other reserves £'000	Totals £'000
As at 1 July 2019	3,515	6,791	720	11,026
Issue of share capital	–	176	–	176
Dividends	(1,996)	–	–	(1,996)
Profit for the year	2,001	–	–	2,001
Transfer of reserves	30	–	(30)	–
Share-based payments	–	–	682	682
As at 30 June 2020	**3,550**	**6,967**	**1,372**	**11,889**

	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**

21. Trade and other payables

	Group		Company	
	30.6.20 £'000	30.6.19 £'000	30.6.20 £'000	30.6.19 £'000
Current:				
Trade payables	1,732	3,975	10	59
Amounts owed to Group undertakings	–	–	2,899	3,932
Social security and other taxes	50	81	–	–
Other payables	179	150	–	–
VAT	1,801	1,162	–	–
Accruals and contract liabilities	6,034	5,728	47	42
	9,796	**11,096**	**2,956**	**4,033**

Further details on liquidity and interest rate risk can be found in note 23. Amounts due to subsidiaries are non-interest bearing and are repayable on demand.

22. Leasing liabilities

Group	Properties £'000	Motor vehicles £'000	Totals £'000
As at July 2019	–	–	–
Transition on adoption of IFRS 16	5,678	82	5,760
Re-measurement of existing lease liabilities	(162)	–	(162)
Termination of leases	(264)	–	(264)
Additions	63	–	63
Principal repayments	(1,084)	(44)	(1,128)
Interest	136	2	138
Foreign currency translation	60	–	60
At 30 June 2020	**4,427**	**40**	**4,467**
Current	1,034	34	1,068
Non-current	3,393	6	3,399
At 30 June 2020	**4,427**	**40**	**4,467**

Notes to the consolidated financial statements continued

For the year ended 30 June 2020

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	
	30.6.20 £'000	30.6.19 £'000	30.6.20 £'000	30.6.19 £'000
Financial assets				
Trade and other receivables	8,969	8,766	708	706
Bank balances	25,383	19,320	396	594
	34,352	**28,086**	**1,104**	**1,300**
Financial liabilities				
Trade payables	1,732	3,975	10	59
Amounts owed to Group undertakings	-	–	2,899	3,932
Accrued liabilities and other payables	2,030	1,393	–	–
	3,762	**5,368**	**2,909**	**3,991**

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 £3,712,000 (2019: £5,287,000) are expected to mature in less than a year.

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 2020 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:

	30.620 £'000	30.6.19 £'000
0-30 days	6,770	6,408
30-60 days	911	521
More than 60 days	2,683	2,226
	10,364	**9,155**

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

	30.6.20 £'000	30.6.19 £'000
0-30 days	1	27
30-60 days	13	–
More than 60 days	1,575	972
	1,589	**999**

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

	30.6.20 £'000	30.6.19 £'000
As at 1 July	999	403
Provision for impairment	1,048	621
Receivable written off in the year	(335)	(5)
Unused amount reversed	(123)	(20)
As at 30 June	**1,589**	**999**

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 £2,960,513 (2019: £2,053,528) of which £1,574,891 (2019: £972,221) 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 (2019: £nil) and amounts payable over one year are nil (2019: £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 re-align the capital structure, the Group may adjust when dividends are paid to shareholders, return capital to shareholders, issue new shares or borrow from lenders.

Notes to the consolidated financial statements continued

For the year ended 30 June 2020

24. Deferred tax

	30.6.20 £'000	30.6.19 £'000
As at 1 July	1,377	1,697
IFRS 15 adjustment	–	(539)
Current year provision	792	219
	2,169	**1,377**

The deferred tax liability above comprises the following temporary differences:

	30.6.20 £'000	30.6.19 £'000
Acquired intangibles	169	264
Capital allowances in excess of depreciation	53	65
R&D relief in excess of amortisation	2,473	1,919
Share option relief	(457)	(332)
IFRS 15 prior year deferred tax	–	(539)
Losses	(69)	–
	2,169	**1,377**

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:

			30.6.20 £'000	30.6.19 £'000
Sale of services				
Cadence Performance	Entity under common directorship	Email marketing services	–	2
Cloudcall Group Plc	Entity under common directorship	Email marketing services	–	12
Epwin Group Plc	Entity under common directorship	Email marketing services	4	–
			4	**14**
Year end balances arising from sale of services				
Cloudcall Group Plc	Entity under common directorship	Email marketing services	–	1
Epwin Group Plc	Entity under common directorship	Email marketing services	1	–
			1	**1**

Directors

	30.6.20 £'000	30.6.19 £'000
Aggregate emoluments	774	835
Company contributions to money purchase pension scheme	25	21
Share-based payments from the LTIP options granted	438	389
	1,237	**1,245**

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

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

	30.6.20 £'000	30.6.19 £'000
Salaries	440	435
Other benefits	17	12
Pension costs	16	13
Share-based payments on the LTIP options granted	289	289
	762	**749**

Company

The following transactions were carried out with related parties:

			30.6.20 £'000	30.6.19 £'000
Year end balances arising from sales/purchase of services				
dotdigital EMEA Limited	Subsidiary	Payables	651	651
			651	**651**

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

		30.6.20 £'000	30.6.19 £'000
dotdigital EMEA Limited	Subsidiary		
As at 1 July		(4,580)	(2,559)
Loans advanced		3,060	51
Loans repaid		(2,025)	(2,072)
		(3,545)	**(4,580)**

IAS 24 allows disclosure exemption of transactions between wholly-owned subsidiaries that are eliminated on consolidation.

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, dotdigital Inc, dotdigital APAC Pty Limited, dotdigital B.V., dotmailer Developments Limited, dotmailer SA Pty, dotmailer LLC, dotdigital SG Pte. Limited, Dynmark International Ltd and Dynmark S.p. z.o.o.

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 £682,000 (2019: £565,000).

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 2020 had a WAEP of 51.09p (2019: 49.16p) and a weighted average contracted life of 3.01 years (2019: 3.66 years) and their exercise prices ranged from 0.5p to 68.50p. All share options are settled in form of equity issued.

	30.06.20		30.6.19	
	No. of options	WAEP	No. of options	WAEP
Outstanding at the beginning of the period	4,428,064	49.16p	3,732,262	9.43p
Granted during the year	-	0p	2,305,000	50p
Forfeited/cancelled during the period	-	0p	(1,609,198)	50p
Exchanged for shares	(517,080)	34.57p	–	0p
Outstanding at the end of the period	3,910,984	51.09p	4,428,064	49.16p
Exercisable at the end of the period	230,985	68.50p	748,065	45.05p

Notes to the consolidated financial statements continued

For the year ended 30 June 2020

28. Share-based payment transactions continued

The weighted average share price at the date of the exercise for share options exercised during the period was 92p (2019: £nil).

	24 October 2018	19 December 2017	20 June 2017
Number of options granted	2,305,000	1,375,000	230,985
Share price at grant date	77.50p	85.95p	68.50p
Exercise price	0.50p	0.50p	68.50p
Option life in years	5 years	5 years	5 years
Risk-free rate	1.23%	1.33%	1.33%
Expected volatility	30%	30%	30%
Expected dividend yield	1%	1%	1%
Fair value of options/warrants	52.70p	65.03p	12.04p

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	
	30.6.20 £'000	(restated) 30.6.19 £'000	30.6.20 £'000	30.6.19 £'000
Current				
Profit before tax from all operations	11,808	8,873	2,001	(849)
Currency revaluation	–	42	–	–
Amortisation	4,148	3,358	–	–
Depreciation	1,548	465	–	–
Exceptional costs	16	344	–	–
Finance lease non-cash movement	4	12	–	–
IFRS 15 reclassification	–	(2,837)	–	–
IFRS 16 restatement	61	–	–	–
Gain on disposal of fixed assets	(3)	–	–	–
Loss on disposal of investments	–	–	5	–
Share-based payments	682	565	682	565
Finance income	–	(19)	–	–
Finance expense	100	–	–	–
	18,364	**10,803**	**2,688**	**(284)**
(Increase)/decrease in trade receivables	(1,157)	811	11	74
Increase in trade payables	(1,300)	879	(1,077)	2,061
Cash generated from operations	**15,907**	**12,493**	**1,622**	**1,851**

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 2018	15,005	646
As at 30 June 2019	19,320	594
As at 30 June 2020	**25,383**	**396**

31. Project development

During the year the Group incurred £6,461,313 (2019: £5,507,539) in development investments.
All resources utilised in development have been capitalised as outlined in the accounting policy governing this area.

32. Events after the end of the reporting period

There are no events after the end of the reporting period which impact the Group's and Company's financial statements.

Company information

For the year ended 30 June 2020

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P Amin
B Huard
M O'Leary
M Patel
E Richards

Company Secretary:
G Kasparian

Registered office:
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Registered number:
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Auditors:
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Statutory Auditor
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Nomad/broker:
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EC2V 7QR

Joint broker:
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EC2M 1JJ

N+1 Singer
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London
EC2N 2AX

Solicitors:
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St James House
St James Square
Cheltenham
GL50 3PR

Our clients

- Barnardo's
- abi and joseph
- Accolade Wines
- Action on Hearing Loss
- Low Cost Glasses
- Barbour
- Winsor & Newton
- TVAPE
- Arlo & Jacob
- DHL
- Leisure Pass Group
- Vita Student
- Cats Protection
- Help for Heroes
- Explorer Travel Insurance
- City & Guilds
- Lyre's
- The Jockey Club Since 1750
- colart
- brush-baby
- Times Square Alliance
- British Heart Foundation
- Team GB
- icelolly.com
- Neville Johnson Design Without Compromise
- Est 1898 T.M. Lewin Jermyn St. London
- Villa Plus
- City Lit
- Danone
- Grenson England 1866
- Häfele
- Leisure Pass Group
- SiS Science in Sport
- Liverpool John Moores University
- Monster Pet Supplies
- Monin
- Crystal Palace
- Paul Smith
- Jet2.com
- Caruso's
- Royal Aeronautical Society
- Mr Beer
- Crohn's & Colitis UK
- Copa Airlines
- Tottenham Hotspur
- Macmillan Cancer Support
- Virgin active
- selco Builders Warehouse
- Derby County Football Club
- RNIB
- Hornby
- Remedy

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