

Digital Marketing Group (DIGI, 29p, £21.50m) Final results to March 2010 saw revenues of £48.5m (£56.7m), gross profits of £35.5m (£41.6m), gross margins of 73.2% (73.3%) with underlying PBT of £7.2m (£8.0m), aided by sharply lower admin charges of £32.32m (£36.11m) with adjusted EPS of 8.77p (8.76p). The group ended the period with net debt of £5.88m (net debt £7.26m), following an adverse working capital movement of £4.4m and acquisition spend of £2.2m (including deferred payments from previous acquisitions). During the period the group consolidated its 9 operations into 2 key pillars; 20:20 (acquired in December 2009 and other group operations place into the grouping) and DMG. While the group was impacted by the general cutting of client spend it did see healthy growth in areas such as 20:20 Technology, the e-commerce and technology business, which grew revenues 56% and whose gross profits represent 17.9% of the total, a number expected to reach 25% within 2 to 3 years. It is seeing good acceptance for its Digital Brain:Search system that helps optimise electronic marketing, by for example identifying which key words to buy etc. Only major area to be hit was the data services business, hit by financial services customers, which saw JaywingDMG's gross profits fall from £12.9m to £7m. The group expects the 20:20 growth to be around 10% this year, accelerating next year, ahead of industry forecasts, while DMG is more gradual, reflecting the modest recovery in financial services. We see the rating as remarkably low, with modest improvements in profitability, the group should make easily an underlying £7.7m PBT with flat 8.7p EPS, leaving the group on a 3.3x PER. Clearly under-rated the group deserves a re-rating towards our target price of 60p, a continued **Buy**.

Julian Tolley

Head of Research

HB Markets Plc

Direct Line: 020 7382 8422

Office: 020 7382 8300

Fax: 020 7382 8400

E: julian.tolley@hbmarkets.com

W: www.hbmarkets.com

HB Markets Plc, 131 Finsbury Pavement, London EC2A 1NT