

Date: 23 November 2010
On behalf of: Digital Marketing Group plc ("DMG", "the Company" or "the Group")
Embargoed: 0700hrs

Digital Marketing Group plc Interim Results 2010/2011

Digital Marketing Group plc (AIM: DIGI), the UK's largest digital marketing agency, today announced its interim results for the six months ended 30 September 2010.

Performance Highlights

- Gross profits £17.90m (2009: £17.44m)
- EBITDA before share based payments £2.47m (2009: £3.63m)
- Profit before tax ("PBT") before amortisation and share based payment charges £1.95m (2009: £2.93m)
- Profit after tax £0.32m (2009: £0.14m)
- Net debt £6.07m (£7.26m 31 March 2010); undrawn banking facilities of £3.28 million
- Adjusted basic earnings per share 1.57 pence (2009: 3.20 pence)
- Basic earnings per share 0.42 pence (2009: 0.20 pence)

Commenting on the results, Stephen Davidson, Chairman of Digital Marketing Group plc, said: "We continue to operate in a difficult and uncertain market place however we have still produced positive results with an increase in profit after tax and reduced debt."

Ben Langdon, Chief Executive of Digital Marketing Group plc, added: "The results for the six months are reflective of a mixed performance. Our ecommerce division delivered exceptional growth in profits of 28% yr/yr. Voice marketing also delivered strong levels of new business and achieved significant growth in both gross profits and PBT yr/yr. Conversely, our data services division continues to underperform."

"We have reduced the number of office locations in our marketing agency division and this will show positive results through efficiency and resource allocation for the benefit of clients."

"We are in a strong position to take advantage of recoveries within our market and should also continue to see organic growth within our ecommerce division."

Enquiries:

Digital Marketing Group plc
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Keith Sadler, Group Finance Director

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INTERIM RESULTS

Our profit before tax for the six months ended 30 September 2010 was £0.6 million compared to £0.7 million for the six months ended 30 September 2009 and our profit after tax, as a result of a reduced tax charge, increased from £0.1 million to £0.3 million. Gross profits increased from £17.4 million to £17.9 million.

The performance from our ecommerce division has continued to produce excellent results. Gross profit has increased by 68% and profit before tax has increased by 28%. This reflects a movement in the retail sector to establish business critical systems for their online offering. Our team are strategically placed to take advantage of this shift. They are a Tier 1 IBM reseller for IBM's global leading ecommerce platform, Websphere.

As I stated in the annual report and accounts, recovery in our DMG pillar and in particular our data services division is linked to the speed of recovery in financial services and we have still to see any signs of improvement in this sector. In addition, continuing delays in client decisions within our marketing agency division has meant our new business conversion has not been as we had anticipated.

During the period we received partial settlement on a contractual obligation from a client who has gone into liquidation, amounting to £0.9 million, which has been disclosed within other income.

Operating expenses increased as a result of the increase in staff costs within our ecommerce business in order to deliver the successful increase in its revenues. We have consolidated the 20:20 agency business around our largest office based in Newbury, Berkshire, which has resulted in the closure of the Bristol office and the relocation of a number of staff from our Swindon office. This will mean a more efficient process and allocation of resource to client assignments.

Net debt has been reduced by £1.2 million in the six months to 30 September 2010 to £6.1 million. The cost of financing this debt has fallen from £375,000 for the six months ended 30 September 2009 to £256,000 for the six months under review.

Recent client wins include Royal Bank of Scotland, Promethean, Homeserve, Weight Watchers and Informa World.

Outlook

There is still uncertainty within our market sector which is delaying our return to significant growth. We are managing our cost base robustly to ensure it is appropriate for the business but are mindful of the fact that we need to invest to protect the assets that we have. We expect to produce profitable operating results above those reported in the first six months.

Ben Langdon
Chief Executive
22 November 2010

Consolidated Interim Statement of Comprehensive Income (unaudited)

	Note	Six months ended 30 Sept 2010 £'000	Six months ended 30 Sept 2009 £'000	Year ended 31 March 2010 £'000
Revenue	4	22,494	24,701	48,464
Direct costs		(4,596)	(7,260)	(13,004)
Gross profit		17,898	17,441	35,460
Other operating income		856	1,133	1,709
Amortisation		(967)	(956)	(1,938)
Operating expenses		(16,937)	(16,555)	(36,108)
Operating profit/(loss)		850	1,063	(877)
Finance income		1	2	2
Finance costs		(257)	(377)	(534)
Net financing costs		(256)	(375)	(532)
Profit/(loss) before tax		594	688	(1,409)
Tax expense	5	(279)	(552)	(576)
Profit/(loss) for the period attributable to equity holders of the parent		315	136	(1,985)
Other comprehensive income:				
Cash flow hedging				
Current year gains		53	57	65
Total comprehensive income		368	193	(1,920)
Earnings per ordinary share	6			
- basic		0.42p	0.20p	(2.88)p
- diluted		0.41p	0.18p	(2.88)p

Consolidated interim balance sheet (unaudited)

	<i>Note</i>	30 Sept 2010	30 Sept 2009	31 March 2010
		£'000	£'000	£'000
Assets				
Non-current assets				
Property, plant and equipment		1,759	1,816	1,752
Goodwill		44,330	46,973	45,653
Other intangible assets		13,387	15,435	14,272
		59,476	64,224	61,677
Current assets				
Inventories		210	154	212
Trade and other receivables		10,693	9,226	11,832
Cash and cash equivalents		9,239	11,421	7,399
		20,142	20,801	19,443
Total assets		79,618	85,025	81,120
Liabilities				
Current liabilities				
Bank overdraft	7	(8,364)	(9,783)	(6,443)
Other interest bearing loans and borrowings	7	(6,673)	(1,691)	(1,691)
Financial derivatives	8	(363)	(424)	(416)
Trade and other payables		(9,954)	(11,929)	(12,741)
Tax payable		(574)	(1,518)	(254)
Provisions		(59)	(58)	(187)
		(25,987)	(25,403)	(21,732)
Non-current liabilities				
Other interest bearing loans and borrowings	7	(275)	(5,966)	(6,522)
Deferred tax liabilities		(3,868)	(4,396)	(4,133)
		(4,143)	(10,362)	(10,655)
Total liabilities		(30,130)	(35,765)	(32,387)
Net assets		49,488	49,260	48,733
Equity				
Capital and reserves attributable to equity holders of the company				
Share capital		34,050	33,689	34,026
Share premium account		6,608	6,608	6,608
Hedging reserve		(363)	(424)	(416)
Capital redemption reserve		125	125	125
Share option reserve		395	5,810	419
Retained earnings		8,673	3,452	7,971
Total equity		49,488	49,260	48,733

Consolidated interim cash flow statement (unaudited)

	Six months ended 30 Sept 2010 £'000	Six months ended 30 Sept 2009 £'000	Year ended 31 March 2010 £'000
Cash flow from operating activities			
Profit for the period	315	136	(1,985)
Adjustment for:			
Depreciation, amortisation and impairment	1,232	1,282	6,299
Loss on disposal of property, plant and equipment	-	-	28
Movement in provision	(128)	-	40
Financial income	(1)	(2)	(2)
Financial expenses	257	377	534
Share based payment expense	387	1,288	2,874
Tax expense	279	552	576
Decrease/(increase) in trade and other receivables	1,114	1,509	(1,034)
Decrease/(increase) in inventories	2	42	(16)
(Decrease) in trade and other payables	(1,477)	(3,553)	(2,543)
Cash generated from operations	1,980	1,631	4,771
Interest received	1	2	2
Interest paid	(207)	(272)	(482)
Tax paid	(212)	(826)	(2,355)
Net cash flow from operating activities	1,562	535	1,936
Cash flows from investing activities			
Proceeds from the sale of property, plant and equipment	-	3	4
Acquisitions of subsidiaries, net of cash acquired	-	7	(1,632)
Payment of contingent consideration for prior year acquisitions	-	(278)	(600)
Addition of intangible assets	(82)	(275)	(694)
Acquisition of property, plant and equipment	(272)	(87)	(301)
Net cash outflow from investing activities	(354)	(630)	(3,223)
Cash flows from financing activities			
Proceeds from new loan and draw down of bank facilities	-	-	600
Repayment of borrowings	(1,289)	(1,688)	(1,778)
Net cash outflow from financing activities	(1,289)	(1,688)	(1,178)
Net decrease in cash, cash equivalents and bank overdrafts	(81)	(1,783)	(2,465)
Cash and cash equivalents at beginning of period	956	3,421	3,421
Cash and cash equivalents at end of period	875	1,638	956
Cash and cash equivalents comprise:			
Cash at bank and in hand	9,239	11,421	7,399
Bank overdrafts	(8,364)	(9,783)	(6,443)
Cash and cash equivalents at end of period	875	1,638	956

Consolidated interim statement of changes in equity (unaudited)

	Share capital £'000	Share premium account £'000	Hedging reserve £'000	Capital redemption reserve £'000	Share option reserve £'000	Retained earnings £'000	Total equity £'000
Balance at 1 April 2009	33,689	6,608	(481)	125	5,810	2,028	47,779
Credit in respect of share based payments	-	-	-	-	-	1,288	1,288
Transactions with owners	-	-	-	-	-	1,288	1,288
Profit for the period	-	-	-	-	-	136	136
Other comprehensive income:							
Cash flow hedges	-	-	57	-	-	-	57
Total comprehensive income for the period	-	-	57	-	-	136	193
Balance at 30 September 2009	33,689	6,608	(424)	125	5,810	3,452	49,260
Allotment of 5p ordinary shares	337	-	-	-	(337)	-	-
Credit in respect of share based payments	-	-	-	-	-	1,586	1,586
Transfer to share option reserve	-	-	-	-	(5,054)	5,054	-
Transactions with owners	337	-	-	-	(5,391)	6,640	1,586
Loss for the period	-	-	-	-	-	(2,121)	(2,121)
Other comprehensive income:							
Cash flow hedges	-	-	8	-	-	-	8
Total comprehensive income for the period	-	-	8	-	-	(2,121)	(2,113)
Balance at 31 March 2010	34,026	6,608	(416)	125	419	7,971	48,733
Allotment of 5p ordinary shares	24	-	-	-	(24)	-	-
Credit in respect of share based payments	-	-	-	-	-	387	387
Transactions with owners	24	-	-	-	(24)	387	387
Profit for the period	-	-	-	-	-	315	315
Other comprehensive income:							
Cash flow hedges	-	-	53	-	-	-	53
Total comprehensive income for the period	-	-	53	-	-	315	368
Balance at 30 September 2010	34,050	6,608	(363)	125	395	8,673	49,488

1. General Information

Digital Marketing Group plc (the "Company") is incorporated and domiciled in the United Kingdom. The Company is listed on the AIM market of the London Stock Exchange. The registered address is 30-33 Minories, Tower Hill, London, EC3N 1DD.

The interim financial information was approved for issue on 22 November 2010.

2. Basis of preparation

The consolidated interim financial statements for the six months ended 30 September 2010 have been prepared in accordance with applicable accounting standards and under the historical cost convention except for certain financial instruments that are carried at fair value.

The financial information for the year ended 31 March 2010 set out in this interim report does not constitute statutory accounts as defined in Section 434 of the Companies Act 2006. The Group's statutory financial statements for the year ended 31 March 2010 have been filed with the Registrar of Companies. The auditor's report on those financial statements was unqualified and did not contain statements under Section 498 (2) or Section 498 (3) of the Companies Act 2006.

The consolidated interim financial information should be read in conjunction with the annual financial statements for the year ended 31 March 2010, which have been prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union.

3. Accounting policies

Except as described below, the principal accounting policies of Digital Marketing Group plc and its subsidiaries ("the Group") are consistent with those set out in the Group's 2010 annual report and financial statements.

Taxes on income in the interim periods are accrued using the tax rate that would be applicable to expected total annual earnings.

The following new standards and amendments to standards are mandatory for the first time for the financial year beginning 1 April 2010.

- IAS 27 Consolidated and Separate Financial Statements (Revised 2008) (effective 1 July 2009).
- Amendment to IAS 39 Financial Instruments: Recognition and Measurement - Eligible Hedged Items (effective 1 July 2009).
- Group Cash-settled Share-based Payment Transactions - Amendment to IFRS 2 (effective 1 January 2010).
- IFRIC 17 Distributions of Non-cash Assets to Owners (effective 1 July 2009).
- IFRIC 18 Transfers of Assets from Customers (effective prospectively for transfers on or after 1 July 2009).
- Amendment to IAS 32 Classification of Rights Issues (effective 1 February 2010).

4. Segment information (unaudited)

The chief operating decision-maker has been identified as the Group Chief Executive. The Group Chief Executive reviews the Group's internal reporting in order to assess performance and allocate resources. Management has determined the operating segments based on these reports. 20:20 provide full agency services for clients on digital platforms together with ecommerce services. DMG provide digital direct marketing, data and data related services and voice services to clients.

The Group Chief Executive assesses the performance of the operating segments based on gross profit and operating profit before interest and tax.

Total assets exclude intangible assets, cash and external borrowings which have not been allocated to operating segments.

No single client accounts for more than 10% of Group revenue. All the Group's activities are carried out within the UK.

Six months ended 30 September 2010

	20:20	DMG	Unallocated	Total
	£'000	£'000	£'000	£'000
Revenue	15,113	7,845	(464)	22,494
Direct costs	(4,192)	(868)	464	(4,596)
Gross profit	10,921	6,977	-	17,898
Other operating income	3	853	-	856
Operating expenses excluding depreciation, amortisation and charges for share based payments	(9,055)	(6,729)	(501)	(16,285)
Operating profit before depreciation, amortisation and charges for share based payments	1,869	1,101	(501)	2,469
Depreciation	(126)	(138)	(1)	(265)
Amortisation	(521)	(446)	-	(967)
Charges for share based payments	(102)	(70)	(215)	(387)
Operating profit	1,120	447	(717)	850
Finance income				1
Finance costs				(257)
Profit before tax				594
Tax expense				(279)
Profit for the period				315

Six months ended 30 September 2009

	20:20	DMG	Unallocated	Total
	£'000	£'000	£'000	£'000
Revenue	14,377	10,594	(270)	24,701
Direct costs	(6,463)	(1,034)	237	(7,260)
Gross profit	7,914	9,560	(33)	17,441
Other operating income	5	1,128	-	1,133
Operating expenses excluding depreciation, amortisation and charges for share based payments	(6,557)	(7,798)	(586)	(14,941)
Operating profit before depreciation, amortisation and charges for share based payments	1,362	2,890	(619)	3,633
Depreciation	(108)	(206)	(12)	(326)
Amortisation	(505)	(451)	-	(956)
Charges for share based payments	30	(274)	(1,044)	(1,288)
Operating profit	779	1,959	(1,675)	1,063
Finance income				2
Finance costs				(377)
Profit before tax				688
Tax expense				(552)
Profit for the period				136

Year ended 31 March 2010

	20:20	DMG	Unallocated	Total
	£'000	£'000	£'000	£'000
Revenue	27,832	21,322	(690)	48,464
Direct costs	(11,382)	(2,160)	538	(13,004)
Gross profit	16,450	19,162	(152)	35,460
Other operating income	7	1,702	-	1,709
Operating expenses excluding depreciation, amortisation and charges for share based payments	(12,572)	(15,511)	(739)	(28,822)
Operating profit before depreciation, amortisation and charges for share based payments	3,885	5,353	(891)	8,347
Depreciation	(204)	(345)	(25)	(574)
Amortisation	(1,010)	(928)	-	(1,938)
Impairment	(2,519)	(1,254)	(14)	(3,787)
Charges for share based payments	(22)	(1,381)	(1,522)	(2,925)
Operating profit	130	1,445	(2,452)	(877)
Finance income				2
Finance costs				(534)
Loss before tax				(1,409)
Tax expense				(576)
Loss for the period				(1,985)

Total assets	20:20	DMG	Unallocated	Total
	£'000	£'000	£'000	£'000
30 September 2010	35,810	26,800	17,008	79,618
31 March 2010	35,175	27,707	18,238	81,120
30 September 2009	31,535	32,759	20,731	85,025

5. Tax expense (unaudited)

A reconciliation of the charge that would result from applying the standard UK corporation tax rate to profit before tax to the tax charge is given below.

	Six months ended 30 Sept 2010 £'000	Six months ended 30 Sept 2009 £'000	Year ended 31 March 2010 £'000
Recognised in the consolidated statement of comprehensive income:			
Current year tax	544	870	1,134
Origination and reversal of temporary differences	(265)	(318)	(558)
Total tax charge	279	552	576
Profit /(loss) before tax	594	688	(1,409)
Tax charge thereon at UK corporation tax rate of 28% (2009: 28%)	166	193	(395)
Effects of:			
Non-deductible expenses	-	-	94
Impairment of goodwill	-	-	892
Share based payment charges	108	361	804
Schedule 23 deductions	-	-	(805)
Depreciation for period in excess of capital allowances	-	28	-
Other	5	(67)	(68)
Prior year adjustment	-	37	54
Total tax charge	279	552	576

6. Earnings per share (unaudited)

	Six months ended 30 Sept 2010 Pence per share	Six months ended 30 Sept 2009 Pence per share	Year ended 31 March 2010 Pence per share
Basic	0.42p	0.20p	(2.88)p
Diluted	0.41p	0.18p	(2.88)p

Earnings per share have been calculated by dividing the profit attributable to shareholders by the weighted average number of ordinary shares in issue during the period. The calculations of basic and diluted earnings per share are:

	Six months ended 30 Sept 2010 £'000	Six months ended 30 Sept 2009 £'000	Year ended 31 March 2010 £'000
Profit/(loss) for the period attributable to shareholders	315	136	(1,985)
Weighted average number of ordinary shares in issue:	Number '000	Number '000	Number '000
Basic	74,237	67,378	69,010
Adjustment for share options, warrants and contingent shares	3,149	7,001	6,935
Diluted	77,386	74,379	75,945

Adjusted earnings per share

	Six months ended 30 Sept 2010 Pence per share	Six months ended 30 Sept 2009 Pence per share	Year ended 31 March 2010 Pence per share
Basic adjusted earnings per share	1.57	3.20p	8.77p
Diluted adjusted earnings per share	1.50	2.90p	7.97p

Adjusted earnings per share have been calculated by dividing the profit attributable to shareholders before amortisation, impairment and charges for share based payments by the weighted average number of ordinary shares in issue during the period. The numbers used in calculating the basic and diluted adjusted earnings per share are reconciled below:

	Six months ended 30 Sept 2010	Six months ended 30 Sept 2009	Year ended 31 March 2010
	£'000	£'000	£'000
Profit/(loss) before tax	315	688	(1,409)
Amortisation	967	956	1,938
Impairment of carrying value of goodwill and intangibles	-	-	3,787
Charges for share based payments	425	1,383	2,874
Adjusted profit attributable to shareholders	1,707	3,027	7,190
Current period tax charge	(544)	(870)	(1,134)
	1,163	2,157	6,056

7. Bank overdraft, borrowings and loans (unaudited)

	30 Sept 2010	30 Sept 2009	31 March 2010
	£'000	£'000	£'000
Summary			
Bank overdraft	8,364	9,783	6,443
Borrowings, undiscounted cash flows	6,948	7,657	8,213
	15,312	17,440	14,656

Borrowings are repayable as follows:

Within 1 year			
Bank overdraft	8,364	9,783	6,443
Borrowings	6,822	1,848	1,865
Total due within 1 year	15,186	11,631	8,308
Less future interest	(149)	(157)	(174)
Total due within 1 year	15,037	11,474	8,134
In more than 1 year but not more than 2 years	276	1,812	6,596
In more than 2 years but not more than 3 years	-	4,284	-
Total due in more than 1 year	276	6,096	6,596
Less future interest	(1)	(130)	(74)
Total due in more than 1 year	275	5,966	6,522

Average interest rates at the balance sheet date were:	%	%	%
Overdraft	2.75	5.00	2.75
Term loan	2.04	1.85	1.96
Term loan	2.54	3.35	2.46
Revolving credit facility	2.35	2.32	2.33

As the loans are at variable market rates their carrying amount is equivalent to their fair value.

In 2007 the Group purchased an interest rate swap of 6.19% for the period 2007 to 2012 for £4.0 million of its borrowings.

The borrowing facilities available to the Group at 30 September 2010 was £10.36 million (2009: £11.13 million) and, taking into account cash balances within the Group, there was £3.28 million (2009: £3.28 million) of available borrowing facilities.

A composite accounting system is set up with the Group's bankers, which allows debit balances on overdraft to be offset across the Group with credit balances.

Reconciliation of net debt	Cash at bank and in hand	Overdraft	Borrowings	Net debt
	£'000	£'000	£'000	£'000
30 September 2010	9,239	(8,364)	(6,948)	(6,073)
31 March 2010	7,399	(6,443)	(8,213)	(7,257)
30 September 2009	11,421	(9,783)	(7,657)	(6,019)

8. Financial derivatives (unaudited)

	30 Sept 2010	30 Sept 2009	31 March 2010
	£'000	£'000	£'000
Interest rate swap	363	424	416

In 2007 the Group purchased an interest rate swap of 6.19% for the period 2007 to 2012 for £4.0 million of its borrowings. This swap is designated a hedge of the interest expense relating to the Group loans. The contract was marked to market at 30 September 2010 and was a net liability of £363,000 (2009: £424,000).

9. Provisions (unaudited)

	30 Sept 2010	30 Sept 2009	31 March 2010
	£'000	£'000	£'000
At the beginning of the period	187	147	147
Additional provisions for restructuring	-	-	187
Utilised during the year	(128)	(89)	(147)
At the end of the period	59	58	187

Provisions relate to leases in the Group where the commercial benefit has either ceased or will cease before the normal expiry period.

10. Share capital (unaudited)

Authorised:

	45p deferred shares	5p ordinary shares
	£'000	£'000
Authorised share capital at 31 March 2010 and 30 September 2010	45,000	10,000

Allotted, issued and fully paid

	45p deferred shares	5p ordinary shares	
	Number	Number	£'000
Issued share capital at 31 March 2010	67,378,520	74,121,505	34,026
Allotment of 5p ordinary shares	-	483,494	24
At 30 September 2010	67,378,520	74,604,999	34,050

The shares issued in the period were as a result of the exercise of share options by employees and directors.

11. Related party transactions (unaudited)

There were no significant changes in the nature and size of related party transactions for the period from those disclosed in the Annual Report for the year ended 31 March 2010.

INDEPENDENT REVIEW REPORT TO DIGITAL MARKETING GROUP PLC

Introduction

We have been engaged by the company to review the interim financial information in the interim report for the six months ended 30 September 2010 which comprises the consolidated interim statement of comprehensive income, the consolidated interim balance sheet, the consolidated interim cash flow statement and the consolidated interim statement of changes in equity and the related notes 1 to 11. We have read the other information contained in the interim financial report and considered whether it contains any apparent misstatements or material inconsistencies with the interim financial information.

This report is made solely to the company in accordance with guidance contained in ISRE (UK and Ireland) 2410, "Review of Interim Financial Information performed by the Independent Auditor of the Entity". Our review work has been undertaken so that we might state to the company those matters we are required to state to them in a review 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, for our review work, for this report, or for the conclusion we have formed.

Directors' responsibilities

The interim report is the responsibility of, and has been approved by, the directors. The AIM rules of the London Stock Exchange require that the accounting policies and presentation applied to the interim financial information are consistent with those which will be adopted in the annual accounts having regard to the accounting standards applicable for such accounts.

As disclosed in note 2, the annual financial statements of the Group are prepared in accordance with IFRSs as adopted by the European Union. The interim financial information in the interim report has been prepared in accordance with the basis of preparation in note 2.

Our responsibility

Our responsibility is to express to the company a conclusion on the interim financial information in the interim report based on our review.

Scope of review

We conducted our review in accordance with International Standard on Review Engagements (UK and Ireland) 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Auditing Practices Board for use in the United Kingdom. A review of interim financial information consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing (UK and Ireland) and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Based on our review, nothing has come to our attention that causes us to believe that the interim financial information in the interim report for the six months ended 30 September 2010 is not prepared, in all material respects, in accordance with the basis of accounting described in note 2.

Grant Thornton UK LLP
Chartered Accountants
Sheffield
22 November 2010