

# UnQuoted-Analyst

## news

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### **dotDigital - A Working Lunch**

By the PLUS Journalist of the Year, Richard Gill

Up until about two years ago company results presentations, followed by a boozy lunch, were commonplace in the City. It wasn't unusual for even the smallest AIM listed companies to get together a throng of journalists, analysts and other advisors to chew the fat (and a nice cut of sirloin) with management in a swanky restaurant in the Square Mile. However, since the recession started to bite, and small cap firms have tightened up on their waistlines as well as their discretionary spending, what used to be at least a weekly occurrence for us journos has now become perhaps only a monthly event at best. So it was somewhat of a surprise to receive an invite to a results presentation/lunch from PLUS-quoted minnow dotDigital.

PLUS companies are generally not known for the high quality of their investor relations but to a packed room of investors, analysts and journalists at the Eight Club, just by the Bank of England, dotDigital put on a presentation of its 2008/09 results which any fully listed firm would be proud of. The company, which came to market in February this year following the reverse takeover of cash shell West End Ventures, was founded in 1999 as a web design and development company – Ellipsis Media. Since then however it has expanded its services significantly and now offers a range of digital marketing services through four separate branded divisions.

Flagship brand, dotMailer, is an email marketing platform which offers users a range of features, including analytical, creation and testing tools. CEO Peter Simmonds refers to the product as being “powered by NASA technology but with a Fisher Price interface” – in other words the technology is very powerful but has an interface which is easy enough for a child to understand. The company's three other brands are: dotCommerce, an off the shelf ecommerce package; dotEditor, a content management system; and dotAgency, the company's in-house creative team, which offers services such as website design, search engine optimisation and advice on digital marketing strategy. Along with a raft of positive customer accreditations received during its 10 years of operation, adding weight to the quality of the company's services, is the fact that dotMailer occupies the number 1 ranking on Google when the term “email marketing” is searched for – a position which has been achieved naturally, i.e. without the company having to pay a penny to the internet giant.

Current customers across the group include a number of established brand names such as DHL, Volvo, Land Rover, Kodak, YMCA and many others, along with a raft of small and mid size organisations. No one client made up more than 5% of revenues in the last financial year, meaning that the company is pretty well insulated from any particular business getting into financial difficulties. The company also has a high proportion of recurring revenues (the exact amount has not been disclosed) which come from its monthly billings.

Growth at both the top and bottom line has been exceptional in the past few years as the company has benefitted from a shift in marketing budgets from traditional offline media to online. This trend has been witnessed due to digital based marketing campaigns being easier to measure, of a lower cost and having the potential for a higher return on investment than traditional channels, such as print media. From April 2006 to April 2008 revenues grew by 203% to £2.474 million, with post tax profits up 144% to £567,000. The numbers for 2009, which are for the 14 months to June this year – to align the year end with that of West End Ventures - and which are the first since the reverse takeover, were just as impressive.

Driven by a more than doubling of client numbers, from 1,072 to 2,282, revenues in the 14 months rose by 91% to £4.72 million, with pre-tax profits up from £0.7 million to £1.1 million. Diluted earnings fell from 0.19p to 0.13p however as shares issued at the time of the reverse takeover had a significantly dilutive effect. dotDigital ended the period with net cash of £1.678 million, up from £684,4493 due to a strong net cash inflow from operations and as cash from the West End Ventures business was added to the balance sheet. While the company has paid a dividend in the past none was recommended for the year as any cash generated from operations is planned to be invested back into the business.

A burning question amongst those present at the results presentation was whether dotDigital can continue to grow as rapidly in the coming years, and if so, how. In terms of the market there is certainly the opportunity for further organic growth. According to data from industry analysts E-consultancy, the UK market for email and marketing platforms is expected to grow by 15% to £292 million this year, following growth of 15% seen in 2008. The wider digital marketing market is also expected to continue growing despite the tough conditions in the advertising market as a whole. Other organic growth opportunities come from the cross selling of products to existing customers, a strategy which has been successful for the group in the past, and a potential move into the international markets. More excitingly perhaps, the firm is actively seeking complimentary businesses to add to the group. At the presentation dotDigital confirmed that it had commenced negotiations with three firms – a search engine optimisation specialist, a smaller e-mail provider and a SMS provider. A move to AIM is also on the list of things for the company to do in the future.

So is the company worth investing in? dotDigital shares currently trade at 1p, unmoved since the reverse takeover in February, capitalising the firm at £12.93 million. They trade on a historic (annualised) multiple of 9 times, or 7.8 times if we strip out the net cash as at 30th June. Despite the poor liquidity in the stock those ratings look very good value considering the historic rates of growth, strong cash position and further opportunities to expand the business in the coming years. **Buy.**

<http://www.unquoted-analyst.co.uk/news/186/dotdigital-a-working-lunch>

