



**System1 Group**

# **Financial Results**

**Six months ended 30 September 2017**

[system1group.com](http://system1group.com)

**Leading  
exponent  
of behavioural  
economics and  
system 1 thinking  
in marketing and  
research**

**Founded in 1999**

**Floated on AIM in December 2006 at £1.08 per share**

**Long term track record of profitable organic growth and strong cash flow**

**Operating in 10 countries**

**170 employees**

**200 + large (mainly consumer goods) clients**

**After successful  
year last year,  
highly  
disappointing H1  
this year**

Finished 2016/17 on the front foot

- Core Quant System1 products all growing well
- Established Ad Agency and moving into marketing services (not just research)
- Market as a whole increasingly embracing System 1 thinking

However, H1 results have declined sharply:

- Gross Profit 9% down
- PBT down to £0.85m from £2.79m

What happened?

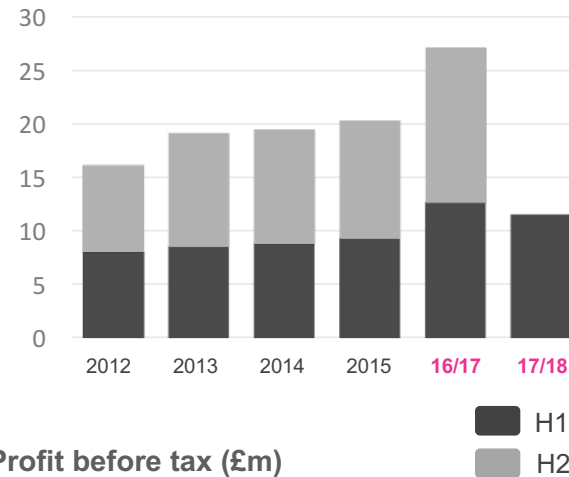
- Large CPG clients cut/deferred budgets
- Research industry shifting towards automated lower cost data
- Rebranding and team reorganisation for long term positioning, meant less focus on clients



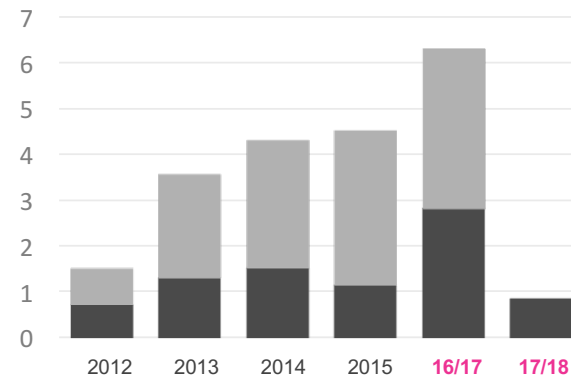
**9% Gross Profit decline caused heavy PBT fall due to large fixed-cost base**

### Gross profit (£m)

main top-line performance indicator



### Profit before tax (£m)

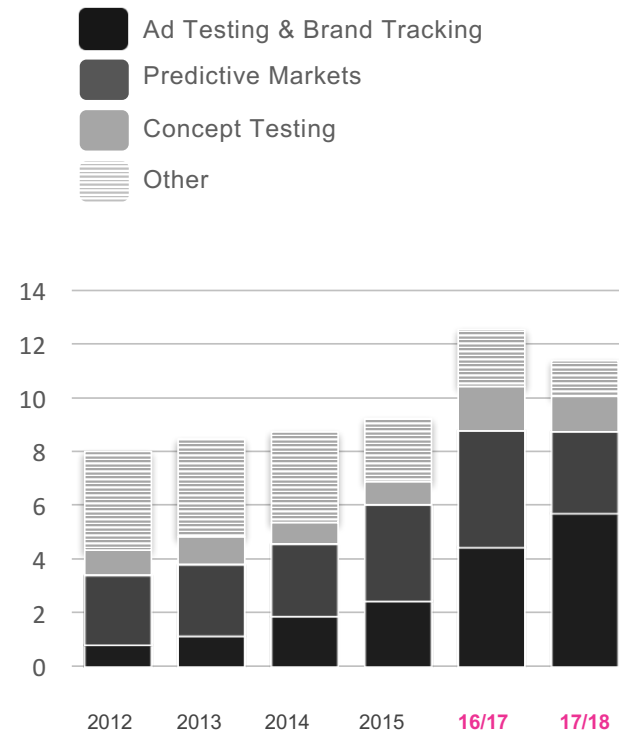


2012–2015: year to 31 December. 2016/17 and 2017/18: year to 31 March

- Revenue down 10% (12% in constant currency)
- Gross profit down 9% (12% in constant currency)
- Profit before tax down to 70%
- Profit after tax down to 70%
- Diluted EPS down 69%
- Cash outflow before financing £0.61m
- Cash returned to shareholders: £4.05m (dividends)
- Cash balance: £3.50m and no debt

## Gross Profit Decline due to Innovation Testing (Predictive Markets and Concept Testing)

Product mix – gross profit £m



2012–2015: 6 months to 30 June. 16/17 and 17/18: 6 months to 30 September

### Most of the business from our core 4 products

Brands and comms: Ad Testing, Brand Tracking  
Innovation: Predictive Markets, Concept Testing

### Brands and comms

Ad Testing and Brand Tracking (43% of Gross Profit last year) grew 17% and 53% respectively. Leading to more sole supplier status and regular repeat usage.

### Innovation

Innovation testing (44% of Gross Profit last year) down 27%.

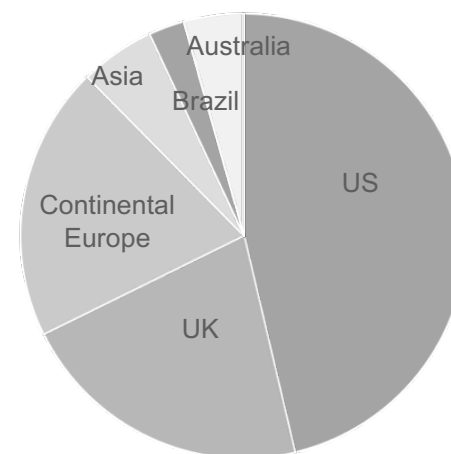
### Other services

Other services (10% now) down significantly, which is painful in short term but less ongoing consequence

## Gross profit down in most markets and underlying causes similar

	Gross profit		Operating profit	
US	£5.20m	-11%	£2.59m	-25%
UK	£2.40m	-18%	£0.91m	-36%
Continental Europe	£2.23m	-3%	£1.11m	-7%
Asia	£0.62m	+28%	£0.14m	+115%
Brazil	£0.29m	-56%	£(0.13)m	-140%
Australia	£0.49m	+77%	£0.40m	+39%
Total Research	£11.23m	-10%	£5.02m	-24%
System1 Ad Agency	£0.16m	+324%	£(0.21)m	NA
Total	£11.39m	-9%	£4.81m	-26%
Central Costs			£(3.97)m	+9%
Operating profit			£0.84m	-70%

Gross profit split



**Costs increased  
in large part due  
to investment in  
US and Ad  
Agency**

	2017/18	2016/17	Growth
Research overheads	£9.40m	£7.81m	+20%
Advertising Agency overheads	£0.37m	£0.15m	+147%
<b>Underlying overheads</b>	<b>£9.77m</b>	<b>£7.96m</b>	<b>+23%</b>
Bonus ("Profit Share")	-	£1.43m	-100%
Severance costs	£0.38m	£0.13m	+192%
One-off rebranding costs	£0.14m	-	NA
<b>Overheads excluding share based payments</b>	<b>£10.29m</b>	<b>£9.52m</b>	<b>+8%</b>
Share-based payments	£0.26m	£0.21m	+24%
<b>Total overheads</b>	<b>£10.55m</b>	<b>£9.73m</b>	<b>+8%</b>

**Investment in US**

Increased headcount and senior hires on back of consistently strong historic performance

**Investment in Agency**

Senior hires in Europe and US

## **Cash position remains solid**

### **Cash Flow**

**Small operating cash outflow**  
Pre-financing cash flow £0.60m

**Finished the period with £3.50m  
cash and no debt**

### **Returns to shareholders**

**Returned £4.05m  
to shareholders so far the year**  
Final and Special Dividends

**2017/18 interim dividend 1.1p**  
Maintaining dividend in spite of  
earnings decline



## Marketing that Makes a Difference & Zero Waste...

**Re-engineering  
our products**

**Consultancy  
System1 Research**

**Core  
Prediction**

standardised  
scalable  
low cost  
fast  
high margin

**Creativity  
System1 Agency**

**Core Prediction** predicts which ads, concepts or other marketing creative will make a difference

**Research Consultancy** improves the marketing outputs that clients decide to move ahead with

**Agency Creativity** produces ads and concepts that are *guaranteed* to generate a return

All feed off each other to win large scale programmes of ongoing work

## Outlook ...

New Chapter following rebranding to System1 not started as hoped

However the decline has been a catalyst for re-engineering products

Increased potential for large work programmes and margin uplift

**But:** in a period of change, and with normal limited visibility, more cautious than usual on short term outlook

Were Gross Profit decline in H1 to repeat in H2, PBT would decline 50-60%

