Interim Results

System1 Group PLC

6 Months to 30 September 2018

Summary

- After decline last year, results are stabilising: Gross Profit 5% decline (3% constant currency)

- New product launches beginning to yield results, particularly in Innovation

- Lower cost base is restoring margins: underlying PBT £1.92m (prior year £1.10m)

- Significant investment in Ad Ratings (£1.59m, of which £0.50m capitalised, £1.09m expensed)

- Business is pivoting towards digital data products using its core IP: Ad Ratings is first example

- Cash balance of £3.6m

- Maintaining interim dividend at 1.1 pence

FINANCIALS

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P&L:
separating Consulting (existing business) from Ad Ratings

£m	2018/19			2017/18
	Consulting (Existing Business)	**Ad Ratings**	**Total**	
Revenue	13.18	-	13.18	13.82
Gross Profit	10.80	-	10.80	11.39
Underlying Overheads	(8.88)	(1.09)	(9.97)	(10.29)
Underlying Pre-Tax Profit	1.92	(1.09)	0.83	1.10
Share Based Payments	-	-	-	(0.25)
Exceptional Credit	0.25	-	0.25	-
Pre-Tax Profit	2.17	(1.09)	1.08	0.85

Historic context

Gross Profit (£m)
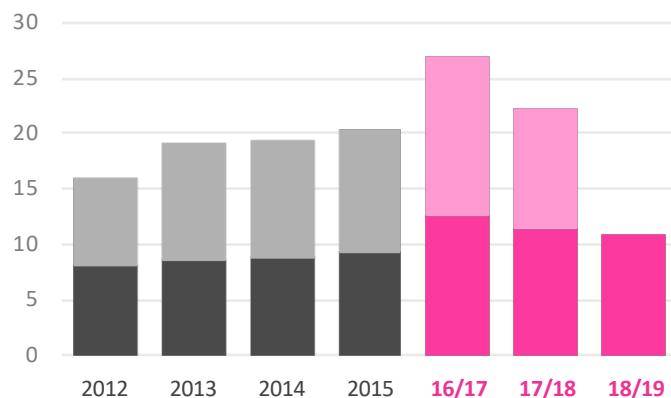
**Pre-Tax Profit excluding Ad Ratings (£m)**
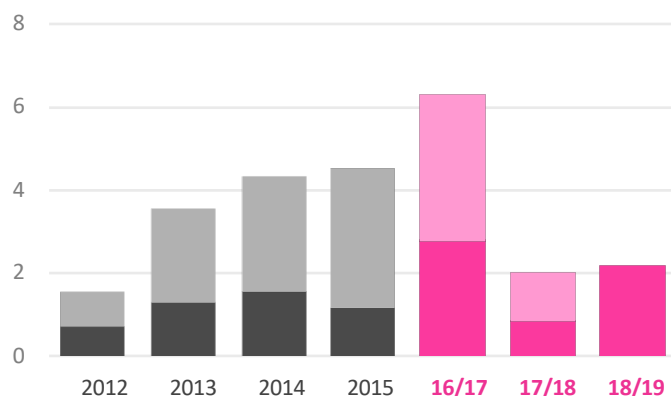
- 5% decline in Revenue (3% constant currency)

- 5% decline in Gross Profit (3% constant currency)

- 74% growth in Underlying Pre-Tax Profit (excluding Ad Ratings)

- 28% growth in Pre-Tax Profit (including Ad Ratings)

- Underlying effective tax rate reduced to 28% from 36%

- 26% growth in Post-Tax Profit

- 26% growth in diluted EPS

Key ■ H1 to December ■ H2 to December ■ H1 to March ■ H2 to March

18/19 Pre-Tax Profit includes £0.25m exceptional credit relating to business rates rebate

Business is stabilising
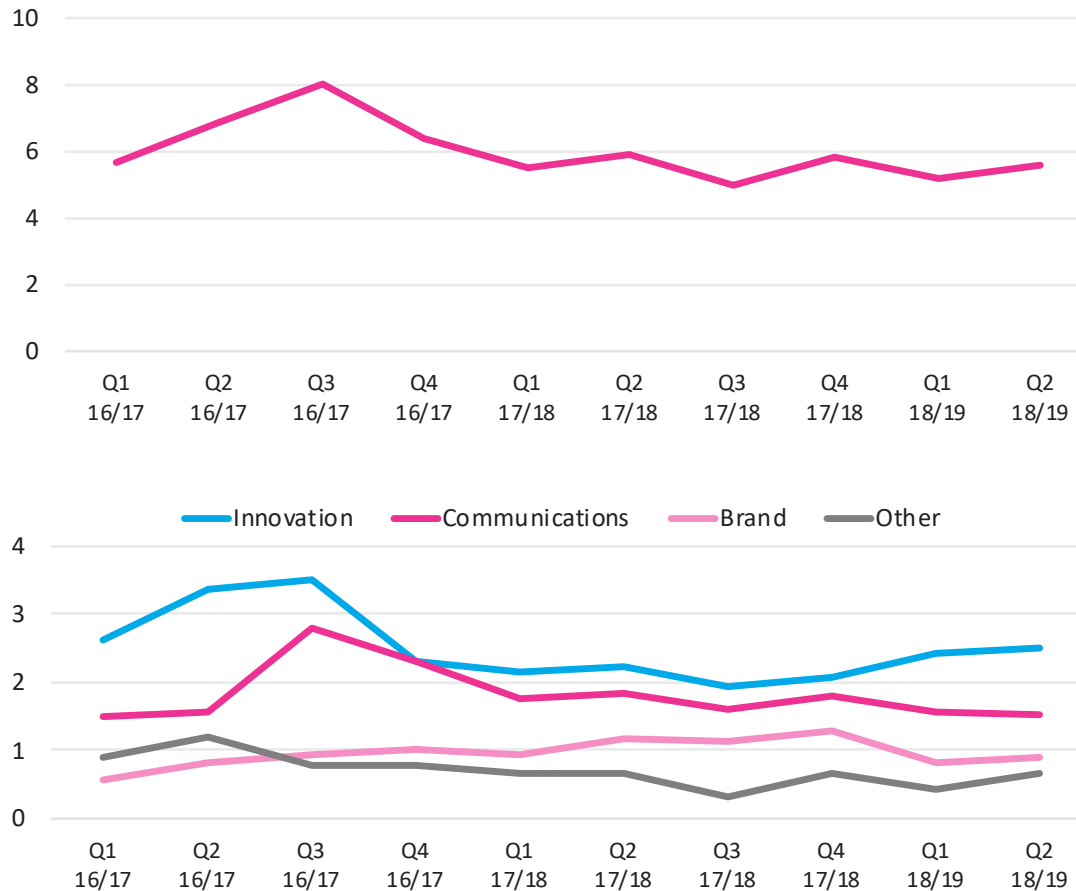
- Not yet into growth but relatively flat qtrly performance since beginning 2017/18.

- Innovation returned to growth following new product launch, new pricing structure and return of client budgets (up 13%).

- Communications product also re-launched but more recently (down 15%). Larger opportunities mean more of a lag before new business secured.

- Brand down as a result of isolated churn (down 18%). However, tends to be stable ongoing tracking projects, and anticipate it returning to growth

Mixed fortunes geographically

	Gross Profit		Operating Profit	
Americas	£4.64m	-16%	£2.13m	-14%
UK	£2.28m	-5%	£0.81m	-11%
Continental Europe	£2.91m	+30%	£1.68m	+52%
APAC	£0.86m	-22%	£0.52m	-3%
Total Research	£10.69m	-5%	£5.14m	+2%
Ad Agency	£0.11m	-32%	£(0.30)m	NM
Total	£10.80m	-5%	£4.84m	+1%

H1 Gross Profit

■ Americas ■ UK ■ Continental Europe ■ APAC
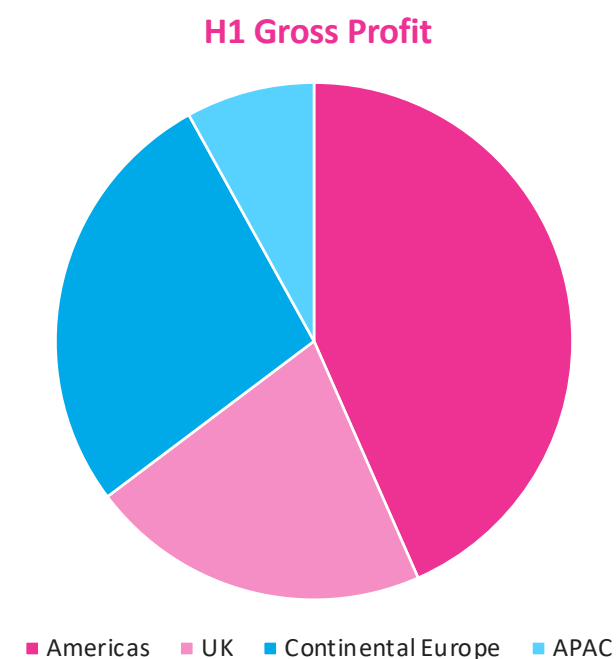
Profit and Cost improvements

	£m	Growth
Operating Profit from Research & Ad Agency	4.84	+1%
Central Costs (ex Ad Ratings)	(2.92)	-21%
Operating Profit (ex Ad Ratings)	1.92	+74%
Exceptional Credit *	0.25	NA
Share Based Payments	-	NM
Pre-Tax Profit (ex Ad Ratings)	2.17	+157%
Ad Ratings	(1.09)	NM
Pre-Tax Profit	1.08	+28%
Tax	(0.40)	+32%
Post-Tax Profit	0.68m	+26%

- Cost improvements driven by 19% headcount reduction

- Operating Profit margin improving
  (ex Ad Ratings, Exceptional Credit, and Share Based Payments)
    - 15% in H1 2018/19
    - 19% 4 yr average 18%
    - 8% in H1 2017/18

- Effective tax rate
    - 36% in H1 2017/18
    - 28% in H1 2018/19 (excluding Ad Ratings)
    - 37% in H1 2018/19 (including Ad Ratings)

* Exceptional Credit was a business rates rebate on the move of the London HQ in 2015, received in error. In spite of the Company referring the error to the local council, they failed to correct it and are now time-barred from doing-so

Cashflow

£m	H1 2018/19	H1 2017/18
Operating Cash Flow (excluding Ad Ratings)	0.31	(0.60)
Ad Ratings (£1.09 expensed; £0.50 capitalised)	(1.67)	
Cash flow before financing	(1.36)	(0.60)
Finance lease payments	(0.02)	-
Dividends	(0.80)	(4.05)
Cash movement	(2.18)	(4.65)
Cash balance at 30 September	3.55	3.50

- Cash flow conversion of 20% worse than normal due to increased debtor days but cash still healthy

- Maintaining interim dividend of 1.1 pence

- May reduce final dividend, depending on: (i) investment in Ad Ratings (ii) share buy back opportunities

1 FFW▷▷

to No. 1

FFW▶▶

"Our role is to lead the business to ideas that sell more"
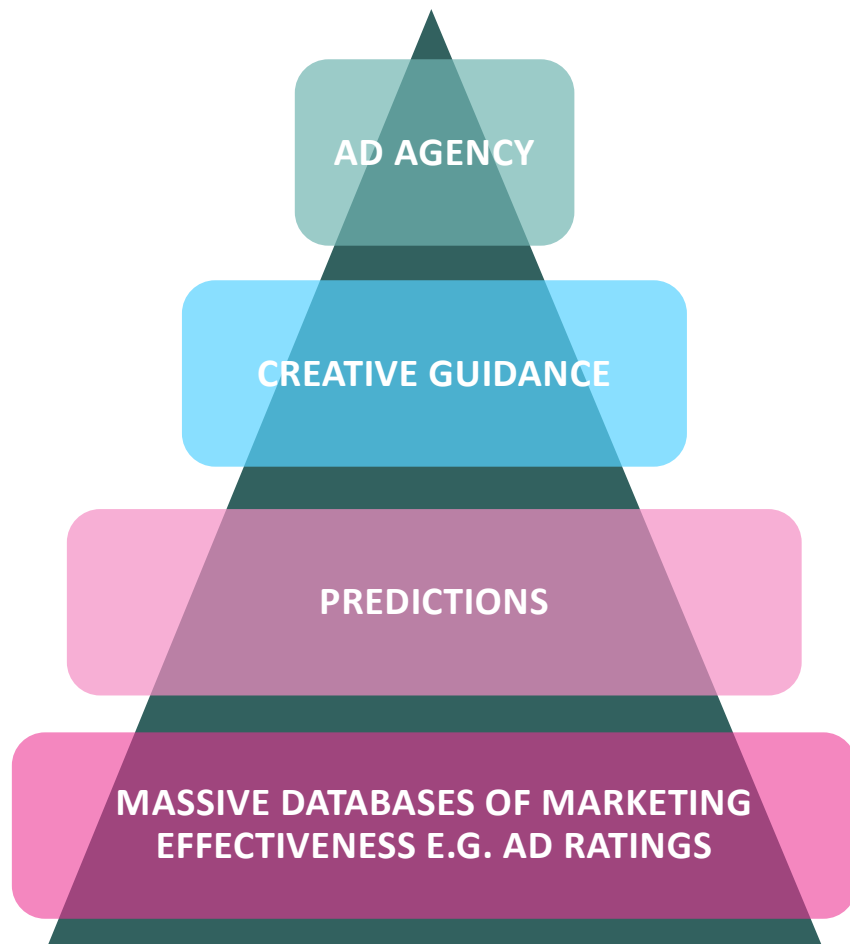
Andrew Geoghegan
Head of Consumer Planning, Diageo

Number 1 Intellectually

- **1st** to champion System1, behavioural science based research

- **1st** to champion online, self-structuring of open-ended answers (MindReader®: 50 million responses since 2000)

- **1st** to champion predictive accuracy of Predictive Markets (50 thousand innovations since 2004)

- **1st** to champion predictive accuracy of emotional response (FaceTrace®: 50 million emotional responses since 2005)

- **1st** to champion predictive accuracy of emotions in Adverts (40 thousand since 2008 & only externally validated method)

- **1st** to champion Fame, Feeling & Fluency to predict Brand growth

- **"Most Innovative Agency"** 6 years in a row [GRIT awards]

FFW▶▶ to Number 1 Commercially

AD AGENCY

CREATIVE GUIDANCE

PREDICTIONS

MASSIVE DATABASES OF MARKETING EFFECTIVENESS E.G. AD RATINGS

Guiding

Predicting

Rating

Shop window to show how it's done

Consultancy to guide creative outputs

Predict long term profitability of Adverts, Innovation, Brand Marketing

Correlates Ad effectiveness & media spend by market, category, competitor & brand
The answer to: *"half my marketing's wasted, I just don't know which half"*

System1 Ad Ratings

Ad Ratings

- The Company is looking to add Technology, and Digital thinking to create new products and channels to its core IP

- Ad Ratings is first example

- The business has historically pre-tested adverts for around £20-30k (more for multi-country studies) over a 3-4 week period

- We challenged ourselves to use technology to deliver in 1/100th of time at 1/100th of cost

- We have created a database of all UK and US Adverts broadcast over 12 month period in 8 core industries

- The database has several uses:

  - Substantial digital asset with information to hone understanding of effective adverts

  - Differentiator that makes copying that bit harder

  - Source of new contacts and relationships for the Company to upsell its other products

  - Product with scalable revenue stream

- Invested £1.59m in H1 and envisaging further significant investment as the business develops

- Launching basic product in November and planning continuously to improve thereafter

Outlook

- Market conditions remain challenging

- As new product configurations and competitive pricing take hold believe business will continue to stabilise and in time return to growth

- Meanwhile we will continue to keep costs under control

- Looking forward to launch of Ad Ratings

- Will continue to invest in this new business as appropriate