



# Financial Results

System1 Group PLC

12 Months to 31 March 2019

# Strategic Context

- Our vision is to be global no 1 in Advertising Effectiveness
- We play in three research markets: Advertising Testing, Brand Tracking & Innovation (our roots),
- We operate in 6 of the largest advertising markets in the world (US, UK, DE, FR, BR, AU) & 3 more
- We have yet to achieve the sustained sales growth we aspire to (sales in the £20m's for 6 years)
- Two big transformational waves are impacting our industry: Behavioural Science and Digitisation
- We are an acknowledged leader in Behavioural Science & have been catching-up in digitisation
- Going forward we need
  - Laser focus in applying Behavioural Science to winning in Advertising Effectiveness
  - Continue the significant progress made in digitising our methodologies e.g. AdRatings
  - Focus on winning larger, longer-term 'System Sales' with clients
- With £20m+ Revenues, 150+ employees & £2.5m free cash flow, we have the resources to invest in achieving growth & the nimbleness to adapt fast and succeed

## 2018/19 Summary

- After the previous year's Revenue decline of 18% & Underlying PBT decline of 68%, this year's results were far from spectacular but they were significant:
  - Flat revenues for the year but H2 growth of 5% on the previous year
  - 23% growth in the number of clients
  - 7% growth in our Ad Testing business
  - 80% growth in Underlying PBT (£3.70m vs. £2.05m prior year) from productivity improvements
- Focused on commercialising core strength – predicting long term effectiveness of Advertising
- Invested in digitising the business; AdRatings £3.03m (£0.81m capitalised, £2.22m expensed)
- Strengthened the Management Team with Stefan Barden as advisor to the Office of the CEO, our 1<sup>st</sup> CIO, Mark Beard and our 1<sup>st</sup> HR Director, Ania Lesniak
- Strengthened the Board with two new Non-Executives; Jane Wakely & Sophie Tomkins
- Cash remains strong - balance at year-end of £4.32m
- Maintaining final dividend (at 6.4 pence) without limiting investment

The background is a dark teal gradient. It features several vertical bars of varying heights in a lighter teal color. Overlaid on these bars are thin, light blue lines that form a network or grid pattern. A prominent, thick pink outline of the number '1' is positioned on the right side of the image.

**FINANCIALS**

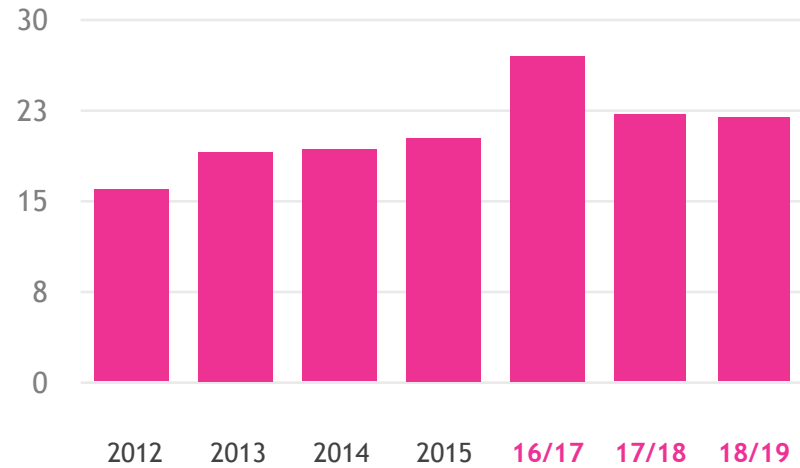
# P&L:

## separating Consulting (existing business) from AdRatings

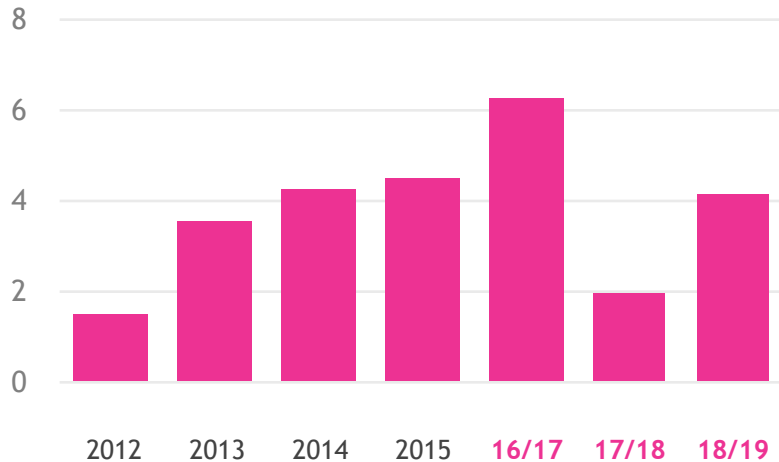
£m	2018/19			2017/18
	Consulting (Existing Business)	AdRatings	Total	
Revenue	26.90	-	26.90	26.94
Gross Profit	22.05	-	22.05	22.23
Underlying Overheads	(18.35)	(2.22)	(20.57)	(20.18)
Underlying Profit Before Tax	3.70	(2.22)	1.48	2.05
Share Based Payments	0.20	-	0.20	(0.07)
Exceptional Credit	0.25	-	0.25	-
Finance Income	-	-	-	0.01
Profit Before Tax	4.15	(2.22)	1.93	1.99

# Historic context

Gross Profit (£m)



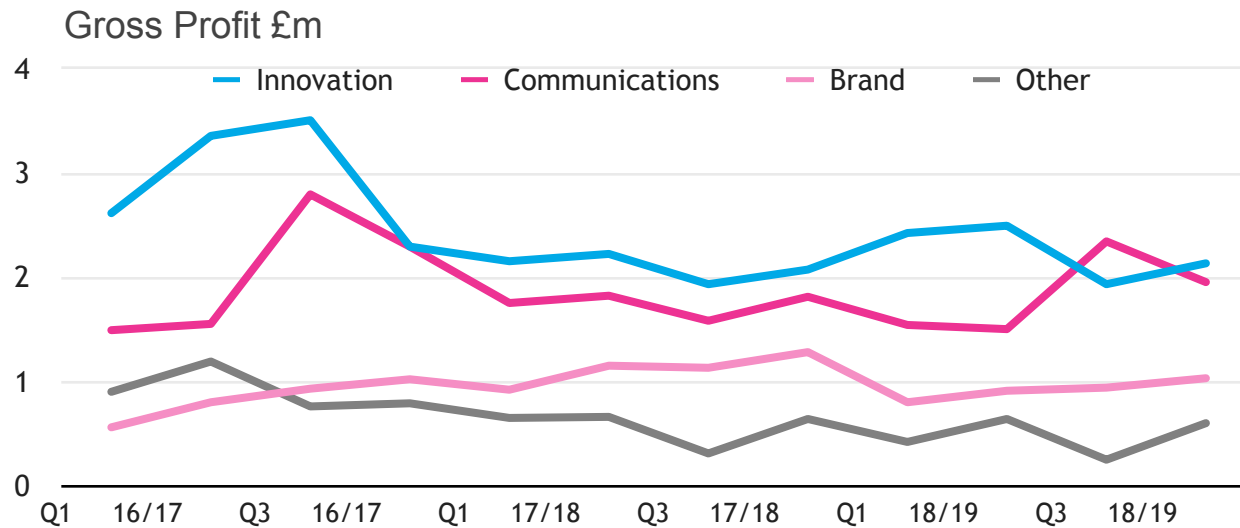
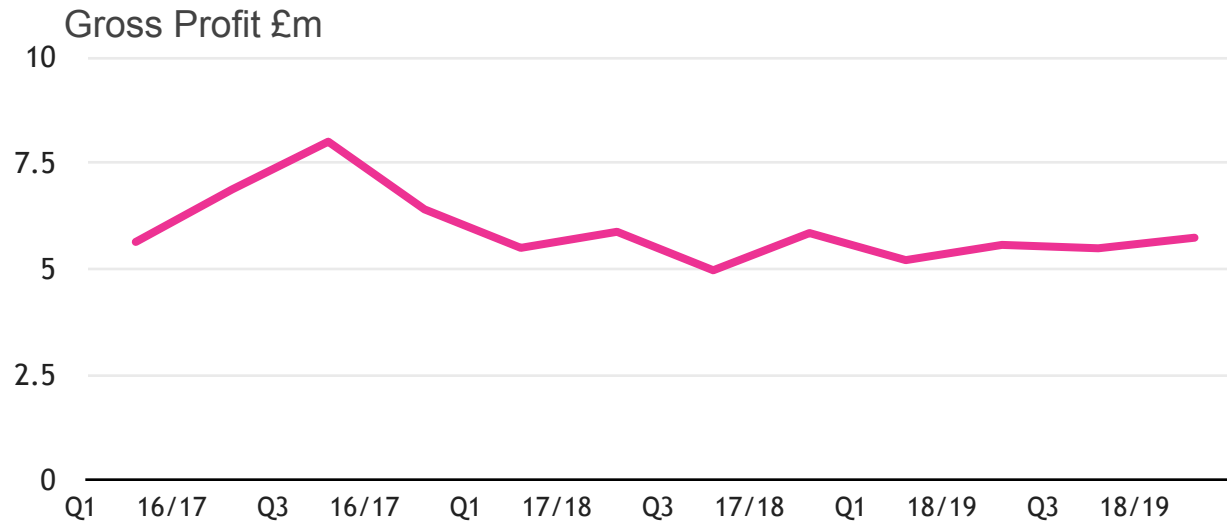
Profit Before Tax excluding AdRatings (£m)



- Flat Revenue (flat in constant currency)
- 1% decline in Gross Profit (1% constant currency)
- 80% growth in Underlying Profit Before Tax (excluding AdRatings)
- 3% decline in Profit Before Tax (including AdRatings)
- Underlying effective tax rate reduced to 26% from 39%
- 4% growth in Profit After Tax (including AdRatings)
- 3% growth in diluted EPS

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

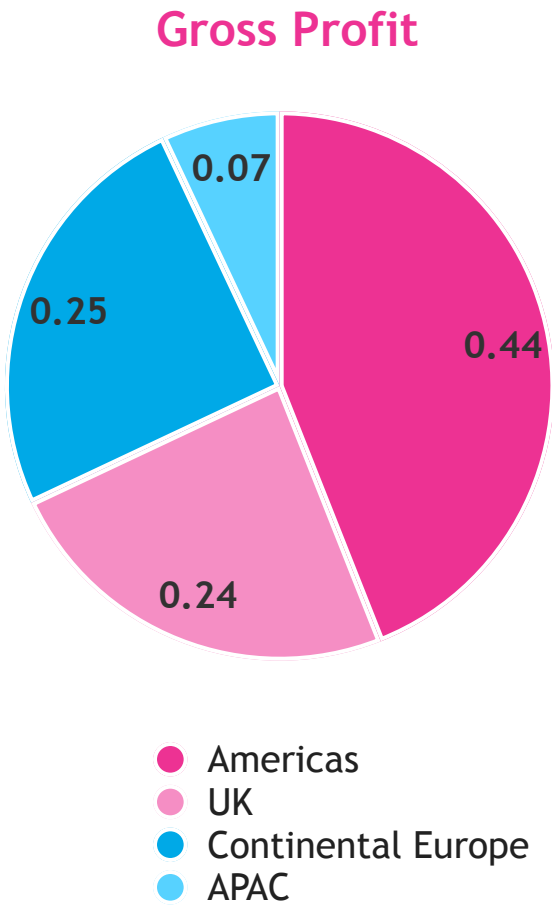
# Business is stabilising



- Flat quarterly performance since beginning 2017/18, and an uptick in H2 2018/19.
- Innovation is more adhoc than Comms and Brand. Easier to win ... and lose. Declined significantly in 2017/18 and returned to growth in 2018/19 (up 7%).
- Early signs of Comms building - up 5% over the year following strong H2.
- 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	£9.54m	-6%	£4.68m	-3%
UK	£5.03m	0%	£2.40m	-10%
Continental Europe	£5.45m	+19%	£3.14m	+20%
APAC	£1.60m	-21%	£0.83m	-15%
Total Research	£21.62m	-1%	£11.05m	-1%
Ad Agency	£0.43m	+14%	£(0.22)m	NM
Total	£22.05m	-1%	£10.83m	1%





# Profit and Cost improvements

	£m	Growth
Operating Profit from Research & Ad Agency	10.83	+1%
Central Costs (ex AdRatings)	(7.13)	-18%
Operating Profit (ex AdRatings)	3.70	+80%
Exceptional Credit *	0.25	NA
Share Based Payments	0.20	NM
Pre-Tax Profit (ex AdRatings)	4.15	+108%
AdRatings	(2.22)	NM
Profit Before Tax	1.93	-3%
Tax	(0.67)	-13%
Post-Tax Profit	1.26	+4%

- Cost improvements driven by 12% headcount reduction
- Operating Profit margin improving (ex AdRatings, Exceptional Credit, and Share Based Payments)
  - 14% in 2018/19
  - 19% 4 yr average
  - 8% in 2017/18
- Effective tax rate
  - 39% in 2017/18
  - 26% in 2018/19 (excluding AdRatings)
  - 35% in 2018/19 (including AdRatings)

\* 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	2018/19	2017/18
Operating Cash Flow (excluding AdRatings)	2.53	1.84
AdRatings	(2.95)	-
Cash flow Before Financing	(0.42)	1.84
Finance Leases	(0.04)	0.12
Ordinary Dividends	(0.94)	(0.94)
Special Dividends	-	(3.25)
Cash movement	(1.40)	(2.23)
Cash balance at 30 September	4.32	5.78

- Cash flow conversion of 61% of Profit Before Tax (pre AdRatings)
- Maintaining final dividend of 6.4 pence. Board views current high (77%) dividend:earnings ratio (low dividend cover - 1.33 times) as temporary and expects it to revert to normal (low) levels as earnings grow
- Company has sufficient liquidity to cover all planned investment, but no surplus for Share Buyback (at current share price the Board would favour Buyback over Special Dividend)

**FFWD** ▶▶





# FFWD to No. 1

“Our role is to lead  
the business to ideas  
that sell more”

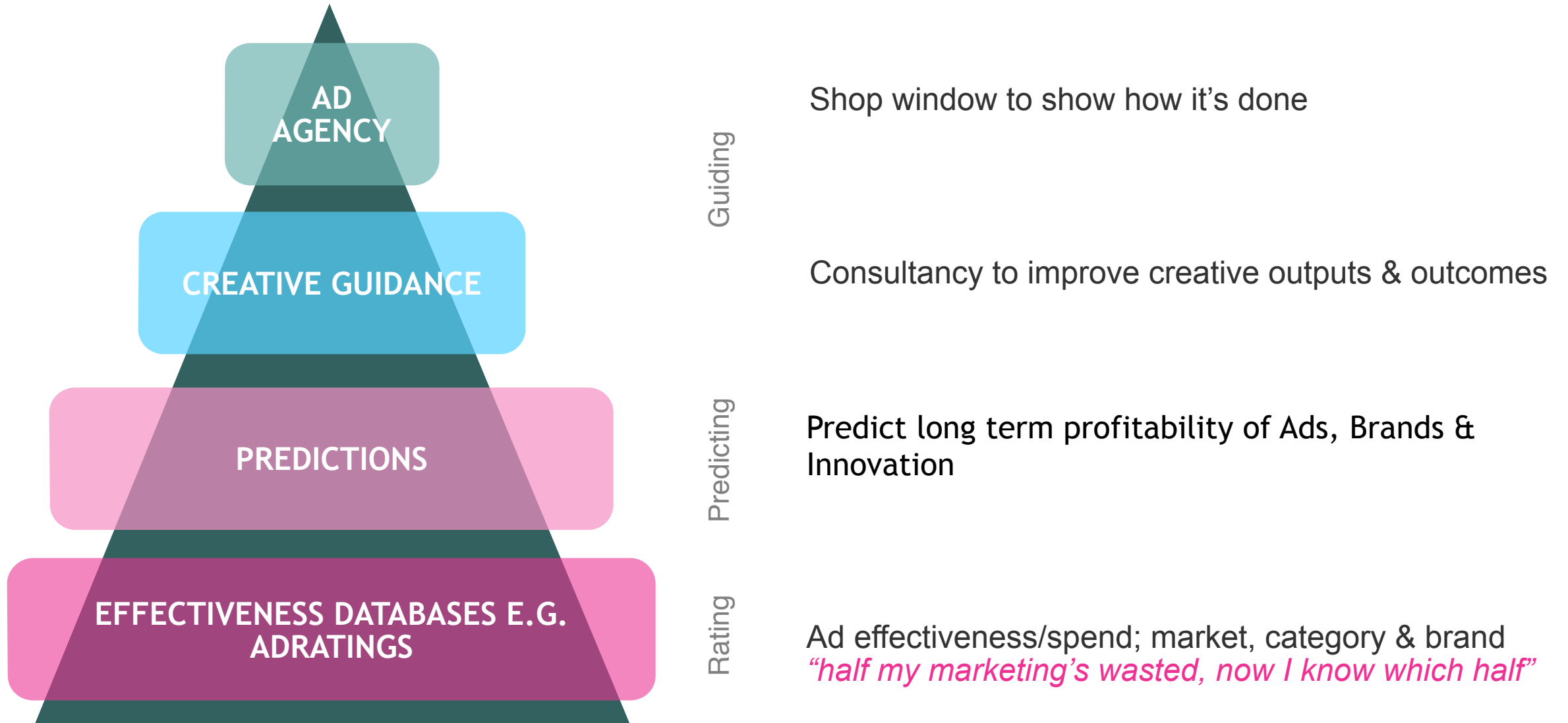
*Andrew Geoghegan*  
*Head of Consumer Planning, Diageo*



# #1 Intellectually in Advertising Effectiveness

- **1st** to champion System1, behavioural science based research
- **1st** to champion online, self-structuring of open-ended answers (MindReader®: 52 million responses since 2000)
- **1st** to champion predictive accuracy of emotional response (FaceTrace®: the World's largest database of emotional responses @19 million since 2005)
- **1st** to prove the accuracy of emotions in predicting Ad effectiveness (68,000 Ad predictions & the only method externally validated by the IPA to predict long-term effectiveness)
- **1st** to prove the effectiveness of successful Fluent Ad Devices, like ComparetheMarket's Meerkats, in driving profitable brand growth
- **1st** to champion Fame, Feeling & Fluency to predict Brand growth

# FFWD▶▶ From Intellectual #1 to Commercial #1



# System1 AdRatings

Goal Hierarchy: sequential & progressive



ASSET

1. **BUILD** the largest database of adverts evaluated on long term effectiveness. We use this to enhance our understanding of advertising which feeds into our consultancy business.

FAME

2. **BRAND** this database and provide topical predictive data to industry publications, to raise our presence in the industry and increase our Fame, Feeling and Fluency. It is world leading and gets better, larger & more compelling every day.

NEW BUYERS

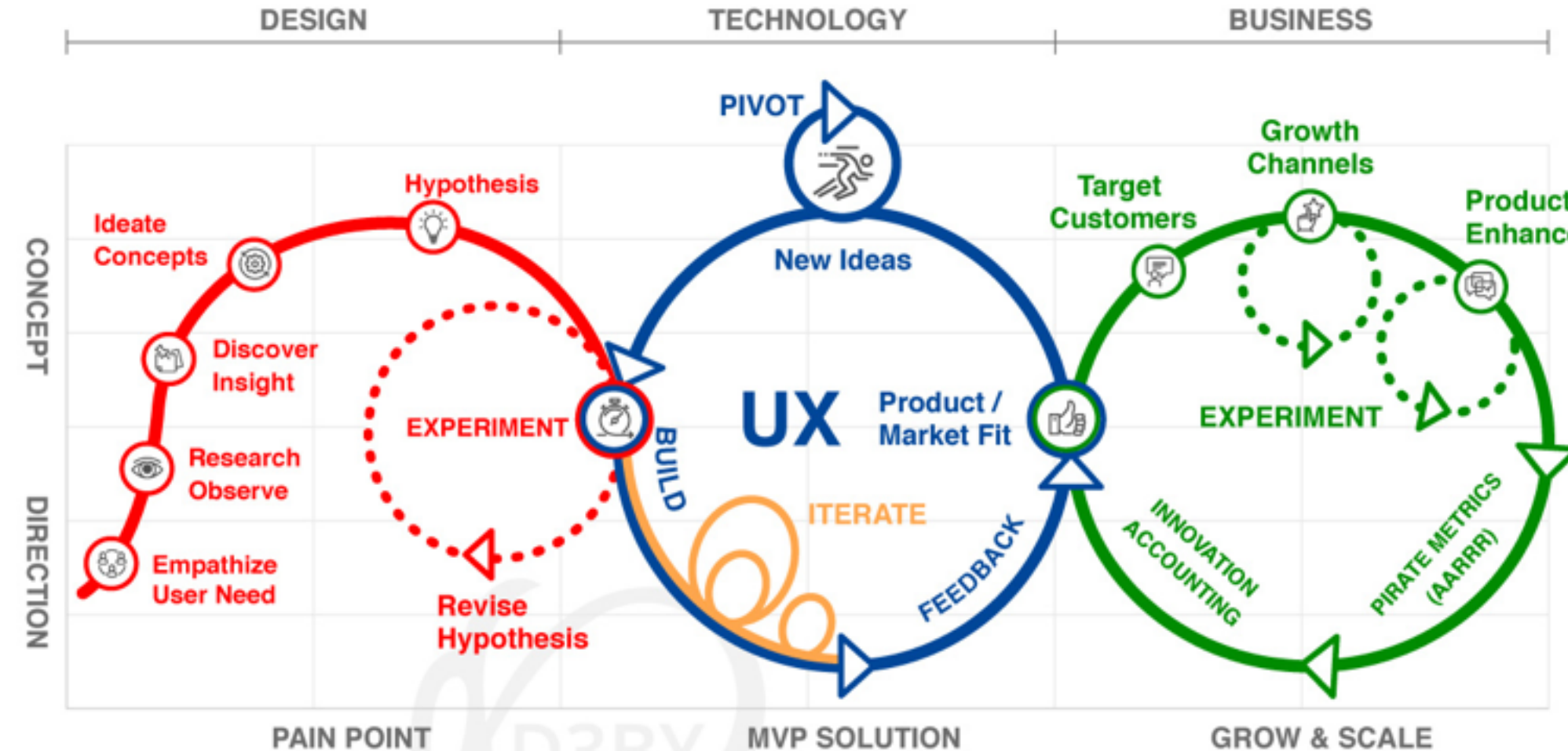
3. **WIN** clients in new industries [beyond current CPG core] off the back of the increase in Fame, Feeling and Fluency. It's a low-cost way to access our IP as a decision-making resource to augment existing methodologies and insights.

NEW REVENUE

4. **SELL** access to AdRatings via subscription and create a new scalable revenue stream. We are piloting ways to commercialise & expect sales to accelerate once it catches on, but cannot predict when.

# System1AdRatings

- Following std. digital product dev process
- Currently have MVP solution & iterating (blue circle)





# System1 AdRatings

## Progress Report

ASSET



**1. BUILD.** At 68,000 adverts & 19m emotional responses, AdRatings is already the World's largest database of long-term advertising effectiveness & will be @ over 80,000 by the end of this year

FAME



**2. BRAND.** AdRatings has enabled System1's predictive data to become part of industry publications' commentary on topical ads like, John Lewis Xmas Ads, Super Bowl 19, Gillette's 'Toxic Masculinity' & BrewDog's 'Most Honest Ad'

NEW BUYERS



**3. WIN.** AdRatings has already helped our consultancy business win a number of new clients in new industries [beyond our current CPG core]

NEW REVENUE



**4. SELL.** AdRatings is still in the Beta testing & development phases, with a limited number of clients. We are developing the functionality & commercial offering & expect sales to accelerate once it begins to catch on, but cannot predict when.

# Summary



## 2018/19 Summary

- Aiming to turn **Intellectual** leadership in Advertising Effectiveness, into **Commercial** leadership
- After the previous year's Revenue decline of 18% & Underlying PBT decline of 68%, this year's results were far from spectacular but they were significant:
  - Flat revenues for the year but H2 growth of 5% on the previous year
  - 23% growth in the number of clients
  - 7% growth in our Ad Testing business
  - 80% growth in Underlying PBT (£3.70m vs. £2.05m prior year) from productivity improvements
  - 5.2% p.a. growth in Gross Profit since 2012
- Investing in talent, improved processes & productivity and digitising our IP e.g. AdRatings
- Strengthened the Management Team with Stefan Barden as advisor to the Office of the CEO, our 1<sup>st</sup> CIO, Mark Beard and our 1<sup>st</sup> HR Director, Ania Lesniak
- Strengthened the Board with two new Non-Executives; Jane Wakely & Sophie Tomkins
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