

System1 Group

Press Release

7 November 2019

System1 Group PLC (AIM: SYS1)
("System1" or "the Group" or "the Company")

Unaudited interim results for the six months ended 30 September 2019

System1, the marketing services group, today announces its results for the six-month period ended 30 September 2019 ("H1").

£m	6 months ended 30 September Unaudited		
	2019	2018	
		Restated for IFRS 16*	Previously reported*
Revenue	13.73	13.18	13.18
Gross Profit	11.59	10.80	10.80
Underlying Overheads	(9.19)	(8.90)	(8.88)
Normalised Profit Before Tax	2.40	1.90	1.92
Ad Ratings operating costs	(1.10)	(1.09)	(1.09)
Share Based Payments	0.10	-	-
Exceptional Credit	-	0.25	0.25
Profit Before Tax	1.40	1.06	1.08

Highlights

- 4% growth in Revenue to £13.73m (2018/19: £13.18m), 2% in constant currency
- 7% growth in Gross Profit to £11.59m (2018/19: £10.80m), 4% in constant currency
- 26% growth in Normalised Profit Before Tax (excluding Ad Ratings costs) to £2.40m (2018/19: £1.90m*)
- 33% growth in Profit Before Tax (including Ad Ratings costs) to £1.40m (2018/19: £1.06m*)
- 34% growth in Profit After Tax (including Ad Ratings costs) to £0.89m (2018/19: £0.67m*)
- 33% growth in diluted Earnings Per Share to 6.9p (2018/19: 5.2p*)
- £1.17m investment in Ad Ratings, of which £0.23m has been capitalised and £0.94m expensed (the £1.10m of Operating Expenditure in the table above includes £0.16m of amortisation)

£4.10m Cash at 30 September 2019 and no debt (31 March 2019: £4.32m and no debt)

Maintaining interim dividend at 1.1 pence (2018/19: 1.1 pence)

* The Company has implemented IFRS 16 (leases) and as a result restated its prior year results.

Commenting on the Company's results, John Kearon, CEO of System1, said:

"We continue to build out our new world class Agency by leveraging our unique, Advertising Effectiveness IP, data and services. At a time of much change sales, profits and industry profile are growing steadily."

The Company can be found at www.system1group.com.

The information contained within this announcement is deemed to constitute inside information as stipulated under the Market Abuse Regulations (EU) No. 596/2014. Upon the publication of this announcement, this inside information is now considered to be in the public domain.

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INTERIM STATEMENT

Introduction

Gross Profit, our main top-line measure, grew by 7% in H1 (4% in constant currency) to £11.59m, building on the 4% growth in H2 of last year. Operating profit margins have also increased. Normalised Profit Before Tax (excluding AdRatings and Share Based Payments) has grown by 26% and Profit Before Tax (after AdRatings and Share Based Payments) by 34%. Note that the Company has implemented IFRS 16 and as a result, restated its results for the comparative period (six months ended 30 September 2019), but the impact on the P&L is small. The Company's balance sheet is strong, with cash at half-year end of £4.10m and no indebtedness (other than office leases).

Importantly for future growth, the Company has continued to invest significant amounts in its AdRatings database and services, in its IT infrastructure, and in senior management talent.

Longer Term Context

We operate in most of the world's largest market research geographies and have very large global multinationals as clients. Our market share in those sectors of the market in which the Company competes is small, and we have only a small percentage of the spend of our large, global clients. We therefore have a large untapped addressable market.

The Company is acknowledged as being among the intellectual leaders in our field: measuring the commercial quality of advertising through our market research techniques. Our mission, as 'THE Effectiveness Agency' is to empower marketers to create world class advertising and prove its value to their business. Our goal is to turn System1's intellectual leadership into commercial leadership, and create a much larger business.

We have spent the last 12-18 months building the world's most predictive advertising effectiveness database of short and long-term profitability (AdRatings), substantially upgrading our IT infrastructure and digitising our products as a foundation to better scaling the business. We have also strengthened the management team's ability to deliver and run a significantly larger business. The Company has made progress in H1.

We have continued to develop AdRatings, which provides ratings of the creative quality, together with the media spend, of all TV adverts in the UK and the US since 2017, in the main industries in which our clients operate. We have four interconnected goals, and taking each in turn:

1. **Build** the World's largest, and most predictive and validated database of short and long-term advertising effectiveness and use our data to prove the multiplier effect of creativity on business's investment in advertising. We have further enlarged the number of adverts in the database and it now contains the ratings of 42,646 adverts, and is increasing every day as new adverts are aired. There are other sources of advert ratings available, but none to our knowledge where the ratings correlate with long-term profitability, in the way ours does. From analyses within our AdRatings database, Orlando Wood, our Chief Innovation Officer, wrote a book - "Lemon" - which was recently published by the IPA (viewed by many as the world's foremost independent authority on advertising effectiveness).

Lemon is the IPA's centrepiece at its 2019 UK Ad Effectiveness week. We are unaware of any other competing Agency who has such high profile thought leadership in our field of Advertising and Brand effectiveness. Lemon sets out why advertising effectiveness has been in decline over the last few decades and what it will take to reverse the decline at a profound level – and it has received wide industry endorsement. For example, Rory Sutherland, Vice Chairman of Ogilvy said of it: “Any book which finds evidence everywhere from Hans Holbein to the Honey Monster is good by me. But this is an extraordinary and wonderful book, with implications that go far beyond advertising and research”.

2. **Brand** the database and publish our next-day data on any UK or US advert being discussed in the industry press, to drive System1's 'Fame', together with positive feelings towards us, and associate the Company with advertising effectiveness. We believe that this brand-building work derived from our database sets us apart from our competitors. We are increasing the functionality of AdRatings continuously, and currently developing a free mobile App (Hi-5) to make our Creative ratings more widely accessible.
3. **Win** new clients in our core business. AdRatings has already been a factor in our 18% H1 Comms growth, as well as in our gaining much greater access to marketing leaders in large multinationals, some of whom are exploring the potential benefits to their business of the AdRatings service together with related System1 AdTesting products.
4. **Sell** subscription revenue. We have a small number of subscribers to date. We have been focussed primarily on building the asset and its branding value and believe that subscriptions will follow.

Across the business as a whole, we are investing ever more in Talent. During H1 we recruited 2 new members to our management team: Karen Wolfe (formerly Vice President Customer Success at Nielsen), as Chief Commercial Officer, and Jon Evans, (formerly UK Marketing Director at Lucozade Ribena Suntory) as Chief Marketing Officer. They follow Stefan Barden (Board Adviser – previously CEO of Wiggle) and Mark Beard (Chief Information Officer – formerly Group Head of IT at Wiggle) who joined during the course of last year.

Over H1 we have continued to build our IT capability and now have a highly skilled IT team of 14, significantly larger and more experienced than was the case 2 years ago. More generally, we have taken early steps to establish a Data and Data Science capability more widely within the business.

Financial Performance

H1 sales growth is not yet on the trajectory we are aspiring to, but we believe we are on the right path. Importantly, Gross Profit from Communications, our core product area, grew 18%.

Gross Profit	2018/19			2019/20			
	Q1	Q2	H1	Q1	Q2	H1	Growth
£m							
Comms	1.55	1.51	3.06	1.56	2.05	3.61	18%
Brand	0.81	0.92	1.73	0.74	0.89	1.63	-6%
Innovation	2.53	2.78	5.31	2.84	2.29	5.13	-3%
Other	0.25	0.34	0.59	0.57	0.50	1.07	81%
Agency	0.08	0.03	0.11	0.01	0.12	0.13	18%
AdRatings	-	-	-	0.01	0.01	0.02	NM
	5.22	5.58	10.80	5.73	5.86	11.59	7%

The Company has reclassified certain product offerings from 'Other' to 'Innovation' in the current period. The comparative figures have been restated accordingly.

Underlying Overhead Costs (excluding AdRatings) were up 3%. Of that we have invested approximately £0.29m in the upgrading of our IT infrastructure, digitisation of our products and strengthening of the management team. Notwithstanding this investment, productivity improvements have enabled increased profit margins: Normalised Profit Before Tax as a percentage of Revenue was 17% in H1 (up from 14% in H1 of the prior year).

	£m	Growth
Gross Profit	11.59	7%
Overhead Costs	(9.19)	3%
Normalised Profit Before Tax*	2.40	26%
AdRatings Operating Costs	(1.10)	
Share Based Payments	0.10	
Profit Before Tax	1.40	32%

* Normalised Profit Before Tax represents Profit Before Tax prior to AdRatings expenditure and share based payments.

We invested a total of £1.17m in AdRatings in H1, of which £0.94m is classified as Operating Cost and £0.23m Capex (the £1.08m of Operating Expenditure in the table above includes £0.16m of depreciation). We anticipate investing a similar amount in H2. We plan to continue to manage discretionary spend dynamically – be it Capex or Opex, and whether in AdRatings or in other areas of the business – mindful of our high-growth objective and our cash resources. The business can accommodate around £2.0-2.5m of growth investment (including investment in AdRatings) from its operating cash flows at the current run-rate, and we view this as a guide to the cash resources at our disposal for discretionary spend.

Dividends

In line with our dividend policy we are maintaining the interim dividend at the same 1.1 pence per share we paid last year, which in aggregate amounts to £0.14m. We are keeping this policy under review.

Tax

The Company's effective tax rate is 37% of Profit Before Tax – similar to the prior year. This is high in the context of the corporation tax rate of 19% in the UK and the Federal corporation tax rate of 21% in the US (the Company's two largest markets). It is due to the high levels of AdRatings cost incurred in the UK (where tax rates are low) without, as yet, associated UK revenue.

Earnings per Share

The Company's share base has not changed over the period, so earnings per share has grown in line with Profit After Tax. Fully diluted earnings per share has grown 33% and basic earnings per share 34%.

The Company has significant stock options which could dilute basic earnings per share in the future. However vested options represent a relatively modest 3% of the Company's voting shares. Unvested options (and conditional share awards) are more significant at 12%. These have been awarded under the Company's long-term incentive plan for its senior team, and only vest in the event of significant growth over the next five years. Minimum vesting (one third of the options) vest when Gross Profit exceeds £39.5m and maximum vesting when Gross Profit exceeds £77.1m. There is no vesting at Gross Profit levels below £39.5m (full details are set out in the Company's 2018/19 Annual Report). Given these performance targets, the dilution suffered by shareholders on vesting will be offset many times over by the value created.

The performance targets are also illustrative of the ambitions of the management team and the growth strategy being pursued.

Cash

We generated Operating Cash Flow pre-financing (and pre AdRatings) of £1.67m. This represents 99% of Normalised Profit After Tax (pre-AdRatings and Share Based Payments), which is in line with our normal high cash conversion percentage. After the investment of £1.17m in AdRatings, and payment of £0.8m in dividends, our cash balance reduced from £4.32m on 31 March 2019 to £4.10m on 30 September 2019. A summary of our cash flow is below:

	£m
Profit Before Tax (before AdRatings)	2.49
Tax paid	(0.17)
Movement in payables	(0.98)
Movement in receivables	0.37
Other working capital movements, Capex, and non-cash adjustments	(0.04)
Operating Cash Flow pre-financing (pre AdRatings) *	1.67
AdRatings	(1.17)
Operating Cash Flow pre-financing (post AdRatings) *	0.50
Dividends	(0.80)
Cash flow	(0.30)

* Operating Cash Flow pre-financing is our key cash flow performance indicator, and we include office lease costs in calculating this. However, under IFRS 16, office lease costs are treated as a financing activity, and therefore shown as such in our Consolidated Cash Flow Statement.

Balance Sheet

We do not usually have much movement on our balance sheet, with no borrowings, relatively small amounts of fixed assets, no goodwill and stable working capital. However, implementation of the new accounting standard, IFRS 16, means that Property, Plant and Equipment and Non-Current Liabilities have increased significantly to reflect the new accounting treatment for office leases. Nonetheless, it makes little difference to the Income Statement, and there is no economic impact.

Outlook

We continue to have limited short-term revenue visibility, so, as always, it is difficult to predict how the year will unfold. Nevertheless, we continue to believe that the business is making progress and in the longer term has high upside potential driven by its AdRatings asset and the more general digitisation of the business.

John Kearon
Chief Executive Officer

James Geddes
Chief Financial Officer

5 YEAR SUMMARY – HALF YEAR

(£000s unless specified otherwise)

Unaudited	6 months to 30 Sep				6 months to 30 Jun			
	2019/20		2018/19		2017/18	2016	2015	2014
	Ex AR*	Inc AR*	Ex AR*	Inc AR*				
Financial KPIs								
Revenue	13,704	13,725	13,182	13,182	13,822	13,043	11,610	11,197
<i>growth</i>	4%	4%	-5%	-5%	-10%	12%	4%	4%
Gross Profit	11,568	11,589	10,802	10,802	11,394	10,685	9,254	8,719
<i>growth</i>	7%	7%	-5%	-5%	-9%	15%	6%	3%
Administrative Costs	9,023	10,125	8,584	9,674	10,554	9,018	8,080	7,183
<i>growth</i>	5%	5%	-19%	-8%	8%	12%	12%	-%
Profit Before Tax	2,485	1,404	2,147	1,057	846	1,650	1,139	1,520
<i>growth</i>	16%	33%	154%	25%	-70%	45%	-25%	17%
Profit After Tax		890		666	542	1,054	763	1,018
<i>growth</i>		34%		23%	-70%	38%	-25%	17%
EPS – diluted		6.9p		5.2p	4.2p	7.9p	5.6p	7.5p
<i>growth</i>		33%		24%	-69%	41%	-25%	12%
Operating Cash Flow **		498		(1,378)	(604)	810	565	(147)
Cash balance		4,104		3,552	3,495	5,183	5,286	2,528
Dividend (interim)		1.1p		1.1p	1.1p	1.1p	1.0p	1.0p
<i>growth</i>		-		-	-	10%	-	11%
Special dividend		-		-	26.1p	-	-	12.0p
Share buy-backs		-		-	-	1,768	-	1,531
Non-financial KPIs								
Number of clients		246		230	229	232	244	225
<i>growth</i>		7%		-	-1%	-5%	8%	6%
Gross profit per project		16.6		17.1	18.2	18.3	20.7	18.3
<i>growth</i>		-3%		-6%	-15%	-12%	13%	-12%
Average headcount		145		140	172	155	160	145

Share buy-backs		(3)	1	3,141	3,195	948	1,938
Non-financial KPIs							
Number of clients		251	204	224	223	243	235
<i>growth</i>		23%	-9%	-4%	-8%	3%	5%
Gross profit per project		16.5	20.0	23.0	22.6	19.6	20.0
<i>growth</i>		-18%	-13%	19%	15%	-2%	-%
Average headcount		145	165	161	157	158	152
<i>growth</i>		-12%	2%	3%	-1%	4%	10%
Gross profit per head		152	135	168	163	128	128
<i>growth</i>		13%	-20%	25%	27%	-%	-7%

* Ex AR means: excluding AdRatings. Inc AR means: including AdRatings.

** Operating Cash Flow means: before dividends and share buy-backs but inclusive of property lease payments

CONDENSED CONSOLIDATED INCOME STATEMENT

for the 6 months ended 30 September 2019

Note	6 months to						
	30 Sep 2019 Unaudited			30 Sep 2018 *Restated for IFRS16 Unaudited			
	Consultan cy	Ad Ratings	Total	Consultan cy	Ad Ratings	Total	
	£000	£000	£000	£000	£000	£000	
Revenue	4	13,704	21	13,725	13,182	-	13,182
Cost of sales		(2,136)	-	(2,136)	(2,380)	-	(2,380)
Gross profit	4	11,568	21	11,589	10,802	-	10,802
Administrative expenses		(9,023)	(1,102)	(10,125)	(8,584)	(1,090)	(9,674)
Operating profit/(loss)		2,545	(1,081)	1,464	2,218	(1,090)	1,128
Finance expense		(60)	-	(60)	(71)	-	(71)

Profit/(loss) before taxation	4	2,485	(1,081)	1,404	2,147	(1,090)	1,057
Income tax (expense)/ credit		(719)	205	(514)	(598)	207	(391)
Profit/(loss) for the financial period		1,766	(876)	890	1,549	(883)	666
Attributable to equity holders of the Company		1,766	(876)	890	1,549	(883)	666

*Prior period comparatives have been restated for the transition to IFRS 16

Earnings per share attributable to equity holders of the Company

Basic earnings per share	5		7.1p		5.3p
Diluted earnings per share	5		6.9p		5.2p

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
for the 6 months ended 30 September 2019

	6 months to 30 Sep 2019	6 months to 30 Sep 2018 *Restated for IFRS 16
	Unaudited	Unaudited
	£000	£000
Profit for the financial period	890	666
Other comprehensive income:		
Items that may be subsequently reclassified to profit or loss		
Exchange differences on translating foreign operations	171	63
Other comprehensive income for the period, net of tax	171	63
Total comprehensive income attributable to equity holders	1,061	729

*Prior period comparatives have been restated for the transition to IFRS 16

CONDENSED CONSOLIDATED BALANCE SHEET
as at 30 September 2019

	Not e	30 Sep 2019 Unaudited	31 Mar 2019 *Restated for IFRS 16 Unaudited
		£000	£000
ASSETS			
Non-current assets			
Property, plant and equipment	8	2,630	2,847
Intangible assets	9	916	814
Deferred tax asset		277	299
		3,823	3,960
Current assets			
Contract costs		180	208
Trade and other receivables		6,539	6,907
Income tax recoverable		90	431
Cash and cash equivalents		4,104	4,315
		10,913	11,861
Total assets		14,736	15,821
EQUITY			
Capital and reserves attributable to equity holders of the Company			
Share capital	10	132	132
Share premium account		1,601	1,601
Merger reserve		477	477
Foreign currency translation reserve		405	234
Retained earnings		4,554	4,580
Total equity		7,169	7,024
LIABILITIES			
Non-current liabilities			
Provisions		600	610
Finance lease payable		1,851	2,412
		2,451	3,022
Current liabilities			
Provisions		314	225

Finance lease payable		846	510
Trade and other payables		3,504	4,506
Contract liabilities		452	534
		5,116	5,775
Total liabilities		7,567	8,797
Total equity and liabilities		14,736	15,821

*Prior period comparatives have been restated for the transition to IFRS 16

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

for the six months ended 30 September 2019

	Note	6 months to 30 Sep 2019 Unaudited	6 months to 30 Sep 2018 *Restated for IFRS 16 Unaudited
		£000	£000
Net cash generated from / (used by) operations	7	1,550	(244)
Tax paid		(171)	(304)
Net cash generated from / (used by) operating activities		1,379	(548)
Cash flows from investing activities			
Purchase of property, plant and equipment		(36)	(22)
Purchase of intangible assets		(263)	(246)
Net cash used by investing activities		(299)	(268)
Net cash flow before financing activities *		1,080	(816)
Cash flows from financing activities			
Interest received		-	1
Finance lease payments		(23)	(23)
Inception of new property leases		229	202
Interest paid on office leases		(60)	(72)
Property lease payments *		(728)	(670)
Dividends		(804)	(802)
Net cash used by financing activities		(1,386)	(1,364)
Net decrease in cash and cash equivalents		(306)	(2,180)
Cash and cash equivalents at beginning of period		4,315	5,784
Exchange losses on cash and cash equivalents		95	(52)
Cash and cash equivalents at end of period		4,104	3,552

* Prior period comparatives have been restated for the transition to IFRS 16. Under IFRS 16 office lease costs are now treated as a “financing activity” (rather than as an operating activity, as was the case previously). Office lease costs are therefore not now included within “Net cash flow before financing activities” (the Company’s key cash flow performance indicator). “Net cash flow before financing activities”, adjusted for office leases, known by the Company as “Operating Cash Flow” is shown below:

	6 months to 30 Sep 2019 Unaudited	6 months to 30 Sep 2018 Unaudited
	£000	£000
Net cash flow before financing activities	1,080	(815)
Net cash outflow for property and finance leases	(582)	(563)
Operating Cash Flow	498	(1,378)

A summary of cash flow before financing activities, separating out AdRatings is presented below.

	6 months to 30 Sep 2019 Unaudited	6 months to 30 Sep 2018 Unaudited
	£000	£000
Net cash generated from operating activities	2,321	543
Net cash used by investing activities	(67)	(22)
Net cash flow before financing activities (before AdRatings)	2,254	521
Net cash outflow for property and finance leases	(582)	(563)
Operating Cash Flow (before AdRatings)	1,672	(42)
Net cash flow used by AdRatings	(1,174)	(1,336)
Operating Cash Flow (after AdRatings)	498	(1,378)

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
for the 6 months ended 30 September 2019

	Share capital	Share premium account	Merger reserve	Foreign currency translation reserve	Retained earnings	Total
Unaudited and restated for IFRS 16	£000	£000	£000	£000	£000	£000
At 1 April 2019	132	1,601	477	234	4,580	7,024
Profit for the financial period	-	-	-	-	890	890
Other comprehensive income:						
- currency translation differences	-	-	-	171	-	171
Total comprehensive income	-	-	-	171	890	1,061
Transactions with owners:						
Employee share options scheme:						
- value of employee services	-	-	-	-	(86)	(86)
- deferred tax debited to equity	-	-	-	-	(25)	(25)
Dividends paid to owners	-	-	-	-	(805)	(805)
	-	-	-	-	(916)	(916)
At 30 September 2019	132	1,601	477	405	4,554	7,169

6 months ended 30 September 2018						
At 1 April 2018	132	1,601	477	221	4,578	7,009
Transition to IFRS 16	-	-	-	-	(96)	(96)
At 1 April 2018	132	1,601	477	221	4,482	6,913
Profit for the financial period	-	-	-	-	666	666

Other comprehensive income:						
- currency translation differences	-	-	-	63	-	63
Total comprehensive income	-	-	-	63	666	729
Transactions with owners:						
Employee share options scheme:						
- value of employee services	-	-	-	-	41	41
- current tax credited to equity	-	-	-	-	18	18
- deferred tax debited to equity	-	-	-	-	(100)	(100)
Dividends paid to owners	-	-	-	-	(802)	(802)
	-	-	-	-	(843)	(843)
At 30 September 2018	132	1,601	477	284	4,305	6,799

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

for the 6 months ended 30 September 2019

1. General information

System1 Group PLC (“the Company”) is United Kingdom resident, and its subsidiaries (together “the Group”) provide marketing and market research consultancy services. The Company’s shares are listed on the Alternative Investment Market of the London Stock Exchange (“AIM”). The address of the Company’s registered office is Russell Square House, 10-12 Russell Square, London WC1B 5EH.

The Board of Directors approved this condensed consolidated interim financial information for issue on 7 November 2019.

The financial information set out in this interim report does not constitute statutory accounts as defined in Section 434 of the Companies Act 2006 and is unaudited. The Group’s latest statutory financial statements were for the 12-month period ended 31 March 2019 and these have been filed with the Registrar of Companies. The auditor’s report on those financial statements was unqualified and did not contain any statement under Section 498 of the Companies Act 2006.

2. Basis of preparation

This condensed consolidated interim financial information has been prepared in accordance with IAS 34, ‘Interim financial reporting’ as adopted by the European Union and on the going concern basis. This financial information should be read in conjunction with the financial statements for the 12-month period ended 31 March 2019, which have been prepared in accordance with IFRSs as adopted by the European Union.

3. Principal accounting policies

The principal accounting policies adopted are consistent with those of the financial statements for the 12-month period ended 31 March 2019, except for the first-time adoption of IFRS 16, 'Leases' which was adopted on 1 April 2019.

IFRS 16 replaced the existing guidance in IAS 17. Under IAS 17, lessees were required to make a distinction between a finance lease (on balance sheet) and an operating lease (off balance sheet). IFRS 16 now requires lessees to recognise a lease liability reflecting future lease payments and a 'right-of-use asset' for virtually all lease contracts. Under IFRS 16, a contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted by using the rate implicit in the lease. If this rate cannot be readily determined, the Group uses its incremental borrowing rate. The weighted average incremental borrowing rate applied to lease liabilities is 4.30%.

3. Principal accounting policies (continued)

A reconciliation of operating lease commitments as at 31 March 2019 to the lease liability is as follows:

	£000
Operating lease commitments disclosed at 31 March 2019	5,505
Adjustment for forecast exercise of break clause	(2,211)
Effect of discounting	(443)
Lease liability recognised at 1 April 2019	2,851
Existing finance lease payables at 1 April 2019	71
Total finance lease payables at 1 April 2019	2,922

The Group has elected to apply the full retrospective approach to the transition to IFRS 16. The full retrospective approach requires the transition to be implemented with restatement of the prior year results as if IFRS 16 had always been applied. Adoption of the IFRS 16 has resulted in the recognition of Right of use assets and lease liabilities with a corresponding increase in depreciation charges and finance costs offset by a reduction in operating lease costs in the income statement. The implementation of IFRS 16 has made an insignificant impact on the net assets and profit before tax of the Group, as set out in note 12.

4. Segment information

The financial performance of the Group's geographic operating units ("**Reportable Segments**") is set out below. The Group defines its Consultancy business as Research and Advertising Agency.

	6 months to 30 Sep 2019	6 months to 30 Sep 2018*
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	Revenue	Gross profit	Operating profit/(loss)	Revenue	Gross profit	Operating profit/(loss)
	£000	£000	£000	£000	£000	£000
Research						
Americas	7,168	6,147	3,659	5,562	4,637	2,127
United Kingdom	2,605	2,201	743	2,753	2,277	807
Continental Europe	3,048	2,450	1,201	3,653	2,916	1,684
APAC	742	641	259	1,015	862	524
	13,563	11,439	5,862	12,983	10,692	5,142
Advertising Agency						
United Kingdom	141	129	16	199	110	(302)
Total Consultancy business	13,704	11,568	5,878	13,182	10,802	4,480
AdRatings						
United Kingdom	12	12	(1,081)	-	-	(1,090)
Americas	9	9	-	-	-	-
	21	21	(1,081)	-	-	(1,090)
	13,725	11,589	4,797	13,182	10,802	3,750

*In the Annual Report for the year ended 31 March 2019, central delivery costs of £892k were allocated to central overheads in the segmental reporting. The comparable central delivery costs are included within the operating profit for reportable segments above for both periods presented.

4. Segment information (continued)

Segmental revenue is revenue generated from external customers and so excludes intercompany revenue and is attributable to geographical areas based upon the location in which the service is delivered. Segmental operating profit excludes allocation of central overheads relating to the Group's Operations, IT, Marketing, HR, Legal and Finance teams and Board of Directors.

All revenues are recognised when the research results are delivered to the client.

The split of business by research solution is set out below.

	6 months to 30 Sep 2019		6 months to 30 Sep 2018	
	Revenue	Gross Profit	Revenue	Gross Profit
	£000	£000	£000	£000
Research				
Communications (Ad Testing)	4,047	3,608	3,606	3,059

Brand (Brand Tracking)	2,311	1,628	2,363	1,726
Innovation*	5,824	5,135	6,166	5,316
Other services	1,381	1,068	848	591
	13,563	11,439	12,983	10,692
Advertising Agency	141	129	199	110
Total Consultancy business	13,704	11,568	13,182	10,802
AdRatings	21	21	-	-
	13,725	11,589	13,182	10,802

* The Group has reclassified certain product offerings from 'Other services' to Innovation in the current period, and the comparative period analysis has been restated accordingly.

A reconciliation of total operating profit for Reportable Segments to total profit before income tax is set out below.

	Six months ended 30 Sep	
	2019	2018 Restated
	£000	£000
Operating profit for Consultancy (Research and Agency)	5,878	4,840
Operating profit for AdRatings	(1,081)	(1,090)
Operating profit for Reportable Segments	4,797	3,750
Central overheads	(3,432)	(2,831)
Exceptional credit	-	250
Share based payments*	99	(41)
Operating profit	1,464	1,128
Finance expense	(60)	(71)
Profit before income tax	1,404	1,057

*Inclusive of associated social security

5. Earnings per share

(a) Basic earnings per share

Basic earnings per share is calculated by dividing profit attributable to equity holders of the Company by the weighted average number of Ordinary Shares in issue during the period:

	Six months ended 30 Sep	
	2019	2018 Restated
Profit attributable to equity holders of the Company (£000)	890	666
Weighted average number of Ordinary Shares in issue	12,576,617	12,520,502
Basic earnings per share	7.1p	5.3p

(b) Diluted earnings per share

Diluted earnings per share is calculated by adjusting the weighted average number of shares outstanding assuming conversion of all dilutive share options to Ordinary Shares:

	Six months ended 30 Sep	
	2019	2018 Restated
Profit attributable to equity holders of the Company (£000)	890	666
Weighted average number of Ordinary Shares in issue	12,576,617	12,520,502
Share options	327,988	335,227
Weighted average number of Ordinary Shares for diluted earnings per share	12,904,605	12,855,729
Diluted earnings per share	6.9p	5.2p

6. Dividends

On 2nd August 2019 the Company paid a final dividend of 6.4 pence per share, amounting to £0.80m in respect of the 12-month period ended 31 March 2019. In December 2019, the Company will pay an interim dividend of 1.1 pence per share, amounting to £0.14m, in respect of the year ending 31 March 2020. This interim dividend is not recorded in these interim accounts.

7. Net cash generated from/(used by) operations

	Six months ended 30 Sep	
	2019	2018 Restated
	£000	£000
Profit before taxation	1,404	1,057
Depreciation	608	571
Amortisation	160	15
Finance expense	60	71
Share-based payment (credit)/charge	(86)	41
Decrease/(increase) in contract costs	28	(17)
Decrease/(increase) in receivables	368	(1,405)
Decrease in payables	(930)	(476)
Decrease in contract liabilities	(82)	(224)
Exchange differences on operating items	20	123
Net cash generated from/(used by) operations	1,550	(244)

8. Property, plant and equipment

For the 6 months ended 30 September 2019:

	Right-of-use assets	Furniture, fittings and equipment	Computer hardware	Total
	£000	£000	£000	£000
At 1 April 2019				
Cost	5,286	553	1,285	7,124
Accumulated depreciation	(2,666)	(422)	(1,189)	(4,277)
Net book amount	2,620	131	96	2,847
6 months ended 30 September 2019				
Opening net book amount	2,620	131	96	2,847
Additions	260	-	36	296
Disposals	(31)	-	-	(31)
Foreign exchange	122	2	2	126
Depreciation charge for the year	(533)	(37)	(38)	(608)
Closing net book amount	2,438	96	96	2,630

At 30 September 2019				
Cost	5,541	561	1,346	7,448
Accumulated depreciation	(3,103)	(465)	(1,250)	(4,818)
Net book amount	2,438	96	96	2,630

8. Property, plant and equipment (continued)

For the 6 months ended 30 September 2018 (restated for IFRS 16):

	Right-of-use assets	Furniture, fittings and equipment	Computer hardware	Total
	£000	£000	£000	£000
At 1 April 2018				
Cost	5,018	562	1,160	6,740
Accumulated depreciation	(1,863)	(359)	(1,094)	(3,316)
Net book amount	3,155	203	66	3,424
6 months ended 30 September 2018				
Opening net book amount	-	203	66	269
Adjustment on transition to IFRS 16	3,154	-	-	3,154
Additions	202	-	22	224
Disposals	-	(2)	-	(2)
Foreign exchange	155	5	2	162
Depreciation charge for the year	(492)	(39)	(40)	(571)
Closing net book amount	3,019	167	50	3,236
At 30 September 2018				
Cost	5,378	554	1,205	7,137
Accumulated depreciation	(2,359)	(387)	(1,155)	(3,901)
Net book amount	3,019	167	50	3,236

For the 12 months ended 31 March 2019 (restated for IFRS 16):

	Right-of-use assets	Furniture, fittings and equipment	Computer hardware	Total
	£000	£000	£000	£000
At 1 April 2018				
Cost	5,018	562	1,160	6,740
Accumulated depreciation	(1,863)	(359)	(1,094)	(3,316)
Net book amount	3,155	203	66	3,424
12 months ended 31 March 2019				
Opening net book amount	-	203	66	269
Adjustment on transition to IFRS 16	3,154	-	-	3,154

Additions	320	1	106	427
Disposals	-	(2)	-	(2)
Foreign exchange	121	3	1	125
Depreciation charge for the year	(975)	(74)	(77)	(1,126)
Closing net book amount	2,620	131	96	2,847
At 31 March 2019				
Cost	5,286	553	1,285	7,124
Accumulated depreciation	(2,666)	(422)	(1,189)	(4,277)
Net book amount	2,620	131	96	2,847

9. Intangible assets

Intangible assets of £916,000 (31 March 2019: £814,000) include £885,000 of costs capitalised in respect of the development of the Company's new Ad Ratings product, of which £232,000 was capitalised during the period. Costs relating to the research phase of the product, amounting to £943,000, have been expensed during the period. Development costs are amortised over their useful economic life of three years.

10. Share capital

At 30 September 2019, the Company had 13,226,773 shares in issue (31 March 2019: 13,226,773) of which 650,156 were held in treasury (31 March 2019: 650,156), and the Company had 1,857,671 stock options outstanding of which 355,823 were fully vested.

On 17 April 2019 the Company granted an advisor to the Board, Stefan Barden, an equity award comprising of 300,000 zero cost options. These options vest in three tranches of 100,000 each subject to Gross Profit and the Company's share price exceeding certain targets. The three tranches lapse on 30 July 2024, 30 July 2029 and 30 July 2032 respectively. Full details of the grant can be found in the Company's Annual Report for the year ended 31 March 2019.

On 4 September 2019 the Company granted 1,058,135 zero cost options to certain members of the senior management team. Of these, 462,934 options were granted as replacements to equity awards made under the 2017 LTIP scheme. The options vest between 12 August 2020 and 12 August 2024, subject to Gross Profit, Profit After Tax and the Company's share price exceeding certain targets. These targets are the same as those set under the 2017 LTIP scheme, full details of which are given in the Company's Annual Report for the year ended 31 March 2019. The options lapse on 21 March 2027.

11. Related party transactions

During the period the Company paid the following dividends to directors:

	Six months ended 30 Sep	
	2019	2018
	£	£

John Kearon	189,519	212,493
James Geddes	16,843	15,929
Ken Ford (resigned from the Board on 24 July 2018)	-	1,280
Robert Brand	1,920	1,920
Graham Blashill	640	640
	208,922	232,262

A family member of James Geddes will receive commission from WeWorks equal to 10% of the first year of rental payments to be made by the Company on its new WeWorks office space in London. This commission will amount to £40,000, and was reviewed by, and received the prior approval of, the Company's Audit Committee.

12. Changes in accounting policies

The adoption of IFRS 16, 'Leases' has resulted in the following changes to the previously reported figures:

Balance sheet (extract)	Audited 12 months to 31 Mar 2019	Impact of IFRS 16	Unaudited 12 months to 31 Mar 2019 Restated
	£000	£000	£000
ASSETS			
Non-current assets			
Property, plant and equipment	227	2,620	2,847
Intangible assets	814	-	814
Deferred tax asset	275	24	299
	1,316	2,644	3,960
Current assets			
Contract costs	208	-	208
Trade and other receivables	6,915	(8)	6,907
Current income tax asset	431	-	431
Cash and cash equivalents	4,315	-	4,315
	11,869	(8)	11,861
Total assets	13,185	2,636	15,821
EQUITY			
Capital and reserves attributable to equity holders of the Company			
Share capital	132	-	132
Share premium account	1,601	-	1,601
Merger reserve	477	-	477
Foreign currency translation reserve	223	11	234
Retained earnings	4,721	(141)	4,580
Total equity	7,154	(130)	7,024
LIABILITIES			
Non-current liabilities			
Provisions	610	-	610
Lease liabilities	23	2,389	2,412
	633	2,389	3,022
Current liabilities			

Provisions	225	-	225
Lease liabilities	48	462	510
Trade and other payables	4,591	(85)	4,506
Contract liabilities	534	-	534
	5,398	377	5,775
Total liabilities	6,031	2,766	8,797
Total equity and liabilities	13,185	2,636	15,821

12. Changes in accounting policies (continued)

Income statement (extract)	Audited 12 months to 31 Mar 2019	Impact of IFRS 16	Unaudited 12 months to 31 Mar 2019 Restated
	£000	£000	£000
Operating profit	1,932	68	2,000
Finance income/(expense)	2	(137)	(135)
Income tax expense	(677)	24	(653)
Profit after taxation	1,257	(45)	1,212

Cash flow statement (extract)	Audited 12 months to 31 Mar 2019	Impact of IFRS 16	Unaudited 12 months to 31 Mar 2019 Restated
	£000	£000	£000
Net cash generated from operating activities	609	925	1,534
Net cash used by investing activities	(1,030)		(1,030)
Net cash used by financing activities	(982)	(925)	(1,907)
Net decrease in cash and cash equivalents	(1,403)	-	(1,403)
Cash and cash equivalents at 31 Mar	4,315	-	4,315

12. Changes in accounting policies (continued)

The adoption of IFRS 16, 'Leases' has resulted in the following changes to the previously reported figures:

Balance sheet (extract)	Unaudited 6 months to 30 Sep 2019	Impact of IFRS 16	Unaudited 6 months to 30 Sep 2019 Restated
	£000	£000	£000
ASSETS			
Non-current assets			
Property, plant and equipment	217	3,019	3,236
Intangible assets	510		510
Deferred tax asset	282	9	291
	1,009	3,028	4,037
Current assets			
Contract costs	148	-	148
Trade and other receivables	7,115	(7)	7,108
Current income tax asset	335	-	335
Cash and cash equivalents	3,552	-	3,552
	11,150	(7)	11,143
Total assets	12,159	3,021	15,180
EQUITY			
Capital and reserves attributable to equity holders of the Company			
Share capital	132	-	132
Share premium account	1,601	-	1,601
Merger reserve	477	-	477
Foreign currency translation reserve	270	14	284
Retained earnings	4,417	(112)	4,305
Total equity	6,897	(98)	6,799
LIABILITIES			
Non-current liabilities			
Provisions	456	-	456
Lease liabilities	46	2,340	2,386
	502	2,340	2,842

Current liabilities			
Provisions	407	-	407
Lease liabilities	47	881	928
Trade and other payables	3,950	(102)	3,848
Contract liabilities	356	-	356
	4,760	779	5,539
Total liabilities	5,262	3,119	8,381
Total equity and liabilities	12,159	3,021	15,180

12. Changes in accounting policies (continued)

	Unaudited 6 months to 30 Sep 2019	Impact of IFRS 16	Unaudited 6 months to 30 Sep 2019 Restated
	£000	£000	£000
Income statement (extract)			
Operating profit	1,081	47	1,128
Finance income/(expense)	1	(72)	(71)
Income tax expense	(400)	9	(391)
Profit after taxation	682	(16)	666

	Unaudited 6 months to 30 Sep 2019	Impact of IFRS 16	Unaudited 6 months to 30 Sep 2019 Restated
	£000	£000	£000
Cash flow statement (extract)			
Net cash used by from operating activities	(1,088)	540	(548)
Net cash used by investing activities	(268)	-	(268)
Net cash used by financing activities	(824)	(540)	(1,364)
Net decrease in cash and cash equivalents	(2,180)	-	(2,180)
Cash and cash equivalents at 30 Sep	3,552	-	3,552