

PRESS RELEASE

30 November 2021

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

UNAUDITED INTERIM RESULTS FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2021

System1 Group, the marketing decision-making platform, announces its unaudited interim results for the six months ended 30 September 2021 ("H1").

	Sep-21 £m	Sep-20 £m	Change %
Management Basis*			
Revenue	12.4	10.1	22%
Gross Profit	10.4	8.6	21%
Adjusted Operating Costs	(9.1)	(8.2)	10%
Adjusted Profit before Taxation	1.3	0.4	252%
Statutory Basis			
Revenue	12.4	10.1	22%
Gross Profit	10.4	8.6	21%
Operating Costs	(9.2)	(9.6)	-4%
Other Operating Income	0.1	0.6	-86%
Profit/(Loss) before Taxation	1.3	(0.4)	n.m.
Income Tax Expense	(0.2)	0.5	n.m.
Profit for the Period	1.1	0.1	1001%
Diluted Earnings per Share	8.8p	1.0p	

n.m. = not meaningful

* Adjusted Operating Costs exclude impairment, interest, share based payments, bonuses, severance costs, and government support related to the Covid pandemic. Adjusted figures exclude items, positive and negative, that impede easy understanding of underlying performance.

Highlights

- Continued growth in automated data products which represented 36% of Revenue in H1 (H1 2020/21: 0%; Q2 2021/22: 46%)
- Revenue (+22%); Adjusted Profitability £0.9m higher than H1 2020/21
- Adjusted Operating Costs (+10%; Statutory -4%); average H1 headcount +14% to 146 (H1 2020/21: 128)
- £7.5m Net Cash at 30 September 2021 (30 September 20210: £5.1m)
- £0.2m reversal of Right-of-Use Asset impairment (non-cash) under IFRS 16, following sublease of the NYC office
- R&D tax credit for £0.5m for 2019/20 received in H1 (H1 2020/21: £0.5m)
- £0.2m charge in connection with IP litigation expenses
- Diluted earnings per share 8.8p (H1 2020/21: 1.0p)
- On market share buy-back intended to commence in December

Commenting on the Company's results, John Kearon, Founder and Executive President, said:

"We believe that the growth in data revenues signals tangible progress towards our strategic goals, and that these revenues will in due course more than offset the expected reduction in bespoke consultancy projects as more companies adopt our automated data products."

The Company can be found at system1group.com.

This announcement contains inside information for the purposes of article 7 of the Market Abuse Regulation (EU) 596/2014 as amended by regulation 11 of the Market Abuse (Amendment) (EU Exit) Regulations 2019/310. With the publication of this announcement, this information is now considered to be in the public domain.

For further information, please contact:

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INTERIM STATEMENT

The Marketing Decision-Making Platform

Our mission is to be the world's marketing decision making platform. We set out in the last annual report the reasons to believe that System1 can become a global winner in marketing predictions.

- World-beating prediction and improvement methodologies
- Unique and step-change improvement in value for customers
- Continuous improvement to maintain product lead
- Prediction and improvement market dynamics are favourable
- Protected through IP, branding, customer and supplier relationships

We acknowledged in the annual report that a challenge in the near term was to grow revenue which was borne out in the first half-year notwithstanding the 22% top-line revenue growth on a Covid-affected prior year. We have been delighted by the continuing adoption by both new and existing customers of System1's repeatable, fast-turnaround and scalable data products as they displace the historic large bespoke consultancy projects that dominated the Group's activity until H2 last year. More than half of the Data revenue in H1 came from customers we have acquired since April last year. We believe that the growth in data revenues signals tangible progress towards our strategic goals, and that these revenues will in due course more than offset the reduction in bespoke consultancy projects as more customers adopt our automated data products. Our commercial strategy is also working well. Partnerships with broadcasters and platform owners including LinkedIn and ITV are bearing fruit, bringing our decision-making platform to a wider international customer base. Aside from partnerships, a focused sales plan enables scaling of existing customers to their maximum potential through best-in-class account management practices. In parallel, we are acquiring, converting and scaling many new customers through marketing activities and sales outreach.

Growing our Asset and Fame

In collaboration with ITV and DECA, System1 addressed the growing corporate need for insight on diversity and inclusion in advertising by publishing the *Feeling Seen* report in which inclusive advertising was judged by real, diverse audiences. The report found that brands that get diversity right benefit hugely. *Feeling Seen* has since been presented to 40 new prospective customers and over 1,200 people.

Earlier this month we launched our Chief Innovation Officer Orlando Wood's latest book on advertising effectiveness, *Look out.*, which was published by the Institute of Practitioners in Advertising. *Look out.* argues that to create effective and memorable advertising that builds brands, the advertising industry must capture the 'broad-beam' attention of audiences; to achieve this the industry must shift its attentional plane—it must look out. The new book explains the behavioural science that underpins the methodology behind Test Your Ad and has been hailed by CMOs and advertising industry leaders. *Look out.* is being "road-showed" in the USA and Europe over the next quarter.

During the period we increased our investment in the AdRatings database to include additional categories such as Food Retail, Business Software, and Entertainment, reflecting the growth of System1's customer base beyond its traditional FMCG core.

Financial Performance

Revenue increased 22% on the comparable period last year, with strong growth in the Americas, UK and Europe. Data products generated £4.5m revenue in the first half (H1 2020/21: £0.1m), representing 36% of the total. In line with our strategy, Consultancy revenues declined in importance, in particular bespoke projects. We now have a suite of standard consultancy offerings that leverage the automated marketing predictions from the "Test Your" platform. In future reporting periods we will report the revenue from standard consultancy separately from the complex bespoke projects. The Communications product group grew by 80% year on year due to the success of the automated Test Your Ad product that was launched in the third quarter of last year. Brand and Innovation declined by 4% and 15% respectively due in part to the greater focus on the Test Your Ad Data Communications products this year.

Adjusted Operating Costs increased by 10% compared with H1 2020/21, broadly in line with the year-on-year growth in average employee numbers (H1 2021/22: 146; H1 2020/21: 128). Growth in employee numbers resulted from investment in sales and marketing (headcount +37%) and IT (headcount +27%) to accelerate the development of our automated data products and their commercialisation through partnerships and platform. Statutory Operating Costs fell by 4% due mainly to the IFRS 16 impairment charge in the prior year. The first half year Statutory Operating Costs include a £0.2m reversal in the IFRS 16 lease asset impairment owing to a sublease arrangement on the Company's New York office. Rental revenue from the sublease is recognised in Other Income.

Intellectual Property Litigation

On 27 September 2021, our US and UK subsidiaries, System1 Research Inc. and System1 Research Limited, filed a complaint for trademark infringement, unfair competition, and deceptive trade practices at the United States District Court for the Southern District of New York against System1 LLC over their infringing use of the mark "SYSTEM1". The Company is being advised in this matter by Norton Rose Fulbright, an international law firm. System1 LLC continues to use the "SYSTEM1" name and mark and has announced that it proposes to expand such use by becoming a NYSE-listed company through a business combination with Trebia Acquisition Corp.

The Company takes the protection of its unique intellectual property very seriously and believes such ongoing and expanding use by System1 LLC is likely to cause significant confusion with System1 Group PLC and its registered marks and, moreover, constitutes intentional infringement, in violation of relevant US federal and state trademark laws as well as trademark laws in the UK, the EU and other countries.

IP litigation costs related to this case are excluded from Adjusted Operating Costs and have been recognised in the Statutory Operating Costs. The Board believes that the Company's case against the Opposing Party is compelling and will issue further updates in due course.

Proposed Share Buyback

As previously indicated, we will initiate a share buyback programme from December 2021 to repurchase shares over an extended period, in order to enhance shareholder returns and to satisfy obligations in relation to employee share schemes. Shares will be repurchased via ongoing on-market purchases. The relative illiquidity of System1's shares makes it difficult to predict the level and speed of uptake, and the board will formally review the effectiveness of the buyback programme at the end of the current financial year.

Dividend

No interim dividend will be paid (2020/21: £nil).

Tax

The Company has recognised a tax charge of £0.1m in the six months to 30 September 2021 (H1 2020/21: tax credit of £0.5m), due mainly to the profit realised in the half year. Both periods include £0.5m of tax credits in respect of R&D claims.

Earnings Per Share

Diluted Earnings per Share rose from 1.0p to 8.8p on the back of the steep increase in first-half earnings.

Cash

The Company ended the period with cash balances of £10.0m, £7.5m net of borrowings (H1 2020/21: £5.1m). Operating cash flow before debt financing and after all property lease costs amounted to £1.1m in the first half (H1 2022/21: £1.0m).

Balance Sheet

Total equity increased to £8.5m (H1 2020/21: £5.8m). Property assets grew by £0.3m due mainly to the recognition of the sublease arrangement of the New York office leading to a reduction in IFRS 16 right-of-use asset impairment from H1 2020/21 and the removal of an assumed early break on that lease. There has been a corresponding increase in non-current lease liabilities. The Company's borrowings consist of a £2.5m revolving credit facility that has been in place since February 2020.

Outlook

The rapid adoption of our automated data products by existing and new customers in the first half of the year augurs well for the future of our platform strategy and is expected to be partially offset in the near term by the continuing reduction in our legacy bespoke consultancy assignments that previously formed the core of our historic BrainJuicer business. Focussed investment in people and the platform will continue for the rest of the year, which we believe will enable future accelerated growth.

John Kearon
Founder and Executive President

Stefan Barden
Chief Executive Officer

Chris Willford
Chief Financial Officer

CONDENSED CONSOLIDATED INCOME STATEMENT

for the 6 months ended 30 September 2021

	Note	Sep-21 £'000	Sep-20 £'000
Revenue	3	12,355	10,133
Cost of sales		(1,983)	(1,572)
Gross profit	3	10,372	8,561
Administrative expenses		(9,124)	(9,459)
Other operating income		85	620
Operating profit/(loss)		1,333	(278)
Finance expense		(80)	(123)
Profit before taxation		1,253	(401)
Income tax expense		(122)	528
Profit for the period		1,131	127
Attributable to the equity holders of the Company		1,131	127
Earnings per share attributable to equity holders of the Company			
Basic earnings per share	4	8.8p	1.0p
Diluted earnings per share	4	8.8p	1.0p

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

for the 6 months ended 30 September 2021

	Sep-21	Sep-20
	£'000	£'000
Profit for the period	1,131	127
Other comprehensive income:		
Items that may be subsequently reclassified to profit/(loss)		
Currency translation differences on translating foreign operations	92	(130)
Other comprehensive income/(loss) for the period, net of tax	92	(130)
Total comprehensive income/(loss) for the period attributable to equity holders of the Company	1,223	(3)

CONSOLIDATED BALANCE SHEET

as at 30 September 2021

Registered no. 05940040

	Note	Sep-21 £'000	Mar-21 £'000
ASSETS			
Non-current assets			
Property, plant, and equipment	7	1,730	1,435
Intangible Assets		424	418
Deferred tax asset		286	286
		<u>2,440</u>	<u>2,139</u>
Current assets			
Contract assets		336	318
Trade and other receivables		6,468	5,880
Cash and cash equivalents		10,044	9,008
		<u>16,848</u>	<u>15,206</u>
Total assets		<u><u>19,288</u></u>	<u><u>17,345</u></u>
EQUITY			
Attributable to equity holders of the Company			
Share capital	9	132	132
Share premium account		1,601	1,601
Merger reserve		477	477
Foreign currency translation reserve		(55)	(146)
Retained earnings		6,319	5,170
Total equity		<u>8,474</u>	<u>7,234</u>
LIABILITIES			
Non-current liabilities			
Provisions		566	560
Borrowings	8	2,500	2,500
Lease liabilities	8	1,188	928
		<u>4,254</u>	<u>3,988</u>
Current liabilities			
Provisions		283	200
Lease liabilities	8	1,247	1,647
Contract liabilities		781	803
Income taxes payable		860	334
Trade and other payables		3,389	3,139
		<u>6,560</u>	<u>6,123</u>
Total liabilities		<u>10,814</u>	<u>10,111</u>
Total equity and liabilities		<u><u>19,288</u></u>	<u><u>17,345</u></u>

CONSOLIDATED STATEMENT OF CASH FLOWS

for the 6 months ended 30 September 2021

	Note	Sep-21 £'000	Sep-20 £'000
Net cash generated from operations	10	1,501	1,189
Tax received		377	546
Net cash generated from operating activities		1,878	1,735
Cash flows from investing activities			
Purchases of property, plant, and equipment	7	(72)	-
Purchase of intangible assets		(53)	(93)
Net cash used by investing activities		(125)	(93)
Net cash flow before financing activities		1,753	1,642
Cash flows from financing activities			
Interest paid		(80)	(123)
Property lease liability payments		(599)	(571)
Proceeds from borrowings		-	493
Net cash used by financing activities		(679)	(201)
Net increase in cash and cash equivalents		1,074	1,441
Cash and cash equivalents at beginning of period		9,008	6,650
Exchange loss on cash and cash equivalents		(38)	(44)
Cash and cash equivalents at end of period		10,044	8,047
		Sep-21 £'000	Sep-20 £'000
Net cash flow before financing activities		1,753	1,642
Net cash flow for property leases		(644)	(626)
Operating cash flow		1,109	1,016

Consolidated Movements in Net Cash/(Debt)

	Cash and cash equivalents £'000	Borrowings £'000	Lease liabilities £'000	Total £'000
At 1 April 2021	9,008	(2,500)	(2,575)	3,933
Cash flows	1,196	-	644	1,840
Non-cash charges				
Interest on lease liabilities	-	-	(45)	(45)
New lease liabilities	-	-	(459)	(459)
Exchange and other non-cash movements	(160)	-	-	(160)
At 30 September 2021	10,044	(2,500)	(2,435)	5,109

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

for the 6 months ended 30 September 2021

	Share capital £'000	Share premium account £'000	Merger reserve £'000	Foreign currency translation reserve £'000	Retained earnings £'000	Total £'000
At 1 April 2020	132	1,601	477	132	3,416	5,758
Profit for the period	-	-	-	-	127	127
Other comprehensive income:						
- currency translation differences	-	-	-	(130)	-	(130)
Total comprehensive income	132	1,601	477	2	3,543	5,755
Transactions with owners:						
Employee share options:						
- value of employee services	-	-	-	-	17	17
- deferred tax credited to equity	-	-	-	-	(5)	(5)
At 30 September 2020	132	1,601	477	2	3,555	5,767
At 1 April 2021	132	1,601	477	(146)	5,170	7,234
Profit for the period	-	-	-	-	1,131	1,131
Other comprehensive income:						
- currency translation differences	-	-	-	91	1	92
Total comprehensive income	132	1,601	477	(55)	6,302	8,457
Transactions with owners:						
Employee share options:						
- value of employee services	-	-	-	-	17	17
At 30 September 2021	132	1,601	477	(55)	6,319	8,474

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

for the 6 months ended 30 September 2021

System1 Group PLC (the “Company”) was incorporated on 19 September 2006 in the United Kingdom. The Company’s principal operating subsidiary, System1 Research Limited, was at that time already established, having been incorporated on 29 December 1999. The address of the Company’s registered office is 52 Bedford Row, Holborn, London, England, WC1R 4LR. The Company’s shares are listed on the Alternative Investment Market of the London Stock Exchange (“AIM”).

The Company and its subsidiaries (together the “Group”) provide predictive marketing data and market research consultancy.

The Board of Directors approved these interim financial statements for the six months ended 30 September 2021 for issuance on 30 November 2021.

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 year ended 31 March 2021 and these have been filed with the Registrar of Companies. The auditor’s report on those financial statements was unqualified and did not contain an emphasis of matter paragraph and any statement under Section 498 of the Companies Act 2006.

1. Basis of Preparation

This condensed consolidated interim financial information has been prepared in accordance with UK adopted IAS 34 *Interim Financial Reporting* and on the going concern basis. This financial information should be read in conjunction with the financial statements for the year ended 31 March 2021, which have been prepared under the historical cost convention.

The preparation of financial statements in accordance with International Financial Reporting Standards (“IFRS”) requires the use of certain critical accounting estimates.

2. Principal accounting policies

The principal accounting policies adopted are consistent with those of the financial statements for the year ended 31 March 2021.

3. Segment Information

The financial performance of the Group’s geographic operating units (“Reportable Segments”) is set out below.

	Sep-21		Sep-20	
	Revenue £’000	Gross profit £’000	Revenue £’000	Gross profit £’000
By location of customer				
Americas	4,483	3,885	3,618	3,096
United Kingdom	3,980	3,110	2,983	2,587
Rest of Europe	2,906	2,498	2,536	2,057
APAC	986	879	996	821
	12,355	10,372	10,133	8,561

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.

	Sep-21		Sep-20	
	Revenue	Gross profit	Revenue	Gross profit
	£'000	£'000	£'000	£'000
By product variant				
Data	4,495	3,826	56	56
Consultancy	7,725	6,520	9,591	8,179
Other services	135	26	486	326
	12,355	10,372	10,133	8,561
By product group				
Communications (Ad Testing)	7,313	6,178	4,054	3,487
Brand (Brand Tracking)	1,632	1,237	1,701	1,300
Innovation	3,283	2,931	3,864	3,370
Other services	127	26	514	404
	12,355	10,372	10,133	8,561

4. Earnings Per Share

	Sep-21	Sep-20
Profit attributable to equity holders of the Company, in £'000	1,131	127
Weighted average number of Ordinary Shares in issue	12,806,391	12,633,227
Basic earnings per share	8.8p	1.0p
Profit attributable to equity holders of the Company, in £'000	1,131	127
Weighted average number of Ordinary Shares in issue	12,806,391	12,633,227
Share options	12,299	250,482
Weighted average number of Ordinary Shares for diluted earnings per share	12,818,690	12,883,709
Diluted earnings per share	8.8p	1.0p

5. Headcount

The average number of staff employed by the Group during the period was as follows:

	Sep-21	Sep-20
	No.	No.
Sales and marketing	39	29
Operations	52	53
IT	34	27
Administration	21	20
	146	128

6. Dividends

The Company did not pay dividends in the six months ended 30 September 2021 and 30 September 2020. The Company does not propose the payment of an interim dividend.

No dividends were paid to the Company's directors.

7. Property, Plant, and Equipment

	Right-of-use assets £'000	Furniture and fixtures £'000	Computer hardware £'000	Total £'000
At 1 April 2020				
Cost	5,532	452	1,398	7,382
Accumulated depreciation	(1,725)	(405)	(1,281)	(3,411)
Net book value	3,807	47	117	3,971
Net book value, at 1 April 2020	3,807	47	117	3,971
Additions	20	-	-	20
Disposals	(531)	(4)	(11)	(546)
Foreign exchange	(50)	(3)	1	(52)
Depreciation charge for the year	(1,525)	(14)	(43)	(1,582)
Net book value, at 30 September 2020	1,721	26	64	1,811
At 30 September 2020				
Cost	4,951	142	175	5,268
Accumulated depreciation	(3,230)	(116)	(111)	(3,457)
Net book value	1,721	26	64	1,811
At 1 April 2021				
Cost	4,691	140	224	5,055
Accumulated depreciation	(3,346)	(123)	(151)	(3,620)
Net book value	1,345	17	73	1,435
Net book value, at 1 April 2021	1,345	17	73	1,435
Additions	-	-	29	29
Impairment reversal	740	-	-	740
Foreign exchange	-	-	(1)	(1)
Depreciation charge for the year	(425)	(9)	(39)	(473)
Net book value, at 30 September 2021	1,660	8	62	1,730
At 30 September 2021				
Cost	2,482	31	142	2,655
Accumulated depreciation	(822)	(23)	(80)	(925)
Net book value	1,660	8	62	1,730

Included within depreciation charges for the six months ended 30 September 2020 is £920,000 of impairment charges on right-of-use assets. During the six months to 30 September 2020, the financial effect of revising lease terms to reflect the actual and expected effect of exercising extension and termination options in lease arrangements is a reduction in right-of use assets and lease liabilities of £531,000 which is included in the disposals figure in the table above.

In the six months ended 30 September 2021, the Group added a new right-of-use asset for a sublease in regards to the aforementioned fully impaired lease. The value of the sublease was for £740,000 of which £43,000 was a cash settlement. This in turn has led to a re-recognition of the lease liability of the head lease of £459,000 with corresponding reversal of £230,000 relating to the impairment from 30 September 2020.

8. Borrowings

In February 2020, the Company entered a 3-year revolving credit facility with HSBC. The agreement allows the Company to draw down up to £2,500,000 for the purposes of funding general corporate and working capital requirements. The facility is secured over the assets of those Group companies domiciled in the United Kingdom and the United States. The loan accrues interest at a rate of 2.5% above LIBOR and is subject to leverage and interest covenants. The Company will transition the reference rate from LIBOR to SONIA by 31 December 2021.

The analysis of the maturity of lease liabilities is as follows:

	Sep-21	Mar-21
	£'000	£'000
Within one year	1,323	1,720
Later than 1 but no later than 5 years	1,231	943
More than 5 years	-	-
Minimum lease payments	2,554	2,663
Future finance charges	(119)	(88)
Recognised as a liability	2,435	2,575

The present value of finance lease liabilities is as follows:

	Sep-21	Mar-21
	£'000	£'000
Within one year	1,247	1,647
Later than 1 but no later than 5 years	1,188	928
More than 5 years	-	-
	2,435	2,575

9. Share Capital

The share capital of System1 Group PLC consists only of fully paid Ordinary Shares ("Shares") with a par value of one penny each. All Shares are equally eligible to receive dividends and the repayment of capital, and represent one vote at the Annual General Meeting.

	Sep-21		Sep-20	
	No.	£'000	No.	£'000
Allotted, called up, and fully paid ordinary shares At 1 April and at 30 September	13,226,773	132	13,226,773	132

	Sep-21		Sep-20	
	Treasury shares No.	Weighted average exercise price per share Pence	Treasury shares No.	Weighted average exercise price per share Pence
Shares held by Treasury				
At 1 April	510,421		626,989	
Transfer of shares to satisfy options exercise At 30 September	(181,944)	-	(60,000)	-
	328,477		566,989	

10. Net Cash Generated from Operations

	Sep-21 £'000	Sep-20 £'000
Profit/(loss) before taxation	1,253	(401)
Depreciation of property, plant, and equipment	472	1,582
Amortisation and impairment of intangible assets	47	-
Loss on disposal of property, plant, and equipment	-	16
Interest paid	80	17
Share-based payment expense	17	123
(Increase)/decrease in contract assets	(18)	100
(Increase)/decrease in trade and other receivables	(588)	371
Increase/(decrease) in trade and other payables	277	(334)
Increase/(decrease) in deferred income	(22)	(240)
Increase/(decrease) in provisions	89	-
Exchange differences on operating items	(106)	(44)
	1,501	1,190

11. Post Balance Sheet Events

Long Term Incentive Plan

Following approval by shareholders at the Company's 2021 Annual General Meeting for certain amendments to the System1 Long Term Incentive Plan (the "LTIP") the Company announced that on 27 October 2021 it granted awards under the LTIP. In aggregate, awards (structured as nil cost options) were granted to a number of executives over 793,603 ordinary shares of the Company, of which 645,314 replaced options awarded under the previous arrangements and 148,289 were new awards.