

System1 Group

Press Release

2 November 2018

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

Unaudited interim results for the six months ended 30 September 2018

System1, the marketing services group, today announces its results for the six month period ended 30 September 2018 ("H1").

As previously announced, the Company is making a significant investment in a new business line "Ad Ratings" and, for ease of prior period comparisons, is splitting its results into the existing business ("Consulting") and Ad Ratings.

6 months ended 30 September	2017/18	2018/19		
		Consulting	Ad Ratings	Total
£m				
Revenue	13.82	13.18	-	13.18
Gross Profit	11.39	10.80	-	10.80
Underlying Overheads	(10.29)	(8.88)	(1.09)	(9.97)
Underlying Pre-Tax Profit/(Loss)	1.10	1.92	(1.09)	0.83
Share Based Payments	(0.25)	-	-	-
Exceptional Credit	-	0.25	-	0.25
Pre-Tax Profit/(Loss)	0.85	2.17	(1.09)	1.08

Highlights

- 5% decline in Revenue to £13.18m (2017/18: £13.82m), 3% in constant currency
- 5% decline in Gross Profit to £10.80m (2017/18: £11.39m), 3% in constant currency
- 74% growth in Underlying Pre-Tax Profit (excluding Ad Ratings) to £1.92m (2017/18: £1.10m)
- 28% growth in Pre-Tax Profit (including Ad Ratings) to £1.08m (2017/18: £0.85m)
- 26% growth in Post-Tax Profit (including Ad Ratings) to £0.68m (2017/18: £0.54m)
- 26% growth in diluted Earnings Per Share to 5.3p (2017/18: 4.2 pence)
- £1.59m investment in Ad Ratings, of which £0.50m has been capitalised and £1.09m expensed
- £3.55m Cash at 30 September 2018 and no debt (31 March 2018: £5.78m and no debt)
- Maintaining interim dividend at 1.1 pence
- Final dividend may be reduced, depending principally on the scale of further investment in Ad Ratings and on opportunities to repurchase shares at an attractive valuation

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

"We are excited about our new Ad Ratings service based on our tried and tested core IP - for its future potential both to support the existing consulting business, as well as provide a new scalable revenue stream. Meanwhile we believe that as our new product configurations and more competitive pricing take hold, our existing business will continue to stabilise and in time return to growth."

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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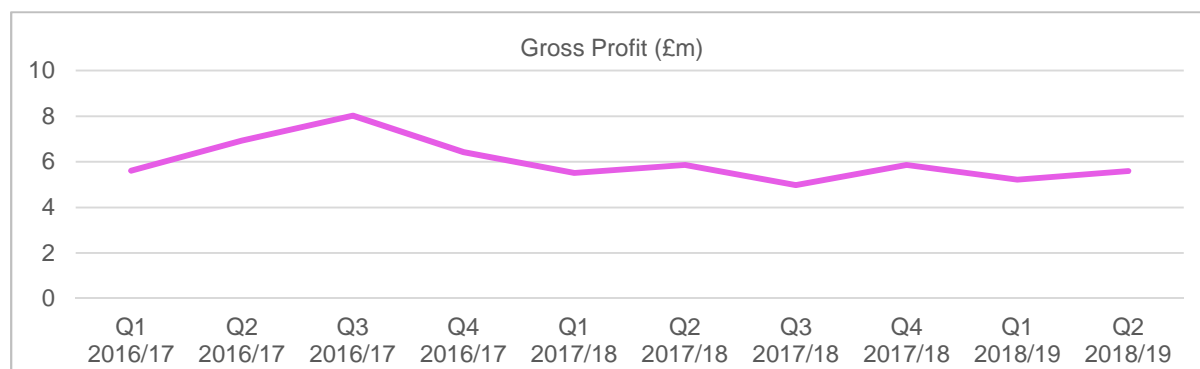
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INTERIM STATEMENT

Gross Profit (our main top-line measure) is stabilising after the significant decline in the previous financial year. During the six months to 30 September 2018 ("H1"), Gross Profit declined 5% (3% in constant currency) compared to the same period in the prior year ("H1 2017/18"), and was flat compared to the six months to 31 March 2018.



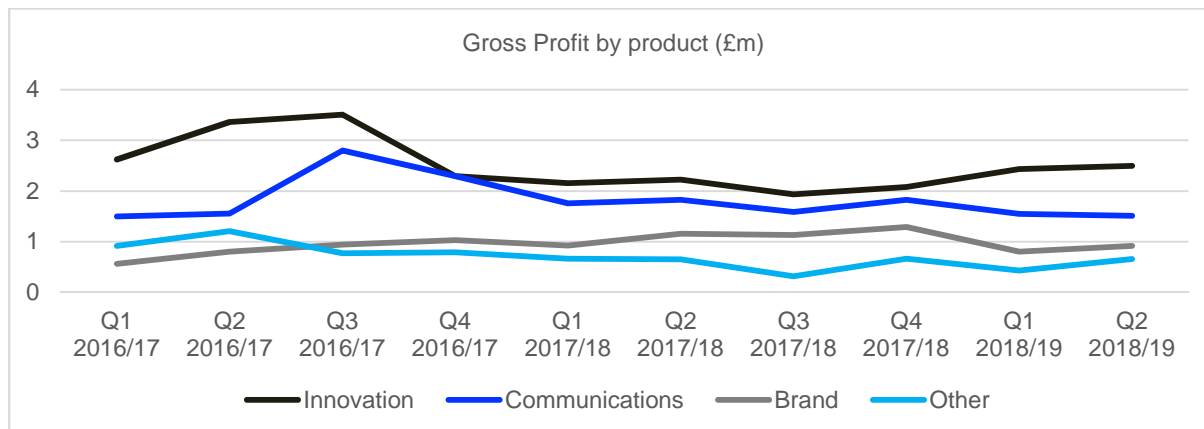
£m	2016/17				2017/18				2018/19	
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2
Gross Profit	5.61	6.93	8.02	6.43	5.51	5.89	4.99	5.84	5.22	5.58

Our business comprises, in the main, market research ("Research"), together with a small advertising agency ("Agency"). The Research business has three main product lines, "Communications" (testing adverts prior to broadcast), "Brand" (tracking brand health), and "Innovation" (testing new product and packaging concepts and ideas). We offer them from our offices in the UK, US, and seven other offices across Continental Europe and the rest of the world.

Our Innovation business is more ad hoc in nature than Communications and Brand, and Gross Profit is inherently more volatile. It declined significantly last year (12 months to 31 March 2018) following cuts in marketing spend by some of our largest clients. We reacted with a product re-design programme and a new pricing framework, and although not yet back to 2016/17 levels, Gross Profit increased by 13% in H1 (vs H1 2017/18).

We have also re-packaged our Communications offering, and at the same time introduced a more competitive pricing structure. However, this was introduced more recently than the Innovation re-design, and it will take time for the benefits to be seen in Gross Profit terms. Much of our Communications business comes from ongoing relationships with large customers and there is often a lag before new business is secured. Meanwhile the more competitive pricing has resulted in a H1 Gross Profit decline of 15% (vs H1 2017/18).

Brand Gross Profit also declined in H1 (by 18%, vs H1 2017/18), as a result of some isolated client churn in the UK and US and slower than anticipated new wins. However, our Brand business tends to come from ongoing, and relatively stable, brand tracking projects, and we anticipate it returning to growth.



£m	2016/17				2017/18				2018/19	
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2
Innovation	2.62	3.36	3.51	2.30	2.16	2.23	1.94	2.08	2.43	2.50
Comms	1.50	1.56	2.80	2.30	1.76	1.83	1.59	1.82	1.55	1.51
Brand	0.57	0.81	0.94	1.03	0.93	1.16	1.14	1.29	0.81	0.92
Other	0.92	1.20	0.77	0.80	0.66	0.67	0.32	0.65	0.43	0.65
	5.61	6.93	8.02	6.43	5.51	5.89	4.99	5.84	5.22	5.58

In terms of our main geographic regions, we had mixed fortunes in H1. Gross Profit grew in Continental Europe (up 30%, vs H1 2017/18), declined in our Americas region (down 16%), and was relatively stable in the UK (down 5%). APAC, our smallest region, was also down (by 22%) due to the loss of a large client.

£m	2016/17				2017/18				2018/19	
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2
Americas	2.96	3.55	3.53	2.88	2.62	2.87	2.28	2.42	2.33	2.31
UK	1.52	1.42	1.94	1.51	1.27	1.14	1.15	1.49	1.18	1.10
Cont Eur	0.95	1.35	1.68	1.28	1.01	1.23	1.01	1.34	1.24	1.67
APAC	0.19	0.56	0.77	0.64	0.54	0.56	0.50	0.44	0.39	0.47
Agency	(0.01)	0.05	0.10	0.12	0.07	0.09	0.05	0.15	0.08	0.03
	5.61	6.93	8.02	6.43	5.51	5.89	4.99	5.84	5.22	5.58

Our Agency business generated £0.11m of Gross Profit in H1 (£0.16m in H1 2017/18), and so remains a small Gross Profit contributor to the business. However, it continues to cover most of its costs and provides a valuable showcase on how to create, what we call, 5 Star marketing (a good example being the "don't text and drive" public service advert we created in the US, which you can view at: <https://www.youtube.com/watch?v=zANGRj0O5Jk>).

We have continued to control costs tightly. Average headcount in H1 was 19% lower than the corresponding period last year and Underlying Overheads (excluding Ad Ratings - see below) were down 14%. We have excluded two items from Underlying Overheads: share based payments and a business rates rebate. Share based payments are a non-cash expense that varies with our share price, and so we separately disclose them. The business rates rebate was a material one-off item (£0.25m) arising from the move to our current head office in London in 2015, and was received in error. We referred the error to the local council, but they failed to correct it and are now time-barred

from doing-so. We normally also comment on employee bonuses, as these are a discretionary item, can be material, and can vary widely. However, they were immaterial in both H1 and H1 2017/18. Total overheads (excluding Ad Ratings) declined by 18%, and including Ad Ratings by 8%.

Costs excluding Ad Ratings:

£000 (unless otherwise specified)	H1	H1 2017/18	Growth
Average headcount	140	172	-19%
Underlying Overheads	8,883	10,297	-14%
Share Based Payments	(1)	257	<i>Not meaningful</i>
Exceptional Credit (Rates Rebate given in error)	(251)	-	<i>NA</i>
Total Overheads	8,631	10,554	-18%

Underling Pre-Tax Profit (i.e. excluding Ad Ratings, share based payments and the rates rebate) grew by 74% and Underlying Pre-Tax Profit margin was 15%. This is short of our long-term average (19% on average over the 4 years from 2013-2016), but well ahead of last financial year's 8%. Pre-Tax Profit (i.e. including Ad Ratings, share based payments and the rates rebate) grew by 28%.

Ad Ratings

During H1 we invested £1.59m in our new Ad Ratings service, which is due to be launched later this year. Of this, £0.50m has been capitalised and £1.09m has been expensed as an operating cost. Ad Ratings is a subscription service which will enable clients to assess the effectiveness of their historic adverts, compare their scores with those of competitors and category averages, and correlate their advertising effectiveness with media spend.

It utilises the Company's core intellectual property: the methodology the Company uses to predict the long-term brand impact of advertising. Scores are presented on a 1 to 5 Star scale, and correlate with predicted long-term market share increase.

So far, we have tested a very significant number of adverts (approximately 5,000 in the UK and 18,000 in the US), and on an on-going basis we continue to test all adverts broadcast in the UK and the US in the main categories in which our clients operate, as they are broadcast. The insights generated from such a large and comprehensive data set will increase our understanding of what makes effective advertising, and so enhance our existing business, as well as opening up the potential for a new and scalable revenue stream.

Tax

Excluding Ad Ratings, the Company's effective tax rate has reduced to 28% from 36% in H1 2017/18 as a result of the reduction in the US Federal corporation tax rate. Including Ad Ratings, the Company's effective tax rate has increased to 37% from 36% in H1 2017/18 as the investment in Ad Ratings, and the associated tax credits, have all occurred in the UK where our tax rates are lowest.

Cash

We generated operational cash flow pre-financing (and pre Ad Ratings) of £0.31m. This represented 20% of Post-Tax Profit (pre Ad Ratings), which is lower than we would expect, due principally to debtor days increasing from 57 days at 31 March 2018 to 77 days at 30 September 2018. After the investment of £1.59m in Ad Ratings, and payment of £0.80m in dividends, our cash balance reduced from £5.78m on 31 March 2018 to £3.55m on 30 September 2018.

An interim dividend of 1.1 pence per share, the same as last year, will be paid to shareholders. We may consider reducing the level of our final dividend from the 6.4 pence paid last year. This will depend primarily on two factors. Firstly, the initial client response to Ad Ratings, and the level of further investment which we consider justified in the short term, and, secondly, whether the share price gives us the opportunity to buy back shares at a price considerably below the value we place on them.

Outlook

Whilst market conditions remain challenging, we believe that as our new product configurations and more competitive pricing take hold, the business will continue to stabilise and in time return to growth. Meanwhile we will continue to keep costs under control. We are looking forward to the launch of Ad Ratings and will continue to invest as appropriate in this new business.

John Kearon
Chief Executive Officer

James Geddes
Chief Financial Officer

5 YEAR SUMMARY – HALF YEAR

(£000s unless specified otherwise)

	6 months to 30 Sep			6 months to 30 Jun			
	2018/19		2017/18	2016	2015	2014	2013
	Ex AR*	Inc AR*					
Financial KPIs							
Revenue	13,182	13,182	13,822	13,043	11,610	11,197	10,765
<i>growth</i>	-5%	-5%	-10%	12%	4%	4%	4%
Gross Profit	10,802	10,802	11,394	10,685	9,254	8,719	8,455
<i>growth</i>	-5%	-5%	-9%	15%	6%	3%	6%
Administrative Costs	8,631	9,722	10,554	9,018	8,080	7,183	7,157
<i>growth</i>	-18%	-8%	8%	12%	12%	-%	-2%
Bonus (included within Admin Costs)	39	39	-	796	-	184	559
Pre-Tax profit	2,172	1,082	846	1,650	1,139	1,520	1,298
<i>growth</i>	157%	28%	-70%	45%	-25%	17%	81%
Post-Tax Profit		682	542	1,054	763	1,018	870
<i>growth</i>		26%	-70%	38%	-25%	17%	81%
EPS – diluted		5.3p	4.2p	7.9p	5.6p	7.5p	6.7p
<i>growth</i>		26%	-69%	41%	-25%	12%	81%
Cash flow pre-financing		(1,356)	(604)	810	565	(147)	1,948
Cash balance		3,552	3,495	5,183	5,286	2,528	5,460
Dividend (interim)		1.1p	1.1p	1.1p	1.0p	1.0p	0.9p
<i>growth</i>		-	-	10%	-	11%	6%
Special dividend		-	26.1p	-	-	12.0p	-
Share buy-backs		-	-	1,768	-	1,531	29
Non-financial KPIs							
Number of clients		230	229	232	244	225	212
<i>growth</i>		-	-1%	-5%	8%	6%	4%
Gross profit per project		17.1	18.2	18.3	20.7	18.3	20.9
<i>growth</i>		-6%	-15%	-12%	13%	-12%	2%
Average headcount		140	172	155	160	145	137
<i>growth</i>		-19%	12%	-3%	10%	6%	2%
Average gross profit per head		77	66	69	58	60	62
<i>growth</i>		17%	-1%	19%	-3%	-3%	3%

* "Ex AR" means: excluding Ad Ratings. "Inc AR" means: including Ad Ratings.

5 YEAR SUMMARY – ANNUAL

£000s unless specified otherwise

	12 months to 31 Mar		12 months to 31 Dec			
	2017/18	2016/17	2016	2015	2014	2013
	Audited	Unaudited	Unaudited	Audited	Audited	Audited
Financial KPIs						
Revenue	26,939	32,801	31,236	25,184	24,645	24,457
<i>growth</i>	-18%	27%	24%	2%	1%	17%
Gross profit	22,231	26,984	25,643	20,250	19,410	19,087
<i>growth</i>	-18%	29%	27%	4%	2%	19%
Administrative costs	20,246	20,676	19,414	15,704	15,109	15,537
<i>growth</i>	-2%	30%	24%	4%	-3%	7%
Bonus (included within Admin Costs)	107	2,294	2,396	63	1,077	1,941
Pre-Tax profit	1,992	6,279	6,200	4,501	4,286	3,556
<i>growth</i>	-68%	25%	38%	5%	21%	135%
Post-Tax profit	1,213	4,029	3,968	3,032	2,897	2,435
<i>growth</i>	-70%	19%	31%	5%	19%	135%
EPS – diluted	9.5p	31.1p	30.3p	22.7p	21.3p	18.7p
<i>growth</i>	-69%	22%	33%	7%	14%	137%
Cash flow pre-financing	1,831	6,603	6,337	2,696	3,157	4,466
Cash balance	5,784	8,266	7,754	6,365	5,347	6,188
Dividend (interim & final)	7.5p	7.5p	7.5p	4.5p	4.3p	3.9p
<i>growth</i>	-%	67%	67%	5%	10%	26%
Special dividend	26.1p	12.0p	12.0p	-	12.0p	12.0p
Share buy-backs	1	3,141	3,195	948	1,938	71
Non-financial KPIs						
Number of clients	204	224	223	243	235	224
<i>growth</i>	-9%	-4%	-8%	3%	5%	3%
Gross profit per project	20.0	23.0	22.6	19.6	20.0	20.0
<i>growth</i>	-13%	19%	15%	-2%	-%	-1%
Average headcount	165	161	157	158	152	138
<i>growth</i>	2%	3%	-1%	4%	10%	-7%
Average gross profit per head	135	168	163	128	128	138
<i>growth</i>	-20%	25%	27%	-%	-7%	27%

CONDENSED CONSOLIDATED INCOME STATEMENT

for the 6 months ended 30 September 2018

	Note				6 months to	12 months to
					30 Sep 2018 Unaudited	31 Mar 2018 Audited
		Consultancy	Ad Ratings	Total	Total	Total
		£000	£000	£000	£000	£000
Revenue	4	13,182	-	13,182	13,822	26,939
Cost of sales		(2,380)	-	(2,380)	(2,428)	(4,708)
Gross profit	4	10,802	-	10,802	11,394	22,231
Administrative expenses		(8,631)	(1,090)	(9,721)	(10,554)	(20,246)
Operating profit/(loss)		2,171	(1,090)	1,081	840	1,985
Finance income		1	-	1	6	7
Profit/(loss) before taxation	4	2,172	(1,090)	1,082	846	1,992
Income tax (expense)/credit		(607)	207	(400)	(304)	(779)
Profit/(loss) for the financial period		1,565	(883)	682	542	1,213
Attributable to equity holders of the Company		1,565	(883)	682	542	1,213

Earnings per share attributable to equity holders of the Company

Basic earnings per share	5			5.4p	4.4p	9.9p
Diluted earnings per share	5			5.3p	4.2p	9.5p

All of the activities of the Group are classified as continuing.

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

for the 6 months ended 30 September 2018

	6 months to 30 Sep 2018 Unaudited	6 months to 30 Sep 2017 Unaudited	12 months to 31 Mar 2018 Audited
	£000	£000	£000
Profit for the financial period	682	542	1,213
Other comprehensive income:			
Items that may be subsequently reclassified to profit or loss			
Exchange differences on translating foreign operations	49	(89)	(190)
Other comprehensive income for the period, net of tax	49	(89)	(190)
Total comprehensive income attributable to equity holders	731	453	1,023

CONDENSED CONSOLIDATED BALANCE SHEET
as at 30 September 2018

	Note	30 Sep 2018 Unaudited	30 Sep 2017 Unaudited Restated for IFRS15	31 Mar 2018 Unaudited Restated for IFRS 15
		£000	£000	£000
ASSETS				
Non-current assets				
Property, plant and equipment		217	327	269
Intangible assets	8	510	78	26
Deferred tax asset		282	546	372
		1,009	951	667
Current assets				
Inventories		148	147	131
Contract assets		28	42	30
Trade and other receivables		7,087	6,361	5,681
Income tax recoverable		335	420	423
Cash and cash equivalents		3,552	3,495	5,784
		11,150	10,465	12,049
Total assets		12,159	11,416	12,716
EQUITY				
Capital and reserves attributable to equity holders of the Company				
Share capital	9	132	132	132
Share premium account		1,601	1,601	1,601
Merger reserve		477	477	477
Foreign currency translation reserve		270	322	221
Retained earnings		4,417	4,322	4,578
Total equity		6,897	6,854	7,009
LIABILITIES				
Non-current liabilities				
Provisions		456	544	420
Finance lease payable		46	-	70
		502	544	490
Current liabilities				
Provisions		407	308	368
Finance lease payable		47	-	46
Trade and other payables		3,950	3,381	4,223
Contract liabilities		356	329	580
		4,760	4,018	5,217
Total liabilities		5,262	4,562	5,707
Total equity and liabilities		12,159	11,416	12,716

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

for the six months ended 30 September 2018

	Note	6 months to 30 Sep 2018 Unaudited	6 months to 30 Sep 2017 Unaudited	12 months to 31 Mar 2018 Audited
		£000	£000	£000
Net cash (used by)/generated from operations	7	(784)	365	3,424
Tax paid		(304)	(907)	(1,480)
Net cash (used by)/generated from operating activities		(1,088)	(542)	1,944
Cash flows from investing activities				
Purchase of property, plant and equipment		(22)	(62)	(91)
Purchase of intangible assets		(246)	-	(22)
Net cash used by investing activities		(268)	(62)	(113)
Net cash flow before financing activities		(1,356)	(604)	1,831
Cash flows from financing activities				
Interest		1	6	7
Proceeds from finance lease		-	-	140
Finance lease payments		(23)	-	(24)
Proceeds from sale of treasury shares		-	-	33
Purchase of own shares		-	-	(34)
Dividends paid to owners		(802)	(4,051)	(4,188)
Net cash used by financing activities		(824)	(4,045)	(4,066)
Net decrease in cash and cash equivalents		(2,180)	(4,649)	(2,235)
Cash and cash equivalents at beginning of period		5,784	8,266	8,266
Exchange losses on cash and cash equivalents		(52)	(122)	(247)
Cash and cash equivalents at end of period		3,552	3,495	5,784

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

for the 6 months ended 30 September 2018

	Share capital	Share premium account	Merger reserve	Foreign currency translation reserve	Retained earnings	Total
	£000	£000	£000	£000	£000	£000
At 1 April 2018	132	1,601	477	221	4,578	7,009
Profit for the financial period	-	-	-	-	682	682
Other comprehensive income:						
- currency translation differences	-	-	-	49	-	49
Total comprehensive income	-	-	-	49	682	731
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	270	4,417	6,897
At 1 April 2017	132	1,601	477	411	7,728	10,349
Profit for the financial period	-	-	-	-	542	542
Other comprehensive income:						
- currency translation differences	-	-	-	(89)	-	(89)
Total comprehensive income	-	-	-	(89)	542	453
Transactions with owners:						
Employee share options scheme:						
- value of employee services	-	-	-	-	229	229
- current tax credited to equity	-	-	-	-	309	309
- deferred tax debited to equity	-	-	-	-	(435)	(435)
Dividends paid to owners	-	-	-	-	(4,051)	(4,051)
	-	-	-	-	(3,948)	(3,948)
At 30 September 2017	132	1,601	477	322	4,322	6,854

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

for the 6 months ended 30 September 2018

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 2 November 2018.

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 2018 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 2018, 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 2018, except for the first time adoption of IFRS 15, ‘Revenue from contracts with customers’ and IFRS 9, ‘Financial Instruments’ (both Standards effective for accounting periods beginning on or after 1 January 2018).

IFRS 15 presents new requirements for the recognition of revenue, replacing IAS 18 ‘Revenue’, IAS 11 ‘Construction Contracts’, and several revenue-related Interpretations. The adoption of IFRS 15 has had no material impact on these interim accounts other than with respect to the reclassification of balance sheet items, as set out in Note 12. As a result of the reclassification of balance sheet items on adoption of IFRS 15, the balance sheet presented in these interim accounts as at 31 March 2018 is not the same as that presented in the audited financial statements for the year ended 31 March 2018.

The Group’s revenues are primarily from the delivery of research services.

Revenue is recognised at a point in time (rather than over time) as the key performance obligation is the delivery of the final written debrief to the client.

Revenue from all of the Group's Research product lines (Communications, Brand, Innovation, and other research products) and its advertising agency services are recognised on the same basis.

IFRS 9 introduces extensive changes to IAS 39's guidance on the classification and measurement of financial assets and introduces a new 'expected credit loss' model for the impairment of financial assets. IFRS 9 also provides new guidance on the application of hedge accounting. The adoption of IFRS 9 has had no material impact on these interim accounts. Comparative information has not been restated as the impact on prior periods is not material.

Taxes on income in the interim periods are accrued using the tax rate that would be applicable to expected total annual earnings.

4. Segment information

The financial performance of the Group's geographic operating units ("**Reportable Segments**") is set out below.

	6 months to 30 Sep 2018			6 months to 30 Sep 2017		
	Revenue	Gross profit	Operating profit/(loss)	Revenue	Gross Profit	Operating Profit/(loss)
	£000	£000	£000	£000	£000	£000
Research						
Americas	5,562	4,637	2,127	6,192	5,491	2,462
United Kingdom	2,753	2,277	807	2,886	2,404	911
Continental Europe	3,653	2,916	1,684	2,789	2,235	1,106
APAC	1,015	862	524	1,297	1,103	543
	12,983	10,692	5,142	13,164	11,233	5,022
Advertising Agency						
United Kingdom	199	110	(302)	658	161	(213)
	13,182	10,802	4,840	13,822	11,394	4,809

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 at a point in time, being the point at which the research results are delivered to the client.

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

	6 months to 30 Sep 2018		6 months to 30 Sep 2017	
	Revenue	Gross Profit	Revenue	Gross Profit
	£000	£000	£000	£000
Research Business				
Communications (Ad Testing)	3,606	3,059	3,960	3,582
Brand (Brand Tracking)	2,363	1,726	2,598	2,102
Innovation (Predictive Markets and Concept Testing)	5,659	4,929	5,071	4,381
	11,628	9,714	11,629	10,065
Other services	1,355	978	1,535	1,168
	12,983	10,692	13,164	11,233
Advertising Agency Business	199	110	658	161
	13,182	10,802	13,822	11,394

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

	6 months to 30 Sep 2018	6 months to 30 Sep 2017
	£000	£000
Operating profit for Reportable Segments	4,840	4,809
Central overheads	(2,669)	(3,969)
Ad Ratings costs	(1,588)	-
Ad Ratings development costs capitalised	498	-
Operating profit	1,081	840
Finance income	1	6
Profit before income tax	1,082	846

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	
	2018	2017
Profit attributable to equity holders of the Company (£000)	682	542
Weighted average number of Ordinary Shares in issue	12,520,592	12,414,650
Basic earnings per share	5.4p	4.4p

(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	
	2018	2017
Profit attributable to equity holders of the Company and profit used to determine diluted earnings per share (£000)	682	542
Weighted average number of Ordinary Shares in issue	12,520,502	12,414,650
Share options	335,227	465,980
Weighted average number of Ordinary Shares for diluted earnings per share	12,855,729	12,880,630
Diluted earnings per share	5.3p	4.2p

6. Dividends

On 26th July 2018 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 2018. In December 2018, 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 2019. This interim dividend is not recorded in these interim accounts.

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

	Six months ended 30 Sep	
	2018	2017 Restated
	£000	£000
Profit before taxation	1,082	846
Depreciation	77	89
Amortisation	15	129
Interest received	(1)	(6)
Share-based payment expense	41	229
Increase in inventory	(17)	(52)
Decrease/(increase) in contract assets	2	(38)
Increase in receivables	(1,406)	(176)
Decrease in payables	(451)	(389)
Decrease in contract liabilities	(224)	(308)
Exchange differences on operating items	98	41
Net cash (used by)/generated from operations	(784)	365

8. Intangible assets

Intangible assets of £510,000 include £498,000 of costs capitalised during the period in respect of the development of the Company's new Ad Ratings product. Costs relating to the research phase of the product, amounting to £1,090,000, have been expensed during the period. The development costs

have been included within assets under the course of construction and will be amortised once the product is operating as intended.

9. Share capital

During the reporting period the Company transferred 97,181 Ordinary Shares (“shares”) out of treasury to satisfy the exercise of employee share options at a weighted average exercise price of Nil pence per share for cash consideration of £Nil. The weighted average share price at exercise date was 271 pence per share.

Following these transactions, at 30 September 2018, the Company had 13,226,773 shares in issue (31 March 2018: 13,226,773) of which 653,167 were held in treasury (31 March 2018: 750,348), and the Company had 1,097,748 stock options outstanding of which 358,834 are fully vested.

10. Related party transactions

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

	Six months ended 30 Sep	
	2018	2017
	£	£
John Kearon	212,493	1,079,068
James Geddes	15,929	62,506
Alex Batchelor (resigned 30 June 2017)	-	43,761
Ken Ford	1,280	6,500
Robert Brand	1,920	9,750
Graham Blashill	640	1,625
	232,262	1,203,210

11. Rates rebate

It was disclosed in the Company’s most recent financial statements that as a consequence of a prima facie error by either Camden Council, the Valuation Office, or a combination of the two, there was a possibility that the Company could be entitled to a refund of £251,000 in respect of Business Rates payable on its London office relating to the period 15 June 2015 to 31 March 2017. We brought the apparent error to the attention of Camden Council as soon as we received notification of the credits but no definitive conclusion as to whether the credit was payable had been provided by the time the Annual Report was signed. Given the manifest error and therefore uncertainty as to whether payment would be made, no asset or related income in respect of this item was recognised in those financial statements. During the period the Company received confirmation from the Valuation Office that as a result of an error made by Camden Council and the Valuation Office, it is due a refund for Business Rates of £251,000. The benefit of that refund has been recognised during the period.

12. Changes in accounting policies

The adoption of IFRS 15, 'Revenue from Contracts with Customers' has resulted in no change in the comparative income statement. Changes to the balance sheet are set out below.

Balance sheet (extract)	IAS 18 carrying amount at 31 Mar 2018 Audited	Reclassification	IFRS 15 carrying amount at 31 Mar 2018 Unaudited
	£000	£000	£000
ASSETS			
Non-current assets			
Property, plant and equipment	269	-	269
Intangible assets	26	-	26
Deferred tax asset	372	-	372
	667	-	667
Current assets			
Inventories	131	-	131
Contract assets	-	30	30
Trade and other receivables	6,139	(458)	5,681
Income tax recoverable	423	-	423
Cash and cash equivalents	5,784	-	5,784
	12,477	(428)	12,049
Total assets	13,144	(428)	12,716
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	221	-	221
Retained earnings	4,578	-	4,578
Total equity	7,009	-	7,009
LIABILITIES			
Non-current liabilities			
Provisions	420	-	420
Finance lease payable	70	-	70
	490	-	490
Current liabilities			
Provisions	368	-	368
Finance lease payable	46	-	46
Trade and other payables	5,231	(1,008)	4,223
Contract liabilities	-	580	580
	5,645	(428)	5,217
Total liabilities	6,135	(428)	5,707
Total equity and liabilities	13,144	(428)	12,716

Contract liabilities in relation to advances received from customers (£580,000 as at 31 March 2018) were previously presented as deferred income within trade and other payables.

Contract assets in relation to revenue earned but not billed (£30,000 as at 31 March 2018) were previously included in trade and other receivables.

Amounts invoiced to customers where the right to consideration was not unconditional at the balance sheet date and those amounts remained unpaid (£428,000 as at 31 March 2018), were previously included within trade and other receivables with the matching liability recorded within deferred income. On adoption of IFRS 15 such amounts are neither included within trade receivables nor contract liabilities. At 30 September 2018 outstanding amounts invoiced to customers where the right to consideration was not unconditional at the balance sheet date amounted to £315,000.