

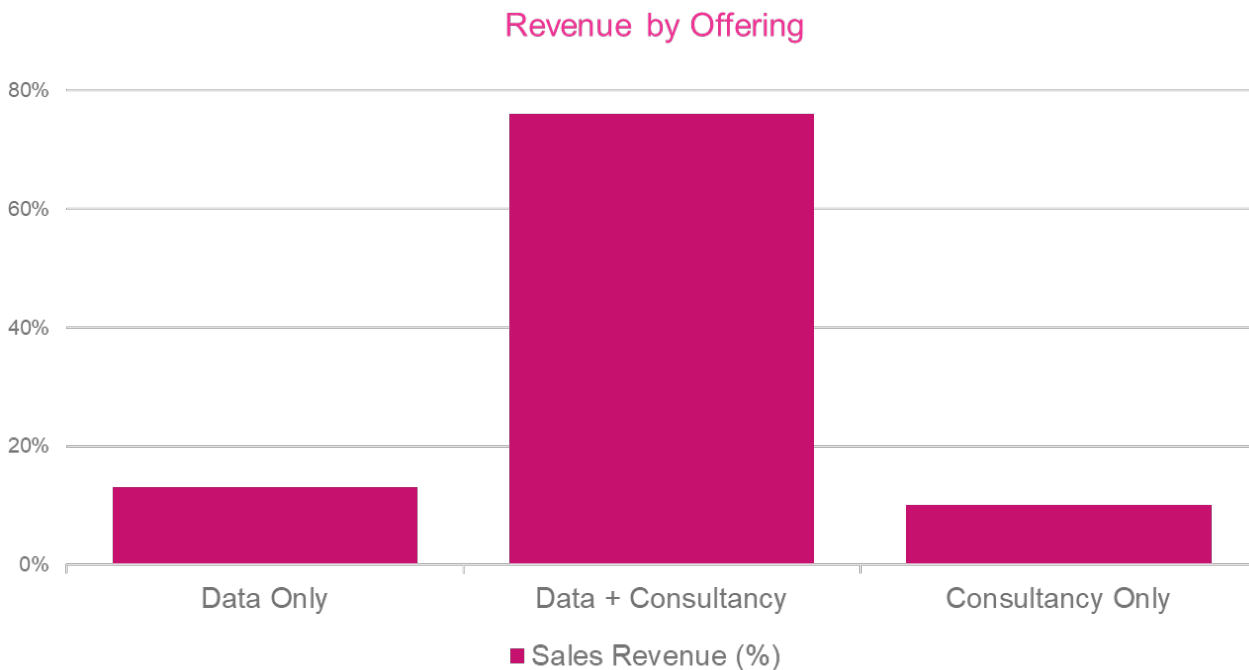
## Q&A

### What is the future of the original Consultancy business?

We want to retain the ability to deliver bespoke consultancy where it is needed to onboard the world's largest advertisers, who often need specific support while they transition to System1's standard methodology. To be clear, the role of this original consultancy business is to allow us to grow the standard Predictions and Improvements in the future. We do not go to market selling this capability; it is something we use by exception to win and retain strategically important customers.

### Why don't you ditch everything except Data?

Currently customers that buy both Data and Consultancy represent over three-quarters of System1's revenue. Customers that buy only Consultancy account for 10% of sales revenue. So today, just an eighth of our revenue derives from customers that purchase only Predictions without Consultancy. Until or unless that proportion increases, it is not commercially viable to rely on just Data, nor is it what our customers want to buy. It is clear that our customer base require the Consultancy offer and we do not want to lose these customers by not providing this service.



**Given that the rate of growth of the Digital offering is slowing, and the growth in revenue from Digital has not been enough to offset the drop in revenue from the removal of focus on traditional consulting, how do management expect to see growth from System 1 in the future? Current signs point to a declining business.**

As outlined in today's CMD presentation we expect to experience global growth, particularly in the US, and growth in the standard Predict and Improve product categories. Revenue from the old consultancy business has fallen from £9.9m in H2 FY21 to £2.8m in H1 FY23. We therefore believe that the drag on total revenue caused by the old consultancy business will reduce compared with the last two years.

**Recent updates have dropped the £1 billion company, £100m revenue aspirations. Why is this and do management no longer believe this is realistic? Can they explain their thinking that led to them making these statements and what has changed?**

The assertion that the Company could be worth £1 billion + when fully scaled with a 10% market share appeared in the last two years' annual reports, the April 2022 CMD and also today's CMD. Our view has not changed on the market dynamics or the size of the opportunity.

**Can management explain what the strategy was when commencing the share buybacks and announcing the tender offer along with what changed that resulted in them halting this strategy?**

We feel this was explained in the announcements at the beginning and end of last year's Strategic Review. On balance, and taking into account the views of shareholders, the Board decided to reinvest cash accelerating investment in the Predict and Improve revenue streams in the belief that this would improve shareholder returns compared with returning capital.

**What IP do you have in place to protect your technology?**

Having established a distinctive brand identity in the marketplace, System1 considers its valuable portfolio of intellectual property to be one of the critical assets directly contributing to the Company's growth, ultimately increasing shareholder value. As such, we continue to hold and invest in robust protection which includes, inter alia, using strict confidentiality undertakings, implementing internal policies and enforcing our rights behind legal registrations. The current list of registered trademarks, valid in all key locations (including US, UK, EU, Australia, China, Japan, Singapore, Switzerland, etc.) consists of 135 registrations and includes the following:

System1 Test Your Ad

System1 Test Your Brand

System1 Test Your Idea

System1 Profit Projector

System1

System1 Group

System1 Marketing

System1 Research

Concept Optimiser

System1 Ad Ratings

FaceTrace,

MindReader

FeelMore50

**What can you tell us about the competitive landscape and how System 1 are disrupting the market?**

Our competitors are also using technology to provide cheaper and faster results to clients, but where we stand head and shoulders above the rest is that we can predict real world outcomes, at market-leading high-speed turnaround and cost.

Competitors advertise prices and speed that match us, but do not always deliver on these when they fully scope out and deliver their outputs ... we still are faster and lead on price, with a better product.

**Over the years, S1/BrainJuicer has at times been too gung ho in growth appetite, and has been financially a little stretched as a result. As a shareholder, how are you designing some more financial resilience in?**

Financial resilience is important to us, and we recognise that revenue delivery has been uneven in recent years, accentuated by external factors such as the pandemic and the Russian invasion of Ukraine. We are doing three things to address this. First, as set out in the Strategic Review, a strategic mitigant is to increase over time the proportion of recurring and repeating revenues, thereby improving our own visibility of future revenues. This will not happen overnight but is a clear goal that influence the design of our customer offering. Second, we continue to improve the efficiency of our supply chain in order to drive down operating costs and protect the gross profit margin. Third, we ensure, as before, that we have adequate liquidity to withstand a sudden downturn, whatever the cause.

**If you are able/prepared to answer this, how important do you regard financial sector clients as a percentage of the total?**

Historically the financial sector represented a very small proportion of S1/BrainJuicer (sub 5% of revenue) but as John Kearon is explained at the Capital Markets Day, we are winning new FS customers in UK/USA and the potential is significant.

**What do the current plans mean for the motivation / engagement for your consultancy team? Are there certain skill types that you have used a great deal that will not be needed to the same extent in the future?**

The consultancy team (R&G) remains an essential expert resource in System1 and provides insight for the standard "Improve" reports as well and the traditional consultancy services. R&G also provide vital support to the sales team on winning major customers. Since the launch of Test Your Ad, the team has reduced by some 30 percent through natural wastage and redeployment into commercial roles.

**Just to clarify is it £30k sub per organisation or per user?**

Test Your Ad Premium is priced per organisation per industry sector per annum. Smaller sectors with fewer ads are priced lower than larger ones, reflecting the differing costs of maintenance and value added to the customer.

**What proportion of 'test your' revenue is recurring? Are contracts a single or multiyear contracts or an annual subscription? How are contracts sized?**

We will be providing information on recurring and repeating revenue with the full year results.

**Great to see that the strategy remains on track and the products continue to improve. The missing bit is the revenue. For such a fantastic business the numbers are very low, especially compared to similar tech-enabled companies. What sales number supports your \$1bn valuation and what is your trajectory to get there?**

Our strategy is designed to achieve over time a 10% share of the markets we compete in, which are currently worth \$10 billion in annual revenue globally. We believe that with the

right revenue mix and growth rate, a \$1 billion valuation would be achieved well before System1's revenue reaches \$1 billion. We have declared our goal to be a Rule of 40 business and will need to achieve high double-digit top line growth, fuelled by Predict and Improve to meet that objective.

### **Sales cycle in UK vs USA?**

We have not experienced a difference in the sales cycle between UK/Europe and the US. The sales cycle is mainly driven by the size and complexity of the customer. As we are targeting the world's largest advertisers, it can take a little while to establish S1 as an approved supplier vs the process for smaller customers, however when established, we are able to grow these customer accounts significantly to £1m+.

### **Can you quantify the rough revenue effect of the newly won US customers and whether there's a difference in margin vs European customers?**

Margins in the US are similar to those in UK/Europe. The US wins referred to in the CMD are mainly in the current quarter and will impact also impact revenue in the next financial year.

### **Can you talk a bit about your panel (e.g. size, how do you nurture it, expensed or capitalised, how integral is it to your proposition?)**

We work with 3<sup>rd</sup> party panel providers with whom we maintain a close relationship. We hold our panel providers to very high standards, which is important because the quality of our predictions relies on the quality of our panel. The cost of these services is expensed not capitalised.

**Today's RNS says "supporting goals, measures and targets that support the Rule of 40 objective will be communicated at future full-year and interim results announcements." Why won't management disclose the supporting goals now? Management must surely already know the supporting goals to have determined the Rule of 40 objective in the first place.**

Our goal areas include:

- growth in US revenue,
- growth in the number of partners,
- Addition of leading advertisers to our customer base

- customer churn/retention,
- recurring /repeatable revenue.

We are developing the measures and goals for the coming financial year and will provide further information with the full year results and annual report this summer.

**Annualised revenue per new Data customer during H1 2023 was £3.6m\*2/85 = £85k each, which does not appear huge given Data customers include big names such as Sky, Intel and Aldi. How does management view this £85k average and what is management's ambition with this figure following the strategic review? How much more than £85k/year could new Data customers pay and the company still maintain its 'disruptive' pricing?**

As explained in the CMD presentation, our largest customers that purchase data also typically buy across the range of our products. The annualised figure you have derived for Data is inevitably an average of a very wide spectrum from £2k for a customer with limited budget buying one TYA Essential test to a strategic customer carrying out multiple tests and subscribing to the TYA Premium database and spending up to £1million.

**85 new Data customers won during H1 2023 from 47 sales/marketing employees implies each sales/marketing employee attracts 3.6 new Data customers a year. That 3.6 seems low, especially given each new Data customer pays only £85k/year. Following the strategic review, how does management view the volume of Data customers being won versus the headcount and cost of the sales/marketing team? Can management also outline the KPIs used to measure the performance of the sales/marketing team?**

The Sales team is tasked with retaining and developing existing customers and winning new ones. This applies to data-led consultancy (Improve) as well as Data (Predict). As demonstrated in the presentation, over three quarters of System1's revenue comes from customers that purchase Data AND Consultancy. Sales executives are incentivised based on exceeding gross profit thresholds, beyond which their performance bonus accrues.

**The company's FY 2022 presentation said Test Your Ad revenue through partnerships was £3.9m during FY 2022, and was the "most significant source of new business" The strategic-review conclusion then said: "These platforms (ITV and LinkedIn) provide the Company with access to multiple advertisers at significantly reduced customer acquisition costs." Why then does the business remain unprofitable when the 'most significant source of new business' during FY 2022 were the media platforms, which \*already\* provide access to customers at a 'significantly reduced cost'?**

The continued decline in the old consultancy business more than offset the new business in the first nine months of the current year, which was accentuated at total revenue level by the impact of the Russian invasion of Ukraine on the marketing budgets of some of our largest Europe-based customers.

**What consideration was given to undertaking a formal sales process during the strategic review? Given the ongoing lack of profitability, the company would appear to be better suited within a larger organisation -- whereby an acquirer could remove duplicate/extraneous expenses and deliver a (long-awaited) return to System1 shareholders.**

The Board explored all strategic options, as explained in the 30<sup>th</sup> August announcement, extract below:

*“Whilst the Company can continue with its current strategy, the Board believes that it is important to ensure that it has explored all strategic options to capitalise on System1's current market opportunity to deliver shareholder value, including considering the value it can create in its current form, the options for increasing organic growth through forming partnerships, and external or internal investment to grow revenue by leveraging the significant investment made in automated predictions technology.”*

The Board did not want to embark on a formal sales process without a comprehensive review of all competing options, including selling the business.

**'Other expenses' were £9m in FY 2022. Assuming £4m of the £9m reflected cost of sales (panel costs etc), £5m is left undefined (representing c26% of all administrative costs). Given the company's lack of profitability, can management explain the nature of these undefined 'other' costs and their necessity to the business?**

“Other expenses” include non-employee costs in marketing, IT infrastructure & platform costs, 3<sup>rd</sup> Party IT development, the cost of growing & maintaining the TYA Premium database as well as corporate expenses such as audit fees, insurance, recruitment, trademark litigation, etc.

**Can you elaborate on the pricing model please. I heard £6k for TYA and £35k for a complete dataset. Is there any subscription offering?**

You can find latest price list for our standard products on the [website](https://system1group.com/test-your-ad) <https://system1group.com/test-your-ad>

**Can you explain “wear in wear out”?**

“Wear out” is a term marketers use to describe consumers getting bored with old creative

campaigns and hence the need to create new campaigns. It turns out this is often not the case and that consumers like the familiar themes from established campaigns: “familiarity breeds contentment”, as we say at System1. Most advertising, if it’s good advertising, actually improves with viewing over time (“wears in” well). This is a profound insight from System1 – and not uncontroversial – because it implies that marketing ROI improves with a more efficient use of budget by airing existing effective creative rather than continuously creating new ads.