

System1 Group PLC

(incorporated and registered in England and Wales under number 05940040)

("System1", or "the Company", or "the Group")

**Registered Office: 4 More London Riverside,
London, UK SE1 2AU 24 March 2023**

13 April 2023

Dear Shareholder,

RE: Requisitioned General Meeting

As previously announced on 7 March 2023, System1 received an email from Stefan Barden (former System1 Chief Executive Officer and Board Adviser) and James Geddes (former System1 Chief Financial Officer) (the "**Requisitioning Shareholders**") seeking to requisition a general meeting of the Company (the "**Requisition**") unless certain Board changes were agreed to by the Company's Board of Directors (the "**Board**").

On 24 March 2023, the Company posted a circular to Shareholders (the "**Circular**") in response to the Requisition and a Notice of General Meeting (the "**Notice**") convening the requisitioned General Meeting for Shareholders which is to be held at the offices of Reed Smith LLP at The Broadgate Tower, 20 Primrose Street, London EC2A 2RS at 10:00 a.m. on 21 April 2023.

The Board considers that all the resolutions proposed by the Requisitioning Shareholders are NOT in the best interest of the Company and the shareholders as a whole.

The Board will be voting against all of them and unanimously recommends that you do the same.

On 11 April 2023, the Company received the letter included below from the Requisitioning Shareholders. The Company have responded to this letter, and this is also included below.

The Company is today posting to Shareholders a copy of the letter from the Requisitioning Shareholders and a copy of the Company response to the letter from the Requisitioning Shareholders.

1. Letter from Requisitioning Shareholders

Dear fellow System1 Group PLC shareholder,

We have requisitioned the resolutions which are to be voted on at the forthcoming Extraordinary General Meeting, and which we would encourage you to consider and vote on.

In summary we believe the company has considerable potential but has performed poorly and needs a change in board composition to fulfil its potential. With a focus on Data-Platform sales, and proving the value of the platform, we believe the company can realistically aim for an exit with a value in excess of five times its current value.

It is difficult in these scenarios to find independent and well thought through views to guide these decisions.

In that regard, you might find the latest System1 Group PLC update from Maynard Paton helpful. Maynard is an investor in the company and also an independent investment commentator and former analyst, who has followed the company closely over a prolonged period. You can find his commentary at <https://maynardpaton.com>.

This is an important time for the company, and we thank you for your time considering this.

Yours faithfully,

Stefan Barden and James Geddes

2. Company response to letter from Requisitioning Shareholders

Statement from the Board of System1 Group plc (“Company”)

In advance of the Company’s general meeting convened for 21 April 2023 (“GM”), the Company has received a communication from Messrs Stefan Barden and James Geddes (“requisitioning shareholders”) that we are required in accordance with the UK Companies Act to pass on to all Company shareholders.

Rather than set out their arguments directly to shareholders, the requisitioning shareholders have provided a hyperlink to a 3rd party blog site belonging to Mr Maynard Paton who claims also to be a shareholder in the Company. The requisitioning shareholders describe Mr Paton as an “independent investment commentator”. The Board does not think the blog post dated 9 April 2023 (“Blog Post”) can be described as “independent”, firstly because Mr Paton is a shareholder in the Company and secondly because he did not ask the Company to verify or comment on any of Mr Barden’s assertions that are reported in the Blog Post.

Mr Paton’s Blog Post to over 7,500 words and draws heavily on a recent interview with Mr Barden. The Blog Post covers a broad range of topics, some of which are relevant to the Resolutions at the forthcoming GM. The Board is of the opinion that the Blog Post reports (largely unchallenged) a number of statements made by Mr Barden in the interview and draws some incorrect conclusions by linking the coincidental timing of events or trends (positive and negative) to their alleged causation.

We have summarised below selected points made in the Blog Post, organised by subject area, alongside your Board’s response. It is not always clear in the Blog Post which points are Mr Paton’s and which are those of the requisitioning shareholders and we have not attempted to clarify the attribution of the points made.

Disclaimer:

The hyperlink of the Blog Post is being made available at the request of the requisitioning shareholders. The Board cannot vouch for the accuracy of any content and is not endorsing or promoting its commentary or any investment advice related to the Company or other securities included in the Blog Post or any other posts available on the website that contains the Blog Post

1. Business performance & results

The Blog Post suggests that the Company is not focussed on growing platform revenue or delivering profit or cash. The Company's latest trading update provides ample evidence that this is not the case.

| Blog Post statement | Board response |
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| <p>"The company should not be losing money. I don't believe System1 should be losing cash and how to get to at least breakeven will be one of the first questions I pose to James [Gregory] and Chris [Willford]."</p> <p>"Nor did SYS1 talk about the prospect of near-term profitability, which feels like an obvious oversight given the recent H1 loss."</p> | <p>The Company's 12 April 2023 trading update announced our return to profitability for H2 and the full year and £0.6m cash generation in Q4. We agree that System1 should not be losing money, but the Company indicated a year ago at the 27 April 2022 Capital Markets Day that expenditure would increase, and margins tighten in FY23 as we continued to invest in the Platform for Predict Your and Improve Your products at the increased H2 FY22 run rate.</p> |
| <p>"Strong scalability and operational gearing" of the Data platform have never emerged within the financials.</p> | <p>The performance for the second half of FY23 (as set out in the 12 April 2023 trading update) counter this assertion with significant growth in Platform revenue and margin improvement at every level. We stand by our original assertion that the Company will benefit from strong scalability and operational gearing.</p> |
| <p>"Mr Barden disclosed SYS1 enjoyed a healthy sales pipeline before his departure: "Management are three years into their sales approach and it is not working fast enough. When I stepped back there was a sales pipeline that should have increased sales substantially. Instead, System1 is flat. Something has clearly gone wrong."</p> | <p>The Company's 12 April 2023 trading update announced record revenue growth of our standard Predict Your and Improve Your products (Platform-based data and consultancy) to a point where they represented 80% of revenue in Q4, growing by 73% on Q4 FY22 and by 38% for the financial year.</p> <p>We note that Mr Barden was either Chief Operating Officer ("COO") or Chief Executive Officer ("CEO") for most of the three years he refers to here. The Company has seen record growth in Platform revenue since he has left</p> |

2. Strategy – where to win, participation

The review of strategic options, the findings of which were announced on 30 November 2022, determined that pursuing a long tail of small business with a web-only offering was not currently attractive as it was estimated to generate poor returns and low lifetime value/ customer acquisition cost (“LTV/CAC”). Mr Barden disagrees. Similarly, we have learned over the past 3 years that our most important customers (many of them tech businesses) are not yet ready to transact online to buy market research.

| Blog Post statement | Board response |
|---|--|
| <p>“Apart from mentioning they have Innovation and Brand services, you won’t see anything out there where they are doing anything to sell them. That’s why the sales of those areas have lagged. The advertising part has grown, but everything else has collapsed far faster because there is nobody focusing on them. The net result is flat-to-declining total revenue.”</p> | <p>Test Your Ad is our most developed product and proposition that grew by over 20% H2 on H1. However Brand and Idea are also important parts of our product suite, proposition and large growth opportunities for the Company. Following the launch of Test Your Idea Pro in Q2, Innovation product revenue increased by 28% in H2 versus H1. Brand grew by 12% year on year, helped by the first full year of Test Your Brand.</p> |
| <p>Mr Barden believed SYS1 could broaden its sales efforts to include smaller companies, “national champions” and fast-growing start-ups, as well as the the very largest businesses: “There’s a pyramid of customers and System1 is starting at the top, which they do need to get to, because they need to get to every single level. At the very top are really competent global players, such as Unilever, P&G, Nestle... where the top people have a lot of experience and it’s really difficult for you to get in there and change their minds”</p> <p>“Imagine a three-by-three matrix. Columns are headed by product; Advert, Innovation, and Brand. The Rows are the key channels. Let’s start with just three; Global brand, National brand and Fast growing start-up.”</p> <p>“System1 should sell its platform equally to all. But today the board seems to focus only on the top left: Advert testing for global brands. Not only that, it seems to sell creative advertising support, methodologies and insight, rather than the best-in-class prediction platform, which is more accurate, cheaper and quicker than anyone else.”</p> | <p>The recent review of strategic options carefully considered two propositions championed by Mr Barden and which the Board has now chosen to deprioritise in favour of higher-yielding opportunities.</p> <p>The first is that the Company can maximise shareholder value by pursuing an opportunity in the long tail of small & medium sized enterprises, as opposed to building a franchise with the world’s top 100 spenders on advertising. The idea was deprioritised for direct customer acquisition in the near term following a review of the economics (small profit pool) and the likely poor return and low LTV/CAC. However, we believe we can access this group of customers in a more cost-effective way through our partnerships with for example LinkedIn who already have direct access to these smaller businesses.</p> <p>The second is that there is a demand from all customers to purchase and transact all their creative content pre-testing purely online via the Company’s Platform. The Board recognises that this way of transacting could be attractive to the Company as a supplier and will keep the opportunity under review. The consistent feedback from our customers as well as our staff</p> |

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| <p>“Filling out the matrix, adding extra channels and focusing on also becoming viral rather than just purely selling relationship by relationship is the key to success. I would argue that such an approach is just not in the psyche of the current board as they have an advertising-agency background and see the platform only through an agency lens. The proposed extra hires will only exacerbate this”.</p> | <p>in sales, financial and legal roles is that most of the customers we deal with are neither willing nor able currently to conduct their purchasing of market research solely via a supplier’s portal.</p> <p>“Filling out the matrix” is a nice “white-board” idea, but if the economics do not work, we will not pursue that opportunity.</p> <p>The Board’s approach to becoming viral centres on our increasingly successful fame-building activities on both sides of the Atlantic, including the Ad of the Week, Uncensored CMO, relationship-building with marketing influencers such as Mark Ritson, as well as our thought leadership work such as Wise Up! and Feeling Seen USA.</p> <p>We set out the Board’s platform and digital credentials in the Circular, together with our plans to recruit a team of media tech advisers in the US</p> |
| <p>“Mr Barden believes the marketing-technology sector is a winner-takes-all opportunity, with SYS1, Zappi or another competitor one day emerging as the dominant marketing-data supplier. I suppose a trade-buyer could also imagine SYS1 (or Zappi or another competitor) becoming the Rightmove or Autotrader of the marketing-technology industry... and pay handsomely for that potential.”</p> | <p>The “winner takes all” hypothesis may or may not turn out to be right. In the meantime, market research is a fragmented market with plenty of scope for growth by smaller players and for consolidation to create larger groupings. The Company is embedding its data into several partners (including LinkedIn and ITV) and customers (including adidas). This is a clear part of the strategy that the Board set out in the findings from the review of strategic options and is achieving success in its execution. We would note the quotations from selected customers in the Circular.</p> |

3. Strategy – how to win, marketing

Mr Barden describes the Company as an “agency”. We do not. We want to give our chief marketing officers (“CMOs”) and insights customers confidence in their creative marketing decisions on innovation, advertising and brand identity.

| Blog Post statement | Board response |
|---|---|
| <p>System1 should be selling marketing predictions. What System1 should not be doing is selling advertising creativity. And this is the fundamental issue, the creativity side has taken over and pushed the platform thinking out... rather than publishing books such as Look Out. System1 should be talking about its marketing predictions being the best, the cheapest and the quickest”</p> | <p>We do not consider that Platform and creativity need to be mutually exclusive. We are selling predictions (product, feature) whilst at the same time selling the important benefit of creative confidence to our customers.</p> <p>We understand that the competitor research platform companies that are mentioned in the Blog Post also provide a combination of data, insight through consultancy, and thought leadership.</p> <p>Note, Mr Barden was CEO at the time of the publication of Look Out. It is unclear why he now regrets his marketing strategy while he was CEO.</p> |
| <p>From what I can tell: Mr Kearon wishes to sell SYS1’s creative-advertising services to marketing people who develop/commission adverts, while; Mr Barden wishes to sell SYS1’s platform-prediction services to marketing and ‘insights’ people, as well as innovation and creative agencies. Everyone in fact.</p> | <p>The Board does not recognise the dichotomy set out here. We wish to sell all our products to as broad a range of businesses as is commercially attractive. In practice, we have found that ad testing is the best way to initiate a new relationship with a large business, because advertising is one of their largest and therefore most important annual investment. That’s why Test Your Ad is the product we lead with, and then target to sell in Test Your Idea and Test Your Brand once we have won the relationship with the CMO and Head of Insight. We deal with insights people every day; the CMO relationship is something we have developed very successfully in the last 3 years and has often helped us gain a foothold in customers that we had not previously managed to win via the insights department.</p> <p>Separately, John Kearon’s role is to develop new business wherever opportunities arise and particularly in the US, because of the scale and opportunity in that market. James Gregory as CEO is leading the executive team and executing the strategy agreed by the Board. The Company does not describe itself as an agency and questions why Mr Barden continues to do so.</p> |

"System1 should be talking about its marketing predictions being the best, the cheapest and the quickest."

This is a clear part of our marketing messaging. E.g. the [Test Your Ad](#) webpage images below:



Predictive
The world's most
predictive ad test

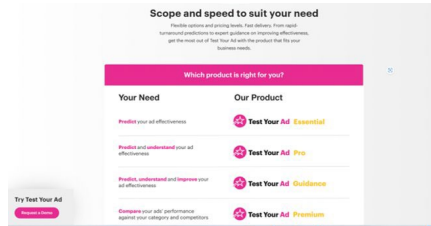


Speed
Reports delivered from
24 hours



Ease
Simple self-serve
platform

Star rating has been validated in conjunction with the IPA



4. Track record/ fact check

The Board noted some comments in the Blog Post that are not correct and where we wish to set the record straight.

| Blog Post statement | Board response |
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| <p>I was disappointed many of SYS1’s arguments against Mr Barden — notably his Behaviorally chairmanship, potential pay and that 53% staff rating — did not really stand up to scrutiny.</p> | <p>The Board stands by all of the arguments in the 24 March 2023 Circular, all of which were subjected to verification by external advisers - a different level of scrutiny than applies to blog posts.</p> |
| <p>“This vote is not about personalities because a good business is greater than any individual.”</p> | <p>The Board agrees which is why it is unanimously recommending shareholders not to change 3 individuals for 1 (Mr Barden).</p> |
| <p>This may be very simplistic, but a pattern seems to have emerged: * Mr Barden takes on executive board duties, and SYS1 turns from loss to profit, and; * Mr Barden relinquishes executive board duties, and SYS1 turns from profit to loss. "...Mr Barden’s skillset looks to be required once again to stem the losses and return the group to profit"</p> | <p>The Board is of the opinion that this is a grossly simplistic and unreliable conclusion. There is often a time lag of 6 months or more from product launches or marketing activity and visible sales results, which would undermine what Mr Barden and Mr Paton claim.</p> <p>Mr Barden worked in the Company from mid-2017, was a member of the senior management in the business from early 2018, attending Board meetings from that time, and exerting material influence in the business throughout. He was eventually appointed to the Board in June 2020, at the end of the worst-hit quarter in the pandemic. Profit did indeed return immediately after his appointment as a director, but the bounce at that time was not because of Mr Barden (although he played a valuable role helping the business mitigate the losses at the start of the pandemic).</p> <p>Mr Barden served as CEO from 30 March 2021 until 31 January 2022. Similarly, the downturn in profitability during 2022 was not related to Mr Barden’s departure in Q4 of FY22. Rather, it was largely influenced by the impact of Russian invasion of Ukraine and the resulting reduction in market research budgets from a few key customers with exposure to Russia. The Board believes it was also a consequence of Mr Barden’s decisions while he was CEO, to switch off bespoke research, in favour of email marketing initiatives, which yielded no leads that converted to new customer wins.</p> |

5. Shareholder value

The Board is aligned with Mr Barden’s aspirations for value accretion, including the timescales. Based on history, we do not believe that adding Mr Barden to the Board would increase shareholder value.

| Blog Post statement | Board response |
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| <p>The return to profit during Mr Barden’s boardroom tenure prompted the share price to increase from approximately 100p to more than 400p:</p> | <p>During Mr Barden’s period as an adviser/employee the share price ranged from £9.69 at the beginning (end-May 2017) to £3.05 at the end (31 March 2022). The Board believes the dip to 90p in mid-2020 was pandemic related. Mr Barden had already been working in the Company for 3 years at that point.</p> |
| <p>And Mr Barden signalled a relatively short timescale for a potential trade-sale exit: “I believe it should take up to three years to prove the value.” Stefan Barden: potential £100m-plus valuation and \$1 billion ambition What could SYS1 be worth to a potential acquirer? Mr Barden suggested potential 5-bagger upside from SYS1’s recent £20m market cap: “I think this business is worth £100m at least, £8 a share, if not £150m, £12 a share.”</p> | <p>The Board are open to maximising shareholder value and are mindful of their fiduciary obligations. Notwithstanding that the Board believes that three years is a realistic timescale to “prove the value” of the Company under its new CEO, James Gregory.</p> <p>The Board shares Mr Barden’s view of the potential future value of the Company and shares his ambition to create shareholder value.</p> <p>We are focused on growing the Company profitably by becoming an indispensable business partner to the world’s largest media platforms, advertisers and marketing spenders. We believe that this route to market is the Company’s best way to scale profitably and the principal platform for creating shareholder value.</p> |

6. Talent and employee motivation

The Board wishes to confirm that statements in the Circular related to employee satisfaction are based on quarterly staff surveys which show that employee motivation has improved consistently since Mr Barden left the Company.

| Blog Post statement | Board response |
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| <p>"I have a good track record of building strong teams. I brought in many of the current senior team. I am not looking to exit anyone. I do however know that many in the current team are excited by a renewed platform focus, but if anyone is not excited by the platform opportunity then they should leave."</p> | <p>The Board believe that none of the Executive or Senior Management team have been contacted by Mr Barden recently, and it is therefore unclear why this statement is made. Everyone in the business is already delivering a Platform focus, with Platform sales at 80% of total revenue in Q4 and are looking forward to building on the successful H2 revenue growth into FY24 and onwards, under the existing Board.</p> |
| <p>"SYS1's statement included this somewhat unseemly remark about 53% staff-motivation levels ... Mr Barden disclosed the survey under his areas of responsibility had "above-average levels of satisfaction", with "the real issue" arising "in the sales team that John Kearon controlled", in which the newly recruited platform sales team "did not feel properly supported".</p> | <p>During Mr Barden's tenure as CEO, the 53% staff satisfaction rate for the entire business can be attributed solely to him, not John Kearon. It is worth noting that satisfaction levels have significantly improved across the Company since Mr Barden left the Company, including in the operational areas that were managed directly by Mr Barden.</p> |

RECOMMENDATION

The revenue trends in the [trading update](#) published by the Company on 12 April 2023 suggest that the requisitioning shareholders are out of touch with the Company's performance and the growth that they are seeking is already being delivered. The Board's recommendation for the General Meeting on 21 April 2023 remains that you should **VOTE AGAINST ALL FOUR RESOLUTIONS** for the following reasons.

1. We have the right Board for the next phase of the Company's growth
 2. The US is key to success - a distinguished and tech-savvy US advisory team, assembled by Non-Executive Chair Rupert Howell, is ready to start work after the General Meeting
 3. The Board has a clearly defined plan for the Company that is starting to work
 4. Customers support our go-to-market strategy
 5. The Requisitioning Shareholders have not articulated an alternative strategy beyond re-appointing Mr. Barden to the Board
 6. We need expertise in business-to-business sales and marketing - a different skillset from Mr. Barden's
 7. The Board does not believe having an Executive Chair would be in the interest of all shareholders, and Mr. Barden is conflicted by holding a Non-Executive Chair position at Behaviorally, a market research platform business
 8. We will lose our Founder and President, John Kearon, who holds 22% of the Company's voting rights and has advised the Board he will not remain a director on the terms proposed by the Requisitioning Shareholders
 9. Unless the proposed resolutions are defeated, there is a risk of serious business disruption if the executive leadership and senior team members decide not to serve under Mr. Barden
 10. It is not the right time to change the leadership – we have very recently appointed a new Non-Executive Chair and CEO. The current Board deserves more time to deliver the growth agenda
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Yours sincerely

Rupert Howell

Non-Executive Chairman