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Earnings Call

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Call Participants

EXECUTIVES

Kyle Ostgaard
Vice President of Finance

Michael L. Blend
CEO & Chairman

Tridivesh Kidambi
Chief Financial Officer

ANALYSTS

Daniel Kurnos

Thomas Ferris Forte
Maxim Group LLC

Presentation

Operator

Ladies and gentlemen, thank you for joining us, and welcome to the System1 Second Quarter 2026 Earnings Call. [Operator Instructions]

I will now hand the conference over to Kyle Ostgaard, Senior Vice President of Finance. Please go ahead.

Kyle Ostgaard
Vice President of Finance

Thank you for standing by, and welcome to the Second Quarter 2026 Earnings Conference Call for System1.

Joining me today to discuss System1's business and financial results are Co-Founder and Chief Executive Officer, Michael Blend; and Chief Financial Officer, Tridivesh Kidambi. A recording of this conference call will be available on our Investor Relations website shortly after this call has ended.

I'd like to take this opportunity to remind you that during the call, we will be making certain forward-looking statements. This includes statements relating to the operating performance of our business, future financial results and guidance, strategy, long-term growth and overall future prospects. We may also make statements regarding regulatory compliance matters.

These statements are subject to known and unknown risks and uncertainties that could cause our actual results to differ materially from those projected or implied during this call, in particular, those described in our risk factors included in our annual report on Form 10-K for fiscal year 2025 filed on March 11 as well as the current uncertainty and unpredictability in our business, the markets and the global economy generally.

You should not rely on our forward-looking statements as predictions of future events. All forward-looking statements that we make on this call are based on management's assumptions and beliefs as of the date hereof, and System1 disclaims any obligation to update any forward-looking statements, except as required by law.

Our discussion today will include non-GAAP financial measures, including adjusted EBITDA and adjusted gross profit. These non-GAAP measures should be considered in addition to, and not as a substitute for, or in isolation from our GAAP results. Information regarding our non-GAAP financial measures, including a reconciliation of our non-GAAP financial measures to our most comparable historical GAAP financial measures may be found on our Investor Relations website.

I would now like to turn the conference call over to System1's Co-Founder and Chief Executive Officer, Michael Blend.

Michael L. Blend
CEO & Chairman

Thanks, Kyle. Good afternoon, everyone, and thank you for joining System1 on our Q2 earnings call.

Before diving into the quarter, I would first like to thank all of System1's stakeholders, including our lenders and shareholders, for the approval of the debt exchange that was finalized last month. This took a lot of hard work by everyone involved. I am appreciative of our lender support and welcome them as preferred shareholders.

The debt exchange was an important step in putting our company in a position to achieve our strategic goals, and we look forward to delivering on our vision and creating long-term shareholder value.

Now on the operating front, we made encouraging progress across our products portfolio during the quarter as we focused on audience growth and deepening user engagement. Total sessions to our owned and operated product sites increased 31% year-over-year and 5% sequentially from Q1. Our sessions growth comes as many other digital publishers are seeing traffic declines from AI usage, and it's the result of both hard work from our team and the utility nature of our products. Unlike news sites or basic informational sites that are more prone to being supplanted by AI chatbots, our core products are in search, mapping and shopping.

But some of these usage gains were offset by weaker monetization from Google, both at our Startpage search engine and in our partner marketing business. We continue to see volatile monetization from Google with payouts and advertising coverage moving up and down as Google works to improve the overall quality of its partner network.

Now moving on to our shopping vertical. CouponFollow delivered a strong quarter. The business saw a strong rebound in Google SEO, helping organic sessions grow 11% versus Q1. CouponFollow is now the #2 coupon site by organic traffic behind only Reddit. The business saw continued success in paid acquisition with gross profit from paid traffic acquisition up 37% year-over-year.

CouponFollow also keeps advancing and sharpening its internal AI capabilities, delivering meaningful improvements across content quality, advertising campaign management, coupon data verification and revenue optimization tools. Looking ahead, CouponFollow is actively pursuing opportunities in the AI and agentic commerce ecosystems.

CouponFollow has high-quality proprietary promo code data as well as strong affiliate relationships with our merchants. We believe our data sets can be highly valuable to a wide range of consumer apps. We expect to introduce new AI-enabled commerce solutions in the near future that will further enhance the value we deliver to consumers and partners.

Moving on to our geolocation vertical. The MapQuest team continues to deliver. Our display advertising performance remains strong, supported by healthy CPMs driven by our high-intent audience, the enduring trust of the MapQuest brand and the value of our first-party data. User engagement also continued to improve with total sessions increasing 25% year-over-year during the first half of 2026.

Beyond our core navigation platform, we are expanding the MapQuest ecosystem through adjacent products, including Lighthouse, a family safety app that recently soft launched. MapQuest is also making meaningful investments in AI. Our MapQuest MCP server is launching this week, enabling MapQuest navigation and location data to integrate directly with AI agents and applications. We believe we will be able to leverage our existing B2B partners on the MapQuest platform as a sales channel to accelerate growth and adoption of these products.

Additionally, in Q2, we completely revamped our RoadWarrior delivery app, which allows us to better support the needs of the drivers and small businesses that rely on the app for their day-to-day operations.

And moving on to our Startpage private search engine. We continue to benefit from long-term tailwinds around consumer privacy. We saw continued growth in search queries during the quarter with 11% sequential growth in user sessions quarter-over-quarter. We saw particularly strong momentum on mobile, where the number of mobile app sessions increased 63% year-over-year. We're also seeing more and more web browsers and other entry points to the web electing to feature Startpage as their private search engine.

Unfortunately, as I mentioned above, Startpage user growth was more than offset by declining monetization from Google. The majority of our Startpage revenue comes from users clicking on advertising we syndicate from Google. And simply put, Google has been showing fewer ads when users search on Startpage and paying us less for each search query. This has limited our ability to fully translate usage growth into revenue. Resolving the Google monetization issue is a big priority for us, although it is worth noting that we believe this is an industry-wide problem affecting all search engines that work with Google.

Beyond our established products, we're also encouraged by the early progress within our emerging products division, where we're focused on AI-driven subscription businesses. While these products remain relatively small today, we're seeing exceptional velocity in both product development and marketing experimentation. Our pace of learning has been significantly faster than we've experienced in prior product initiatives, giving us confidence that this portfolio will become an increasingly meaningful contributor over time.

We've also started to make headway around monetization of large amount of first-party data. In Q2, we entered the market with our audience data product, which we call IntentStream. IntentStream collects, enriches and packages our nonprivate first-party data to provide brands with real-time prepurchase intent signals. One thing to note is this data set does not include any data from our Startpage search engine where privacy remains paramount. We're in the early stages of going to market with IntentStream. We started bringing on our first customers, and we look forward to reporting more on our progress here.

Now turning to our partner network business. Q2 was a tale of 2 halves. During April and May, the partner network business was performing quite well and generating over $100,000 per day in net revenue. At the end of May and early June, Google pushed a partner network-wide change that caused our monetization to drop more than 30%. Lower monetization in turn led to a significant drop in spreads between revenue and traffic acquisition costs, which in turn caused a significant drop to our net revenue per day.

By the end of June, we recovered about 50% of the daily net revenue, but the negative impact on Q2 was significant. We are working hard to fully stabilize the partner network business and get back to the levels we were at prior to the tuning event. At the same time, we have also remained intensely focused on diversifying our network partners, improving traffic quality and expanding monetization diversity to reduce our Google concentration risk going forward.

As we look to the second half of the year, our strategic priorities are clear. First, we will continue investing in the development and growth of our products portfolio with particular emphasis on opportunities emerging around search, commerce, location and AI-driven consumer experiences. Second, we will remain focused on diversifying our partner network business and getting our daily gross profit back up to our prior levels. And finally, we will continue operating as efficiently as possible while concentrating investment behind our highest return growth opportunities. And as our overall business starts growing again, we intend to return to the M&A efforts that have proven very successful for us in the past.

With that, I'll hand it over to Tridi to go over our financials. Take it away, Tridi.

Tridivesh Kidambi
Chief Financial Officer

Thanks, Michael. I'd like to remind everyone that in the first quarter of this year, we made the decision to significantly reduce marketing activity related to search monetization across our owned and operated properties. The result of this change was to impact both sequential and year-over-year trends during the quarter, which I will highlight throughout my remarks.

Let's get into the details. Q2 revenue was $30.2 million, representing a 61% year-over-year decrease and a sequential decrease of 19%. Excluding the impact of owned and operated marketing, revenue would have been $28.6 million in [Q1], down 32% year-over-year and 6% sequentially.

Products revenue was $19.5 million, decreasing 19% year-over-year while increasing 3% sequentially. The sequential growth was primarily driven by a 5% increase in total sessions. Products revenue per session was down 2% from Q1, primarily related to the Startpage monetization challenges in Q2, which Michael mentioned in his remarks. While the decline in monetization negatively impacted Q2 results, we remain encouraged by the continued strength of our products portfolio and growth potential. Products revenue accounted for 64% of total revenue.

Marketing GAAP revenue was $10.7 million, down 80% year-over-year and down 42% sequentially, driven primarily by the wind down of owned and operated marketing activities. Excluding owned and operated, marketing GAAP revenue was down 49% year-over-year and down 21% sequentially. This decline was primarily driven by reduced monetization and increased volatility in the Google RSOC market, specifically exacerbated by the June trends Michael highlighted earlier.

In Q2 of '26, we had 59 active partners, which we define as partners that generated at least $5,000 of GAAP revenue during the quarter. The number of active partners increased 5% sequentially, reflecting continued expansion across our partner base. This growth was partially offset by a 25% decline in revenue per active partner, primarily due to monetization volatility during the last month of the quarter. Despite this variability, the average active partner generated more than $155,000 in quarterly revenue.

We ended the quarter with 28 scaled partners, which we define as partners generating at least $50,000 of revenue during the quarter. Scaled partners represented 47% of our active partner base in Q2, underscoring the continued progression and maturation of our partner ecosystem.

Adjusted gross profit was $25.5 million, down 38% year-over-year and down 10% sequentially. Excluding the impact of owned and operated marketing, adjusted gross profit was $24.4 million, down 35% year-over-year and down 9% sequentially. Products segment profit was $17.5 million, down 23% year-over-year, but up 1% sequentially. The products segment accounted for 65% of total profit. Marketing segment profit was $9.5 million, down 51% year-over-year and down 24% sequentially.

Turning to operating expenses and adjusted EBITDA. In Q2, operating expenses, net of add-backs, were $23.6 million, down 20% year-over-year and down 8% sequentially. The declines from the prior periods reflect our ongoing cost-saving initiatives as we remain focused on supporting our core business while making disciplined investments in growth.

Adjusted EBITDA was $1.9 million in Q2, down 83% year-over-year and down 29% sequentially. While we had previously expected adjusted EBITDA to be up sequentially versus Q1, this was prior to the significant downturn in RSOC monetization we saw in June in our marketing business. We do expect EBITDA to sequentially increase quarter-over-quarter for the rest of the year.

Lastly, I want to revisit the debt exchange we first announced in May and successfully closed on July 23. Under the new agreement, our total outstanding debt was reduced to $150 million from $302.6 million prior to our agreement to the exchange in May. Pro forma for the closing cash payment as part of the debt exchange, the company's cash balance at June 30 was $16.2 million. Pro forma for the new debt, our consolidated net leverage at June 30 was 5.88x.

The new term strengthened our capital structure and with a stronger financial foundation in place, we are well positioned to execute on our strategic priorities and create long-term shareholder value.

Given the continued volatility we are seeing, we are not providing Q3 or full year guidance at this time. Our Q2 results reflect an intentional shift in our revenue mix towards the products segment, where we see significant growth opportunities. We are well positioned to capitalize on these opportunities and execute on our strategy. We are operating as a more focused and agile company with a clear focus on investing in our core businesses and emerging products. Our new debt agreement positions us to continue investing in and growing our assets, enabling us to execute on our strategic initiatives and deliver sustainable long-term growth and value for our stakeholders.
Thank you for joining us today.

Question and Answer

Operator

[Operator Instructions] Your first question comes from the line of Thomas Forte with Maxim Group.

Thomas Ferris Forte
Maxim Group LLC

Michael and Tridi, congrats on the debt restructuring. I have a couple of questions. I'll go one at a time. So Michael or Tridi, on the Startpage, I think it's very interesting, the consumer interest in privacy, especially for search engines. Can you explain -- you had some very impressive sequential growth in usage, but you talked about monetization challenges. So is it netting out to growth or are the monetization challenges offsetting the very impressive growth in usage?

Tridivesh Kidambi
Chief Financial Officer

Tom, thanks for the question. I can -- I'll answer that second part, which is, unfortunately, it's -- the monetization challenges are more than offsetting the growth that we're seeing in user sessions. But again, we're very pleased with the user growth that we're seeing and the team is doing a great job of executing on continuing to take advantage of and capitalize on some of the tailwinds that we're seeing around the surge towards privacy in the search space.

Michael L. Blend
CEO & Chairman

Yes. And I would say just -- and again, thanks for joining, Tom. I would say, to follow up on that, we are hopeful and early stages of being encouraged that Google's -- basically Startpage got caught up in some monetization challenges related to the entire Google partner network as Google has been looking to clean up the quality of their partner network. So we're hopeful that, that's kind of getting to the tail end of that cleanup. And we're seeing a little bit of green shoots in monetization on Startpage.

Nothing that I want to definitively report yet, but -- and going back to the earlier part of your question, what's been really interesting about Startpage, which we believe is a quite valuable asset is that we're getting the tailwinds of all this interest in privacy. We've also seen during the quarter that -- and you might have seen this as well, a bit of a backlash to a lot of the AI integration that Google has been doing and a lot of consumers turning to more independent search engines. And because we have both privacy on Startpage and we've taken a bit of a stance against heavily integrating AI into Startpage, we're seeing users come over. So all we need now is for Google monetization to improve and also diversify beyond Google to other search providers.

Thomas Ferris Forte
Maxim Group LLC

Excellent. And then for my second and last question, Michael and Tridi, I'd appreciate your thoughts, including high level, on agentic commerce. So when you listen to the mega cap techs, they talk about it very favorably. But at the same time, Amazon just pivoted to Alexa for Shopping from Rufus. So it's not clear to me, I guess, where things stand with agentic commerce, but I'd appreciate your thoughts, including what you're doing at the company-specific level to exploit the opportunity.

Michael L. Blend
CEO & Chairman

Sure. I'll take this, Tridi. So again, I think you're right, Tom, for the early stages on agentic commerce. What we have seen is that traffic coming out of AI apps, ChatGPT, but other apps as well, is quite motivated and quite inclined to purchase. So we believe that as people are starting their shopping excursions and finding more information that you're going to see increasing number -- increasing amounts of e-commerce emanating via AI.

So where we're playing in that will really be related primarily right now to our CouponFollow product, and we're somewhat early stages in starting to exploit that. But on CouponFollow, we've got a couple of really interesting assets that really allow CouponFollow to be the second-leading couponing site on the Internet.

And the 2 assets are, first of all, we've got a large library of current and up-to-date and verified promo codes. So what that means is when you go and actually use a CouponFollow promo code, it's got a high likelihood of working when you go enter it into a site. The second thing we have, which contributes to a lot of our monetization on CouponFollow, we've got really strong affiliate relationships with our commerce -- with a lot of e-commerce stores because people go to CouponFollow, they click off of CouponFollow and end up purchasing at a shopping site.

We're pretty confident that as all of the number of shopping and commerce-related AI apps are proliferating and people are using more and more of those, pretty much every one of those apps, the most likely ways to make money are -- first of all, you're going to want promo codes and verified promo codes and you want them to work when the consumers click out of your app to go buy. And secondly, you're going to want a way to monetize purchases through affiliate relationships. So we have both of those assets in place. We're currently figuring out the best way to offer both of those up to the kind of agentic marketplace.

Operator

Your next question comes from the line of Dan Kurnos with StoneX. [Operator Instructions]

Daniel Kurnos

Sorry to dial in, trying to listen to a few of these at once. So 3 questions for you. One, Michael, on the products side, I appreciate all the color. Can you -- I know you guys aren't giving guidance, but the sequential improvement is encouraging. I understand that the ad market, especially Startpage is floppy right now. You've been fighting with Google and Google changes for how many decades, Michael? But just in terms of what you're seeing underlying, I just -- have we kind of troughed here? Should we start to see some sequential improvement in the forward quarters? Or is the Startpage headwind too much? And then I got a couple more.

Michael L. Blend
CEO & Chairman

So I would put Startpage in the context of the overall Google market, the overall Google partner network, Dan. And by the way, thank you for joining. We cannot peer exactly inside the Google black box to give you anything definitive. But what it feels like to us -- and we've been a player in this for a very long time, and you're right, the last couple of years have felt like a couple of decades as Google has been working to kind of get their partner network under control. It feels to us like they are starting to make some moves that are resulting in a little bit less volatility.

So we are hopeful that we are troughed here and going to start being back on the upswing on Startpage. And I would say, recently, we have seen some green shoots that that's going to be coming back. We don't want to promise anything just yet until we've got a couple more months of data to show it. Those changes also, as they're getting things under control, would directly affect our partner network business, which really just needs stability from Google. We don't need much in the way of improvements in monetization. What we need are less dramatic moves up or down by Google.

And so as we're seeing kind of what feels like a little bit of light at the end of the tunnel on the Google side, we would expect, if what we're seeing is correct, that would help both Startpage and our partner network.

Daniel Kurnos

Got it. That's helpful. So let me ask a follow-up to that then. This does not count as my 3 questions. This is a 1A, Michael. It was actually nice to see a 5% sequential improvement in active partners. And I think Tridi said in his comments that you guys are seeing a 25% decline in revenue per active partner. I understand like you just laid out probably why, but you have been talking about active partner and partner network diversification. So can you maybe parse out how much you think is Google now? And how much is maybe like newer partners coming on, and it takes a while for them to scale, and so at some point, you should start to see more scaled spend as you continue to diversify or rediversify that active partner network?

Michael L. Blend
CEO & Chairman

Yes. So some of that was deliberate on our part. We wanted to have more diversification with more partners. And some of the larger partners were also some of the ones that may not have been as high as quality. But as we've been bringing on more partners and going out to other, one thing that's happening, Dan, in the marketplace is we -- if you looked at this industry a year ago, we had a multitude of large competitors in the partner network business. Now as Google has been making its changes and cleaning up the network, what we're seeing is that we are one of the very few kind of higher-quality scaled partners left -- scaled Google partners left.

And so we're getting the benefit of both our systems being good, but also there's a more consolidated number of people working with Google at scale. And so a lot of those traffic acquisition partners out there are coming to us to try to work with our back end. So I guess the way to put it, a combination of the market, us being much bigger in the market, one of the fewer large players having a good platform to provide monetization and some deliberate moves on our part as well.

Daniel Kurnos

So in theory, if things stabilize, you guys are in a better position to capitalize if you can get a little more visibility on the monetization piece?

Michael L. Blend
CEO & Chairman

Yes, that's right, Dan. I mean, look, I know you're also a follower of IAC. IAC has been -- traditionally been one of our largest competitors in this space. And kind of as you know, they shut down their business. So that would be an example of if you were an IAC partner and looking around for somewhere to continue your business, System1 would definitely be a place you want to come to.

Daniel Kurnos

All right, Michael, I guess you can lead the witness because I was going to ask a related question, but I was going to ask that last. I guess I'll ask it now and just say, we have written publicly multiple times about the slew of trials going on in the space. And similar to IAC, you are at the crux of it. You actually have 3 or maybe even 4 bites at the apple here, and it's not just the ad tech trial; you also have AdSense for Domains. You've got AdWords potentially. I mean there's a whole slew of things in there.

So I don't know what you want to say or don't want to say on this call, but it seems like everyone is kind of expecting settlements to start sometime in '27. I don't know if the arbitration -- we saw a couple of arbitration cases in the AdWords stuff, kind of small ones, nothing meaningful yet. So I'm just going to leave it open-ended and see if or what you want to say on that front because you guys have a lot of exposure there potentially for the good.

Michael L. Blend
CEO & Chairman

Yes. No -- yes. Thanks, Dan. I appreciate you asking the question. Trying to decide with Tridi how much we want to really talk about on this call. But I know you have been one of the few people kind of writing about this publicly. So I guess the summary for people listening is we're quite aware that Google has been adjudicated in the U.S. for some antitrust violations related to the search marketplace. And as you alluded to, there's a pretty large number of companies who are filing arbitration claims against Google at this point related to Google having a monopoly in the search market.

I think that at this point, it feels as though the market is having -- believes that those claims are going to have some value. We're aware that -- to the extent that some of the claims are even, I believe, trading hands in the secondary market. So hedge funds are buying them up and that kind of thing. And you're right, System1 has been -- we've been traditionally, over the last 13, 14 years, very large players in the search market with Google. So we're players on the buy side. We're large players on the search syndication side, which is the other place they were adjudicated monopoly.

So I guess what I would say is we are looking -- certainly looking at our claims that we might have, and we're working to determine the best way to move forward on those.

Anything you want to add, Tridi?

Tridivesh Kidambi
Chief Financial Officer

No, I think that's it. I think, to Michael's point, our financials historically are out there, and it's not that hard to figure out kind of how much work we've done with Google on both the buy side and the sell side. And we're actively engaged in charting the best path forward.

Daniel Kurnos

I'll give -- you guys don't have to say it, but I'll give people a hint that, that number starts with a B, and it's not 1 in terms of dealings with Google because we've done the math. So I'll throw that out there, but I'll let people figure it out or read our note.

And then just, Michael, last one for me is, can you just give me a sense of some of the 1P monetization work that you're doing, the 1P data stuff. Obviously, in an agentic world, 1P data is coveted. You guys clearly have a lot of it through product side. You have a lot of intent-driven stuff, a lot of signals. So I know it's super early, you talked about in your prepared remarks, but just anything you want to give us in terms of how you're thinking about monetizing it and how big you think it could be as you scale it?

Michael L. Blend
CEO & Chairman

Yes. No, great question, Dan. So when we're talking about kind of first-party data, which is the most valuable first-party data when advertisers are trying to advertise data that kind of tells you -- data that people tells you what they're interested in and data that tells you where people are going, those kind of things. And when you look at System1, we've got -- we don't really have data related to reading news, for instance. So if you've got like -- I think we're hearing a little feedback from you, Dan. But if you've got like a big news site, for instance, that kind of data is not that important for advertisers.

But what we have is we've got MapQuest, which is a geolocation service that tells you where people are going. We've got CouponFollow, which tells us -- people go to CouponFollow when they're literally at point of purchase to buy something. And then we've got all of our partner network business, which is people are only reaching our sites when they've already clicked on an ad. And so they might be interested in something like a Ford automobile. They clicked on a Ford ad and they're coming to an article on our website about Ford autos.

So that kind of data should be exactly the kind of data that advertisers want. So in the last 4 to 6 months, we basically have put together a technical platform to aggregate all of that data, slice it up into really any form that advertisers would want. And we recently have started kind of hitting the market, starting to talk with large brands, large advertising holding companies and basically get them on board to start buying it.

So it's not -- there's nothing material to discuss right now because it's still early stages, but we do have people at this point starting to buy, purchase our data, use it in their advertising. And we're starting to see good feedback on that. So when you add up all of our traffic, we have one of the largest data sources of first-party data out there right now. And so we -- it's only upside for us. We're making almost no money from that. We think that it's got good potential upside. And hopefully, next quarter, we'll have some more material results to share with you.

Daniel Kurnos

Don't worry, Michael. Everyone gets their news from TikTok now anyway. So it's not relevant.

Michael L. Blend
CEO & Chairman

Yes. Thank you, Dan and Tom, for all the good questions. Do we have anybody else on the line?

Operator

There are no further questions.

Michael L. Blend
CEO & Chairman

All right. Well, thank you, everybody, for joining on our earnings call. Again, we want to thank our lenders for working out a structure with us that's going to allow System1 to thrive in the future. We look forward to speaking with all of you again next quarter and reporting on the good progress we've been making this quarter. Thanks again for joining.

Operator
This concludes today's call. Thank you for attending. You may now disconnect.