# The Sage Group plc

INTERIM REPORT SIX MONTHS ENDED 31 MARCH 2003

sage

# Chairman's Statement

## Introduction

We are pleased to announce a strong performance in the period with turnover increasing by 4%* and pre-tax profit increasing by 14%. With no improvement in market conditions during the period, these results reflect further progress in our strategy of generating more revenues from our large and growing customer base of 3.1m small and medium-sized enterprises ("SMEs").

Our services revenues grew by 6%* to £168.8m (2002: £158.6m*), representing 60% of revenues (2002: 59%), and generated a significant portion of our revenue growth. Support contract revenues continue to be the key part of this growth.

Software licence revenues grew 2%* to £113.3m (2002: £111.5m*) and provided the remaining 40% of revenues (2002: 41%). £60.6m of revenue came from the sale of software to 115,000 first-time customers (2002: £63.6m*). We sold software upgrades to a further 197,000 existing customers, generating revenues of £39.3m (2002: £35.3m*). The sale of more sophisticated software solutions (up-selling) and of a broader range of solutions (cross-selling) to 26,000 customers, contributed £12.3m (2002: £11.4m*), representing a rising proportion of software revenues.

We continue to progress our strategy of selling industry-specific ("vertical") solutions to our customers. At the entry-level we have released versions of our core software suitable for those small businesses seeking industry-specific features for the first time. In the mid-market we have continued to bring to market accounting solutions tailored to industry-specific needs, through product development, close co-operation with channel partners, and acquisition.

All of the Group's businesses continue to focus on cost-efficient installed base marketing and on effectively managing costs. As a result, the increase in revenue translated into higher profits.

We continue to monitor closely the competitive landscape and have seen no change in the period. Our commitment to constant product improvement, effective channel management and high standards of locally-based customer service and support remain significant differentiating factors.

## Financial Overview

In the six months to 31 March 2003, we increased turnover by 4%* to £282.1m (2002: £270.1m*). Operating profit rose by 13%* to £77.1m (2002: £68.3m*), and pre-tax profit improved 14% to £74.3m (£65.1m). Earnings per share increased 14% to 4.02p (2002: 3.53p).

The movement in exchange rates had a significant translational impact on results for the period. The 11% decline in the US dollar against sterling, compared to the prior year period, impacted the 48% of Group revenues originated in dollars. This was only partially offset by a 6% appreciation of the Euro. On an unadjusted basis, turnover grew 1% and operating profit increased by 10%.

The interim dividend is being raised to 0.555p per share (2002: 0.157p). This increase reflects the rebasing of the dividend announced with our results for the year ended 30 September 2002. This dividend is covered 7 times by earnings per share.

The dividend will be payable on 13 June 2003 to shareholders on the register at close of business on 16 May 2003.

The Group's strong earnings, recurring revenues and effective cash management created significant growth in cash flow. Operating profit of £77.1m generated operating cash flow of £100.6m. At 31 March 2003 the Group had net debt of £93.1m (2002: £163.7m) with net interest covered 27 times by operating profit.

## Operational Review

### UK

The UK business grew revenues by 5%, adding 23,000 new customers in the period and growing support and upgrade revenues. Whilst market conditions were substantially unchanged during the period, the SME Division delivered growth through the sale of services and software upgrades. In the Enterprise Division, revenues stabilised at the level of the second half of 2002.

The operating margin rose to 40% (2002: 36%). This reflects the benefits of last year's reorganisation of the Enterprise Division, and revenue growth in the SME division.

### Mainland Europe

In difficult market conditions our Mainland European revenues were 1%* below the prior period. Two factors impacted performance. Firstly, the prior period benefited from revenues associated with full Euro adoption. Secondly, economic conditions in the period were depressed. These factors offset progress made in service activities and in up-selling and cross-selling initiatives.

In the French business, revenues were 6%* below the prior year period and, as a consequence, margins fell to 25% (2002: 29%).

In January 2003 we acquired Concept Group. This business provides treasury management and consolidation software products for SMEs. This acquisition contributed revenues of £2.0m in the period and made an operating profit of £0.1m. Now integrated into the French business, this acquisition will provide stimulus to cross-selling initiatives.

Our German and Swiss businesses grew revenues by 10%* with the benefit of a full period's contribution from Gandke & Schubert acquired in April 2002. At the end of the period we concluded the acquisition of Primus, which strengthened our position in the vertical "tradesmen's" market. Operating margins in Germany and Switzerland were maintained at 17%.

### US

Our US business (including Interact) delivered a strong financial performance with revenue growth of 8%* and operating profit growth of 30%*. Operating margins rose to 23% (2002: 19%), benefiting from a more unified installed base focus and expense control across a range of activities.

Our US accounting business grew revenues 4%* and operating profit by 21%* returning an operating margin of 24% (2002: 21%).

Underlying this performance we saw continued strength at the entry-level with the core *Peachtree* product maintaining its strong market position, attracting 45,000 new customers in the period, and growing revenues by 11%.

In the mid-market, despite customers continuing to defer software purchase decisions, software sales to first-time customers have been maintained at prior year levels, and we have continued to apply up-selling and cross-selling strategies. In the Accounting business 22% of new licence revenues came from up-selling whilst in the Speciality Products business, 13% of new licence revenues came from cross-selling.

The Non-profit and Government Division performed well, growing revenues and profits and acquiring a specialist product for charities.

The CRM business, Interact, continued its progress since acquisition with revenue growth of 21%* to £28.4m (2002: £23.5m*) producing an operating profit of £4.3m (2002: £1.9m*) at an operating margin of 15% (2002: 8%). Growth at Interact has resulted in large part from installed base initiatives. The *ACT!* product upgrade released in August 2002 has provided an ongoing revenue and profit stream whilst the provision of support to Interact's large customer base continues to gather momentum. The international business, representing 19% of Interact's revenues, reported a profit for the first time following its restructuring in 2002.

After the period end our US operations announced a re-organisation of the business into two divisions - the Small Business Division (incorporating Peachtree and ACT!) and the Mid-market Division (containing our accounting, fixed assets, HR, SalesLogix and Non-Profit product offerings for mid-market customers). The new structure, effective 1 October 2003, will help to ensure that we present one cohesive face to our customers and partners, and that we operate in a more efficient manner. There will be no significant costs arising out of this re-organisation.

## Board Change

Graham Wylie, one of the founders of Sage, and Managing Director of the UK business, has decided to retire from his current role, and from the Board, with effect from 31 May 2003 after 22 years of service. The Board would like to acknowledge Graham's considerable contribution to the business and wish him well. The Board is pleased to announce that Paul Stobart will move from his current role in Sage Group to become Managing Director of the UK business. Paul has been with the Group, and a member of the Board, since 1996.

## Outlook

These results again demonstrate the resilience of our business, and our ability to generate growth. Our key asset is our large and growing customer base of over 3 million SMEs to which we are able to sell an expanding portfolio of products and services. This enables us to continue to develop the business both organically and by acquisition.

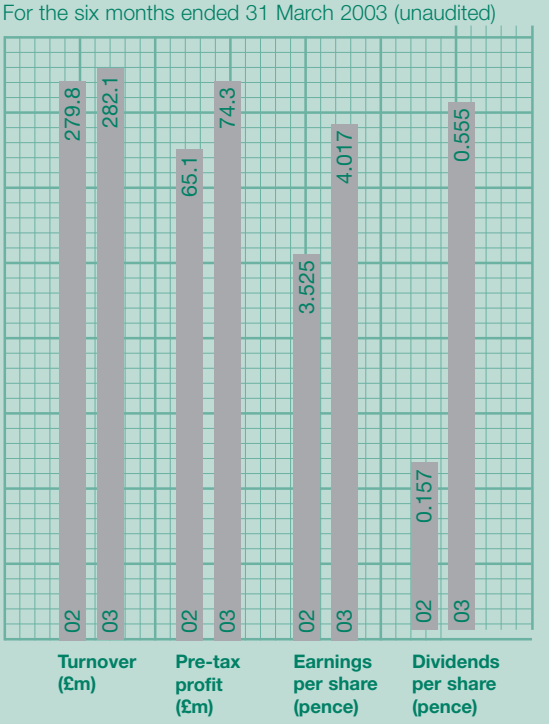
Whilst we have seen no improvement in market conditions, our business progressed well in the first half. We achieved strong results in the UK and the US and whilst Europe was weaker, we see some encouraging signs there. We therefore continue to view 2003 with confidence.

**Michael Jackson**
Chairman

7 May 2003

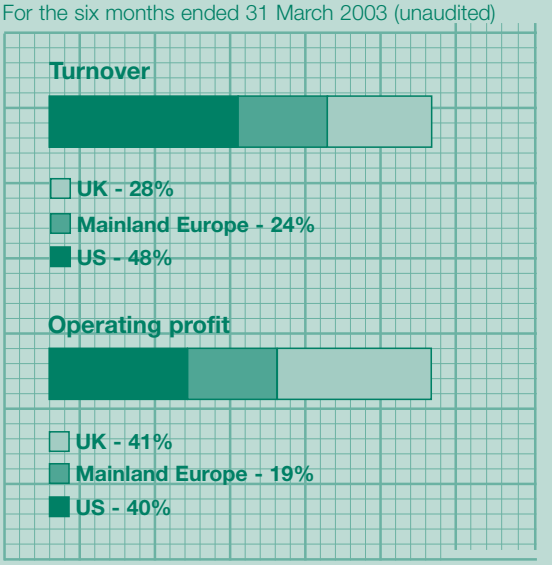
## Financial Highlights

For the six months ended 31 March 2003 (unaudited)




## Geographical Analysis

For the six months ended 31 March 2003 (unaudited)



# CONSOLIDATED PROFIT AND LOSS ACCOUNT

For the six months ended 31 March 2003

| | 2003 £'000 | Six months ended 31 March (Unaudited) 2002 £'000 | Year ended 30 September (Audited) 2002 £'000 |
|---|---|---|---|
| **Turnover** | **282,056** | 279,821 | 551,731 |
| **Operating profit** | **77,094** | 69,817 | 137,680 |
| Net interest payable | **(2,835)** | (4,671) | (8,526) |
| **Profit on ordinary activities before taxation** | **74,259** | 65,146 | 129,154 |
| Taxation on profit on ordinary activities | **(23,020)** | (20,195) | (40,038) |
| **Profit on ordinary activities after taxation** | **51,239** | 44,951 | 89,116 |
| Equity minority interest | **–** | (52) | (41) |
| **Profit for the financial period** | **51,239** | 44,899 | 89,075 |
| Equity dividends | **(7,102)** | (2,033) | (19,143) |
| **Amount transferred to reserves** | **44,137** | 42,866 | 69,932 |
| **Earnings per share (pence) – basic** | **4.017p** | 3.525p | 6.990p |
| **Earnings per share (pence) – diluted** | **4.001p** | 3.500p | 6.960p |
| **Dividend per share (pence)** | **0.555p** | 0.157p | 1.500p |

# CONSOLIDATED STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES

For the six months ended 31 March 2003

| | 2003 £'000 | Six months ended 31 March (Unaudited) 2002 £'000 | Year ended 30 September (Audited) 2002 £'000 |
|---|---|---|---|
| **Profit for the financial period** | **51,239** | 44,899 | 89,075 |
| Translation of foreign currency net investments and related borrowings | **1,494** | (8,534) | 12,233 |
| **Total recognised gains and losses relating to the period** | **52,733** | 36,365 | 101,308 |

# CONSOLIDATED BALANCE SHEET

As at 31 March 2003

| | **31 March (Unaudited) 2003 £'000** | 30 September (Audited) 2002 £'000 |
|---|---|---|
| **Fixed assets** | | |
| Intangible | **847,651** | 830,908 |
| Tangible | **64,795** | 54,541 |
| | **912,446** | 885,449 |
| **Current assets** | | |
| Stocks | **2,548** | 2,306 |
| Debtors | **117,259** | 108,219 |
| Deferred tax asset | **22,566** | 28,306 |
| Cash at bank and in hand | **78,242** | 58,795 |
| | **220,615** | 197,626 |
| **Creditors:** amounts falling due within one year | **(180,056)** | (177,010) |
| **Net current assets** | **40,559** | 20,616 |
| **Total assets less current liabilities** | **953,005** | 906,065 |
| **Creditors:** amounts falling due after more than one year | **(134,147)** | (157,194) |
| **Deferred income** | **(151,129)** | (127,019) |
| **Equity minority interest** | **(121)** | (121) |
| | **667,608** | 621,731 |
| **Capital and reserves** | | |
| Called up equity share capital | **12,759** | 12,755 |
| Share premium account | **442,244** | 441,859 |
| Merger reserve | **61,111** | 61,111 |
| Profit and loss account | **151,494** | 106,006 |
| **Equity shareholders' funds** | **667,608** | 621,731 |

# CONSOLIDATED CASH FLOW STATEMENT

For the six months ended 31 March 2003

| | 2003 £'000 | Six months ended 31 March (Unaudited) 2002 £'000 | Year ended 30 September (Audited) 2002 £'000 |
|---|---|---|---|
| **Net cash inflow from operating activities** | **100,615** | 82,925 | 145,178 |
| **Returns on investments and servicing of finance** | | | |
| Interest received | **546** | 715 | 1,520 |
| Interest paid | **(2,885)** | (4,778) | (9,454) |
| Issue cost of loans | **–** | (180) | (180) |
| Interest element of finance lease rental payments | **–** | (2) | (3) |
| **Net cash outflow from returns on investments and servicing of finance** | **(2,339)** | (4,245) | (8,117) |
| **Taxation** | | | |
| Corporation tax paid | **(11,987)** | (11,842) | (22,645) |
| **Capital expenditure** | | | |
| Payments to acquire tangible fixed assets | **(14,127)** | (8,523) | (19,130) |
| Receipts from sales of tangible fixed assets | **137** | 187 | 468 |
| **Net cash outflow from capital expenditure** | **(13,990)** | (8,336) | (18,662) |
| **Acquisitions and disposals** | | | |
| Purchase of subsidiary undertakings: | | | |
| Net cash consideration – current year acquisitions | **(12,144)** | (13,838) | (28,185) |
| – prior year acquisitions | **(3,917)** | (7,981) | (19,292) |
| **Net cash outflow from acquisitions and disposals** | **(16,061)** | (21,819) | (47,477) |
| **Equity dividends paid** | **(17,150)** | (3,615) | (5,595) |
| **Cash inflow before financing and management of liquid resources** | **39,088** | 33,068 | 42,682 |
| **Management of liquid resources** | | | |
| Increase in short term deposits | **(92)** | (38,910) | (1,367) |
| **Financing** | | | |
| Shares issued | **238** | 2,121 | 2,604 |
| Movement in loan funding | **(19,861)** | 16,981 | (29,104) |
| Repayment of capital element of finance leases | **(21)** | (36) | (57) |
| **Net cash (outflow)/inflow from financing** | **(19,644)** | 19,066 | (26,557) |
| **Increase in cash in the period** | **19,352** | 13,224 | 14,758 |

# NOTES

## 1. Analysis of results

| | 2003 £'000 | Six months ended 31 March* (Unaudited) 2002 £'000 | Year ended 30 September (Audited) 2002 £'000 |
|---|---|---|---|
| **Turnover** | | | |
| UK | **80,190** | 76,734 | 155,986 |
| France | **46,911** | 49,710 | 87,411 |
| Germany/Switzerland | **19,252** | 17,449 | 31,420 |
| US | **107,316** | 102,719 | 223,285 |
| Interact | **28,387** | 23,460 | 53,629 |
| | **282,056** | 270,072 | 551,731 |
| Impact of foreign exchange | **–** | 9,749 | – |
| Total | **282,056** | 279,821 | 551,731 |
| **Operating profit** | | | |
| UK | **31,685** | 27,449 | 57,625 |
| France | **11,576** | 14,429 | 24,025 |
| Germany/Switzerland | **3,276** | 2,931 | 4,588 |
| US | **26,234** | 21,598 | 50,118 |
| Interact | **4,323** | 1,868 | 7,324 |
| | **77,094** | 68,275 | 143,680 |
| Impact of foreign exchange | **–** | 1,542 | – |
| Sponsorship arrangement – The Sage Gateshead | **–** | – | (6,000) |
| Total | **77,094** | 69,817 | 137,680 |

*Foreign currency results for the period ended 31 March 2002 have been retranslated at exchange rates used for the period ended 31 March 2003 to facilitate the comparison of results.

## 2. Analysis of change in net debt (inclusive of finance leases)

| | At 1 October 2002 (Audited) £'000 | Cash flow £'000 | Exchange movement/other £'000 | At 31 March 2003 (Unaudited) £'000 |
|---|---|---|---|---|
| Net cash at bank and in hand | 57,512 | 19,352 | – | **76,864** |
| Short term deposits | 1,283 | 92 | 3 | **1,378** |
| Loans due within one year | (39,076) | 31,593 | (31,594) | **(39,077)** |
| Finance leases due within one year | (21) | 21 | – | **–** |
| Loans due after more than one year | (152,507) | (11,732) | 31,975 | **(132,264)** |
| | (132,809) | 39,326 | 384 | **(93,099)** |

## 3. Taxation

The taxation charge for the period comprises:

| | 2003 £'000 | Six months ended 31 March (Unaudited) 2002 £'000 | Year ended 30 September (Audited) 2002 £'000 |
|---|---|---|---|
| UK taxation | **11,205** | 9,585 | 20,194 |
| Overseas taxation | **11,815** | 10,610 | 19,844 |
| | **23,020** | 20,195 | 40,038 |

**4.** The unaudited financial information set out above does not constitute the Company's statutory accounts for the period ended 31 March 2003. The accounting policies used as a basis for this interim results announcement are consistent with the Company's statutory accounts for the year ended 30 September 2002, which have been delivered to the Registrar of Companies. The Group results for the year ended 30 September 2002 have been extracted from those statutory accounts. The Auditors' Report on the accounts to 30 September 2002 was unqualified and did not contain a statement under Section 237 of the Companies Act 1985. Accounts to 30 September 2003 will be delivered in due course.

**5.** The calculation of basic earnings per ordinary share is based on earnings of £51,239,000 (2002: £44,899,000) being the profit for the period, and on 1,275,648,166 ordinary 1p shares (2002: 1,273,689,033) being the weighted average number of ordinary shares in issue during the period. The diluted earnings per ordinary share is based on profit for the period of £51,239,000 (2002: £44,899,000) and on 1,280,526,175 ordinary 1p shares (2002: 1,282,710,783).

**6.** The interim dividend of 0.555 pence per share will be paid on 13 June 2003 to shareholders on the register at the close of business on 16 May 2003.

**7.** There is now a range of shareholder information on line at www.shareview.co.uk Shareholders can check holdings and find practical help on transferring shares or updating details and register their e-mail address to receive shareholder information and annual report & accounts electronically.

**The Sage Group plc**

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