Year-end results

Financial Year 2018

Samantha Jameson
Founder, Soapsmith
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- Rounding
  As a result of rounding throughout this document, it is possible that tables may not cast and change percentages may not calculate precisely.

- Terminology
  Unless stated otherwise all references to revenue are organic.

- Materiality
  Only figures over £1m are considered to be material for the purposes of this presentation.
Steve Hare

CEO

Welcome
Overview
Financial review
Strategy
Outlook
Q&A
The vision

To become a great SaaS business for customers and colleagues alike
Welcome
Overview

Financial review

Strategy
Outlook

Q&A
FY18 summary

- Challenging FY18
- Strong Cash Flow
- Momentum into FY19
# Sage Results

## Sage Group plc Financial Year 2018

### Revenue summary

<table>
<thead>
<tr>
<th></th>
<th>FY18</th>
<th>FY17</th>
<th>Growth</th>
</tr>
</thead>
<tbody>
<tr>
<td>Organic revenue</td>
<td>£1,819m</td>
<td>£1,703m</td>
<td>6.8%</td>
</tr>
<tr>
<td>Asset held for sale</td>
<td>£38m</td>
<td>£39m</td>
<td></td>
</tr>
<tr>
<td>Organic revenue plus asset held for sale</td>
<td>£1,857m</td>
<td>£1,742m</td>
<td>6.6%</td>
</tr>
<tr>
<td>Prior year organic adjustments</td>
<td>-</td>
<td>(£59m)</td>
<td></td>
</tr>
<tr>
<td>FX adjustment</td>
<td>-</td>
<td>£37m</td>
<td></td>
</tr>
<tr>
<td>Deferred income unwind of Sage Intacct</td>
<td>(£11m)</td>
<td>(£5m)</td>
<td></td>
</tr>
<tr>
<td>Statutory revenue</td>
<td>£1,846m</td>
<td>£1,715m</td>
<td>7.6%</td>
</tr>
<tr>
<td>Recurring revenue</td>
<td>£1,441m</td>
<td>£1,352m</td>
<td>6.7%</td>
</tr>
</tbody>
</table>

1 See appendix for definitions
## Margin summary

<table>
<thead>
<tr>
<th></th>
<th>FY18</th>
<th>FY17</th>
<th>Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Organic operating profit margin %</td>
<td>27.8%</td>
<td>28.0%¹</td>
<td>(0.2%)</td>
</tr>
<tr>
<td>Underlying² operating profit margin %</td>
<td>27.2%</td>
<td>27.3%</td>
<td>(0.1%)</td>
</tr>
<tr>
<td>Non-recurring charge</td>
<td>£10m</td>
<td>£70m</td>
<td></td>
</tr>
<tr>
<td>Underlying adjusted EPS²</td>
<td>32.51p</td>
<td>28.46p</td>
<td>14.2%</td>
</tr>
<tr>
<td>EBITDA² margin %</td>
<td>29.2%</td>
<td>29.4%</td>
<td>(0.2%)</td>
</tr>
</tbody>
</table>

¹ As reported
² See appendix for definitions
Operating profit margin bridge

FY17 Organic Margin (as reported) 28.0%
Sage Intacct, Sage People & FX 2.2%
FY17 Pro Forma Margin 25.8%
Uplift of Core Business 1.3%
FY18 Underlying Margin 27.2%
Sage Payroll Solutions 0.6%
FY18 Organic Margin 27.8%
## Strong cash flow metrics

<table>
<thead>
<tr>
<th>Underlying operating profit</th>
<th>£504m</th>
</tr>
</thead>
<tbody>
<tr>
<td>Underlying cash flow from operating activities&lt;sup&gt;1&lt;/sup&gt;</td>
<td>£482m</td>
</tr>
<tr>
<td>Free cash flow&lt;sup&gt;1&lt;/sup&gt;</td>
<td>£356m</td>
</tr>
<tr>
<td>Opening net debt</td>
<td>(£813m)</td>
</tr>
<tr>
<td>Free cash flow</td>
<td>£356m</td>
</tr>
<tr>
<td>Ordinary dividends</td>
<td>(£171m)</td>
</tr>
<tr>
<td>M&amp;A and exchange movements</td>
<td>(£40m)</td>
</tr>
<tr>
<td>Closing net debt</td>
<td>(£668m)</td>
</tr>
<tr>
<td>Free cashflow as a % of revenue</td>
<td>19%</td>
</tr>
<tr>
<td>ROCE&lt;sup&gt;1&lt;/sup&gt;</td>
<td>23%</td>
</tr>
<tr>
<td>Underlying cash conversion&lt;sup&gt;1&lt;/sup&gt;</td>
<td>96%</td>
</tr>
<tr>
<td>Net debt leverage&lt;sup&gt;1&lt;/sup&gt;</td>
<td>1.2:1</td>
</tr>
</tbody>
</table>

<sup>1</sup> See appendix for definitions
Revenue categories

SageGroup plc Financial Year 2018

FY 17

Software subscription
Maintenance & Support
SSRS Processing

FY 18

Recurring revenue

+6.7%

Recurring mix
FY 17: 79%

79%

Software subscription penetration
FY 17: 39%

46%

+25%

+8%

+6%
Progress in FY18 strategy: cloud connected

<table>
<thead>
<tr>
<th>Revenue</th>
<th>FY18 ARR</th>
<th>Growth</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cloud connected¹</td>
<td>£280m</td>
<td>66%</td>
</tr>
<tr>
<td>Cloud native²</td>
<td>£153m</td>
<td>30%</td>
</tr>
<tr>
<td>Sage Business Cloud</td>
<td>£434m</td>
<td>51%</td>
</tr>
</tbody>
</table>

¹ Cloud connected versions of Sage 50 and Sage 200 families
² Sage Accounting, Sage Financials, Sage People, Sage Intacct & cloud version of Sage Enterprise Management
Progress in strategy: cloud native

Revenue FY18 ARR Growth

<table>
<thead>
<tr>
<th></th>
<th>FY18 ARR</th>
<th>Growth</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cloud connected(^1)</td>
<td>£280m</td>
<td>66%</td>
</tr>
<tr>
<td>Cloud native(^2)</td>
<td>£153m</td>
<td>30%</td>
</tr>
<tr>
<td>Sage Business Cloud</td>
<td>£434m</td>
<td>51%</td>
</tr>
</tbody>
</table>

\(^1\) Cloud connected versions of Sage 50 and Sage 200 families
\(^2\) Sage Accounting, Sage Financials, Sage People, Sage Intacct & cloud version of Sage Enterprise Management
Revenue categories

FY 17 FY 18

Software subscription
+6.8%

Maintenance & Support
-12%

SSRS Processing
+8%

Recurring mix FY 17: 79%

Recurring revenue +6.7%

Software subscription penetration FY 17: 39%

Revenue categories

FY 17 FY 18

Software subscription
+6.7%

Maintenance & Support
-12%

SSRS Processing
+8%

Recurring mix FY 17: 79%

Recurring revenue +6.7%

Software subscription penetration FY 17: 39%
Our Journey to Subscription

- **Software subscription**: 46% (FY18)
- **Maintenance & Support**: 16% (SSRS and Processing, FY14)
- **Target**: 85-90% (Software subscription)

1 As reported
Regional overview
North America

FY18 performance

- Double digit organic and recurring revenue growth
- Strong progress in cloud connected and Enterprise Management
- Intacct ARR around £100m, growing at 30%

Focus for FY19

- Cloud connected migration
- Enterprise Management
- Sage People & Intacct

### Revenue

<table>
<thead>
<tr>
<th>Revenue</th>
<th>FY18</th>
<th>FY17</th>
<th>Growth</th>
</tr>
</thead>
<tbody>
<tr>
<td>Recurring</td>
<td>£471m</td>
<td>£417m</td>
<td>+13%</td>
</tr>
<tr>
<td>Processing</td>
<td>£1m</td>
<td>£1m</td>
<td>-2%</td>
</tr>
<tr>
<td>SSRS</td>
<td>£74m</td>
<td>£71m</td>
<td>+4%</td>
</tr>
<tr>
<td>Total</td>
<td>£545m</td>
<td>£489m</td>
<td>+12%</td>
</tr>
</tbody>
</table>
Northern Europe

FY18 performance
- Significant progress in transition to subscription
- Strong H2 18 performance in cloud connected
- Addressed issues raised at H1 18

Focus for FY19
- Cloud connected migration
- Sage People
- Prepare for launch of Sage Intacct

<table>
<thead>
<tr>
<th>Revenue</th>
<th>FY18</th>
<th>FY17</th>
<th>Growth</th>
</tr>
</thead>
<tbody>
<tr>
<td>Recurring</td>
<td>£298m</td>
<td>£293m</td>
<td>+2%</td>
</tr>
<tr>
<td>Processing</td>
<td>£38m</td>
<td>£37m</td>
<td>+4%</td>
</tr>
<tr>
<td>SSRS</td>
<td>£45m</td>
<td>£42m</td>
<td>+7%</td>
</tr>
<tr>
<td>Total</td>
<td>£381m</td>
<td>£372m</td>
<td>+2%</td>
</tr>
</tbody>
</table>
France

FY18 performance
- Recovery in H2 18 with 6% growth
- Cloud connected revenue now 10%
- Enterprise Management growth of 12%

Focus for FY19
- Cloud connected migration
- Enterprise Management
- Launching Sage People

<table>
<thead>
<tr>
<th>Revenue</th>
<th>FY18</th>
<th>FY17</th>
<th>Growth</th>
</tr>
</thead>
<tbody>
<tr>
<td>Recurring</td>
<td>£248m</td>
<td>£241m</td>
<td>+3%</td>
</tr>
<tr>
<td>Processing</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>SSRS</td>
<td>£44m</td>
<td>£42m</td>
<td>+6%</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>£292m</strong></td>
<td><strong>£283m</strong></td>
<td><strong>+3%</strong></td>
</tr>
</tbody>
</table>
Central Europe and Iberia

FY18 performance
- Germany organic growth 10%
- Spain organic growth 8%
- Smaller regions performing well, e.g. Portugal 17%, Poland 11%,

Focus for FY19
- Driving subscription and recurring revenue growth

<table>
<thead>
<tr>
<th>Revenue</th>
<th>FY18</th>
<th>FY17</th>
<th>Growth</th>
</tr>
</thead>
<tbody>
<tr>
<td>Recurring</td>
<td>£227m</td>
<td>£214m</td>
<td>+6%</td>
</tr>
<tr>
<td>Processing</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>SSRS</td>
<td>£106m</td>
<td>£90m</td>
<td>+18%</td>
</tr>
<tr>
<td>Total</td>
<td>£333m</td>
<td>£304m</td>
<td>+9%</td>
</tr>
</tbody>
</table>
International

FY18 performance

- Africa 6% and ME decline of 25% both impacted by Enterprise Management performance issues
- Australia growing strongly at 11%, Asia decline of 5%
- Brazil 3%, with strong recovery in H2

Focus for FY19

- Sustaining the improvements in Enterprise Management in Africa and Middle East
- Accelerating subscription growth in Brazil
- Launch of Intacct in Australia

<table>
<thead>
<tr>
<th>Revenue</th>
<th>FY18</th>
<th>FY17</th>
<th>Growth</th>
</tr>
</thead>
<tbody>
<tr>
<td>Recurring</td>
<td>£197m</td>
<td>£186m</td>
<td>+6%</td>
</tr>
<tr>
<td>Processing</td>
<td>£15m</td>
<td>£13m</td>
<td>+13%</td>
</tr>
<tr>
<td>SSRS</td>
<td>£55m</td>
<td>£56m</td>
<td>-3%</td>
</tr>
<tr>
<td>Total</td>
<td>£267m</td>
<td>£255m</td>
<td>+5%</td>
</tr>
</tbody>
</table>
## IFRS 15 impact

### Areas impacted

- Unbundling of certain on-premise subscription contracts
- Contract sign-up costs
- Commissions
- Business Partner contracts

### FY19 Financial Statements

<table>
<thead>
<tr>
<th></th>
<th>FY19</th>
<th>FY18</th>
</tr>
</thead>
<tbody>
<tr>
<td>Revenue</td>
<td>IFRS15</td>
<td>Old</td>
</tr>
<tr>
<td>Expense</td>
<td>IFRS15</td>
<td>Old</td>
</tr>
<tr>
<td>Assets</td>
<td>IFRS15</td>
<td>Old</td>
</tr>
<tr>
<td>Liabilities</td>
<td>IFRS15</td>
<td>Old</td>
</tr>
</tbody>
</table>
IFRS 15 impact

**FY18 pro-forma impact:**

- Organic revenue lower by £10m
- Recurring revenue lower by £3m

**FY19 expected impact:**

- No material impact on like for like growth rates
- No material impact on margins
FY18 summary

- Challenging FY18
- Strong Cash Flow
- Momentum into FY19
To become a great SaaS business for customers and colleagues alike
Benefits of subscription

- Higher contract values
- Higher retention rates
- Higher lifetime revenue
- Lower CAC
- Lower cost to serve
- Better customer economics
- Value Creation

Sage Group plc Financial Year 2018
Welcome
Overview
Financial review

Strategy
Outlook
Q&A
To become a great SaaS business for customers and colleagues alike
Focus for FY19

Customer success

Colleague success

Innovation
Customer success

Starts with our existing customers

Today
- Trust
- Excellent customer service

Investment
- Personalised customer experience
- Tools & systems

Sage
Reviews (838) • Great

⭐⭐⭐⭐⭐

Sage Group plc Financial Year 2018
Colleague success

*Culture that values individuals & encourages collaboration*

**Today**
- Colleagues that care
- Unlock colleague potential

**Investment**
- Training
- Tools & systems
Perform

- Increased retention rates
- Improved Customer Experience
- Engaged Colleagues
- £2m annualised benefits
- 7 month payback
Innovation

Accelerating Sage Business Cloud

Today
- Award winning solutions
- Developer Portal

Investment
- Enhancing Sage Business Cloud
- Service Fabric
Internationalisation of Sage Intacct
Focus for FY19

£60m investment in FY19

- Customer success
- Colleague success
- Innovation
Focus and simplification

£1.8bn

£1.1bn
To be migrated to Sage Business Cloud

£1.5bn
Future Sage Business Cloud

£230m
Cloud Connected

£140m
Cloud Native

£350m
No current path to Sage Business Cloud

8% growth

0% growth

FY18
FY19 guidance

- Recurring revenue growth: 8%-9%
- Organic operating margin: 23%-25%
- £60m investment in the business
The fish model

- Revenue
- Costs

Amount

Time
Sage model

Amount

Revenue

Costs

Time

Sage Group plc Financial Year 2018
Target margin progression

- Revenue 100%
- COGS
- R&D
- G&A

Recurring expenses ~ 40%

GTM

Recurring margin ~ 60%

Margin
The vision

To become a great SaaS business for customers and colleagues alike
Q&A

#SageResults
**Glossary**

<table>
<thead>
<tr>
<th>Measure/Description</th>
<th>Description</th>
</tr>
</thead>
</table>
| **Underlying**      | Underlying measures are adjusted to exclude items which would distort the understanding of the performance for the year or comparability between periods:  
• Recurring items purchase price adjustments including amortisation of acquired intangible assets and adjustments made to reduce deferred income arising on acquisitions, acquisition-related items, FX on intercompany balances and fair value adjustments; and  
• Non-recurring items that management judge to be one-off or non-operational such as gains and losses on the disposal of assets, impairment charges and reversals, and restructuring related costs.  
All prior period underlying measures (revenue and profit) are retranslated at the current year exchange rates to neutralise the effect of currency fluctuations. |
<p>| <strong>Organic</strong>         | In addition to the adjustments made for underlying measures, organic measures exclude the contribution from discontinued operations, disposals and assets held for sale of standalone businesses in the current and prior period and include acquired businesses from the beginning of the financial year following their year of acquisition. Adjustments are made to the comparative period to present acquired businesses as if these had been part of the Group throughout the prior period. Acquisitions and disposals which occurred close to the start of the opening comparative period where the contribution impact would be immaterial are not adjusted. Please note that organic operating profit margin as reported is not necessarily comparable from period to period. |
| <strong>Adjusted EPS</strong>    | The Adjusted EPS is the underlying basic EPS adjusted for the impact of significant acquisitions and disposals by excluding current period acquisitions and current and prior period disposals and by including prior year acquisitions in the comparable period based on the margin achieved by the acquired business in the prior year for the post-acquisition period. |
| <strong>Underlying cash flow from operating activities</strong> | Underlying cash flow from operating activities is underlying operating profit adjusted for underlying non-cash items, net capex (excluding business combinations and similar items) and changes in working capital. |
| <strong>Free cash flow</strong>  | Underlying cash flow from operating activities plus non-recurring cash items, less cash interest and cash tax. |
| <strong>Return on Capital Employed</strong> | ROCE is calculated as underlying operating profit reduced by the amortisation of acquired intangibles, divided by Capital Employed. |
| <strong>Capital Employed</strong> | Capital Employed is calculated as the average (of the opening and closing balance for the period) total net assets, excluding net debt, provisions for non-recurring costs and tax assets or liabilities |</p>
<table>
<thead>
<tr>
<th>Measure/Description</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>EBITDA</strong></td>
<td>EBITDA is defined as underlying operating profit excluding depreciation, amortisation and share based payments.</td>
</tr>
<tr>
<td><strong>Annualised recurring revenue (“ARR”)</strong></td>
<td>Annualised recurring revenue (“ARR”) is the normalised reported recurring revenue in the last month of the reporting period, adjusted consistently period to period, multiplied by twelve. Adjustments to normalise reported recurring revenue include those components that management has assessed should be excluded in order to ensure the measure reflects that part of the contracted revenue base which (subject to ongoing use and renewal) can reasonably be expected to repeat in future periods (such as non-refundable contract sign-up fees).</td>
</tr>
<tr>
<td><strong>Underlying cash conversion</strong></td>
<td>Underlying cash conversion is underlying cash flow from operating activities divided by underlying operating profit.</td>
</tr>
<tr>
<td><strong>Net debt leverage</strong></td>
<td>The net value of cash less borrowings expressed as a multiple of rolling 12-month EBITDA.</td>
</tr>
</tbody>
</table>
## Glossary – Revenue types

<table>
<thead>
<tr>
<th>Revenue Type</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Recurring revenue</strong></td>
<td>Recurring revenue is revenue earned from customers for the provision of a good or service, where risks and rewards are transferred to the customer over the term of a contract, with the customer being unable to continue to benefit from the full functionality of the good or service without ongoing payments.</td>
</tr>
<tr>
<td>Subscription contracts</td>
<td>Subscription revenue is revenue earned from customers for the provision of a good or service, where the risk and rewards are transferred to the customer over the term of a contract. In the event that the customer stops paying, they lose the legal right to use the software and the Company has the ability to restrict the use of the product or service. (Also known as ‘Pay to play’).</td>
</tr>
<tr>
<td>Maintenance and support contracts</td>
<td>Subscription revenue and maintenance and support revenue are recognised on a straight-line basis over the term of the contract (including non-specified upgrades, when included). Revenue relating to future periods is classified as deferred income on the balance sheet to reflect the transfer of risk and reward.</td>
</tr>
<tr>
<td><strong>Software and software-related services</strong></td>
<td>Perpetual software licences and specified upgrades revenue are recognised when the significant risks and rewards of ownership relating to the licence have been transferred and it is probable that the economic benefits associated with the transaction will flow to the Group. This is when the goods have left the warehouse to be shipped to the customer or when electronic delivery has taken place.</td>
</tr>
<tr>
<td>Perpetual software licences</td>
<td>Other product revenue (which includes hardware and stationery) is recognised as the products are shipped to the customer.</td>
</tr>
<tr>
<td>Upgrades to perpetual licences</td>
<td>Other services revenue (which includes the sale of professional services and training) is recognised when delivered, or by reference to the stage of completion of the transaction at the end of the reporting period. This assessment is made by comparing the proportion of contract costs incurred to date to the total expected costs to completion.</td>
</tr>
<tr>
<td>Professional services</td>
<td></td>
</tr>
<tr>
<td>Training</td>
<td></td>
</tr>
<tr>
<td>Hardware and stationery</td>
<td></td>
</tr>
<tr>
<td><strong>Processing revenue</strong></td>
<td>Processing revenue is revenue earned from customers for the processing of payments or where Sage colleagues process our customers’ payroll.</td>
</tr>
<tr>
<td>Payment processing services</td>
<td>Processing revenue is recognised at the point that the service is rendered on a per transaction basis.</td>
</tr>
<tr>
<td>Payroll processing services</td>
<td></td>
</tr>
</tbody>
</table>