



Capital Markets Day

Thursday, 25th January 2018

Introduction

Lauren Wholley

Investor Relations Director, The Sage Group Plc

I'm Lauren Wholley and I'm Head of Investor Relations here at Sage. So before we begin just a few housekeeping notices. Please can you take note of the Safe Harbour slide on our screen and in your packs? The bathrooms are by the lifts as you came in, and if the fire alarm does sound marshals will escort you to the evacuation point. Please turn your phones to silent and the AV team have asked that you refrain from using the plug sockets on the desks in front of you.

Please note on your desks the datasheet with the agenda for today and other further details that you might find useful. Some of you have also signed up for the one-to-one sessions with the management team via the Capital Markets Day app. If you did sign up for this session these will happen during the break and you will all have received your schedule at the check-in desk. The one-to-ones will be hosted in the rooms just on your left as you come out of this room. And Harry and Dwight from FTI will be there marshalling proceedings so just ask them if you have any questions.

Please do stay interactive throughout the session. Many of you have downloaded the app so you can post questions, comments and feedback there and we will ensure we do get back to you. And we do also have two Q&A sessions during the course of the event. And you can also ask questions to management tonight. Finally, please do get tweeting using the hashtag #sageCMD2018. Thank you and I really hope you enjoy today.

Welcome

Sue Goble

EVP Services, The Sage Group Plc

Good afternoon. I'm Sue Goble and I lead Business Operations and Services here at Sage. Sage is known as the champion for small and medium businesses, those businesses that form the backbone of the economy. In fact, as we sit here today there are 110,000 Sage customers within 30 miles of us and 1,500 customers within two miles. In fact, there are 19 Sage customers in this iconic building that we sit in.

Sage is also the trusted supplier for some larger enterprises. If you put in your Bausch & Lomb contact lenses this morning, you did it with a Sage customer. If you looked at your Cartier or your Rolex watch, you did it with a Sage customer. If you had a cup of Twinning's tea with your breakfast, you did it with a Sage customer. If you put your teacup into your Electrolux dishwasher, you did it with a Sage customer. Maybe you went shopping at Morrisons, Lidl, Aldi, Costco or Fortnum & Masons; you did it with a Sage customer.

Did you make a call on your Vodafone, Alcatel, T-Mobile or Huawei mobile? You did it with a Sage customer. Did you drive to the airport in your BMW, your Renault, your Nissan or your Jaguar? Or maybe you took a taxi with Addison Lee or Uber, or hired a car from Avis. You did it with a Sage customer. When you got to the airport lounge, did you go to the lounge

and watch the news on BBC, Canal+, ITV or Bloomberg? You did it with a Sage customer. Maybe like me you like to go shopping for Chanel, Clarins, Lancôme or L'Oréal. You did it with a Sage customer.

If your journey here today involved a Raleigh bike, a Kawasaki motorbike, a P&O ferry, an SNCF train or maybe you took a flight with Etihad, Aer Lingus, Air France, Delta or Virgin. You did it with a Sage customer. And finally, if you're going to watch the Philadelphia Eagles in the Super Bowl on 4th February you will be watching a Sage customer. Welcome to Capital Markets Day.

With that it gives me huge pleasure to hand over to our great CEO, Stephen Kelly. Stephen.

Strategic Overview

Stephen Kelly

CEO, The Sage Group Plc

Agenda

Thank you very much Sue and a warm, warm welcome to everybody this afternoon at Capital Markets Day 2018. Today we want to highlight the market opportunity and our plan to seize that opportunity. I'll kick off and then I'll pass to the team who are going to talk to the market dynamics, the business model, the go-to-market and also the technology.

Vision for Acknowledged Market Leadership

Now if there's one key message that I want us to all take away this afternoon, it is this. It's the long-term vision for Sage to emerge as the acknowledged market leader, and we have everything in place to be successful. At CMD in 2015 Steve Hare stated that this was our ambition, and since then our level of conviction has increased.

In 2015 we had a long list to fix, from people to products. There were multiple areas of risk and a lot of moving parts to address. In the past three years, we've made a lot of progress and achieved more than many of us would have predicted. We certainly made solid progress towards becoming a subscription cloud-first company. We've certainly leapfrogged our competitors in terms of technology and left them behind.

Now, we're building a platform for efficient growth. In the medium term, as highlighted in our RNS statement released today, we expect to achieve sustainable 10% organic growth. Now I'll score our current position on three axes. First of all, our incredible market opportunity. Secondly, our technology advantage and importantly. Finally the key area of focus around sales and marketing.

Market Leadership Scorecard

So first on the scoreboard, what's the market opportunity? I think it's really important to note that we're already the global market leader in the upper scale-up and lower enterprise segment, including in the USA where we see huge opportunity for growth. And what's more, we're the clear leader in some of our major geographies and markets around the world, like the UK, Ireland, Canada, France, Spain and Africa. For example, more than half of the companies in Britain pay their employees using Sage. And in Spain, 56% of all companies pay their taxes using Sage technology.

Market Characteristics

Now, three core elements drive our ambition to be acknowledged market leader. First is the composition of the market. Our total addressable market is \$28 billion. The market is fragmented and is still immature. We are one of the leaders, yet our market share is approximately 10%. Our competitors vary from country to country, from segment to segment. There is no consistent competitor.

Secondly, the history of software guides us that a technology leader will emerge in all technology markets. In search it was Google. In CRM it's been Salesforce. In social media it's been Facebook. As a fragmented technology market like ours consolidates, one player wins and another comes second. And truthfully the rest fight for the scraps.

And the final factor is that everywhere we look there are major, major catalysts of change. Whether it's the shift to the cloud or the emerging era of artificial intelligence, technology disruption is already happening. And we at Sage have made a conscious decision, a conscious decision that Sage will lead this disruption. And we will be the force of innovation, technology innovation.

Our Unique Position in the Market

Now of course there will be bumps in the road. No great journey is ever totally smooth. But we believe Sage is uniquely placed and positioned to seize this market opportunity, and some of the reasons ingrained in the Sage story underpin this.

First of all, the Sage brand, the brand promise of trust. For our deeply ingrained integrated local products that provide our customers with 100% compliance 100% of the time. Secondly our global reach means we operate in 23 countries across six continents and with a management team that's deliberately international, with over 60% of the management team coming from outside the UK. And thirdly we are the only business that can take a growing company from start-up to scale-up through to an enterprise offering accounting, payroll, people, and payments & banking services in the cloud.

Now these factors are part of our DNA, and today you will see how clearly we've built on these to write the next chapter of the growth chapter for the Sage story.

Market Leadership Scorecard

So back to our scorecard. We believe the market opportunity's incredible and Sage is uniquely positioned to win. So next up is technology. Now the truth is that in the run-up to the 2015 Capital Markets Day, honestly from a technology point of view, and we said at the time, Sage had been a sleeping giant. And in some areas we'd fallen behind. Now the Sage you will see today could not be more different. Of course we have more to do. No successful technology company ever, ever rests on its laurels.

But let us be super clear, we have leapfrogged our competitors, we've rediscovered our technology mojo and put innovation right back at the heart of Sage. Now where Sage leads today we see others follow. We were the first to market with our smart artificial intelligence, AI smart assistant, Pegg. And now we have unified our cloud products with the launch of Sage Business Cloud, the one and only platform that enables customers to go from start-up, grow their business to enterprise. We've listened to our customers all the time and simplified

our product names within Sage Business Cloud. And this is outlined in the datasheets in your pack today.

Sage Business Cloud

So later today we'll explain this with a deep-dive of Sage Business Cloud which we believe will be the significant platform for new customer acquisition and accelerated growth. It would have been inconceivable to project three years ago that Sage would have increased cloud revenues from £2 million ARR to £300 million ARR with 80% growth coming in FY17. Now incredibly, I find this statistic amazing, were it a standalone business, Sage Business Cloud would be in the top 25 largest cloud SaaS companies in the world today.

So our deep, deep partnerships with companies like Microsoft, Salesforce and Stripe have now unleashed the power of the cloud for our customers. And the industry is recognising our technology leadership too. It's not just us marking our own homework. According to Gartner, the world-renowned market analysts, we're 12-18 months ahead of our competition. And what's more, we feel as a management team we've just got started.

Market Leadership Scorecard

So back to our scorecard. We're humble in the knowledge that innovation waits for no one. But, in truth this is probably the biggest achievement of the Sage team over the last three years. Innovation is part of our DNA and we're now powering in the cloud to be a market disrupter and leader. So, how do we unlock this potential to drive efficient growth? For this, let's discuss the final axis of the scorecard, the go-to-market function, sales and marketing execution.

Customer Obsession

Every single day thousands of Sage colleagues come to work united by a common purpose, our amazing customers. Our go-to-market starts and finishes with our 3 million customers, the businesses supported by tens of thousands of partners. Sage customers, as you know, are the business heroes of the economy. Ranging from start-up entrepreneur, whose office is her garage, to the chief executives, the chief financial officers, HR directors in one of the companies that Sue mentioned in the introduction.

Sage customers are the grafters, the innovators. They create the new jobs around the world. In fact, since 2010 75% of all the jobs created in the UK have been created by small and medium businesses. So our quest, Sage's quest, is to provide these business builders, like Andy of Weekend Box Club on the slide behind me, with the best technology. Making admin invisible through intelligent automation. And freeing up their time to pursue their passion, to grow their business, to live their dreams. It's absolutely our duty to power our customers to success through world class cloud technology. Because when business builders do well, we all do.

We've launched programmes to ensure the customer is top of mind for all of our colleagues. Like Sage Listens, which provides an opportunity for all of our colleagues to call or visit customers. Customer Obsession will be the catalyst for Sage in achieving our vision of acknowledged market leadership. Now Blair and the team will this afternoon outline the plans.

People and Culture

Secondly, we need to make sure that we've got the right culture and the right people in place to support Customer Obsession. In the past the culture at Sage varied by country. It actually varied by offices. And even it varied by teams within offices. The aim for Sage is to create a unified, high-performance culture with talented, driven, accountable leaders who are totally aligned with the business to serve customers.

Now, in order to achieve this we've developed a world class leadership programme, continued to recruit top talent with 30% of our top talent coming from companies like Google, LinkedIn, SAP, Oracle and Salesforce. And we're working to instil a culture of strong engagement and high performance.

In addition, Sage Foundation was established in 2015 to empower colleagues to give back to their communities. Now, we believe that this is a model for compassionate capitalism and Sage Foundation has also become a great vehicle for Sage to attract and retain the best talent in our colleagues. I'm incredibly proud of the work of the Sage Foundation and I'd like to share with you a very brief video.

Sage Foundation Video

Having good intentions is a great place to start. Taking action is much more important.

The Sage Foundation are in a really unique position. They work in a global organisation where small not-for-profits and charities across the world need them.

We've learned that it's important to do what we can to help give back and we can make a difference.

When people really see that they can make a massive difference to somebody's life it's just unbelievable.

We are investing in the future of Sage when we invest in these young people.

Most of what I get is in my heart, in my feelings, no. And this is very difficult to explain.

This experience has really helped me to be a better person.

Believe me, when you see the faces on these people it will really – it will drive you to tears.

It's also part of one's development when your life touches other human beings.

Sage is about people, it's about building. It helps us, it helps them, it helps the world.

What I would say to anyone that's thinking about volunteering is just absolutely get out there and do it.

Take that opportunity. Be out there in the community and do it.

It's going to get you out of your comfort zone, out of your seat, out of the office into a whole wide world that you might not know about but you should.

Stephen Kelly: Every time I watch that video it just gives me goose bumps and I'm so proud of what the colleagues have done through the Sage Foundation. Because I think it's important for everyone to understand that we, at Sage, aspire to grow the company the right way. By serving business builders with fantastic integrity, a great ethos, obviously with robust risk assurance, with excellence in governance and quality in everything we do. And we

also believe that we should make a difference to our communities and be responsible to set the bar for all companies to strive for compassionate capitalism.

Market Leadership Scorecard

Now we also believe investors will be well-rewarded and, yes, importantly you can be rest assured that Sage is doing business the right way. So finally on the scorecard, go-to-market is the critical area where we must succeed. At the last CMD, we said we were wrapping the go-to-market function in cotton wool as we transformed the rest of the business. Inevitably there's still more to do until we're firing on all cylinders. Now, you'll hear from Blair and his team this afternoon.

Vision for Acknowledged Market Leadership

So to summarise, we play in a \$28 billion market. There is no consistent competitor. Our competitive advantage is trusted brand, global reach, market breadth and local compliance that puts us in a prime position to capitalise on this opportunity. Our technology, powered by Sage Business Cloud, gives us a market-leading cloud platform to attract new customers, to grow existing customers and to win in the market.

Three years on from the 2015 CMD, we absolutely have more conviction than ever that we can emerge as the acknowledged market leader. Our path for the medium-term is high quality, double-digit, organic growth. And at the same time we will of course maintain our compelling investment case of superior operating margins, strong free cash flow and a progressive dividend.

So three years ago we had many, many moving parts and, you could argue at the time, some burning platforms to solve. Product, back office, talent, leadership, technology, probably more. Today we face a much, much simpler exam question. We must now prove to our stakeholders that we can execute effectively and efficiently in sales, marketing and service to drive efficient growth. And the team will be talking about this ruthless focus on improving our execution.

Now, before they do I want to hand over to Keith Robinson who leads Business Strategy worldwide, and he will give you more details on the compelling opportunity that faces us. Thank you very much, Keith.

Market Opportunity

Keith Robinson

Business Strategy, The Sage Group Plc

Thank you Stephen. Good afternoon, my name is Keith Robinson and as Stephen mentioned, I run Business Strategy here at Sage. Like a number of you here today I was present at the 2015 Capital Markets Day, though I wasn't a Sage colleague at the time. In fact I was sitting in your seat. Prior to Sage I was based in Silicon Valley and I was managing the global software portfolio for a technology-focused hedge fund. I attended the last Capital Markets Day as a possible investor and was so impressed by the team and the opportunity in front of Sage that when the chance to join the team presented itself a few months later, I jumped at it.

As an investor I was of course familiar with bare case on Sage. Can they accelerate growth? Can they acquire net new customers at scale? Can they leverage their global footprint? And ultimately, can they regain lost market share? The diligence I did during the interview process led me to believe that, although there was significant work to do, Sage had all the assets to get the job done.

It had the team in place to execute and had a number of powerful tailwinds to leverage. I knew that I wanted to be part of this story. And so next month will mark my second anniversary as a Sage colleague. I couldn't be more proud of what we've accomplished together thus far. Now, please allow me to give you some insight into the market opportunity in front of Sage.

Sage Business Cloud – Platform for Acceleration

As Steve had mentioned, it is Sage's vision to be the acknowledged market leader in our chosen markets. We operate in a very large, growing market characterised by highly fragmented competition, most of which are solely focused on a single geography or single customer segment or a single software category. Sage sets itself apart with Sage Business Cloud as the first and only cloud platform covering accounting and financials, people and payroll, and payments and banking, complemented by a full offering of supporting cloud services provided by Sage itself as well as a number of high-value ecosystem partners.

These partners include some of the most innovative and high-growth technology and fintech companies in the world, as you'll hear more about later. Sage Business Cloud, as a platform, solves the most mission-critical challenges our customers face in running and growing their businesses, and is the only platform for customers ranging from start-up through to enterprise.

Total Addressable Market

As you can see from the slide, the opportunity in front of Sage is massive. Our total addressable market, or TAM for short, is \$28 billion in 2018 growing at 7%. Included in this TAM is the single-largest software category in the world, accounting and financials. The most important characteristic defining our market is that cloud-deployed solutions account for approximately 44% of the total market in 2018, and are driving effectively 100% of the growth. I'm going to repeat this. Cloud solutions account for 44% of our market and deliver effectively all the market growth.

By 2020 cloud-deployed solutions will represent more than half of Sage's overall market, highlighting the compelling opportunity for market-share gains available for Sage business cloud. Underlying this high rate of cloud growth are powerful tail winds, such as globalisation, increasing level of government compliance obligations and more industry-specific regulatory constraints. Businesses everywhere are under pressure to do more with less, to be more agile, to be more competitive. And Sage Business Cloud uniquely addresses these requirements by automating painful, back office processes for our customers, enabling them to make better and faster decisions and generate data-driven insights for their businesses.

Cloud Adoption Rates Vary by Geography

Without a doubt the single biggest market driver across all of our country markets is cloud growth. What differs across countries, however, is the current level of cloud adoption, with more cloud-adoptive countries like the US, Canada, the UK and Australia and New Zealand

leading the way, and other countries exhibiting lower levels of cloud adoption. However, the relative growth rates we see in cloud versus on-premise solutions in each of our countries paints the same picture. Every single one of our markets is tipping towards cloud. And now Sage, with Sage Business Cloud, is able to act as a catalyst to accelerate that pace of change.

That means that over time each of Sage's markets will exhibit significantly higher levels of cloud adoption than they do today. And no other company has the unique combination of best-in-class cloud capabilities and geographic breadth that Sage has, enabling customers in all of our countries who are ready to adopt cloud to do so. Whilst also recognising that not all customers are ready yet for that step. In which case our cloud-connected applications provide numerous, next generation capabilities offered by the cloud but delivered in their existing and familiar solutions.

Competitive Dynamics

Within this large, high-growth TAM Sage faces a highly fragmented group of competitors, the majority of which are small, legacy on-premise players isolated as single countries, single customer-segments and single software categories. There are only a handful of these traditional on-premise competitors that appear across more than one country.

Newer cloud-native market entrants are appearing, though these competitors often struggle to evolve beyond a single point product, with limited functionality and market reach. Importantly there's not a single competitor, either cloud-native or traditional on premise that we see consistently across the full range of geographic markets, customer segments and software categories that Sage Business Cloud covers.

Furthermore, many of our competitors struggle to localise, particularly in non-English speaking markets, which is a long-standing core competency of Sage and a significant competitive advantage. And often our competitors lack the necessary resources to maintain 100% compliance within an ever-changing regulatory environment, even in just a small number of countries. For example, in the US alone Sage makes over 4,500 product updates in an average year for compliance reasons, including federal and state tax rate changes, form updates, calculation changes and the like.

Now, multiply that by our 23 countries and you'll start to understand the depth of the expertise we bring to the table in managing this level of global complexity every day for our customers. Sage has nearly 40 years of experience in maintaining 100% compliance in all countries, in all solutions and has been operating successfully for years, in many cases decades, in countries where our competitors have struggled to gain traction.

Ultimately, Sage differentiates itself from competitors by our core focus of solving the complete set of mission-critical back office functions, with best-in-class cloud and cloud-connected solutions for all businesses, from start-ups to enterprise. The full breadth of which our competitors have historically struggled to successfully address.

Leading Share in the Majority of our Top Markets

In five major Sage geographies, Sage has already established market leadership and is accelerating to grow that market share. These countries make up approximately 20% of our TAM and offer high ORR investment opportunities to continue driving profitable growth in the

future. And as a reminder, the blue portions on these pie charts consist mostly of a long tail of fragmented players.

With the recent rollout of Sage Business Cloud in each of these markets, Sage is able to capitalise in the entire breadth of the market opportunity. And no other competitor has the depth of cloud capabilities across these markets. Sage will continue to act as a category leader, driving our markets towards greater levels of cloud adoption and leveraging the benefit of our significant investments in emerging technologies.

US Market Represents Significant Opportunity

Lastly, the US is by far Sage's largest market, with over 50% of our TAM residing in this single country. To be clear, that means that our TAM in the US alone is over \$15 billion. And as such, Sage is laser-focussed on winning in this critical geography. This focus was a core element of the strategic rationale behind Sage's acquisitions in fiscal 2017, including Sage Intacct, which is the cloud financials leader in the US for scale-ups. And that has been a key catalyst to the formation of Sage Business Cloud.

To be the acknowledged market leader, Sage must win in the US. And with Sage Business Cloud, Sage has, perhaps for the first time in the company's history, the platform to do so. As critical as the US market is, this chart makes a second point, that the size and shape of Sage's TAM provides more than enough addressable market runway for us to achieve our ambition. And this means that Sage is committed to driving deeper penetration in all of our country markets on our path to accelerating organic revenue growth.

Summary

So in summary, let me leave you with a few points.

1. Sage operates in a massive \$28 billion TAM against highly fragmented competitors.
2. This shift to cloud is accelerating in each of our geographic markets, and Sage Business Cloud is uniquely positioned to catalyse and capitalise on this shift in our existing geographies.
3. And lastly, the US, where we're already a leader in cloud financials for scale-ups, represents a major market opportunity for Sage on its path to category leadership. The size of the prize is sharply in focus and we're doubling down in the US. With the acknowledgement that the US market leads the way in cloud adoption and serves as a blueprint for all other markets are likely to evolve over time, we have a clear strategy to win in this important market and this has already started to come through in our financial results.

So with that said, let me hand over to Rob Reid, Managing Director of Sage Intacct and a true expert in building a world-class cloud business in the US, to give you some more colour on our opportunity there and the investments we're making to win in that market.

Sage Intacct

Rob Reid

Managing Director, Sage Intacct

Thank you, sir. Thank you, Keith. It's a great pleasure for me to be here with each and every one of you today and to be part of the Sage family. Previously for the last eight years, I was the CEO of Intacct and we were the recognised innovation leader in the US in the upper scale-up in the enterprise arena.

And I've been in the industry a long time – for forty years. Now, I know many of you are looking at me and going, 'Yeah, he must have been in Franklin Delano Roosevelt's Cabinet.' But I got to tell you in those 40 years, I've been through three IPOs. I've sold four companies, and I've sold those companies with valuations between seven and ten times revenues.

I've either founded the organisation or been part of the team of some of the fastest growing software companies within the industry. And I wanted to let you know about my excitement about being part of Sage. Our opportunity here is the biggest in business software. And the future for Sage, I believe, will be the highlight of my career.

Now, I want to give you an overview of Sage Intacct, how we gained that leadership in the US marketplace and how we beat organisations 10 to 20 times our size. And I must really discuss the strategic rationale as why we wanted to be part – so, the Intacct team wanted to be part of Sage.

Focus on the Upper Scale-Up/Lower Enterprise Market

So, let's dive into it, who we are, the markets we serve. So first of all, Intacct focusses on upper scale-up and lower enterprise segment of the market. We typically are serving organisations that are 20 to about 1,000 employees, but we can handle – and we have many customers that scaled up into the billions of dollars of revenue.

Our focussed verticals today are software, business services, non-for-profit, wealth and asset management, but we really do have customers literally in every vertical within the marketplace. Now, these growing companies are looking for solutions that's going to help them accelerate their growth. Now, they want to capture results, but they want to highlight the opportunity that's before them, utilising empirical data for data-driven decision-making.

Powerful 'Born in the Cloud' Solution

At Sage Intacct, we've turned the system of record into a system of intelligence. Now, our solution was designed from the ground-up to be cloud-based and multi-tenant right from the get-go. We've been focussed on delivering solutions that automate the financial process, but provide that deep visibility into the business and opportunity.

We also have provided a UI that takes hard accounting and finance concepts and truly makes them easy. Our open APIs makes it extremely easy for other business systems be connected to Sage Intacct. In fact, we have almost 250 business systems from other independent software vendors that have been integrated with Sage Intacct so that our customers get a 360 degree view of what's going on in their business, how they can drive the results and grow profitability.

The vast majority of our customers are headquartered in the USA, but they have organisations and deployments throughout the rest of the world. Now, Keith reflected in the fact that the USA represents about 50% of the TAM in financial management revenue today on a worldwide basis. And Sage Intacct has been and continues to be the innovation leader, building momentum. And we are part of, now, the Sage Business Cloud and we're going to be taking that to the future in the rest of the world.

Now, we're planning on going forward with UK in our internationalisation of Sage Intacct in our fiscal year 2019, with expanding into the other Sage geographies in the longer term to take advantage of the market reach of Sage. So, Sage has over about £500 million of revenue coming from North America. And we know from past technology trends, when the US moves towards a sea change the rest of the world follows.

Ask the Experts

AICPA

Now, we've achieved industry recognition from some of the most prestigious organisations in accounting and technology industries. We're the only firm who has received the 'Preferred Provider' status with the AICPA – that's the accounting professions membership organisation who provides the title of CPA to a tested accountant. They know more about accounting than any other organisation in the United States and after evaluating all of the top vendors – every one of them – they selected Sage Intacct as the best solution.

Gartner

Also, Gartner classified Sage Intacct as the visionary for the mid-market in the Magic Quadrant. We were the visionaries.

Salesforce

Salesforce awarded us a Platinum Partner award. That's a status that's only given out to a very few handful of partners out of their thousands.

G2 Crowd Leader award

But most importantly, we've received the highest rating in the industry for customer satisfaction.

Gartner Rates Sage Intacct at the Top of the List

So this past summer, Gartner published our findings with Sage Intacct ahead of all other solutions for mid-size and large organisations. They recognise that Sage Intacct was the most comprehensive solution for the mid-market with the overall score, and that we had the vision for the future to provide more value to our customers.

Industry Customer and Employee Satisfaction Leader

But I've got to tell you, innovation and delivering customer results is only one part of our overall success. We're also the customer and employee satisfaction leader. Sage Intacct has the rating of 98 on a scale of 100, with 100 being best, on G2 Crowd, which is a customer review site that has over 2,500 reviews.

Now, that's in stark comparison to our other direct competitors that have scores in the 40s to 70s. Our customers know that we're an organisation that is dedicated to their success. And

we'd not be able to achieve that highest rating if we didn't have their trust in the business relationship.

In addition, I would say Silicon Valley is arguably the most competitive market in the world. And Sage Intacct has been voted the best place to work for seven straight years, as well as we were one of the top 101 companies in the whole United States to work within.

Accelerating with Sage

So, Sage Intacct and Sage are committed to sharing best practices and building one of the best technology companies in the world. Both Steven and I are passionate about making this a great place to work.

We've got motivated employees that are obsessed with customer success, who love their job. And they want to change the way our customers think and work, so they can progress their organisation and have additional growth.

So, having innovative products plus industry-leading customer satisfaction, along with a culture that maximises results, is a winning business equation that cannot be easily replicated by our competition. It takes years to achieve one of those business tenets and those lofty goals, let alone achieve it in all three that I just went through.

We've got a competitive advantage that no one else has in the world. So I got to tell you, we, at Sage Intacct, are really excited about being part of Sage in the Sage family. Our decision to join Sage was very strategic for Sage Intacct.

We were on an IPO path. We had entered into the process. But we saw that we could align with the global market leader and achieve more reach that we could have done as an independent organisation.

Sage is investing for increased growth in Sage Intacct and in the Sage Business Cloud. So, we were the sort of the last remaining strategic piece at Sage Intacct as we move on in and are delivering one of the best platforms in the world with the Sage Business Cloud. And we're going to be delivering for that again at upper scale-up to lower enterprise markets.

We also saw that we could improve our solution with the experience and the talent that is here at Sage, and deliver even deeper whole products by attacking additional vertical markets and by integrating payments, bank reconciliation and Sage people. The whole management team at Sage Intacct is committed for years to Sage's success.

And thanks so much for listening to our part of the Sage story. So, I'm going to turn it over now to Steve Hare, our CFO, many of which I know you know. And Steve's going to discuss with you our future business model. Steve?

Business Model

Steve Hare

CFO, The Sage Group Plc

Thanks, Rob. And I have to say it's been a great pleasure to work with Rob and the rest of the Sage Intacct team since they joined the family just six months ago. And I'd like to extend my welcome to Sage Capital Markets Day here today.

Ambition – Acknowledged Market Leader

So, I'm here to talk about the long-term business model. But before I do that, I just want to refer back to the message that I opened my presentation with back in 2015 at the previous Capital Markets Day. Our ambition remains the same today as it did then; to be the acknowledged market leader.

The characteristics of the investment case also remain the same. High-quality revenue growth, superior operating margins, strong free cash flow and a progressive dividend. The difference today, however, is we're not just talking about it. We've already started to see progress. And I'm going to talk today about how we will continue to drive that growth momentum.

But before I get into the meat of that, I just want to talk to the three messages that I'm going to go through. And these messages are about the 'How?' So, how will we drive revenue growth? How will we achieve efficient growth and scaling with financial discipline? And thirdly, how will we measure it?

Revenue Shape

So, let's begin with an overview of both the existing and also the future shape of our revenue base so that we're all clear on the starting point. So, the key points that I want you to take away from this slide are that over time, recurring revenue will continue to be an increasing part of our revenue mix, moving from 78% today to about 85-90% in the future.

But one of the biggest changes is the composition of that recurring revenue. Today, half of that recurring revenue is maintenance and support. And in the future, it will be all subscription, very little maintenance and support and no perpetual licenses. But this will obviously take time.

Services and processing revenue will remain an integral part of our model. We will cover this more later, but expect that it'll be about 10-15% of Group revenue. Now for clarity, and as we said in the results at the end of FY17, all of the numbers that we're talking about in FY18, in terms of revenue, include both Sage Intacct and People. And most of that revenue falls into recurring.

Existing Customer Growth

So, we've talked before about how we migrate our existing customers to Sage Business Cloud. Now, this is mainly Sage 50 Cloud and Sage 200 Cloud solutions. The good news is we've seen early signs of success in the UK, the US and Canada, where we released early versions of this product line. We now have Sage 50 Cloud integrated with Office 365 in 11 countries. We're now working to achieve exactly the same thing with Sage 200 Cloud.

Customer categories

Now, many of you in this room are familiar with the profile of our existing customer base, and you can find a full breakdown in the datasheet. But I just wanted to break our 3 million customers into four categories. The first category is an off-plan customer who has a perpetual license, but no support contract. The second customer is the same; has a perpetual license, but this time has a maintenance and support contract, so is on-plan. The third category of customer is a subscription customer, but a subscription customer who still has an on-premise product. And the final category is a cloud customer on subscription.

Off-plan

Now, I want to start by talking about that first category, that off-plan base. We estimate we have somewhere between 500,000 and a million customers in this category. Now, these customers have purchased a perpetual license. Now, all of them won't still be using the product, but a lot of them will. But they've not renewed their maintenance and support contract. Why? Well, the product works.

Herein lies the opportunity. They're on an older version of the product. We have the opportunity to reactivate and migrate these customers to the latest versions of our connected cloud products. So, let's just take an example. Let's take the lower end of that range – 500,000 customers – and assume that we could maybe reactivate about 20% at £500 a year. That's £50 million of additional revenue.

On-plan

Now if you move to the on-plan base, those customers – perpetual license, but with a maintenance and support contract – there's currently about 900,000 of those generating £600 million a year of revenue.

Now, the opportunity here is to migrate those customers to a subscription contract and the functionally rich, cloud-connected version, getting on to the latest version which, from experience, translates to a premium of about 15-20% on what's currently being paid. So again, doing the maths, that adds about another £90-120 million of growth.

On-premise subscription

Next, we have 700,000 on-premise subscription contracts. So, customers who've already migrated to subscription, but are still on-premise. Same principle as the maintenance and support contracts. We want to migrate these customers to the latest cloud-connected versions, which, as well as giving them that superior functionality, also gives them access to Sage Business Cloud ecosystem.

Now typically, because this customer is already on subscription, the premium is slightly lower, typically 10-15%. If we could migrate all of these customers, that's another £70-100 million of growth. So, those areas that I've just outlined add up to about £200-275 million of additional growth from our existing customers over and above any normal growth that we could achieve.

Cloud subscription

Now, the final customer segment is customers who are already on cloud solutions on subscription, i.e. they're on Sage Business Cloud.

Now as I've already outlined, our aim is to get all of our customers ultimately onto Sage Business Cloud. Through focussing on customer obsession, going forward, we can continue to drive growth from all existing customers by delivering additional value and therefore, targeting retention rates by volume of 90+% and by value of 100+%.

Both Sage Intacct and People are already doing this very successfully and we're applying those learnings to the rest of Sage. So, the approach that we're taking with our existing customers and the fact that the migration to cloud is in its very early stages, apart from the North America or the UK and Ireland, should give you confidence that over the next two or three years, we can maintain high-single-digit growth even if we didn't accelerate the rate of

new customer acquisition.

Sage Business Cloud

Now clearly, it is our ambition to accelerate winning new customers at scale. Now inevitably, after this sort of two to three-year period, the growth from existing customers will normalise to around 5% per annum. So by definition, in order to achieve our objective, we do need to accelerate new customer acquisition.

Sage Business Cloud provides this platform. At the yearend, we spoke to this slide and the success that we're already seeing. I've already discussed the connected-cloud revenues within the existing customer base. So, for this section, I'm going to focus on native cloud portfolio only because this is what drives winning new customers.

Now, we already have annualised recurring revenue in this category of over £120 million, and this part of the business is growing strongly. Now, for complete transparency, when we report Sage Business Cloud revenue, it includes only the cloud version of Enterprise Management, which is what you've all known as X3.

So, when we quote £300 million of annualised recurring revenue, this does not include on-premise Enterprise Management. Today, this is mainly sold on-license, as Nick will explain later, but this is how some customers still prefer to consume the offering. But over time, the growth will switch to subscription as we migrate more of our customers on to the cloud for Enterprise Management.

Now, our comprehensive suite of native cloud solutions means that we can grow by serving a range of customers from an entrepreneur to a CFO, with ACVs ranging from £100-30,000-plus.

When you look at Sage Business Cloud, you can see how the power of the platform has been enhanced through acquisition. Without Sage Intacct and People, Sage Business Cloud would not be as compelling. And we will continue to build, partner and acquire where we see this as appropriate. Combining that with our market leadership positions in a number of countries and segments that we serve is a true differentiator. You will hear from Blair later that it's all about harnessing the power of our local knowledge to ignite this opportunity.

Growth Summary

Steven earlier rightly highlighted that our competitive position and advantage is clear. No other competitor has the breadth of Sage Business Cloud combined with Sage's geographic reach. So in summary, in the longer term, as we aim for double-digit growth, expect about half of that growth to continue to come from our existing customers, and about half to come from winning new customers.

This growth will then be supported by two further areas: Payments and Banking, and Artificial Intelligence. Both of these help build more value for customers and increase retention. This is achieved using both our own technology and expertise, but also through partnering with others. And you're going to hear a lot more about both of them later.

Margin Progression

As always, financial discipline and improving the quality of the business through driving better control and efficiency, as well as being completely transparent, remain key priorities. So in terms of margin, you can expect that the cost of sales will remain broadly flat at around

19-20%, as savings generated through driving efficiency, automation and digitisation in customer interactions are offset by increased hosting fees as we continue to invest more in the cloud.

Now, as you know, we also currently spend about 30% of revenue on sales and marketing, which, combined with the 19-20% I just referenced, give you the combined go-to-market cost which appears on this slide.

The cost of G&A is already reduced from 20% and we remain committed to reducing it further to our medium-term target of 10%. Whilst doing this, we will also improve the quality and the efficiency of the service that we deliver.

R&D investment will continue to increase in line with revenue, remaining at around 10%. We've already moved significant resources in R&D to the cloud. But Sanjay will talk later about how he's going to accelerate this further.

We're also focused on delivering a further 500 basis points of savings and efficiencies, the bulk of which will come from the G&A reduction that I've just mentioned. This will be achieved in the medium to long term. But effectively, it provides us a decision tree, in terms of how we will choose where to invest. Do we increase the spend in go-to-market or do we put the savings into margin?

Now as we head towards the mid-term and we start to achieve 10% revenue growth, we can then assess do we have the opportunity to accelerate that growth further. If we do, we will invest that money, that savings, in go-to-market. If we don't and we don't see a compelling and efficient investment, then we will deliver those savings to margin.

Now for clarity, the baseline, organic operating margin remains 27% in the medium term, and we remain fully committed in the longer term to improving this to, at least, 30%. And to be even more crystal clear, in FY18, we reiterate our intention of achieving the operating margin guidance of 27.5%.

Sage KPIs

Now as we transition to a greater level of subscription, we're also evolving how we measure the business. There's a full list of KPIs in the datasheet, but I just want to pull out a few.

We've always disclosed renewal rate by volume. We're now also going to disclose it by value. This metric provides an insight into how we're driving value with our existing customers. We're aiming to achieve a baseline of 100+% so that we continue to drive growth from our existing customers. Now, both Sage Intacct and People are already achieving this, renewing in excess of 105% by value. But the rest of the business is below this, providing a significant opportunity.

An integral part of our strategy is driving growth through Sage Business Cloud. Therefore, for this reason, the average run rate or annualised recurring revenue is increasingly important. To illustrate this point with a simple example, assume we book a £1,200-a-year subscription contract in Month One of the year in October. We recognise that full £1,200 in that same year, in terms of revenue.

Imagine now we book that same contract in Month 12, i.e. September. This means the revenue straddles two financial years, and the revenue recognised in that first year is only £100. Yet, 100% of the costs have been incurred and charged in that first year. The ARR

growth is identical as is the total contract value, but the recognised value in that financial year is very different. So, we will, over time, also start to give colour around customer acquisition costs and total contract value.

We will also give visibility on how we're tracking against our 500 basis points of cost savings and how they're being reinvested.

And finally, at the yearend, we introduced disclosing return on capital employed. And as I've already outlined, we will continue to demonstrate financial discipline and remain focussed on capital allocation. And so, we will continue to report return on capital employed.

Ambition – Acknowledged Market Leader

So to wrap up, I want to revisit what I said at the beginning. The market opportunity remains more attractive than ever. The work that we've done over the past three years has provided us with the platform for efficient growth. We have market-leading technology with Sage Business Cloud. So now, it's all about execution. And today, you will meet many of the people who are responsible for achieving that execution.

The ambition also remains the same: to be the acknowledged market leader. And this means accelerated quality revenue, superior margins, strong free cash flow and a progressive dividend. I've shown you today where that revenue growth will come from and how we will achieve this efficiently and with discipline. We have all of the ingredients necessary, and I'm more excited than I've ever been both about the opportunity, but more critically, our ability to deliver it.

And on that note, I'm going to pass to Blair Crump, who leads the Go-to-Market function. He's obviously going to give you more colour on how we drive the growth through our go-to-market engine. Blair, all yours.

Go-To-Market

Blair Crump

President, The Sage Group Plc

Thanks, Steve. Thank you. Good afternoon, everyone. I'm Blair Crump. I'm really excited to be here. Great to see everyone. I joined Sage in August 2016 to lead our Go-to-Market functions. And at that time, I was stunned by how much growth potential we had. Sixteen months later, I know now that I had it wrong. Our opportunity is more immense than I had imagined. And that it's the largest market opportunity that I have personally seen in my 35 years in high-growth technology companies. It's simply awesome.

We Have What We Need to Win the Market

So, let me start by stating that I believe that we have all we need to win the marketplace. We have the technology, the international presence grounded by local reputation for trust and compliance in every market, and now the platform for accelerated growth, Sage Business Cloud.

Back to Basics

To take advantage of this enormous opportunity, we need to execute in our go-to-market channels. So today, I want to share the progress we have made to-date and what we still need to do ahead to accelerate our business.

From the Capital Markets Day 2015 to my appointment in August 2016, Management had helped go-to-market on auto pilot, while back-office functions and subscription and cloud-based solutions were developed. That was absolutely the right approach. Technology and innovation, ahead of distribution, while preserving the customer experience.

We already had a business that achieved 6% revenue growth in FY16, but the composition and contribution from each region towards that achievement was unbalanced. So, as soon as I joined, we got started by doing deep-dive examinations of each region to determine their readiness and prepare them for consistent and predictable growth.

Now, Sage does way more than just one thing. We operate from start-up to scale-up to enterprise. We provide a full range of business management solutions that include Accounting, People and Payroll, Payments and Banking. And we operate in 23 countries. This diversity is what gives us our competitive advantage and what allows us to access the \$28 billion dollar market.

So it was no wonder that because of our historic growth through acquisitions, that Sage Go-to-Market functions were federated and fragmented. Many of you are already aware of this. We also determined that there were significant inconsistencies in sales fundamentals and experience. And in most cases, we were not operating at peak power and efficiency. So, we applied a back-to-basics programme.

We laid the foundation for a common infrastructure, methodology and organisation to track and report sales and productivity. We initiated the deployment of Salesforce to replace the dozens of CRM systems supporting product and local markets. We streamlined and consolidated hundreds of sales compensation plans. We established a sales culture with a common system of values around growth and customer success. We introduced onboarding, and learning and development modules for subscription and cloud.

Now, why does any of this matter? These are table stakes for any high-performance tech company and any top-notch sales organisation. Period. And I want to underscore that for purposes of Sage's future, these foundational measures are a powerful enabler for a yet-to-be-realised wave of growth. If we can grow 6% in the previous environment, imagine what we can do with the proper tools, training and leadership.

Building Blocks for Success

So today, I want to share an update on our progress and our plans to lead in subscription, to win in the cloud and to grow faster than the market. Our plan is based on four priorities that serve as building blocks for our success.

- Create the appropriate organisational design.
- Implement best-in-class leadership.
- Create a high-performance sales culture.
- And align marketing and sales strategies and investments.

Organisation Design

So first, on organisational design. We've established a Go-to-Market organisation centred on the customer to ensure focus, accountability and channel management. Each managing director reshape their organisation around six channels, led by leaders with the necessary skills and experiences to make change and accelerate progress.

The channels are:

- New Customer Acquisition (NCAA),
- Customers for Life (C4L),
- Enterprise,
- Services,
- Partners, and
- Accountants.

These channels are supported by the Marketing function headed up by Ron McMurtrie. Sue Goble is up next to talk about the progress we have made in Services. And Jennifer Warawa will then take you through Partners and Accountants.

Leadership

To enable our ambitions, we needed world-class leaders with sales experience building subscription in cloud businesses to cover the requirements of start-up, scale-up and enterprise. Over the past 13 months, five out of the top eight regional managing directors have been replaced. And since 2014, all eight are either new-to-role or new-to-Sage.

Some highlights. At the beginning of FY17, Nancy Harris moved from the Managing Director of Canada to take the helm of all of North America. Since that time, the US has moved from the bottom-performing region to delivering four quarters of successive revenue growth and recurring revenue acceleration. FY17 was a breakout year for Canada, delivering double-digit organic and recurring revenue growth.

In the second half of FY17, we added two outside appointments: Pieter Bensch, leading Africa and the Middle East, and Kerry Agiasotis, leading Asia Pacific. Both are well known business leaders in their respective regions with outstanding sales leadership experience.

In November, Laurent Dechaux joined Sage to lead France at a critical time for the region after a challenging year. Laurent joins us from Oracle, where he led applications in Oracle Cloud for Western Europe.

Each of our regions has idiosyncrasies that set them apart, including size of business and cloud adoption. While we continue to simplify and align our business, these nuances will likely continue to exist. The size of the business can have a significant impact on how quickly we can drive accelerated growth. It's easier to turn the ship in our smaller regions. And that is evident in our FY17 results, with double-digit growth in Canada, Central Europe, Iberia and Africa. It's quicker to embed improvements, simplification and culture. For larger regions, this takes longer.

Cloud adoption is also a significant factor. Keith showed you earlier that cloud adoption varies significantly by region. North America is the most cloud-adopted market, while the US

market is spending about half every tech dollar on financial software in the cloud. This is why the Intacct acquisition in the US was so crucial to us. We had a terrific Q1 in North America. As much of this acceleration is being driven through Sage Business Cloud.

In other regions, cloud adoption is slower. So, whereas the US cloud adoption is nearly 50%, in Spain, it is just 12%. The launch of Sage Business Cloud around the world enables the most comprehensive cloud platform for our customers and provides customers choice from connected cloud to native cloud.

So, as cloud adoption accelerates, Sage is the best-placed company to take customers to the cloud. Indeed, our ambition is to leverage our first-mover advantage to accelerate these markets to the cloud. Nick Goode will be sharing more about Sage Business Cloud this afternoon.

Creating a High-Performance Sales Culture

So first, organisation design. Second, leadership. Next, creating a high-performance sales culture. This is where we've faced the most challenges, and the work is ongoing. We've built a sales operations organisation from scratch, focussing on measuring and managing performance that includes sales mechanics and enablement, selling cadence every day, every week, every month and every quarter. Sales rep productivity, forecasting and pipeline management, NPS (Net Promoter Score) for each segment and channel.

We have deployed sales playbooks that detail the sales process, from campaign to renew, for the different channels: NCA, Customers for Life and Partners. And we've appointed a leader for sales enablement. Quota-bearing reps sales productivity is now top of mine in all regions. This is supported by a reimagined sales compensation strategy that aligns compensation with our ambition and objectives. This has reduced the number of sales compensation plans to a single framework aligned with each channel.

The 'So-What?' of all of it is this. We are building a best-in-class foundation for growth with the right measurements and incentives that reward performance and reinforce customer obsession.

Marketing at Sage

Finally, Marketing has played a big part in the evolution of our Go-to-Market. The result was a multi-quarter programme to establish a single-brand platform and centres to support new customer acquisition through digital marketing, customer events, partner marketing and segment marketing.

We have linked brand to demand and placed customers and their needs at the core of our brand promise. In fact, if your travels brought you here through the London Bridge Tube Station, you probably got a look at how we feature our customers and Sage Business Cloud in our marketing.

Since launching our brand programme, Sage share of voice has grown over 75% across our markets. Premier Sage branded events, such as Sage Summit, were expanded. And in FY 2017, over 15,000 customers, partners and accountants participated in multi-day events in eight countries.

We have overhauled the way we engage with customers and prospects by supporting our sales colleagues and partners with always-on digital, social and mobile content and branded

experience. All of this has made us more efficient. And since the start of our marketing transformation in FY16, when investment peaked at 11.4% of revenue, our investment now averages 9%.

Path to Double-Digit Growth

So, I leave you with these points of emphasis. It's back to the basics. We are making progress and it is coming together with laser focus on people, process and programmes. For us, it's all about customer obsession and driving a high-performance sales culture.

Do I believe we will achieve double-digit growth over the next two, three years? You're darn right, I do. Not only that, but I can see multiple combinations of getting there between Steve's waves of growth, Sage Business Cloud and the back-to-basics programme improvements that I've described today. And five of our eight regions are already there.

We Have What It Takes To Win!

We know cloud is the future for our customers and we want to stay ahead of the pack. We all know that in the subscription world, the earlier you can bring new business, the better. Sage is the only company with purpose-built solutions, from start-up to scale-up through to enterprise, backed by a brilliant management team and a customer-obsessed Go-to-Market organisation and sales strategy. We are just getting started and we have all it takes to win.

Now, our primary way of ensuring our customer success is through our Services organisation. So, I'm very pleased to hand the baton to my colleague and pal, Sue Goble, to overview our Services programme.

Services

Sue Goble

EVP, Services, The Sage Group Plc

Thanks, Blair. Thank you, Blair. So, I didn't just have a short walk-on part earlier. Now, I get to tell you how we make our customers successful. I joined Sage 18 months ago from Iris Software, where I was the CEO of the Cloud Division. Prior to that, I've spent most of my career in services organisations running services for software companies, including Oracle, Siebel Systems and Salesforce.

I joined Sage because I was inspired by the vision the company has to take a path to the cloud for the next part of its journey. I have not been disappointed. The last 18 months has been one of the most exciting and satisfying periods of my career, and I feel like we're just getting started. It's all about customer obsession.

Serving Our Customers

So, why does Sage need services? Well, that's simple. To drive rapid time to value, support our partners and enhance our customer's success. Here at Sage, we love our customers. And they are our 'Why?' This means ensuring we have a really good level of contact with them so we understand what they need.

For our start-up customers, digital and touchless interaction is often the best way to service their needs. At this level, self-service knowledgebase and communities generally gives

customers what they need. As we progress to scale-up businesses, phone to a contact becomes increasingly important as the nature of queries becomes more involved.

For complex scale-up businesses, we use our Partner ecosystem to interact, train and help them implement solutions for our customers. And for the largest businesses, a full range of Partner and Sage digital, phone and onsite services are important to ensure their needs are met.

Services

In the world of subscription software, there is nothing more important than delighting and retaining your customers. Customers paying for a service as they consume it are far more likely to vote with their feet if they have a problem. Cloud software companies have evolved their services to provide proactive advice and guidance, to ensure customers adopt and use the service to achieve results in order to prevent them voting with their feet and leaving.

Sage has 4,000 colleagues dedicated to serving our customers. This makes up about 8% of Sage's revenue. This team, of whom I'm hugely proud, provide huge competitive advantage, as they enable us to provide every single Sage customer with the support that they need to ensure their success. The Services team is divided into four key areas:

- Customer support,
- Customer success,
- Learning services, and
- Professional services.

Customer Support

Digital transformation – phone support

Let's start with customer support. At the beginning of our transformation, 95% of our nine million annual support contacts were handled on the phone, sometimes with long waits at tax and payroll yearend.

Many of our customers are small family-run businesses, like Denise from Black Mermaid Bath & Body. Customers like her manage every aspect of their business, including sales, stock, suppliers, payroll and accounts, often in the evening, after she's spent a busy day with her customers. She isn't a tax expert or a payroll expert and she worries about getting her payroll submissions correct at yearend for her annual return to the Government. Who does she call to check? She calls Sage.

5 star customer reviews

Many of our calls to the Help Desk are completely unrelated to the technical side of our software and far more related to the changing legislation and rules affecting small businesses. We pride ourselves in always being there for our customers. You only need to look at Trustpilot to see the amazing feedback we get from our customers.

Customer Support

Digital transformation

Whilst Denise prefers to call us, we also need to recognise that many customers want to contact us through other channels, like chat or email or even help themselves through our

Knowledgebase. Over the last 18 months, we've successfully rolled out new support channels in the form of AI, Chatbots, Community and Knowledgebase to provide our customers with choice.

Imagine a customer like Jacob from Cocofina, who manufacture and distribute a range of coconut-based products. He spends a lot of his time out of the office. He doesn't want to call and speak to someone.

Last year, we launched our smart assistant, Pegg, to help customers like Jacob use a simple messenger interface on his mobile phone to get the right answer to his payroll queries without the need to speak to anybody.

This year, we estimate that more than 25% of our support volume will be handled digitally and we anticipate that this will rise to over 40% percent in the next two years as we further enhance our digital support platforms, giving customers choices in how they get help, as Steve referenced earlier today.

We've moved to a single operating model for customer service. And we are rolling out new cloud-based telephony, which will allow us to seamlessly pass calls around the world, using our team more effectively. All of this allows us to provide customers like Denise with a very personal phone service, and customers like Jacob to help themselves in real-time through digital channels.

None of our competitors can offer this. In a world when your entrance relies solely on digital channels, we believe we've created something very special here at Sage, which customers really value.

Customer Success

Let's move on to customer success. Whilst customer support is important in solving issues, successful cloud businesses have recognised that proactive customer management is a key ingredient to ensure customers stay for life.

Imagine you've just purchased a new cloud product from Sage for your company. You're now on the start of an exciting journey. What you need is to ensure your success, is help to set up the system, train your users, make sure the business adopts it and ensure it becomes an invaluable asset for your company. If renewal time comes around and the software isn't being used and providing value, you're far more likely to stop paying for it.

With the acquisition of Sage People and Sage Intacct, we have experienced first-hand the difference true customer success can make. I recently visited one of Sage People's customers in Sydney with a customer success manager who was supporting their worldwide rollout. The purpose of the meeting was to review progress and help them plan for their Go-Live in the Sydney office.

The feedback from Lucy, the local People Manager, was fantastic. She felt that the Sage People team had been by her side all the way through the implementation to ensure her success. And she trusted them to anticipate her needs and guide her on how to get the best from the product. This proactive approach has being adopted across Sage. We have appointed Chris Rauch, who was Chief Customer Officer at Sage People, to be the lead for Customer Success at Sage.

Net promoter score

So, how do we ensure we are meeting customers' expectations and delighting them? Throughout FY17, we used net promoter score to pinpoint areas for improvement across every aspect of our business: product, sales, marketing, services, finance.

We encouraged every colleague at Sage to take part in delighting customers and taking time to speak to customers through our Sage Listens programme, as Steve mentioned earlier. As a result, we have increased our NPS from +3 to +25 in the last two years. And this year, we were delighted to be recognised with an award from the Temkin Group for our Customer Obsession programme.

Learning Services

I'd like to talk now about learning services. We all know that customers who have had training are more successful. We know that customers and partners, however, are short on time and they don't always want to come into our offices to sit through a face-to-face training class.

During FY 2017, we invested in new learning channels. As a customer or partner of Sage Business Cloud, you can now go online and find a learning path suited to your role, maybe as a business owner or perhaps as an implementation consultant, and follow a structured range of classes delivered online, virtual classes or face-to-face.

Sage University had 260,000 registrations on our courses in FY17 and 21,000 certifications on our cloud products. We delivered 500 new or updated courses for our cloud products. The learning services business grew in FY17 by 7% and we anticipate that FY18 will grow even more, as we leverage our investments both in the new learning management systems and the new curriculum.

Professional Services

Finally, let's look at our transformation in professional services. Over the last 18 months, we have moved the focus of our professional services team to providing a set of services which compliment those of our Partner ecosystem.

Let me give you an example. We're working with a worldwide enterprise management project with an agricultural business, who grow, process, manufacture and distribute food products. For the first country to be deployed, they're working in a blended team with a local enterprise management partner and Sage.

They were also keen to have Sage oversight for the global project, with a Centre of Excellence supported by Sage architects and functional experts, ensuring the worldwide implementation goes flawlessly. This shift to expert services and deep domain knowledge ensures we are working alongside our partners, helping them to grow their skills while ensuring successful implementations for our customers.

We also saw a shift in efficiency as we moved our utilisation from an average of 54% up to 77%, and we expect this to settle out about 70%. The key in our professional services model is to provide just the right level of services to complement our partners, allowing them to scale, to support the growth in implementation demand.

Summary

In summary, we've established a standard consistent operating model for service in FY17, and put in place the building blocks that we need to support our customers with services to ensure their success and drive higher levels of retention. Make no mistake though, we have so many great opportunities ahead of us and I am so proud to be part of this team.

For our customers, it's all about time to value. And for that, it's vital to have a really strong Partner ecosystem. So, I'd like to hand across to Jennifer. Jennifer and I work hand-in-hand to ensure our customers have the best possible support from both Partners and from Sage.

Partners and Accountants

Jennifer Warawa

EVP, Partners, Accountants & Alliances, The Sage Group Plc

Thank you. Good afternoon. I'm Jennifer Warawa and I'm extremely proud to lead Partners, Accountants & Alliances at Sage worldwide. I just celebrated my tenth anniversary here at Sage. But my love for this company goes back much further than that because prior to working at Sage I was actually a Sage business partner for 12 years, when I had my own accounting firm. The passion I have for Sage and our partners has made for an incredible decade, but quite frankly I'm even more excited about what lies ahead. Throughout today we're showing you our plan to emerge as the acknowledged market leader. And I'll share how our partners play a significant role in this.

Partner Types

At Sage we have a partner ecosystem that is unmatched by anyone else in the market. A partner ecosystem that you could say is one of our very own crown jewels. It would be nearly impossible for anyone to replicate at this scale. Over 40,000 bars driving 40% of our annual sales revenue; almost 100,000 accounting firms that do business with Sage; and an alliance with the AICPA that you heard Rob talk about that give us reach into 650,000 accountants around the globe; strategic alliances with powerhouses like Salesforce; and over 1,000 ISVs in our ecosystem.

Each partner type represents a very valuable piece of the puzzle. Accountants are a critical partner to Sage as they continue to be a top trusted advisor to businesses. The technology recommendations that they make to their clients drive business decisions, and their consulting services are in high demand.

Our value-added resellers, or VARs, sell Sage solutions together with their own value-added services, such as integration, customisation, consulting, training and implementation.

Strategic Alliances are large players, including Microsoft, Salesforce and Amazon, and typically provide products or services to Sage directly which we use in our own business, such as Salesforce Sales Cloud and Microsoft Office 365. They also enable partnerships that support new product innovation and joint go-to-market activities. With that, let's hear from Keith Block, Executive Chairman, President and COO of Salesforce, about the importance of the Sage partnership.

Salesforce Video – Keith Block

Hi everyone, I'm Keith Block from Salesforce and thank you for the opportunity to speak at Sage's Capital Markets Day. I just wanted to share a couple of thoughts with you all. First of all, at Salesforce the customer is at the core of everything that we do and that includes our great partnerships, like the one we have with Sage. Now, these partnerships are critical to our customer's success and to our growth strategy. And since the beginning of our global partnership Sage has been a recognised innovator and they have incredible vision. As part of their One Sage strategy, they are transforming their global business on Salesforce, which is allowing their entire company to collaborate more efficiently, not to mention deliver exceptional and personalised customer experiences. And with Sage Live, which is built on the Salesforce platform, small and medium-sized businesses can access critical real-time information and run their operations from wherever they are.

Together we're empowering companies to innovate faster, make intelligent, data-driven decisions and to operate at scale. We are thrilled to be part of Sage's exciting transformation journey and our amazing partnership and driving customers' success together. Thanks to all of you and thank you Sage and enjoy the rest of Capital Markets Day. So long, everybody.

Partner Types

Jennifer Warawa: Thank you to Keith and all of our friends from Salesforce that have joined us on the live stream today.

And finally I want to cover ISVs, or independent software vendors. They develop solutions that integrate with Sage solutions, enhancing their functionality and often allowing us to go after a new vertical in the market because of the specialisation they bring.

Aritmos – a Partner Success Story

With that I'd like to introduce you to one of our rock-star ISVs, Aritmos. Aritmos is a tech company with more than 34 years' experience, working across a variety of industries and specialty agro-food companies. The agriculture industry requires innovative technology to respond to the competitiveness of their markets and support the continuous improvement of their processes, faced with the challenge of the digital transformation already taking place.

Through our ISV partnership with Aritmos, Sage Enterprise Management is able to go deep into micro-verticals within the agro-food industry because we now have access to the technology, the knowledge and the capacity to deliver all of the functionality the agri sector requires.

Building Relationships

Now, as I share Sage's strategy for each of these different partner types you'll see a common thread running throughout: a recommitment and redoubling of effort to build mutually beneficial relationships. That is the true heart of our recent partner successes. When we presented at Capital Markets Day in 2015, we still had significant work to do with our partners and accountants to rebuild relationships. We'd not shown sufficient attention to these crucial channels, impeding our growth and our reputation. Frankly, we just weren't as partner-centric as we should have been.

Since that time building relationships with our partners has been core to our strategy, relationships built on a foundation of trust and commitment from both sides, allowing us to

win together. Since I started in this role, not one single day has gone by that I have not personally met with a Sage partner. We are now working truly hand-in-hand to win new business and grow together. This is a fundamental shift.

In fact, Alan Simpson, Executive Chairman at Datel, our largest partner in the UK, sees their accelerating growth and partnership with Sage to be synonymous.

Change Facing Accountants

Now, let's dive into the partner type that near and dear to my heart, accountants. I shared that my original relationship with Sage was one of an accountant. Well, we're actually a company built of and with accountants. This means that we understand the evolving nature of the profession. Accountants are facing the perfect storm of change right now. As automation increases, traditional tasks such as data entry and tax filing are becoming commoditised. Customers are demanding more; reporting on past business performance is just table stakes. Customers now expect advice on the way forward through things like working capital management, funding, budgeting and forecasting. With that, the role of the accountant is really evolving into that of a virtual CFO.

In order to thrive in this new world, practices must embrace automation and technology that allows them to become more advisory focused. The reach of our accountant channel is incredible. We have a relationship with over 30% of accountants and bookkeepers across the UK, Ireland, Canada, France, Australia, Spain and the US. And those accountants in turn reach over 40% of the businesses in those areas.

In the UK, Ireland and Canada alone, Sage accountants serve over 3 million businesses. Just imagine what that looks like around the world. In order to support this crucial channel, our vision is to provide awesome technology that will enable zero data entry for accountants and their clients by 2020. This will free up accountants' time, allowing them to service more clients and evolve into their role as a virtual CFO, and become the digital practice of tomorrow.

Sage Accountant Cloud

To achieve that vision, I'm thrilled to announce the Sage Accountant Cloud, our digital platform for accountants. Sage Accountant Cloud enables accountants to deliver exceptional client services and maximise practice efficiency. Client and practice management, including compliance, reporting and analytics, forecasting and benchmarking all in one place. Sage Accountant Cloud has tight integration with Sage Business Cloud, giving our accountants access to our ecosystem of AI and machine learning, to provide relevant insights into business performance and forecasting for future success through predictive analytics.

And we're providing supporting services such as in-depth education and certification through Sage University, which Sue told you about; a partner directory that connects more businesses with accountants than anyone else in the market; an educational framework that provides advice, training and consultancy services to help accountants plan their journey towards becoming a digital-first practice; and award-winning product support through experts always on hand to help accountants and their clients get help when they need it, on the phone, by web chat, email and, yes, even social media.

We also have significantly increased our investment we're making to work right alongside our accountants during this period of transformation. As a local example, with our newly expanded Account Management team, we've had over 6,800 conversations in the last four months alone with accountants across the UK and Ireland. Over 1,700 of those conversations were from our field team, face to face, visiting accountants right in their own offices. We have dramatically raised the bar on our ground game.

To understand how this approach has landed in the market, I want to share with you this quote from one of our recent roundtables. 'Your vision for Sage Accountant Cloud is completely different to what anyone else is doing; it's exactly what accountants need. If you deliver that, you will win the entire market.'

Demo

Let me take a brief moment and actually show you the power of Sage Accountant Cloud. Now, this is a live demo of our initial build. I want you to meet Rebecca, a typical example of one of the 1.5 million businesses in the UK who give boxes of receipts and invoices to their accountant. Now, instead of providing receipts, all Rebecca needs to do is take a photo of her receipts and record her invoices on a simple mobile app.

If she wants to, Rebecca can log into Sage Business Cloud Accounting and see all her transactions. As you can see, the data from her receipt from Costco has been automatically inputted using OCR and machine learning. That's all Rebecca needs to do.

Now meet Sue, Rebecca's accountant. Before, Sue would need to manually enter the box of receipts into an accounting solution. Now, Sue simply logs into Sage Accountant Cloud. She has a list of all of her clients, she searches for Rebecca and she can access Rebecca's accounting data without logging in again. Sue now has a live view of Rebecca's business. All Rebecca's data has flowed through automatically, either from receipt capture or direct bank feeds. Manual data entry before accounted for 55% of Sue's time and that is all automated now.

Sue may need to make some final bookkeeping adjustments and then is ready to do yearend accounts. Within Sage Accountant Cloud, Sue can toggle the final accounts, Rebecca's data flows automatically from Sage Business Cloud Accounting with just a click. And Sue is ready to produce the statutory reports. This is the power of automated data entry, automated workflow and a simple user experience. That's 55% of Sue's time freed up to run her practice and provide higher-value advisory services.

If I could have had access to a solution like Sage Accountant Cloud when I had my accountancy practice, it would have been a huge game changer for me. The Sage Accountant Cloud is available this quarter in the UK and Ireland, and then will quickly roll out around the world.

Together, all of this forms our renewed commitment to accountants, a commitment we are confident will put Sage at the heart of accounting practices around the world.

An Evolving Market for VARs

So now onto our resellers, or VARs. Similar to accountants, resellers are also facing an evolving market. Software customers are moving to the cloud at a rapid pace. This means partners must be more skilled, industry proficient and cloud-focused. Resellers must also

navigate the transition from a license to a subscription model. That said, the opportunity for growth and success is greater now than it ever has been. In fact, despite some early trepidation from some of our partners on cloud economics, a VAR can actually make twice as much money in the first five years in the cloud world as compared to a licensed sale.

I shared earlier that our partners drive over 40% of our Sage revenue but, of course, it looks very different from market to market. In France approximately 70% of our revenue comes from our partners, while in the US it's about 50%, and in the UK and Ireland it's just under 20%. As Blair and Keith outlined, varying cloud adoption rates across regions influence partner success in the cloud.

Value Added Resellers (VARs)

Our VARs strategy focuses on two key areas. First, we help our resellers serve our existing customers, adding incredible value and, in turn, building customers for life. Second, we support our partners in acquiring new customers. Key to our partner strategy is a radically different partner account management model, where our partner account managers are incentivised to drive portfolio, revenue and new customer acquisition growth amongst our most strategic resellers. They're armed with new playbooks and mentorship methodologies to help resellers drive fresh consultative sales skills in emergent industries and across new offerings in Sage Business Cloud. This bespoke service has proven to be a critical catalyst for growth in our channel.

The Results – North America Case Study

Now you may be asking, do all of these changes really make a difference and drive results? The answer is yes, and the US results are a great proof point. By introducing a simplified partner programme and partner account managers who intently focus on business planning, for Sage 300 alone our partner revenue jumped from double-digit year-over-year decline in FY16 to a 6% year-over-year growth in FY17.

In addition to our Sage 300 growth, in North America we've seen a 49 point improvement in our Net Promoter Score with our VAR partners over the last three years. Let's hear from a Sage partner on what this new approach has meant to them.

I want you to meet Mark Meller, CEO of SWK. In 2004 SWK was a smaller Sage VAR selling accounting software to small and medium-sized companies. Today they are one of the largest Sage business partners in North America and are publicly traded on the NASDAQ. Not only does SWK boast revenues of in excess of \$35 million, they've also enjoyed a 24% compounded annual growth rate over the last seven years.

Mark recently shared this quote with us. 'This is what building relationships is all about. This is true partnership in action. Growing ambitious partners around the world, just like SWK, are choosing to invest in growing their Sage business.' We're pleased to have Mark Meller from SWK with us today – Mark, you can give a wave; thank you – and we'll be happy to have him share his perspective with you during the break or after our presentations wrap up.

Strategic Alliances

And finally, as I wrap, our last two partner types: strategic alliances and ISVs. Our strategic alliance relationships with companies like Microsoft, Salesforce, Amazon, PwC and Deloitte,

fundamentally extend our internal development capabilities and our external market exposure but we really win through the unique way that we partner with these companies.

So, you've already heard from Keith Block from Salesforce, and I want to share another great example of a very strategic partnership for Sage, Microsoft. Through Microsoft Office 365, we've been able to cloud-enable our strategic on-premise solutions. In addition, we're the first Microsoft ISV in the world to have both tier one and tier two status. Now, this is an incredibly rare move for Microsoft and proves a truly amazing level of trust and respect from our strategic alliances.

Now let's hear from Satya Nadella, CEO of Microsoft, on the importance of the Sage partnership.

Microsoft Video – Satya Nadella

Hi, I'm Satya Nadella, CEO of Microsoft. I'm sorry I can't be there in person with you today but I'm very excited about our partnership with Sage. Think about how digital work is done today. There are these impedances that exist, with productivity and collaboration tools that professionals use on one side and then the applications they rely on for specific tasks on the other side, such as accounting. Together we have the opportunity to remove that friction in how this work gets done by integrating Sage 50 with Microsoft Office 365 Manager to bring accounting data to all the users in the context of the work.

Now our mutual customers are able to access invoices, customer accounts, billing status, all within their familiar Outlook inbox. This also creates a huge new opportunity for partners and customers to extend our joint solution, harnessing the power of the cloud to build new applications and task-specific microservices.

Together with partners like Sage, we're focused on empowering the world's professionals to get more out of every moment, and for small and medium-sized businesses to grow and seize the opportunities ahead.

Sage Business Cloud

Jennifer Warawa: Now, as you can see, these are very deep partnerships, endorsed at the highest levels. And we're also very proud of our ISV ecosystem. We have over 1,000 ISVs around the world that we partner with to develop integrations that open Sage to new business segments and industries at an unprecedented rate. Our ISV ecosystem truly amplifies the power of Sage Business Cloud.

Summary

Today, a decade on from my first day at Sage, I can see more opportunity than ever before. In this role I am leading the charge to put partners and accountants at the heart of our business. With a truly unmatched partner ecosystem and strategies that are just starting to land successfully, I trust you'll agree that the opportunities for Sage, together with our partners, are limitless.

Thank you so much for your time today and now I'd like to hand over to Stephen for some Q&A.

First Q&A Session

Stephen Kelly: Great, Jen. Thank you very much. And what we'd like to do is open for questions; there's some roving mics in the audience. I'd love to invite the folks in the first session to come up here and what I'd like to do is a couple of things. One is questions now we'll open up for related to business model, opportunity, the go-to-market services partners. And then we'll have a further question session later on today. So have we got roving mics? Yeah. Why don't we come down here, first question?

James Goodman (Barclays): Thanks very much indeed, it's James Goodman from Barclays. I'm just interested in some of your comments, Steve, on the M&A opportunity that's ahead over the coming three years. To what extent might you be looking for acquisitions that help you to further accelerate the organic growth within the business in the way in which the intact business has helped you do so far? Thank you.

Steve Hare: Yeah, I mean I think the way to look at it is, you know, at the moment we're very focused on leveraging what we've already got from Sage Intacct and Sage People. So it's not like we're about to do anything anytime soon. But on the other hand, I think the way to think about it is Sage Intacct and Sage People are precisely the types of acquisitions that we would look to do that help us accelerate our ambition and our growth.

Stephen Kelly: Yeah, a couple of things. It would be great if we could have one question per analyst or investor, and also if we could keep it relevant to the context of what's been presented, which is all about an organic growth story. So if we can keep the focus for the guys. And sadly, probably, you see too much of Steve and I, so it's a great opportunity for the guys to step forward and meet the team.

Next question. Do you want to go, Vijay?

Vijay Anand (Jefferies): Thanks, it's Vijay Anand from Jefferies. Steve, thank you for the insights on the growth drivers; it was very useful. If I were to summarise that, it feels like the growth within existing customers is probably greater than we thought, whereas the new customer acquisition engine is probably still not firing on full cylinders. And I appreciate that Sage Intacct is probably an exception to that rule. But Sage One and Sage Live, they still are not – well, if I think about the addressable market, you talk about more than 80 million small businesses, most of them are relevant for Sage One and Sage Live. And those two products are still probably not firing all cylinders. So I just wanted to get your thoughts on whether this is a fair characterisation and what's the missing piece?

Blair Crump: I would say let me jump in and say I don't think that's a fair characterisation. There is – every single week, every single month we are driving significant numbers in those services on a country-by-country basis, both Sage One, which we call now Sage Accounting; Sage Live, which we call Sage Financials. And X3 enterprise management, we've significant sales and activity there; they're ramping across all the countries. Some of them are in different stages in each of those countries in terms of the maturity of their sales cycle, the acumen of the sales people, etc., etc. But there's a lot of new sales activity and that's why we put NCA – continue to see there first. You might not see it separated out in how we talk to it but it is a significant part; we're always acquiring new customers all the time.

Stephen Kelly: Do you want to go, Amit? And then I'll come over here, Mark.

Amit Harchandani (Citigroup): Good afternoon, Amit Harchandani from Citigroup. I just wanted to go back to the financial model. You have talked about the organic growth accelerating towards 10% in the mid-term, and a margin of at least 27 in the mid-term and at least 30 in the long term. So am I correct to understand that in order to get up to the 10%, you can have margin improvement even in the medium term. But you want to hold back the option because you will see an opportunity to accelerate beyond 10% in the medium term. So it could even end up being 10% and 30 in the medium term if you did not see any opportunities to accelerate further.

Steve Hare: Yeah, look I think there's two parts to it. I think we've indicated that the growth from the existing customer base is probably going to last a bit longer than we previously anticipated, so that gives us that kind of next 2–3 years' boost. But ultimately we're saying half the growth needs to come from new customer acquisition, so we need to invest behind that. Now, we are reserving the right – and I use the phrase 'the decision tree' – so that we can figure out the best way over the coming years to drive growth. There is a scenario where, in the medium term, you could get a bit more margin and you could get 10% growth, but we're not promising it. What we're saying is we will set, as we've done in the past and underpin where we'll do at least 27% organic operating margin. If we see opportunity to invest, we'll invest but you can trust us to be disciplined.

Amit Harchandani: Thank you.

Stephen Kelly: And any, maybe, final question around services partners or Sage Intacct, it would be great to – Stacy? Can we have a roving mic for here?

Speaker: I had a question, sorry.

Stephen Kelly: Sorry. I might do that – no we'll come back to [inaudible] sorry.

Stacy Pollard (JP Morgan Cazenove): Sure, just focusing on the global services, a question for Head of Global Services. Thinking of the pie chart you put up there, how much investment do you think would be needed, or is needed, to push that much of a shift toward digital support? And then, over the mid-term, do you think that's a cost saving to come out, say, after 2019? And certainly thinking about your staffing, potential reduction there.

Sue Goble: So I think you saw from the pie chart that actually, from a volume perspective, we're anticipating the growth will come with additional volume and we'll see the shift.

Stacy, what we've actually seen is if we look at some of our more mature markets where we've had digital for a while, like North America, they have a much higher percentage of digital already. And so I see that continuing over time. And in fact, what you see there is that the calls that get through from customers are the more complex ones. Their actual handle time is much higher because they're deflecting a lot of the smaller things. And so I do see an opportunity to get further savings across the services piece, largely because we will be able to – as we get the telephony in place and the CRM systems completely bedded in, that we'll be able to use a global call routing to be able to use our capacity – particularly at peak season, to be able to use our capacity better.

Stephen Kelly: And Michael, so apologies to you – Michael Briest.

Michael Briest (UBS): Thank you Stephen, yeah; Michael Briest at UBS. Steve, just going to the mid-term guidance, I think for this year you previously said there'd be no

transformation costs. I'm assuming to get the 5% of sales savings there will be some. Is that all going to be in 2019/2020 or will we have some exceptionals? And is it sort of one-for-one, or is it two-for-one ratio?

Steve Hare: No, we remain committed to having no exceptionals, so we will drive these cost savings and self-fund them within the margin guidance.

Stephen Kelly: Yeah, I think we'll – go on, last question. Last question, compelling, this is – we're saving the best till last here, not feeling fresher. Down here, Laura, just – here we go. Thanks very much.

Steven Goulden (Deutsche Bank): Thanks a lot.

Stephen Kelly: If you could mention your name as well, that'd be great.

Stephen Goulden: Hi, Steve Goulden from Deutsche Bank. Just on the – you presented a slide earlier on and it was talking about the mix of growth. And I think you were saying, sort of medium-to-longer term, about 50% of the growth coming from Customer Life still. And I just wanted to get a bit of an understanding of where that's from because obviously, you know, you're moving – incrementally you're moving customers away from licence and maintenance to subscription and that sort of starts to run out of steam. So what's the thinking there?

Steve Hare: Yeah. So the way to think about it long term is if we aspire to do basically what Sage Intacct and Sage People are already doing, which is that if you retain 90+%, 92-93% of your customers by volume. And then you renew those customers by selling them more value, i.e. you renew by value at above 100%, in Intacct and People's case 105%+, then what you're doing is driving continual growth from your install base from your existing customers. And then the rest of the growth needs to come from new customer acquisition. So it, obviously, is an implicit assumption that you can sell more value and deliver more value to your existing customers.

Blair Crump: Especially more immediately.

Steve Hare: Yeah, and that's what –

Blair Crump: It takes a while for new customers to be fully implemented.

Steve Hare: Yeah, and it's the beauty of the subscription model if you get it right.

Stephen Kelly: It's good, and then we'll pause but there's three things to tell you. First of all, a bit of a newsflash, thanks for being social, apparently we're trending up there with Davos and Burns Night. So there you go, by the end of the afternoon maybe ahead of Burns Night, who knows? Second thing is we've got some speed dating one-on-ones across there and look to Dwight, who's at the door, if you've booked a session. And then thirdly, back in here say 16.20. And Sanjay will lead the Technology team and really explain Sage Business Cloud. Thank you very much indeed.

Technology

Sanjay Almeida

Chief Product and Delivery Officer, The Sage Group Plc

Welcome back. Having fun so far? This is going to be even more fun. This is a technology session, all right? Well, good afternoon everyone. I'm Sanjay Almeida, Chief Product and Delivery Officer responsible for product strategy and engineering here at Sage. And I'm very, very excited to be here with you, along with my team, a fantastic team over here. As I said, this is going to be awesome session here.

I recently joined Sage from SAP where I was Chief Product Officer for their Ariba network business, the largest e-commerce network with over 3 million suppliers and 1.5 trillion comers annually. And prior to that, I was with Concur where I headed product strategy and engineering at Concur. And growing their cloud revenue from zero to about \$850 million and eventually selling to SAP for over \$8 billion. That was a good story right there.

Sage Business Cloud

Industry Transformation

Well, it's super exciting to be here at Sage and it's exciting time for technology at Sage. We are transforming the entire industry and our ambition is to be acknowledged market leader. We have created a true business platform, Sage Business Cloud, the one and only business platform for our customers that they will need. And it's powered by cloud and emerging technologies.

We are building a smart ecosystem with technologies like artificial intelligence, machine learning, conversational bots and voice. People like to talk too much in these days. Look at us over here. We're talking too much in every day. And Gartner says by 2020, we will talk too much and more than our spouses or families. That's funny.

Business Platform Evolution

As you know, the technology landscape is changing fast. Just within a couple of years, Alexa, Amazon Alexa, is everywhere – at home, car and workplace as well. Heck, my Tesla got updated last weekend and got smarter overnight. So, it's very, very important that our business platform evolves as the technology changes. In fact, it needs to stay ahead of the game so our customer can focus on running and expanding their business. So, we got to experiment. We got to experiment every day with emerging technologies to make it real for our customers and our partners.

Technology Vision

And the good news is, the good news is this is the Sage Business Cloud technology vision: simple, smart and open. If there is, only one thing to takeaway for you today about our platform, this is it: simple, smart, open.

Simple

Let's talk about simple. Did you know that our customers interact with us billions of times a year through our products? Every interaction is the opportunity for us to delight our customer whether they are discovering, trying, buying, upgrading or transacting with our products. And we are all over it.

We build best-in-class products for our local markets, moving away from software that releases once a year to multiple times a day. So, how do we do it? Well, in all these, it would take months to move the code from development to production. Today, with the container technology like Dockers or Kubernetes in the cloud, it's real time.

We co-create with our customers and partners. We validate every step in our development cycle with our customers. Last month, as we're refining our Accountants Cloud, we were sitting with our customer's accountants coding their feedback in real time. It was beautiful to see our developers, product managers and accountants building the software together.

We are our own first customer. I remember when I was at Concur, running the Expense product, I gathered my team to file my expense report and book the travel. I never use my PA to do that. It was great. We would fix every issue that I encountered in real time because I strongly believe that when you fix one issue for yourself, millions of users will benefit from it right away. That's the power of cloud.

Smart

But you can't build best-in-class products when you have over 300 products, right? So, we need to be very, very targeted in how we invest in our cloud portfolio, laser-focused on what matters the most. As Steve outlined, in the future over 85-90% of revenue will be on subscription and mostly through Sage Business Cloud. And this is where we will focus our attention. I am simplifying the product portfolio to just the right products for the right customers under Sage Business Cloud and accelerating our investment into our cloud portfolio.

It's 2018, fourth industrial revolution. We must eliminate repetitive task and drive instant value. Our products have to be proactive and alert the user in real time. Invisible admin is the new reality. And emerging technologies like artificial intelligence, data science, machine learning and bots are the means to get there.

Take our AI-powered Expense app. We are eliminating the expense reporting – not simplifying, eliminating the expense reporting. Just take the picture of the receipt and throw it away. Forget it. The machines will do the rest. Our competitors are still trying to simplify it. We will eliminate it.

Open

Open. Sage Business Cloud is a very powerful platform. The only platform that build once and works locally in all our markets with 100% compliance, 100% of time. This is our core strength, but we can do so much more by opening our platform so that we can scale our innovation with our partners and global developer community spread all over the world.

The rich set of APIs and microservices on Sage Business Cloud can multiply. One example is one of our partners, SAW Software Mill, has a built solution on the construction vertical using our platform, expanding our reach in enterprise management.

Now, I would like to introduce you to three leaders from my team, Nick, Kriti and Seamus. Not only they are great leaders within Sage but they're also respected in the industry. Let's welcome Nick. Nick leads our product management and product marketing. He's a long-time Sage colleague with a deep domain experience. Nick, tell us more about the Sage Business Cloud.

Sage Business Cloud

Nick Goode

EVP of Product, The Sage Group Plc

Thank you, Sanjay. Great to have you onboard. Good afternoon everyone. It's wonderful to be here. Now, I've been in this industry 20 years building cloud, mobile and connected products. I was ten years at BusinessObjects where I was the Vice President of Product Management.

In the last three years here at Sage, we've surged forward in cloud and mobile applications. And I'm standing here really in front of a virtual cabinet full of awards for our products in the cloud. £300 million of revenue on Sage Business Cloud growing over 80%. Wow! Now, this is the most exciting era of my career, the era of Sage Business Cloud. I'm really excited to be showing it with you. Sage Business Cloud, the one and only platform our customers will ever need throughout their business journey.

Customer Onboarding

Now, as we have seen, Sage Business Cloud offers multiple products for multiple types of customers, from founders to CEOs, from start-ups to enterprise, opening Sage up to a vast and deep network of ecosystem partners and ISVs. This platform enables new customers to onboard directly – we talked about NCA this morning with Steve, these customers joining us in the cloud directly. But Sage Business Cloud also enables our existing customers who are on desktop to migrate to cloud in a way that suits them. I had that question twice during the break so I thought I'd make a point of it.

Solutions

Accounting

Now, I'm going to kick it off by telling you a little bit more about each of the products in Sage Business Cloud. But what I want to point out first is that no other vendor in our industry has the depth or even close to the breadth of solutions that you can see in Sage Business Cloud. From accounting to financials, Sage Intacct, people, enterprise management and payroll, we've got it all. So, let's take a look.

First up, accounting which many of you know as Sage One. This cloud accounting and mobile product is available in 15 countries and is the only solution in the market with full compliance across all of them. Just last week, accounting won yet another award. I mentioned the trophy cabinet. It's real. As voted by the UK contractors, we won Best Cloud Accounting Product in the UK. And this solution was the first to reach 400,000 paying customers in the shortest time against the competition. Not only that, the ARR increased 76% last year. The product comes with a mobile app which makes it really easy – and you've been seeing this in the demos – to take photos of receipts, touchless, invisible admin. And you can experience this with some of our colleagues afterwards who have roaming phones and can show you the product.

Financials

Let's take a look at financials, which we've referred to previously and up to now as Sage Live. Multi-award winning, multidimensional cloud accounting built on the Salesforce platform, highly configurable and ideal for ambitious entrepreneurs leading growing businesses with the

need for real-time collaborative information, financial management and connected applications, live and compliant in nine countries around the world.

Now, because financials is built on Salesforce, it natively connects with applications in Salesforce AppExchange. And it smashes down the walls between front and back office, offering real-time accounting. We're really proud that Salesforce gave this product Best Partner Product of the Year at Dreamforce in 2016.

Sage Intacct

Now, we heard from the inspirational Rob Reid this morning all about Sage Intacct. I'd just like to add, this born-in-the-cloud financials product, serving customers with up to and over 1,000 employees is really a high-growth exceptionally great cloud solution. Designed for the CFO and their organisation to run everything in the cloud, to automate financial process and gain huge productivity gains. We're very excited, as Rob talked about, to bring Sage Intacct to the UK next year and beyond in the future.

Enterprise Management

Now, let's talk about Enterprise Management. And now we're talking about products for the CFO. We used to call this product Sage X3. Enterprise Management offers financials, manufacturing and distribution, most recently, a construction vertical, which Sanjay mentioned. With thousands of customers in over 30 countries, Enterprise Management is unique in its ability to provide compliance and extensibility in all those markets.

Jennifer talked about Aritmos, a partner that extends Enterprise Management into the agriculture business. We have other partners in mining, food and beverage, soon in retail and even automotive. Three years ago at Enterprise Management, let's be honest, revenues were flat. In FY17, this product grew at over 20% and is now an over \$100 million product line – one of our fastest growing.

Steve touched on the fact that this product has a cloud variant and also an on-premise variant. And we are taking more and more customers and partners to the cloud with Enterprise Management. However, some verticals like manufacturing – and it's interesting that Rob did not mention manufacturing in his target verticals – are slow to move to the cloud. And this is where Sage has a solution for all customer types.

With a win rate of over 50%, it's very easy to see why this product is such a fast-growing solution. And you can see from Gavin, the CFO of Bristol Sport, home to Bristol City, exactly how he accelerated the pace of his growth using Enterprise Management.

People

We've talked about People, the HCM or Human Capital Management solution in the cloud that we acquired from Fairsail in 2017. Cloud HCM is one of the fastest growing product segments in our industry. And we all know that people are at the heart of every business. There are over 200,000 users of this product in the world in over 100 countries, working in companies that you'll know, like Skyscanner and Innocent Drinks. People is also built on the Salesforce platform so it's highly configurable and it has this ACV, this growth of over 105% which has already been mentioned. But what a fantastic statistic.

Now, we all know that companies like Sage, and many of you, invest in data science. Have you heard about people science, the knowledge of whether an employee is going to make a

great long-term contributor to your company? Or whether from a bank of candidates, who is going to make the grade and join you? With people science and People from Sage Business Cloud, we're able to offer those predictive insights.

Payments & Banking

Now, last but not least, payments and banking, the movement of money inside and between our products for our customers in Sage Business Cloud. And I'm actually going to leave the expert, Seamus Smith to talk about that shortly. I think I may have skipped over payroll, I do apologise. How could I have done that? Everybody loves payroll. Everybody loves payday, right?

Payroll

Payroll is a natural cousin to HCM, as we've talked about, because over half of the companies – half of businesses in the UK use payroll to pay their people. This is an amazing statistic and the cloud, Sage Business Cloud, is perfect for payroll. Why? Well, payroll is tough. The compliance changes regularly. This means that when a customer needs to pay their people, the products must be up to date. In the cloud, we code and release those changes so that when a customer logs in, they're all up to date. They run that payroll accurately and legally in real time.

Architecture

So, let's come back to our architecture. Again, I was asked about this in the break. Sage Business Cloud has a very specific, carefully designed architecture. API-driven is at the heart of this solution, APIs that enable us to connect with our ISVs and to onboard hundreds, if not thousands, of ISVs from all sizes such as citizen developers, small ISVs right up to the large companies, such as Microsoft which we've already talked about. You can see just a handful, a sample of those ISVs in the diagram here.

Underneath that, we have a fabric of microservices. So, let's take for example, bank data feed integration or payroll processing or a compliance engine. We're able to build these once as services inside Sage Business Cloud and serve all products with them, which enables us to create scale and pace inside the organisation. And at the very foundation of Sage Business Cloud is artificial intelligence. Our colleague, Kriti Sharma, is going to tell us more about this in a moment. But what artificial intelligence does, of course, is enables us to learn and to embed conversational interface and predictive analytics into all of our products, creating scale and ease of use for our customers.

Customer Journey

Now, I'd like to tell you about a real customer, not just a theory but exactly how this is going work. So, I'd like you to meet Phil. Here he is. Phil runs a pub in the Northeast of England. And he has big ambitions. He wants to grow from one to five pubs in two years. He wants to recruit more people, open more channels and offer a unique product to his market. So, we're going to see how Phil benefits from Sage Business Cloud.

First of all, he wants to work online. He wants to integrate his bank and all of his data and his expenses into his accounting solution. Well, that's really simple with Sage Business Cloud. He's going to subscribe to accounting and he's going to input that data seamlessly and effortlessly.

Next, he's going to connect with his accountant through Sage Accountant Cloud, exactly as we saw in the section from Jennifer. This means that his accountant can go into those accounts and easily make adjustments, run his final year books when he's ready and basically be live with him in the moment in the cloud. You saw from Jennifer earlier how OCR recognition is enabling customers just to take receipt capture using their phone, that data being unravelled and posted in the general ledger with exact accuracy inside accounting. Fantastic. All of these are these microservices inside Sage Business Cloud and you can see them building on the slide as we go through.

Now, this customer obviously needs to take payments, right? He runs a restaurant. So, we've got terminals and we've got point-of-sale which directly connects into his accounting, meaning he never has to key the data and he never can make a mistake which is perfect.

What about channels? He's going to want to open up new channels, things like Just Eat, so that people from outside the restaurant can order his products online. And this is going to be made really, really easy by the fact that he's got APIs connecting to those other services. And again, he can use payroll really easily because payroll is part of Sage Business Cloud.

Now finally, he wants to grow his team which we saw earlier. He's going to build it to 100, 200 people. He's going to need to onboard performance management, manage the absences of all of those people, right? That's going to be made easy by people in Sage Business Cloud.

And last but not least, let's think about what the value to him is through this journey, okay? He's going to be able to add services as he wants to, and we're going to be able to increase the ACV of this customer, the value to Sage, every year as he grows his business. That's how Sage Business Cloud delivers value to the customer and to Sage commercially.

Connected Cloud

Microsoft Office 365

Okay, I'm going to talk a bit now about connected cloud. I was asked in the break about whether Sage Business Cloud enables our desktop customers to move to cloud. And the answer is absolutely. We talked about the integration with Office 365, and our product Sage 50 and Sage 200 are now called Sage 50 Cloud and Sage 200 Cloud. These solutions enable customers who have been working traditionally on the desktop to take the step to cloud in a simple way.

The integration with Microsoft Office 365, for example, means that a customer can be in Outlook and pull in all of the analytics about the customer that they are looking at in Outlook from Sage 50. This is a great, great story which we saw Satya Nadella himself talking about the integration with Office 365 earlier.

E2W

Take this customer E2W. They're a recruitment firm specialising in financial services roles for women. They've been a long-time Sage 50 customer and they want to move to cloud in one step. So, they have migrated to Sage 50 Cloud which brings them all the benefits of cloud – mobility, data is always on, data backup and so on – without ripping it out and replacing their solution.

So, I hope that you can see the bold differentiation which Sage Business Cloud brings to the market. We are the trusted vendor. We've talked about compliance, the microservice

compliance engine inside our product. We have the technology. Our technology mojo is back and we have won multiple awards across the product line. The fast-growing ecosystem of ISVs, but also embedded with key solutions such as DocuSign or Magento, offering joint services to our customers in the cloud. And finally, we have a product for all business types. We are the only one-stop shop in the industry today.

Gartner on Sage Business Cloud

But let's not grade our own paper. In October last year, we held a day of analysis with Gartner in our offices here. And we were able to share all of our roadmaps and our strategies with their most senior analysts. Now, let's face it. A couple of years ago, Gartner wasn't even interested in Sage. Today, look at the quotations that they're giving us and they're telling us that we are 12-18 months ahead of the competition.

Now, I'd like to wrap it up with what I love most about Sage Business Cloud which is our customers and the value, the freedom that Sage Business Cloud brings them to grow and run their business. Thank you.

The Split Screen Coffee Company Video – Jennifer Walker

I have a 1965 camper van called May and we go around different weddings and festivals and events. And we serve amazing coffee and [inaudible]. Everyone just loves May. She's absolutely gorgeous and she's kind of like the grandma of camper vans. I'm Jen and I run the Split Screen Coffee Company.

My family and my work, we're linked in every way possible really. The kids and Mike help me to work the van nearly every weekend. I am not based in an office. I am based in fields, I am based in different areas around the country. The ability to access Sage from different places is essential for my business. The ability to be able to do it on my mobile is fundamental and really helpful. It allows you to be honest with your finances and the freedom to kind of run the business how I want to run it. It gives me autonomy and security, and allows me to kind of walk out the door with confidence and run the business that I want to run. I'm starting to realise slowly that it can be so much bigger and the sky is the limit in a lot of ways.

Sanjay Almeida: Next up is Kriti Sharma, our leader in artificial intelligence practice here. Last year, Kriti was named Forbe's 30 Under 30 and she was also nominated as a global civic leader by President Obama. So, you heard a lot of technology under Sage Business Cloud from Nick powered by a lot of microservices and API. One of the things that's very, very interesting is it's powered by artificial intelligence. And Kriti is going to talk about how AI is changing the world, and especially Sage Business Cloud.

AI and Emerging Technology

Kriti Sharma

VP of Bots & AI, The Sage Group Plc

Fourth Industrial Revolution

Artificial Intelligence

I tried to do it better than the boys but... Hi, I'm Kriti. I've been building robots and AI software since I was 16. But I've never been more excited about the power of AI to impact user experience. AI is ready for primetime and Sage is at the forefront of it. Once in a generation, a disruptive technology comes along and it changes everything; how we communicate, how we live and even how we work. We've seen this with web and mobile in the past. And now, it's time for AI powering automation and new forms of communication. AI is at the heart of the fourth industrial revolution.

So, what is AI? AI is intelligent machines that think, talk and learn like humans. We're making breakthroughs with AI here at Sage to benefit our customers. We are enhancing their productivity and we are giving them proactive insights to grow their business.

Pegg

In 2016, Sage created a world first, the first AI-powered smart assistant Pegg, helping accounting users around the world with everyday tasks and smart insights. You could just ask Pegg, 'Who owes me money? How long will my cash flow last? How was the revenue last month? How about the month before?' Pegg also keeps an eye out for anomalies in transactions and detects new opportunities for the business.

So, what happened? Well, it has been a huge success quickly coming out of the labs and going mainstream, viral, with users in 135 countries just for the weeks of launch at Sage Summit. So, what has happened since then? Pegg now helps 100,000 businesses of all sizes with everything from money to people. It has already answered over half a million queries and conversations and is learning from its human agents, human knowledge workers, every day with every interaction just by observing them.

As Sue highlighted earlier, automation is key to customer support and customer success. Most interestingly, we learned that our customers are building a deep relationship with Pegg, their own AI assistant. They're relying on it every day for interactions, while Pegg works tirelessly to make our customers successful. This is the power of building great user experiences and stickiness. AI is no longer science fiction.

AI-powered Sage Business Cloud connects with the users wherever they are: web, cloud, mobile or even Salesforce, Microsoft and Slack. And it empowers all the products in Sage Business Cloud from accounting to people to Sage Intacct. It truly empowers every product in Sage Business Cloud, from accounting, financial, Sage Intacct. It truly empowers every product in Sage Business Cloud, from accounting, financial, Sage Intacct, Enterprise Management, People, payroll, payments and banking. Wow, that's a mouthful! I repeat because I was asked this question several times what happens, how does the integration work? And this is the true underlying microservice-based architecture we are building.

Businesses today are spending 120 days a year doing admin activities. That's 120 days per year – well, in 2018. So, we are on a mission to give them this time back.

Machine Learning

Today, machine learning is already saving our customers hours in valuable time by automating transactions, expenses, invoices, sales orders, all of it. Collective intelligence powered by Sage Compass is providing insights about how their business is growing compared to others, and even recommending next best actions.

We are creating a significant value to entry for the competition, using the data that we already have with our millions of customers. We have the first mover advantage already with our machine learning technology, learning from our customers every day in action. Wow, so that's Pegg, bots, machine learning, AI, collective intelligence, all live and available today in Sage Business Cloud. And we are just getting started.

Augmented Intelligence

So, what's next? AI is certainly changing the future of work. At Sage, we are creating augmented intelligence: humans and machines working together. And our accountants believe in it. As you heard from Jennifer earlier, 68% of accountants see their role changing and becoming more strategic. Our AI can give them super powers. For example, within seconds, they can analyse millions of transactions, detect anomalies, automate transactions, intelligent alerts to their clients so they can focus on strategic advice – the human element.

Voice

Voice is the new user interface. We are all familiar with Siri, Alexa, maybe even Cortana on our phones and in our homes. And there's huge potential for running your business through just your voice. So, I'm delighted to share with you that together with the Amazon AI teams, we are bringing Alexa voice technology to Sage Business Cloud. So, not only can you submit your expense reports just texting Pegg, but you could also ask Alexa to check your cash flow. And if you haven't seen it already live in action, you can experience it right after this session.

I'm super proud of the awesome team of data scientists, engineers, conversation designers and partners like Amazon that we've built. We're winning awards and global hackathons in AI, getting patents for our innovation and we are the market leader in AI, building automation end-to-end. But we're not stopping there.

Invisible Admin by 2020

So now, let's geek out for a minute. We're making great progress in AI techniques, from human-supervised AI models to unsupervised learning, from teaching AI to complete specific tasks to giving it the knowledge to learn on its own. We are even developing deep learning and reasoning capabilities. This will undoubtedly create unique IP to drive automation at scale and deliver invisible admin by 2020. Not just that, we're also designing the ethics of AI technology from the get-go. So, when the robots do take over, at least they're nice.

Over the next few months and years, you will continue to see a range of emerging technologies coming together. Data science, internet of things, AI, these are just some of the examples as we continue to leverage the power of the cloud with the platform in microservice-based architecture. Only the best technology, best talent and the best experiences for our users in Sage Business Cloud.

And now, let's see our future vision in action.

Pegg Video

Once in a generation, a disruptive technology arrives that changes everything. For our generation, it's artificial intelligence. And at Sage, we are helping businesses of all sizes benefit from AI. From entrepreneurs to accountants, to CFOs, our AI platform will augment human capabilities for all. We help identify anomalies and reduce risk.

I've spotted an unusually large purchase order. Would you like to review it?

How much for?

£38,000. It's the largest in the last three quarters.

Definitely. Can you show it to me? That's for the new fabrication machine. Can we run a quick check on that supplier and make sure we're happy they can deliver on the order?

Doing that now. All looks good. I'll monitor them and let you know if anything changes.

Thanks. Please authorise the order.

Okay, done.

We help simplify routine tasks.

Okay. There are two holiday requests for next month and five expense reports that require approval.

The new orders might impact our staffing. Show me who's on vacation.

Okay, here it is.

Good. We'll have enough people in. Approve the requests. Is there anything unusual about the expense reports?

No, they comply with policy and all the receipts are correct.

Okay, great. Approve them. That reminds me, I need to expense the trip to San Francisco last month.

I've already done that for you.

We help customers with improved decision making.

Some good news, [inaudible] Design has emailed and placed a recurring monthly order for the next 12 months. Do you want to accept?

Brilliant. Will we have enough stock to cover this?

Yes. I've forecasted for the next six months.

Okay, accept the order then. Can you show me what our cash flow will look like over the next 21 months?

Here you go.

That looks really healthy. Can you let James in HR know we're good to go ahead with recruiting for the new sales role?

Done. At this level of growth, it should be possible to hire two more this quarter.

Thanks, Pegg. You are the best.

I'm better than any digital assistant out there. Siri-ously.

Sanjay Almeida: Thank you, Kriti. The question is, can Pegg do this presentation for me next time? Well, one of the core component of Sage Business Cloud is payment and banking. Seamus leads this area of the business. He has been in the financial services sector for over 25 years. And the majority of his experience has been gained from a variety of senior roles in General Electric and American Express, making his experience strongly international. He has a great track record in the industry and is a well-known and respected figure.

Payments and Banking

Seamus Smith

CFO, The Sage Group Plc

Thank you, Sanjay. Good afternoon everyone. As Sanjay has said, I'm Seamus Smith and I have the privilege of leading the development of payments and banking services for Sage worldwide, having joined some two and a half years ago.

The primary reason for joining Sage is that I believe we have an unrivalled opportunity to capitalise on the fintech revolution pervading the payments and banking sectors, by bringing to life the many opportunities we see to deeply embed financial services within our accounting, payroll and people software, utilising the capabilities of Sage Business Cloud.

Over the next few minutes, I'll provide some key background context on what we believe our sources of competitive advantage are, talk about the technology and regulatory revolution taking place within the sector and the theory of convergence, and finally share some examples of the unique and powerful solutions we're developing.

£3-Trillion Movement

First of all, some background context. It's worth taking a step back and looking at the scale of money movement within the Sage ecosystem today. Across our 3 million and growing customers, the annualised value of receivables and payables generated is the equivalent of over £3 trillion. Yes, that's right – £3 trillion. Now, this is a very significant sum, one we disclose in our annual report and was validated by a third party before our acquisition of Sage Intacct. So, the actual number today will be higher still. This figure is, we believe, far higher than any of our competitors, and de facto makes Sage customers in the 23 markets we operate in part of one of the largest money-movement networks in the world today.

Scale and Geographical Reach

Now, this points to just some of our sources of competitive advantage: scale and geographical reach. At the heart of our strategy – which we highlighted at length in 2017 and included the sale of our American payment processing business to GTCR, whom we're now in partnership with to provide solutions to Sage customers in the US under their new brand Payer[?] – is a fundamental belief that we can help our customers move and manage their money more effectively by providing seamless, secure, fully integrated solutions for leading payments and banking services in all of our key markets, delivered by a write-once, deploy-many capability that we now have in Sage Business Cloud.

We believe that by doing this, not only do we make our core products more attractive but we give our customers back one of the most value commodities: time. As you heard Kriti mention early, our research in engagement with customers tells us that on average, the typical small business spends around 120 days a year on admin tasks, including manually reconciling bank statements, payments, accounts, billing and invoicing. Automating this activity using Sage technologies helps businesses be more productive, more competitive and, therefore, more successful which is a key part of the Sage mission.

Strategy

The Sage strategy for payments and banking I referred to earlier is based on four key pillars: leveraging partnerships; investments in cloud-based technologies; API-developments; and our own deeply embedded competencies in the sector developed from having run our own payment services for many years. For example, our knowledge, experience and capability in payment gateways, such as Sage Pay in the UK, Ireland and South Africa, are extremely valuable in developing and executing integrations of financial services into Sage software.

Partnerships

In terms of partnerships, we offer those organisations that work with us unrivalled scale and customer access, as well as opportunities to reduce their cost of customer acquisition and servicing. Let me show you how recent or forthcoming developments will alleviate the customer pain points I highlighted earlier.

As we announced at our FY17 results, we're finalising details of a new invoice payments integration powered by Stripe, which will launch in the US and Canada in March. Stripe began life as recently as 2011 with a mission to help businesses integration payment processing to their websites. Stripe is now acknowledged as one of the world's most successful and innovative fintech companies, and in 2017 was named number one in the Forbes Top 100 Hottest Companies in Cloud Computing.

Let's hear from Stripe president and co-founder John Collison about why they chose to work with Sage.

Stripe Video – John Collison

Hey there, I'm John. I'm the co-founder of Stripe. At Stripe, we're building economic infrastructure for the internet. We're making it easy for hundreds of thousands of businesses, from brand new start-ups like [inaudible] delivery to listed companies, to accept payments and run their business. Our partnership with Sage lets companies fully digitise invoicing through credit and debit cards.

Before, these businesses had to send out invoices and go through the pain of manually chasing down and collecting payment. Now, powered by Stripe, Sage is launching a better user experience where their customers can get paid rapidly online.

As a tech-forward customer-focused business, Sage is a natural partner for us. We're excited to work with them. We share a common goal of freeing businesses from administrivia and letting them get back to the kind of work that gets them jumping out of bed in the morning. And they have a global outlook which is complementary to our strategy of enabling global economic interconnectivity for high-growth businesses. Sage is building a best-in-class integration of Stripe with their invoicing product. They're transforming their products by

strategically using payments. And we're excited about deepening the strategic relationship and exploring further technology integrations.

Sage's metamorphosis into a cloud business has been truly impressive. We're psyched to see more momentum in this direction as it'll bring us more opportunities to work together, and building better cloud-based software tools for businesses around the world.

Seamus Smith: As you heard John say, we'll have a best-in-class integration with Stripe to include automated onboarding, full transaction reconciliation and the ability to deploy Stripe services in more international markets as we've enabled this integration via Sage Business Cloud, which gives us that write-once, deploy-many capability I referred to earlier.

GoCardless

We've also recently launched a seamless integration to one of the UK's fastest-growing payment services, GoCardless, into Sage 50 Cloud. GoCardless uses direct debit payment rails to enable customers to automatically collect regular or recurring payments. In Sage 50 Cloud, GoCardless accounts can be setup within Sage software and all transactions fully reconciled into the accounting ledger, with easy customer management capability. This enhanced functionality is just one of a range of new features that will help drive customers to subscribe to our Sage 50 Cloud proposition and enable us to monetise the potential in our existing base, as Steve Hare outlined earlier.

SumUp

Our cloud enablement is also allowing us to accelerate the delivery of new services worldwide. I'm pleased to announce today that our partnership with SumUp will bring to market an innovative ecommerce payment integration in Brazil this April. This seamless integration of SumUp with Sage accounting will deliver a market first and allow small businesses to push digital payment orders to their end customers. It will be mobile-enabled and help businesses increase payment collections, thus improving cash flow, as well as save time within invoice and payment reconciliation and sales tax returns. In addition, our recent API-led integrations with leading banks in the UK and US enable customers to view their account balances, again without leaving their Sage software as you can see here.

Regulatory Developments

Now speaking of banking, there are increasing moves in a number of key markets to open up greater access to the key ingredient that fuels the digital economy – data. Open banking in the UK, the second payment services directive in Europe and related developments elsewhere mean that those organisations that have the skills and applications to use data smartly will be better placed to win. And Sage is at the vanguard of businesses harnessing technology to serve our customers and let them benefit from the fourth industrial revolution.

This is evidenced by key adjacent developments in Sage that turbocharge our capability in payments and banking. And I'll refer here to developments in artificial intelligence and data science, as well as accounting software and how the convergence of these technologies creates further competitive advantage for us enabled by Sage Business Cloud.

Product Differentiation

Sage Pay Business Finance

Now looking beyond payments and banking integrations, we have much more ambitious plans to make life easier for our customers and differentiate Sage products in the market. We're working on a number of solutions which enable businesses to access sources of finance and working capital, as we know the small business financing market remains challenging with significant funding gaps in many key geographies.

In FY17, we launched Sage Pay Business Finance in the UK underwritten by Liberis. This payment card receivables financing model, informed by the data on the level of card payments and credit quality of Sage customers, has already yielded impressive results. It has demonstrated that approval rates of Sage customers are higher than market benchmarks and that average loan values are also significantly higher. In fact, our largest advance to date has been £100,000 lent to a gift-experience business to support their refurbishment activities vital to their future growth.

Now, we believe we are uniquely placed to extend this category leadership even further. At the heart of the convergence theory I referred to earlier is the fact that data science, accounting software, artificial intelligence, payments and banking, and new regulations are all converging to enable the creation of new and innovative solutions for those organisations that can leverage this technology cocktail.

The video you're about to see is an example of a recent submission we made to the Nesta challenge to demonstrate art of the possible product concepts using new open banking standards of data access, working in conjunction with our partner, Funding Xchange.

Green Fingers Video – Chris Armstrong

I'm Chris Armstrong from Green Fingers. We're a family business proud to supply fresh organic vegetables, plants and flowers. It's hard for a small business to keep track of cash flow. A shortfall can creep up before you know it. Sage and Funding Xchange can help forecast my cash flow based on invoices due and regular payments like payroll and VAT.

For example, here it looks like I've got a shortfall in January. Looking in detail, a big quarterly VAT bill for £28,000 is causing the problem. But using my accounting data, Funding Xchange has already pre-approved my business for finance that could cover the shortfall. I just wish I could get paid now. Funding Xchange can help with this too.

For example, let's look in detail at my income due in February. I see a big customer is due to pay me £50,000. I can take a look at the full details for this invoice. But here's the clever bit. I'll click 'Get Paid Faster.' A funding provider will pay me right now for up to 98% of the invoice value. Then when my customer pays, I'll get the remainder minus the provider's fee.

We always like to find best value so we'll compare offers from different providers to get a good deal. Today, I'll take the offer with the lowest fee. I can see exactly how it would work and its terms, what I'd received and when and how much it would cost. Then because I'm pre-approved, I can accept the offer in a click. No fuss, job done.

Usually, I receive payment within 15 minutes if it's less than £50,000. Sage is connected to my bank so it lets me know when the money is there. Now, I can go back and check my cash

flow again. There's always a lot going on at my business. Funding Xchange and Sage give me options and flexibility so I get more time in the greenhouse where I should be.

Summary

I'm sure you'd agree, this is a very powerful example of the very near future, and will join an increasing number of innovative solutions we're working on. Now before I hand back to Sanjay, let me touch on what all this could mean from a shareholder perspective. The incentives and motivation for winning in the market are clear. Firstly, we will monetise these new services as they scale in our portfolio over time by sharing in the incremental value created with our partners. Of course, the 'how' and 'with whom' elements of this remain confidential. But I'm sure I don't need to remind this audience that just a few basis points of £3 trillion could create a very significant potential revenue stream for Sage. The indirect value creation is also significant in the form of increased subscription rates and customer renewal improvements.

Thank you very much for your attention this afternoon. I'll now hand back to Sanjay.

Final Remarks

Sanjay Almeida

Chief Product and Delivery Officer, The Sage Group Plc

Thank you, Seamus. So, you all saw it in action, Sage Business Cloud is the business platform. It's simple, building delightful user experience, focusing on just the key products. It's smart, building the best-in-class emerging technologies together to drive innovation. It's open, developing a thriving community of partners and ISV to co-create on this platform.

I promised you earlier that we are our own first customer. Every engineer, every product manager, every data scientist in my team at Sage will be a customer of a Sage Business Cloud. The product demos, AI technologies, payment ecosystem examples you saw today are built on this platform. We designed this platform experience every day for our millions of customers, developers, partners and ourselves.

I've been here just for only a couple, three months and I have talked to so many customers, partners and analysts. Their feedback is awesome. They just love it. We have skills, technologies and the deep domain experience to be acknowledged market leader. Thanks for being part of this journey with Sage Business Cloud, the one and only platform that the businesses will ever need.

Now, I'm sure you have a few questions around this technology session. So, I would like to invite my team over here and we'll take some questions. Question over there.

Second Q&A Session

John King (Bank of America Merrill Lynch): Yeah, thanks. It's John King at Merrill Lynch. Just a question really on the platforms that you have out there. I think if we go back three years ago, there was this idea that you preserved the platforms that all the customers who were on. You wouldn't force anyone to migrate, thinking about you talking of almost every single customer running in the cloud in the medium term. So, I guess, can you revisit that

topic? Because there are product lines and platforms that you may begin to sunset more quickly than you have to and up to now.

Sanjay Almeida: Sure. So, we want to make sure that we provide a path for every customer to Sage Business Cloud. So, we have taken the first step and all our connected products, they're on Sage Business Cloud as well. We also want to provide a path for our desktop product customers, which are the older products, to cloud as well. And we are building migration tools for those customers to migrate to Sage Business Cloud as well.

Charles Brennan (Credit Suisse): Hi, it's Charlie here from Credit Suisse. There have been some anecdotal observations from the marketplace that the integration with Office 365 is creating a more complex solution for your customers – and not just at the point of implementation but on a go-forward basis as well. Did you recognise any of those observations that it is a more complex solution, and how is that feeding into the sales challenge for Sage? Thank you.

Nick Goode: The feedback that we work very closely with Sue Goble's organisation on, in terms of live feeds from customers, tend to suggest that actually the value of that integration with the Office Suite far outweighs any complexity. And the other thing I would add is that customers are not obliged. You can still have Sage 50 Cloud, the data from a Sage service liberated into the cloud, without that full integration. So, it's actually a choice, the level to which customers want to integrate with Office 365. I'll have to say that doesn't concur with the general feedback that we've had.

Adam Wood (Morgan Stanley): Thanks. It's Adam Wood from Morgan Stanley. Can I just ask a question about – there's obviously a lot of customers in installed base running Sage 50, Sage 100 and it looks as if there's going to be a big push to get them on the C versions of those products. But then separately, we've got the Sage Business Cloud which has got Sage One, Live, Intacct in it with all the services you've outlined. I mean, how do you bridge that gap between the two? Because the vast majority of Sage's existing customers are going to be on the older platforms. You're pushing ahead of this new platform. How do those two work together, and how do you get the older customers away from those technologies on to the business cloud?

Seamus Smith: I can pick that up if you like. Actually, an interesting one, the accountant that – one of the accountants that Jennifer showed, Darren Jasper, in his firm, he has a lot of off-plan Sage 50 customers who are on old versions. And these are typically the shoebox customers who really need to modernise. And we're working really closely with that practice because some of those clients want to move directly to full cloud, so to accounting, previously known as Sage One. And we've actually built a migration tool that takes the historical data and posts it. And we work with accountants to make that transition so that they feel confident the accuracy is there. While other of those off-plan customers want to move to Sage 50 Cloud, they want to stay within the familiarity of Sage 50 and have that online/offline experience. So, we've really got two pathways for customers wanting to move off the off-plan into the cloud.

Sanjay Almeida: All right.

Seamus Smith: Yeah, I think we got questions after, yeah?

Sanjay Almeida: All right, cool. All right, thank you. Thanks for the questions. Now, I will pass to Stephen for his closing comments.

Closing Remarks

Stephen Kelly

CEO, The Sage Group Plc

Stephen Kelly: Thanks, guys. Great job as well. Wow, I think it's pretty tough not to be excited about the opportunity that faces Sage today. And our conviction, I think, as you heard from the team, is we can achieve this goal of acknowledged market leadership. And we've never ever felt that level of conviction greater than we do now.

As you can see, we built a great team, a fantastic team, and I thank all the presenters today, very proud of you all. We've got the technology in place in the Sage Business Cloud. And now it's all about capitalising on our opportunity, our competitive advantage and absolutely driving the effectiveness into the sales and marketing execution. Ultimately, that drives the efficient growth.

Now, our path is set out in the medium term to deliver high quality, double-digit organic growth. And at the same time, we will continue to feel passionate about our compelling investment case around superior operating margins, strong free cash flow and our progressive dividend.

Now, what we've done at this point is if you're rushing off on the train, then enjoy the Sage ads in the tube station. But for everybody who wants to stay behind, it's a great opportunity to informally meet the management team. We've set up three rooms. If you want to talk about technology, Sanjay will host that room. Blair will be hosting the room for the Go-To-Market. And then there's another room if you've got general questions and people like Steve and I will be floating around. We'll all be around and good news is, there's also drinks, I think.

So, do stay if you can. And if you want to informally explore other questions, you are very welcome to. But what I want to do is just say a massive thank you to you all today for coming. And a special thank you to our investors who are in the audience. And thank you for your support, it's really important to us. We absolutely take very seriously the trust that you've embedded in Sage and thank you very much for being on the Sage journey with us. Thank you all.

[END OF TRANSCRIPT]