

Momentum with revenue growth,
subscription growth and cloud adoption



The Sage Group plc
Results for the year ended
30 September 2014



Stephen Kelly
Chief Executive Officer



FY14 overview
Steve Hare
Chief Financial Officer



Highlights



On track to deliver 2015 financial targets

Organic
revenue
growth
increased to
5%

Organic
recurring
revenue
growth
increased to
7%

Recurring
revenue
represents
73% of total
revenue

Organic
operating
profit margin
increased to
27.5%

Underlying
basic EPS
growth of 8%

7% increase
in dividend
per share

Highlights

Subscription and cloud momentum



29% growth in annualised value of software subscriber base

Software subscription contracts increased to over 450,000

Sage One paying subscriptions up 150% to 86,000

Hybrid cloud paying subscriptions doubled to 1,500

7% organic revenue growth for Sage ERP X3

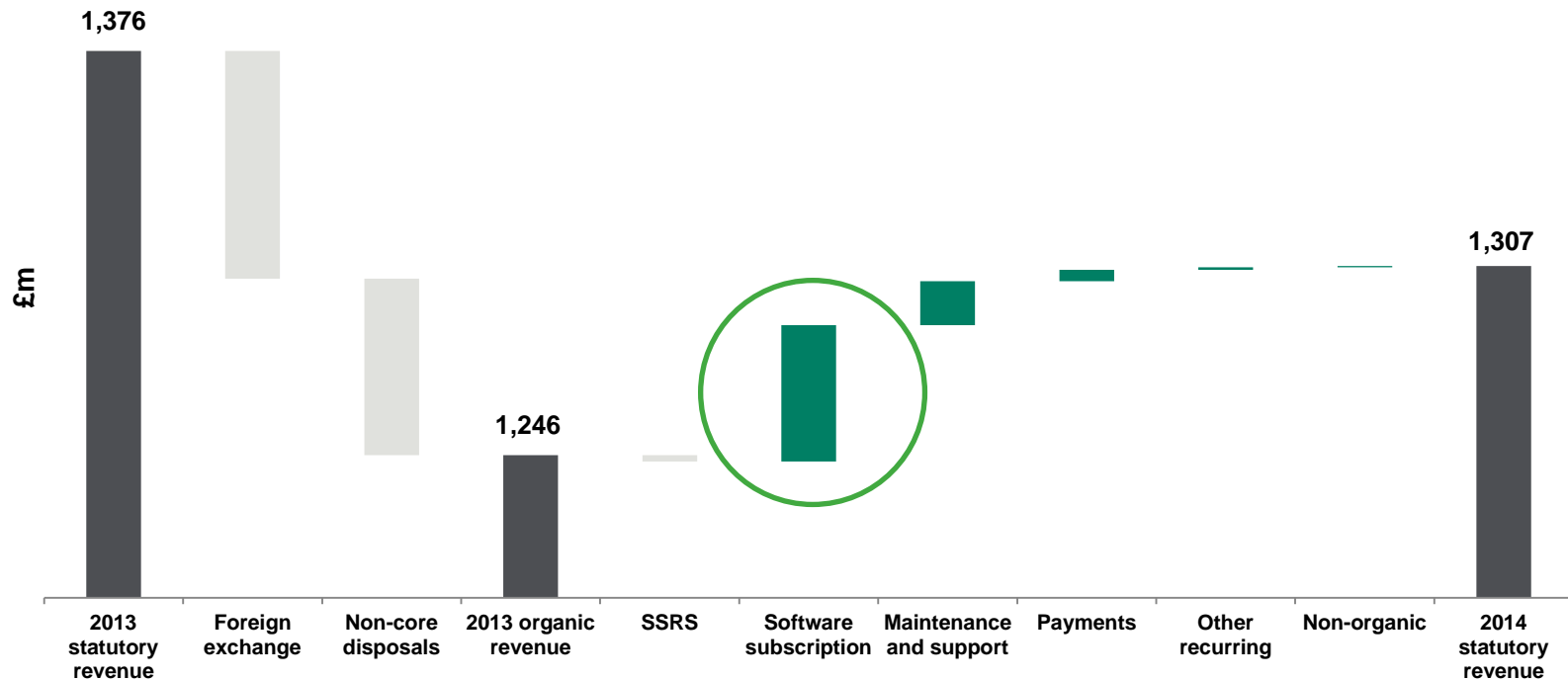
14% growth in integrated payments customers

Revenue growth

Software subscription the primary driver



Key organic revenue growth movements 2013 to 2014

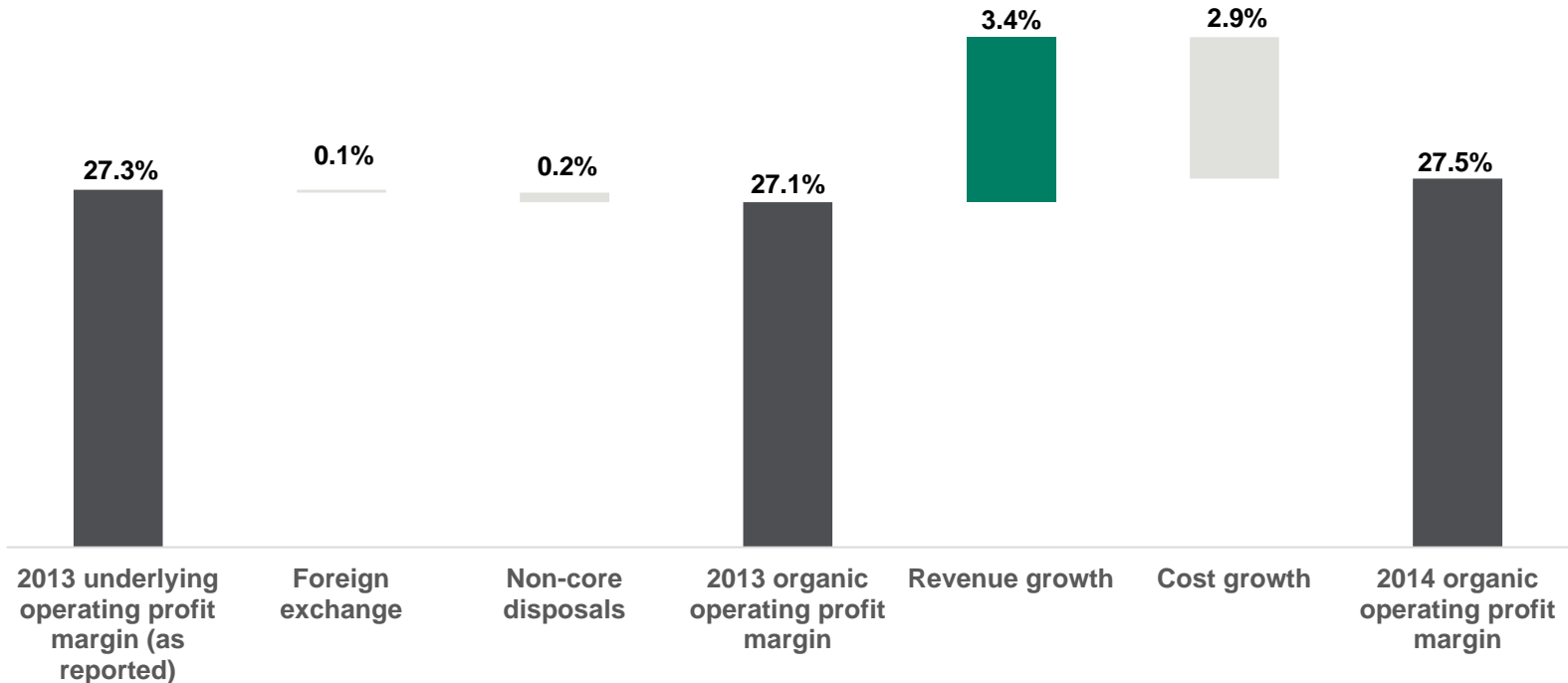


Group operating profit margin

Good progress towards 28% target



40bps increase in organic margin driven by improved operating leverage and reduction of non-core product overheads



Europe

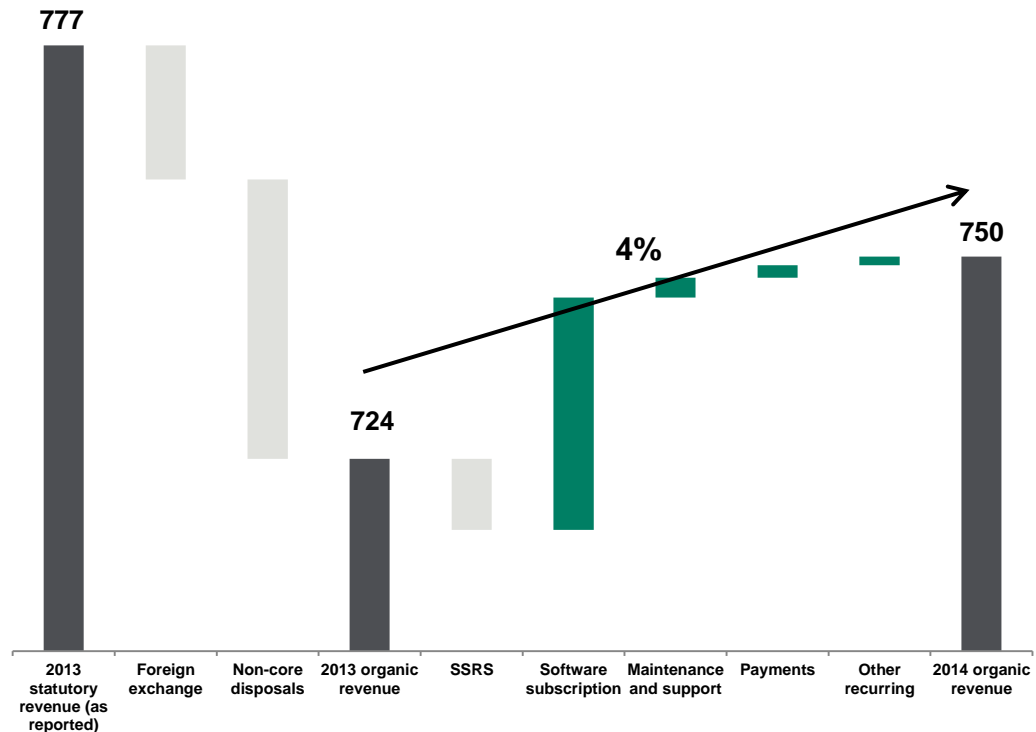
A good performance driven by subscription



Regional highlights

- **Marked increase in organic revenue growth to 4% (2013: 2%)**
- **Recurring revenue growth of 7% (2013: 5%) highlights the underlying strength of this performance**
- **France and UKI primary drivers of this growth, fuelled by subscription initiatives**
- **Spain returns to growth**
- **Mid-market in France remained weak**
- **Operating margin of 28.6% (2013: 28.1%)**

Revenue bridge (£m)



Americas

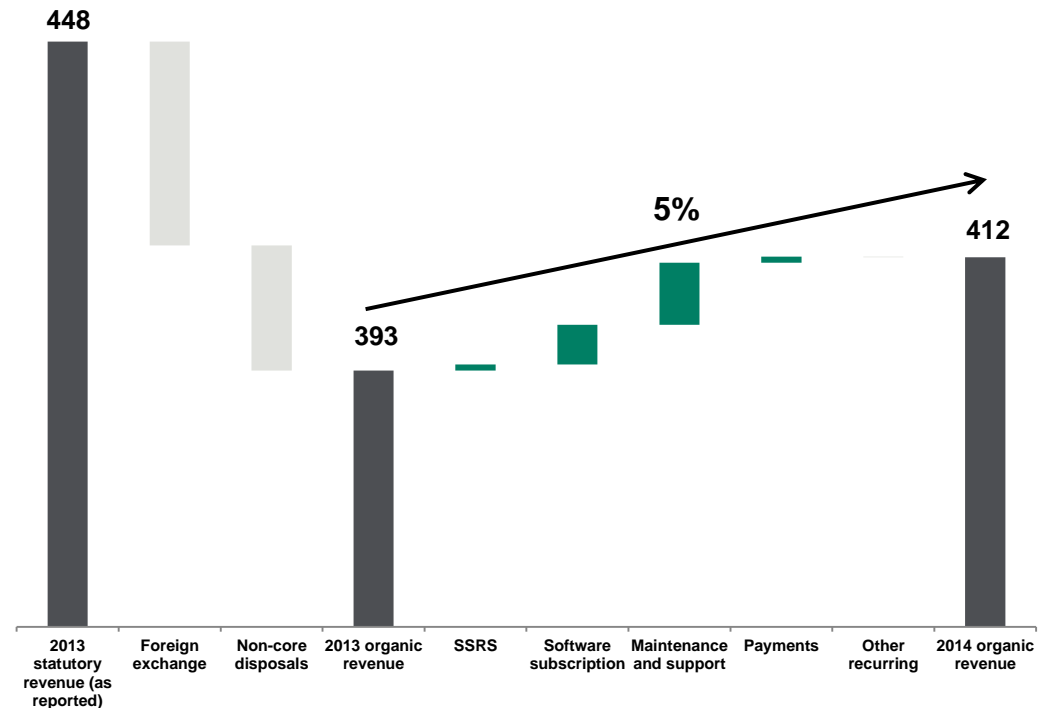
Solid growth, in-line with Group performance



Regional highlights

- 6% recurring revenue growth reflects premium support up-sell in NA and subscription growth in Brazil
- North America growth of 4% (2013: 6%) reflects continued weakness in payments
- Good performance from Sage ERP X3, growing at 30%
- Brazil achieved 9% organic revenue growth, despite slowdown in wider economy
- Operating margin of 25.7% (2013: 25.0%)

Revenue bridge (£m)

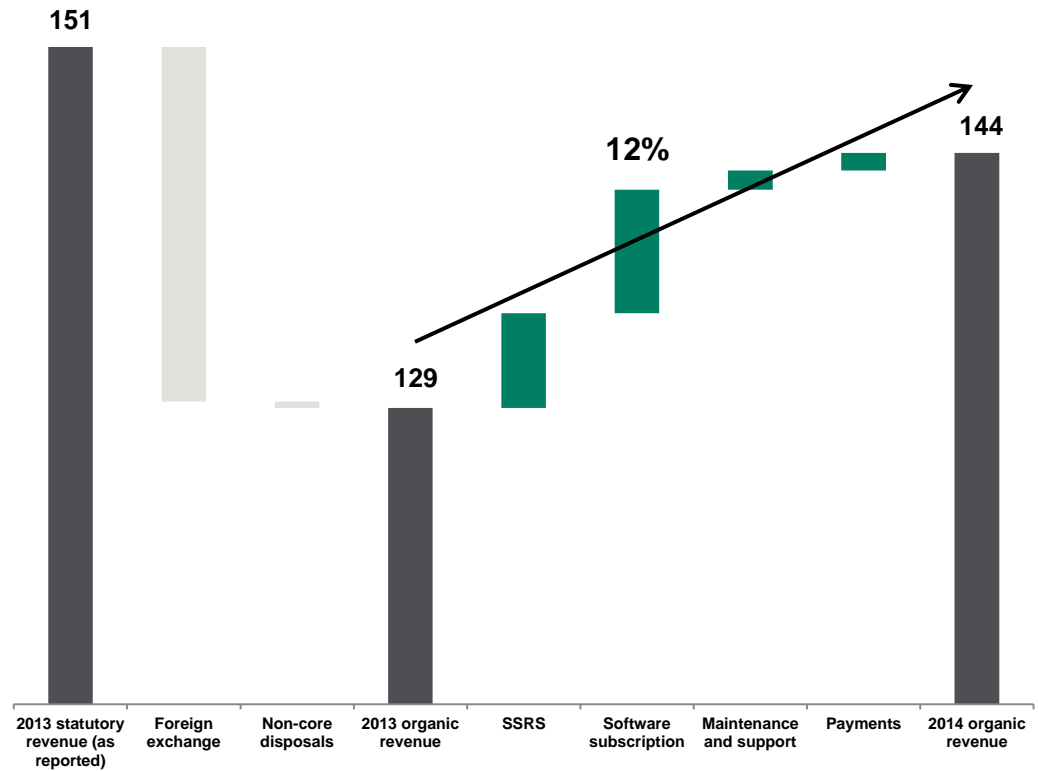


South Africa drives double-digit AAMEA growth

Regional highlights

- South Africa increased organic revenue growth to 16% (2013: 14%), despite slowdown in wider economy
- Strong performance by mid-market and wider African market supported growth
- Solid 6% organic revenue growth in Australia
- Operating margin of 27.2% (2013: 27.4%)

Revenue bridge (£m)

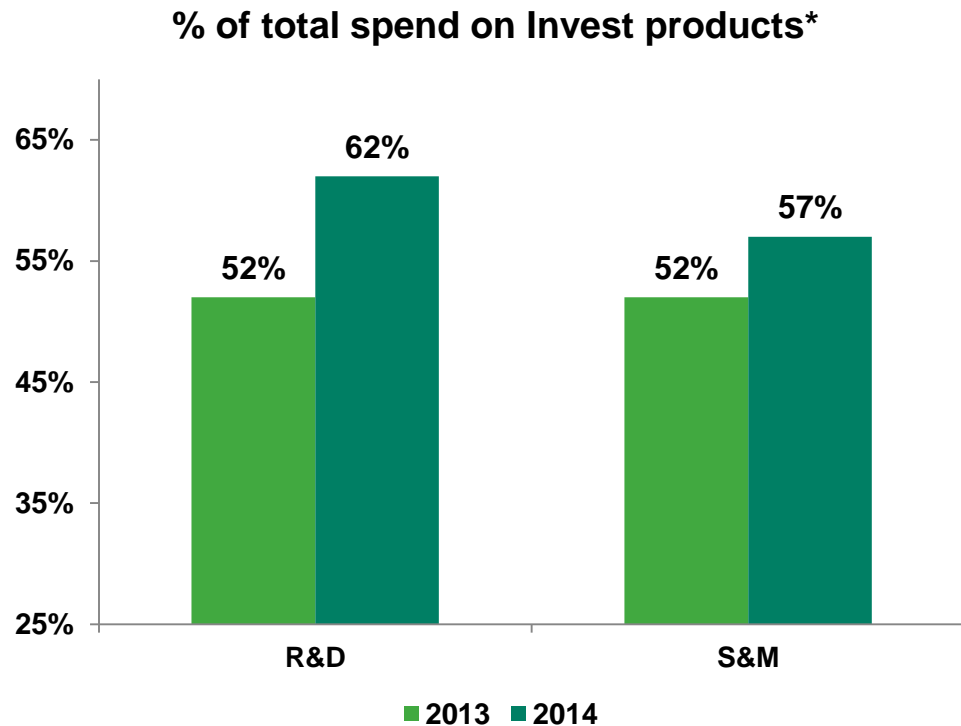


Resource and capital allocation

Investing in our best growth opportunities



- R&D and S&M reallocation towards Invest product portfolio has continued:
 - 17% increase in R&D and S&M spend on Invest products versus prior period



*Graph on an organic basis, excluding acquisitions, disposals and products held for sale. Reported 2013 Invest percentages were: R&D – 50%; S&M – 49%

Cash flow

Strong cash generation continues



	£m		£m		£m
Underlying operating profit (A)	360	Statutory cash flow from operating activities	382	Opening net debt 1 October 2013	(384)
Depreciation/amortisation/profit on disposal	28	Net interest	(19)	FCF	229
Share-based payments	8	Taxation	(107)	M&A	(65)
Working capital change	(1)	Net capital expenditure	(27)	Share buy-back	(91)
Exchange movement/other	(11)			Ordinary dividends	(126)
Underlying cash flow from operating activities (B)	384				
Non-recurring cash items	(2)				
Statutory cash flow from operating activities	382	Free cash flow ("FCF")	229	Closing net debt 30 September 2014	(437)

Underlying cash conversion (B / A)

107%

Interest cover

17x

Net debt/EBITDA

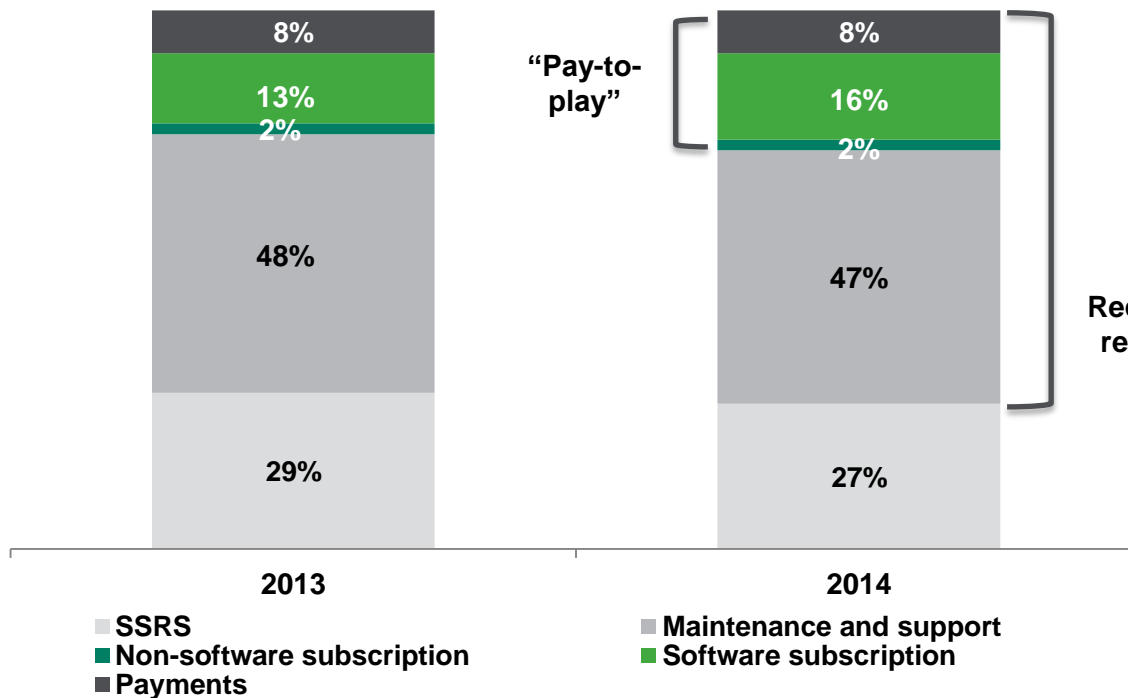
1.1x

The move to subscription

Progressive move to subscription driving increase in recurring revenue mix



Organic revenue split by type



26% of revenue on "pay-to-play" basis

Recurring revenue

73% of total Group revenue is recurring in nature

Technology and subscription



Bringing the cloud to all our customers drives subscription

Core system

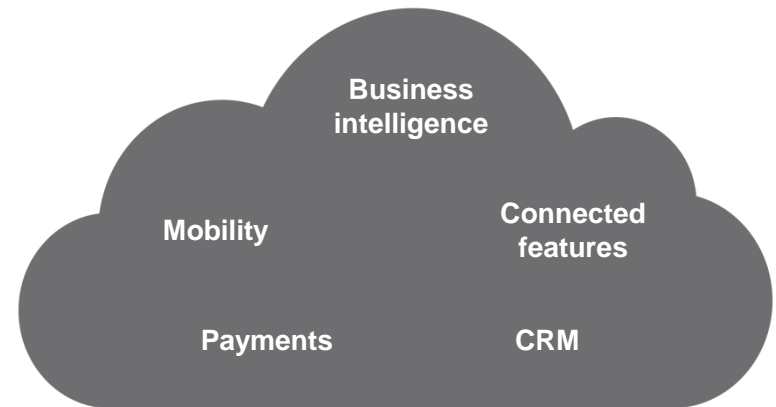


On-premise
installed base

Core product modernisation



Connected services

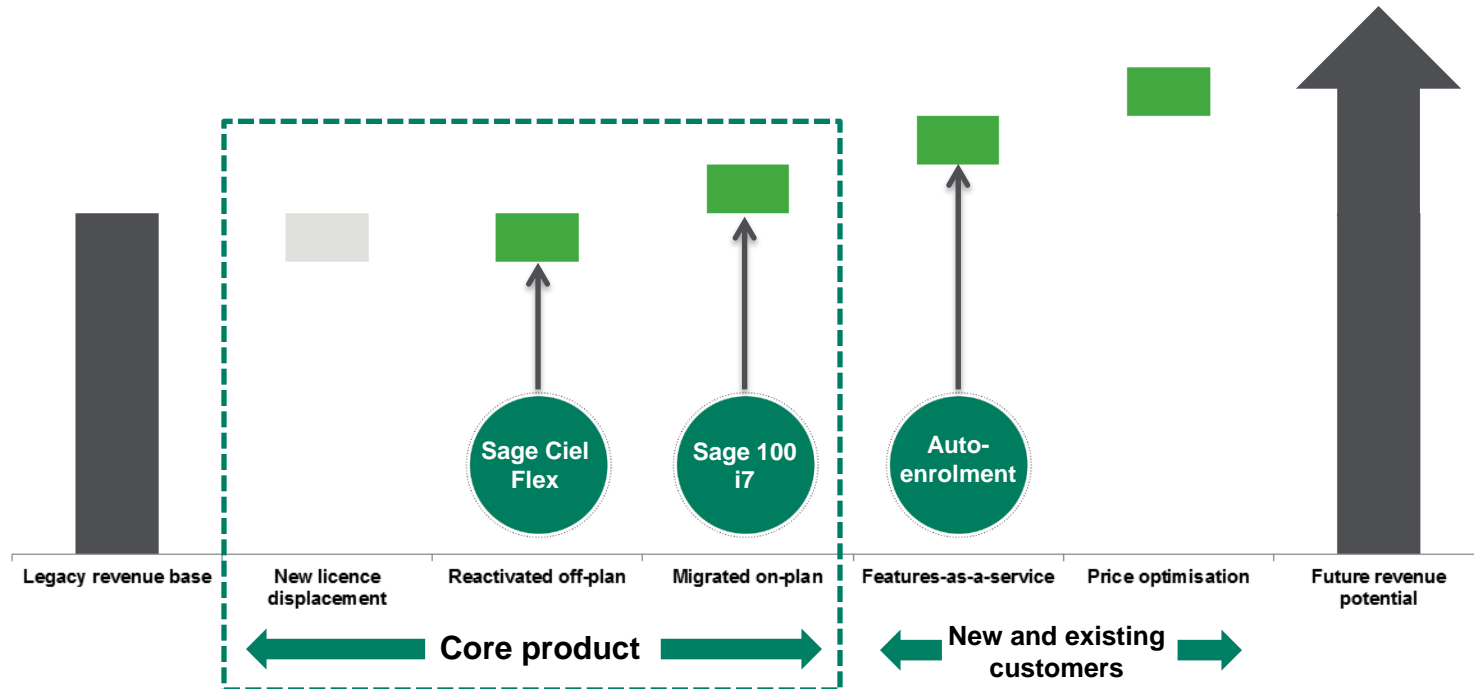


Technology and subscription

The installed base remains a significant opportunity



Multiple opportunities to grow subscription and manage the near-term impact



Technology and subscription



Bringing the cloud to all our customers drives subscription

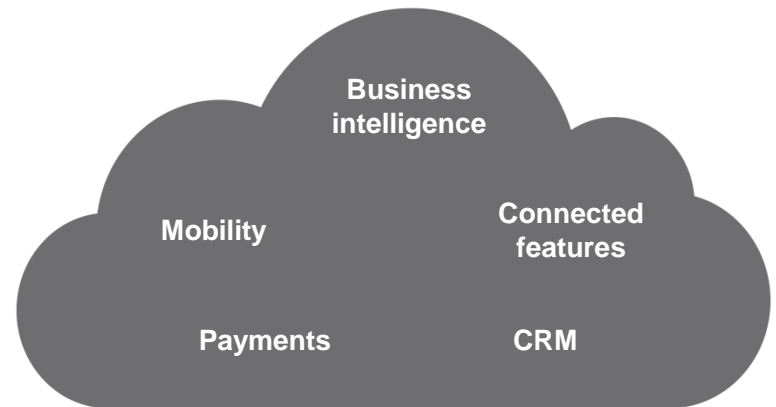
Core system



Sage One/ERP
Online



Connected services

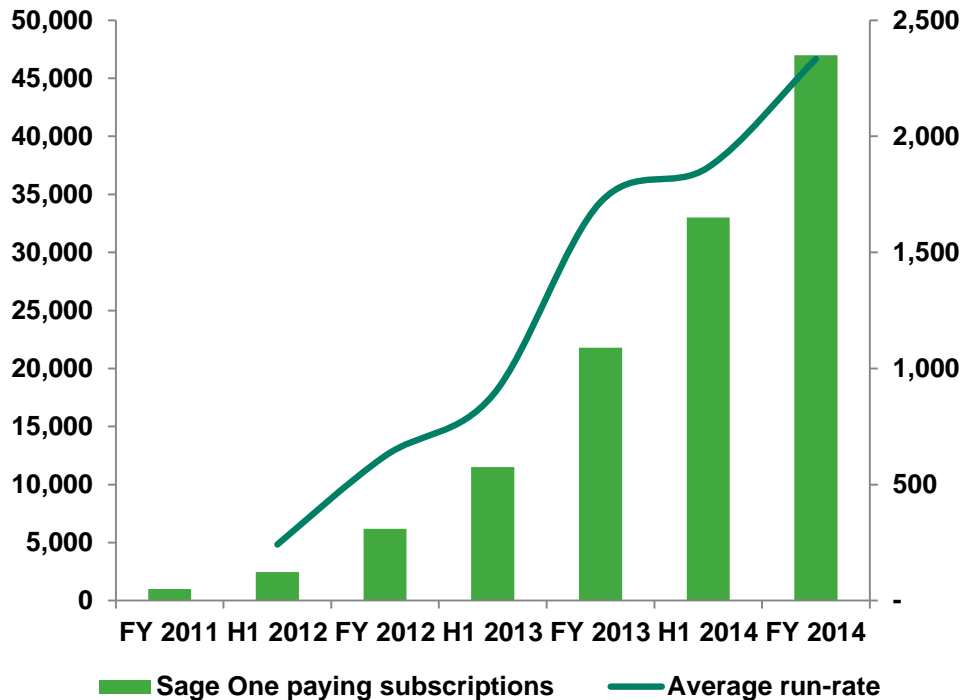


Technology and subscription

Sage One momentum



Sage One paying subscriptions in UKI vs. average monthly run-rate*



- **86,000 global Sage One paying subscriptions, an increase of ca.150%**
- **Several existing SSB SaaS products incorporated into the Sage One portfolio this year**
- **Good momentum in the UKI with 47,000 paying subscriptions at the end of the year**
- **South Africa also demonstrating strong progress**
- **North American adoption below expectations**

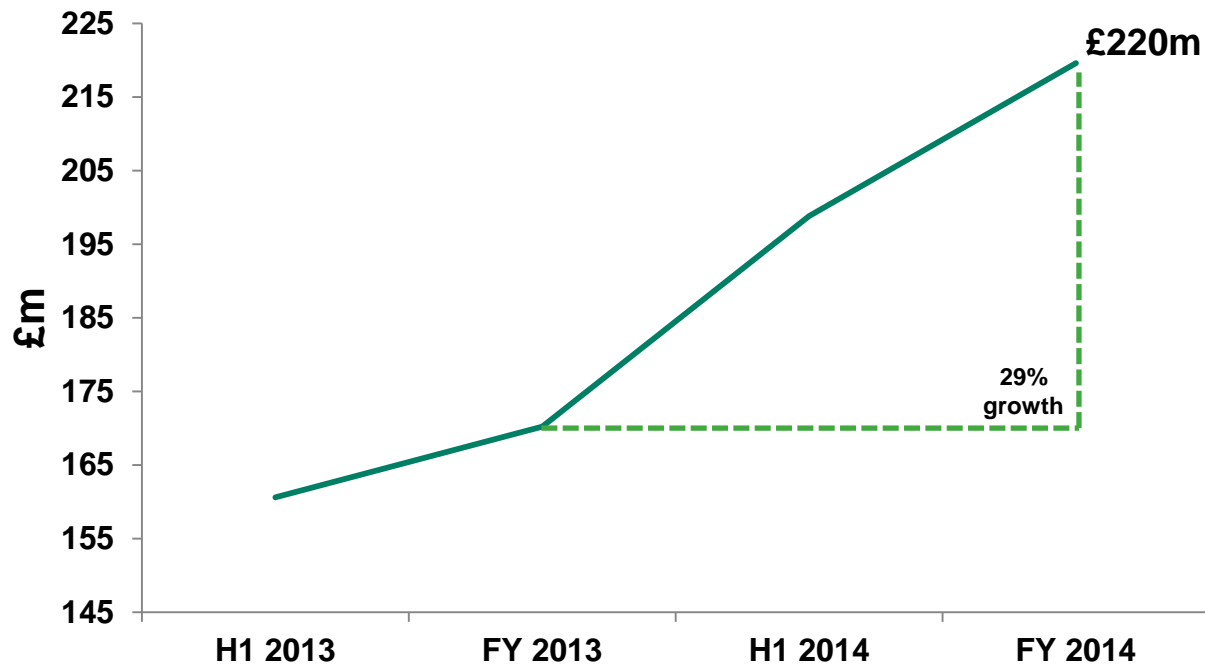
*Calculated by dividing paying subscriptions increase in each semi-annual period by six.

The move to subscription

Building a greater and more predictable revenue base for the future



Organic annualised value of software subscriber base



Over 450,000 software subscription contracts

ca.90% renewal rate for subscription contracts

Summary and outlook



-
- **Exiting 2014 with momentum in cloud, subscription and recurring revenue growth**
 - **Confident in achieving organic revenue growth and margin targets for 2015**

Questions?

Non-GAAP measures



Measure	Description	Why we use it
Underlying	<p>Prior year underlying measures are retranslated at the current year exchange rates to neutralise the effect of currency fluctuations.</p> <p>Underlying operating profit excludes:</p> <ul style="list-style-type: none"> • Recurring items; • Amortisation of acquired intangible assets; • Acquisition-related items; • Fair value adjustments; and • Non-recurring items that management judge are one-off or non-operational. <p>Underlying profit before tax excludes:</p> <ul style="list-style-type: none"> • All the items above; and • Imputed interest. <p>Underlying profit after tax and earnings per share excludes:</p> <ul style="list-style-type: none"> • All the items above net of tax. 	<p>Underlying measures allow management and investors to compare performance without the potentially distorting effects of foreign exchange movements, one-off items or non-operational items.</p> <p>By including part-year contributions from acquisitions, disposals and products held for sale in the current and/or prior years, the impact of M&A decisions on earnings per share growth can be evaluated.</p>
Organic	In addition to the adjustments made for underlying measures, organic measures exclude the contribution from acquisitions, disposals and products held for sale in the current and prior year.	Organic measures allow management and investors to understand the like-for-like performance of the business.
Underlying cash conversion	Cash flows from operating activities, adjusted for cash acquisition-related items and non-recurring cash items, divided by underlying operating profit.	Underlying cash conversion informs management and investors about the cash operating cycle of the business and how efficiently operating profit is turned into cash.

Segmental analysis

Year ended 30 September 2014



	Europe	Americas	AAMEA	Group
Organic recurring revenue	£536m	£335m	£81m	£951m
Organic SSRS revenue	£215m	£77m	£63m	£355m
Total organic revenue	£750m	£412m	£144m	£1,306m
Organic revenue growth	+4%	+5%	+12%	+5%

	Europe	Americas*	AAMEA	Group
Opening contracts at 1 October 2013	1,119,000	536,000	212,000	1,867,000
Net new contracts	(58,000)	14,000	(11,000)	(55,000)
Closing contracts at 30 September 2014	1,061,000	550,000	201,000	1,812,000

Strategic KPIs



KPI	Measure	2014	2013
Focusing our business			
Resource optimisation	R&D %: split by 'Invest':'Harvest':'Sunset'	62:35:03	52:41:07
	S&M %: split by 'Invest':'Harvest':'Sunset'	57:39:04	52:43:05
Capturing the technology opportunity			
Adoption of cloud products	Number of Sage One paying subscriptions	86,000	35,000*
	Number of hybrid cloud paying subscriptions	1,500	750
Mid-market	Sage ERP X3 organic revenue growth	7%	12%
Integration of payments	Number of customers adopting integrated payments solutions	15,800	13,800
The benefits of subscription			
Customer adoption	Organic annualised value of the software subscriber base**	£220m	£170m
Customer loyalty			
Recurring contract renewal rate	Number of contracts successfully renewed as a percentage of those due for renewal	83%	82%

*Following the incorporation of several existing SaaS products in Germany, France and South Africa into the Sage One portfolio during the year, prior year Sage One paying subscriptions have been restated on a like-for-like basis. Without the restatement, Sage One paying subscriptions at 30 September 2014 were 52,600 (2013: 22,400)

**The organic annualised value of the software subscriber base in the prior year has been restated to reflect a revised definition. A software subscription contract is now defined as any contract where a customer may no longer use their software product if they cease to pay. This broadens the contracts captured by this KPI to include mandatory maintenance and support arrangements. Payments contracts and non-software subscription contracts are excluded from this measure.

Financial KPIs



KPI	2014	2013
Organic revenue growth	4.9%	4.3%
Organic operating profit margin	27.5%	27.1%
Underlying basic earnings per share growth	8.2%	12.0%
Underlying cash conversion	107%	112%
Net debt leverage	1.1:1	1.0:1
Interest cover	17x	24x
