Momentum with revenue growth, subscription growth and cloud adoption

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

May not cast precisely due to rounding
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

<table>
<thead>
<tr>
<th>2013 underlying operating profit margin (as reported)</th>
<th>Foreign exchange</th>
<th>Non-core disposals</th>
<th>2013 organic operating profit margin</th>
<th>Revenue growth</th>
<th>Cost growth</th>
<th>2014 organic operating profit margin</th>
</tr>
</thead>
<tbody>
<tr>
<td>27.3%</td>
<td>0.1%</td>
<td>0.2%</td>
<td>27.1%</td>
<td>3.4%</td>
<td>2.9%</td>
<td>27.5%</td>
</tr>
</tbody>
</table>

May not cast precisely due to rounding.
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%)
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%)
AAMEA
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%)
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

## Underlying operating profit (A)
- 360

## Depreciation/amortisation/profit on disposal
- 28

## Share-based payments
- 8

## Working capital change
- (1)

## Exchange movement/other
- (11)

## Underlying cash flow from operating activities (B)
- 384

## Non-recurring cash items
- (2)

## Statutory cash flow from operating activities
- 382

## Net capital expenditure
- (27)

## Net interest
- (19)

## Taxation
- (107)

## Free cash flow (“FCF”)
- 229

## Statutory cash flow from operating activities
- 382

## Free cash flow (“FCF”)
- 229

## Opening net debt
- 1 October 2013
- (384)

## FCF
- 229

## M&A
- (65)

## Share buy-back
- (91)

## Ordinary dividends
- (126)

## Closing net debt
- 30 September 2014
- (437)

## Underlying cash conversion (B / A)
- 107%

## Interest cover
- 17x

## Net debt/EBITDA
- 1.1x

May not cast precisely due to rounding
The move to subscription
Progressive move to subscription driving increase in recurring revenue mix

Organic revenue split by type

<table>
<thead>
<tr>
<th></th>
<th>2013</th>
<th>2014</th>
</tr>
</thead>
<tbody>
<tr>
<td>Software</td>
<td>8%</td>
<td>8%</td>
</tr>
<tr>
<td>Non-software</td>
<td>13%</td>
<td>16%</td>
</tr>
<tr>
<td>Payments</td>
<td>2%</td>
<td>2%</td>
</tr>
<tr>
<td>SSRS</td>
<td>48%</td>
<td>47%</td>
</tr>
<tr>
<td>Maintenance and support</td>
<td>29%</td>
<td>27%</td>
</tr>
</tbody>
</table>

26% of revenue on “pay-to-play” basis

73% of total Group revenue is recurring in nature
Technology and subscription
Bringing the cloud to all our customers drives subscription

Core system

Connected services
- Business intelligence
- Mobility
- Connected features
- Payments
- CRM

Core product modernisation

On-premise installed base
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
- Business intelligence
- Connected features
- Mobility
- Payments
- CRM
Technology and subscription
Sage One momentum

- 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

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

*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

£220m

Over 450,000 software subscription contracts

ca.90% renewal rate for subscription contracts

H1 2013 FY 2013 H1 2014 FY 2014

£m

145 155 165 175 185 195 205 215 225

29% growth
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

<table>
<thead>
<tr>
<th>Measure</th>
<th>Description</th>
<th>Why we use it</th>
</tr>
</thead>
</table>
| Underlying               | Prior year underlying measures are retranslated at the current year exchange rates to neutralise the effect of currency fluctuations. Underlying operating profit excludes:  
  • 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. Underlying profit before tax excludes:  
  • All the items above; and  
  • Imputed interest. Underlying profit after tax and earnings per share excludes:  
  • All the items above net of tax. | 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. 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. |
| 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**

<table>
<thead>
<tr>
<th></th>
<th>Europe</th>
<th>Americas</th>
<th>AAMEA</th>
<th>Group</th>
</tr>
</thead>
<tbody>
<tr>
<td>Organic recurring revenue</td>
<td>£536m</td>
<td>£335m</td>
<td>£81m</td>
<td>£951m</td>
</tr>
<tr>
<td>Organic SSRS revenue</td>
<td>£215m</td>
<td>£77m</td>
<td>£63m</td>
<td>£355m</td>
</tr>
<tr>
<td><strong>Total organic revenue</strong></td>
<td><strong>£750m</strong></td>
<td><strong>£412m</strong></td>
<td><strong>£144m</strong></td>
<td><strong>£1,306m</strong></td>
</tr>
<tr>
<td>Organic revenue growth</td>
<td>+4%</td>
<td>+5%</td>
<td>+12%</td>
<td>+5%</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th></th>
<th>Europe</th>
<th>Americas*</th>
<th>AAMEA</th>
<th>Group</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Opening contracts at 1 October 2013</strong></td>
<td>1,119,000</td>
<td>536,000</td>
<td>212,000</td>
<td>1,867,000</td>
</tr>
<tr>
<td>Net new contracts</td>
<td>(58,000)</td>
<td>14,000</td>
<td>(11,000)</td>
<td>(55,000)</td>
</tr>
<tr>
<td><strong>Closing contracts at 30 September 2014</strong></td>
<td>1,061,000</td>
<td>550,000</td>
<td>201,000</td>
<td>1,812,000</td>
</tr>
</tbody>
</table>

*Opening position restated*
# Strategic KPIs

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

*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

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