Sage Group plc results for the year ended 30 September 2016
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- Rounding
As a result of rounding throughout this document, it is possible that tables may not cast and change percentages may not calculate precisely.

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

- Materiality
Only figures over £1m are considered to be material for the purposes of this presentation.
Agenda:
- Summary
- CFO review
- Progress
- Outlook
- Q&A
Summary

- Results delivered
- The strategy is working
- Phase one complete
Financial progress

<table>
<thead>
<tr>
<th></th>
<th>FY16</th>
<th>FY15</th>
<th>Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Organic revenue</td>
<td>£1,567m</td>
<td>£1,477m</td>
<td>+6.1%</td>
</tr>
<tr>
<td>Organic operating profit</td>
<td>£427m</td>
<td>£391m</td>
<td>+9.2%</td>
</tr>
<tr>
<td>Underlying Margin %</td>
<td>27.2%</td>
<td>26.5%</td>
<td>+70bps</td>
</tr>
<tr>
<td>Underlying EPS</td>
<td>27.8p</td>
<td>25.5p</td>
<td>9.0%</td>
</tr>
<tr>
<td>Exceptional cost</td>
<td>(£108m)</td>
<td>-</td>
<td></td>
</tr>
<tr>
<td>Goodwill impairment</td>
<td>-</td>
<td>(£62m)</td>
<td></td>
</tr>
<tr>
<td>Recurring items</td>
<td>(£19m)</td>
<td>(£20m)</td>
<td></td>
</tr>
<tr>
<td>Statutory Operating Profit</td>
<td>£300m</td>
<td>£297m</td>
<td>+1.0%</td>
</tr>
</tbody>
</table>

**Note – Underlying operating profits stated after:**

<table>
<thead>
<tr>
<th>Item</th>
<th>FY16</th>
<th>FY15</th>
<th>Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Share based payments</td>
<td>(£8m)</td>
<td>(£9m)</td>
<td></td>
</tr>
<tr>
<td>Underlying depreciation and amortisation</td>
<td>(£30m)</td>
<td>(£29m)</td>
<td></td>
</tr>
<tr>
<td>Non-GAAP EBITDA</td>
<td>£465m</td>
<td>£429m</td>
<td>+8.4%</td>
</tr>
<tr>
<td>Non-GAAP EBITDA margin</td>
<td>29.7%</td>
<td>29.0%</td>
<td></td>
</tr>
</tbody>
</table>
### Strong cash metrics

<table>
<thead>
<tr>
<th>Category</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Underlying operating profit</td>
<td>£427m</td>
</tr>
<tr>
<td>Depreciation/Amortisation</td>
<td>£30m</td>
</tr>
<tr>
<td>Share-based payments</td>
<td>£8m</td>
</tr>
<tr>
<td>Working and Capital and other balance sheet</td>
<td>(£9m)</td>
</tr>
<tr>
<td>Net CAPEX</td>
<td>(£31m)</td>
</tr>
<tr>
<td>Underlying cash flow from operating activities</td>
<td>£425m</td>
</tr>
<tr>
<td>Free cash flow</td>
<td>£254m</td>
</tr>
<tr>
<td>Underlying operating profit</td>
<td>£427m</td>
</tr>
<tr>
<td>Interest</td>
<td>(£20m)</td>
</tr>
<tr>
<td>Tax paid</td>
<td>(£92m)</td>
</tr>
<tr>
<td>Exceptional costs</td>
<td>(£58m)</td>
</tr>
<tr>
<td>Free cash flow</td>
<td>£254m</td>
</tr>
</tbody>
</table>

**Opening net debt** (£425m)
- Free cash flow: £254m
- M&A: (£16m)
- Ordinary dividends: (£145m)
- Exchange movement on debt: (£65m)

**Closing net debt** (£397m)
Revenue categories

FY15
- SSRS
- Processing
- Other recurring
- Software subscription

FY16
- SSRS
- Processing
- Other recurring
- Software subscription

Recurring Revenue
- +6%
- +32%
- 0%
- -9%

+10%
Growth in ASB of £130m to £511m over last 12 months

- Sep-15: £381m
- Sage One: £4m
- Sage 50 Accounting: £45m
- Sage 50 Payroll: £15m
- Sage 200: £30m
- Accountants suite: £17m
- Sage X3: £5m
- Other: £14m
- Sep-16: £511m
Regional overview

North America

Europe

International
Europe

What went well
Contract renewal rate increased from 84% to 88%
UKI, Spain & Germany growth above 7% and recurring revenue above 10%
28% growth in software subscription revenue
Sage 50 family grew by 10%, triple digit software subscription growth in Sage 50 Accounts UK
Winning in the Market
- Sage One subscriptions up 62% and revenue up 41%
- X3 customers up 22% and revenue up 12%

Focus
- New customer acquisition
- New product launches

Recurring Mix
FY15: 75%
FY16: 78%

<table>
<thead>
<tr>
<th>Revenue</th>
<th>FY16 £m</th>
<th>FY15 £m</th>
<th>Growth</th>
</tr>
</thead>
<tbody>
<tr>
<td>Recurring</td>
<td>642</td>
<td>582</td>
<td>+10%</td>
</tr>
<tr>
<td>Processing</td>
<td>36</td>
<td>33</td>
<td>+12%</td>
</tr>
<tr>
<td>SSRS</td>
<td>149</td>
<td>161</td>
<td>-7%</td>
</tr>
<tr>
<td>Total</td>
<td>827</td>
<td>776</td>
<td>+7%</td>
</tr>
</tbody>
</table>

#SageResults
North America

**What went well**
Contract renewal rate increased from 87% to 89%
84% growth in software subscription
Triple digit software subscription growth in Sage 50 US and Sage 50 Canada

Winning in the market
• X3 customers increased by 10% and H2 revenue up 18%
• Sage Summit

**Focus**
• New customer acquisition
• Payments business

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**Recurring Mix**
58%
FY15: 55%

<table>
<thead>
<tr>
<th>Revenue</th>
<th>FY16 £m</th>
<th>FY15 £m</th>
<th>Growth</th>
</tr>
</thead>
<tbody>
<tr>
<td>Recurring</td>
<td>308</td>
<td>284</td>
<td>+9%</td>
</tr>
<tr>
<td>Processing</td>
<td>157</td>
<td>153</td>
<td>+3%</td>
</tr>
<tr>
<td>SSRS</td>
<td>71</td>
<td>76</td>
<td>-8%</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>536</strong></td>
<td><strong>513</strong></td>
<td><strong>+4%</strong></td>
</tr>
</tbody>
</table>
What went well

Double digit revenue growth in Africa, Middle East and Brazil

Recurring revenue growth of 16%

Winning in the market
- Sage One subscriptions up 137% and revenue up 110%
- Sage One subscriptions increased by 23,000 both in Brazil and South Africa and 12,000 in Australia
- Growth in X3 customers up 63% and revenue up 74%

Focus
- Asia growth
- Contract renewal rate of 78%

Recurring Mix
70%
FY15: 65%

<table>
<thead>
<tr>
<th>Revenue</th>
<th>FY16 £m</th>
<th>FY15 £m</th>
<th>Growth</th>
</tr>
</thead>
<tbody>
<tr>
<td>Recurring</td>
<td>142</td>
<td>123</td>
<td>+16%</td>
</tr>
<tr>
<td>Processing</td>
<td>11</td>
<td>7</td>
<td>+50%</td>
</tr>
<tr>
<td>SSRS</td>
<td>52</td>
<td>59</td>
<td>-12%</td>
</tr>
<tr>
<td>Total</td>
<td>205</td>
<td>189</td>
<td>+8%</td>
</tr>
</tbody>
</table>
Further savings opportunities of at least £50m will be pursued in FY17, with a minimum two year payback.

### Annual savings secured

<table>
<thead>
<tr>
<th>Area</th>
<th>Savings (£m)</th>
</tr>
</thead>
<tbody>
<tr>
<td>People</td>
<td>£21m</td>
</tr>
<tr>
<td>Facilities</td>
<td>£17m</td>
</tr>
<tr>
<td>Other</td>
<td>£13m</td>
</tr>
<tr>
<td><strong>Total G&amp;A savings</strong></td>
<td><strong>£51m</strong></td>
</tr>
</tbody>
</table>

### Transformation FY16 Actual

<table>
<thead>
<tr>
<th>Category</th>
<th>Cost (£m)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total transformation cost</td>
<td>(£110m)</td>
</tr>
<tr>
<td>Of which, G&amp;A</td>
<td>(£76m)</td>
</tr>
</tbody>
</table>
£35m shift of G&A spend into GTM investment

Operating profit margin

Sep-15: 26.5%
G&A: 2.2%
Marketing: -1.2%
Sales: -1.2%
Other: 0.9%
Sep-16: 27.2%
Results delivered

The strategy is working

Phase one complete
Stephen Kelly
Chief Executive Officer
@SKellyCEO
Sage technology acceleration

Desktop → Cloud → Intelligent automation
Progress

- Customers for Life
- Winning in the Market
- One Sage
- Capacity for Growth
- Revolutionise Business

#SageResults
Customers for life

Software subscriptions
- FY14: 450k
- FY15: 694k
- FY16: 1,016k

Renewal rate
- FY14: 83%
- FY15: 84%
- FY16: 86%

ASB
- FY14: £297m
- FY15: £381m
- FY16: £511m

#SageResults
Winning in the market

• Sage One paying subscribers up 81% to 313,000
• Sage One Payroll
• Sage Live gaining momentum
• CBCs scaling
• X3 organic revenue grew by 18%
• 25% increase in customers
Revolutionise business

Sage Live customer numbers

Award winning technology

Pegg has new users in 125 countries

Q2  Q3  Q4  Q1
65   146  316  600+

Q2  16  Q3  16  Q4  16  Q1  17

65  146  316  600+

#SageResults
Capacity for growth

G&A as % of revenue

FY15: 19%  
FY16: 16%

Marketing expense to staff cost ratio

Expense  
FY15: 54  
FY16: 61

Staff cost  
FY15: 46  
FY16: 39

Sage properties  
FY15: 139  
FY16: 78

#SageResults
One Sage

13,000 days volunteered through Sage Foundation

Percentage of women in leadership roles

Excellence in Governance 56 refreshed policies

25%  32%
FY15  FY16
Doing business the right way

We invest in our community through Sage Foundation

This motivates our colleagues and helps attract and retain the best talent

This provides strong revenue growth and returns to investors and the community

This then drives excellent customer service and encourages innovation

Sage Colleagues

Investors

Customers / Partners

Community
What’s next in the transformation?

- Customers for Life
- Winning in the Market
- One Sage
- Capacity for Growth
- Revolutionise Business
## What to expect in FY17

<table>
<thead>
<tr>
<th>Product</th>
<th>UK</th>
<th>USA</th>
<th>France</th>
<th>Spain</th>
<th>Germany</th>
<th>Canada</th>
<th>Brazil</th>
<th>RSA</th>
<th>Australia</th>
</tr>
</thead>
<tbody>
<tr>
<td>Pegg</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
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<td>✓</td>
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</tr>
<tr>
<td><strong>sage</strong> One</td>
<td>✓</td>
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<td>✓</td>
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</tr>
<tr>
<td><strong>sage</strong> Live</td>
<td>✓</td>
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<td>✓</td>
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<td>✓</td>
</tr>
<tr>
<td><strong>sage</strong> X3 Cloud</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
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<td>✓</td>
<td>✓</td>
</tr>
<tr>
<td><strong>sage</strong> 50c</td>
<td>✓</td>
<td>✓</td>
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<tr>
<td><strong>sage</strong> 200c</td>
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<td>✓</td>
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<td>✓</td>
<td>✓</td>
</tr>
<tr>
<td><strong>sage</strong> Payroll Cloud</td>
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<td>✓</td>
<td>✓</td>
<td>✓</td>
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<td>✓</td>
</tr>
<tr>
<td><strong>sage</strong> Accountants Cloud</td>
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<td>✓</td>
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## What to expect in FY17

### FY17 – Spain

<table>
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<tr>
<th>Product</th>
<th>UK</th>
<th>USA</th>
<th>France</th>
<th>Spain</th>
<th>Germany</th>
<th>Canada</th>
<th>Brazil</th>
<th>RSA</th>
<th>Australia</th>
</tr>
</thead>
<tbody>
<tr>
<td>Pegg 🎉</td>
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<td>✓</td>
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<td>✓</td>
<td>✓</td>
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<td>✓</td>
</tr>
<tr>
<td><strong>sage</strong> One</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
</tr>
<tr>
<td><strong>sage</strong> Live</td>
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<td>✓</td>
</tr>
<tr>
<td><strong>sage</strong> X3 Cloud</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
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<td>✓</td>
<td>✓</td>
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<td>✓</td>
<td>✓</td>
</tr>
<tr>
<td><strong>sage</strong> 50c</td>
<td>✓</td>
<td>✓</td>
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</tr>
<tr>
<td><strong>sage</strong> Payroll Cloud</td>
<td>✓</td>
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<td>✓</td>
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<td>✓</td>
<td>✓</td>
</tr>
<tr>
<td><strong>sage</strong> Accountants Cloud</td>
<td>✓</td>
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<td>✓</td>
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#SageResults
What to expect in FY17

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<th>Brazil</th>
<th>RSA</th>
<th>Australia</th>
</tr>
</thead>
<tbody>
<tr>
<td>sage One</td>
<td>✔</td>
<td>✔</td>
<td>✔</td>
<td>✔</td>
<td>✔</td>
<td>✔</td>
<td>✔</td>
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</tr>
<tr>
<td>sage Payroll Cloud</td>
<td>✔</td>
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<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
What to expect in FY17

sage Live  
sage X3 Cloud  
sage Accountants Cloud  
sage One  
Pegg  
sage 200c  
sage Payroll Cloud  
sage 50c
Outlook FY17

Organic revenue growth at least **6%**

Organic operating margin at least **27%**

- Long-term sustainable growth
- Continued high quality recurring revenue growth
- Constant focus on strong cash conversion
Summary

- Results delivered
- The strategy is working
- Phase one complete
Q&A

#SageResults
Prior period underlying measures are retranslated at the current year exchange rates to neutralise the effect of currency fluctuations.

Underlying operating profit excludes:
- Amortisation of acquired intangible assets
- Acquisition-related items
- Fair value adjustments on non-debt-related financial instruments
- Foreign currency movements on intercompany balances

Non-recurring items that management judge are one-off or non-operational Underlying profit before tax excludes:
- All the items above
- Imputed interest
- Fair value adjustments on debt-related financial instruments.

Underlying profit after tax and earnings per share excludes:
- All the items above net of tax.

In addition to the adjustments made for underlying measures, organic measures exclude the contribution from acquisitions, disposals and products held for sale of standalone businesses in the current and prior period.

Underlying cash conversion is underlying cash flow from operating activities divided by underlying operating profit. Underlying cash flow from operating activities is statutory cash flow from operating activities less net capital expenditure and adjusted for movements on foreign exchange rates and non-recurring cash items.

Where prior period underlying measures are included without retranslation at current period exchange rates, they are labelled as underlying (as reported).

<table>
<thead>
<tr>
<th>Measure /Description</th>
<th>Why we use it</th>
</tr>
</thead>
<tbody>
<tr>
<td>Underlying</td>
<td>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-period contributions from acquisitions, disposals and products held for sale in the current and/or prior periods, the impact of M&amp;A decisions on earnings per share growth can be evaluated.</td>
</tr>
<tr>
<td>Organic</td>
<td>Organic measures allow management and investors to understand the like-for-like performance of the business.</td>
</tr>
<tr>
<td>Underlying cash conversion</td>
<td>Underlying cash conversion informs management and investors about the cash operating cycle of the business and how efficiently operating profit is converted into cash.</td>
</tr>
<tr>
<td>Underlying (as reported)</td>
<td>This measure is used to report comparative figures for external reporting purposes where it would not be appropriate to retranslate. For instance, on the face of primary financial statements.</td>
</tr>
</tbody>
</table>
## Glossary

### Measure / Description

<table>
<thead>
<tr>
<th>Measure / Description</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Processing revenue</strong></td>
<td>Processing revenue is revenue earned from customers for the processing of payments or where Sage colleagues process our customers’ payroll.</td>
</tr>
<tr>
<td><strong>Recurring revenue</strong></td>
<td>Recurring revenue is revenue earned from customers for the provision of a good or service, where risks and rewards are transferred to the customer over the term of a contract, with the customer being unable to continue to benefit from the full functionality of the good or service without on-going payments. Recurring revenue includes both software subscription revenue and maintenance and service revenue.</td>
</tr>
<tr>
<td><strong>Software subscription revenue</strong></td>
<td>Subscription revenue is revenue earned from customers for the provision of a good or service, where the risk and rewards are transferred to the customer over the term of a contract. In the event that the customer stops paying, they lose the legal right to use the software and the Company has the ability to restrict the use of the product or service. (Also known as ‘Pay to play’).</td>
</tr>
<tr>
<td><strong>Software and software related services (“SSRS”)</strong></td>
<td>SSRS revenue is for goods or services where the entire benefit is passed to the customer at the point of delivery. It comprises revenue for software or upgrades sold on a perpetual license basis and software related services, including hardware sales, professional services and training.</td>
</tr>
</tbody>
</table>