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SGE.L - Full Year 2016 Sage Group PLC Earnings Call

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PRESENTATION

Stephen Kelly - *The Sage Group plc - CEO*

Good morning and welcome, everybody, those of you who are sitting here with us in the London Stock Exchange, and those of you who are on the phones. We're delighted to have you with us for our FY16 results. And always, we start a note to Safe Harbor statement which you can find in your packs and also on our website.

The agenda for this morning's presentation is outlined on the screen. I'll provide a brief overview of Sage's performance in FY16 and then hand over to our Chief Financial Officer, Steve Hare, who will talk through the financial and operating performance of the business. I'll then update us on the progress against our plan and close on the outlook for FY17 before we open up to the floor for questions.

18 months ago at the Capital Markets Day in June 2015, the Sage management team chartered the course for Sage's transformation, and we committed to improve results and deliver financial performance throughout this period.

I want our management team to be known for doing what we say and for providing absolute transparency, identifying what's going well and the areas that require greater focus. Each time Steve and I have stood up here to announce a set of results since Capital Markets Day, we've been pleased to be able to demonstrate gradually improving progress.

Last year for FY15, we delivered the fastest rate of top-line growth for eight years at 6%, and shared some early green shoots of progress against our strategy. And today, we stand here on the back of another encouraging set of results that demonstrates another important step forward, with double-digit recurring revenue growth for the first time in a decade. This is underpinned by subscription growth at 32%.

Our internal mantra, we have shared with you previously, is perform and transform. We are performing while taking important steps to improve the underlying quality of our business and support our longer-term growth ambitions. The results you will hear today demonstrate clearly that our strategy is working.

We continue to keep our feet firmly on the ground and recognize there is much to do as we focus relentlessly on execution. We've been transparent about the operational risk we face, which means the journey may not be entirely linear.

Last year, we signaled that FY16 was a pivotal year. We have come through this year strongly, and in FY17, we moved into the second phase of our transformation where we're building on the foundations we established over the past 18 months to transform the competitiveness and effectiveness in the market.

Now I'd like to hand you over to Steve Hare for the financial performance review.

Steve.

Steve Hare - *The Sage Group plc - CFO*

Thank you, Stephen, and I'd like to add my welcome to today's results presentation.

The message for today is that we've done what we said we would do in FY16. We have delivered the overall revenue, recurring revenue and software subscription growth at or better than guidance. We've delivered an improved operating margin also in line with guidance, and the level of exceptional charge is where we said it would be. And we have delivered the promised cost savings within the two-year payback that we committed to. We also have strong free cash flow and have increased the dividend by 8%.

We have completed the first phase of the transformation. However, we are still in the midst of the transition and there is much to do in FY17, but let's first reflect on the results of FY16.

We delivered 6.1% revenue growth whilst also improving the underlying operating margin by 70 basis points to 27.2%.

The quality of the revenue continues to improve with 70% of it now recurring and 28% of it coming from subscription. We now have over 1 million subscription contracts, up from only 450,000 two years ago.

We achieved double-digit recurring growth for the first time in a decade, delivering 10.4%. It's worth reflecting that if you go back to FY13, the recurring revenue growth was 6%. The following year in FY14 it was 7%; and the year after in FY15 it was 9%, and it's now 10.4%.

The exceptional cost of GBP108 million is comprised of GBP110 million charge relating to the transformation offset by a GBP2 million credit relating to the Archer litigation. I'll come back to this later in the presentation, but just to confirm, of the GBP110 million charge for the transformation, GBP76 million related to the general and administrative areas, and this has delivered annualized cost savings of GBP51 million.

The remaining GBP34 million of the GBP110 million charge related to the go-to-market functions where we have taken some early steps to address productivity and skill gaps.

Consistent with last year, at the bottom of the slide, I show the non-GAAP EBITDA calculation, which as you can see shows we achieved an EBITDA margin of just under 30%.

Although not on the slide, just a quick word on tax.

We have an effective tax rate of 26%, in line with where we expected to be. Now this is higher than the UK corporation tax rate as we continue to derive much of our profits in higher-tax countries such as the USA and France.

We would expect to maintain an effective tax rate in the range of 25% to 27% in the medium term as we are committed to being known as a company that pays the taxes due in the jurisdictions in which we operate.

Finally, as I said earlier, we have increased our dividend by 8%, maintaining our progressive dividend policy.

Turning now to cash.

Now starting with the first column, underlying operating cash flow of GBP425 million represents a strong cash conversion of 100%. CapEx was a bit higher this year at GBP31 million versus GBP20 million last year as we invest in internal systems, IT security and infrastructure. We will continue this increased level of investment as we go forward into FY17.

Moving to the second column, free cash flow of GBP254 million represents 16% of revenue, and this is after taking GBP58 million of exceptional cash costs. Adding those back would have resulted in a free cash flow of 20% of revenue.

And finally in the third column, closing net debt is around 1 times trading EBITDA. The significant movement on exchange, which you can see on the chart, is the retranslation of dollar and euro debt into sterling.

I've already touched on the trend of recurring revenue. This growth is underpinned by software subscription growth, but the first key observation on this slide is that SSRS has declined by 9%, and actually, SSRS software revenue has declined by 15%. So we have been able to absorb this decline and still achieve our growth targets. This is one of the key data points that our strategy is working.

Processing revenue also grew by 6%, mainly driven by strong payments growth in the UK & Ireland and payroll processing growth in North America and South Africa.

The growth in annualized subscriber base is a key metric, and we have achieved 34% growth this year. As you can see from the chart, the Sage 50 family of cloud products, both accounting and payroll, have been a big success, both in the UK as well as in the US and Canada. We would expect this to continue as we enhance our Sage 50 franchise with features like integration into Office 365.

The Sage 200 family also made progress in our major geographies, and Sage One and Sage X3 are also starting to make an impact. Sage X3 actually is particularly worthy of a callout given the majority of the sales are still on perpetual license. You can expect to see Sage Live appearing on this chart next year in FY17.

So turning now to the regions and starting with Europe.

Europe has the highest penetration of recurring revenue at 78% but still managed to achieve double-digit recurring revenue growth and grew at 7% overall. The improvement in contract renewal rate to 88%, plus the fact that the UK & Ireland, Spain and Germany, all grew above 7% and achieved double-digit recurring revenue growth, gives us strong momentum.

Subscription penetration in these three countries varies from 14% for Spain up to just under 35% for UK & Ireland, so there is still plenty of opportunity to migrate further customers to subscription.

Just a word on France where over 50% of revenue already comes from subscription.

The team still achieved 6% overall growth and 8% recurring revenue growth. Also in France, X3 revenue grew by 12%, and there were 20 X3 deals signed in excess of GBP100,000.

Sage One, Sage Live and Sage X3 all made good progress in Europe this year, and the CBC in Dublin is starting to scale.

In FY17 across Sage there will be a number of new product launches and Stephen will touch on these later, but this will be a particular focus for Europe, and this in turn will support the focus on acquiring new customers. We will, of course, also retain our focus on supporting our existing customers.

Performance in North America was mixed. Overall revenue growth was 4%. However, if you exclude payments, the region achieved 6% growth.

Recurring revenue growth was consistent with the prior year at 9%, with contract renewal rates increasing from 87% to 89%, which is the highest of any region. This reflects the historic focus on the installed base, and in particular, premium, maintenance and support.

North America saw an 84% growth in software subscription in FY16, with Sage 50 on subscription being a particular success story in both the US and Canada, each achieving triple-digit growth. We also saw real momentum in X3 in the second half of the year with growth of 18% and a strong pipeline.

It's also worth mentioning that Sage Summit was a big success, changing the way that Sage is seen in the market, particularly in the US, and Stephen will talk more about this and the impact of Sage Summit later.

That said, North America does have the lowest recurring revenue mix of all the regions, and subscription represents only 10% of total revenue. So with little growth in maintenance and support, a flat payments performance and an 8% decline in SSRS, the US team need to win new customers and drive harder on subscription, including with the partner channel.

There also needs to be a real focus in FY17 on supporting the startup segment in the US, and this means acquiring meaningful numbers of Sage One customers. Given the low subscription penetration, North America continues to represent one of our targeted areas for growth.

In international, Africa, Middle East and Brazil, all achieved double-digit revenue growth and even higher recurring revenue growth numbers. I must call out both South Africa led by Anton, and Brazil led by Jorge, where despite very difficult economies, the teams delivered double-digit growth, in the case of Brazil, 12% overall revenue growth and 22% growth in software; and in the case of South Africa, 19% growth overall.

Our performance in Asia was disappointing. We didn't compensate for the non-recurring revenue from the tax compliance changes in FY15. There were some bright spots, including adding 12,000 Sage One subscriptions in Australia.

Overall in international, Sage One and X3 have led the way in the region as we've started to see new customer acquisition starting to work. This region has increased the number of recurring revenue contracts in FY16 by over 25%.

We've seen particularly strong momentum with Sage One in Brazil where we added over 23,000 subscriptions through to the end of September, and in the last two months added a further 10,000 in both October and November to give us just under 50,000 Sage One subscribers in Brazil. This means the international region now has well in excess of 100,000 Sage One subscriptions.

The focus for FY17 is to return Asia to growth. The contract renewal rate in this region reflects the higher level of bankruptcies and business closures, and this will also become a more prominent area for focus as the level of subscription penetration increases.

And finally, we will continue to support our existing customers and to drive the new customer acquisition in this region.

As previously indicated, we've delivered GBP51 million of annualized cost savings in the general and administrative functions, and of this, around GBP35 million was delivered in year. The savings are a mixture of people, property and third-party contracts. We have spent GBP76 million to achieve these savings to give a payback of just under 1.5 years.

So how have we done it? On people, we've reduced duplication and started to concentrate back-office functions into fewer locations. So, for example, we now have finance shared service centers operating in Atlanta, Johannesburg and Newcastle.

On property, we've reduced our locations from 139 to 78, but we've also reinvested into key sites, upgrading facilities in the US, the UK, Poland and Australia, to name a few examples.

The other category is largely procurement where we have been reducing the number of suppliers and putting in place Sage-wide agreements, although I would emphasize that we continue to favor small and medium-sized suppliers where it makes sense to do so.

The remaining GBP34 million of the GBP110 million exceptional charge for transformation relates to the go-to-market functions where we are starting to address change. A good example would be marketing where we've begun to up-skill the team. 300 people have actually left the business from the marketing function, and 200 new dedicated product and digital marketing colleagues have been hired to give us a net reduction of 100 people but a much higher-skilled team.

We've also made some early changes in other areas of the go-to-market functions as we start to integrate areas like sales and marketing operations and reduce non-quota sales support roles, particularly in the UK and France.

We intend to drive further savings in FY17, and there will be at least another GBP50 million of annualized savings which will meet the same payback criteria of no more than two years and which will be reinvested. This does mean we will incur a further exceptional charge in FY17, and I would expect this to be the final exceptional charge for this transformation.

The dynamic can be seen more clearly on this slide. This shows the in-year movement rather than the exit rate, which is what I was discussing on the previous slide.

I touched on marketing. In marketing, we have rebalanced the split between people cost and program cost down to 39% people and 61% program, which is moving towards industry standards. This, along with the overall increase in investment, means that in marketing, we have increased by more than 35% the investment in program and brand.

In sales, we have increased quota-carrying sales resources in every region.

R&D investment is not shown on this bridge because it's broadly flat year over year as a percentage of revenue, but to emphasize, we continue to refocus our engineers towards our next generation of cloud products. In FY17, we will continue this strategy of driving further cost savings to reinvest into the business.

In the first phase of the transformation, we moved relatively slowly to address inefficiencies in the go-to-market functions. This is particularly true in sales and service. However, in phase two, with the arrival of Blair Crump as President responsible for the go-to-market functions, we will start to address productivity in these areas.

As I already mentioned, we started to integrate sales and marketing operations, and we now have a member of the executive team responsible for services.

Now before I summarize, I want to make it clear that in FY17, we will see the same phasing in margin as we did in FY16 as a result of the weighting of investments into the first half. This means the first-half margin will be lower than the second-half margin, and our guidance is for the year as a whole.

So in summary, we've done what we said we would. The results show that the strategy is working, and the first phase of the transformation is now complete. As Stephen mentioned earlier, the transformation may not be entirely linear, with key areas like managing the move away from SSRS to subscription high on our agenda.

We're now entering the second phase of the transformation with momentum, and we will continue to invest for growth.

And with that, I'll hand back to Stephen.

Stephen Kelly - *The Sage Group plc - CEO*

Thanks, Steve, and another encouraging year in terms of financial performance where we ticked all the boxes.

Before I move on to the progress we've made in the first phase of our transformation, I want to step back for a few moments to remind ourselves where Sage started this journey and outline our vision for the transformed company we are building.

When I joined Sage back in November 2014, I joined a company with a fantastic heritage and assets. The most global player in our market and the only company offering movement-of-money solutions from sole traders to large businesses, which we classify as market segments of startup, scale-up and enterprise.

Sage was clearly the market leader in desktop accounting and payroll software, but honestly, we hadn't kept pace with the technology innovation. I referred to Sage back then as a sleeping giant. We hadn't embraced the cloud and the benefit it offers our customers, so we needed to reawaken.

Much of the preceding 18 months has been about putting in place the foundations to allow us to compete and win in the cloud, and I'll talk shortly about the progress we've made there. But we were never interested in playing catch-up. The rate of innovation in technology today is the fastest and the most exciting I've experienced in my 32 years in the industry. So we've always had an eye on where Sage can lead the market and invent the future for the benefit of the business builders around the world.

The cloud is now a table stake. It is the platform that's opened the door to the next wave of innovation, the era of intelligent automation. Sage's vision is that startup entrepreneurs and business builders will spend no time -- yes, zero minutes -- doing financial admin by 2020.

This is a game changer, and thanks to Sage, it's already becoming a reality. I'm blown away every time I spend with the amazing engineers in Sage when I can clearly see the world of the future.

But before we get too carried away, let's just look at the progress Sage has made in our transition, which is all about making this innovation possible.

At the Capital Markets Day, we first introduced you to our five strategic pillars. We also outlined the risks and the opportunities to our investors of the radical and rapid evolution required at Sage. We classified everything that's been achieved so far as phase one of the transformation.

In this first phase, we've consolidated what was effectively hundreds of disparate and sometimes competing operating companies within 23 countries into a single, aligned market and customer-facing organization, and we've established the foundations that will sustain Sage in the future.

This is no mean feat. As we said at Capital Markets Day, this is as much a very complex multiyear transition to fundamentally change the very DNA of the Company to embrace technology and to make customer obsession the way of life.

With FY17, we enter the second phase of this transition with still much to do, but with many of the building blocks in place to increase Sage's effectiveness in the market for our customers.

In phase two, there will be an increased focus on customer-facing business, which until now has been [set], as Steve said, largely insulated from the translation. With Blair Crump's recent arrival as Commercial President, we expect to see improved consistency, effectiveness and productivity in sales, service and marketing.

Blair is well advanced in assembling his commercial organization which has included a creation of a flatter regional structure. As part of Blair's top team, Nancy Harris has been appointed interim leader of our North American region following her successful tenure as Managing Director of the Canadian business, with Marc Scheipe, our North American President, leaving Sage.

Other commercial leadership changes of note include Asia, which has been now combined with Australia to create a single combined sub-region under the new leadership of Pieter Bosman.

To give you more of a sense of the progress in phase one, I'll run through each of the strategic pillars.

First, customers for life. It's an absolute imperative that our existing customers continue on their Sage journey. Our customer for life strategy has underpinned much of the growth of phase one, and will continue to be a key factor for growth moving forward. There are a few data points on this slide.

In addition, we're building higher-quality relationships with our customers through subscription. Software subscription revenue has increased by 32%, and the number of software subscriptions has increased by 46% to just over 1 million, a significant milestone.

Cross-sell campaigns are starting to gain traction. In the UK & Ireland, 37% of Sage 50 accounts customers also have Sage Payroll. Our net promoter scores measure customer satisfaction and NPS has increased by 61% on the prior year.

And all of these are coming together to drive improved customer loyalty. By providing excellent levels of customer service, we continue to build our contract renewal rates. The contract renewal rate has grown to 86% in the year, up from 84% in FY15.

For phase two, we will continue to invest in our flagship product families, and we've also hired Sue Goble as a proven customer success leader to take our focus on customer obsession to the next level.

Secondly, winning in the market. New customer acquisition has become a real focus for Sage and is strategic to accelerated growth for the future. We'd obviously like to have gone faster, but FY16 marked a turning point where Sage attracted net new customers for the first time in recent history.

Our suite of cloud accounting products designed to win in the market are showing continued progress. In the startup market, Sage One [paid] subscribers grew by 81% to 313,000, of which 61,000 were added in the UK & Ireland.

In the scale-up market, Sage Live has moved out of incubation phase and is starting to generate real traction. Early days for Sage Live, but thanks to Salman Syed and the CBC team, we saw more new customer wins in the month of November than we achieved in the previous six months, with an average ACV of $1,500.

For the enterprise market, X3 revenue grew by 18% in the year, with 74% growth in international region. As Steve mentioned, in July 2016, we hosted Sage Summit, the world's largest gathering of entrepreneurs, and I was very pleased that some of our investors and our analysts here today joined us in Chicago and witnessed the Sage ecosystem first hand.

Our head of brand and events, Van Diamandakis, put on, I think you'd all agree, an awesome show. We had 15,000 registered attendees, generated over 1 billion social impressions, and over 3,000 media articles were written from the conference.

Our digital marketing strategy is now starting to deliver. We've increased our web domain authority on sage.com, driving a corresponding 77% year-on-year increase in web traffic to the site. We've also increased our social media followers by 220%, leapfrogging our competitors, and tripling the engagement with Sage content on social channels, as well as increasing our lead to conversion rates. All of this is contributing to a reduction in the costs of customer acquisition.

For phase two, we acknowledge we have still more to do. Now that we have the products though and the marketing platforms in place, our focus will be on new customer acquisition at scale through the integrated digital marketing, sales and service machine, and our growing partner ecosystem.

Next, revolutionize business. For phase one, we set out to leapfrog competitors. Innovation and invention of awesome technology for business builders is now part of Sage's DNA once again, with extensive evidence of our progress.

Take Sage Live as an example of this, a MobileFirst, real time accounting application for scale-up businesses. The product was developed in just 26 weeks, with early adopter customer input contributing to the build of the product.

In FY15 the product was in development, and we purposefully held back on releasing to new markets until we knew the product would be fighting weight. Now we have over 600 customers, and with 400 added in the past 90 days alone.

Salesforce.com voted Sage Live the most innovative product in their ecosystem for 2016, and we were chosen as the first vendor to go live on the new Salesforce Lightning mobile platform. And excitingly, we launched Pegg at the end of July 2016, the world's first accounting chatbot, which now has new users in over 125 different countries.

Our vision is that Pegg becomes the personal trainer for the startup business owner. Pegg will chase late payments, raise invoices, and inform the business owner on key metrics like cash flow. Pegg will leverage our investment in artificial intelligence and lead us to the vision of zero admin. As media columnists have written, and I quote, hello Pegg, goodbye admin.

The thought leadership we've shown with Pegg means that Sage now hosts the largest bot developer community in Europe. Pegg has excited our new technology partners such as Facebook, Slack and Microsoft. With a disruptive new messaging platform, Microsoft Teams, launched several weeks ago, Pegg was one of the first bots they chose to showcase to their 1.2 billion potential users.

Innovation at Sage is gathering momentum and we've hardly started. The product roadmaps publicly shared for the first time ever at Sage Summit are witness to the acceleration of technology, invention and development. We've exciting plans for the future, and certainly more to do here.

Fourth, capacity for growth. Steve already talked about some of the progress. You can see some of the individual data points here on the slide, and the headline is that phase one we delivered our commitment to create capacity for growth within the existing financial model, which we believe is good discipline.

Phase two continues to shift the investment for growth and drive simplicity and efficiency from all our functions, including the go-to-market function.

And finally, One Sage. We've reduced the fragmentation. This ranges from bringing Sage together as one organization to the implementation of a new consistent operating model and organization design rolled out around the world through to more detailed operational examples such as reducing the number of sales compensation schemes from over 100 to under 10.

Colleague engagement also has increased, with all-hands meetings and Sage TV broadcasting live to all our colleagues.

Recently, at the Sage FY17 kickoffs, Blair Crump, Steve and myself, visited each major Sage office around the world, meeting approximately 10,000 colleagues, as well as customers, partners and accountants. We continue to drive colleague engagement through the Sage Foundation, of which we're hugely proud.

A staggering 100,000 volunteering hours were donated by our Sage colleagues in the first year of the Foundation, and globally, 110 charities benefited from grants awarded by the Foundation.

Also, we've taken a lead in the technology industry, driving real progress on diversity and inclusion. We can boast 48% ratio of women at Sage, which is high for a technology Company. And in FY15, we were pleased with an increase to go from one-quarter to one-third of women on our senior management team, comprising our top 150 leaders. Still, we believe more to do.

Our focus also extends on governance: assurance, risk management and our control environment, and as part of our Excellence in Governance program, we've introduced a suite of 56 policies.

So as well as our commitment to profitable growth through the execution of the strategy, we're very, very committed to doing the business the right way for our colleagues, our customers, our partners and our shareholders, with the highest standards and integrity.

Sage was recently recognized in the top four of the FTSE 100 for governance in a study by the Institute of Directors, which is quite an achievement.

We want to lead from the front as businesses become more responsible corporate citizens. This is the way of the future, and for Sage this is now. Bold initiatives like the Sage Foundation are not only the right things to do, but the evidence shows it makes great business sense.

For example, Sage Foundation is listed as one of the main reasons why new recruits choose to join Sage. They love the fact that we're a business with a heart and we give back to our communities.

So what's next? I mentioned at the start that we're moving into phase two with FY17 of our transformation, where we'll build on the foundations we've put in place for the last 18 months to transform the competitiveness and effectiveness in the market.

But what do I actually mean by this? There are many examples, but just let's pause and I give you one example.

The pace at which we're developing products in the cloud has accelerated exponentially. In FY17, a lot of that hard work comes to fruition. We've rationalized our desktop portfolio over the past 18 months, and if we look at this chart, it shows we will be completing our award-winning cloud product portfolio during FY17 for each of our market segments in each of our nine largest countries, which together represent 95% of revenues.

So what does it mean for a specific country? Let's just take Spain as an example, a country that has not launched new products since 2010. We're launching five major cloud products in the first six months of FY17, all in local language, and all 100% compliant with the Spanish regulatory environment.

Now Spain is a country where 56% of all companies use Sage to pay their taxes. The excitement in the market with Sage's launch of these products is palpable. At the macro level, it's worth emphasizing the significance across all Sage's major markets.

Let's just pause and look at where the cloud portfolio was around this time two years ago.

At that time, just over two years ago, even Sage One, our only cloud solution, was a totally different product in each market. So in addition to rolling out new cloud products across our markets in FY17, we've invested in moving our Sage One solutions onto a single, scalable code base.

With this cloud portfolio, Sage has a unique advantage as the most global cloud vendor in the market, combined with unrivaled expertise in local compliance and a true partner for life, from startup, through scale-up, to enterprise. This is a massive step forward and a monumental effort from our product teams, driven by Nick Goode and Jennifer Warawa.

To support these product launches, we'll be investing in building our brand and events in key markets. We're taking Sage Summit on the road to meet the world's business builders, reaching over 30,000 prospects, customers, partners, entrepreneurs.

This week, for example, we hosted the first of these, with an oversubscribed Sage Summit in France where Sage has trended on social media in Paris for the last two days.

So there's a lot planned in FY17 as we invest heavily in winning in the market. It's important to remember that our cloud products are building from an emerging base and it will take time for these to contribute to top-line revenue growth in a meaningful and material way.

For FY17, our focus is on the disruption and winning further market share, most of all proving the model that we can scale our cloud solutions and deliver scale in new customer acquisitions.

So our outlook for FY17.

After an encouraging FY16, we take momentum into FY17. For FY17, our guidance for the full year remains consistent at at least 6% revenue growth and at least 27% operating margin. We will continue to front load investment in growth in H1 FY17, consistent with our execution last year. Consequently, this will give us greater momentum for accelerated growth for the second half of FY17 as we leave phase two.

This is an exciting time for Sage, but we clearly still have our feet on the ground and acknowledge there is still much to do.

So to summarize briefly, FY16 has been another year of encouraging performance with the fastest rate of recurring revenue growth for a decade. There is strong evidence that the strategy is working, and strong green shoots of progress.

We are focused relentlessly on execution to continue to perform and transform. Steve and I are confident that we are on track with our plan.

And with that, I would like to invite Steve back up here and I will open up for your questions.

Thank you.

QUESTIONS AND ANSWERS

Stacy Pollard - *JPMorgan - Analyst*

Stacy Pollard, JPMorgan.

You mentioned -- Steve, you mentioned acceleration of growth in recurring revenues. And just to make sure we understand what's driving that and as we also look forward, can you still accelerate because you're driving market share and more white space? Or was some of that also coming from the transition or the conversion from the software subscription -- I mean from the software licenses?

So that's one question to understand just how far that can go.

And really as a follow-up to that, or as a continuation on that, can we also talk about the midterm? When do you think you can accelerate that revenue growth and begin to increase operating margins? What is the timeframe that you do think about that as you pass phase two and I guess go into phase three or --?

Stephen Kelly - *The Sage Group plc - CEO*

Yes. Maybe I'll kick off, Steve.

So we're clearly signaling we've done phase one; behind us and complete. The foundation is now about phase two. Blair here, we're really, really focused on the commercial organization and the customer-facing organization. We come out of phase two and then we've got all the platforms in place; the products, the people, the capability to accelerate growth.

So absolutely that's the right sequence, and if you want to go into the color between subscription and customer for life and new customer acquisitions, Steve.

Steve Hare - *The Sage Group plc - CFO*

So most of the growth today in that recurring revenue is coming from the installed base, and it's switching the installed base to subscription but through cloud enablement of the existing products. So the slide I put up on annualized subscriber base, the Sage 50 family of products is the biggest single driver because we've cloud enabled, particularly in the UK, Canada and the US, and that's driving -- that's the carrot, if you like, for customers to switch over to subscription and get the features which come with those cloud-enabled products.

Now I've said even in the UK we only have 35% of the revenue coming from subscription. We only have two countries where subscription has gone through 50%; that's South Africa and France. So there's still plenty of opportunity to continue to switch the existing customers to subscription and continue to drive, therefore, the recurring revenue growth.

However, at some point, obviously new customer acquisition needs to kick in, and I think during the course of FY17 with -- particularly now we have more comprehensive suite of cloud products, we'll start to see the new customer acquisition making a more meaningful impact. And if you think about how we might accelerate recurring revenue beyond where it is today, beyond the 10%, more of that's going to come from new customer acquisition.

Stacy Pollard - *JPMorgan - Analyst*

Do you think you can accelerate overall growth by 2018, or would that be pushing it?

Steve Hare - *The Sage Group plc - CFO*

That would be asking us to guide for 2018, Stacy, which we're not doing. But in the medium-term we obviously expect -- we've already got 70% of the revenues recurring, and so 70% of the revenue is growing double digit, as that becomes a higher and higher proportion at some point the headline growth has got to increase.

And the only reason we're being cautious is that we called out the SSRS declined by 9% this year, and the new software, software sold on perpetual licenses, declined by 15%. That's quite a big decline to absorb with the recurring revenue growth. And so the only reason we're being cautious around that 6% is because we think SSRS will continue to decline at that rate.

If you look on the ASB chart, the annualized subscriber chart, for the first time X3 has appeared, so we're actually selling X3 on subscription as well. Now if that accelerates, that's really the only last product that we sell on perpetual license. So you could even see SSRS decline/accelerate a bit more, which would be a good thing strategically, but it means the headline in that revenue will stay low for a while.

Stephen Kelly - *The Sage Group plc - CEO*

Amit.

Amit Harchandani - *Citi - Analyst*

Amit Harchandani, Citigroup.

I know you're not willing to guide on FY18 yet, but in terms of the margin, given that we have gone through one transformation program targeting G&A and the second one targeting go to market, would it be at least realistic to assume some kind of margin expansion starting off in FY18? Or how should we think about the margin trajectory maybe in broad qualitative terms?

And secondly, as an unrelated follow-up, could you maybe talk about competitive dynamics? Some of your peers have talked about impressive growth in the UK. You've had some moderation of growth in the payments business in North America. So if you could touch upon the competitive dynamics, how do you see them? And what's the plan in place to counter some of the moves your competitors are making?

Thank you.

Stephen Kelly - *The Sage Group plc - CEO*

[You] do the first one. I'll do [the second].

Steve Hare - *The Sage Group plc - CFO*

Sure. So I think that on the margin, it all depends on how much we spend really on sales and marketing. So at the moment, as we release sales -- as we release cost savings from G&A, it's all being reinvested into sales and marketing. And although we're signaling in FY17 that we will address productivity in the go-to-market functions, we will also continue to do so in G&A, so there will be more savings coming out of G&A. And at the moment, we want to reserve the right to reinvest that in to sales and marketing because we believe that we will get a return and that will help us, therefore, to drive growth.

Now we already spend, if you take just sales and marketing, something around 30% of revenue on sales and marketing, but as we move more and more to a subscription model, the thing to watch really is how much are we spending as a proportion of the run rate, because it isn't about what we revenue recognize in the year, it's about what we're booking in terms of the momentum in the annualized recurring revenue.

So again, the only reason we're not saying that the margin is going to go up is because at the moment we want to make sure that we're front loading and driving that recurring revenue base, particularly the new customer acquisition.

But there does come a point where the level of over investment, particularly as we start to get productivity and efficiency, will probably become -- won't be needed, and therefore we've said in the medium term we would expect the margin to drift upwards. But whether that's in 2017 or 2018 depends on whether we think there remains opportunities to invest for growth, because that's the first priority.

Stephen Kelly - *The Sage Group plc - CEO*

And then competitive dynamics. At the macro level, I think you've seen -- actually, hopefully, you saw the products themselves so you saw Pegg live outside with our colleagues, and you've seen the population of the portfolio.

I think defensively, obviously particularly in Continental Europe, I think what we've done is a game-changer in terms of how we've built products and work to make sure they're 100% compliant all the time.

So in January, we had the launch of Sage Live in Germany, Spain and France all on the same day, 100% compliant, and it's a virtual team around the world of Leipzig, Barcelona, Bordeaux, Newcastle, Atlanta.

There's no -- I think we really have moved the dial dramatically from our competitors so that we, number 1, build on our leverage around the compliance, the knowledge and the accounting detail, but also the movement of money, because there is increasingly for entrepreneurs money coming in from customers, paying suppliers, pay and payroll. Bringing that together is ultimately, I think, a competitive advantage we have.

The other thing at the macro level, we've got a bold vision in terms of zero financial admin for particularly startups and entrepreneurs. We're the only company that can take a startup business, go to scale-up for products like Sage Live, and then go to the Enterprise. And some of our Enterprise customers, Nandos, Europe Car, 20,000-odd employees.

So from a company point of view of starting down in Shoreditch, you want the security that you don't have to switch technology vendors for all these different elements of movement of money, and you've got Sage, and now Sage has got the best products in the marketplace, so all those products you saw out there are award-winning products.

So I just think it bodes really well, and generally, we welcome competition because it drives us faster and it drives innovation in our product solutions.

If you talk about maybe where I guess the noise is is in the startup segment. So there's competitors, companies like actually Intuit we've got huge respect for, and other companies there. But one of the companies, just to give you a micro example, a company that's making a lot of noise, but the reality is they sell -- their unique selling point is all on beautiful software, the user interface.

What you see with Pegg, it's completely eliminated that because the user interface is called Facebook Messenger. And so why don't you have a conversation with your smartphone and say I want to take a photo of an invoice, and it gets posted automatically to your ledgers and it tells you your cash flow? So I think we're just going to see so much disruption driven by Sage in this area. I'm really, really confident.

Amit Harchandani - *Citi - Analyst*

Maybe just [to check] on North America payments as well. Is the performance there a function of competition or the wider market?

Steve Hare - *The Sage Group plc - CFO*

Yes. I think it's more the wider market. I think I would say we definitely have seen reduced visibility in the market, in the North American market for payments. And it's -- as we've said, it's delivered a flat performance, but I don't think we're alone in seeing that sort of performance in that market.

Amit Harchandani - *Citi - Analyst*

Thank you.

Milan Radia - *Jefferies - Analyst*

Milan Radia, Jefferies; a couple of questions.

The first was, within the SSRS number, X3 sits within that. And I assume that going forward it's going to be primarily a perpetual license sale despite the fact that you've seen a bit of uptick in the subscription element. How much of revenue is X3 overall now and, therefore, presumably the remain -- and that's growing strongly, so the remainder is falling away very fast? Once that disappears within the next, say, three years essentially, presumably that will show through in the organic overall revenue growth and within what's left of SSRS.

And the second question was around US payments, and I think just following on from your comments, it is sub-scale as an operation that you have there in a consolidating segment. How committed do you feel you need to remain to the US payments business given there's an opportunity probably right now to exit at a sensible price?

Stephen Kelly - *The Sage Group plc - CEO*

Well, I'll do maybe payments.

Strategically, it's really important to our customers to have that movement of money, that golden triangle we talk about of HCM payroll, accounting, underpinning everything and payments. We've done a lot of work with partnerships in payments and we'll continue that.

So I think the strategy holds good, and then I think the specifics in the US business partly are scale related, but also the visibility in the marketplace.

And then X3, Steve?

Steve Hare - *The Sage Group plc - CFO*

So X3 roughly is just under a [GBP100 million] business now. And you're right. I think we will continue to see the bulk of new business being done on perpetual license, although the only thing I would say is it does vary a bit geographically.

So in the international region, for example, there's more of a propensity to want to do subscription deals, because if you think about it, subscription is essentially a financing deal. So if your access to funding is a bit more restricted, then doing something on subscription is a lot more attractive than paying an upfront fee, whereas if you have easy access to finance, then still doing the perpetual license and retaining the flexibility of being able to negotiate your [M&S] contracts can be more attractive.

So I think, as you say, as we look forward on SSRS, once we've got to a point where most of the other products have already switched over to subscription, we would obviously aim to stabilize or to eliminate the reduction in SSRS by two things. One is the X3 growth, and the second thing is that SSRS contains services.

And this year, the services revenue was pretty flat, but if X3 is growing double digit, X3 is one of the products that drives most of the professional services revenue. And whilst we also do a lot of professional services through partners, also as the software provider there is a lot of service that gets pulled through, particularly with those larger deals. I quoted the 20 larger deals in France, over GBP100,000.

So I don't think in FY17 we'll necessarily see ourselves able to have flat SSRS, but as we go through into the medium term, sure, that's something that should be achievable.

Vijay Anand - *Mirabaud Securities - Analyst*

Vijay Anand, Mirabaud.

Firstly on pricing, for the last couple of years given the zero inflation or deflationary environment, you've talked about pricing being a less important growth driver. So if you do enter an inflationary environment, can you talk about your ability to raise prices given you haven't done so for the last couple of years? And can you also say what have you assumed in your FY17 guidance as well as medium term for pricing?

And a quick follow-up. What proportion of SSRS is licenses?

Thanks.

Steve Hare - *The Sage Group plc - CFO*

So on pricing, consistent I think with what we said last time, pricing now really is, if you exclude Brazil and South Africa which are obviously high-inflation environments, we tend to increase prices by no more than inflation. So in the 6% growth, a couple of percent is due to price.

But what we're doing is because we're shifting a high number of our customers to new contracts, what we're doing is as we shift people to subscription, we're offering them enhanced value and enhanced functionality. So we are seeking to increase the average revenue per contract, but it's not through just a price increase for the same thing. There may be a price increase bundled into that, but as part of it you're getting increased value. So the way we're selling to customers is not we're using our pricing power just to increase the price for the same thing that you had yesterday; you may be paying more, but you're getting more as well.

And that is going to be more of the strategy going forward. The great advantage of the subscription model and also the cloud model is you're not giving people every two or three years a big release drop. What you're doing is you're selling to them more features off a menu. And, therefore, there's more options to give people more on a more regular basis.

Some of that is price, but as far as the customer is concerned, we're not just jacking up the price; we're giving them more value. And I think that's a very important differentiator. We're not -- it isn't part of the strategy and it's not part of our assumptions that we will drive growth just by increasing price in the installed base and not delivering more value.

On the split of SSRS, I'll just check my book.

Stephen Kelly - *The Sage Group plc - CEO*

Actually, while he's doing that, I'll just give you a real example. I just think we've become a little more intelligent about how we do value bundling. An example in the UK is a campaign they've been running called the [three Ps], which is around payments, payroll, but the trigger point is the auto-enrolment pensions.

And they've put a bundle together. I think we're getting incredible high -- like a 41% hit rate, because a lot of small businesses have to now take responsibility around auto-enrolment and employees having pensions. And this has allowed us as a value bundle to drive cross-sell, but also within that just put a very modest, below-inflation price increase onto a subscription relationship.

So that's the way it's going. So it's not driven by I think inflation and price. It's very much a consideration we build into the value bundling so a customer feels really good about the value they're getting and they get a lot more functionality.

Steve Hare - *The Sage Group plc - CFO*

So it's about one-half. So the SSRS is roughly one-half software and one-half services.

Stephen Kelly - *The Sage Group plc - CEO*

[George].

Unidentified Audience Member

A few quickies from me, if you wouldn't mind.

So what's the client attrition on Sage One, please?

Stephen Kelly - *The Sage Group plc - CEO*

Do you want to do them all?

Unidentified Audience Member

Do them all? Okay. So secondly, great to see you're working on NPS. Could you give us the data point there so we know where it starts from?

And then finally, what's the staff attrition like at Sage?

Stephen Kelly - *The Sage Group plc - CEO*

Okay. So I'll maybe kick off.

The only variability, George, is there are very different data points from around the world. So Sage One, we're now getting stronger retention in terms of particularly the UK, Brazil, and it depends-- a lot of it is driven by insolvency as the other factor.

On the macro level, Steve's going to look at the data, [what we're doing with it].

Steve Hare - *The Sage Group plc - CFO*

So actually, it's two things. It's geography and it's age of contract. So once you get over six months in established markets like the UK, the retention rates are very similar to other products. So they're in the high 80s. The US is the complete opposite. The US, to be honest, some months we still lose as many customers as we acquire.

In international markets, again consistent with the other products, you tend to get a slightly higher attrition rate because there's just higher business closures. But I think the message is, excluding the US, once a customer has been with us for six months, it's a very similar experience to the other products.

Stephen Kelly - *The Sage Group plc - CEO*

Yes. And on NPS, we've started the journey. So this is the first year we've got consistent measures in every country, and the plans for the future is we actually break it down at the point of interaction.

So in customer service, it's off the scale; like 90%. However, if you look at it, with a couple of exceptions, it drags the overall data down, particularly actually Asia where the NPS is significantly lower because we had some about a year ago product quality issues, and that's also reflected probably in the numbers and the business performance.

But overall, it was up 61%. The only thing I'd do is say that this is the first year, so that's the baseline. And overall, if you look globally, it is again very fragmented. If you look at US partners, about two years ago was minus 40%; now it's plus in the teens.

So you break it out, but overall it's 61%. In future years, George, we'll give you, because we've got more confidence in the baseline, the baseline, and we'll break that out, but we've broken some more things out today; we'll continue that to give you the transparency.

And then colleague engagement. I think there has been a lot of work going on. I think 72 of the top 100 have changed in the last couple of years. 35 of those, so one-half of them are internal promotion.

Right across the Company the headcount has actually stayed flat; 13,800. We've hired about 3,000 people over the last year. We've let go about 3,000 people. Most of those actually have been management level. We gave you an example [of Marc]. We've got Santiago in the front row, who led -- who is the executive who led 300 exits but 200 with new skills, digital skills.

The other thing; really pleased that obviously we got 48% female, but I think significantly on the top team, we've gone from 25% a year ago to one-third women in our top 150 leaders.

So a lot of it is really us managing the skills for the future, but also being very embracing around diversity and inclusion, and that's a key part of that and I think we've got more to do there.

But you can imagine we haven't been sitting here twiddling our thumbs in Newcastle and London. We've been hiring 3,000 people. There's been a lot of heavy lifting gone on in phase one to give us the confidence to stand here and talk about phase two and beyond the transformation.

Steve Hare - *The Sage Group plc - CFO*

But we wouldn't consider that to be sustainable. We wouldn't necessarily want to be hiring 3,000 people every year. I think because it's the first phase of the transformation there's been a lot more proactive management of the skill shift.

Unidentified Audience Member

[Will you be losing 3,000 people then]?

Stephen Kelly - *The Sage Group plc - CEO*

I should have given you some color. When I joined, it was the first time we introduced performance management. We'd never had the honest conversations about performance and outcomes. This year as well I can share with you we've got a process we've rolled out right across the Company called Values (sic), Strategy, Goals, Metrics (sic), VSGM.

So everybody has now cascaded that down into their objectives. Every one of the top 150 have a VSGM that's connected and cascaded from mine, and mine was signed off by the Board.

So if you're driving to Alnwick on a Friday from Newcastle, then you know your objective is connected to Stephen Kelly, so everybody in the Company is aligned. And that's what we talked about in terms of one operating model rather than hundreds of different operating companies.

The other aspect, because of performance management there's obviously two factors. One is we're driving performance higher to drive a high performance organization, but also, we need skills for the future right across our functions, and we've been investing heavily in those skills.

I think if you look at the general sentiment and engagement of our colleagues, it's significant; and things that have been candidly game-changers and more successful than I could have ever imagined are things like the Sage Foundation where, particularly if you're in Chicago, you just see incredible work that's going on with veterans, with women, with youth, and the way our colleagues have thrown them into that. And we give five days paid by Sage for every colleague in the world to go out and connect into the community and do charitable, non-profit work.

So again, I think we're way ahead of the pack and I think it's a really powerful tool for recruitment and retention as well.

Tal Grant - *UBS - Analyst*

Tal Grant, UBS. A couple of questions on Sage One and then just one on the restructuring, new restructuring charges.

So for Sage One, what percentage or what proportion of customers get to that six-month milestone you mentioned?

And secondly, it sounds like it was a little bit weak still in North America. Was that disappointing for you, and what was the reason behind that? And how's that going to change going forward?

And then secondly, just a quick question on the restructuring budget. Is that GBP100 million again, or have you mentioned --? I know it's GBP50 million of saving, but what's the cash charge for that?

Thanks.

Stephen Kelly - *The Sage Group plc - CEO*

Well, yes. In terms of Sage One, I think the real big takeaway is we've got the products. Again, you can see them outside yourselves. These products are winning awards. Sage One is now on a single-code base. You've seen the rollout plans in Continental Europe and the strategy is working.

So every country -- you look at Brazil who hadn't launched Sage One a year ago getting like 10,000 new subscribers a month. So we're now seeing the adoption and acceleration of the products. And, therefore, what it speaks to us in the US, yes, we're disappointed in terms of Sage One penetration, specifically in the US. Canada has gone really well. So overall around the world, 81% increase in subscribers.

You know what we're like. We are tough on ourselves. We'd like to have done better. And the US is one area where we're going to put a lot more focus and we're making some changes literally as we speak to drive that up.

But what it says is the product is fine; a big tick in the box. The strategy is absolutely fine, so it's the execution where we really need to step it up.

Steve Hare - *The Sage Group plc - CFO*

So again, it varies a lot by country because it depends on the maturity of the model and it depends on the channel, particularly if we acquire customers digitally. So if it's a digital channel, typically we offer a free trial first. And the free trial, the conversion from trial to paying subscriber, again as I said varies enormously by country. But if you take the UK as an example, we're typically getting about one-quarter of trial subscribers converting.

Once they sign up, if it's through the digital channel, they then -- they normalize this to the retention rates that I was talking about very quickly, and the reason for that is that if you acquire through the digital channel, the customer has basically already made the decision to engage. They've gone through the trial. If they convert from the trial, they're a paying subscriber; they're happy, they've made a decision.

If we go through third-party channels, particularly if we offer upfront discounting, then you may get a dropout later. So, for example, if we offer you a free trial -- a low trial rather than a free trial, so maybe we offer you something for a few pounds a month, you're not really committed at that point; you're still trying. Right? It's when you actually move into the point where you're paying what I would describe as a proper price for the product. So you've made a conscious decision that this is something that gives you value. That's when you get the hold.

And the reason it varies by country is partly because probably the brand impact, but it also is because we sell slightly differently in each of the countries.

In Brazil, for example, you're basically selling -- you're selling compliance, or you're selling an ability to comply with laws because the laws are complex, in Brazil. So once you start using an accounting product, actually you become quite committed to it quite quickly because it makes it a lot easier for you to comply and there's less competition. UK you've obviously got a lot of choice. It's easier. You can use spreadsheets. So it does vary considerably across the countries.

On the restructuring charge, look. We're saying we'll deliver at least GBP50 million of savings next year with a payback no worse than two years. So, yes, we're indicating up to GBP100 million. And as I said in my presentation, we don't want to be known as a management team that constantly has exceptionals, but we think this is a pretty significant transformation and so we're saying this will be -- for this transformation this will be the last exceptional charge, then, we'll get into business as usual.

Paul Morland - *Canaccord Genuity - Analyst*

Paul Morland, Canaccord. Two questions, one on X3.

Looks like that business is still accelerating; 18% growth in the full year. I think you did 17% in the first half. But the customers are growing faster, and I'm just interested to understand that in the context of what you said about France, and you've done 20 deals there greater than GBP100,000 which suggests the deal size is increasing. But with customers growing faster than revenues that suggests these deal sizes decreasing. I wonder if that has anything to do with going more direct perhaps than through the channel. So just understanding around that X3 acceleration.

And the second question was just around the chart you put up on all the cloud boxes that you're ticking now and will complete that chart during the course of this year. I just wondered to what extent in those products you're using the Force platform? I don't think you've mentioned Salesforce today, but my understanding was that the move into the cloud was very much driven by standardization on the Salesforce platform.

Thank you.

Stephen Kelly - *The Sage Group plc - CEO*

Maybe on X3, and then we'll come back and see if we can give you the data. I think there's a couple of things.

One of the things we called out I think a year ago was the Enterprise Europe business which is X3 was on the watch list. So I think -- and I shared with you I thought the issues were associated with sales and marketing and execution and at the time we were changing the teams in France, in the UK. And actually in the US as well we've seen great acceleration; obviously international grown at 74%.

So I think the good news is we're also selling in particular places like France some larger contract values, but in the areas like the US, we've actually seen it as a great way to potentially be an acorn to grow. So companies have put X3 in initially who have got big growth plans. So hopefully we scale with them, particularly on a subscription relationship.

The other thing I think, which is probably quite exceptional, we've had this product 10 years. So we've gone from what? From about 3,000 customers to almost 4,000. So literally in a year, we've increased the customer numbers and we've just got much better discipline around pipeline management, our conversion rates and building a more scientific sales and marketing model, which is paying through.

Do you want to give the data on (multiple speakers)?

Steve Hare - *The Sage Group plc - CFO*

Yes. So there's a couple of dynamics. One; there is a wide range of deal sizes and -- because we do relatively light implementations up to these larger GBP100,000 pluses, but we also do deals down at GBP10,000/GBP15,000 as well. And there's also -- there's a geographical mix. So in international, the number of -- the rate of customer acquisition is growing more quickly, and that tends to be an average lower deal size than it would be in Europe or North America.

Stephen Kelly - *The Sage Group plc - CEO*

And then on the partnerships, I think again probably over the last couple of years a game-changer. It would have been inconceivable to be standing here two years ago and say top partners, so Slack, Facebook, Salesforce, Microsoft, Google, Amazon, all these companies who are household names, and Sage is up there as a pinnacle customer, a partner in terms of this.

So on Salesforce, really strategic partnership. And, actually, Marc Benioff when he announced with me Sage Live said, for him, Salesforce, this is the most strategic partnership in their 16-year history at the time.

And the partnership is still going well and we use the Salesforce platform for the Sage Live, and we're using their mobile technologies, their smartphone technology, which is called Lightning, to really accelerate our MobileFirst applications with Sage Live as well, and that's also got big impact for the accountants because it's got great practice management software as well. So for our accountant solution, that's a really strategic answer.

The other platforms that we build on though to accelerate our development and innovation is also AWS with Amazon and Azure with Microsoft. So they're the three strategic platforms that we have our solutions and apps built on.

But Salesforce, yes. To answer your question directly, very strategic to Sage. Great partner, good technology, and allowed us to really accelerate the development both of Sage Live, and also, we're finding the acceleration working with their sales and marketing teams helping significantly as well.

Paul Morland - *Canaccord Genuity - Analyst*

So you don't use Salesforce on Sage 50 accounts, for example, or any of the other cloud products?

Stephen Kelly - *The Sage Group plc - CEO*

Correct. We use other cloud platforms. But we think strategically it makes sense to have two or three. Ultimately, I'm sure that -- and they're different. The other thing; superficially it sounds like they're all the same, they're not. Salesforce is brilliant on force.one or Salesforce1 as a platform. Other technologies are much better at handling data, large massive volumes of data.

So it really depends what segment of the market we're going for. The market needs for a startup obviously on the move, typically MobileFirst, is different from an enterprise where you've got a complex supply chain and you have to understand your supply chain. And, therefore, the cloud platform is not a one size fits all.

But I would say totally endorse Salesforce as an absolute strategic partner for Sage, and they've been incredibly helpful accelerating our journey to the cloud and now beyond in terms of mobility and artificial intelligence.

Steve Hare - *The Sage Group plc - CFO*

And we use their products internally as well.

Paul Morland - *Canaccord Genuity - Analyst*

Sorry. Just one final thing on that. So there's no implications of these partnerships for your gross margins going forward?

Stephen Kelly - *The Sage Group plc - CEO*

They're cloud platforms that effectively leverage technologies and it is -- our gross margin is independent of effectively the cloud business growing faster.

Steve Hare - *The Sage Group plc - CFO*

Obviously, we pay them to use their platforms, and part of the strategy is to make sure that you have two or three providers. If you had everything on one supplier, you would be somewhat vulnerable because you have no leverage and when it comes to negotiating the royalty that you have to pay them or the fee that you have to pay them to use their platform. But we don't envisage at this point that that's going to be a major influencer in that, as Stephen says, we're using two or three different platforms.

I think probably --

Stephen Kelly - *The Sage Group plc - CEO*

One more question?

Steve Hare - *The Sage Group plc - CFO*

Maybe one more or wrap up.

Stephen Kelly - *The Sage Group plc - CEO*

Well, okay. If no more questions, then we'll be around for a few minutes afterwards if you want to come down and have a chat.

But thank you very much for your support again, and I guess we'll see you in six months again.

Thank you very much.

Steve Hare - *The Sage Group plc - CFO*

Cheers.
