Sage Year End Results
FY19

London Stock Exchange
20 November 2019

#SageResults
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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.
Steve Hare, CEO

- Welcome
- Overview
- Financial review
- Strategy
- Outlook
- Q&A
Highlights of a strong FY19

- Financial performance
- Strategic execution
- Focus
Welcome
Overview
Financial review
Strategy
Outlook
Q&A
Financial highlights

- High quality recurring revenue growth: 10.8%
- On target margin: 23.7%
- Strong cash conversion: 129%
## P&L summary

<table>
<thead>
<tr>
<th></th>
<th>FY19 £m</th>
<th>FY18 £m</th>
<th>Change %</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total Organic Revenue¹</td>
<td>£1,822m</td>
<td>£1,725m</td>
<td>5.6%</td>
</tr>
<tr>
<td>Recurring revenue</td>
<td>£1,559m</td>
<td>£1,406m</td>
<td>10.8%</td>
</tr>
<tr>
<td>Organic operating profit</td>
<td>£432m</td>
<td>£496m</td>
<td>(13.0%)</td>
</tr>
<tr>
<td>Organic operating profit margin %</td>
<td>23.7%</td>
<td>28.8%</td>
<td>(5.1% pts)</td>
</tr>
<tr>
<td>Underlying operating profit</td>
<td>£448m</td>
<td>£509m</td>
<td>(12.1%)</td>
</tr>
<tr>
<td>Underlying operating profit margin %</td>
<td>23.1%</td>
<td>27.1%</td>
<td>(4.0%)</td>
</tr>
<tr>
<td>Underlying basic EPS</td>
<td>28.40</td>
<td>32.85</td>
<td>(13.5%)</td>
</tr>
<tr>
<td>Dividend per share</td>
<td>16.91</td>
<td>16.50</td>
<td>2.5%</td>
</tr>
<tr>
<td>Annualised Recurring Revenue (ARR)</td>
<td>£1,685m</td>
<td>£1,496m</td>
<td>12.6%</td>
</tr>
</tbody>
</table>

¹ Excluding assets held for sale – see appendix
Revenue categories

- **Software subscription**: £776m (FY19) vs £554m (FY18), +29%
- **Other recurring**: £630m (FY19) vs £310m (FY18), -12%
- **SSRS Processing**: £310m (FY18) vs £255m (FY19), -18%

**Total Recurring Revenue**: £1,822m, +6%

**Recurring revenue penetration**: 86%

**Software subscription penetration**: 55%

**Renewal by value**: 101%
Portfolio view of recurring revenue

FY18 FY19

Cloud native
- £133m
- £170m
+11%

Cloud connected
- £222m
- £482m
+117%

To be migrated
- £857m
- £713m
-17%

Other
- £194m
- £193m
0%

£1,559m
+13%

Future Sage Business Cloud opportunity

Sage Business Cloud penetration 48%
Regional overview
North America

FY19 performance

USA
• 7% recurring revenue growth
• High penetration on cloud connected solutions

Canada
• 13% recurring revenue growth
• Cloud connected solutions driving growth

Sage Intacct
• Recurring revenue growth 29%
• Strength from new customer acquisition and existing customers

Organic Revenue by Category

<table>
<thead>
<tr>
<th></th>
<th>FY19</th>
<th>FY18</th>
<th>Growth</th>
</tr>
</thead>
<tbody>
<tr>
<td>Organic total revenue</td>
<td>£641m</td>
<td>£589m</td>
<td>+9%</td>
</tr>
<tr>
<td>Organic recurring revenue</td>
<td>£573m</td>
<td>£512m</td>
<td>+12%</td>
</tr>
</tbody>
</table>

Sub-region view – recurring revenue

<table>
<thead>
<tr>
<th></th>
<th>FY19</th>
<th>FY18</th>
<th>Growth</th>
</tr>
</thead>
<tbody>
<tr>
<td>US</td>
<td>£371m</td>
<td>£346m</td>
<td>+7%</td>
</tr>
<tr>
<td>Canada</td>
<td>£88m</td>
<td>£78m</td>
<td>+13%</td>
</tr>
<tr>
<td>Sage Intacct</td>
<td>£114m</td>
<td>£88m</td>
<td>+29%</td>
</tr>
</tbody>
</table>
Northern Europe

FY19 performance

• Strong performance in the year
• Recurring revenue growth 16%
  – Strong migration, new customer acquisition and reactivation
  – Cloud connected solutions driving growth

<table>
<thead>
<tr>
<th>Organic Revenue by Category</th>
<th>FY19</th>
<th>FY18</th>
<th>Growth</th>
</tr>
</thead>
<tbody>
<tr>
<td>Organic total revenue</td>
<td>£366m</td>
<td>£334m</td>
<td>+10%</td>
</tr>
<tr>
<td>Organic recurring revenue</td>
<td>£340m</td>
<td>£292m</td>
<td>+16%</td>
</tr>
</tbody>
</table>

Sage Business Cloud penetration
FY18: 28%

Software subscription penetration
FY18: 52%
Central and Southern Europe

FY19 performance

France
• 5% recurring revenue growth
• Growth driven through migration to cloud connected solutions

Central Europe
• Central Europe 8% recurring revenue growth
• Iberia 9% recurring revenue growth

<table>
<thead>
<tr>
<th>Organic Revenue by Category</th>
<th>FY19</th>
<th>FY18</th>
<th>Growth</th>
</tr>
</thead>
<tbody>
<tr>
<td>Organic total revenue</td>
<td>£608m</td>
<td>£604m</td>
<td>+1%</td>
</tr>
<tr>
<td>Organic recurring revenue</td>
<td>£490m</td>
<td>£458m</td>
<td>+7%</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Sub-region view – recurring revenue</th>
<th>FY19</th>
<th>FY18</th>
<th>Growth</th>
</tr>
</thead>
<tbody>
<tr>
<td>France</td>
<td>£239m</td>
<td>£227m</td>
<td>+5%</td>
</tr>
<tr>
<td>Central Europe</td>
<td>£131m</td>
<td>£120m</td>
<td>+8%</td>
</tr>
<tr>
<td>Iberia</td>
<td>£120m</td>
<td>£111m</td>
<td>+9%</td>
</tr>
</tbody>
</table>

Sage Business Cloud penetration
FY18: 10%

Software subscription penetration
FY18: 37%
International

FY19 performance

Africa and Middle East
• 12% recurring revenue growth
• Local products and cloud native solutions driving growth

Australia & Asia
• Australia and Asia 3% recurring revenue growth

<table>
<thead>
<tr>
<th>Sub-region view – recurring revenue</th>
<th>FY19</th>
<th>FY18</th>
<th>Growth</th>
</tr>
</thead>
<tbody>
<tr>
<td>Africa &amp; Middle East</td>
<td>£102m</td>
<td>£91m</td>
<td>+12%</td>
</tr>
<tr>
<td>Australia &amp; Asia</td>
<td>£54m</td>
<td>£53m</td>
<td>+3%</td>
</tr>
</tbody>
</table>
## Strong cash flow and financial position

**Underlying operating profit** | £448m
---|---
Depreciation and amortisation | £33m
Share-based payments | £26m
Net changes in working capital | £108m
Net capital expenditure | (£38m)

**Underlying cash flow from operating activities** | £577m
---|---
Non-recurring items | (£24m)
Net interest paid | (£21m)
Income tax paid | (£88m)

**Underlying cash flow from operating activities** | £577m
Free cash flow | £443m

### Key metrics

- **Underlying cash conversion**: 129%
- **Closing net debt**: (£393m)
- **Net debt leverage**: 0.8x
- **ROCE**: 21%

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1 See appendix for definitions
Capital allocation

To become a great SaaS company for customers and colleagues alike

1. Organic investment
2. M&A and portfolio rationalisation
3. Maintain the ordinary dividend in real terms
4. Additional returns

Strong and stable financial position
Broad range of 1.0x – 2.0x net debt: EBITDA over the medium term

1 On an IFRS 16 basis
Summary

High quality recurring revenue growth
10.8%

On target margin
23.7%

Strong cash conversion
129%
Welcome
Overview
Financial review
Strategy
Outlook
Q&A
Purpose, vision and strategy

Purpose:
To transform the way people think and work, so their organizations can **thrive**

Vision:
To become a great SaaS company for our customers and colleagues alike

3 strategic lenses:
- **Customer success**
- **Colleague success**
- **Innovation**
Focus

Strategic decisions

Customer segments
Software categories
Portfolio management
Focus – portfolio view of recurring revenue

<table>
<thead>
<tr>
<th>Year</th>
<th>Cloud Native</th>
<th>Cloud Connected</th>
<th>To be Migrated</th>
<th>Other</th>
</tr>
</thead>
<tbody>
<tr>
<td>FY18</td>
<td>£133m</td>
<td>£222m</td>
<td>£857m</td>
<td>£194m</td>
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<tr>
<td>FY19</td>
<td>£170m</td>
<td>£482m</td>
<td>£713m</td>
<td>£193m</td>
</tr>
</tbody>
</table>

+£300m added to Sage Business Cloud
Focus – building ARR

<table>
<thead>
<tr>
<th>Description</th>
<th>100%</th>
<th>£1.5bn</th>
</tr>
</thead>
<tbody>
<tr>
<td>Opening ARR</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Less churn</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Net ARR</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Plus migration</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Plus up-sell &amp; cross-sell</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Renewal by value</strong></td>
<td>101%</td>
<td>£1.5bn</td>
</tr>
<tr>
<td>Plus reactivation</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Plus new customer acquisition</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Closing ARR</strong></td>
<td>113%</td>
<td>£1.7bn</td>
</tr>
</tbody>
</table>
Focus – building ARR

Value

Time

FY19 FY20

Actual ARR

Expected ARR
Customer success
Taking a customer-centric approach to everything we do

FY19 progress
• Teams focused on small and medium customers
• CRM system launched in UK
• Digitisation and integration of customer services

What’s next
• CRM system to launch in US and other key geographies
• Further enhancement in customer services in UK, then US

KPIs
NPS, renewal by value
Colleague success
Culture that values individuals & encourages collaboration

FY19 progress
• Investment in leaders and colleagues
• 22 point increase in colleague NPS

What’s next
• Further embedding culture and values
• Training and development
• Investing and developing talent

KPIs
eNPS, which in turn drives customer NPS
Innovation
Solutions that delight customers and transform how they think and work

**FY19 progress**
- Intacct launches in Australia and UK
- Sage Accounting selected as platform for small business cloud native

**What's to come**
- Intacct launch in South Africa
- Sage Accounting Professional launch in UK
- Cloud native payroll

**KPIs**
- Sage Business Cloud penetration and availability of cloud native solutions
Innovation
Sage Business Cloud vision

- Marketplace
- Applications and services
- Platforms
- Sage ID
- Service Fabric
Sage Business Cloud
Current portfolio

Cloud connected

Medium
- Sage X3
- Sage 200cloud

Small
- Sage 50cloud

Accounting and Financials
- Sage Intacct
- Sage Accounting

People and Payroll
- Sage People
- Sage Payroll (small)

Service fabric
Sage Business Cloud
Future portfolio

Cloud connected

- **sage X3** (Medium)
- **sage 200cloud** (Medium)
- **sage 50cloud** (Small)

Accounting and Financials

- **sage Intacct**
- **sage Accounting (Professional)**

People and Payroll

- **sage People** (medium)
- **sage People** (small)
- **sage Payroll** (medium)
- **sage Payroll** (small)

Service fabric

Cloud native
Innovation
Solutions that delight customers and transform how they think and work

FY19 progress
• Intacct launches in Australia and UK
• Sage Accounting selected as platform for small business cloud native

What's to come
• Intacct launch in South Africa
• Sage Accounting Professional launch in UK
• Cloud native payroll

KPIs
• Sage Business Cloud penetration and availability of cloud native solutions
FY20 guidance

- Recurring revenue: 8% – 9%
- Other revenue: High single digit decline
- Organic operating margin: Around 23%
Key messages

- Financial performance
- Strategic & operational execution
- Focus
Appendix
Strategic KPIs

ARR +13%
Subscription penetration 55%
Sage Business Cloud penetration 49%
Renewal by value 101%
## Appendix

### Bridge to assets held for sale and disposals

<table>
<thead>
<tr>
<th></th>
<th>Recurring revenue</th>
<th>Total revenue</th>
<th>Profit</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>FY19 £m Growth %</td>
<td>FY19 £m Growth %</td>
<td>FY19 £m Margin %</td>
</tr>
<tr>
<td>Organic</td>
<td>1,559 10.8%</td>
<td>1,822 5.6%</td>
<td>432 23.7%</td>
</tr>
<tr>
<td>Sage Pay</td>
<td>1 14</td>
<td></td>
<td>14 2%</td>
</tr>
<tr>
<td>Brazilian Business</td>
<td>51 53</td>
<td></td>
<td>2 2%</td>
</tr>
<tr>
<td>Including assets held for sale</td>
<td>1,611 10.7%</td>
<td>1,915 5.2%</td>
<td>448 23.4%</td>
</tr>
<tr>
<td>South African Payments</td>
<td>-</td>
<td>5 3%</td>
<td>-</td>
</tr>
<tr>
<td>US Payroll Processing</td>
<td>1 16</td>
<td></td>
<td>-</td>
</tr>
<tr>
<td>Underlying</td>
<td>1,612 10.0%</td>
<td>1,936 3.1%</td>
<td>448 23.1%</td>
</tr>
</tbody>
</table>
### Glossary

**Underlying (revenue and profit) measures**

Underlying measures are adjusted to exclude items which would distort the understanding of the performance for the year or comparability between periods:

- Recurring items include purchase price adjustments including amortisation of acquired intangible assets and adjustments made to reduce deferred income arising on acquisitions, acquisition-related items, FX on intercompany balances and fair value adjustments; and
- Non-recurring items that management judge to be one-off or non-operational such as gains and losses on the disposal of assets, impairment charges and reversals, and restructuring related costs.

All prior period underlying measures (revenue and profit) are retranslated at the current year exchange rates to neutralise the effect of currency fluctuations.

**Organic revenue measures**

In addition to the adjustments made for Underlying measures, Organic measures:

- Exclude the contribution from discontinued operations, disposals and assets held for sale of standalone businesses in the current and prior period; and
- Exclude the contribution from acquired businesses until the year following the year of acquisition, at which point they are included for the full current and prior period; and
- For FY19 this includes the impact of IFRS15. FY18 is restated to reflect pro-forma adjustments for the areas of impact of IFRS 15 adoption assuming the same contractual basis as FY19.

Acquisitions and disposals which occurred close to the start of the opening comparative period where the contribution impact would be immaterial are not adjusted. Please note that organic operating profit margin as reported is not necessarily comparable from period to period.

**Underlying cash flow from operating activities**

Underlying Cash Flow from Operating Activities is Underlying Operating Profit adjusted for non-cash items, net capex (excluding business combinations and similar items) and changes in working capital.

**Underlying cash conversion**

Underlying Cash Flow from Operating Activities divided by Underlying Operating Profit.

**EBITDA**

EBITDA is Underlying Operating Profit excluding depreciation, amortisation and share based payments.

**Annualised recurring revenue**

Annualised recurring revenue ("ARR") is the normalised reported organic recurring revenue in the last month of the reporting period, adjusted consistently period to period, multiplied by twelve. Adjustments to normalise reported recurring revenue include those components that management has assessed should be excluded in order to ensure the measure reflects that part of the contracted revenue base which (subject to ongoing use and renewal) can reasonably be expected to repeat in future periods (such as non-refundable contract sign-up fees).

**Renewal Rate by Value**

The ARR from renewals, migrations, upsell and cross-sell of active customers at the start of the year, divided by the opening ARR for the year.
<table>
<thead>
<tr>
<th>Measure/Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>Free cash flow</td>
</tr>
<tr>
<td>Free Cash Flow is Cash Flow from Operating Activities minus non-recurring cash items, interest paid, tax paid and adjusted for profit and loss foreign exchange movements.</td>
</tr>
<tr>
<td>% Subscription Penetration</td>
</tr>
<tr>
<td>Organic software subscription revenue as a percentage of organic total revenue</td>
</tr>
<tr>
<td>% Sage Business Cloud Penetration</td>
</tr>
<tr>
<td>Organic recurring revenue from the Sage Business Cloud (native and connected cloud) as a percentage of the organic recurring revenue of the Future Sage Business Cloud</td>
</tr>
<tr>
<td>Return on Capital Employed</td>
</tr>
<tr>
<td>ROCE is calculated as:</td>
</tr>
<tr>
<td>- Underlying Operating Profit; minus</td>
</tr>
<tr>
<td>- Amortisation of acquired intangibles; the result being divided by</td>
</tr>
<tr>
<td>- The average (of the opening and closing balance for the period) total net assets excluding net debt, provisions for non-recurring costs and tax assets or liabilities (i.e. capital employed)</td>
</tr>
</tbody>
</table>
### Glossary – Revenue types

<table>
<thead>
<tr>
<th>Revenue Type</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Recurring revenue</strong></td>
<td>Recurring revenue is revenue earned from customers for the provision of a good or service over a contractual term, with the customer being unable to continue to benefit from the full functionality of the good or service without ongoing payments.</td>
</tr>
<tr>
<td>Subscription contracts</td>
<td>Subscription revenue is recurring revenue earned from customers for the provision of a good or service over a contractual term. In the event that the customer stops paying, they lose the legal right to use the software and the Group has the ability to restrict the use of the product or service.</td>
</tr>
<tr>
<td>Maintenance and support contracts</td>
<td>Subscription revenue and maintenance and support revenue are usually recognised on a straight-line basis over the term of the contract as control is transferred to the customer (including non-specified upgrades, when included). An exception is revenue from term licences embedded within a subscription contract for software with significant standalone functionality which are expected to recur upon renewal of the subscription offering. Revenue for these term licences is recognised when control is transferred at inception of each subscription contract period.</td>
</tr>
<tr>
<td><strong>Software and software-related services</strong></td>
<td>Perpetual software licences with significant standalone functionality and specified upgrades revenue are recognised when the control relating to the licence has been transferred. This is when the goods have left the warehouse to be shipped to the customer or when electronic delivery has taken place.</td>
</tr>
<tr>
<td>Perpetual software licences</td>
<td>Other product revenue (which includes hardware and stationery) is recognised as the products are shipped to the customer.</td>
</tr>
<tr>
<td>Upgrades to perpetual licences</td>
<td>Other services revenue (which includes the sale of professional services and training) is recognised when delivered, or by reference to the stage of completion of the transaction at the end of the reporting period. This assessment is made by comparing the proportion of contract costs incurred to date to the total expected costs to completion.</td>
</tr>
<tr>
<td>Professional services</td>
<td></td>
</tr>
<tr>
<td>Training</td>
<td></td>
</tr>
<tr>
<td>Hardware and stationery</td>
<td></td>
</tr>
<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>Payment processing services</td>
<td>Processing revenue is recognised at the point that the service is rendered on a per transaction basis.</td>
</tr>
<tr>
<td>Payroll processing services</td>
<td></td>
</tr>
</tbody>
</table>
Thank you