Good morning. And welcome, everyone, to Sage's full year FY '19 results.

Hopefully, most of you know me, but in case you don't: I'm Steve Hare, the Chief Executive of Sage. And I have with me today Jonathan Howell, our CFO.

So before we start, as usual, the safe harbor statement, which is also in your packs.

So the agenda is I'm going to kick off with a few opening remarks, and then I'll hand over to Jonathan for the financial review. Now because this is my first full year as CEO as well as commenting on the detail of what's happened during the course of the year, I'm also going to make some observations about what's coming over the next 12 to 18 months and some of what I see as being the characteristics of what a great SaaS company looks like. So I'm going to kick off by going through briefly financial performance, the strategic execution and how we've been focusing.

So I'm going to start with financial performance, which in many respects has exceeded my expectations, particularly on recurring revenue. Now we started this year, we started FY '19, with real momentum, and we've built sequential annualized recurring revenue every month of the year. So we've added GBP 190 million of ARR this year, to finish at GBP 1.7 billion; and that's a growth rate of nearly 13%. Now this growth rate was also balanced in that good progress was made both with our existing customers but also signing up new customers. We've also delivered absolute recurring revenue growth of 11%. And it's worth just reflecting that, this time last year when I was stood here, that growth rate was under 7%. We've also added GBP 230 million of subscription revenue in the year, to reach GBP 1 billion of subscription, a very significant milestone for any SaaS business. And secondly, we've made significant progress in strategic execution, so this means that we've continued to build the foundations for the future. And as I've said before, how we drive this growth matters.

So in customer success, we've embraced a closer relationship with our customers, as evidenced by the progress that we've made across migration, reactivation and the new customer acquisition, with customer Net Promoter Scores continuing to improve. In colleague success, we've also shown significant progress. A year ago, morale was low. Colleagues were feeling disengaged, and in just 1 year, we have raised our colleague eNPS scores by 22 points. In innovation, we've made great strides in our cloud portfolio. Sage Intacct has launched in Australia and in the U.K. And we've been working on both the functionality and the underlying architecture of Sage Accounting and have now selected it as the platform for our small business native cloud offering.

And thirdly, all of this has been underpinned by focus. This includes making good progress on reshaping the portfolio, with the disposal
of Sage Pay announced on Monday and the Brazilian business now held for sale. Now as a reminder, earlier in the year, we also completed the disposals of the South African payments business and the U.S. payroll processing business. And we've also completed 2 bolt-on acquisitions. And this supports our decision to do a GBP 250 million capital return, which Jonathan will talk about in a moment.

So overall, I'm very encouraged by how far we've come in the last year. We've delivered both on our FY '19 commitments, but through strong strategic execution, we've also strengthened the foundations for the future. And I'm going to come back to this future later, but for now I'm going to hand over to Jonathan to go through the financial review.

Jonathan A. G. Howell  The Sage Group plc - CFO & Director

Thank you, Steve. And welcome to everybody here this morning.

To start with, I'll take you through the financial highlights which demonstrate the consistent performance during the year.

So the key messages are, firstly, high-quality recurring revenue growth. Sage has delivered good strategic and operational execution, which has led to strong growth in recurring revenue of 10.8%. Secondly, on-target margin. Organic operating margins are in line with our targets, which reflects the strong performance of the business and ongoing investment to drive future growth. And thirdly, strong cash conversion. Cash conversion has been particularly strong in the year and remains a core strength of Sage.

So turning now to the P&L. First, to be clear: The numbers in this presentation are on an organic basis stripping out the impact of assets held for sale, which include Sage Pay and our business in Brazil.

Total revenue for the year has increased by 5.6% to GBP 1.8 billion. Recurring revenue is up 10.8% to GBP 1.6 billion. And the organic operating profit is GBP 432 million at a margin of 23.7% and is in line with expectations. This reflects good performance in the business offset by ongoing investments and increased variable compensation in line with strong ARR performance. And the underlying operating profit is GBP 448 million.

And a quick word on tax. The underlying effective tax rate was 27%, and going forward, we expect it to remain in the range of 25% to 27%.

Underlying EPS is 28.4p, which reflects the overall performance of the business. And we've increased the full year dividend by 2.5% to 16.91p. This is consistent with the interim dividend and is in line with our policy to maintain the dividend in real terms.

Finally, you can see that ARR has increased by 12.6% to some GBP 1.7 billion. This reflects good momentum and sequential growth in high-quality recurring revenue.

So now looking at revenue categories. As you can see, we have delivered strong recurring revenue growth of 10.8% to GBP 1.6 billion. This is underpinned by a GBP 230 million increase in software subscription, up 29% from the prior year. We now have over GBP 1 billion of subscription revenue, which is a significant milestone. We've seen particular strength in Northern Europe and North America with recurring revenue growth of 16% and 12%, respectively. This was driven by good operational performance in the year assisted somewhat by the weak comparator in the prior year and Making Tax Digital in the U.K. The decline in other recurring of 12% to GBP 554 million reflects the migration of customers to subscription contracts. And the SSRS decline of 18% to GBP 255 million reflects the transition towards subscription and a strong comparator in the prior year.

It's encouraging to see that 86% of total revenue is now recurring. And software subscription penetration is now at 55%, up from 45% in FY '18. And renewal by value is now at 101%, and this shows that revenue from existing customers is growing at a faster rate than churn. So overall a strong performance.

Now turning to the portfolio view of revenue.

Overall, the Future Sage Business Cloud opportunity continues to show strong performance with recurring growth of 13%. Importantly,
cloud-native solutions have delivered recurring growth of some 27%. Growth in Sage Business Cloud comes from new customer acquisition, reactivation and migration of customers on to cloud-connected and cloud-native solutions. We also see growth in this portfolio as desktop products develop cloud functionality and join Sage Business Cloud. And as a result, cloud connected growth of 117% includes GBP 94 million of revenue from such products. And the impact of all this is Sage Business Cloud penetration which is now at 48%, up from 29% last year. And the flat recurring revenue in the other portfolio is in line with our expectations.

Now we've made good progress, as Steve said, in streamlining the portfolio. We completed the disposal of the U.S. payroll business in February. And this week, we announced the sale of Sage Pay.

Turning now to the regions. And here I'll focus on our most important regions, but there's more information on the slides.

North America delivered recurring revenue growth of 12% to GBP 573 million and total revenue growth of 9% to GBP 641 million. And Sage Business Cloud penetration is now at 66%. Cloud connected has continued to be very strong in North America, with the U.S. nearly at full penetration on 50 cloud connected. Over half of the Sage 200 family in the region and Sage 50 in Canada are now cloud connected. Cloud native growth in North America is driven also by Sage Intacct with recurring revenue growth of 29%.

Northern Europe, and that's U.K. & Ireland, has been the standout performer in the year and has delivered recurring revenue growth of 16% to GBP 340 million and total revenue growth of 10% to GBP 366 million. Again I just want to call out Sage Business Cloud penetration, which is now at 67%. We've seen a strong performance in Sage 50 cloud connected from a combination of migration, new customer acquisition and reactivation, assisted by Making Tax Digital. Underlying performance in this region has been very good, reflecting the focus on driving subscription revenue.

Central and Southern Europe delivered recurring growth of 7% to GBP 490 million and total revenue growth of 1% to GBP 608 million. And we expect Sage Business Cloud penetration in this region to increase as cloud-connected solutions become more significant. France delivered recurring growth of 5% to GBP 239 million, with growth coming from cloud-connected migrations.

And finally, the international region, which now excludes the business in Brazil which is held for sale. And here we delivered recurring revenue growth of 8% to GBP 156 million and total revenue growth of 4% to GBP 207 million. And Africa and Middle East delivered recurring revenue growth of 12% to GBP 102 million.

Turning now to cash flow. Underlying cash flow from operating activities was GBP 577 million. Cash conversion of 129% continues to be strong and reflects an improvement in debtor collections and lower levels of FY '18 bonus payout in FY '19. And this has led to underlying free cash flow generation of GBP 443 million, some GBP 90 million higher than last year. Net debt has reduced to GBP 393 million, and net debt-to-EBITDA leverage is now at 0.8x.

And just a word on IFRS 16, which Sage will adopt in FY '20. This will not have a material impact upon our financial results, but it is expected to yield an increase of 0.3x in the net debt-to-EBITDA ratio.

And finally, I want to remind you of our capital allocation policy, which I set out at the first half. Sage's primary focus remains organic investments in order to move to a SaaS company. Second, the group may consider bolt-on acquisitions of complementary technology that will drive strategy. And during the year, we've done some small but strategically important acquisitions. Thirdly, Sage will continue to maintain the dividend in real terms. And the full year dividend has increased by 2.5%, in line with the H1 increase. And then if there is surplus capital, we will consider making additional returns to shareholders. And to that point, we announced today a capital return of GBP 250 million. This return reflects the expected proceeds from the transaction and continued confidence in strong cash generation. We will give more details on the mechanism of the return on completion of the Sage Pay deal.

In the medium term, we plan to operate in a broad range of 1x to 2x net debt-to-EBITDA. We will maintain the flexibility to move slightly outside this range as the business needs require.

And so to summarize.
Firstly, Sage has shown strong performance in line with the strategy, which has resulted in high-quality recurring revenue growth of 10.8%; secondly, on-target margin with organic operating margin of 23.7%, in line with our full year target; and thirdly, continued strong cash conversion of 129%, and this remains a core strength for Sage. And overall, this demonstrates yet again the consistent performance that we've achieved throughout the year.

Thank you, and now I'll hand back to Steve.

Stephen Hare  The Sage Group plc - CEO, Interim COO & Executive Director

Thank you, Jonathan.

So I'm going to start with our purpose, vision and strategic focus. And I put this up at the half year and it hasn't changed since then because this is enduring. It provides an anchor point and helps us to determine our priorities. And the key to making this a reality is to create the bond or the relationship between these 3 lenses, so between our customers, our colleagues and innovation; and to accelerate the transition to Sage Business Cloud. Now the prize is highly motivated colleagues who delights our customers who stay longer and buy more; and then in the end, leading to significantly higher lifetime value. And when it comes to executing against that purpose, one of the things that really underlines it is focus. Now a year ago, I stood here and I said Sage was doing too much and that we needed to focus, so I'm going to spend a little bit of time just talking about what we've done.

Now it started with strengthening my leadership team. I've added significant technology and SaaS experience to my team, most of whom were promoted from within, allowing for continuity, knowledge retention and a highly effective and productive team. And secondly, we've made purposeful choices to really drive a ruthless focus on who we serve and how we serve them, and it obviously starts with customers. So we're being very clear on the type of customer that we serve, small customers and medium customers; and the differing needs of those 2 types. And because this is a sharper focus than we've done in the past, I'm just going to spend a few moments explaining why this is important.

A small customer is typically owner run, with professionals or small teams responsible for finances and HR. Their concerns are around compliance and risk, and they need simple solutions with minimal installation and rapid time to value. Medium customers are often a bit more complex, often scaling, transforming and so require insights for growth and competitive advantage. These customers are prepared to spend longer, integrating their solutions. And the buying decision is typically the CFO. We also serve accountants in practice who in turn supports our small business customers. And this sharp focus between these 2 customer segments has driven a more effective commercial positioning and greater clarity across both Sage but also the market. And I should just add that this focus on small and medium customers does not mean that we never serve a micro customer or a large customer, particularly when we're working through partners, but it is not our direct focus. We've also chosen to focus on the software categories of accounting and financials and people and payroll and to partner when providing payments and banking solutions.

And finally, we are actively managing our portfolio reshaping. And as I said in my opening comments, we've done 3 disposals this year. We have 1 asset held for sale, and we've done 2 acquisitions. And underpinning all of this, we have focused on recurring and subscription revenue over all other nonrecurring revenue.

Now this year, we've added nearly GBP 300 million of Sage Business Cloud recurring revenue. And Jonathan has talked about how the U.K. was a particularly strong driver for this, but I'm just going to spend a few moments explaining why this is important.

So we started the year with GBP 1.5 billion of annualized recurring revenue. Now obviously, during the year, some customers churn, something we clearly seek to minimize. We then deliver more value to the customers, the remaining customers, that we've kept through migration, cross-sell and upsell. Now in our case this compensates for churn, as evidenced by our renewal rate by value of 101%, but then we drive new customer acquisition and reactivation. And it's worth just emphasizing that, this year, new customer acquisition and reactivation delivered nearly GBP 200 million of annualized recurring revenue growth, which is why I referred earlier to the balanced growth.
Now all of these components that I've just described are what we've previously talked about as being waves of growth. Now this year, we have been particularly successful in achieving this balanced growth across the different categories of driving migration but also new customer acquisition and reactivation, and that's what's underpinned the annualized recurring revenue growth of 13%. Now in addition, I said that we also entered the year with real momentum. And we've added annualized recurring revenue -- recurring revenue every month, which has resulted in the absolute level of ARR at the end of FY '19 being somewhat higher than we expected, but of course that flows through into FY '20, as you can see on the chart. But in FY '20, this growth will normalize, which is why we talk about the performance particularly in ARR being nonlinear, and I'll talk more about this when I refer to guidance.

Now as we continue to build out Sage Business Cloud and the road map, this will clearly offer further opportunities to drive growth both for our existing customers and also new customers. And we will continue to focus on retaining customers, upselling, cross-selling and acquiring new ones, but it's really important to look at the balance of what has both been a strong financial performance this year but also the evidence of strategic execution because this is what will drive long-term value and growth. And it's the strategic execution that I'm now going to spend a little bit of time talking about. And I'm going to give some thoughts about what good looks like and what you can expect over the next 12 to 18 months.

Starting with customers. Now customer success means we continue to build on the strength of our relationships with our customers, understanding what they need and becoming an integral part of their lives so that we can help them become more successful. Now Afianza is a good example. Its owner, José Luis, who appears on the screen, has been using Sage since he started his accounting practice. He now employs over 100 people. And Afianza uses Sage cloud-connected solutions to automate as many processes as possible so that his accountants can really focus on high-value consultancy. And Sage has been one of the cornerstones of supporting the business and its growth, and our 2-way relationship has helped us to respond as they've grown. And of course, this is supported by the best technology and experience through our colleagues.

Now we're really taking customers, transitioning them through 2 stages: firstly, moving our customers to a subscription relationship; and then embracing that closer relationship so that we delight every customer and focus on really understanding their needs by providing Sage Business Cloud services that they value. And this links to innovation, which I'm going to talk about in a minute, but let me first talk about where we've invested in customer success in FY '19. Firstly, we've aligned our team structures to support the focus on small and medium customers. And we're increasingly pushing decisions closer to the customer, into the regions; and driving a continuous feedback loop from the customer to the business; and supporting a deeper knowledge of the customer base. And secondly, our work on solutions and processes is ongoing. We've continued the rollout of the CRM system, backed up by the customer success model, to improve the quality of the data and add more customer insight. Now over time, this will also help us to increase the lifetime value of our contracts. Now this work is pretty much complete in the U.K., with other geographies to follow.

We also continue to work on the digitization and integration of customer services. This is ongoing, supplementing phone conversations with web chat, AI, online communities and also critically 24/7 support, which increases customer interaction and improves customer experience, which also over time improves customer satisfaction scores. And also I have to say, compared to the legacy systems in place 12 months ago, these new systems and processes also do wonders for colleague experience.

So what are we going to do over the next 12, 18 months? Well, a lot of the same really. We will continue to progress the rollout of the CRM system, the customer success models in the U.S.; continue to upgrade systems and experiences in the U.K. and the U.S., followed by other key geographies, but how do you know if we've been successful? Well, we'll retain more customers. Net Promoter Scores will improve, as will the renewal rate by value.

So what about our people, our colleagues? Sage's people is what makes us unique. And I've said before and I'll say again I feel very privileged to lead our 13,000 people. Our people and our culture are ultimately one of the most critical ingredients for success.

Colleague success at Sage means continuing to build an inclusive culture where colleagues feel highly valued and highly motivated, working towards common team goals. Engaged, motivated colleagues are essential to customer success; and in the notoriously competitive technology industry, attracting and retaining the best talent is critical. So how do you do this? Well, it starts at the top. You
have to build the right culture, and it starts with leadership behaviors. We start by making each other successful, learning from each other and investing in colleague experience. Then we need to embrace a more customer- and colleague-centric mindset. Our colleagues need to focus every day on serving our customers and thinking of new ways to delight them. And during FY '19, we have made a lot of progress in building a more positive, inclusive culture. We've invested in a development program for the top 40 leaders in conjunction with London Business School. This has driven an aligned, collaborative and integrated team focused on achieving the SaaS transition. And for our people, we've worked hard on increasing engagement and morale. There are many things that I could call out, but one example is something that we call the Big Conversation. This was a 3-day online forum to find out what our people care about the most. We had almost 4,000 participants and 9,000 comments, and this has helped shape our decision-making culture and values. The output of this focus and investment is evidenced in the 22-point improvement in our colleague eNPS scores.

So what's coming? Well, we will continue to build on the already great work that we've done, focusing on driving customer- and colleague-centric mindset in all that we do. And we will continue with training for colleagues and leaders and continue to invest in developing and promoting our internal talent. And when we're successful, you'll see this evidenced in further improvement in our colleague eNPS scores. That in turn will drive customer NPS scores, and that in turn will drive financial success.

Now another important ingredient is innovation and technology. Innovation means developing solutions that delight our customers and transform how they think and work, solving real pain points, keeping them compliant and enabling them to be more productive. Now at the half year, I said I would share more on Sage's innovation vision, so that's where I'm going to start.

Our technology vision is to transform Sage Business Cloud into a comprehensive digital environment composed of cloud platforms, applications and services and a thriving partner marketplace, all supported by service fabric. We will use Sage's identity management, design system and digital services to create a unified customer journey with a consistent digital experience, enabling our customers to transform how they work and also how they consume our services.

So how are we going to make this technology vision a reality? Well, the first focus is to fill the strategic road map so that we have a full range of native cloud products as well as cloud services that both our cloud-native and cloud-connected customers can benefit from. So if you look at this chart, you can see we've started to fill each customer segment and software category with a native cloud solution. Now both for small and the medium segment we have selected the platforms that we are now going to build our future around. In the medium segment, we have Sage Intacct. It's launched in Australia and the U.K., and we're already seeing good demand. We've signed our first customers in Australia, UNICEF. And we signed our first U.K. customer, [Arlington]. In the small segment, as I said in my introduction, we have selected Sage Accounting as the small business platform. We've invested in the development of the current solution, both in the underlying architecture and also delivering enhanced functionality both to accountants and also our small business customers.

We also continue to invest and harness service fabric. This supports the development and deployment of services like Making Tax Digital and payments at bank and banking at scale, built once, deployed to many products. The availability of service fabric was instrumental in delivering the Intacct internationalization. We continuously seek to add more cloud services that both are cloud-native and our cloud-connected customers really want. A really good example of that is in the U.K., where we now have an online payslip service which has 1.4 million activated users that are originating from the cloud-connected payroll solution. We also continue to acquire innovative solutions such as AutoEntry, a transformative play in data entry automation; and Allocate.ai, bringing the power of AI and machine learning to time tracking, project management and resource allocation.

So what's coming? Well, Sage Intacct will be introduced into South Africa during FY '20. We will also continue to enhance the capability and functionality for the U.S., Canada, Australia and the U.K., meaning that Sage Intacct will be available in all major English-speaking regions. In the small segment, we will continue to invest in the Sage Accounting architecture and platform, building on the progress we've already made in FY '19. And we will launch in FY '20 a more functionally rich tier of this solution for professional users. Those users that are more finance focused require additional capability and management tools. And this rollout will start in the U.K., followed by other key geographies. Sage Accounting will be used to both attract new customers and, over time, will also be used to offer a migration path for Sage 50 customers that choose to move to a native cloud solution.

We will also continue to leverage on the payroll successes this year, expanding our capabilities in cloud payroll. And we're also
considering options to fill out the small segment with a people solution. And we will continue to add cloud services and integration that all of Sage's connected customers can use; for example, integrating AutoEntry with all cloud-connected and -- cloud-native and cloud-connected products. And you can track progress by using the published KPIs: Sage Business Cloud penetration and the availability of cloud-native solutions.

So let's have a look at outlook. So building on the significant annualized recurring revenue created in FY '19, we expect recurring revenue growth of 8% to 9% driven by strong ongoing performance in the Future Sage Business Cloud opportunity as we continue to focus on attracting and migrating customers to Sage Business Cloud. Other revenue is expected to decline by high single digits, in line with this focus. And as we continue to invest in the transition to SaaS, the organic operating margin is expected to be around 23%.

So in closing. We've delivered a strong financial performance this year whilst laying the foundations for the future of the transition. We've shown significant evidence of strategic execution, and all of this has been underpinned by focus. By getting the company to focus on what is most important, we have been successful by delivering significant financial and strategic progress.

Thank you.

And that concludes the presentation, and Jonathan and I would now be delighted to take questions. As always, we would encourage you to try really, really, really hard to see whether you can ask one question, maybe in 1 or 2 parts, but if you can be as disciplined as possible, that would be fantastic.

Maybe we start with Stacy.

QUESTIONS AND ANSWERS

Stacy Elizabeth Pollard  
JP Morgan Chase & Co, Research Division - Head of Software and IT Equity Research

Stacy Pollard with JPMorgan. An 18 point -- I'm kidding. Hopefully, it's one big question. Am I right to think that you're expecting to accelerate revenue growth from Q4 kind of into Q1 and H1? And how much revenue growth or contribution do you expect from the Intacct going into Australia and the U.K.? And then also -- and also, what about Sage Accounting upscaling to target these Sage 50 customers' migration to the cloud, is that live? And is that going to be a significant contribution this year as well?

Stephen Hare  
The Sage Group plc - CEO, Interim COO & Executive Director

Yes. So I think, look, in terms of absolute revenue in FY '20, both Sage Intacct and Sage Accounting are unlikely to make really material impact. If you think about how Sage Intacct works, the average customer is sort of GBP 20,000, GBP 25,000 a year, but the sales cycle is relatively lengthy. You -- it takes a while for customers to get onboarded. So if we were to add sort of 30 or 40 customers in either of those territories, that would be quite a significant achievement, but the impact it's going to have in terms of recorded revenue in FY '20 is relatively small. It's more about building that lifetime value over time, and it's similar with accounting. We have accounting available. It's been available for some time, but this professional tier that we're going to add won't be available until sometime during FY '20, so the impact it actually has on the year is likely to be modest. So what you'll see in the first half of FY '20 is really a continuation of what you've seen in '19. Although the 50 penetration is pretty high in the U.K. and the U.S., remember, in the rest of the world, there's still -- we're only halfway through the migration. I mean we still have about GBP 700 million of revenue which is identified as a Future Sage Business Cloud opportunity. So migration will continue to be strong, as will new customer acquisition and reactivations.

Jonathan A. G. Howell  
The Sage Group plc - CFO & Director

Yes. I mean just I'll just reiterate that last point, which is you -- we're going to see continuation of the Sage 50, Sage 200 migration, reactivation story. It's more to do in North America, but then we've got Continental Europe. And one of the key statistics that we gave today is that the penetration into the Sage Business Cloud is still at only 48%. So there's still GBP 700 million to do. And then critically, as Steve said, AutoEntry and these new products, real opportunity there for cross-sell and upsell.

Stephen Hare  
The Sage Group plc - CEO, Interim COO & Executive Director

Okay. Next question, Mo?
NOVEMBER 20, 2019 / 8:30AM GMT, Full Year 2019 Sage Group PLC Earnings Call

Mohammed Essaji Moawalla Goldman Sachs Group Inc., Research Division - Equity Analyst

It's Mohammed Moawalla from Goldman Sachs. Steve, you talked about this sort of nonlinear sort of progression in ARR. Perhaps you could drill into that a bit. Can you talk about sort of the reactivations and new customers? You said it was roughly GBP 200 million. How -- as you talk about balanced growth, can you give us a split of that? And how is that sort of expected to evolve? And how much more reactivation is essentially left to drive that, some of that recurring tailwind?

Stephen Hare The Sage Group plc - CEO, Interim COO & Executive Director

Sure. When I talk about balanced growth, you're looking -- obviously we need to continue to have a sustainable new customer acquisition both in our small business segment and our medium segment, but at the moment, what's happening is we have a lot of migration, clearly. And that is there's still a lot more migration to do, but the mix of that migration is changing. Now ultimately I would like -- renewal rate by value is 101% at the moment. Ultimately, in X years time, I would like to see that starting to -- I mean I've talked previously about Sage Intacct and Sage People both achieve renewal rates by value of 107%. So now that's easier to do, in some ways, in the medium segment than it is in small because in small churn tends to be higher. So it's harder to achieve those renewal rate by value in small, but I think there's more to come as we get -- as we build out Sage Business Cloud into this more digital environment, our opportunity to deliver more value to our existing customers increases. So at the moment, when we sell to our customers, we are cross-selling and upselling. We have things like AutoEntry, but a lot of it is migrating them to the latest versions. So we need to get more value there. And then as we build out the native cloud solutions, the attractiveness of those solutions and the attractiveness of Sage Business Cloud to new customers also clearly enhances.

And so whilst we're not giving medium-term guidance at this point, you will know that I aspire to get sustainable growth that is coming equally -- almost equally from those 2 things, from our existing customers and from new customers. And depending on how that works out over the years, we'll see how far we can drive the growth, but you all know I aspire to get into double-digit growth territory. But when I say it's nonlinear, if you look at what -- we've done is you can only migrate a customer once, right? So we're further ahead in terms of the migration, but the normalization of the growth is because there isn't as much of that, particularly small business migration, to come. But in absolute terms, you've got, we've got the ARR, right? It's there. So as long as we hold onto the customers, we still end up, at the end of FY '20, in absolute terms probably higher than people expected, but measuring it strictly on percentages year-on-year is not really what it's about. It's about adding to that recurring revenue pot month after month after month. Going to bring the mic into the middle.

William Alexander Edward Wallis Numis Securities Limited, Research Division - Head of Research

Will Wallis from Numis. Can I give a geographic lens to the discussion? If I look at your full year growth rates in a sort of underlying basis compared to the first half growth rates, your U.K. business or Northern Europe business grew more quickly, which I can understand Making Tax Digital ARR effect is coming through to revenue in the second half of the year, but your North American business and your Continental European businesses grew more slowly. Are you able to, firstly, comment on the slower growth within those 2 latter parts? And secondly, sort of second part to the question, in the U.K., to what extent does Making Tax Digital -- at what point does the Making Tax Digital effect on revenue start to fade?

Stephen Hare The Sage Group plc - CEO, Interim COO & Executive Director

All right...

Jonathan A. G. Howell The Sage Group plc - CFO & Director

Yes. First of all, just dealing with Making Tax Digital. The impact of that really reached its height for us sort of by the late summer, which built that stock of ARR which we are carrying. And so that will carry into the first half of FY '20 but thereafter will begin to diminish. And people have asked us, "Can you give a accurate estimate or quantification of that?" It's virtually impossible to do because ultimately we never know why a customer decides to reactivate or join Sage for the first time. But it has had an impact. And that will carry a little bit into the first half but will sort of runoff over time, but we've achieved it. It's enabled us to accelerate that move to cloud connected and subscription a little bit earlier, which goes back to these waves of growth that we're going to have during this transition.

And then looking at the sort of the second half and North America and some of the other territories, it's exactly as we said at the half year and, I think, at Q1. We've got 100 product categories across a whole lot of geographies. We are moving them to a subscription model and we're moving them to native cloud and cloud connected, and that will just not be linear. And this is going to take a number of years to do.
And if you look at subscription revenue, I don't know, 4 years or so ago, it was about GBP 300 million. We got to GBP 1 billion, and we just need to look at the sort of the medium-term trends. And [interestingly], for recurring revenue, we guided at the beginning of last year to 8% to 9%. We exceeded our expectations for the reasons I've just said, which is good. We've moved there faster, but again we're guiding again to 8% to 9%, which we think is a more normalized level of growth for recurring revenue at this stage in the transition. It's obviously not the end destination. And a key thing for you to do and for us to do is just to track those metrics consistently quarter by quarter and to see the underlying trend lines rather than different initiatives in different territories.

Stephen Hare The Sage Group plc - CEO, Interim COO & Executive Director

It's worth probably just maybe get a little bit of color in terms of the difference between small -- sorry, between the U.K. and the U.S. Both the U.K. and the U.S. have a Sage 50 base, but actually the U.S. is more skewed to medium. So we have a much larger franchise in the U.S., obviously, both of Sage Intacct but also our Sage 200 franchise and whereas the U.K. is much more small focused. So the Sage 50 franchise or the small business franchise really dominates the U.K. Now the reason that's an important contrast is because in the U.S. it also means that a lot of that medium business is done through partners. So one of the things we've been working on over the last 12 months is to bring together more closely the Sage Intacct partner group and the rest of Sage partner group. Now the reason that's important is because we want our Sage -- existing Sage partners to carry Sage Intacct so that, when they're looking to migrate their customers to cloud native, they are migrating them to Sage Intacct. And now this goes to some of the nonlinearity. That takes time, all right, to sign up. And we have about 40 of our Sage 50 -- Sage partners now signed up to carry Intacct, but it takes time to go through that process. So in the U.S., with the Sage 200 franchise, for example, there's less new customer acquisition, all right, because most of the NCA really, particularly in the U.S., is cloud native. So the way that the Sage 200 franchise works is it's much more focused on existing customers, or renewal by value through cross-sell, upsell, et cetera. And most of the new customer acquisition is coming from Intacct and, to some degree, people and a little bit of X3, but it's more with Intacct. And once we get that working really well, I would expect that to give us another wave of growth, whereas in the U.K. it's all been really about getting our Sage 50 customers onto cloud connected and introducing Sage Intacct so that it gives us that capability in medium, okay? Do you want to stick with the mic?

Michael Briest UBS Investment Bank, Research Division - MD of Global Technology Research Group & Head of the European Technology Research

Yes. Michael Briest of UBS. Just sort of drilling into Q4. I think, when you gave the guidance in July, obviously SSRS was expected to decline, but I'm calculating a decline of nearly 30%, so I'm just wondering. Is that as expected, or did you see any macro headwinds? Can you talk a bit about the environment?

Jonathan A. G. Howell The Sage Group plc - CFO & Director

No. I mean it's fundamentally as we expected. This has been a very consistent story throughout the year. Q1, H1, Q3 is the overperformance beyond our expectations in recurring revenue with accelerated migrations and underperformance against our initial expectations at the beginning of the year in relation to SSRS. And there are 2 or 3 components in that. The biggest component is that previously, at the margins, business that was being sold on license, we are focused on moving to subscription and cloud connected. And so therefore, we are definitely seeing business moving away, that would have previously been done under SSRS, to the new subscription arrangements that we have. The other thing that we've called out consistently throughout the year, there is a strong comparator. And Q4 in FY '18 was a very strong comparator in SSRS. The business was still driving hard during FY '18 for total revenue, and so therefore we're just running against that headwind. And that ramped up in FY '18 right the way throughout the year. And then just at the end -- and it's not such a large component certainly towards the back end of the year. There's been X3. There's been a little bit of underperformance in X3. That's on licenses, as we would expect, but also the professional services that is attached to it. But this is the transition. When Steve sort of reset the strategy over a year ago, it's very, very clear that the organization is pointing towards subscription, native cloud and cloud connected. And you've seen that SSRS proportion of revenue drop off very rapidly. It's now down at 14%, and it won't be too long before it gets to 10% or so. And that's absolutely fundamentally what we need to do, and we need to accelerate through this quickly. The good news, though, is that the speed of execution on recurring revenue is exceeding our expectations and most definitely exceeding the rate of decline in SSRS. I mean the math just works.

Michael Briest UBS Investment Bank, Research Division - MD of Global Technology Research Group & Head of the European Technology Research

Just to be clear: On macro, you're saying Brexit, German being around 0 percent -- no impact.
Stephen Hare  
**The Sage Group plc - CEO, Interim COO & Executive Director**

I think, look, it's worth just giving a little bit of extra color that so SSRS now is, what, GBP 250 million or something. About half of that is professional services, all right, where we make little or no money. And it's an enabler, all right? We're here to create a great SaaS business. I do not consider large amounts of professional services to be an integral part of a great SaaS company. It is something which we need to do in order to support our customers in what they need, but the more that we can do professional services through business partners, frankly, the better. So I'm not -- one of the dynamics that's at play here is that managing directors are not being encouraged to grow professional services. They're being encouraged to take the right decision for the customer, but if we can use a partner, we do. The second thing is I have really sharpened the focus around the type of customers that we address. So you will notice, in the past, in the press release we've often made virtue of how many large deals we've signed, how many over 100,000. You won't hear that again because that's not the focus. The focus is small and medium customers. Now we will address larger customers from time to time, but we are not here to chase the largest possible single deal size. And so -- and the third piece on X3 is, particularly as we introduce Intacct into market, it's very important that we get our positioning between Intacct and X3 correct. X3 is a fantastic solution for certain micro verticals, manufacturing and some more complex supply chain installations. We have historically sold X3 beyond that. And as we bring Intacct in and as we get our consistent medium segment product strategy, we are focusing our offerings in the places where they can be, where they are the right solutions for customers.

So what does all that mean? It means that, as Jonathan said, in Q4 last year, we were still chasing overall revenue goals. This year, we are focused on doing the right thing for the customer. And if you look at the absolute level of SSRS, actually in Q4 I think it was about 3% lower than Q1. It's just that, last year, Q4 was 30% higher than any other quarter. So actually if you look at it sequentially, it's kind of flat to gently declined.

James Arthur Goodman  
**Barclays Bank PLC, Research Division - Research Analyst**

Yes. James Goodman from Barclays. A couple of quick clarifications from me, please. Just firstly, on Brazil. I completely understand the Sage Pay disposal. That's been clear for a while, but Brazil, I thought, was a pretty core accounting software application, so maybe you could give us a little bit more around the rationale for the Brazil disposal...

Jonathan A. G. Howell  
**The Sage Group plc - CFO & Director**

Well, I mean, just in the sort of a revenue classification, I mean, it's a good question, James. So just, last year, we identified GBP 350 million of revenue that did not have a pathway to the Sage Business Cloud. I think about 2/3 to 3/4 of that Brazil revenue is in that category in the GBP 350 million, so it made sense. It made sense to sort of go into a process to dispose off Brazil because 3/4 of that revenue was never going to get to the Sage Business Cloud. They have previously been identified. And if you take that and Sage Pay and some of the end-of-life decisions that we're making, we're about 1/3 of the way through that portfolio at this stage.

Stephen Hare  
**The Sage Group plc - CEO, Interim COO & Executive Director**

The critical thing here is we -- I'm very clear we can't do everything, all right? So I don't believe, to be successful, we need to be the world market leader in 100 countries, all right? We have -- our top 6, 7 countries are 90% of our revenue. And if you look at the total addressable market, likewise, the bulk of that addressable market is in those territories where we already have a pretty strong market position. So I think it should play to our strengths. Brazil has very little in terms of global products. And to introduce Sage Business Cloud, global products into Brazil is not straightforward because of the uniqueness of the market. And so my conclusion is it's not a priority, and we are better off focusing our resources in other areas where we'll get better returns.

James Arthur Goodman  
**Barclays Bank PLC, Research Division - Research Analyst**

That's clear. The other clarification was just on the capital allocation points that you made. Appreciate the cash generation of the business, clearly, but at the same time, the last time you updated on dividend, I think you sort of reduced the pace of growth in dividend. And when we talked previously about the disposal bucket that you've just spoken to, we thought you were going to keep hold of the cash for M&A. So has there been a slight change in sort of emphasis around M&A? Is it that there's perhaps not the deals you thought there might be in cloud and therefore you're going back a bit more to cash return?
Jonathan A. G. Howell The Sage Group plc - CFO & Director

Yes -- no, no. Okay, no. James, good questions. So just dealing with the dividend: The dividend was we reset about a year ago alongside the real focus on the transition. And so we've just implemented that H1. We did 2.5%. That's maintaining it in real terms in a U.K. shareholder context. And also we've just repeated that for the full year. So that hasn't changed now since it was reset over a year ago. In terms of capital allocation, that sort of methodology that we sort of set out at the half year, we're just going to apply that consistently. And so the emphasis is on organic investment, as you can see through the P&L. We have got a lot of flexibility to do bolt-on acquisitions. We spent about GBP 60 million or so during the course of this year, very, very important acquisitions, although relatively small in size. Absolutely committed to that dividend. And then lastly, though, we will return capital when we have surplus, and we think it's appropriate. And the keyword is surplus. And just to look at our leverage: We were 0.8x at H1. At the year-end, we're 0.8x net debt-to-EBITDA. We will only do this return when the cash proceeds are received from Sage Pay. GBP 230 million -- GBP 250 million will be returned, so it effectively washes its face. And on a pro forma basis, we're at 0.8x still. And obviously, as you know, we're saying that we can and will sort of operate within or slightly just outside the 1 to 2x net debt-to-EBITDA. So we've got considerable headroom in terms of leverage capability and liquidity to do the deals as well. We've [sorted that] liquidity during the course of the year.

Stephen Hare The Sage Group plc - CEO, Interim COO & Executive Director

Yes. Do you want to pass the mic forwards to Charlie?

Charles Brennan Crédit Suisse AG, Research Division - Research Analyst

All right, yes. It's Charlie Brennan here from Crédit Suisse. Just 2 quick questions from me. Firstly, can I just make sure? Sage Accounting, the old Sage One product, and given that you've effectively deemphasized selling Sage One into the micro end of the market, I'm just wondering why it's the obvious choice, for it to become the new Sage 50. And I guess, alongside that, am I right in thinking -- Intacct is written in PHP, and Sage One in Ruby. In a more simplified Sage, does it make sense to harmonize the business on 2 separate codes? And then separately, can you just talk about the competitive landscape? Specifically, Intuit, I think, is talking more ferociously about attacking the mid-market. I was wondering if you could just make some comments on what you think is their offering and what you think of their presence in mid-market.

Stephen Hare The Sage Group plc - CEO, Interim COO & Executive Director

So the answer on Sage Accounting is a qualified yes. It is the old Sage One, but you will recall we had many discussions in the past about Sage One, and it wasn't really a single platform. We had a number of different versions of Sage One. And what we've done over time and in particular this year is we have created a unified platform. So we've re-architected it. It has a single code base. Now when you compare that with Sage Intacct, clearly one of the decisions we could have made was to go for a single platform for small and medium. So we could have said let's take, for example, the Intacct platform and let's try and make that the platform for everybody. The decision we've made is that the needs of our customers are sufficiently different, and Intacct is a very sophisticated offering. And we've decided that the best way to serve our 2 different customer types is to go on to these 2 separate platforms. So they're sort of, if you like, the medium native financials solution. The center of excellence is San Jose, where Intacct are based. And for the Sage Accounting platform, the center of excellence is Newcastle. Service fabric center of excellence is both -- is Barcelona and to some degree Newcastle. So we are building these different centers of excellence. We have teams that are very capable in all of these different areas. And I should say, actually in the -- I have a number of my ExCo in the audience today, but at the end, I know how much you all love coming down and chatting to us at the end. Both Aaron Harris, the CTO; and also Lee Perkins, the Chief Product Officer, will also be here for a few minutes at the end. So if you want more detail on how that works, I'm sure both Aaron and Lee will be delighted to explain it...

Charles Brennan Crédit Suisse AG, Research Division - Research Analyst

And just the competitive...

Stephen Hare The Sage Group plc - CEO, Interim COO & Executive Director

Yes, sorry. Competitive -- the competitive landscape is kind of not really changed that much, all right? There's a big battle obviously at the sort of micro end of the market, which we don't kind of go after head on. We go through accountants. So we do sell to micro customers, but we tend to do it now through accountants. Both our small business competitors are obviously developing greater capability and -- but I think to a certain degree that's also about churn, all right? We all want to hang onto our customers. And as our customers grow and our customers have more sophisticated needs, we don't want to lose them. And I think both of our smaller business
competitors aren't really showing too much signs of directing their new customer acquisition machine in a different place, but what they're clearly doing is being very focused on reducing churn. And look, we're obviously doing the same, right? We are making our Sage Accounting platform more functionally rich. We're integrating it more into Sage Business Cloud so that our Sage Business Cloud environment is very compelling. And we create this experience for our customers so they never want to leave.

**John Peter King BofA Merrill Lynch, Research Division - Research Analyst**

John King of Bank of America. So just kind of a couple related follow-ups to that. So first of all, it's obviously taking your competitors quite a long time to have a cloud-native competent product which can compete with you. So how long do you think it will take Sage to get the accounting professional product to a point where it's essentially functionally equivalent with Sage 50 or basically appropriate for the majority of your Sage 50 base? And if I can sneak in a kind of a related follow-up, the -- a kind of similar question really around the mid-market. And obviously we know that Intacct is -- well, the prior strategy was for X3 essentially to address the manufacturing base. So I guess, how much of that medium-sized segment can be addressed by Intacct? Obviously there's also mid-market customers who -- in non-English-speaking countries, so just speak to that.

**Stephen Hare The Sage Group plc - CEO, Interim COO & Executive Director**

Yes. So maybe if we take that second point. It varies by country. Obviously the addressable market is different in different parts of the world. So if you're looking places like Africa and Middle East, where there's a lot of manufacturing, the market for a solution like X3 both on premise and privately hosted tends to be bigger than if you look at somewhere like the U.K. But the most important thing is that we're disciplined around this micro vertical positioning and marketing. So we're here to provide the best solution for our customers, and we're here to make sure that we put our R&D resources into enhancing the capability for those customers in those countries that we seek to address. So what I don't want is, for example, the team in San Jose going flat out to try and make Intacct applicable in manufacturing if I think that I have a solution in X3 for manufacturing. I'd rather they build deeper capability in the areas where they're strong, like services. So this is about having strong product management and product marketing across the whole of that medium and small segment so that we're starting with the customer and we get the right solution. And I think, if you look across the total addressable market in the countries that we are currently serving, we are very happy with the offering that we have. Non-English speaking, obviously there is a decision to come with Intacct as to which is the first non-English-speaking country we address, and we're working on that.

In the small segment, the first professional tier version will be available in the U.K. for Sage Accounting this year. The answer to your question about migrating Sage 50 is not as straightforward as it sounds. And the reason for that is customers vary enormously in terms of how much and which functionality they use. So if you're using all of the functionality of Sage 50, then this first version is not going to be quite as functionally rich, but a lot of customers don't. A lot of customers use various proportions of it. And also a lot of the customers do not want to migrate to cloud native at the moment, so what we're doing is we're offering that path. And obviously we will continue to enhance the professional version, but we want our customers to be in control of when they migrate. We're not here to force migrate them. What we're here to do is get them to be part of Sage Business Cloud initially as a cloud-connected customer. And then as they see the benefits of a full cloud-native and full digital experience, hopefully, we'll encourage them to migrate over time, but remember we've only just migrated most of them onto cloud connected, so there's probably a bedding-in period. Can go back at this way and then sort of over to George.

**George W Webb Morgan Stanley, Research Division - Equity Analyst**

It's George from Morgan Stanley. Just talking about margins and your -- the investments you're making. It looks like you're investing another 70 basis points next year. Can you talk about where you're directing that spend? And then looking beyond 2020, where do you feel like you are in the terms of -- in terms of margin investment? Could we start to see an inflection from there?

**Stephen Hare The Sage Group plc - CEO, Interim COO & Executive Director**

(inaudible)?

**Jonathan A. G. Howell The Sage Group plc - CFO & Director**

Yes. Just in terms of margin, we -- what you've seen this year is we've just done exactly what we said we were going to do. [When we've driven] the strategy, it was sort of reset and refocus for this year. We upped investment across the 3 lenses that Steve identified, customers, colleagues and innovation. And you can see it in the announcement, a lot of what Steve has spoken about. We've done that.
And we see absolutely no reason -- and it's paying dividends. You can see that we are moving, we are transitioning to a SaaS business. We are moving to cloud connected and subscription. We are bringing out in the various quadrants that we described the products that we need, and so we're just going to double down and keep investing. And so that's what you're seeing in the outlook statement. The margin this year, as I say, we delivered what we said we were going to do. We were also helped by sort of an outperformance in recurring revenue as well. So we always have to sort of balance the revenue side and the cost side in terms of giving the margin guidance.

Stephen Hare The Sage Group plc - CEO, Interim COO & Executive Director

I think, looking forward, we're not giving guidance, but what's important is that we're -- probably 2 points. We're investing for growth. That's the #1 priority. And we need to demonstrate to all of you and to our investors that, that growth is efficient. Now in a SaaS business the absolute level of short-term margin is not necessarily the #1 focus, and let me explain. Particularly in the medium segment, we don't disclose detailed SaaS metrics like cost of customer acquisition, but to give you a flavor: In the medium segment, the cost of customer acquisition, even world class, is probably about 2x ACV. So if you take something like Intacct average ACV GBP 25,000, that means the cost of acquiring a customer is GBP 50,000, but those customers, on average, stay 10 years, so the lifetime value of that customer is very high. And also, at the moment, Intacct renew at 107%. So the economics are incredibly compelling of growing in the medium segment, but the faster you grow in the medium segment, the lower your margin in the short term. So at the moment, we're balancing those things. And so when I look forward, I'm not necessarily looking in absolute terms for margin accretion, but what I am looking for is to demonstrate efficient growth. You need to know that we are deploying our investment to get efficient returns, and we will increasingly seek to demonstrate that to you, okay? George -- perhaps we can go...

Paul Kratz Jefferies LLC, Research Division - Equity Analyst

Yes. Paul Kratz from Jefferies. I think my first question is I think, in the past, you've spoken about capturing profitable customers in Sage Accounting. I mean, could you give us some color on the economics of those customers in the professional segment versus the traditional micro business customers that you captured in the past? And then if you can just indulge me on the second question: Looking at your 8% to 9% guidance, can you just give us a feel for what you're assuming in terms of renewal rates by value? Should we be thinking 101%, 102%, 103%? And could you also give us just an idea of what are the levers behind that? Is it just stickier revenues in the U.K. that are reducing churn there? It'd just be helpful to have some color on that. That's all.

Stephen Hare The Sage Group plc - CEO, Interim COO & Executive Director

So we start with the accounting economics. And if you go back a few years, we experimented with Sage Accounting of going direct. So we were doing digital marketing, going direct and seeking to digitize the experience. And I said at the time that -- when we started pulling back from that, that the economics of that were dreadful. And the reason the economics were dreadful was because the cost of customer acquisition was too high and actually the churn was also too high. The advantage of professional users is the ARPU is higher because you're delivering more value. And I've said a number of times serving customers who pay GBP 5, GBP 10 a month is not something we're really set up to do. We can do it through accountants, but doing it direct is not particularly economic. But if you -- once you're dealing with professional customers, not only are you delivering more value, but they value in return much more highly customer service and the wider range of things that we are prepared to or that we offer. And so your cost of customer acquisition is similar, although because we're marketing to a base we understand, i.e., the Sage 50 base, it's probably a little bit lower, but the churn is lower. The ARPU is higher, and therefore the economics are just a lot better. In terms of why the renewal rate by value, as I said, there's -- in FY '20, I wouldn't expect improvement in renewal rate by value. Long term, I would. I want to see renewal rate by value going up, but in FY '20, the mix is such that -- because it differs across the different segments and the different countries, when we add it up at a total group level, I suspect we won't see much improvement. We may even see it coming back slightly, but the long-term trend as we get more focused and greater clarity will be that it will edge up. Now I would love the whole company to be at the same level as Intacct and people. That won't happen because in the small segment typically those sort of renewal rates are not achievable. George?

George Christopher O'Connor Stifel, Nicolaus & Company, Incorporated, Research Division - Research Analyst

Any further thoughts on portfolio rationalization; and the general view that, in order to be a great SaaS company, one needs to sell SaaS products only rather than cloud-connected ones?
Stephen Hare The Sage Group plc - CEO, Interim COO & Executive Director

Yes. So there’s 2 parts to that really. Portfolio reshaping is an essential part of the strategy. So it's not a sort of tactical opportunist thing. It's an essential part of the strategy. We will dispose things that we think don't fit. And we will acquire things that help us build out Sage Business Cloud particularly more comprehensively. I think, as far as what you define as a SaaS company, our cloud-connected customers are an integral part of the Sage Business Cloud experience. Now will their experience be as rich as a native cloud customer? No because the native cloud allows us to deliver a full digitized experience, but we should be under absolutely no misconceptions here that -- we are determined that our cloud-connected customers are not second-class citizens. They are an integral part of Sage Business Cloud, and they will benefit tremendously from the services and the functionality that we deliver through Sage Business Cloud. And now coming to the middle here, probably down to the last few questions now actually.

Stefan Julien Henri Slowinski Exane BNP Paribas, Research Division - Research Analyst

Stefan Slowinski from Exane BNP Paribas. I just want to come back on the margin question. Obviously you have some investments to make in the fabric and the accounting platform, but are you saying that -- with more visibility now on how the transition to ARR is going and the assumptions around SSRS declines, can we say that 23%, the guidance for next year, is kind of a floor that we should assume going forward? Or as more of these cloud-native products start to ramp globally, you -- maybe you may need to invest more in margin to get those off the ground and to really kind of accelerate the growth of those products.

Stephen Hare The Sage Group plc - CEO, Interim COO & Executive Director

Yes. So last year, when I -- being sort of CEO for about 3 weeks or something, I can't remember long it was, but I deliberately said we're not doing medium-term guidance anywhere because I want to keep options open. Now the key here is whether I -- if you look at the total addressable market, it's $36 billion, which is sort of a very large number, right? It's a very fragmented market, and therefore, from a market opportunity perspective, the opportunity is enormous. The question is to what degree do you have the right solutions or the right capability. And can you grow efficiently? And if you look at the LTV-to-CAC numbers, which we don't disclose -- but you can look at the best in class in small and best in class in medium. And if you invest for accelerated growth, it costs you sales and marketing money to do it. And it's why many companies, when they're growing fast, either make less money or make losses. Now we are in the position where I'm not for 1 minute suggesting that we would need to go as far as making losses, but I'm not going to commit to a floor or a ceiling. What I'm committing to is that we will need to demonstrate that we are being rational and disciplined about how we pursue growth. But if we see opportunities to grow faster and the economics are compelling, then we will be looking to invest behind them, okay? Any -- maybe one final question behind here.

Paul Gilmer Morland Panmure Gordon (UK) Limited, Research Division - Senior Research Analyst

It's Paul Morland from Panmure Gordon. Just a question really around just focused on the recurring revenue growth. So the 10.8%, can you just explain the difference between that and the 10% underlying figure? And is it the, the 10.8%, that we should be comparing with the 10.2% you did in the first half and the 11.4% you did in the third quarter? Am I looking at the right figure there? And the related part to that is am I right that the PSP hurdles for this year were 8% to 11% and you've done 13% so you'll get full payout on that. Can you share what the hurdles were for the bonus as well now that the year is over?

Stephen Hare The Sage Group plc - CEO, Interim COO & Executive Director

Yes. So maybe I'll take the second one first, and then Jonathan can answer the first one. Remember the PSPs are measured over a 3-year period. So although we hit 13% in ARR -- or just below 13% this year, that has to be measured over a 3-year period. Actually, the PSPs that were awarded 3 years ago, which are now vesting, the '17 PSPs, because we had low achievement on recurring revenue or lower than expected on '17 and '18, actually that vesting is pretty low. It's just under 15%. Now obviously, if we keep going at the rate we're going, then the PSPs will vest. In terms of the annual bonus, obviously that will be fully disclosed in the annual report, but the fact that we guided to 8% to 9% and we ended up with an ARR of 13% will suggest that the financial part of the bonuses will pay out at the upper end of the range. But obviously it varies by country.

Jonathan A. G. Howell The Sage Group plc - CFO & Director

Yes. And it's very simple, I mean, in terms of the organic revenue. We report organic revenue, we guide to organic revenue; and organic revenue definition always has assets held for sale excluded. The 2 assets that are held there are obviously Sage Pay, which we've announced a deal which we're awaiting completion on; and also Brazil, where we're far advanced into a process. So those are 2 assets
held for sale. And the differences absolutely between underlying and organic is those assets held for sale, the revenue and profit component, but it doesn't make much difference. So I think, organic, we reported 10.8%. I think, if you put those back in, it's about 10.7%. So it's a marginal difference at the recurring revenue line. And at the margin line, I think we've reported 23.7%, and I think it's 23.5% with those assets removed.

Paul Gilmer Morland Panmure Gordon (UK) Limited, Research Division - Senior Research Analyst

Yes. The -- sorry. The 10.8% goes to 10.7% if you make those adjustments, but what about the 10%, the underlying? I don't understand why that's affected by the discontinued businesses, which aren't in recurring, I don't think.

Jonathan A. G. Howell The Sage Group plc - CFO & Director

The...

Paul Gilmer Morland Panmure Gordon (UK) Limited, Research Division - Senior Research Analyst

Basically, just what's the difference between that 10% and the 10.8%? And which is the one that's comparable with the 10.2% you did in the first half?

Jonathan A. G. Howell The Sage Group plc - CFO & Director

So the comparator is always the organic. It's always the organic number. And the differences that you're referring to -- but the assets held for sale, plus the assets that were disposed off during the year. And so you'll see we reported in H1 and in Q1 some disposals that have therefore been removed.

Stephen Hare The Sage Group plc - CEO, Interim COO & Executive Director

Perhaps what we can do is we...

Jonathan A. G. Howell The Sage Group plc - CFO & Director

(inaudible) [as part of that]...

Stephen Hare The Sage Group plc - CEO, Interim COO & Executive Director

Yes, we'll you a bridge. So if you want to speak to Lauren offline, we'll make sure we'll give you that bridge.

Jonathan A. G. Howell The Sage Group plc - CFO & Director

Yes.

Stephen Hare The Sage Group plc - CEO, Interim COO & Executive Director

Okay. So thanks very much and for the questions and good discussion. We look forward to seeing you in 6 months time. Thank you.