Sage Group plc 2022 Full-Year Results

Wednesday, 16th November 2022

Overview

Steve Hare

Chief Executive Officer, Sage Group plc

Welcome

Good morning and a warm welcome to Sage's 2022 full year results. I'm pleased to be joined this morning by Jacqui Cartin, our Group Financial Controller and EVP of Group Finance. As Jonathan, our CFO, is on a short period of medical leave following minor surgery. But I'm very pleased to say Jonathan is recovering well and will be back in the office in a few weeks.

Strong Execution Accelerates Growth

Momentum

Now, I'm going to start with an overview of the key messages for today and it has been a very good year. We've driven growth through strong execution and delivered good financial results. Firstly, the business has increasing momentum. Growth has accelerated in all regions with a strong performance across our cloud solutions. We've increased the pace of delivery of new products, which I'll talk about later, and we've made several key acquisitions to accelerate our strategy, bringing valuable new technologies, capability and talent into the Group. And through our growing digital network we're developing the next generation of AI-powered solutions that will continue to drive the success of Sage in the long-term.

Growth

Secondly, our opportunity for growth is significant. Many businesses face an uncertain economic environment at the moment but small and mid-sized businesses are continuing to prioritise tech investment. Our solutions are mission-critical for millions of SMBs globally, helping customers to streamline processes, unlock productivity and achieve more with less. And this supports our resilient business model. Today 95% of our revenues are recurring and 75% are on subscription. We generate significant and growing cash-backed profits and Sage is underpinned by a strong balance sheet. And this gives me real confidence that we will deliver on our opportunities for growth.

Execution

And finally consistent execution. Building on our significant investment in the business we're making good strategic progress and this has resulted in a strong financial performance. Recurring revenue's up by 9%, operating profit up by 8% with margin expanding to almost 20%. And importantly ARR grew by 12% to over £2 billion and this positions us well for the year ahead. During the year we completed our disposal programme and we're now focused on efficiently scaling the Group and growing revenue and earnings in absolute terms. But for now I'm going to hand over to Jacqui for the financial review.

Financial Review and Outlook

Jacqui Cartin

Group Financial Controller and EVP Group Finance, Sage Group plc

FY22 Financial Highlights

Good morning everyone and thanks Steve for the introduction. It's great to be here today to share our financial results for FY22. I'm going to talk you through the highlights, some further detail on our performance and finally the outlook for FY23. In summary, as Steve mentioned, it's been another strong year for Sage. We've continued to execute in line with our strategy with growth accelerating and so we've exited the year slightly ahead of our expectations. So let's look at the highlights. Recurring revenue has grown by over 9% which is above the top end of our guided range. This reflects increasing cloud momentum in all regions. Operating margin has increased to 19.9% trending upwards from last year as we focus on efficiently scaling the business. Finally, our cash conversion has remained strong at 107% driven by continued growth in subscription revenue and good working capital management.

Growth Drivers

So let me give you some more detail on the key growth drivers which really highlight the progress that we've made. ARR growth has increased to 12%. That's up from 8% this time last year. This reflects strong performance across all regions underpinned by balanced growth from both new and existing customers. And as Steve said, this now takes ARR to over £2 billion for the first time.

We've delivered cloud native ARR growth of 38% with particularly strong performance in Sage Intacct. And renewal rate by value was 101% and that's up from 99% this time last year. This was due to good retention rates, strong customer add-ons and targeted price increases. And we also continued to make good progress in new customer acquisition. We've added £180 million of ARR, up from the £140 million in the previous year. So strength across these drivers means that we enter FY23 with good momentum.

P&L Summary

So let's take some time now to look at the P&L. Total revenue growth doubled to over 6% for the year driven by recurring revenue growth of 9% to £1.8 billion. Organic operating profit increased by 8% to £383 million with margin expanding to 19.9%. Underlying operating profit grew by 2% to £377 million and that mainly reflects the impact of disposals made during the prior year. And together with the impact of the recent share buyback programme this has led to growth in underlying EPS of 8% to 25.7 pence. So reflecting the strong business performance we've increased the final dividend to 12.1 pence. That's up 4% and takes the full year dividend to 18.4 pence, also up 4%.

Revenue Bridge

So here's a more detailed view of our performance starting with the revenue bridge. We have seen increasing demand for Sage Business Cloud with recurring revenues up by 24% or almost £250 million. Importantly, this growth was split roughly evenly between cloud native and cloud connected solutions driven by strong demand from both new and existing customers. This reflects the growing demand from SMBs for digital solutions. Migrations have also continued to drive growth, especially in cloud connected where the pace of product migration has now accelerated. As a result, revenue to be migrated decreased by £73 million in line with our strategy. The impact of all of this is an increase in Sage Business Cloud penetration which is 75%, up from 67% last year. And this means that we have an increasing number of customers who are now able to connect to cloud services a part of Sage's digital network.

Revenue Categories

So turning now to our revenue categories. Growth in recurring revenue of 9% was driven by 14% growth in software subscription which reached £1.4 billion. This has increased subscription penetration to 75%, up from 70% last year. And in line with our strategy other recurring revenue and non-recurring revenue continued to decline by 6% and 30% respectively. This has taken recurring revenue up to 95% of our total and this really reinforces the high quality and resilience of our business.

Portfolio View of Recurring Revenue

Now let's take a look at the portfolio view where we saw strong growth across all cloud solutions. The Future Sage Business Cloud Opportunity continues to perform well with recurring revenue up by 11% to £1.7 billion. Growth of 41% in cloud native to £419 million is mainly driven by new customers and migrations. While growth of 17% in cloud connected to £842 million was underpinned by a good performance in the International region and in North America. So as you can see the pace of cloud growth is significantly ahead of the growth as a whole. And as I mentioned earlier, Sage Business Cloud penetration is now at 75%. And in line with our strategy recurring revenue in non-Sage Business Cloud declined by 8% to £141 million.

North America

So moving on to our regional performance which shows growth highlights in all of our regions. In North America we delivered recurring revenue growth of 14% mainly driven by the medium segment. For Sage Intacct strong new customer acquisition, increased renewal rates and higher average contract values have all led to another very strong performance. And in addition our Sage 50 and Sage 200 franchises have significantly contributed to growth in the region. This means that Sage Business Cloud penetration has increased to 79%, up from 73% this time last year.

Northern Europe

In Northern Europe recurring revenue grew by 7%. Growth in cloud native was primarily driven by new customer wins in Sage Accounting, Sage Intacct and Sage People, with cloud connected also increasing driven by continued growth in Sage 50. And the result of this is Sage Business Cloud penetration of 90%, up from 86% this time last year.

International

And in the International region recurring revenue increased by 6%. Growth in France and Germany accelerated to 4% and 9% respectively, driven by good performance across Sage Business Cloud. While growth in Iberia was 3% and that's driven by cloud connected migrations. Africa & APAC growth here accelerated to 10% with momentum building across Sage Accounting and Sage Payroll in particular. And all of this was underpinned by significant growth in Sage Business Cloud penetration, now at 59%, up from 47% last year.

Investment Driving Growth and Margin

Now, as we said previously, we've been driving growth by investing in the business. Investment continues to increase in absolute terms, supporting Sage's ongoing growth. However, as we said previously, FY21 was the inflection point. With top line momentum now building, the level of spend is now increasing at a slower rate than revenue. This efficient growth has resulted in margin expansion to around 20% for the year and that's up from around 18.8% in the second half of last year. Investment in sales and marketing is now at 41% of recurring revenue and is helping to drive new customer acquisitions. And investment in R&D is at 16% and remains a key priority for the business. Our approach to investment and cost is highly disciplined with G&A now running at just below 10% of recurring revenue.

Strong Cash Generation

Now let's look at the cash flow. Cash generation is a fundamental strength of Sage and in FY22 the Group generated £402 million of cash from underlying operations. And this has resulted in continued strong cash conversion of 107%. Importantly this is the fourth consecutive year that we've achieved cash conversion over 100%. And as a result free cash flow is £295 million net of interest and tax.

Robust Financial Position

Our ability to generate cash has resulted in a strong balance sheet, including cash and available liquidity of £1.3 billion. During FY22 we completed several acquisitions including Brightpearl, Futrli and Lockstep. We disposed of Sage Switzerland and the payroll outsourcing business in South Africa which completed the disposal programme. And finally we returned £600 million to shareholders through share buybacks between March of last year and January of this year And all of this means that our net debt leverage at 1.6x is now well within our mid-term target range of 1-2x. And this gives us significant capacity to continue to support both organic and inorganic growth. And we retain the flexibility to move outside this range should business needs require.

Outlook

Finally turning to the outlook for the Group. We're entering the year with strong momentum having made good strategic progress to accelerate growth. We therefore expect organic recurring revenue growth to be ahead of that reported in FY22. We also expect other revenue to continue to decline in line with our strategy. And alongside this we expect operating margins to increase in FY23 and beyond as we continue to focus on efficiently scaling the Group. Thank you and I'll now hand back to Steve.

Strategic Update

Steve Hare

Chief Executive Officer, Sage Group plc

Consistent Strong Strategic Progress

Thank Jacqui. Now, as I said earlier, our strong performance has been driven by consistent execution. Firstly, we've made strong progress transforming the Group. By focusing on the needs of our customers we've transitioned them to the cloud and to new cloud services at a pace and in a way that's right for them. Secondly, as we've done so we've driven growth with demand from new and existing customers helping to increase Group ARR to over £2 billion. Thirdly we're investing more in innovation to support Sage's long-term success with annual R&D spend up by over 50% in the last three years to almost £300 million in FY22. And finally this is resulting in high levels of growth across our cloud solutions with cloud native ARR now over £500 million. This has created a strong platform for sustainable growth and having invested to create momentum we now expect to grow more efficiently as we focus on scaling the Group.

Strategic Framework for Growth

And the way we're doing this is through our strategic framework for growth. This is the foundation of our decisions. It starts with our purpose to knock down barriers so that everyone can thrive. This guides how we serve our customers, how we act as colleagues and how we play our part in society. Our ambition is to be the trusted network for SMBs. And while our network may be digital it creates human connections. And providing human customer service and community advice is key to our approach. We drive our ambition through five strategic priorities. These are the areas that have the greatest impact on our growth and on our stakeholders. And finally we execute our strategy in accordance with our values. These are well understood at Sage and really do guide our day-to-day actions.

Delivering on our Stakeholder Promises

Customers

Our success depends on our ability to deliver for our stakeholders. So let's take a look at each of them in turn, starting with our customers. We aim to deliver great technology with a human touch. From the North Tyneside Carers Centre to Johnny Seeds in Maine our customers say that the automation and deeper insights our solutions provide make them more productive and more resilient.

Colleagues

For colleagues we're focused on a high-performance culture but in an environment where all colleagues can thrive. We achieve this through development, inclusion and wellbeing, as well as living and breathing our values. And I'm really proud that Sage continues to be recognised as a great place to work, receiving awards from organisations including Glassdoor and Comparably.

Society and Shareholders

But knocking down barriers extends beyond customers and colleagues. Through our Sustainability in Society strategy we support inclusive growth so that everyone can thrive. This year through our partners Kiva and the Boss Network we've enabled loans and grants for more than 13,000 entrepreneurs worldwide. We've helped develop STEM skills in almost 5,000 young people across the North East of England. And in May MSCI upgraded Sage's ESG to AAA indicating that we are a leader in managing ESG risks and opportunities. And all of this comes together in the value that we create for shareholders.

Focusing on our Customers

So let's turn to our customers. Together with our network of accountants and partners we serve millions of SMBs around the world. And this diverse customer base gives us great visibility into SMB trends globally. Now, we are very mindful of the current macroeconomic environment and the challenges that SMBs face, particularly when it comes to high inflation. But what we've observed over many years is that SMBs tend to be agile. They're quick to adapt to adversity and to spot opportunity. Faced with an uncertain economic outlook they tell us that investing in technology remains a priority. They want to simplify things, have better visibility and get paid faster. We provide solutions that enable them to do all of this, boosting productivity and efficiency. We also provide support and advice such as masterclasses on how to survive and thrive in today's economy as part of Sage Membership. And we show up for SMBs when it matters, championing their interests with policymakers and lobbying for initiatives that support investment. So despite the current economic environment I'm optimistic and confident about our strategy, customer proposition and our opportunity for growth.

Driving Growth Through the Digital Network

From a technology perspective the digital network is the way we will maximise this opportunity. Our ambition is to be the trusted network for SMBs. That means automating workflows, not only within organisations but between organisations as well. Now, as a chartered accountant I'm passionate about this. I know first hand how complex and manual some of these workflows can be. Through our digital network Sage connects businesses with everyone that they need to connect to, including suppliers, banks, accountants, tax authorities and customers. We provide digital services including those shown on the slide to remove friction from these relationships. And we do that for all cloud customers whether they're native or connected. And by applying AI and ML to the data that flows across the network we create innovative services and solutions that add value by learning from our customers' behaviour.

Now, the network and its component parts exist today but the more we can scale the network, the more value that we can provide for our customers because a bigger network with more participants and more data is a more valuable network. And this is where Sage has a unique advantage over its competitors, our scale and access to data. So let me give you a few examples. We estimate over 10 billion invoices are sent and received by Sage customers annually. We have well over 20 million employees paid globally by Sage payroll products. And in Sage Intacct alone customers are transacting around $1 trillion of commerce per month. So more connections to the Sage digital network will enable us to deliver better services and more value to customers, leading to greater loyalty and higher lifetime values.

Scale Sage Intacct

Accelerate the expansion of Sage Intacct in existing and new markets

So let's turn to our strategic priorities starting with Sage Intacct where our investment has delivered strong growth. We've developed our vertical presence, releasing new products into manufacturing, construction and real estate. And we acquired Brightpearl to help retailers manage their e-commerce operations. We've grown Sage Intacct internationally including the launch of Sage Intacct Manufacturing in France and the UK. And we've launched Sage Intacct Starter Edition in the UK reducing upfront costs for customers and accelerating time to value. As a result momentum continues to grow with ARR in the US up by a third whereas outside the US it's more than doubled to £18 million. And in fact in FY22 Sage Intacct added more

ARR in a single year than it had in total when we acquired it in 2017, driven by another year of record new customer wins.

At our recent customer conference it was fantastic to hear ambitious SMBs evangelise about how Sage Intacct has helped them grow. So for example, Vitamin Angels, a public health organisation has unlocked funding and savings using Sage Intacct enabling them to provide essential nutrition to an additional 800,000 people. Looking ahead we'll continue to invest in the Sage Intacct platform and we're excited to be launching Sage Intacct in Continental Europe starting with France around the end of the year.

Expand Medium Beyond Financials

Broaden the value proposition for mid-sized businesses

Turning to our second strategic priority where we're broadening the value proposition for mid-sized businesses. Here we aim to deliver benefits to customers beyond core accounting by growing in adjacent areas. During the year we launched an AI-driven service to automate accounts payable for Sage Intacct customers in the US. Significantly reducing invoice processing costs and data entry errors. This same service is also live for Sage 50 customers in France. And this demonstrates how our digital network enables Sage to deploy a single service across both cloud native and cloud connected solutions. We also launched Sage People Payroll bringing integrated payroll functionality to Sage People in the US and the UK. And Sage Intacct Planning has continued to grow rapidly. When we speak to CFOs they tell us their remits are expanding all the time. Our objective is to deliver more solutions to address the broader challenges that CFOs face, driving stronger renewal rates and more value for customers.

Build the Small Business Engine

Create a scalable digital engine to acquire and serve small business customers

Our next priority is to build a scalable digital engine to acquire and serve small business customers. Here we've invested in digital marketing to create a powerful e-commerce platform. And complementary to this is our proposition for accountants. We've built relationships with and served accountants over many years. So we listened to what they said they needed and we responded by creating Sage for Accountants, an innovative solution to help them manage and automate their business. It's already been adopted by over 2,000 practices across the UK just a year after launch. And we've enhanced it, including through acquisitions such as GoProposal which enables accountants to price their services with greater insight and confidence. Or Futrli which provides their clients with enhanced cash flow forecasting. We've also built easy to use tax management capabilities into Sage Accounting and Sage for Accountants ready for making tax digital. And beyond the UK we're also rolling out the small business approach in other markets, initially South Africa and Canada.

Scale the Network

Increase participation in the digital network and accelerate the network effect

Now, scaling Sage's digital network creates a virtuous circle with more data enabling better services to deliver richer experiences. And the digital network is growing. First Sage Business Cloud revenues are up 24% to £1.3 billion. As Jacqui said, this has taken Sage Business Cloud penetration to 75% so more of our customers are able to access the digital network. Secondly we are expanding the availability of cloud solutions. We're doing this throughout the Group but particularly in Europe. For example, launching Sage Active in France, Sage Accounting in Spain and Sage HR in Germany. And third we're launching new services that are powered by the digital network. Today these include bank reconciliations, payment solutions, tax compliance and accounts payable automation. But they'll also include making APIs available to third party developers as part of an open scalable ecosystem. In August we acquired Lockstep which brings accounts receivable capabilities as well as new connected accounting features further scaling the network. Looking ahead we expect that as we connect more solutions and develop new services more and more participants will join the network.

Learn and Disrupt

> *Build innovative solution underpinned by a culture of continuous learning and disruption*

Our final priority, learn and disrupt, focuses on continuous innovation to underpin the long-term success of Sage. During the year we entered into an expanded partnership with Microsoft integrating Teams with Sage Intacct and Sage People to simplify approval and collaboration workflows. And we're also making Sage Intacct and Sage Active available on Microsoft Azure as part of our multicloud access strategy. Our AI-driven Outlier detection engine has so far attracted over 1,000 customers, helping to increase the accuracy of general ledger transactions. And in October we acquired Spherics, an innovative carbon accounting solution which helps customers on their journey to net zero. As we told delegates at COP27 last week, SMBs will be critical to addressing the climate crisis and they want to limit their impact but they need support and tools to get there.

Key Messages

So in conclusion Sage had a very good FY22. We made good progress on our strategic priorities giving us increasing momentum as we enter FY23. Our opportunity for further growth is significant, driven by our focus on innovation together with the need for SMBs to invest in technology in order to compete in today's digital economy. And we are executing well against this opportunity, winning new customers, accelerating growth and doing so more efficiently. I am very proud of the team at Sage and everything that we've achieved together this year. We're investing behind a clear long-term strategy. We're well positioned for the future and we will scale the business by doing the right thing for all of our stakeholders.

So that concludes today's presentation and Jacqui and I would be happy to take your questions.

Q&A

Operator: Thank you. To ask a question you will need to press star, one and one on your telephone and wait for your name to be announced. Once again please press star, one and one if you would like to ask a question. We will now go to our first question. One moment please. And your first question comes from the line of Toby Ogg from JP Morgan. Please go ahead, your line is open.

Toby Ogg (JP Morgan): Yeah, hey, good morning Steve and Jacqui. Thanks for the overview and congrats on closing out a strong year. A couple of questions from me. So firstly just wanted to start on the guidance for the organic recurring revenue growth to be ahead of last year. Clearly you've got the renewal rate by value ticking up nicely there to 101% and your new customer acquisition looks strong which are all helpful. But on the other side you've clearly got the macroeconomic environment which does seem like it's deteriorating, you know, when we sort of look at the broader software ecosystem. Could you just talk a little bit about kind of how you're thinking about that in the context of your guidance? So sort of what you've built in there in terms of that macro assumption. And then also just the pricing component of that growth. And then just for Steve perhaps on Intacct clearly, you know, you've made a lot of progress here with the internationalisation across the English-speaking countries. You're obviously now moving into the non-English-speaking countries and you've mentioned obviously Sage Intacct in France launch coming up at the end of the year. Is there anything we should be thinking about here just with respect to the ability for Sage Intacct to be as successful as it has been in the US and as we're seeing in the UK in some of these non-English-speaking countries? Thank you.

Steve Hare: Thanks very much Toby and why don't I – I'll just give a quick kind of overview about the macro and then I'll hand over to Jacqui and let her just sort of talk through some of the components of where we see the growth coming from. I think the first thing on macro is important just to look at the landscape across the different countries that we operate in. So 40% of the revenue comes from North America. Although North America obviously has inflationary pressures they don't have the same impact from the energy crisis and I think you can see that optimism generally across North America is higher. Obviously there have been a number of high profile cuts from the big technology companies but these are really companies that are more focused on both enterprise or consumer rather than small/mid-sized businesses. And the trend that we see in the US and indeed in all of our markets is that small/mid-sized businesses are underinvested in digital tools and they are turning increasingly to investing in those digital tools in order to improve their own productivity and their own competitiveness. And in many ways that is also exacerbated by the shortness of – or the tight labour market again across all of the markets in which we operate, which is really incentivising businesses to look more closely at how can they automate repetitive more manual tasks. So all of these things are just driving across all of our markets an increased investment in digitisation. Obviously inflation is an issue for small/mid-sized businesses but again if you go back to North America most commentators believe that that inflation has probably peaked and therefore is manageable. But Jacqui why don't you just talk about the specific sources of where we see the growth coming from?

Jacqui Cartin: Yeah, absolutely so thanks for the question Toby. So we've seen ARR growth this year 12% and that's up from the 8% we reported last year. So a good step up. And that's very much been driven by the investment that we've been making over the past few years and we're now starting to see the payback coming through in terms of an acceleration in both recurring revenue and in ARR. Now, in terms of the individual components as you mentioned renewal rate by value that's at 101%, up from the 99% that we reported last year. And that's driven by a couple of different things. First of all we have continued to retain low levels of churn. Alongside this we have good strong sales to existing customers and that's really been augmented by the enhancements that we have made to Sage's digital network. And that's increasing our ability to cross-sell and upsell. And then alongside this we have targeted price increases. Steve mentioned at the first half they were running at between 2.5% and 3%. And for the full year they're at 4% so that's really the core drivers, those three elements of the renewal rate by value of 101%. Alongside this we've had a very good year in terms of new customer acquisitions. £180 million of new ARR coming from new customer acquisition. That's up from £140 million in the prior year. So very pleased with that performance and that gives us good momentum as we enter FY23. And that alongside the trend towards digitisation that we are seeing amongst SMBs helps us to sort of have the confidence that underpins the guidance that we have to be able to accelerate recurring revenue growth. But also importantly to continue to expand the margins in FY23 and beyond.

Steve Hare: And then I think just quickly on Intacct, I mean, the short answer is yes. We're very excited by the prospects for Sage Intacct outside the US. We have just under £20 million of ARR already outside the US but we think the prospects both in the UK but also across Continental Europe and South Africa long-term are very, very strong. I mean, the impact on revenue in FY23 from the introduction of Intacct into Europe will be negligible but long-term, yeah, will be a significant growth driver.

Toby Ogg: Brilliant, thank you.

Operator: Thank you. We will now go to our next question. One moment please. And your next question comes from the line of Will Wallis from Numis. Please go ahead.

Will Wallis (Numis): Morning, thank you very much and congratulations on a – on a strong year, particularly finishing strongly. Could I have sort of two parts? Firstly just looking backwards and the ARR growth could you tell us – talk us through the linearity of that through the – through last year and in particular what sort of quarter-on-quarter growth did you achieve in ARR in the fourth quarter? Are you able just to sort of split that out for us? And secondly I just wanted to return to the question of price increases and you said 4% for the year as a whole looking backwards. What should we be thinking about for FY23?

Jacqui Cartin: Yeah if I can just take the piece on the ARR sequential growth. So as you can see from the strong 12% ARR exit rate we've seen a good acceleration in ARR throughout the course of the year. At Q3 we reported that was at around 3.5%. At Q4 that ticked up to 4% driven by the increased demand that we're seeing across SMBs. So that sort of leads us to the 12% ARR exit rate that we've got.

Steve Hare: And then I think look let me – maybe just a kind of wider comment around the pricing. So as we look forward into FY23 we're very mindful that our customers are small/mid-sized businesses. So we have absolutely no intention of putting in – putting through inflationary – headline inflationary type price increases. But we obviously – you know, 70% of our costs are people and so, you know, we need to balance driving our own productivity, driving our own, you know, looking after our own increases in wage costs and balancing that with price increases. In FY23 I think it's fair to assume that you may see a little more growth from price, above the 4%, but it isn't going to be significantly more. You know, it might tick up to, you know, maybe 4.5-5% but it won't be any more than that.

Will Wallis: Great, thank you.

Operator: Thank you. We will now go to our next question. One moment please. And your next question comes from the line of Ben Castillo-Bernaus from BNP Paribas. Please go ahead, your line is open.

Ben Castillo-Bernaus (BNP Paribas): Good morning, thanks very much for taking my question. So a couple from me. Firstly just on the outlook obviously it's quite open-ended there. If I just look at your exit 12% ARR growth it's accelerated through the year. That's usually a very useful leading indicator. My question is what's stopping that recurring revenue growth in 2023, you know, reaching something close to what your exit ARR growth was this year? And then my second question would be on your products with potential to make growth that was down roughly £70 million in 2022. Is that a reasonable cadence to assume for next year or can that accelerate? And what is the kind of multiplier effect there for each £ that does migrate to your Sage Business Cloud? Thank you.

Steve Hare: Okay so, I mean, just on the outlook obviously, you know, we have to be mindful of the macroeconomic environment. I think, you know, as I've said I think the digitisation by small/mid-sized businesses will outweigh the macro but I think what – the message we're trying to give is we've spent the last three or four years making lots of changes. We've disposed of businesses. We've put Sage in much stronger shape and we've had a very strong year in FY22. And the message we want to give is that will continue. Now, exactly where we end up we don't have an any better crystal ball than anyone else. But what we can see is that there are strong underlying trends both with our existing customers and also in terms of acquiring new customers. And therefore I think to have an outlook that says look we will continue this journey, we will continue to increase the rate of both revenue growth and also bringing back the margin, I think is a sensible balanced outlook. And we'll obviously see over the next few quarters just how things play out and then we can sort of give an updated view on how we see things at the half year. Jacqui do you want to just talk about the to be migrated products?

Jacqui Cartin: Yes, absolutely. So the non-Sage Business Cloud this year that's declined by around 8% and there's tailored products effectively with no path to Sage Business Cloud. And that's now less than 10% of the overall recurring revenue. So that element of it is very much getting less and less material. In terms of the element of the base that is the to be migrated portion of Sage Business Cloud. What you're seeing this year in Sage Business Cloud overall that's grown by 24%. We've added around £250 million of revenue and that's been split roughly evenly between cloud native and cloud connected. The cloud connected base grew by about 17% with growth coming from Sage 50 and Sage 200 but alongside that what we are also now starting to see is product migrations coming through from that to be migrated portion. And that's very much driven by the investment that we have been making in the connectivity of these products, connecting these non-cloud products into our digital network and that's really driving some of the growth there that you're seeing in cloud connected. And moving forward you can continue to see sort of some of that coming through as we continue to invest in that connectivity.

Steve Hare: I think an important point to make is in the early part of this journey, so for example Sage 50 in the UK and the US when we migrated customers from Sage 50 desktop to Sage 50 cloud connected we achieved a premium because we were offering additional functionality to those customers. Typically now if we migrate a customer and we're taking them just to a connected environment, i.e. they're staying on the same product, we are not achieving an uplift. So what we're doing is we're connecting them and then we're using that as an opportunity to offer them cloud services. So get them to consume more. So it comes across in the cross-sell rather than the migration. As Jacqui said, what we also are seeing though is some migration from cloud connected products to the global products like Sage

Intacct, like Sage Accounting. But the material movement as you see that Sage Business Cloud penetration come up is we are connecting people to the cloud so that we can deliver them more cloud services. So you won't get the same uplift in revenue immediately but what you're doing is creating a bigger opportunity to drive cross-sell and upsell in the future.

Ben Castillo-Bernaus: Perfect, thank you.

Steve Hare: Thanks.

Operator: Thank you. We'll now go to our next question. One moment please. And your next question comes from the line of James Goodman from Barclays. Please go ahead.

James Goodman (Barclays): Morning, thank you for taking my questions. Mainly around the cost base and the margin outlook. So you've talked in similar language about a margin expansion to last – to the talk you said at this time last year. I think back then you talked about 50-100 basis points being a sort of reasonable consensus expectation. I think it's fair to say you probably prioritised some of the growth opportunities a little bit over the higher end of the margin leverage this year. Is that the sort of same magnitude of margin outlook we should be thinking about last year or is this year's level more what you have in mind? And then related to that can you talk a little bit about the headcount on an underlying basis and what that's done this year? I don't think we've got the data for that. And in the context of the cuts that you mentioned Steve, you know, elsewhere in the tech sector, wondering what Sage's headcount recruitment plans are for next year and how wage inflation, that you also mentioned, features in there? Thank you.

Steve Hare: Yeah. I'll give a – I'll give a sort of overview and then Jacqui can kind of fill in the – fill in the pieces. I think look in terms of our – in terms of our cost structure I think in some ways we have a bit of an advantage over others in that we've spent the last few years really transforming and restructuring Sage. And so we come into this period, you know, in kind of quite strong shape. You know, we did a job reduction a year ago and, you know, as we look forward into next year obviously our expectations are that we will continue to grow strongly. And it's worth also just emphasising that as the amount of other revenue, the SSRS revenue reduces our total revenue growth and our recurring revenue growth start to get closer together. So as – you know, we expect that we will continue to grow strongly and we are – with headcount we are hiring cautiously I think is probably the way I would put it. So I don't envisage that we will need to do any significant headcount reductions because we've already done them. But I do think that we will continue to hire into places that are critical to drive the growth. But we are also very focused on our own productivity and so I would not expect or we will not see headcount growing in line with revenue. It will grow quite a bit more close – a bit slower. But Jacqui maybe if you just talk a little bit about the cost and the – therefore the impact on margin.

Jacqui Cartin: Yeah absolutely. So in terms of the margin guidance for next year the key drivers of this expansion piece is really driven around the top line momentum, as Steve mentioned, that we are now seeing. And that's really being delivered through the investments that we've made over the past few years. We are going to continue to invest for growth in strategic areas to ensure that we sort of deliver this same level of growth moving forward. But it will happen right at a slower rate than revenue. And that's really critical to enable us to expand the margin. This will sit alongside, as Steve mentioned, productivity and efficiency savings that we are going to generate and that will really give us the confidence to expand the margin moving forward.

James Goodman: Understood, thank you.

Operator: Thank you. We will now go to the next question. One moment please. And your next question comes from Balajee Tirupati from Citi. Please go ahead.

Balajee Tirupati (Citi): Hi, thank you. Balajee Tirupati from Citi. Congratulations on a good period of strong results. Two questions from my side if I may. First one on growth acceleration in Northern Europe and momentum in the region in the Sage Accounting solution, is this also being supported by making tax digital? And how much of tailwind you are getting from gaining back share in the small business segment? And the second question is on cash flow and cash conversion. You have highlighted some impact from decreasing payables. Going forward what is your view given the macro uncertainty and also increased rate which potentially makes working capital management important for your customers as well? Thank you.

Steve Hare: Right, thanks. Yeah in Northern Europe I think I would – I would say that currently the driver from making tax digital is relatively small because I think you know, people are waiting to see what happens in terms of whether the governments stick to the timescales in terms of taking it down to the smaller businesses, the ITSA solutions. And so really at the moment the market is kind of operating in what I would consider to be kind of more business as usual. We've seen a lot of progress both in terms of our digital channel but also our increasing, you know, doubling down in our relationship with accountants. We've – you know, we've introduced software called Sage for Accountants which is for accountancy practices to help them run their businesses. We've seen over 2,000 accountancy practices sign up for Sage for Accountants. And so, you know, as we look forward over the next 12 months and beyond we think we're very well positioned in that small segment. We have approved solutions if the government decide to go ahead with the next wave of making tax digital. And we believe we're well positioned to take advantage of that. Jacqui do you want to talk about the cash?

Jacqui Cartin: Yeah, absolutely. So in terms of the cash generation this really does remain a core strength for us. We have cash conversion this year of 107% and £1.3 billion of cash and available liquidity. Importantly this is the fourth consecutive year that we have cash conversion above 100% and that's driven by a combination of factors. Firstly the growth in the subscription revenue which has been very strong. And also good working capital management. As you mentioned, we've had a slight reduction in the cash conversion this year and that's really just driven by the timing of supplier and other payments at the year end. We haven't seen any indicators of deterioration in the DSO. That remains very strong and looking ahead we would continue to expect the cash conversion will remain strong. Now, in terms of sort of our customers of course cash flow is something that is going to become very, very important in these more challenging times. But I would just cast your mind back to the period during Covid where we offered a number of payment holidays and different sort of mechanisms to our customers to support them. And we had very, very minimal uptake at that stage. And really one of the key drivers behind that, as Steve said in the presentation, these tools are mission critical to SMBs. They actually are helping them to be more resilient to manage their businesses, to fend off the potential sort of challenges of the recession that they're facing. Therefore sort of that gives us a bit of insulation and that gives us the confidence in our cash conversion moving forward.

Balajee Tirupati: Thanks for the colour.

Operator: Thank you. We will now go to our next question. One moment please. And your next question comes from the line of Kai Korschelt from Canaccord. Please go ahead.

Kai Korschelt (Canaccord): Yeah good morning everyone. Thanks for taking my question. I have two please. The first one and I apologise it's around the macro again. I would like to sort of turn around slightly in the sense that is it fair to say that your current assumption around the macro outlook is that it's sort of more of a mild recession without the meaningful uptick in sort of SME bankruptcies? Because I think it's that – that is probably one of the sort of concerns that the – you know, that will have some impact on churn and recurring revenue growth. And obviously being fully cognisant of, you know, the great starting point you have in terms of the exit ARR, I'm just wondering kind of, you know, what sort of scenario are you assuming right now for that recurring revenue growth guidance? And then the second question was really more around the M&A strategy and I think you've – it's fair to say that you've been building what is essentially an ERP stack for SMEs and that's been very successful in accelerating the growth. So my question is, have you considered something slightly more off-piste? And I'm thinking areas like Martech. Obviously Intuit bought Mailchimp in the US. Or do you continue to plan to kind of really focus on the sort of core ERP type applications for now? Thank you.

Steve Hare: Thanks. Yeah on the – I think the first thing to say I think around the macro is our assumption is that there will be some increase in insolvencies. That's inevitable during any recessionary period. But I think it's also relative so if you take the UK as an example there are over six million small/mid-sized businesses. Bankruptcies are currently running in the thousands. And so, you know, what typically happens in a recession is that the total number of small/mid-sized businesses does not reduce. So you obviously get an increase in insolvencies but new business starts continue. I think the second thing is if you look at the balance of where Sage operates 20-25% of our revenue is in the UK. 40% of our revenue is in the US. Our assumption is that in the US whilst there is inflationary pressures that inflation has probably peaked and the US does not have the same exposure to the energy crisis. So I think as we look across our markets we expect to see, you know, a recession or headwinds that last for our financial year. So through to September. So the whole of our financial year. But the flipside is we expect that the businesses that are operating, and the total number of those will not reduce, will continue to invest in digital tools. And that's why, you know, we think as we look across all of our markets in total we can continue to make the progress – same progress in 2023 that we've made in 2022. But it may not be even across all of our different markets. On M&A strategy I think the – you know, the succinct answer is we continue to focus on the core of what we're doing so you're likely to see us doing acquisitions which are additive to our network capability, that allow us to solve pain points of small businesses and of CFOs. And allow us to deliver more cloud services and more automation to them. You won't see us going off-piste. You'll see us sticking very much to the core of our strategy.

Kai Korschelt: Great, thank you.

Operator: Thank you. We will go to our next question. One moment please. And your next question comes from the line of Charles Brennan from Jefferies. Please go ahead.

Charles Brennan (Jefferies): Good morning. Thanks very much for taking my questions. I'll just go with a couple of clarifications if I can. Firstly in terms of the top line I think you've been very clear that the business is accelerating and that's going to drive recurring revenue growth. But are you in a position to say whether you expect ARR growth to accelerate as well? And then secondly just in terms of the margin outlook, can I confirm that when you're talking about margin expansion we're working off the 19.4% underlying margin? And then I know you talk about organic margin expansion but if you do acquisitions this year can you see any scenarios in which that 19.4% falls in the current year? And given that the organic 19.9% doesn't necessarily influence our forecasts going forwards do you think there's any scope for dropping that metric just to simplify the shape of the P&L for us?

Steve Hare: Yeah, so I'll let – thanks Charlie. I'll let Jacquie sort of go through the detailed questions but let me just sort of make the overriding sort of commitment around margin. You know, we've very much focused on the underlying margins going forward because we want to make it clear that when we do acquisitions we will absorb – if we do loss-making acquisitions we will absorb them. So the underlying margin will continue to show progress. But I'll let Jacqui just kind of fill in the – fill in the blanks.

Jacqui Cartin: Yeah absolutely. Thanks Charlie. So to be clear the commitment, as Steve said, on expansion of the margin is on both the underlying basis and the organic basis. So you will see that expanding into next year. And the – I think on the piece on the ARR growth acceleration clearly as you know we don't guide to ARR but what I can say is that like all the points that Steve has touched upon around the trends that we're seeing in the market combined with the good momentum that we have entering this year, we are confident of our ability to accelerate recurring revenue growth. And clearly as we work our way through the year we will update you on ARR as and when appropriate.

Charles Brennan: And so just in that context the underlying margin declined in 2022. Is that because the acquisitions that you did during 2022 were more margin dilutive than you would normally expect? Or is that just the tail end of Investment that you were putting into 2022 that you should be able to leverage going forwards?

Jacqui Cartin: Charlie if you look at the underlying margin year-on-year if you remove the impact of the profitable disposals that we did that margin is broadly flat year-on-year. So the acquisition side of things hasn't impacted it. In this year we've absorbed that as we indicated we would. And moving forward importantly we will continue to absorb the dilution effect on an underlying basis.

Charles Brennan: Perfect. Thank you.

Steve Hare: Thanks.

Operator: Thank you. Due to time we will now take our last question. One moment please. And the last question for today comes from Rahul Chopra from HSBC. Please go ahead.

Rahul Chopra (HSBC): Hello yes good morning. I have a couple of questions on renewal rates. Could you give us more colour on renewal rates for cloud native and cloud connected solutions particularly Sage Intacct? I just wanted to understand is it mix driving renewal rate in addition to pricing versus slower churn. My second question is on NCA activities. Again if you could give us more colour on what's driving that. Is it competitive events or customers are growing their existing package? Thank you.

Steve Hare: Do you want to take renewal rates?

Jacqui Cartin: Yeah, yeah. So in terms of the renewal rate by value as you know we don't split out the renewal rate by value between the cloud native and the cloud connected portfolio. So that 101% is very much a blend across. But what I can say is that on the medium side of things, particularly within Sage Intacct that renewal rate by value tends to be that bit higher because it tends to be stickier because of the nature of the customers. So towards the 110% type area is what we've indicated previously. And that continues to be driven by a mixture of strong customer add-ons and importantly low levels of churn. So – and we see that continuing as we move forward.

Steve Hare: And sorry, could you just repeat the second question?

Rahul Chopra: Yes, so the second question is around new customer activity. What's driving that? Is it principally driven by competitive events or customers are growing their existing packages?

Steve Hare: Yep. So it's a bit of a mixture. In the medium segment so really where we compete with Sage Intacct, yes very much the customers are growing or they're migrating to a new package which gives them more insight, more automation, etc. So when we – you know, 100% of customers who move to Sage Intacct are moving from some previous financial or accounting package. In the case of small customers so where we're acquiring customers with Sage Accounting the vast majority of those customers are coming to use accounting software for the first time. So they're coming from spreadsheets or they're coming from an outsource service that somebody's provided to them. So very much a different dynamic between the two. And in the case of the kind of competitive dynamics in the medium segment, you know, we're pretty much always competing against NetSuite and in the small segment we're pretty much always competing against Intuit and Zero.

Rahul Chopra: Thank you so much.

Steve Hare: Thank you.

Jacqui Cartin: Thanks Rahul.

Operator: Thank you. I will now hand the call back to Steve Hare for closing remarks.

Steve Hare: Thanks very much and as always everyone thank you very much for taking the time to come to the results presentation. And thank you very much for your questions. And we look forward to updating you again when we announce our Q1 results in January. So thank you very much.

[END OF TRANSCRIPT]