

Revenue growth momentum maintained,
with subscription a key driver



The Sage Group plc

Results for the six months ended
31 March 2014



Overview
Guy Berruyer
Chief Executive Officer



Highlights

High quality revenue growth...



Organic
revenue
growth
maintained
at 5%

Organic
recurring
revenue
growth
increased to
7%

Renewal rate
on contracts
increased to
83%

27% margin
reflects good
discipline

Underlying
basic EPS
growth of 8%

Highlights



...with good progress on our strategic KPIs

24% growth in
annualised value
of software
subscriber base

Strong market
position in UKI
with 33,000
Sage One
subscriptions

Hybrid cloud
rollout continues
in France and
North America

22% organic
revenue growth
in Sage ERP X3
outside of
France

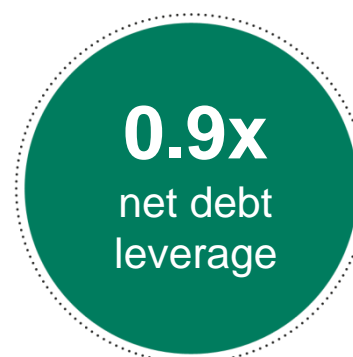
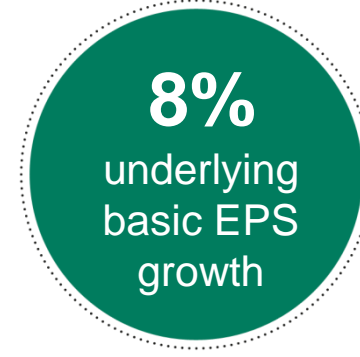
15% growth in
integrated
payments
customers

Financial overview
Steve Hare
Chief Financial Officer



Financial KPIs

Disciplined growth



*Research and development ("R&D") and sales and marketing ("S&M") spend

Revenue sources



Increase in organic recurring revenue growth...

H1 2014



H1 2013



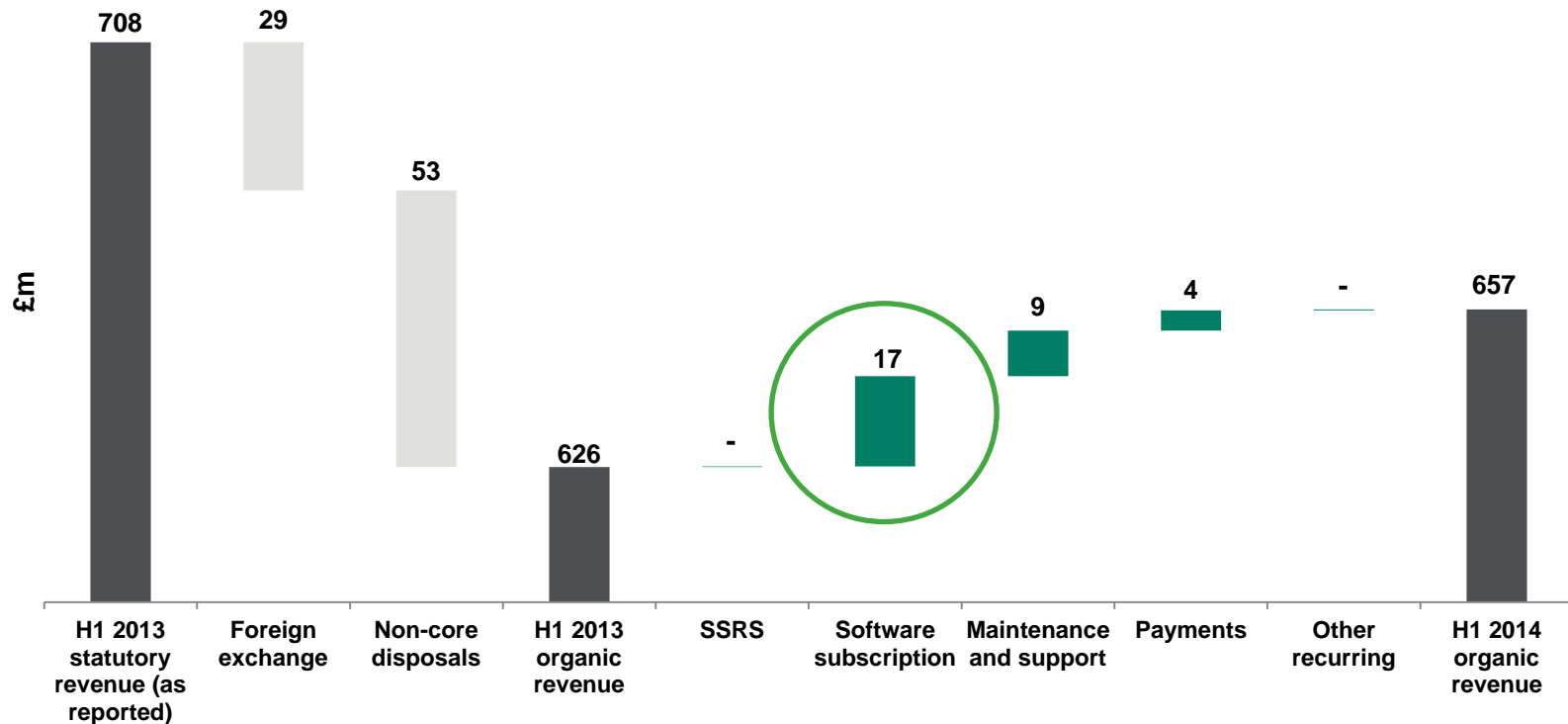
*Software and software-related services

Revenue sources



...with software subscription the primary driver

Key organic revenue movements H1 2013 to H1 2014

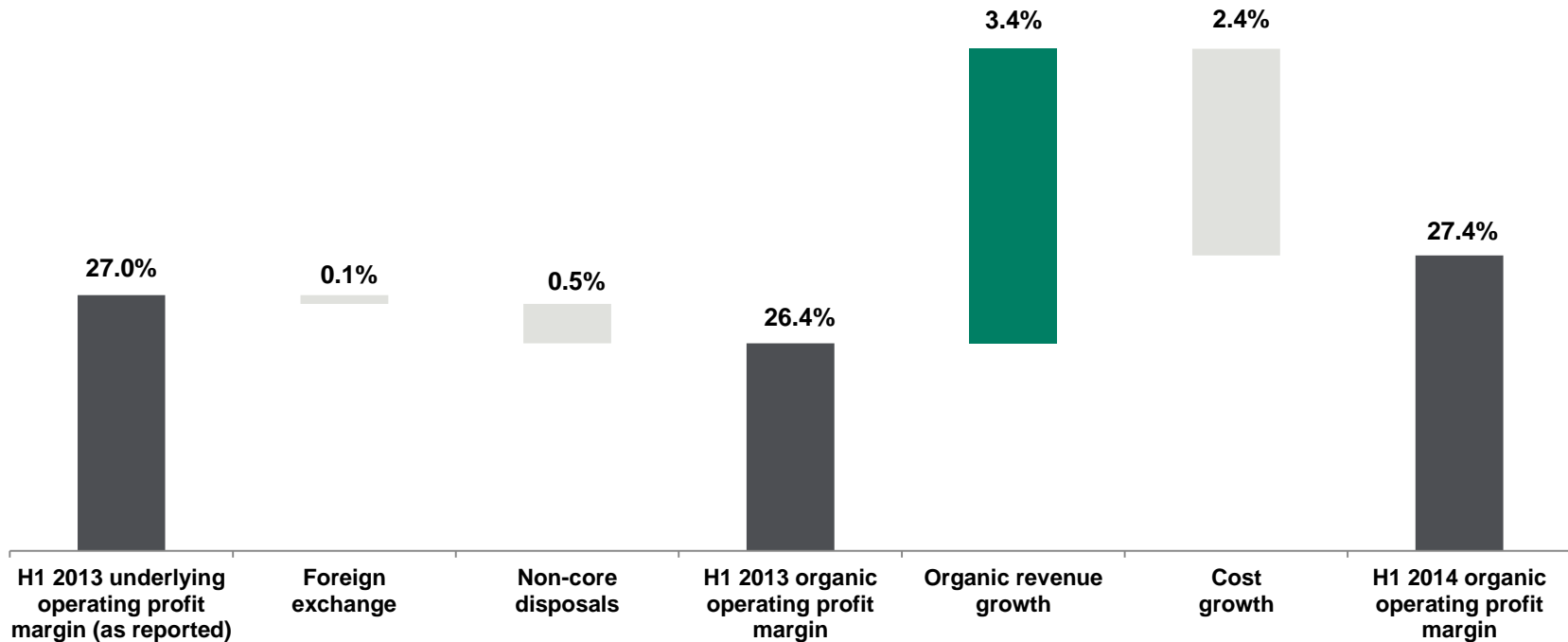


Group operating profit margin

Margin trend maintained



Organic operating profit margin upside from organic revenue growth reinvested



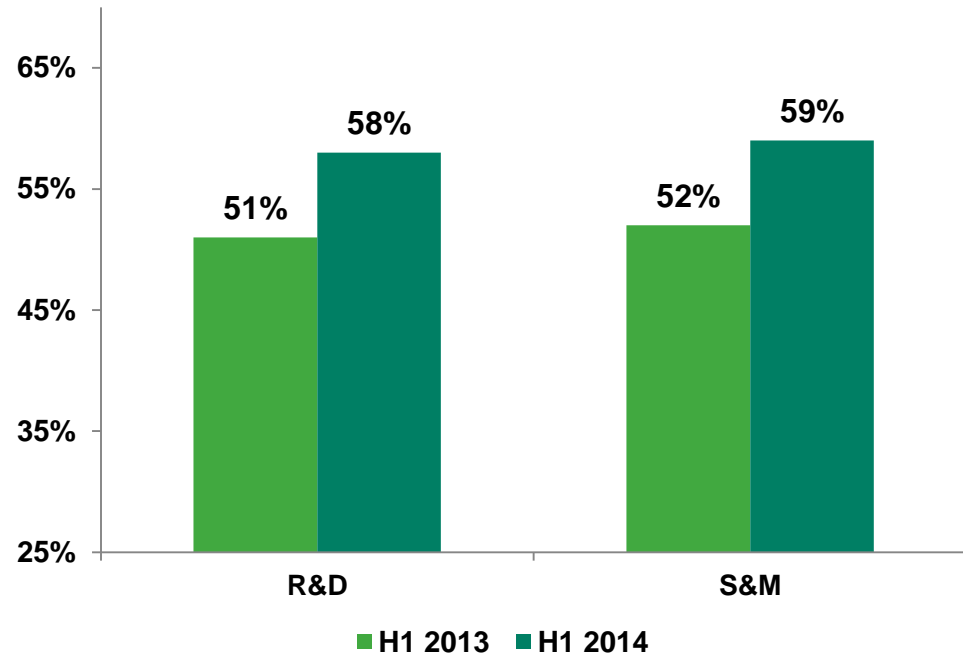
Investment

Continued reallocation to Invest products



- Margin upside from revenue growth reinvested
- R&D and S&M reallocation towards Invest product portfolio has continued:
 - 15% increase in R&D and S&M spend on Invest products versus prior period

% of total spend on Invest products*



*Graph on an organic basis, excluding acquisitions, disposals and products held for sale. Reported H1 2013 Invest percentages were: R&D – 41%; S&M – 47%

Europe

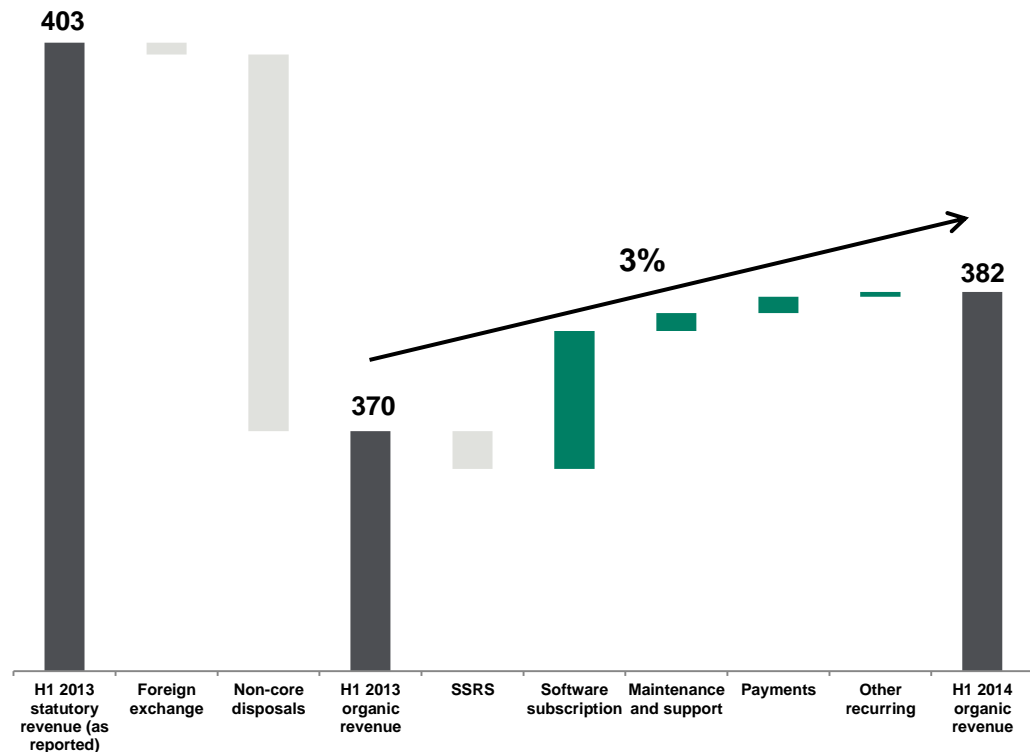
Organic revenue growth increases



Regional highlights

- Software subscription driving good growth, led by France and UKI
- Regulatory change a feature in the UK
- Spain revenue flat
- Sage ERP X3 in France below expectations but H2 expected to be stronger
- Revenue growth supports organic operating margin increase to 28.3% (H1 2013: 27.5%)
 - Also reflects successful reduction of overheads supporting non-core products, whilst continuing to invest in R&D, S&M and customer support

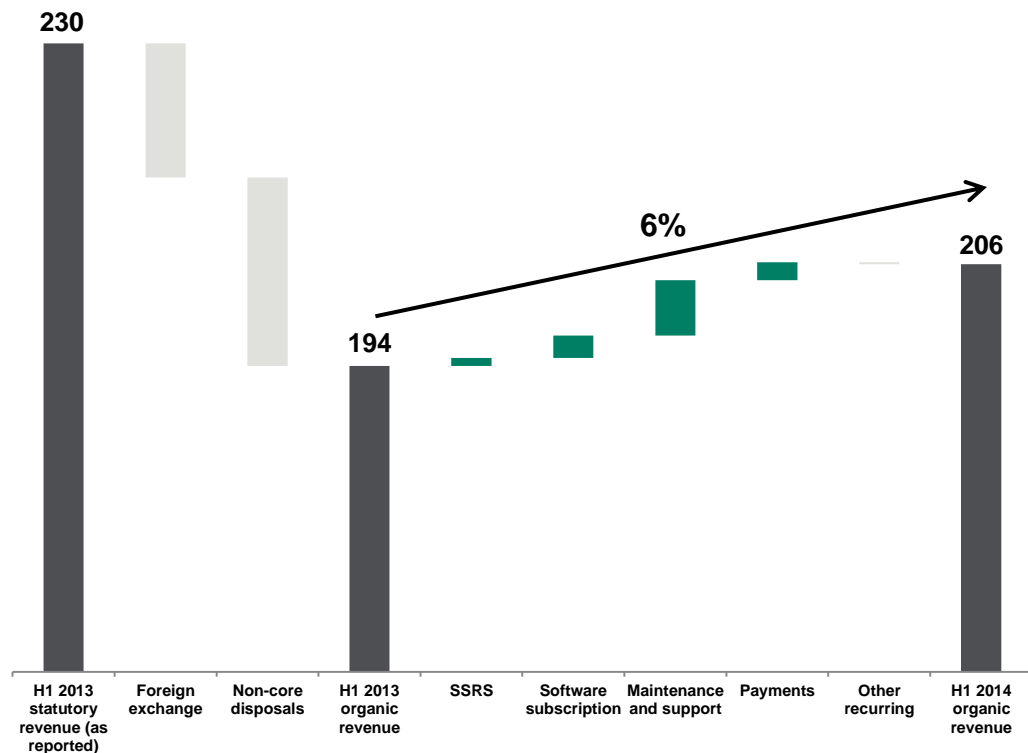
Revenue bridge (£m)



Regional highlights

- **Completion of tax-to-care premium support up-selling initiative underpins continued growth in the period**
- **SSB¹ achieved double-digit growth offset by SMB² softness**
- **Payments growth slowed due to lower volumes**
- **Brazil achieved 9% organic revenue growth, driven by strong software subscription growth**
- **Organic operating margin of 26.4% (H1 2013: 23.9%) reflects the disciplined approach to resource allocation and timing of new hires**

Revenue bridge (£m)



¹Start-up and small businesses ("SSB")

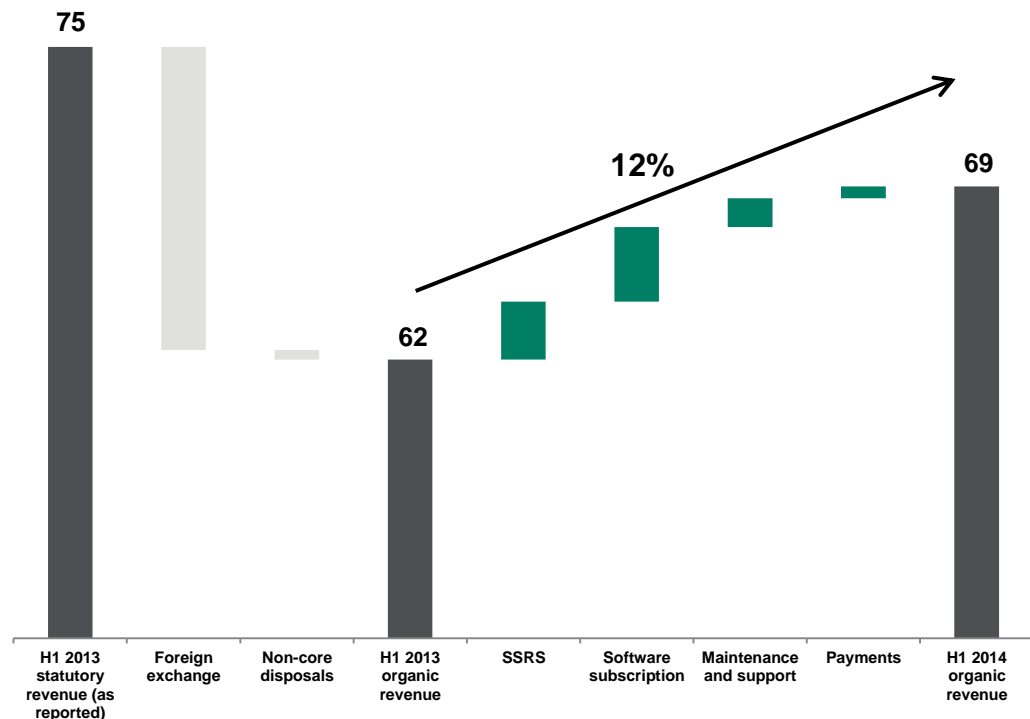
²Small to medium-sized businesses ("SMB")

South Africa drives double-digit revenue growth

Regional highlights

- South Africa organic revenue growth of 16% underpinned strong mid-market performance, including doubling of Sage ERP X3 revenue
- 22% growth from wider African market
- Solid 5% organic revenue growth in Australia
- Organic operating margin of 25.6% (H1 2013: 27.9%) reflects investment in new resources, expected to recover to previously reported levels at full year

Revenue bridge (£m)



Cash flow

Strong cash generation continues

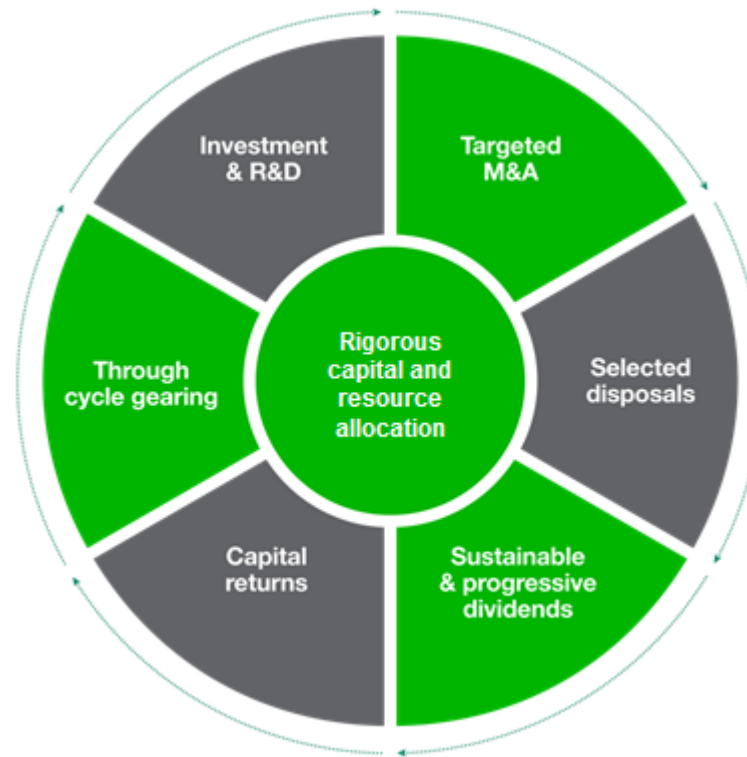


	£m		£m		£m
Statutory operating profit	174	Cash flow from operating activities	197	Opening net debt 1 October 2013	(384)
Depreciation/amortisation/ profit on disposal	21	Net interest	(9)	FCF	120
Share-based payments	3	Tax paid	(55)	M&A	(4)
Working capital change	9	Net capital expenditure	(12)	Share buy-back	(24)
Exchange movement/other	(10)			Ordinary dividends	(81)
				Exchange movement	10
				Other	2
Cash flow from operating activities	197	Free cash flow ("FCF")	120	Closing net debt 31 March 2014	(361)
Underlying cash conversion	110%	Interest cover	19x	Net debt leverage	0.9x

May not cast precisely due to rounding

Capital allocation

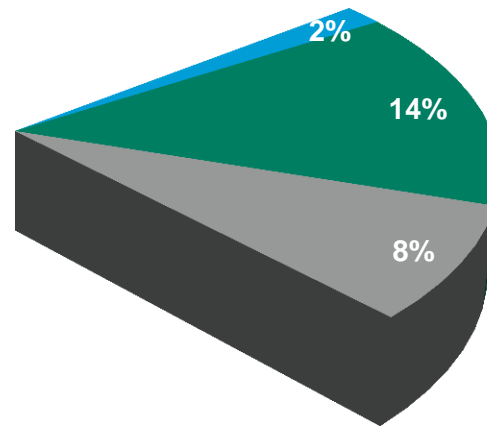
Focus on value creation



Business model change

Subscription - where are we today?

Revenue split by revenue segment



24% of revenue already on "pay-to-play" basis

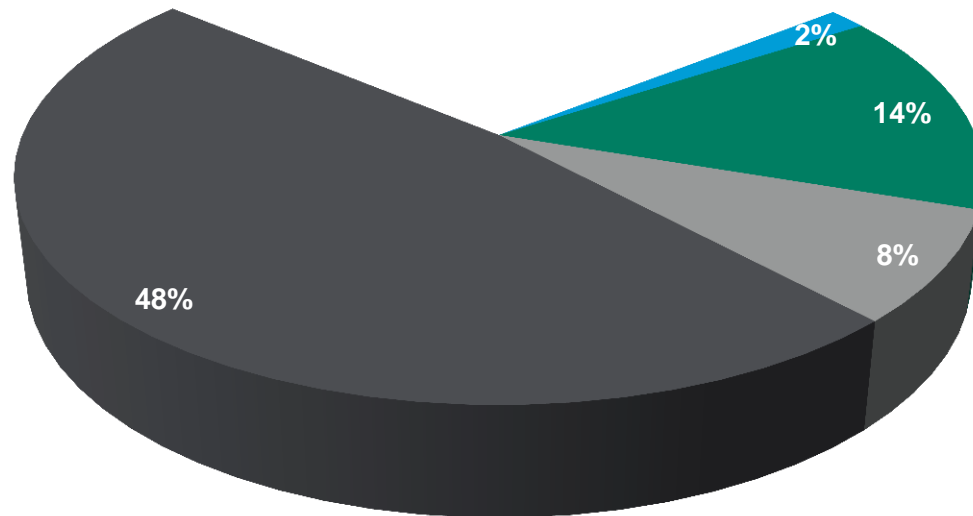
■ Non-software subscription ■ Software subscription ■ Payments

Business model change

Subscription - where are we today?



Revenue split by revenue segment



■ Non-software subscription
■ Payments

■ Software subscription
■ Maintenance and support

24% of revenue already on "pay-to-play" basis

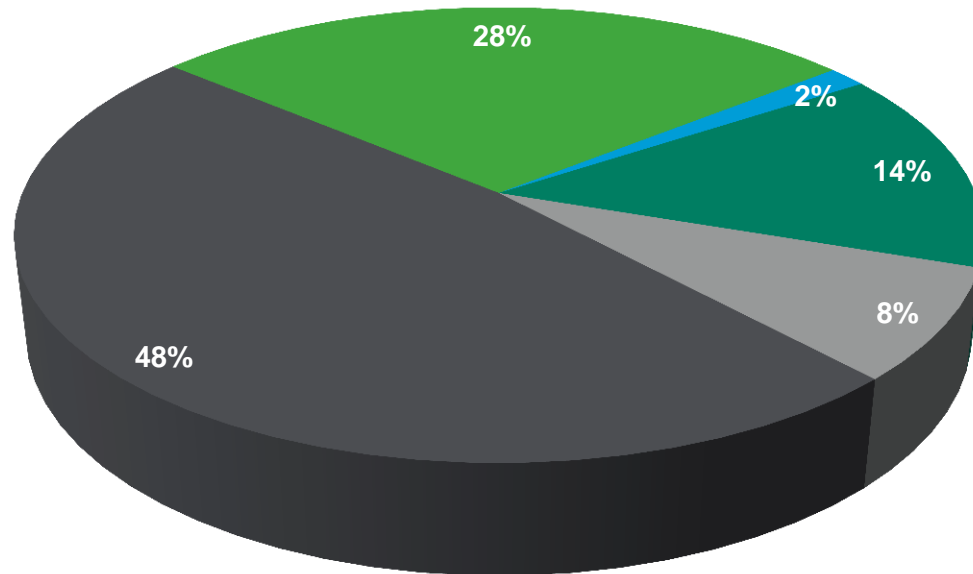
72% of total Group revenue is already recurring in nature

Business model change

Subscription - where are we today?



Revenue split by revenue segment



- SSRS
- Software subscription
- Maintenance and support

- Non-software subscription
- Payments

24% of revenue already on "pay-to-play" basis

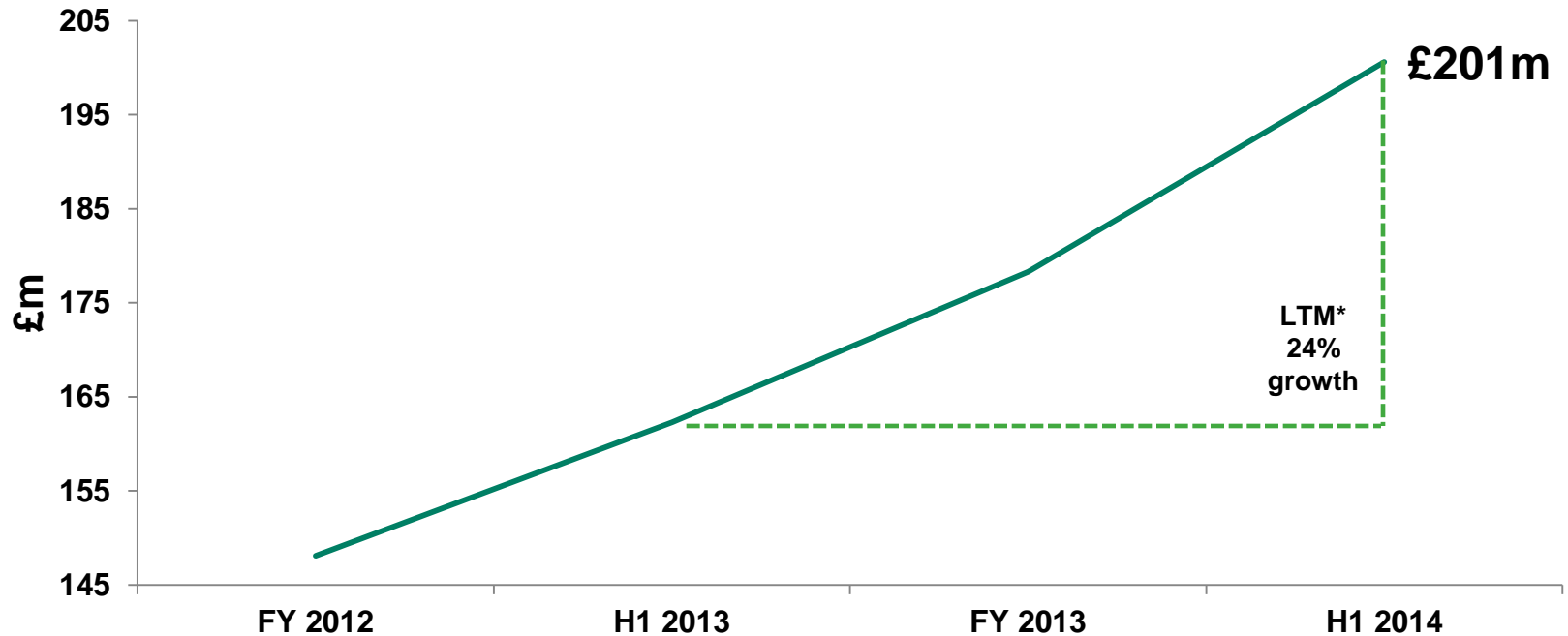
72% of total Group revenue is already recurring in nature

Business model change



Software subscription - where have we come from?

Annualised value of software subscriber base

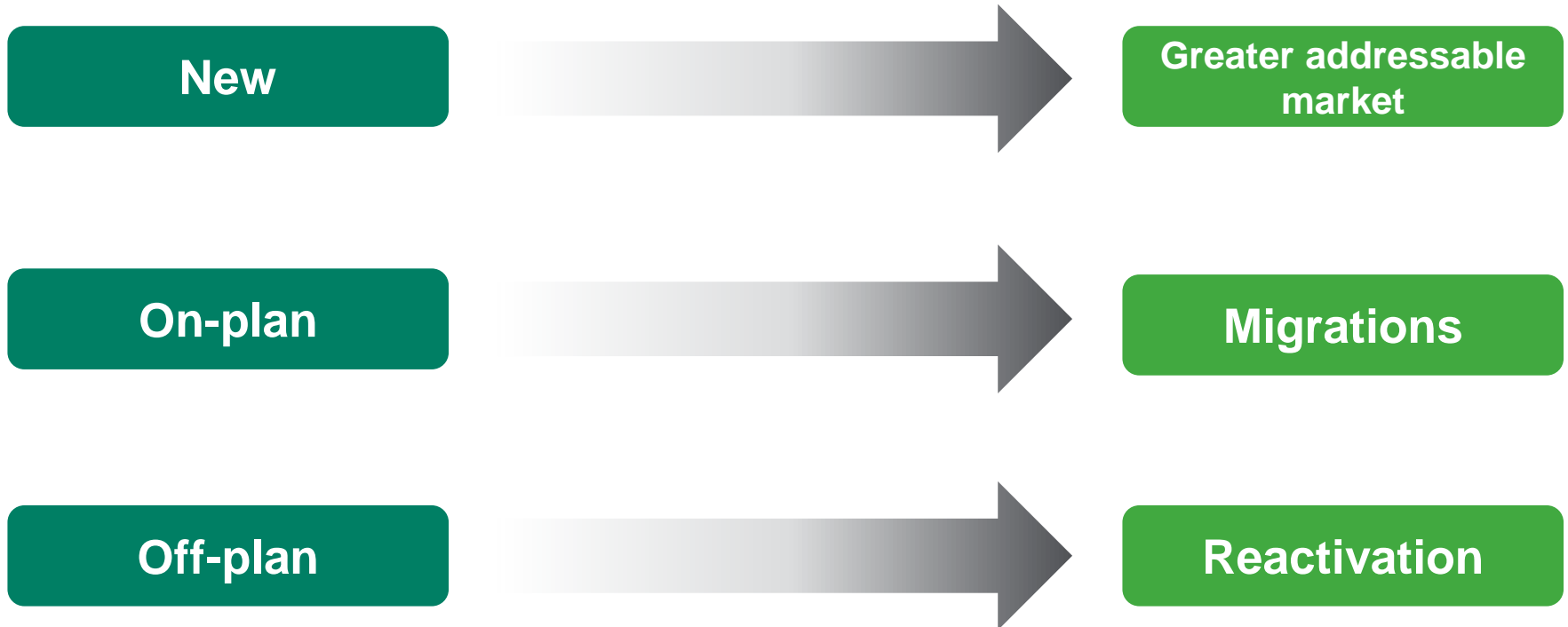


*Last 12 months

Business model change



Building on over 400,000 software subscription contracts



Summary



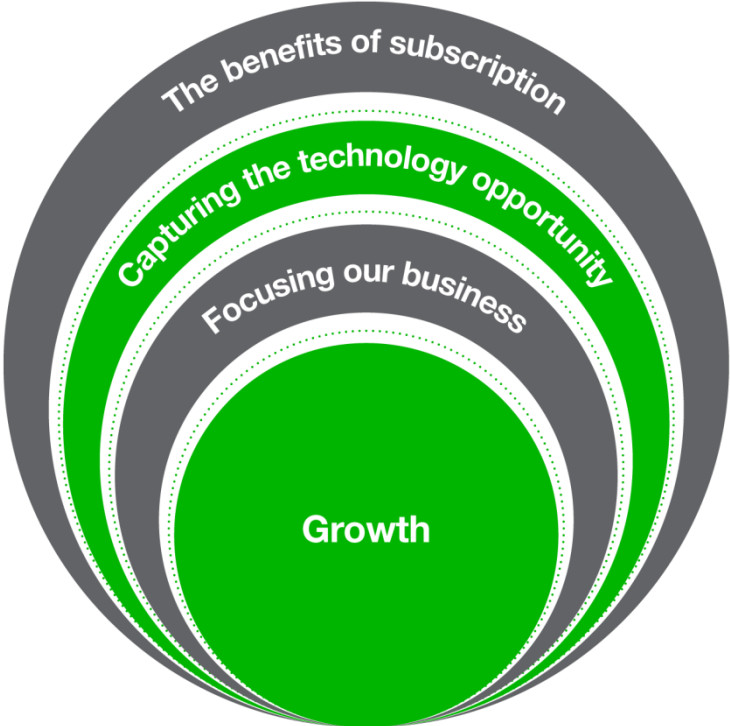
-
- **Profitable growth momentum**
 - **Subscription opportunity**
 - **Disciplined resource capital allocation**
 - **Strong foundation underpins options for investment**
 - **Cash efficiency**
 - **Cost efficiency**

Guy Berruyer
Chief Executive Officer



Our goal

Accelerating growth



Market overview

Putting the move to the Cloud in context



Less

More

Propensity to move to the Cloud



Segment

Mid-market
100 – 500 employees

SMB
10 – 200 employees

SSB
1 – 20 employees

Application

ERP

**Small business
accounting &
payroll**

CRM¹ & HRM²

Geography

Europe

UKI

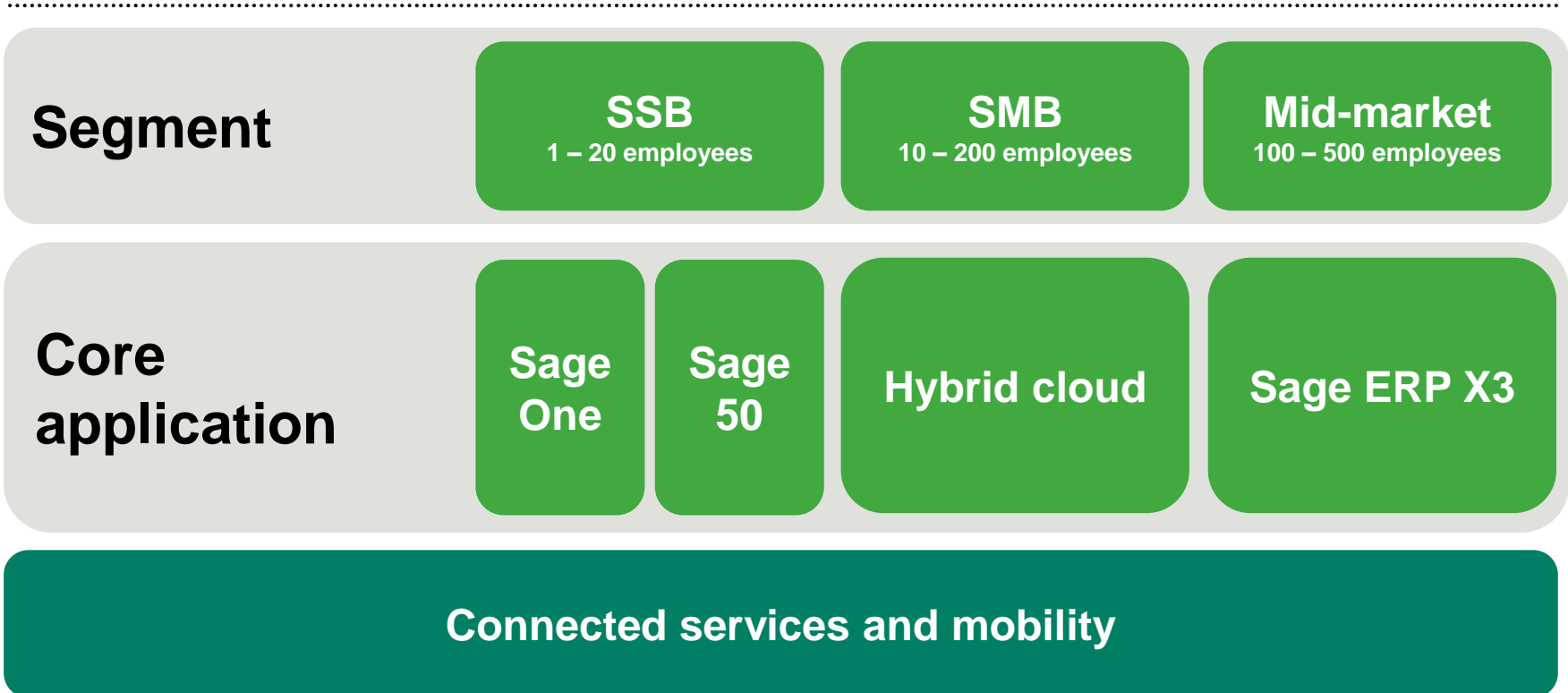
North America

¹Customer relationship management ("CRM")

²Human resource management ("HRM")

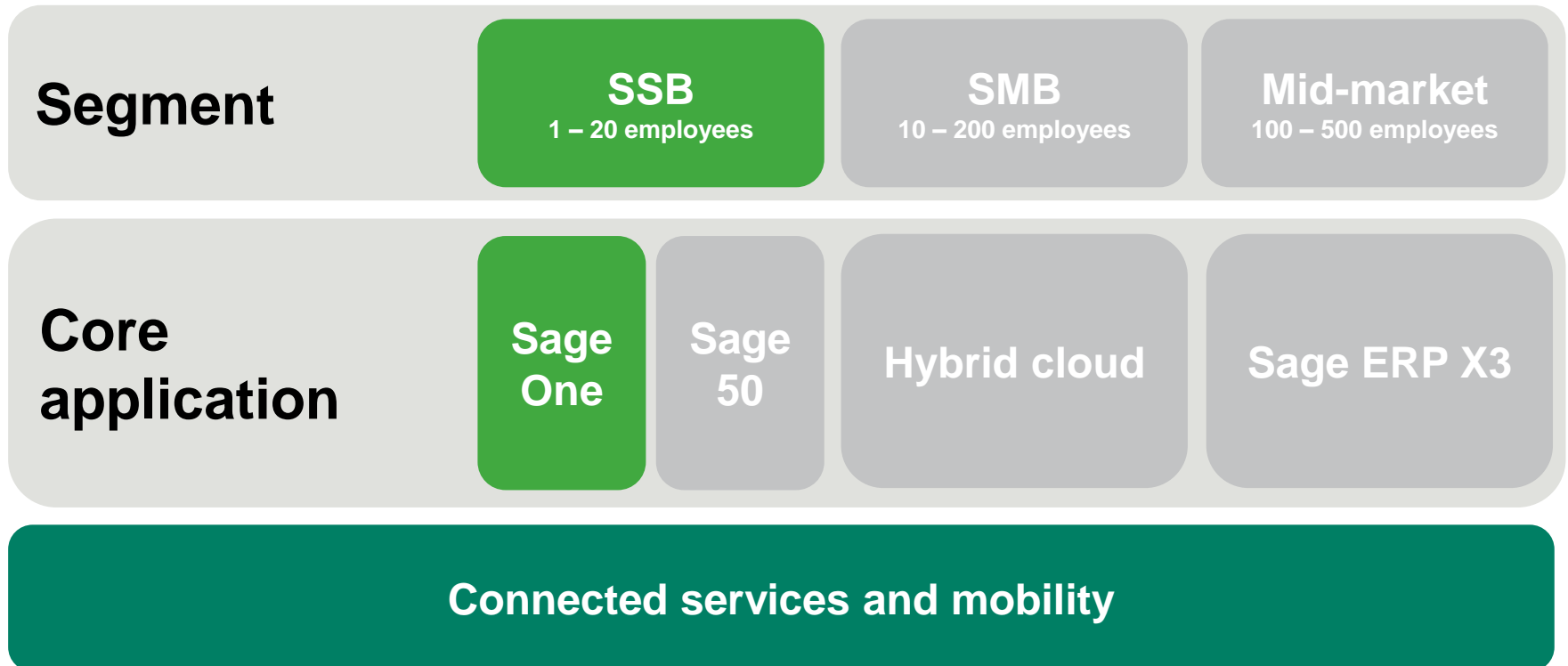
Our technology strategy...

...the right technology for our segments



Our technology strategy...

...the right technology for our segments

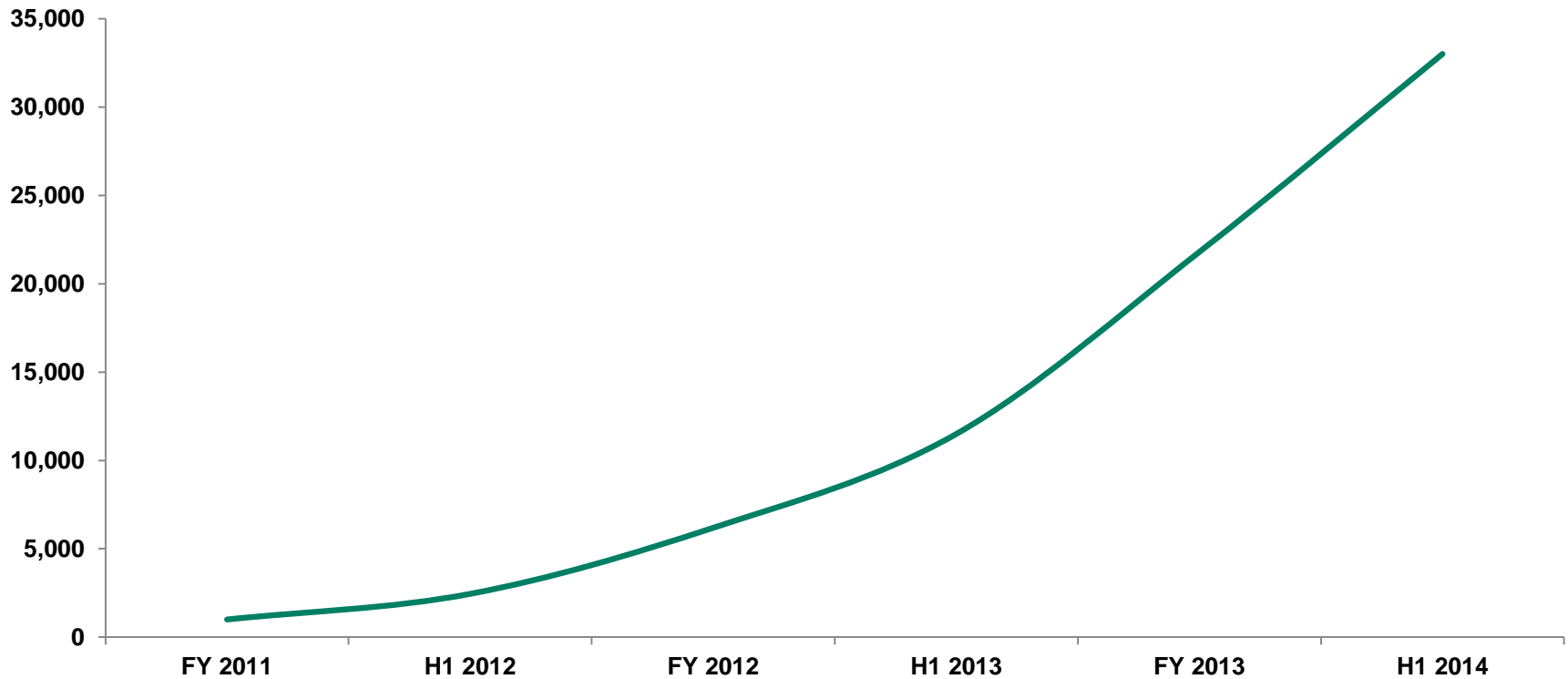


Sage One

Our SaaS solution for SSB

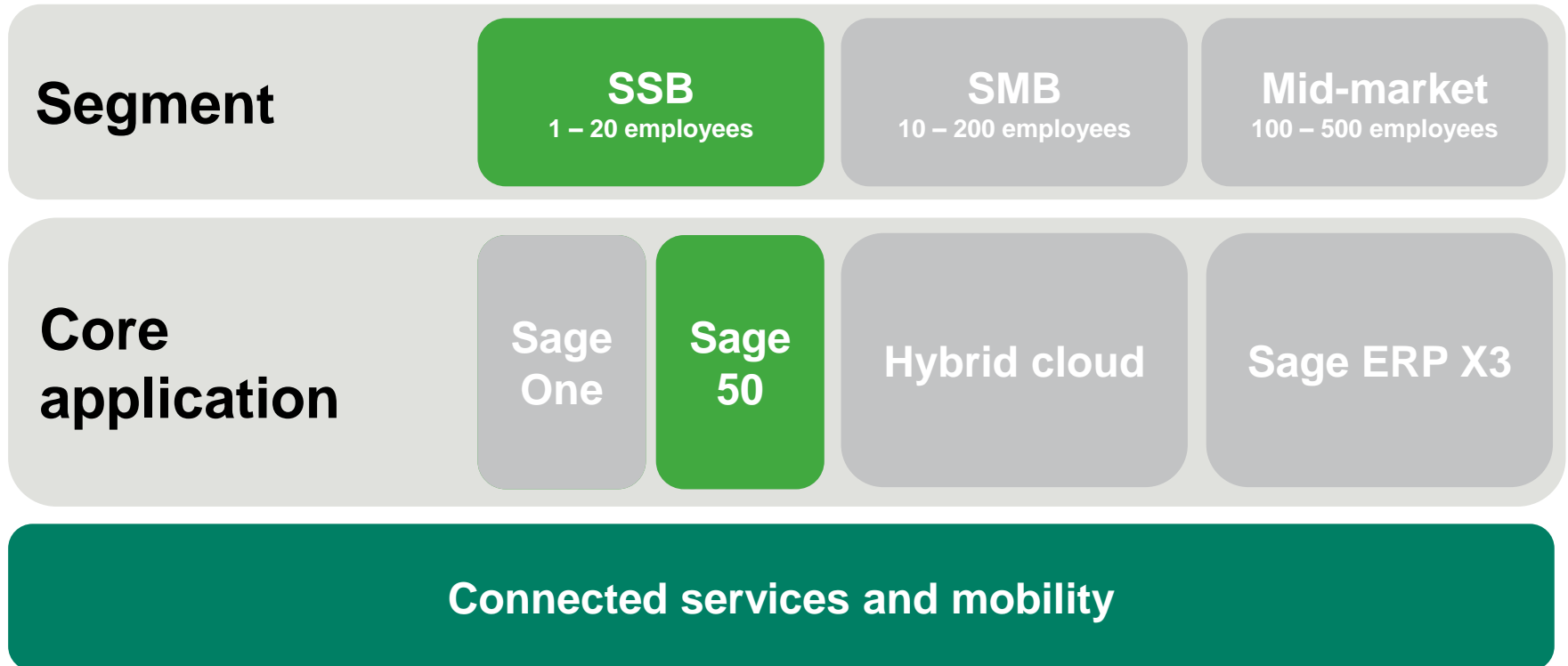


Sage One paying subscriptions in UKI



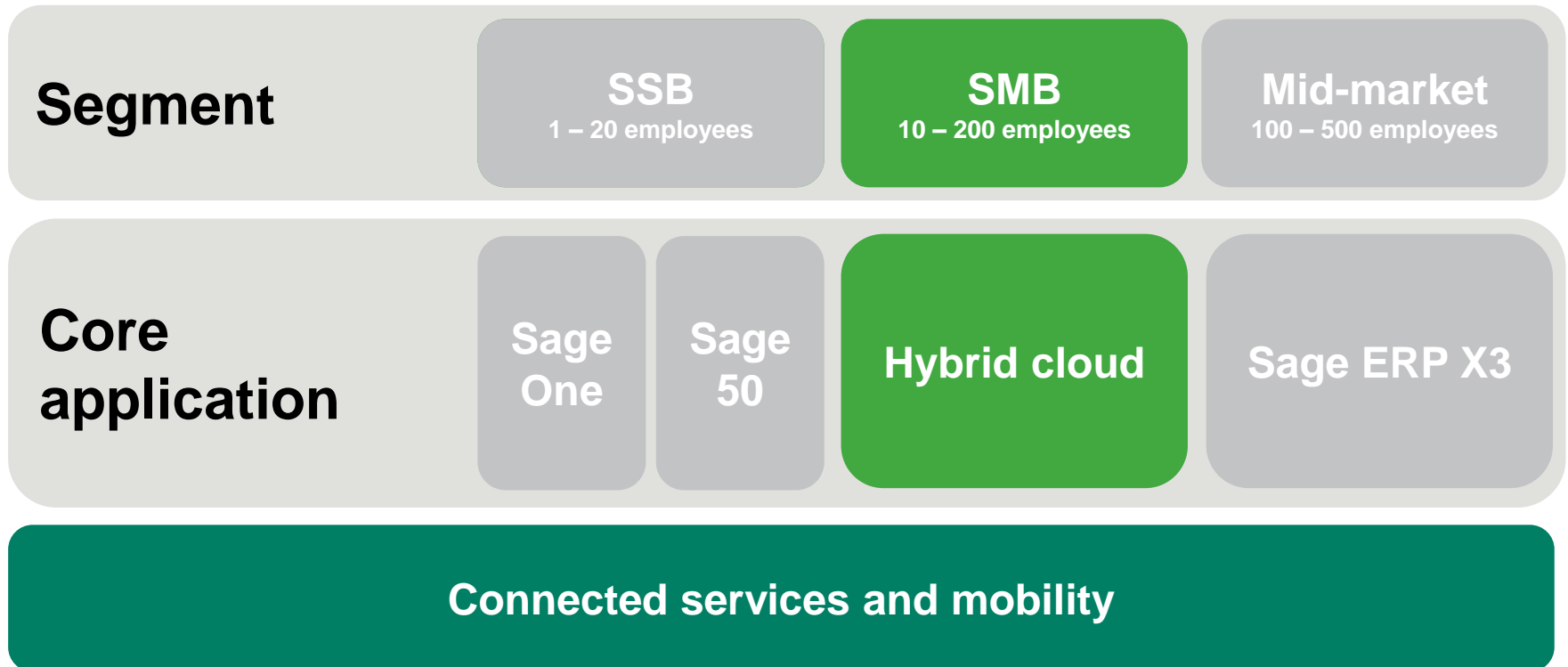
Our technology strategy...

...the right technology for our segments



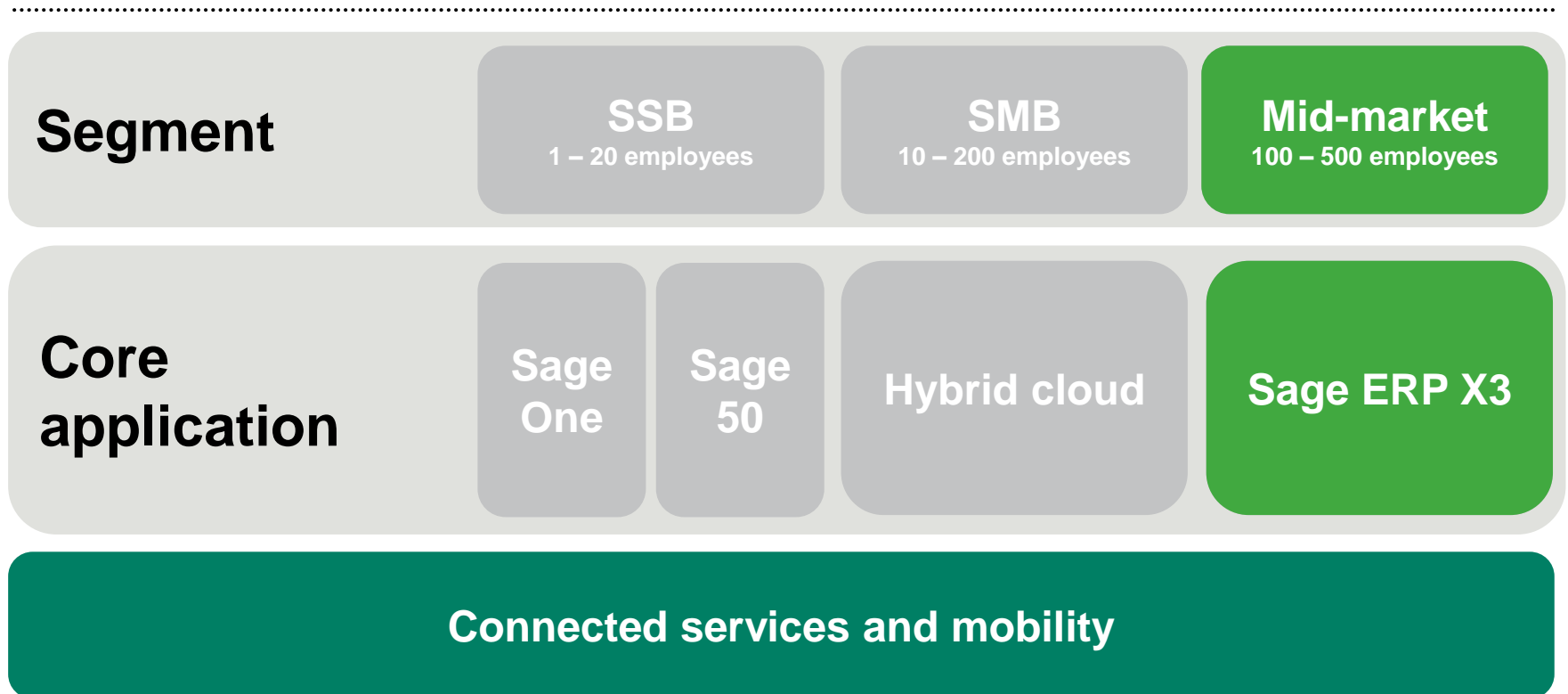
Our technology strategy...

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Our technology strategy...

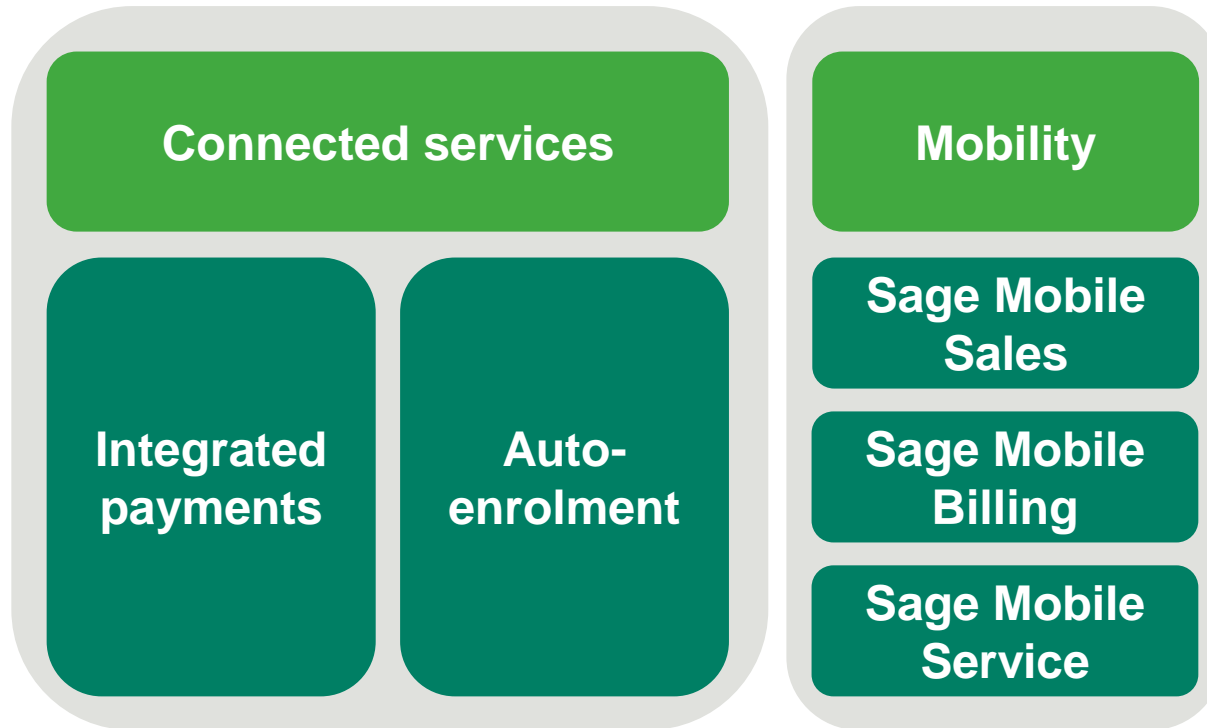
...the right technology for our segments



Connected services strategy



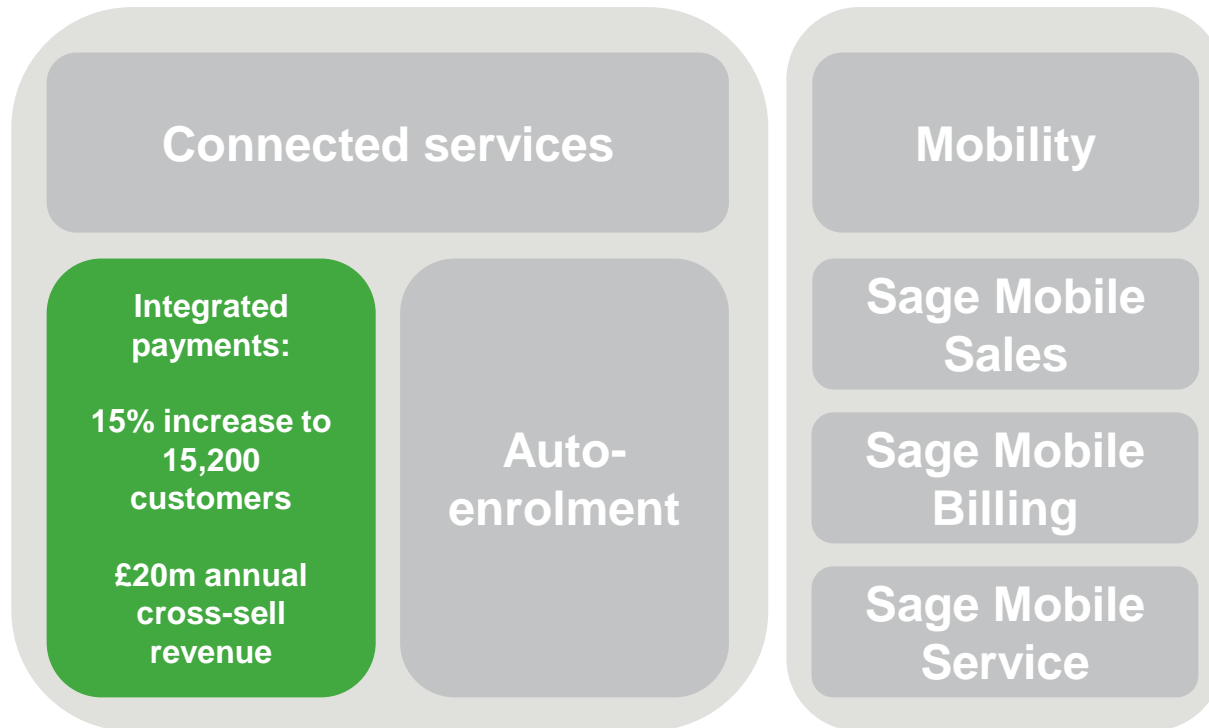
Bringing connected services and mobility to all our customers



Connected services strategy

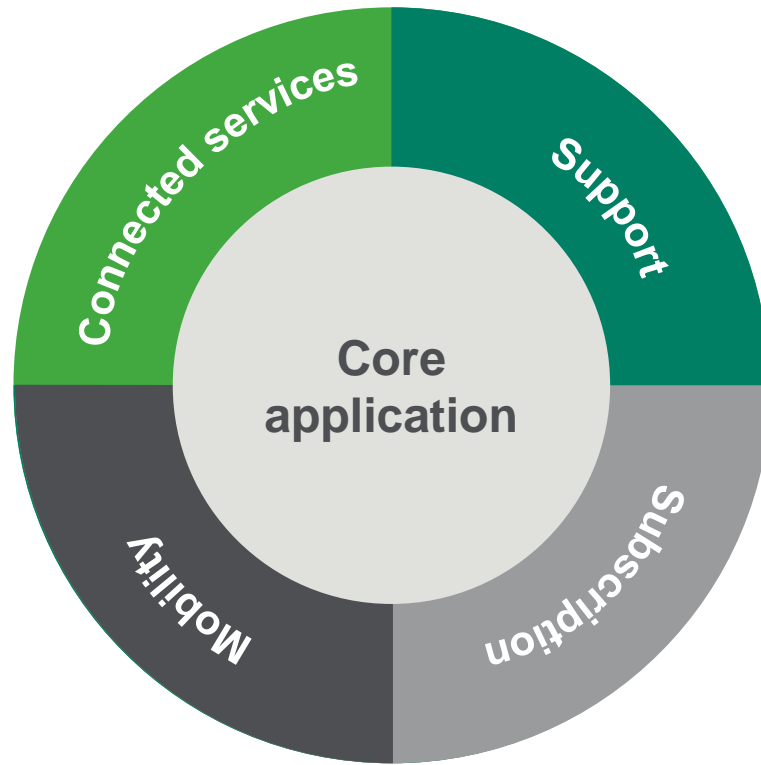


Bringing connected services and mobility to all our customers



Differentiated value proposition

Holistic offering to drive growth



Growth drivers

New customer acquisition

Share of wallet

Customer lifetime value

Summary and outlook



-
- **Confident in achieving 6% organic revenue growth in 2015**
 - **Continued transition to software subscription supports organic recurring revenue growth**
 - **The right technology for both existing and new customers**

Questions?

Non-GAAP measures



Measure	Description	Why we use it
Underlying	<p>Prior period underlying measures are retranslated at the current period exchange rates to neutralise the effect of currency fluctuations.</p> <p>Underlying operating profit excludes:</p> <ul style="list-style-type: none"> • Amortisation of acquired intangible assets; • Acquisition-related items; • Goodwill impairment and fair value adjustments; and • Exceptional items. <p>Underlying profit before tax excludes:</p> <ul style="list-style-type: none"> • All the items above; and • Imputed interest. <p>Underlying profit after tax and earnings per share excludes:</p> <ul style="list-style-type: none"> • All the items above net of tax. 	<p>Underlying measures allow management and investors to compare performance without the potentially distorting effects of foreign exchange movements, one-off items or items that are not under the operational control of the business.</p> <p>By including part-period contributions from acquisitions, disposals and products held for sale in the current and/or prior periods, the impact of M&A decisions on earnings per share growth is clearer.</p>
Organic	<p>In addition to the adjustments made for underlying measures, organic measures exclude the contribution from acquisitions, disposals and products held for sale in the current and prior period.</p>	<p>Organic measures allow management and investors to understand the like-for-like performance of the business.</p>
Underlying cash conversion	<p>Cash flows from operating activities, adjusted for cash acquisition-related items and cash exceptional items, divided by underlying operating profit.</p>	<p>Underlying cash conversion informs management and investors about the cash operating cycle of the business and how efficiently operating profit is turned into cash.</p>

Segmental analysis

Six months ended 31 March 2014



	Europe	Americas	AAMEA	Group
Organic recurring revenue	£265m	£167m	£40m	£472m
Organic SSRS revenue	£117m	£39m	£29m	£185m
Total revenue	£382m	£206m	£69m	£657m
Organic revenue growth	+3%	+6%	+12%	+5%

	Europe	Americas*	AAMEA	Group
Opening contracts at 1 October 2013	1,119,000	536,000	212,000	1,867,000
Net new contracts	41,000	(6,000)	9,000	44,000
Closing contracts at 31 March 2014	1,160,000	530,000	221,000	1,911,000

*Opening position restated

Strategic KPIs



KPI	Measure	H1 2014	H1 2013
Focusing our business			
Resource optimisation	R&D %: split by 'Invest': 'Harvest': 'Sunset'	58:38:04	41:47:12
	S&M %: split by 'Invest': 'Harvest': 'Sunset'	59:38:03	47:46:07
Capturing the technology opportunity			
Adoption of cloud products	Number of Sage One paying subscriptions	35,000	11,500
	Number of hybrid cloud paying subscriptions	850	500
Mid-market	Sage ERP X3 organic revenue growth	7%	8%
Integration of payments	Number of customers adopting integrated payments solutions	15,200	13,200
The benefits of subscription			
Customer adoption	Organic annualised value of the software subscriber base	£201m	£162m
Customer loyalty			
Recurring contract renewal rate	Number of contracts successfully renewed as a percentage of those due for renewal	83%	81%