Overview and financial performance

Sage is the global market leader for technology that helps businesses of all sizes manage everything from money to people.

Meet the team

Steve Hare  
CEO

Jonathan Howell  
CFO

About Sage

With Sage Business Cloud we provide the one and only business management solution that customers will ever need.

Investment case

- High quality recurring revenue growth: H119: 63% recurring revenue, 52% software subscription revenue
- Efficient capital allocation: Investing efficiently for growth, H119: 23.2% organic operating margin
- Strong free cash flow: H119 underlying cash conversion of 151%
- Sustainable dividend: H119: 2.5% increase in dividend, commitment to maintaining in real terms

Total addressable market

- Sage’s total addressable market is $34bn with 71m businesses
- The market is growing at 7% with cloud spend increasing by 13%
- Competition is fragmented, varying by geography

Our global reach

- We serve 3m customers in 26 countries with the main countries being:
  - North America: 33% of revenue
  - Europe: 53% of revenue
  - International: 14% of revenue

Cloud connected and privately hosted  
Cloud native

- Large
- Medium
- Small

Revenue categories

In FY18 Sage delivered £1.8bn of revenue comprising:

- Recurring revenue, comprising software subscription revenue from subscription contracts and maintenance & support from on-plan customers.
- Software and software related services (SSRS revenue), comprising licences and services (e.g. training, implementation).
- Processing revenue from payments solutions
- Over time, an increasing proportion of revenue will be subscription and recurring revenue with SSRS to trend down.

H119 numbers as follows:

- Total revenue £941m
- Total revenue growth +6%
- Recurring revenue £485m
- SSRS revenue £294m
- Processing revenue £137m
- Maintenance and support £25m
- Software subscription +28%
- Maintenance and support -10%
- SSRS -12%
- Processing +3%

Financial performance

<table>
<thead>
<tr>
<th>Financial performance</th>
<th>H119</th>
<th>FY18</th>
<th>FY17</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total revenue</td>
<td>£941m</td>
<td>£1,819m</td>
<td>£1,703m</td>
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<tr>
<td>Total revenue growth</td>
<td>+6%</td>
<td>+7%</td>
<td>+8%</td>
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<tr>
<td>Recurring revenue</td>
<td>+10%</td>
<td>+7%</td>
<td>+9%</td>
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<tr>
<td>Organic operating profit</td>
<td>£218m</td>
<td>£505m</td>
<td>£475m</td>
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<tr>
<td>Organic operating profit %</td>
<td>23.2%</td>
<td>27.8%</td>
<td>28.0%</td>
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FY19 guidance

- We expect FY19 organic recurring revenue growth to be at the top end or slightly exceed the guided range of between 8-9%
- We expect SSRS and processing revenue to be at the lower end or below the guided range of flat to mid-single digit decline.
- Overall, expectations for full year FY19 total revenue remain unchanged
- The Group maintains its organic operating profit margin guidance of 23-25%.

Guidance

<table>
<thead>
<tr>
<th>Guidance</th>
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<tbody>
<tr>
<td>Recurring revenue growth:</td>
<td>Top end or slightly exceed 8% - 9%</td>
</tr>
<tr>
<td>SSRS and processing revenue decline:</td>
<td>Bottom end or slightly below flat to mid single digit decline</td>
</tr>
<tr>
<td>Organic operating margin:</td>
<td>23% - 25%</td>
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1Percentages as at H119

2As reported
Sage’s purpose
To transform the way people think and work, so their organisations can thrive

Sage’s vision
To become a great SaaS company for customers and colleagues alike

Compelling economics of SaaS
- Higher contract values
- Higher retention rates
- Lower CAC
- Lower cost to serve
- Higher lifetime revenue
- Better customer economics
- Significant value creation

Strategic lenses
Customer success
Creating enduring subscription relationships and having a customer-centric approach in everything we do

Colleague success
Creating an environment that values the individual, fosters collaboration and rewards all colleagues

Innovation
Strengthening our Sage Business Cloud offering and invest in emerging technology

Focus and investment
- Focus on customer touch points
- Investment in sales and service systems
- Customer-led marketing
- Culture and Leadership behaviours
- Colleague-led communication
- Raising engagement
- Building Tech Leadership Team
- Investing in Sage Business Cloud
- Sage Intacct internationalisation
- Service fabric

Portfolio simplification
- The primary focus is to migrate desktop customers and attract new customers to Sage Business Cloud
- ‘Other’ products will not migrate to the cloud and instead have individual value creation paths.

H119 Strategic KPIs
The four strategic KPIs Sage will report on every six months:
- ARR £1.5bn +10.2%
- Renewal by value 100%
- Sage Business Cloud penetration 44%
- Subscription penetration 52%

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

Broad range of 1.0x – 2.0x net debt: EBITDA over the medium term