The Sage Group plc
Results for the six months to 31 March 2022 (unaudited)
13 May 2022

Strong first half performance with accelerating growth

- Strong organic recurring revenue growth of 8%, driven by Sage Business Cloud growth of 21%
- Increasing momentum with ARR growth of 10%, underpinned by cloud native ARR growth of 43%
- Strategic investment continues to drive growth and new customer acquisition
- Organic operating margin of 19.9%, in line with expectations
- Sustained strong cash generation, with underlying cash conversion of 120%
- Full year outlook unchanged

Alternative Performance Measures (APMs)[1]	H1 22	H1 21[2]	Change
Organic Financial APMs			
Organic Total Revenue	£924m	£877m	+5%
Organic Recurring Revenue	£866m	£800m	+8%
Organic Operating Profit	£184m	£177m	+4%
% Organic Operating Profit Margin	*19.9%*	*20.2%*	*-0.3 ppts*
Underlying Financial APMs			
EBITDA	£226m	£229m	-1%
% EBITDA Margin	*24.1%*	*24.8%*	*-0.7 ppts*
Underlying Operating Profit	£183m	£188m	-3%
% Underlying Operating Profit Margin	*19.6%*	*20.4%*	*-0.8 ppts*
Underlying Basic EPS	12.62p	11.91p	+6%
Underlying Cash Conversion	120%	133%	-13 ppts
KPIs			
Annualised Recurring Revenue (ARR)	£1,784m	£1,625m	+10%
Renewal Rate by Value	100%	97%	+3 ppts
% Subscription Penetration	74%	68%	+6 ppts
% Sage Business Cloud Penetration	72%	65%	+7 ppts
Statutory Measures	**H1 22**	**H1 21**	**Change**
Revenue	£934m	£937m	–
Operating Profit	£204m	£203m	–
% Operating Profit Margin	*21.8%*	*21.7%*	*+0.1 ppts*
Basic EPS (p)	14.84p	13.29p	+12%
Dividend Per Share (p)	6.30p	6.05p	+4%

Please note that tables may not cast and change percentages may not calculate precisely due to rounding.

Commenting on the results, CEO Steve Hare said:

"We achieved a strong first half performance, in line with expectations, demonstrating sustainable growth and building further momentum. Our strategic investment in sales, marketing and innovation has continued to accelerate revenues across Sage Business Cloud, underpinned by increasing levels of new customer acquisition. Cloud native solutions, which now account for around a quarter of Group ARR, have performed particularly well.

"While we are mindful of increased macroeconomic and geopolitical uncertainties, our customers remain confident and resilient. Our aim is to knock down barriers to their success, delivering solutions that make their lives easier, and we continue to make good progress against our strategic objectives. I am confident that our ambition to become the trusted network for small and mid-sized businesses will drive the success of Sage, as we focus on growing both revenue and earnings in absolute terms."

[1] Please see Appendix 1 for guidance on the usage and definitions of the Alternative Performance Measures.

[2] Organic revenue and operating profit for H1 21 have been restated to aid comparability with H1 22. The definition of organic measures can be found in Appendix 1 with a full reconciliation of organic, underlying and statutory measures on page 7. Unless otherwise specified, all references to revenue, profit and margins are on an organic basis.

Financial highlights

- Organic recurring revenue increased by 8% to £866m, underpinned by Sage Business Cloud growth of 21% to £572m. Organic total revenue grew by 5% to £924m.
- Organic operating profit increased by 4% to £184m, representing a margin of 19.9% (H1 21: 20.2%). Following a period of additional strategic investment to accelerate growth, organic operating margin has trended upwards from 18.4% in H2 21, in line with expectations.
- Statutory operating profit remained stable at £204m (H1 21: £203m), including non-recurring net gains of £55m (H1 21: £37m) driven by disposals.
- Strong underlying cash conversion of 120% (H1 21: 133%) reflects growth in subscription revenue and continued good working capital management.
- Robust balance sheet, with c. £1.2bn of cash and available liquidity, and net debt to EBITDA of 1.5x.
- Interim dividend up 4% to 6.3p, with a progressive policy going forwards of growing the dividend over time.

Strategic and operational highlights

- Annualised recurring revenue (ARR) up 10% to £1,784m (H1 21: £1,625m), reflecting a strong performance across all regions, with growth balanced between new and existing customers.
- Sage added £150m of ARR through new customer acquisition since H1 21, up from £110m a year earlier.
- Cloud native ARR up 43% to £424m (H1 21: £296m), driven by new customers and supported by migrations from cloud connected and desktop products.
- Renewal rate by value of 100%, ahead of last year (H1 21: 97%), reflecting improved renewal rates and strong sales to existing customers.
- Sage Business Cloud penetration of 72% (H1 21: 65%), enabling more customers to connect to Sage's cloud services and ecosystem via the digital network.
- Strong performance in key cloud native solutions (Sage Intacct, Sage Accounting and Sage People), together with continued growth in the Sage 50 and Sage 200 franchises.
- Accelerated our strategy for growth by acquiring Brightpearl, a cloud native retail operations management system.
- Disposed of Sage's business in Switzerland and its South African payroll outsourcing business, increasing focus on core geographies and completing the Group's disposal programme.

Outlook

Sage's outlook remains unchanged. We continue to expect organic recurring revenue growth in the region of 8% to 9% in FY22, driven by strength in Sage Business Cloud, and in cloud native revenues in particular. We also expect other revenue (SSRS) to continue to decline, in line with our strategy. Organic operating margin is expected to trend upwards in FY22 and beyond, as we focus on scaling the Group.

About Sage

Sage exists to knock down barriers so everyone can thrive, starting with the millions of Small and Mid-Sized Businesses served by us, our partners and accountants. Customers trust our finance, HR and payroll software to make work and money flow. By digitising business processes and relationships with customers, suppliers, employees, banks and governments, our digital network connects SMBs, removing friction and delivering insights. Knocking down barriers also means we use our time, technology and experience to tackle digital inequality, economic inequality and the climate crisis.

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A presentation for investors and analysts will be held at 8.30am UK time. The webcast can be accessed live, and subsequently as a replay, via www.sage.com/investors. Participants may also dial in by calling +44 (0) 20 7192 8338, using pin code 9998372.

Business Review

Sage delivered a strong first half, with organic revenue growth accelerating and operating margin trending upwards, driven by continued strategic execution.

Sage serves a diverse customer base of small and mid-sized businesses (SMBs) around the world. Digitisation is driving the rapid adoption of new cloud solutions, with SMBs investing in software to automate workflows, gain better business insights and comply with regulatory obligations. Our unrivalled, trusted portfolio of accounting, HR and payroll solutions positions us well to support them.

Our purpose is to knock down barriers so everyone can thrive, recognising that as we remove friction and make life easier for SMBs, they in turn have a positive effect on the economies and communities in which they operate. We are fully committed to supporting not only our customers but also society more widely, investing in tackling digital inequality, economic inequality and the climate crisis to deliver positive change.

Overview of results

The Group achieved organic recurring revenue growth of 8% to £866m, underpinned by a 21% rise in Sage Business Cloud revenue to £572m, and organic total revenue growth of 5% to £924m.

Our focus on growing cloud revenues has increased Sage Business Cloud penetration to 72%, up 7 percentage points compared to H1 21. We have also continued to grow software subscription revenues, leading to a rise in subscription penetration of 6 percentage points to 74%. As a result of the evolving business mix, 94% of the Group's organic total revenue is now recurring, up from 91% in H1 21.

Portfolio View of Revenue

The portfolio view breaks down Sage's organic revenue by strategic product portfolio. Our principal focus is to grow Sage Business Cloud, by attracting new customers and migrating existing customers and products to cloud native and cloud connected solutions. Sage Business Cloud customers can connect to a range of cloud services as part of Sage's digital network, leading to deeper customer relationships and higher lifetime values.

Organic Revenue by Portfolio[3]	**Recurring**			**Total**		
	H1 22	**H1 21**	***Growth***	**H1 22**	**H1 21**	***Growth***
Cloud native[4]	£187m	£130m	*+44%*	£192m	£137m	*+40%*
Cloud connected[5]	£385m	£341m	*+13%*	£391m	£348m	*+12%*
Sage Business Cloud	**£572m**	**£471m**	***+21%***	**£583m**	**£485m**	***+20%***
Products with potential to migrate	£225m	£249m	*-10%*	£258m	£294m	*-12%*
Future Sage Business Cloud Opportunity[6]	**£797m**	**£720m**	***+11%***	**£841m**	**£779m**	***+8%***
Non-Sage Business Cloud[7]	£69m	£80m	*-14%*	£83m	£98m	*-15%*
Organic Total Revenue	**£866m**	**£800m**	***+8%***	**£924m**	**£877m**	***+5%***
Sage Business Cloud Penetration	***72%***	***65%***				

[3] The revenue portfolio breakdown is provided as supplementary information to illustrate the differences in the evolution and composition of key parts of our product portfolio. These portfolios do not represent Operating Segments as defined under IFRS 8.

[4] Revenue from subscription customers using products that are part of Sage's strategic future product portfolio, where that product runs in a cloud-based environment enabling customers to access full, updated functionality at any time, from any location, over the Internet.

[5] Revenue from subscription customers using products that are part of Sage's strategic future product portfolio, where that product is normally deployed on-premise, and for which a substantial part of the value proposition is linked to functionality delivered in or through the cloud.

[6] Revenue from customers using products that are part of, or that management believe have a clear pathway to, Sage Business Cloud.

[7] Revenue from customers using products for which management does not currently envisage a path to Sage Business Cloud, either because the product addresses a segment outside Sage's core focus, or due to the complexity and expense involved in a migration.

Recurring revenue from cloud native solutions grew by 44% to £187m, driven by Sage Intacct together with other solutions including Sage Accounting and Sage People, primarily through new customer acquisition. Cloud native growth has also been driven by migrations principally to Sage HR and to Sage Partner Cloud.

Recurring revenue from cloud connected solutions increased by 13% to £385m, reflecting continuing growth in the Sage 50 and Sage 200 franchises through existing customers and new customers acquired in the period. Overall, the Future Sage Business Cloud Opportunity, which represents products in or with a clear pathway to Sage Business Cloud, has performed strongly with recurring revenue growth of 11%.

The revenue decline in the Non-Sage Business Cloud portfolio is in line with expectations and reflects the ongoing strategy to focus on solutions with a clear pathway to Sage Business Cloud.

ARR growth

Sage's ARR increased by 10% to £1,784m (H1 21: £1,625m), accelerating in the second quarter across all our regions, reflecting strong growth balanced between new and existing customers. This was underpinned by cloud native ARR growth of 43% to £424m (H1 21: £296m), reflecting a strong performance particularly from Sage Intacct, Sage People, Sage Accounting and Sage HR.

Renewal rate by value of 100% (H1 21: 97%) is ahead of last year reflecting improved renewal rates and strong sales to existing customers, including a good performance in customer add-ons and targeted price rises.

In total, Sage has added £150m of ARR through new customer acquisition over the last 12 months, up from £110m a year earlier.

Progress towards our strategic priorities

At our FY21 results we set out our strategic framework for growth, including five priorities focused on initiatives to drive the long-term success of Sage. Our progress towards these priorities is outlined below.

- **Scale Sage Intacct**: Growth in Sage Intacct has accelerated as we have invested in enhancing the core product, developing its vertical and geographic reach (including through the acquisition of Brightpearl and the launch of Sage Intacct Manufacturing in France), and expanding distribution in key markets across the Group. In the first half Sage Intacct added a record number of new customers, and achieved higher renewal rates driven by good sales growth from existing customers. This is reflected in strong ARR growth, up by a third in the US and by more than 200% outside the US, on a year-on-year basis.

- **Expand medium beyond financials**: We are developing solutions for mid-sized businesses that deliver benefits to customers beyond core accounting, expanding into adjacent areas in line with the enlarged remit of today's CFO. In February we launched a service to automate manual accounts payable processes, saving SMBs significant invoice processing costs and reducing data entry error. Sage Intacct Planning continues to grow rapidly and has now been launched in Canada, with other markets to follow.

- **Build the small business engine**: By investing in digital marketing and the customer experience, Sage has increased its cloud native ARR from UK small business solutions (including Sage Accounting and Sage HR) by more than 50% over the last year. Sage for Accountants, launched in November and complemented by the recent acquisitions of GoProposal and Futrli, has performed ahead of plan, attracting more than 1,000 accountancy practices to date and serving as a key advocacy tool. We are now internationalising the UK approach in other markets, initially South Africa and Canada.

- **Scale the network:** Scaling Sage's digital network creates a virtuous circle, with more data enabling better services to deliver richer experiences. We are expanding the network by increasing Sage Business Cloud penetration, and have launched new cloud native solutions in International, including Sage Accounting in Spain, Sage HR in Germany, and Sage Intacct Manufacturing in France, further driving network participation.

- **Learn and disrupt**: Sage continues to invest in innovation, accelerating momentum in AI and machine learning, and driving disruptive new technologies. In February we released the first and only mid-market cloud accounting solution to use AI to increase confidence in the accuracy of general ledger transactions, through our outlier detection engine. We also continue to work with partners, including Tide and Experian, to deliver innovative services to small businesses and consumers.

Refreshed brand

In order to better represent our evolved purpose, strategy and values, Sage has refreshed its brand proposition, in keeping with the changing needs of SMBs globally. The refreshed brand, launched externally at the end of April, focuses on the simplicity and confidence that Sage delivers to customers, highlighting how our easy-to-use solutions, backed by expert human advice and insights, help them make better and faster decisions. Sage has also launched a new marketing campaign alongside the brand, putting Sage customers and their real-life stories at its heart.

Simplifying the business

In November, we completed the disposal of Sage's business in Switzerland, as previously announced, and in April we disposed of Sage's South African payroll outsourcing business. This completes the Group's disposal programme, resulting in a simplified structure, with management and capital resources now focused on fewer, larger geographies.

Colleagues

For colleagues, knocking down barriers means improving their experience at Sage, creating opportunities, and enabling every colleague to do their very best work. Key to this is our focus on development and training, and on inclusion and wellbeing through our thriving colleague support networks and our flexible working model.

In December, we published our three-year global diversity, equity, and inclusion (DEI) strategy, to embed DEI through our everyday business processes through awareness, training and transparency. We are committed to building an inclusive workforce that fully represents the many different cultures, backgrounds, and viewpoints of our customers, partners, and communities.

Sage continues to be recognised as a great place to work based on colleague feedback, receiving awards in the first half from organisations including Comparably for Best Global Culture, and Glassdoor as one of the UK's Best Places to Work.

Society

Sage plays a key role in supporting SMBs which form the backbone of economies around the world, helping bring prosperity to their owners, employees and communities. Through our 'sustainability and society' strategy, Sage aims to support sustainable and inclusive economic growth so everyone can thrive.

Our partnership with the Institute of Engineering and Technology to develop STEM skills in young people in deprived communities is on target to support over 5,000 pupils across the north east of England this year. In the US, our grant partnership with The BOSS Network attracted over 12,500 applications, with grants made to support 35 black women entrepreneurs in their first five years of business. Our global partnership with Kiva has now supported over 4,000 loans to help individuals in underserved communities start and maintain businesses.

Sage has pledged to help the planet by achieving net zero emissions by 2040, and halving its emissions by 2030, across Scopes 1, 2 and 3. We expect to submit our Science Based Targets for approval later this year, underpinning our commitment on climate action and ensuring our plans are aligned with the Paris Agreement.

Sage Foundation provides a way for colleagues and partners to give back to their communities, co-ordinating the contribution of over 64,000 volunteering hours towards charitable projects in the first half. Sage Foundation has also led Sage's response to the humanitarian crisis in Ukraine and surrounding countries, which has included significant donations from Sage, our colleagues, partners and communities, to support local relief programmes.

Financial Review

The financial review provides a summary of Sage's results on a statutory and underlying basis, as well as considering the organic performance of the business. Underlying measures allow management and investors to understand the financial performance of the Group adjusted for the impact of foreign exchange movements and recurring and non-recurring items, while organic measures also adjust for the impact of acquisitions and disposals[8].

Organic Financial Results

In H1 22 Sage achieved organic recurring revenue growth of 8% to £866m and organic total revenue growth of 5% to £924m. The increase in recurring revenue was underpinned by a 21% rise in Sage Business Cloud revenue to £572m, reflecting strength from new customer acquisition, increased sales to existing customers and continued progress in migrating customers to cloud solutions.

Other revenue (SSRS) declined by 24% to £58m, in line with our strategy to transition away from licence sales and professional services implementations.

The Group's organic operating profit increased by 4% to £184m, representing an organic operating margin of 19.9%. Following a period of additional strategic investment during FY21 to accelerate growth, organic operating margin has trended upwards from 18.4% in H2 21, driven by operating efficiencies.

The Group also achieved underlying basic EPS of 12.62p, strong underlying cash conversion of 120% and free cash flow of £167m.

Statutory and Underlying Financial Results

Financial Results	**Statutory**			**Underlying**		
	H1 22	**H1 21**	**Change**	**H1 22**	**H1 21**	**Change**
North America	£376m	£340m	+11%	£377m	£342m	+10%
Northern Europe	£212m	£200m	+6%	£212m	£200m	+7%
International	£346m	£397m	-13%	£346m	£380m	-9%
Group Total Revenue	**£934m**	**£937m**	**0%**	**£935m**	**£922m**	**+1%**
Operating Profit	£204m	£203m	0%	£183m	£188m	-3%
% Operating Profit Margin	*21.8%*	*21.7%*	*+0.1 ppts*	*19.6%*	*20.4%*	*-0.8 ppts*
Profit Before Tax	£189m	£190m	-1%	£169m	£175m	-3%
Net Profit	£152m	£146m	+4%	£129m	£130m	-1%
Basic EPS	14.84p	13.29p	+12%	12.62p	11.91p	+6%

The Group achieved statutory total revenue of £934m, marginally below last year, reflecting good levels of organic growth in all regions, offset by disposals and foreign exchange headwinds (principally in relation to the Euro) in the International region. Underlying total revenue, which normalises the comparative period for foreign exchange movements, increased by 1%.

Statutory operating profit increased slightly to £204m, with recurring and non-recurring items higher than the prior year, driven by profit on disposals. Underlying operating profit, which excludes recurring and non-recurring items, decreased by 3% to £183m.

Statutory basic EPS increased by 12% to 14.84p, reflecting the post-tax impact of recurring and non-recurring items, and a reduction in the number of shares outstanding following the execution of the Group's share buyback programme. Underlying basic EPS increased by 6% to 12.62p.

[8] Underlying and organic revenue and profit measures are defined in Appendix 1.

Underlying & Organic Reconciliations to Statutory

	H1 22			H1 21		
	Revenue	Operating Profit	Operating Margin	Revenue	Operating Profit	Operating Margin
Statutory	**£934m**	**£204m**	**21.8%**	**£937m**	**£203m**	**21.7%**
Recurring items[9]	£1m	£34m	–	–	£25m	–
Non–recurring items:						
• *Net gain on disposal of subsidiaries*	–	(£49m)	–	–	(£41m)	–
• *Employee restructuring costs*	–	(£6m)	–	–	(£5m)	–
• *Office relocation*	–	–	–	–	£9m	–
Impact of FX[10]	–	–	–	(£15m)	(£3m)	–
Underlying	**£935m**	**£183m**	**19.6%**	**£922m**	**£188m**	**20.4%**
Disposals	(£5m)	–	–	(£43m)	(£10m)	–
Held for sale	(£2m)	(£1m)	–	(£2m)	(£1m)	–
Acquisitions	(£4m)	£2m	–	–	–	–
Organic	**£924m**	**£184m**	**19.9%**	**£877m**	**£177m**	**20.2%**

Revenue

The Group achieved statutory revenue of £934m and underlying revenue of £935m in H1 22. The £1m difference reflects a fair value adjustment to deferred income relating to the acquisition of Brightpearl. Underlying revenue in H1 21 of £922m reflects statutory revenue of £937m retranslated at current year exchange rates, resulting in an FX adjustment of £15m.

Organic revenue of £924m (H1 21: £877m) reflects underlying revenue adjusted for £5m of revenue from Sage's business in Switzerland, which was sold during the period, and £2m (H1 21: £2m) from the South African payroll outsourcing business, which was held for sale at the end of the period and subsequently sold in April 2022. A further adjustment of £4m reflects revenue from the acquisition of Brightpearl. In H1 21, revenue from disposals included £43m of revenue from Sage's businesses in Poland, Australia and Asia, and Switzerland.

Operating profit

The Group achieved a statutory operating profit in H1 22 of £204m (H1 21: £203m). Underlying operating profit of £183m (H1 21: £188m) reflects statutory operating profit adjusted for recurring and non-recurring items. Recurring items of £34m (H1 21: £25m) comprise £18m of amortisation of acquisition-related intangibles (H1 21: £16m) and £15m of M&A related charges (H1 21: £9m), in addition to a £1m of deferred income adjustment relating to the acquisition of Brightpearl.

Non-recurring items include a £49m net gain on disposal from the sale of Sage's business in Switzerland (H1 21: £41m net gain from the disposal of the Polish business), together with a £6m reversal of employee restructuring costs, primarily relating to the business transformation announced in September 2021, as some colleagues were redeployed into other roles across the business.

Organic operating profit of £184m (H1 21: £177m) reflects underlying operating profit adjusted for £1m of operating profit from the South African payroll outsourcing business (H1 21: £1m) and £2m of operating losses from Brightpearl. In H1 21, operating profit from disposals included £3m from Sage's business in Switzerland and a further £7m from Sage's businesses in Poland, Australia and Asia.

[9] Recurring and non-recurring items are detailed in the paragraph below and in note 3 of the financial statements.
[10] Impact of retranslating H1 21 results at H1 22 average rates.

Organic Revenue Overview

Organic Revenue Mix	H1 22		H1 21		Change
	£m	**% of Total**	**£m**	**% of Total**	
Software Subscription Revenue	£682m	74%	£600m	68%	+14%
Other Recurring Revenue	£184m	20%	£200m	23%	-8%
Organic Recurring Revenue	**£866m**	**94%**	**£800m**	**91%**	**+8%**
Other Revenue (SSRS)	£58m	6%	£77m	9%	-24%
Organic Total Revenue	**£924m**	**100%**	**£877m**	**100%**	**+5%**

Organic total revenue increased by 5% in H1 22 to £924m. Organic recurring revenue grew by 8% to £866m, supported by a 14% increase in software subscription revenue to £682m, reflecting the continued focus on attracting new customers and migrating existing customers to subscription and Sage Business Cloud. The decline in other recurring revenue of 8% to £184m reflects customers migrating from maintenance and support to subscription contracts. Other revenue (SSRS) declined by 24% to £58m, in line with our strategy to transition away from licence sales and professional services implementations.

North America

Organic Revenue by Category	**H1 22**	**H1 21**	**Change**
Organic Total Revenue	£375m	£342m	+9%
Organic Recurring Revenue	£355m	£318m	+12%
% Sage Business Cloud Penetration	75%	73%	+2 ppts
% Subscription Penetration	70%	65%	+5 ppts
Organic Recurring Revenue	**H1 22**	**H1 21**	**Change**
US	£303m	£269m	+13%
Of which Sage Intacct	*£102m*	*£78m*	*+31%*
Canada	£52m	£49m	+7%

North America achieved organic recurring revenue growth of 12% to £355m and organic total revenue growth of 9% to £375m. Sage Business Cloud penetration is now 75%, up from 73% in the prior year, driven by growth in cloud native and cloud connected solutions, while subscription penetration is 70%, up from 65% in the prior year.

Cloud native growth was driven mainly through Sage Intacct, which delivered strong recurring revenue growth of 31% to £102m reflecting continued strong progress through accelerating new customer acquisition and improved renewal rates driven by strong sales growth from existing customers.

Recurring revenue in the US increased by 13% to £303m, driven by Sage Intacct together with continued growth in medium cloud connected products across the Sage 200 franchise. Total revenue for the US increased by 11% to £321m.

In Canada, recurring revenue increased by 7% to £52m and total revenue by 4% to £54m, driven mainly by Sage 50 cloud and Sage 200 cloud solutions, together with growth in Sage Intacct and Sage Accounting.

Northern Europe

Organic Revenue by Category	**H1 22**	**H1 21**	**Change**
Organic Total Revenue	£210m	£200m	+5%
Organic Recurring Revenue	£206m	£192m	+7%
% Sage Business Cloud Penetration	89%	85%	+4 ppts
% Subscription Penetration	91%	88%	+3 ppts

Northern Europe (UK & Ireland) achieved organic recurring revenue growth of 7% to £206m and organic total revenue growth of 5% to £210m. Sage Business Cloud penetration is now 89%, up from 85% in the prior year, while subscription penetration is 91%, up from 88% in the prior year.

Recurring revenue growth reflects accelerating growth in cloud native solutions, supported by further growth in Sage 50 cloud connected.

Cloud native revenue growth in Northern Europe was driven by new customer acquisition in Sage Accounting, Sage Intacct and Sage People, together with migrations to Sage HR. Sage Intacct continues to grow rapidly in the UK, as we accelerate investment across our sales channels.

International

Organic Revenue by Category	**H1 22**	**H1 21**	**Change**
Organic Total Revenue	£339m	£335m	+1%
Organic Recurring Revenue	£305m	£290m	+5%
% Sage Business Cloud Penetration	56%	43%	+13 ppts
% Subscription Penetration	67%	60%	+7 ppts
Organic Recurring Revenue	**H1 22**	**H1 21**	**Change**
Central and Southern Europe	£240m	£230m	+4%
France	£128m	£124m	+3%
Central Europe	£52m	£48m	+8%
Iberia	£60m	£58m	+3%
Africa & APAC	£65m	£60m	+7%

The International region achieved organic recurring revenue growth of 5% to £305m and organic total revenue growth of 1% to £339m. Sage Business Cloud penetration increased significantly to 56%, up from 43% in the prior year, while subscription penetration is 67%, up from 60% in the prior year.

In France, recurring revenue increased by 3% to £128m, with a strong performance in cloud connected, supported by growth in cloud native solutions, partly offset by a reduction in maintenance and support revenues. Total revenue in France decreased by 1% to £136m.

Central Europe achieved recurring revenue growth of 8% to £52m while total revenue increased by 4% to £66m. Growth in the region is driven by a combination of cloud connected and local products.

In Iberia, recurring revenue increased by 3% to £60m, with success in migrating customers to subscription and cloud connected solutions. Total revenue was flat at £67m.

Africa & APAC delivered strong recurring revenue growth of 7% to £65m, driven mainly by a good performance in cloud native solutions, particularly Sage Accounting in Africa, and supported by growth in local products. Total revenue in Africa & APAC increased by 6% to £70m compared with the prior year.

Operating Profit

The Group increased organic operating profit by 4% to £184m (H1 21: £177m), representing a margin of 19.9% (H1 21: 20.2%). Following a period of additional strategic investment during FY21 to accelerate growth, organic operating margin has trended upwards from 18.4% in H2 21, driven by operating efficiencies. In addition, during the first half, the Group reassessed its bad debt provision in connection with Covid-19, releasing the balance of the provision which resulted in a £7m credit to operating profit.

Underlying operating profit was £183m (H1 21: £188m), representing a margin of 19.6% (H1 21: 20.4%). The difference between organic and underlying operating profit reflects the operating profit or loss from acquisitions and disposals (as described on page 7).

EBITDA was £226m (H1 21: £229m) representing a margin of 24.1%. The slight reduction in EBITDA principally reflects the impact of disposals on underlying operating profit, partly offset by a £2m increase in underlying depreciation and amortisation to £27m (H1 21: £25m).

	H1 22	H1 21	H1 22 Margin
Organic Operating Profit	**£184m**	**£177m**	**19.9%**
Impact of disposals	–	£10m	
Impact of held for sale	£1m	£1m	
Impact of acquisitions	(£2m)	–	
Underlying Operating Profit	**£183m**	**£188m**	**19.6%**
Depreciation & amortisation	£27m	£25m	
Share based payments	£16m	£16m	
EBITDA	**£226m**	**£229m**	**24.1%**

Net Finance Cost

The statutory net finance cost for the period increased to £15m (H1 21: £13m), primarily reflecting the impact of interest on new debt issuances and is broadly in line with the underlying net finance cost of £14m (H1 21: £13m).

Taxation

The underlying tax expense for H1 22 was £40m (H1 21: £45m), resulting in an underlying tax rate of 24% (H1 21: 25%). The statutory income tax expense for H1 22 was £37m (H1 21: £44m), resulting in a statutory tax rate of 20% (H1 21: 23%).

The difference between the underlying and statutory rate in H1 22 primarily reflects a non-taxable accounting net gain on disposals. The H1 22 underlying tax rate has decreased due to a reduction in the French corporation tax rate together with certain non-recurring adjustments.

Earnings per Share

	H1 22	H1 21	Change
Statutory Basic EPS	14.84p	13.29p	+12%
Recurring items	2.97p	2.05p	
Non-recurring items	(5.19)p	(3.20)p	
Impact of foreign exchange	–	(0.23p)	
Underlying Basic EPS	**12.62p**	**11.91p**	**+6%**

Underlying basic earnings per share of 12.62p was 6% higher than the prior period, primarily reflecting a reduction in the number of outstanding shares due to the share buyback programme.

Statutory basic earnings per share increased by 12%, reflecting the increase in underlying basic earnings per share and the post-tax impact of recurring and non-recurring items.

Cash Flow

The Group remains highly cash generative with underlying cash flow from operations of £220m (H1 21: £255m), representing an underlying cash conversion of 120% (H1 21: 133%). Importantly, the Group has delivered cash conversion in excess of 100% for more than three years. This strong cash conversion reflects growth in subscription revenue and continued good working capital management. Free cash flow was £167m (H1 21: £190m), largely reflecting strong underlying cash conversion and a reduction in income tax paid.

Cash Flow APMs	H1 22	H1 21 (as reported)
Underlying operating profit	£183m	£191m
Depreciation, amortisation and non-cash items in profit	£26m	£22m
Share based payments	£16m	£16m
Net changes in working capital	£3m	£58m
Net capital expenditure	(£8m)	(£32m)
Underlying Cash Flow from Operations	**£220m**	**£255m**
Underlying cash conversion %	*120%*	*133%*
Non-recurring cash items	(£12m)	(£6m)
Net interest paid	(£14m)	(£11m)
Income tax paid	(£27m)	(£46m)
Profit and loss foreign exchange movements	–	(£2m)
Free Cash Flow	**£167m**	**£190m**

Statutory Reconciliation of Cash Flow from Operations	H1 22	H1 21 (as reported)
Statutory Cash Flow from Operations	£193m	£266m
Recurring and non-recurring items	£36m	£22m
Net capital expenditure	(£8m)	(£32m)
Other adjustment including foreign exchange translations	(£1m)	(£1m)
Underlying Cash Flow from Operations	**£220m**	**£255m**

Net debt and liquidity

Group net debt was £650m at 31 March 2022 (30 September 2021: £247m), comprising cash and cash equivalents of £515m (30 September 2021: £567m) and total debt of £1,165m (30 September 2021: £814m). The Group had £1,197m of cash and available liquidity at 31 March 2022 (30 September 2021: £1,236m).

The increase in net debt in the period is summarised in the table below.

	H1 22	H1 21 (as reported)
Net debt at 1 October	**(£247m)**	**(£151m)**
Free cash flow	£167m	£190m
New leases	(£4m)	(£4m)
Net proceeds from disposal of subsidiaries	£38m	£61m
Net cash for acquisition of subsidiaries	(£223m)	–
M&A and equity investments	(£14m)	(£32m)
Dividends paid	(£119m)	(£124m)
Share buyback	(£249m)	(£47m)
FX movement and other	£1m	£11m
Net debt at 31 March	**(£650m)**	**(£96m)**

The Group's debt is sourced from a syndicated multi-currency Revolving Credit Facility (RCF), US private placement (USPP) loan notes, and sterling denominated bond notes. The Group's RCF expires in February 2025 with facility levels of £682m (split between US$719m and £135m tranches). At 31 March 2022, the RCF was undrawn (H1 21: undrawn).

The Group's USPP loan notes at 31 March 2022 totalled £330m (US$400m and EUR 30m) (H1 21: £362m – US$400m and EUR 85m). The USPP loan notes have a range of maturities between January 2023 and May 2025.

The Group's sterling denominated bond notes comprise a £400m 12-year bond, issued in February 2022, with a coupon of 2.875%, and a £350m 10-year bond, with a coupon of 1.625%, issued in February 2021.

Sage has an investment grade issuer credit rating assigned by Standard and Poor's of BBB+ (stable outlook). Maturities within the next 18 months comprise EUR 30m (£25m) and US$150m (£114m) of the Group's USPP loan notes in January 2023 and May 2023, respectively.

Capital allocation

Sage maintains a disciplined approach to capital allocation. The Group's focus is to accelerate strategic execution through organic and inorganic investment, including through acquisitions of complementary technology and partnerships to enhance Sage Business Cloud and further develop Sage's digital network. During the period, Sage acquired Brightpearl, helping to accelerate the Group's strategy for growth, and completed the disposal of its Swiss business. The South African payroll outsourcing business was sold in April, following the period end.

Reflecting the Group's continuing strong business performance and cash generation during the first half, we have increased the interim dividend by 4% to 6.3p. Going forwards, Sage will adopt a progressive dividend policy, intending to grow the dividend over time while considering the future capital requirements of the Group.

The Group also considers returning surplus capital to shareholders. On 24 January 2022, Sage completed a £300m share buyback programme that commenced on 6 September 2021. A total of 39.8m shares were purchased under this programme and are held as treasury shares. Including a previous £300m share buyback programme undertaken during FY21, this brings the total capital returned to shareholders since March 2021 to £600m. As a result, the weighted average number of shares in issue during the first half declined by 7% compared to the same period last year.

	H1 22	**H1 21 (as reported)**
Net debt	£650m	£96m
EBITDA (Last Twelve Months)	£439m	£474m
Net debt/EBITDA Ratio	**1.5x**	**0.2x**

The Group's EBITDA over the last 12 months was £439m, resulting in a net debt to EBITDA leverage ratio of 1.5x, up from 0.2x in the prior year principally due to the impact of the share buyback and acquisitions on net debt. Group return on capital employed (ROCE) for H1 22 was 18.6% (H1 21 as reported: 20.3%).

Sage intends to operate in a broad range of 1-2x net debt to EBITDA over the medium term, with flexibility to move outside this range as business needs require.

Going concern

The Directors have robustly tested the going concern assumption in preparing these financial statements, taking into account the Group's strong liquidity position at 31 March 2022 and a number of downside sensitivities, and remain satisfied that the going concern basis of preparation is appropriate. Further information is provided in note 1 of the financial statements on pages 20 and 21.

Foreign exchange

The Group does not hedge foreign currency profit and loss translation exposures and the statutory results are therefore impacted by movements in exchange rates. The average rates used to translate the consolidated income statement and to normalise prior year underlying and organic figures are as follows:

AVERAGE EXCHANGE RATES (EQUAL TO GBP)	**H1 22**	**H1 21**	**Change**
Euro (€)	1.19	1.13	5%
US Dollar ($)	1.34	1.35	0%
Canadian Dollar (C$)	1.70	1.73	-2%
South African Rand (ZAR)	20.62	20.62	0%
Australian Dollar (A$)	1.85	1.80	3%

Appendix 1 – Alternative Performance Measures

Alternative Performance Measures are used by the Group to understand and manage performance. These are not defined under IFRS and are not intended to be a substitute for any IFRS measures of performance but have been included as management considers them to be important measures, alongside the comparable GAAP financial measures, in assessing underlying performance. Wherever appropriate and practical, we provide reconciliations to relevant GAAP measures. The table below sets out the basis of calculation of the Alternative Performance Measures and the rationale for their use.

MEASURE	DESCRIPTION	RATIONALE
Underlying (revenue and profit) measures	Underlying measures are adjusted to exclude items which would distort the understanding of the performance for the year or comparability between periods: • Recurring items include purchase price adjustments including amortisation of acquired intangible assets and adjustments made to reduce deferred income arising on acquisitions, acquisition-related items, unhedged FX on intercompany balances and fair value adjustments; and • Non-recurring items that management judge to be one-off or non-operational such as gains and losses on the disposal of assets, impairment charges and reversals, and restructuring related costs. Recurring items are adjusted each period irrespective of materiality to ensure consistent treatment. All prior period underlying measures (revenue and profit) are retranslated at the current year exchange rates to neutralise the effect of currency fluctuations.	Underlying measures allow management and investors to compare performance without the potentially distorting effects of foreign exchange movements, one-off or non-operational items. By including part-period contributions from acquisitions, discontinued operations, disposals and assets held for sale of standalone businesses in the current and/or prior periods, the impact of M&A decisions on earnings per share growth can be evaluated.
Organic (revenue and profit) measures	In addition to the adjustments made for Underlying measures, Organic measures: • Exclude the contribution from discontinued operations, disposals and assets held for sale of standalone businesses in the current and prior period; and • Exclude the contribution from acquired businesses until the year following the year of acquisition; and • Adjust the comparative period to present prior period acquired businesses as if they had been part of the Group throughout the prior period. Acquisitions and disposals where the revenue and contribution impact would be immaterial are not adjusted.	Organic measures allow management and investors to understand the like-for-like revenue and current period margin performance of the continuing business.
Underlying Cash Flow from Operations	Underlying Cash Flow from Operations is Underlying Operating Profit adjusted for non-cash items, net capex (excluding business combinations and similar items) and changes in working capital.	To show the cash flow generated by the operations and calculate underlying cash conversion.

MEASURE	DESCRIPTION	RATIONALE
Underlying Cash Conversion	Underlying Cash Flow from Operations divided by Underlying (as reported) Operating Profit.	Cash conversion informs management and investors about the cash operating cycle of the business and how efficiently operating profit is converted into cash.
EBITDA	EBITDA is Underlying Operating Profit excluding depreciation, amortisation and share based payments.	To calculate the Net Debt to EBITDA leverage ratio and to show profitability before the impact of major non-cash charges.
Annualised recurring revenue	Annualised recurring revenue ("ARR") is the normalised organic recurring revenue in the last month of the reporting period, adjusted consistently period to period, multiplied by twelve. Adjustments to normalise reported recurring revenue include those components that management has assessed should be excluded in order to ensure the measure reflects that part of the contracted revenue base which (subject to ongoing use and renewal) can reasonably be expected to repeat in future periods (such as non-refundable contract sign-up fees).	ARR represents the annualised value of the recurring revenue base that is expected to be carried into future periods, and its growth is a forward-looking indicator of reporting recurring revenue growth.
Renewal Rate by Value	The ARR from renewals, migrations, upsell and cross-sell of active customers at the start of the year, divided by the opening ARR for the year.	As an indicator of our ability to retain and generate additional revenue from our existing customer base through up and cross sell.
Free Cash Flow	Free Cash Flow is Underlying Cash Flow from Operations minus net interest paid and income tax paid and adjusted for non-recurring cash items (which excludes net proceeds on disposals of subsidiaries) and profit and loss foreign exchange movements.	To measure the cash generated by the operating activities during the period that is available to repay debt, undertake acquisitions or distribute to shareholders.
% Subscription Penetration	Organic software subscription revenue as a percentage of organic total revenue.	To measure the progress of migrating our customer base from licence and maintenance to a subscription relationship.
% Sage Business Cloud Penetration	Organic recurring revenue from the Sage Business Cloud (native and connected cloud) as a percentage of the organic recurring revenue of the Future Sage Business Cloud Opportunity.	To measure the progress in the migration of our revenue base to the Sage Business Cloud by connecting our solutions to the cloud and/or migrating our customers to cloud connected and cloud native solutions.
Return on Capital Employed (ROCE)	ROCE is calculated as: - Underlying Operating Profit; minus - Amortisation of acquired intangibles; the result being divided by The average (of the opening and closing balance for the period) total net assets excluding net debt, provisions for non-recurring costs, financial liability for purchase of own shares and tax assets or liabilities (i.e. capital employed).	As an indicator of the current period financial return on the capital invested in the Company. ROCE is used as an underpin in the FY20, FY21 and FY22 PSP awards.

Consolidated income statement
For the six months ended 31 March 2022

	Note	**Six months ended 31 March 2022 (Unaudited) Underlying**	**Six months ended 31 March 2022 (Unaudited) Adjustments***	**Six months ended 31 March 2022 (Unaudited) Statutory**	Six months ended 31 March 2021 (Unaudited) Underlying as reported	Six months ended 31 March 2021 (Unaudited) Adjustments*	Six months ended 31 March 2021 (Unaudited) Statutory	Year ended 30 September 2021 (Audited) Statutory
		£m	**£m**	**£m**	£m	£m	£m	£m
Revenue	2	**935**	**(1)**	**934**	937	–	937	1,846
Cost of sales		**(68)**	**–**	**(68)**	(72)	–	(72)	(131)
Gross profit		**867**	**(1)**	**866**	865	–	865	1,715
Selling and administrative expenses		**(684)**	**22**	**(662)**	(674)	12	(662)	(1,342)
Operating profit	2	**183**	**21**	**204**	191	12	203	373
Finance income		**–**	**–**	**–**	1	–	1	1
Finance costs		**(14)**	**(1)**	**(15)**	(14)	–	(14)	(27)
Profit before income tax		**169**	**20**	**189**	178	12	190	347
Income tax expense	4	**(40)**	**3**	**(37)**	(45)	1	(44)	(62)
Profit for the period		**129**	**23**	**152**	133	13	146	285

* Adjustments are detailed in note 3.

Earnings per share attributable to the owners of the parent (pence)								
Basic	6	**12.62p**		**14.84p**	12.14p		13.29p	26.33p
Diluted	6	**12.49p**		**14.68p**	12.05p		13.19p	26.08p

Consolidated statement of comprehensive income
For the six months ended 31 March 2022

	Six months ended 31 March 2022 (Unaudited) £m	Six months ended 31 March 2021 (Unaudited) £m	Year ended 30 September 2021 (Audited) £m
Profit for the period	**152**	146	285
Other comprehensive income/(expense):			
Items that will not be reclassified to profit or loss:			
Fair value gain on reassessment of equity investment (see note 11)	**30**	–	–
Actuarial gain on post-employment benefit obligations	–	–	2
	30	–	2
Items that may be reclassified to profit or loss			
Exchange differences on translating foreign operations	**24**	(86)	(60)
Exchange differences recycled through income statement on sale of foreign operations	**(13)**	(1)	(21)
	11	(87)	(81)
Other comprehensive income/(expense) for the period, net of tax	**41**	(87)	(79)
Total comprehensive income for the period	**193**	59	206

The notes on pages 20 to 38 form an integral part of this condensed consolidated half-yearly report.

Consolidated balance sheet
As at 31 March 2022

	Note	**31 March 2022 (Unaudited) £m**	31 March 2021 (Unaudited) £m	30 September 2021 (Audited) £m
Non-current assets				
Goodwill	7	**2,082**	1,843	1,877
Other intangible assets	7	**281**	188	190
Property, plant and equipment	7	**155**	165	164
Equity investments		**4**	19	21
Other financial assets		**–**	1	–
Trade and other receivables		**116**	101	113
Deferred income tax assets		**34**	36	40
		2,672	2,353	2,405
Current assets				
Trade and other receivables		**329**	290	295
Current income tax asset		**28**	13	37
Cash and cash equivalents (excluding bank overdrafts)	10	**515**	693	553
Assets classified as held for sale	11	**2**	95	39
		874	1,091	924
Total assets		**3,546**	3,444	3,329
Current liabilities				
Trade and other payables*		**(311)**	(529)	(592)
Current income tax liabilities		**(23)**	(24)	(31)
Borrowings	10	**(42)**	(65)	(65)
Provisions		**(44)**	(14)	(68)
Deferred income		**(705)**	(638)	(611)
Liabilities classified as held for sale	11	**–**	(52)	(13)
		(1,125)	(1,322)	(1,380)
Non-current liabilities				
Borrowings	10	**(1,123)**	(742)	(749)
Post-employment benefits		**(23)**	(23)	(22)
Deferred income tax liabilities		**(24)**	(10)	(5)
Provisions		**(36)**	(29)	(49)
Trade and other payables		**(2)**	(3)	(3)
Deferred income		**(9)**	(11)	(10)
		(1,217)	(818)	(838)
Total liabilities		**(2,342)**	(2,140)	(2,218)
Net assets		**1,204**	1,304	1,111
Equity attributable to owners of the parent				
Ordinary shares	9	**12**	12	12
Share premium	9	**548**	548	548
Translation reserve		**53**	36	42
Merger reserves		**61**	61	61
Retained earnings		**530**	647	448
Total equity		**1,204**	1,304	1,111

*Includes £nil at 31 March 2022 (£253m at 31 March 2021 and £249m at 30 September 2021) in relation to the Group's commitment for the purchase of its own shares. See note 9.

Consolidated statement of changes in equity
For the six months ended 31 March 2022

	Attributable to owners of the parent					
	Ordinary shares £m	**Share premium £m**	**Translation reserve £m**	**Merger reserves £m**	**Retained earnings £m**	**Total equity £m**
At 1 October 2021	**12**	**548**	**42**	**61**	**448**	**1,111**
Profit for the period	**–**	**–**	**–**	**–**	**152**	**152**
Other comprehensive income/(expense)						
Exchange differences on translating foreign operations	**–**	**–**	**24**	**–**	**–**	**24**
Exchange differences recycled through income statement on sale of foreign operations (see note 11)	**–**	**–**	**(13)**	**–**	**–**	**(13)**
Fair value gain on reassessment of equity investment (see note 11)	**–**	**–**	**–**	**–**	**30**	**30**
Total comprehensive income for the period ended 31 March 2022 (Unaudited)	**–**	**–**	**11**	**–**	**182**	**193**
Transactions with owners						
Employee share option scheme - Value of employee services, net of deferred tax	**–**	**–**	**–**	**–**	**16**	**16**
Proceeds from issuance of treasury shares	**–**	**–**	**–**	**–**	**3**	**3**
Dividends paid to owners of the parent	**–**	**–**	**–**	**–**	**(119)**	**(119)**
Total transactions with owners for the period ended 31 March 2022 (Unaudited)	**–**	**–**	**–**	**–**	**(100)**	**(100)**
At 31 March 2022 (Unaudited)	**12**	**548**	**53**	**61**	**530**	**1,204**

	Attributable to owners of the parent					
	Ordinary shares £m	Share premium £m	Translation reserve £m	Merger reserve £m	Retained earnings £m	Total equity £m
At 1 October 2020	12	548	123	61	908	1,652
Profit for the period	–	–	–	–	146	146
Other comprehensive expenses						
Exchange differences on translating foreign operations	–	–	(86)	–	–	(86)
Exchange differences recycled through income statement on sale of foreign operations	–	–	(1)	–	–	(1)
Total comprehensive income for the period ended 31 March 2021 (Unaudited)	–	–	(87)	–	146	59
Transactions with owners						
Employee share option scheme - Value of employee services, net of deferred tax	–	–	–	–	15	15
Proceeds from issuance of treasury shares	–	–	–	–	2	2
Share buyback programme*	–	–	–	–	(300)	(300)
Dividends paid to owners of the parent	–	–	–	–	(124)	(124)
Total transactions with owners for the period ended 31 March 2021 (Unaudited)	–	–	–	–	(407)	(407)
At 31 March 2021 (Unaudited)	12	548	36	61	647	1,304

*The repurchase of shares recognised through retained earnings is the maximum consideration that The Sage Group plc is contractually bound under the share buyback programme including costs of purchase. See note 9.

Consolidated statement of cash flows

For the six months ended 31 March 2022

	Notes	**Six months ended 31 March 2022 (Unaudited) £m**	Six months ended 31 March 2021 (Unaudited) £m	Year ended 30 September 2021 (Audited) £m
Cash flows from operating activities				
Cash generated from continuing operations		**193**	266	476
Interest paid		**(14)**	(11)	(19)
Income tax paid		**(27)**	(46)	(81)
Net cash generated from operating activities		**152**	209	376
Cash flows from investing activities				
Proceeds on settlement of non-current asset		**–**	3	3
Disposal of subsidiaries, net of cash disposed	11	**37**	60	135
Acquisition of subsidiaries, net of cash acquired	11	**(210)**	–	–
Purchases of equity investments		**–**	(19)	(21)
Purchases of intangible assets	7	**(17)**	(8)	(17)
Purchases of property, plant and equipment	7	**(4)**	(24)	(39)
Proceeds from disposals of property, plant and equipment	11	**10**	–	–
Interest received		**–**	–	1
Net cash (used in)/generated from investing activities		**(184)**	12	62
Cash flows from financing activities				
Proceeds from issuance of treasury shares	9	**3**	2	8
Proceeds from borrowings	10	**516**	344	344
Repayments of borrowings	10	**(166)**	(481)	(481)
Capital element of lease payments		**(9)**	(13)	(22)
Borrowing costs		**–**	–	(1)
Share buyback programme	9	**(249)**	(47)	(353)
Dividends paid to owners of the parent	5	**(119)**	(124)	(189)
Net cash used in financing activities		**(24)**	(319)	(694)
Net decrease in cash, cash equivalents and bank overdrafts (before exchange rate movement)		**(56)**	(98)	(256)
Effects of exchange rate movement	10	**4**	(32)	(25)
Net decrease in cash, cash equivalents and bank overdrafts		**(52)**	(130)	(281)
Cash, cash equivalents and bank overdrafts at 1 October	10	**567**	848	848
Cash, cash equivalents and bank overdrafts at period end	10	**515**	718	567

Notes to the financial information
For the six months ended 31 March 2022

1. Group accounting policies

General information

The Sage Group plc ("the Company") and its subsidiaries (together "the Group") is a leading global supplier of finance, HR and payroll software to small and mid-sized businesses.

This condensed consolidated half-yearly financial report was approved for issue by the board of directors on 12 May 2022.

The financial information set out above does not constitute the Company's Statutory Accounts. Statutory Accounts for the year ended 30 September 2021 have been delivered to the Registrar of Companies. The auditor's report was unqualified and did not contain statements under section 498 (2), (3) or (4) of the Companies Act 2006.

Whilst the financial information included in this announcement has been computed in accordance with International Financial Reporting Standards ("IFRS") as adopted by the UK and IFRS as issued by the International Accounting Standards Board ("IASB"), this announcement does not in itself contain sufficient information to comply with IFRSs. The financial information has been prepared on the basis of the accounting policies and critical accounting estimates and judgements as set out in the Annual Report and Accounts for 2021.

This condensed consolidated half-yearly financial report has been reviewed, not audited.

The Company is a limited liability company incorporated and domiciled in the UK. The address of its registered office is C23 – 5 & 6 Cobalt Park Way, Cobalt Park, Newcastle upon Tyne, NE28 9EJ. The Company is listed on the London Stock Exchange.

Basis of preparation

The financial information for the six months ended 31 March 2022 has been prepared in accordance with the Disclosure and Transparency Rules of the Financial Conduct Authority and with IAS 34, "Interim Financial Reporting" as issued by the International Accounting Standards Board ("IASB") and as adopted for use in the UK.

The condensed consolidated half-yearly financial report should be read in conjunction with the annual financial statements for the year ended 30 September 2021, which have been prepared in accordance with IFRS as adopted pursuant to Regulation (EC) No 1606/2002 as it applies in the European Union and IFRS as issued by the IASB.

On 31 December 2020, as a result of the UK's withdrawal from the European Union, IFRS as adopted by the European Union at that date was brought into UK law and became UK-adopted International Accounting Standards, with future changes being subject to endorsement by the UK Endorsement board. With effect from 1 October 2021 the Group's statutory consolidated financial statements were transitioned to UK-adopted International Accounting Standards ("UK-adopted IFRS"). There were no impact or changes in accounting policies from the transition. This change constitutes a change in accounting framework. UK-adopted IFRS differ in certain respects from IFRS as issued by the IASB. The differences have no impact on the Group's condensed consolidated financial statements for the periods presented.

As at 31 March 2022, the Group had a strong liquidity position with cash and available liquidity of £1.2bn, supported by strong underlying cash conversion of 120% reflecting the strength of the subscription-based business model. The Group's position is further supported by a well-diversified customer base amongst small and medium sized businesses with high quality recurring revenue and strong retention rate.

In reaching its assessment on going concern, the Directors have reviewed liquidity and covenant forecasts for the Group for the period to 30 September 2023. Stress testing has been performed with the impact of increases in churn and reduced levels of new customer acquisitions and sales to existing customers being considered. In these stress scenarios, the Group continues to have sufficient resources to continue in operational existence. In the event that more severe impacts occur, further mitigating actions are available to the Group should they be required.

The Directors also reviewed the results of reverse stress testing to provide an illustration of the level of churn which would be required to trigger a breach in the Group's covenants or exhaust cash down to minimum working capital requirements. The probability of these factors occurring is deemed to be remote given the resilient nature of the subscription-based business model, robust balance sheet and continued strong cash conversion.

After making enquiries, the Directors have a reasonable expectation that Sage has adequate resources to continue in operational existence for at least 12 months from the date of signing this condensed consolidated half-yearly financial report. Accordingly, the consolidated financial information has been prepared on a going concern basis.

Accounting policies

The accounting policies adopted are consistent with those of the annual financial statements for the year ended 30 September 2021 as described in those annual financial statements.

Adoption of new and revised IFRSs

There are no new accounting standards which are currently issued but not yet effective which the management expects would have a material impact on the Group.

Critical accounting estimates and judgements

The preparation of financial statements requires the use of accounting estimates and assumptions by management. It also requires management to exercise its judgement in the process of applying the accounting policies. We continually evaluate our estimates, assumptions and judgements based on available information. The areas involving a higher degree of judgement or complexity are described below.

Revenue recognition

Over a third of the Company's revenue is generated from sales to partners rather than end users. The key judgement is determining whether the business partner is a customer of the Group. The key criteria in this determination is whether the business partner has taken control of the product. Considering the nature of Sage's' subscription products and support services, this is usually assessed based on whether the business partner has responsibility for payment, has discretion to set prices, and takes on the risks and rewards of the product from Sage.

Where the business partner is a customer of Sage, discounts are recognised as a deduction from revenue.

Where the business partner is not a customer of Sage and their part in the sale has simply been in the form of a referral, they are remunerated in the form of a commission payment. These payments are treated as contract acquisition costs.

An additional area of judgement is the recognition and deferral of revenue on on-premise subscription offerings, for example the sale of a term licence with an annual maintenance and support contract as part of a subscription contract. In such instances, the transaction price is allocated between the constituent performance obligations on the basis of standalone selling prices (SSPs). Judgement is required when estimating SSPs. The Group has established a hierarchy to identify the SSPs that are used to allocate the transaction price of a customer contract to the performance obligations in the contract. Where SSPs for on-premise offerings are observable and consistent across the customer base, SSP estimates are derived from pricing history. Where there are no directly observable estimates available, comparable products are utilised as a basis of assessment or the residual approach is used. Under the residual approach, the SSP for the offering is estimated to be the total transaction price less the sum of the observable SSPs of other goods or services in the contract. The Group uses this technique in particular for estimating the term licence SSP sold as part of its on-premise subscription offerings as Sage has previously not sold term licences on a stand-alone basis (i.e. the selling price is uncertain).

Goodwill impairment

A key judgement is the ongoing appropriateness of the cash-generating units ("CGUs") for the purpose of impairment testing. CGUs are assessed in the context of the Group's evolving business model, the Sage strategy and the shift to global product development. Management continues to assess performance and allocate resources at a regional level, and so it is appropriate to monitor goodwill at a regional level and CGUs to be based on geographical area of operation.

Management has performed a review for indicators of impairment of goodwill as at 31 March 2022. As a result of this review, no indicators of impairment have been identified.

The carrying value of goodwill and the key assumptions used in performing the annual impairment assessment are disclosed in the 30 September 2021 financial statements.

Business combinations

When the Group completes a business combination, the consideration transferred for the acquisition and the identifiable assets and liabilities are recognised at their fair values. The amounts by which the consideration exceeds the net assets acquired is recognised as goodwill. The application of accounting policies to business combinations involves judgement and the use of estimates.

During the period, the Group acquired the remaining 83% of shares in Brightpearl which constituted a significant business combination. The key areas of judgment include the identification and subsequent measurement of acquired intangible assets. The total fair value of intangible assets (excluding goodwill) acquired was £110m.

The Group engaged an external expert to support the identification and measurement exercise. The intangible assets acquired that qualified for recognition separately from goodwill were technology and customer relationships. The fair value of the acquired technology was determined using the relief from royalty method and the customer relationship was determined using a discounted cashflow approach. These valuation techniques incorporate several key assumptions including revenue forecasts and the application of an appropriate discount rate to state future cash flows at their present value. The relief from royalty method also requires the use of an appropriate royalty rate which was determined with reference to licensing arrangements for similar technologies. Full analysis of the consideration transferred, assets and liabilities acquired, and goodwill recognised in business combinations are set out in note 11.

Judgement was also required in allocating the acquired goodwill to CGUs. Based on the strategic intent and rationale for the acquisition, and the way in which Management intend to monitor the performance of the business going forwards, goodwill has been allocated to the Group's UK & Ireland and North America CGUs.

Amounts recognised for Brightpearl at 31 March 2022 are provisional due to the proximity of the acquisition date to the date of the approval of the condensed consolidated half-yearly financial report, and will be finalised during the coming year.

Website

This condensed consolidated half-yearly financial report for the six months ended 31 March 2022 can also be found on our website: www.sage.com/investors/financial-information/results.

2. Segment information

In accordance with IFRS 8, “Operating Segments”, information for the Group’s operating segments has been derived using the information used by the chief operating decision maker. The Group’s Executive Leadership Team (previously known as the Executive Committee) has been identified as the chief operating decision maker, in accordance with their designated responsibility for the allocation of resources to operating segments and assessing their performance through the Management Performance Reviews. The Executive Leadership Team uses organic and underlying data to monitor business performance. Operating segments are reported in a manner which is consistent with the operating segments produced for internal management reporting.

The Group is organised into seven key operating segments: North America, Northern Europe (UK and Ireland), Central Europe (Germany, Austria and Switzerland), France, Iberia (Spain and Portugal), Africa and the Middle East, and Asia (including Australia). For reporting under IFRS 8, the Group is divided into three reportable segments. These segments are as follows:

- North America
- Northern Europe
- International – Central and Southern Europe (Central Europe, France and Iberia)

The remaining operating segments of Africa and the Middle East, and Asia (including Australia) do not meet the quantitative thresholds for presentation as separate reportable segments under IFRS 8, and so are presented together and described as International – Africa & APAC. They include the Group’s operations in South Africa, the Middle East, Australia, Singapore and Malaysia.

The reportable segments reflect the aggregation of the operating segments for Central Europe, France and Iberia. The aggregated operating segments are considered to share similar economic characteristics because they have similar long-term gross margins and operate in similar markets. Central Europe, France and Iberia operate principally within the EU and the majority of their businesses are in countries within the Euro area.

The revenue analysis in the table below is based on the location of the customer, which is not materially different from the location where the order is received and where the assets are located.

Revenue by segment (Unaudited)

	Statutory £m	Underlying adjustments* £m	Underlying £m	Organic adjustments** £m	Organic £m	Change Statutory %	Change Underlying %	Change Organic %
								Six months ended 31 March 2022
Recurring revenue by segment								
North America	**356**	**1**	**357**	**(2)**	**355**	13%	13%	12%
Northern Europe	**208**	**–**	**208**	**(2)**	**206**	8%	8%	7%
International – Central and Southern Europe	**244**	**–**	**244**	**(4)**	**240**	(7%)	(2%)	4%
International – Africa & APAC	**65**	**–**	**65**	**–**	**65**	(19%)	(18%)	7%
Recurring revenue	**873**	**1**	**874**	**(8)**	**866**	3%	4%	8%
Other revenue by segment								
North America	**20**	**–**	**20**	**–**	**20**	(22%)	(22%)	(22%)
Northern Europe	**4**	**–**	**4**	**–**	**4**	(42%)	(42%)	(42%)
International – Central and Southern Europe	**30**	**–**	**30**	**(1)**	**29**	(31%)	(27%)	(25%)
International – Africa & APAC	**7**	**–**	**7**	**(2)**	**5**	(39%)	(38%)	(11%)
Other revenue	**61**	**–**	**61**	**(3)**	**58**	(30%)	(29%)	(24%)
Total revenue by segment								
North America	**376**	**1**	**377**	**(2)**	**375**	11%	10%	9%
Northern Europe	**212**	**–**	**212**	**(2)**	**210**	6%	7%	5%
International – Central and Southern Europe	**274**	**–**	**274**	**(5)**	**269**	(10%)	(5%)	0%
International – Africa & APAC	**72**	**–**	**72**	**(2)**	**70**	(22%)	(21%)	6%
Total revenue	**934**	**1**	**935**	**(11)**	**924**	0%	1%	5%

* Adjustments are detailed in note 3.

** Adjustments relate to the disposal of the Group's Swiss business and assets held for sale in the current period, as well as the acquisition of Brightpearl (note 11).

Revenue by segment (Unaudited)

	Six months ended 31 March 2021				
	Statutory and Underlying as reported £m	Impact of foreign exchange £m	Underlying £m	Organic adjustments £m	Organic £m
Recurring revenue by segment					
North America	316	2	318	–	318
Northern Europe	192	–	192	–	192
International – Central and Southern Europe	262	(13)	249	(19)	230
International – Africa & APAC	80	(1)	79	(19)	60
Recurring revenue	850	(12)	838	(38)	800
Other revenue by segment					
North America	24	–	24	–	24
Northern Europe	8	–	8	–	8
International – Central and Southern Europe	43	(3)	40	(1)	39
International – Africa & APAC	12	–	12	(6)	6
Other revenue	87	(3)	84	(7)	77
Total revenue by segment					
North America	340	2	342	–	342
Northern Europe	200	–	200	–	200
International – Central and Southern Europe	305	(16)	289	(20)	269
International – Africa & APAC	92	(1)	91	(25)	66
Total revenue	937	(15)	922	(45)	877

* Adjustments relate to the disposal of the Group's Swiss business in the current period and the payroll outsourcing business in South Africa classified as held for sale at 31 March 2022 (note 11), as well as the disposal of the Group's Polish business and Australia and Asia Pacific business (excluding global products) ("Asia Pacific") in the prior financial year.

Operating profit by segment (Unaudited)

	Six months ended 31 March 2022							
	Statutory £m	**Underlying adjustments £m**	**Underlying £m**	**Organic adjustments £m**	**Organic £m**	**Change Statutory %**	**Change Underlying %**	**Change Organic %**
Operating profit by segment								
North America	**59**	**14**	**73**	**–**	**73**	7%	10%	10%
Northern Europe	**34**	**17**	**51**	**2**	**53**	(21%)	(15%)	(12%)
International - Central and Southern Europe	**97**	**(51)**	**46**	**–**	**46**	8%	4%	21%
International - Africa & APAC	**14**	**(1)**	**13**	**(1)**	**12**	(9%)	(25%)	(5%)
Total operating profit	**204**	**(21)**	**183**	**1**	**184**	0%	(3%)	4%

	Six months ended 31 March 2021						
	Statutory £m	Underlying adjustments £m	Underlying as reported £m	Impact of foreign exchange £m	Underlying £m	Organic adjustments £m	Organic £m
Operating profit by segment							
North America	55	11	66	–	66	–	66
Northern Europe	42	19	61	(1)	60	–	60
International - Central and Southern Europe	90	(43)	47	(2)	45	(7)	38
International – Africa & APAC	16	1	17	–	17	(4)	13
Total operating profit	203	(12)	191	(3)	188	(11)	177

Reconciliation of underlying operating profit to statutory operating profit

	Six months ended 31 March 2022 (Unaudited) £m	Six months ended 31 March 2021 (Unaudited) £m
North America	**73**	66
Northern Europe	**51**	60
International – Central and Southern Europe	**46**	45
Total reportable segments	**170**	171
International - Africa & APAC	**13**	17
Underlying operating profit	**183**	188
Impact of movement in foreign currency exchange rates	**–**	3
Underlying operating profit (as reported)	**183**	191
Amortisation of acquired intangible assets	**(18)**	(16)
Adjustment to acquired deferred income	**(1)**	–
Other M&A activity-related items	**(15)**	(9)
Non-recurring items	**55**	37
Statutory operating profit	**204**	203

3. Adjustments between underlying profit and statutory profit (Unaudited)

	Six months ended 31 March 2022 Recurring £m	**Six months ended 31 March 2022 Non-recurring £m**	**Six months ended 31 March 2022 Total £m**	Six months ended 31 March 2021 Recurring £m	Six months ended 31 March 2021 Non-recurring £m	Six months ended 31 March 2021 Total £m
M&A activity-related items						
Amortisation of acquired intangibles	**18**	–	**18**	16	–	16
Gain on disposal of subsidiaries	–	**(49)**	**(49)**	–	(41)	(41)
Adjustment to acquired deferred income	**1**	–	**1**	–	–	–
Other M&A activity-related items	**15**	–	**15**	9	–	9
Other items						
Reversal of restructuring costs	–	**(6)**	**(6)**	–	(5)	(5)
Office relocation	–	–	–	–	9	9
Total adjustments made to operating profit	**34**	**(55)**	**(21)**	25	(37)	(12)
Foreign currency movements on intercompany balances	**1**	–	**1**	–	–	–
Total adjustments made to profit before income tax	**35**	**(55)**	**(20)**	25	(37)	(12)

Recurring items

Acquired intangibles are assets which have previously been recognised as part of business combinations or similar transactions. These assets are predominantly brands, customer relationships and technology rights.

The adjustment to acquired deferred income represents the additional revenue that would have been recorded in the period had deferred income not been reduced as part of the purchase price allocation adjustment made for business combinations.

Other M&A activity-related items relate to advisory, legal, accounting, valuation and other professional or consulting services which are related to M&A activity as well as acquisition-related remuneration, directly attributable integration costs and any required provision for future selling costs for assets held for sale.

Foreign currency movements on intercompany balances of £1m (six months ended 31 March 2021: £nil) occur due to retranslation of unhedged intercompany balances other than those where settlement is not planned or likely in the foreseeable future.

Non-recurring items

Net credit in respect of non-recurring items amounted to £55m (six months ended 31 March 2021: credit of £37m).

The gain on disposal of subsidiaries of £49m relates to the disposal of the Group's Swiss business. Further details can be found in note 11. In the prior period, the £41m net gain on disposal of subsidiaries related to the disposal of the Group's Polish business.

Reversal of restructuring costs of £6m primarily relates to unutilised provisions recognised in the prior financial year following the implementation of a business transformation plan to rebalance investment towards the Group's strategic priorities and simplify the business. The reversal is a result of fewer colleagues leaving the business as they were redeployed into other roles. In the prior period, the £5m reversal of restructuring costs related to unutilised Professional Service provisions created in the financial year FY20.

In the prior period, office relocation costs of £9m relate to the incremental depreciation charge resulting from accelerated depreciation on the UK North Park office in advance of the relocation to Cobalt Business Park.

4. Income tax expense

The effective tax rate on statutory profit before tax was 20% (six months ended 31 March 2021: 23%) whilst the effective tax rate on underlying profit before tax for continuing operations was 24% (six months ended 31 March 2021: 25%). The effective income tax rate represents the best estimate of the Group's average effective income tax rate expected for the full year, applied to the profit before income tax for the six months ended 31 March 2022.

The difference between the underlying and statutory rate for the six months ended 31 March 2022 primarily reflects a non-taxable accounting net gain on disposals. See note 3.

5. Dividends

	Six months ended 31 March 2022 (Unaudited) £m	Six months ended 31 March 2021 (Unaudited) £m	Year ended 30 September 2021 (Audited) £m
Final dividend paid for the year ended 30 September 2020 of 11.32p per share	**–**	124	124
Interim dividend paid for the year ended 30 September 2021 of 6.05p per share	**–**	–	65
Final dividend paid for the year ended 30 September 2021 of 11.63p per share	**119**	–	–
	119	124	189

The interim dividend of 6.3p per share will be paid on 17 June 2022 to shareholders on the register at the close of business on 27 May 2022. The Company's distributable reserves are sufficient to support the payment of this dividend.

6. Earnings per share

Basic earnings per share is calculated by dividing the profit for the period attributable to owners of the parent by the weighted average number of ordinary shares in issue during the period, excluding those held as treasury shares, which are treated as cancelled.

For diluted earnings per share, the weighted average number of ordinary shares in issue is adjusted to assume conversion of all potentially dilutive ordinary shares. The Group has one class of dilutive potential ordinary shares. They are share options granted to employees where the exercise price is less than the average market price of the Company's ordinary shares during the period.

	Underlying Six months ended 31 March 2022 (Unaudited)	Underlying as reported Six months ended 31 March 2021 (Unaudited)	Underlying Six months ended 31 March 2021 (Unaudited)	**Statutory Six months ended 31 March 2022 (Unaudited)**	Statutory Six months ended 31 March 2021 (Unaudited)
Earnings attributable to owners of the parent					
Profit for the period	**129**	133	130	**152**	146
Number of shares (millions)					
Weighted average number of shares	**1,023**	1,094	1,094	**1,023**	1,094
Dilutive effects of shares	**10**	8	8	**10**	8
	1,033	1,102	1,102	**1,033**	1,102
Earnings per share attributable to owners of the parent (pence)					
Basic earnings per share	**12.62**	12.14	11.91	**14.84**	13.29
Diluted earnings per share	**12.49**	12.05	11.82	**14.68**	13.19

Reconciliation of earnings	**Six months ended 31 March 2022 (Unaudited) £m**	Six months ended 31 March 2021 (Unaudited) £m
Underlying earnings attributable to owners of the parent	**129**	130
Impact of movement in foreign currency exchange rates	**–**	3
Underlying earnings attributable to owners of the parent (as reported)	**129**	133
Office relocation	**–**	(9)
Reversal of restructuring costs	**6**	5
Amortisation of acquired intangible assets	**(18)**	(16)
Adjustment to acquired deferred income	**(1)**	–
Foreign currency movements on intercompany balances	**(1)**	–
Other M&A related items	**(15)**	(9)
Gain on disposal of subsidiaries	**49**	41
Taxation on adjustments	**3**	1
Net adjustments	**23**	13
Earnings – statutory profit for period attributable to owners of the parent	**152**	146

7. Non-current assets

	Goodwill (Unaudited) £m	Other intangible assets (Unaudited) £m	Property, plant and equipment (Unaudited) £m	Total (Unaudited) £m
Opening net book amount at 1 October 2021	**1,877**	**190**	**164**	**2,231**
Additions	**–**	**4**	**8**	**12**
Acquisition of subsidiary*	**176**	**110**	**2**	**288**
Depreciation, amortisation and other movements	**–**	**(24)**	**(21)**	**(45)**
Exchange movement	**29**	**1**	**2**	**32**
Closing net book amount at 31 March 2022	**2,082**	**281**	**155**	**2,518**

*Assets acquired as part of the acquisition of Brightpearl. See note 11.

	Goodwill (Unaudited) £m	Other intangible assets (Unaudited) £m	Property, plant and equipment (Unaudited) £m	Total (Unaudited) £m
Opening net book amount at 1 October 2020	1,962	212	173	2,347
Additions	–	8	25	33
Disposal of subsidiary*	(9)	–	–	(9)
Transfer to held for sale**	(4)	–	–	(4)
Depreciation, amortisation and other movements	–	(22)	(27)	(49)
Exchange movement	(106)	(10)	(6)	(122)
Closing net book amount at 31 March 2021	1,843	188	165	2,196

*Finalisation of the sale of the Group's Polish business during the six months ended 31 March 2021.

**Reassessment of goodwill allocated to held for sale during the six months ended 31 March 2021.

Goodwill is not subject to amortisation but is tested for impairment annually and whenever there is any indication of impairment. At 31 March 2022, there were no indicators of impairment to goodwill.

Details of the 2021 goodwill impairment review are provided in the 2021 consolidated financial statements.

8. Financial instruments

For financial assets and liabilities, the carrying amount approximates the fair value of the instruments, with the exception of US senior loan notes, sterling denominated bond notes and bank loans.

The fair value of the sterling denominated bond notes is determined by reference to quoted market prices and therefore can be considered as a level 1 fair value as defined within IFRS 13.

The fair value of US senior loan notes is determined by reference to interest rate movements on the US $ private placement market and therefore can be considered as a level 2 fair value as defined within IFRS 13.

The fair value of bank loans is determined using a discounted cash flow valuation technique calculated at prevailing interest rates, and therefore can be considered as a level 3 fair value as defined within IFRS 13.

The respective book and fair values of bank loans, bond notes and loan notes are included in the table below.

	At 31 March 2022		At 30 September 2021		At 31 March 2021	
	Book Value (Unaudited) £m	**Fair Value (Unaudited) £m**	Book Value (Audited) £m	Fair Value (Audited) £m	Book Value (Unaudited) £m	Fair Value (Unaudited) £m
Long term-borrowings (excluding lease liabilities)	**(1,045)**	**(1,006)**	(667)	(682)	(659)	(674)
Short term-borrowings (excluding lease liabilities)	**(25)**	**(26)**	(47)	(48)	(47)	(48)

9. Ordinary shares and share premium

	Number of shares (Unaudited)	**Ordinary Shares (Unaudited) £m**	**Share premium (Unaudited) £m**	**Total (Unaudited) £m**
At 31 March 2022	**1,100,789,295**	**12**	**548**	**560**
At 1 October 2020, 31 March 2021 and 1 October 2021	1,120,789,295	12	548	560

In the current period, the Group transferred 4,897,923 (six months ended 31 March 2021: 3,776,601) of treasury shares to employees in order to satisfy vested awards.

During the period, the Group bought back a total of 27,979,129 Ordinary shares, held as treasury shares, as part of the non-discretionary share buyback programme entered into on 6 September 2021. In September 2021, 11,868,392 Ordinary shares were purchased under this share buyback programme. Total consideration for this share buyback programme was £300m, of which £249m was paid in the six months ended 31 March 2022.

In the six months ended 31 March 2021, the Group repurchased 8,750,986 Ordinary shares, held as treasury shares as part of the non-discretionary share buyback programme entered into on 4 March 2021. The total consideration for those shares purchased in the prior period amounted to £52m, of which £47m had been paid as at 31 March 2021.

At 31 March 2022 the Group held 82,667,429 (31 March 2021: 32,818,496) treasury shares. In the current period, the Group cancelled 20,000,000 treasury shares which reduced the number of Ordinary shares to 1,100,789,295 at 31 March 2022.

10. Cash flow and net debt

	Six months ended 31 March 2022 (Unaudited) £m	Six months ended 31 March 2021 (Unaudited) £m
Statutory operating profit	**204**	203
Recurring and non-recurring items	**(21)**	(12)
Underlying operating profit (as reported)	**183**	191
Depreciation/amortisation/impairment/profit on disposal of non-current assets/non-cash items	**26**	22
Share-based payments	**16**	16
Net changes in working capital	**3**	58
Net capital expenditure	**(8)**	(32)
Underlying cash flow from operations	**220**	255
Net interest paid	**(14)**	(11)
Income tax paid	**(27)**	(46)
Non-recurring items	**(12)**	(6)
Exchange movement	**–**	(2)
Free cash flow	**167**	190
Net debt at 1 October	**(247)**	(151)
Disposal of subsidiaries or similar transactions, net of cash and lease liabilities disposed	**38**	61
Acquisition of subsidiaries or similar transactions, net of cash acquired. and lease liabilities recognised*	**(223)**	–
Acquisitions and disposals related items	**(14)**	(16)
Purchases of equity investments	**–**	(19)
Proceeds on settlement of non-current asset	**–**	3
Dividends paid to owners of the parent	**(119)**	(124)
Proceeds from issuance of treasury shares	**3**	2
New leases	**(4)**	(4)
Share buyback programme	**(249)**	(47)
Exchange movement	**(3)**	10
Other	**1**	(1)
Net debt at 31 March	**(650)**	(96)

*Includes £13m scheduled cash payment in relation to the prior year acquisition of GoProposal Ltd, for which the consideration was recorded as a liability as at 30 September 2021.

	Six months ended 31 March 2022 (Unaudited) £m	Six months ended 31 March 2021 (Unaudited) £m
Underlying cash flow from operations	**220**	255
Net capital expenditure	**8**	32
Recurring and non-recurring cash items	**(36)**	(22)
Other adjustments including foreign exchange translations	**1**	1
Statutory cash flow from operations	**193**	266

Analysis of change in net debt (inclusive of leases)	At 1 October 2021 £m	**Cash flow £m**	**Acquisition of subsidiary £m**	**Disposal of subsidiary £m**	**Non-cash movement £m**	**Exchange movement £m**	**At 31 March 2022 (Unaudited) £m**
Cash and cash equivalents	553	**(53)**	**11**	**–**	**–**	**4**	**515**
Cash amounts included in held for sale	14	**–**	**–**	**(14)**	**–**	**–**	**–**
Cash, cash equivalents and bank overdrafts including cash as held for sale	567	**(53)**	**11**	**(14)**	**–**	**4**	**515**
Liabilities arising from financing activities							
Loans due within one year	(47)	**46**	**–**	**–**	**(25)**	**1**	**(25)**
Loans due after more than one year	(667)	**(396)**	**–**	**–**	**25**	**(7)**	**(1,045)**
Lease liabilities due within one year	(18)	**9**	**–**	**–**	**(8)**	**–**	**(17)**
Lease liabilities after more than one year	(82)	**–**	**–**	**–**	**4**	**–**	**(78)**
Lease liabilities included in held for sale	–	**–**	**–**	**1**	**–**	**(1)**	**–**
	(814)	**(341)**	**–**	**1**	**(4)**	**(7)**	**(1,165)**
Total	(247)	**(394)**	**11**	**(13)**	**(4)**	**(3)**	**(650)**

The Group's debt is sourced from a syndicated multi-currency Revolving Credit Facility ("RCF"), US private placements ("USPP"), and sterling denominated bond notes ("bond notes").

The Group's RCF expires in February 2025 with facility levels of £682m (US$719m and £135m tranches). At 31 March 2022, £nil (31 March 2021: £nil) of the multi-currency revolving debt facility was drawn. During the period, £120m was drawn down from the GBP tranche of the RCF, and subsequently repaid.

Total USPP loan notes at 31 March 2022 were £330m (US$400m and EUR€30m) (31 March 2021: £362m, US$400m and EUR€85m).

In February 2022, the Group issued bond notes for a nominal amount of £400m with an expiry date of February 2034. Net cash proceeds from the issuance were £396m.

During the prior period, the Group issued bond notes for a nominal amount of £350m with an expiry date of February 2031. Net cash proceeds from the issuance were £344m.

11. Acquisitions and disposals

Acquisitions made during the period

On 17 January 2022, the Group obtained control of Brightpearl Limited ("Brightpearl") by acquiring the remaining share capital for cash consideration of £221m, bringing the Group's ownership interest to 100%. In January 2021, the Group had acquired a 17% minority interest in Brightpearl for £17m.

Brightpearl was acquired to deliver retail operations management capabilities and provides a cloud native multichannel retail management system for the retail and ecommerce vertical, helping to accelerate the Group's strategy for growth.

Summary of acquisition	Total (Unaudited) £m
Cash consideration	221
Fair value of previously held minority interest	47
Acquisition-date fair value of consideration	**268**
Provisional fair value of identifiable net assets	(92)
Goodwill	**176**

The fair value of the previously held minority interest has been included in the determination of goodwill, with the gain on revaluation of £30m recognised in other comprehensive income in line with Sage's accounting policy.

Provisional fair value of identifiable net assets acquired	Total (Unaudited) £m
Intangible assets	110
Deferred income	(4)
Deferred tax liability	(20)
Other net assets	6
Provisional fair value of identifiable net assets acquired	**92**
Goodwill	176
Total consideration	**268**

In line with IFRS 3, the initial accounting for the acquisition of Brightpearl is provisional. Adjustments to provisional amounts (notably fair value adjustments) will be made within the permitted measurement period where they reflect new information obtained about facts and circumstances that were in existence at the acquisition date. It is expected that the acquisition accounting will be finalised by 30 September 2022.

A summary of acquired intangible assets is set out below:

Acquired intangible assets	**Valuation (Unaudited) £m**	Useful economic life (years)
Customer relationships	35	9 to 15
Technology	75	8
Acquired intangible assets	**110**	

Acquired goodwill of £176m comprises the fair value of the acquired control premium, workforce in place and the expected synergies. The goodwill has been allocated to the Group's geographic CGUs where the underlying benefit arising from the acquisition is expected to be realised. This is predominantly within the UK & Ireland and North America regions. No goodwill is expected to be deductible for tax purposes.

The outflow of cash and cash equivalents on the acquisition is as follows:

	Total (Unaudited) £m
Cash consideration	(221)
Cash and cash equivalent acquired	11
Net cash outflow	**(210)**

Costs of £5m relating to the acquisition have been included in selling and administrative expenses classified as other M&A activity-related items within recurring adjustments between underlying and statutory results. These costs relate to advisory, legal and other professional services. See note 3.

Arrangements have been put in place for retention payments to remunerate employees of Brightpearl for future services. The costs of these arrangements will be recognised in future periods over the retention period. The amount recognised to date of £3m is included in selling and administrative expenses in the consolidated income statement as other M&A activity-related items.

The consolidated income statement includes revenue of £4m and loss after tax of £5m reported by Brightpearl for the period since the acquisition date. The loss after tax includes £3m of acquisition related costs.

The revenue of the Group would have increased by £8m and profit after tax would have decreased by £16m if Brightpearl had been acquired at the start of the financial year and included in the Group for the six months ended 31 March 2022. The loss after tax includes £10m of acquisition related costs.

Disposals and discontinued operations

Disposals made during the period

On 30 November 2021, the Group completed the sale of its Swiss business for gross consideration of £54m. The business was held for sale at 31 March 2021 and 30 September 2021. The gain on disposal is calculated as follows:

	Total (Unaudited) £m
Cash consideration	54
Gross consideration	**54**
Transaction costs	(3)
Net consideration	**51**
Net assets disposed	(15)
Cumulative foreign exchange differences reclassified from other comprehensive income to the income statement	13
Gain on disposal	**49**

Net assets disposed comprise:

	Total (Unaudited) £m
Goodwill	10
Property, plant and equipment	2
Customer acquisition costs	1
Trade and other receivables	1
Cash and cash equivalents	14
Total assets	**28**
Trade and other payables	(3)
Current income tax liabilities	(1)
Borrowings	(1)
Post-employment benefits	(2)
Deferred income	(6)
Total liabilities	**(13)**
Net assets	**15**

The gain on disposal of £49m is reported within continuing operations, as a non-recurring adjustment between underlying and statutory results.

Prior to the disposal, the Swiss business formed part of the Group's International – Central and Southern Europe reporting segment.

The net inflow of cash and cash equivalents on the disposal is calculated as follows:

	Total (Unaudited) £m
Cash consideration	54
Transaction costs	(3)
Net consideration received	**51**
Cash disposed	(14)
Inflow of cash and cash equivalents on disposal	**37**

During the six-month period ended 31 March 2021, the Group completed the sale of its Polish business. Net assets divested were £19m, and the transactions resulted in a net gain on disposal of £41m.

Discontinued operations and assets and liabilities held for sale

The Group had no discontinued operations during the six-month periods ended 31 March 2022 or 31 March 2021.

Assets held for sale at 31 March 2022 of £2m include one disposal group comprising the Group's payroll outsourcing business in South Africa, with a net book value of £2m. This business was subsequently sold on 4 April 2022.

Assets and liabilities held for sale at 30 September 2021 included the disposal group identified above, as well as the disposal group comprising the Group's businesses in Switzerland and the Group's North Park property in the UK. The Swiss business disposal group has been sold during the current period as discussed above. The sale of the Group's North park property completed in October 2021. No gain was recognised on disposal as the assets were sold for their residual value.

Assets and liabilities held for sale at 31 March 2021 included the two disposal groups identified above, as well as the Group's Australia and Asia Pacific business (excluding global products) ("Asia Pacific") which was subsequently sold in the previous year.

12. Related party transactions

The Group's related parties are its subsidiary undertakings and its key management personnel, which comprises the Group's Executive Leadership Team members and the Non-executive Directors. Transactions and outstanding balances between the parent and its subsidiaries within the Group, and between those subsidiaries, have been eliminated on consolidation and are not disclosed in this note.

Key management compensation	**Six months ended 31 March 2022 (Unaudited) £m**	Six months ended 31 March 2021 (Unaudited) £m
Salaries and short-term employee benefits	**5**	4
Post-employment benefits	**–**	–
Share-based payments	**2**	1
	7	5

Key management personnel are deemed to be members of the Executive Leadership Team (previously known as the Executive Committee), as defined in the Group's Annual Report and Accounts 2021 and the Non-executive Directors. Since the signing of the Group's Annual Report and Accounts 2021, the following changes to the Executive Leadership Team have taken place:

- Walid Abu-Hadba, in his role as Chief Product Officer, has been appointed to the Executive Leadership Team, with effect from 1 January 2022;
- Aziz Benmalek, in his role as Interim President – North America, has been appointed to the Executive Leadership Team with effect from 1 March 2022;
- Amy Lawson, in her role as Chief Corporate Affairs Officer, has been appointed to the Executive Leadership Team, with effect from 1 March 2022;
- Derk Bleeker remains on the Executive Leadership Team, in a new role as President – Europe Middle East Africa (EMEA), with effect from 1 March 2022;
- Lee Perkins has left his role as Chief Operating Officer, with effect from 31 March 2022; and
- Sue Goble has retired from her role as Chief Customer Success officer, with effect from 31 March 2022.

There have been no other changes to the composition of the Executive Leadership Team.

13. Events after the balance sheet date

On 12 May 2022, the Group acquired a 100% controlling interest in Futrli Limited ("Futrli"). Total cash consideration for the acquisition is £20m, comprising both upfront and deferred consideration. Because the acquisition occurred subsequent to 31 March 2022, the results of Futrli are not included in our financial statements for the six months ended 31 March 2022. Due to the timing of the acquisition, the acquisition accounting has not yet been completed.

Managing Risk

Through our risk process, Sage is able to effectively manage our strategic, operational, commercial, compliance, change and emerging risks. This helps us to deliver our strategic objectives and goals through risk informed decisions. The Board's role is to maintain oversight of the key principal and business risks, together with ensuring that the appropriate committees are managing the risks effectively. Additionally, the Board reviews the effectiveness of our risk management approach and challenges our leaders to articulate their risk management strategies.

Sage continually assesses its principal risks to ensure alignment to our strategy and consideration of where Sage is currently on its journey to transforming into a digital business.

By monitoring risk and performance indicators related to this strategy, principal risk owners focus on those metrics that signal current performance, as well as any emerging risks and issues. The principal risks reflect our five strategic priorities. The management and mitigation actions described below reflect the principal risks and build on those actions previously reported in our FY21 Annual Report.

PRINCIPAL RISK	**RISK CONTEXT**	**MANAGEMENT AND MITIGATION**
Understanding Customer Needs	**Improving Risk Environment**	
If we fail to anticipate, understand and deliver against the capabilities and experiences our current and future customers need in a timely manner, they will find alternative solution providers. *Strategic alignment:* Expand medium beyond financials. Build the small business engine. Learn and disrupt.	As Sage continues to transform its business and brand, understanding of how to attract customers whilst retaining its existing customers and migrating those who are ready to move to the cloud is essential. This requires a deep and continuous flow of insights supported by processes and systems. By understanding the needs of our customers, Sage will differentiate itself from competitors, build compelling value propositions and offers, leverage key drivers to identify opportunities, influence product and process roadmaps, decrease churn and drive more effective revenue generation.	• Brand health surveys to provide an understanding of customer perception of the Sage brand and its products, used to inform and enhance our market offerings. • A Market and Competitive Intelligence team to provide insights that Sage uses to win in the market. • Utilisation of customer activity and churn data, to understand their appetite for products and features. • Master repository of customer MI by region and by product which supports the identification of trends such as time in product, seasonal trends and usage. • Customer Advisory Boards, Customer Design Sessions and NPS detractor call-back channels are used to constantly gather information on customer needs.
Execution of Product Strategy	**Improving Risk Environment**	
If we fail to deliver the capabilities and experiences outlined in our product strategy in a timely manner, we will not meet the needs of our customers or our commercial goals. *Strategic alignment:* Scaling Sage Intacct. Build the small business engine. Scale the network. Learn and disrupt. Expand medium beyond financials.	We need to execute, in a sound and methodical manner at pace, a prioritised product strategy that continues to simplify our product portfolio, focuses on strategic cloud-native offerings, and builds innovative and differentiated capabilities and solutions.	• Refined product strategy in line with our FY22 strategic objectives and ambitions, based on our market understanding and customer expectations. • New product organisation and governance model to improve the way we build and launch products. • A migration framework in key countries to support our customers in their journey to the cloud. • Sage Intacct is now available in the UK, Australia and South Africa as part of our internationalisation programme. • Improved proposition for Accountants, including the acquisition of GoProposal.

PRINCIPAL RISK	RISK CONTEXT	MANAGEMENT AND MITIGATION
		• Improved proposition for the retail and wholesale sector, through the acquisition of Brightpearl. • Enhanced governance and planning framework aligned to market objectives. • Strengthened product design governance to ensure product development is always driven by our understanding of our ability to penetrate key markets.
Innovation	**Stable Risk Environment**	
If we fail to identify and leverage disruptive technologies and invest in modern development practices and tools in a timely manner, we will not meet the needs of our customers or our commercial goals. *Strategic alignment:* Learn and disrupt.	We must be able to rapidly deploy new innovations to our customers and partners by introducing technologies, services, or new ways of working. Innovation requires us to address how we drive change and transformation across our people, processes and technology, and how we differentiate our products and drive customer efficiencies.	• Continued focus on Artificial Intelligence (AI)/ Machine Learning development, coupled with a drive to improve how to exploit data to provide better management insight to our customers. • Leveraging Sage ID and the Sage Business Cloud to deliver a unified and highly personalised experience for each customer across the entirety of the customer experience and Sage Digital Network. • Enhanced, consistent digital experience for all Sage Business Cloud users through the Sage Design System. • Objectives integrated into the planning of each segment and region to drive AI Transformation, Sage Business Cloud adoption and innovation of product features based on identified needs of customers. • Strategic acquisition and collaboration with partners to complement and enable accelerated innovation. • Focused colleague engagement to accelerate innovation across the organisation through a Continuous Innovation Community.
Route to Market	**Stable Risk Environment**	
If we fail to deliver a bespoke blend of route to market channels in each country, based upon common components, we will not be able to efficiently deliver the right capabilities and experiences to our current and future customers. *Strategic alignment:* Scale Sage Intacct. Build the small business network.	We have a blend of channels to communicate with our current and potential customers and ensure our customers receive the right information on the right products and services at the right time. Our sales channels include selling directly to customers through digital and telephony channels, via our accountant network and through partners, valued added resellers (VARs) and Independent Software Vendors (ISVs). We use these channels to maximise our marketing and customer engagement activities. This can shorten our sales cycle	• Market data and intelligence is used to support decision regarding the best routes to market. • Dedicated colleagues are in place to support partners, and to help manage the growth of targeted channels. • Sale processes are targeted and configured by region for key customer segments and verticals. • Sage.com has been enhanced to provide clearer user journeys to enable customer conversion. • Onboarding of new partners to support acceleration in Cloud Native product utilisation.

PRINCIPAL RISK	RISK CONTEXT	MANAGEMENT AND MITIGATION
Scale the network.	and ensure that customer retention is improved.	• New routes to market are being opened through partnerships with payment and banking technology providers. • Centre of Excellence created to support our Indirect Sales and Third-Party approach.
Customer Success	**Stable Risk Environment**	
If we fail to effectively identify and deliver ongoing value to our customers by focusing on their needs over the lifetime of their customer journey, we will not be able to achieve sustainable growth through renewal. *Strategic alignment:* Scale Sage Intacct. Expand medium beyond financials. Build the small business engine. Learn and disrupt.	We must maintain a sharp focus on the relationships we have with our customers, constantly focusing on delivering the products, services and experiences our customers need to be successful. If we do not do this, they will likely find another provider who does give them these things. Conversely, if we do these things well these customers will stay with Sage, increasing their lifetime value, becoming our greatest marketing advocates. Whilst Sage is known for its quality customer support, this area requires constant, proactive focus. By helping customers to recognise and fully realise the value of Sage's products we can help increase the value of these relationships over time and reduce the likelihood of customer loss. By aligning our people, processes and technology with this focus in mind, all Sage colleagues can help support our customers to be successful and in turn drive increased financial performance.	• Battlecards for key products in all countries, setting out the strengths and weaknesses of competitors and their products. • A data-driven Customer Success Framework to enhance the customer experience and ensure that Sage is better positioned to meet the current and future needs of the customer. • Customer Journey mapping and mapping of the five core customer processes to ensure appropriate strategy alignment and alignment to target operating model. • 'Customer for life' roadmaps, detailing how products fit together, any interdependencies, and migration pathways for current and potential customers. • Continuous Net Promoter Score (NPS) surveying allows Sage to identify customer challenges rapidly and respond in a timely manner to emerging trends. • A specialised Procurement function supports the business with the selection of strategic third-party suppliers and negotiation of contracts.
Third Party Reliance	**Stable Risk Environment**	
If we do not embed our partners as an integral and aligned part of Sage's go-to-market strategy in a timely manner, we will fail to deliver the right capabilities and experiences to our customers. *Strategic alignment:* Scale Sage Intacct. Build the small business engine. Scale the network.	Sage places reliance on third-party providers to support the delivery of our products to our customers through the provision of cloud native products. Sage also has an extensive network of sales partners critical to our success in the market, and suppliers upon whom it places reliance. Any interruption in these services or relationships could have a profound impact on Sage's reputation in the market and could result in significant financial liabilities and losses.	• Centre of Excellence for our Indirect Sales and Third-Party Partners. • Dedicated colleagues in place to support partners, and to help manage the growth of targeted channels. • Standardised implementation plans for Sage products that facilitate efficient partner implementation. • Managed growth of the API estate, including enhanced product development that enables access by third-party API developers. • Enhanced third-party management framework, to support closer alignment and oversight of third-party activities.

PRINCIPAL RISK	RISK CONTEXT	MANAGEMENT AND MITIGATION
People and Performance	**Stable Risk Environment**	
If we fail to ensure we have engaged colleagues with the critical skills, capabilities and capacity we need to deliver on our strategy, we will not be successful. *Strategic alignment:* Scale Sage Intacct. Expand medium beyond financials. Build the small business engine. Scale the network. Learn and disrupt.	As we evolve our priorities, the capacity, knowledge and leadership skills we need will continue to change. Sage will not only need to attract the talent and experience we will need to help navigate this change, we will also need to provide an environment where colleagues can develop to meet these new expectations, an environment where everyone can perform at their very best. By empowering colleagues and leaders to make decisions, be innovative, and be bold in delivering on our commitments, Sage will be able to create an attractive working environment. By addressing drivers of colleague voluntary attrition, and embracing the values of successful technology companies, Sage can increase colleague engagement and create an aligned high performing team.	• Extensive focus on hiring channels to ensure we are attractive in the market through our enhanced employee value proposition, enhanced presence through social media such as Glassdoor, Comparably, Twitter, LinkedIn, and Facebook. • Hiring practices focused on the skills we need in balance with organisational costs, supported by a methodology for upskilling and building capability in the long term from within the organisation. • Reward mechanisms designed to incentivise and drive the right behaviour with a focus on ensuring fair and equitable pay in all markets. • Focused development of our leaders to ensure they create the environment which enables colleagues to thrive and perform at their very best. • Placing colleagues (and customers) at the heart of our response to the Covid-19 pandemic, including the availability of 'Headspace', our 'Always Listening' portal and 'Your Voice' Hub.
Culture	**Improving Risk Environment**	
If we do not fully empower our colleagues and enable them to take accountability in line with our shared Values and Behaviours, we will be challenged to maintain a culture that meets Sage's business ambitions. *Strategic alignment:* Scale Sage Intacct. Expand medium beyond financials. Build the small business engine. Scale the network. Learn and disrupt.	The development of a shared behavioural competency that encourages colleagues to always do the right thing, put customers at the heart of business and drive innovation is critical in Sage's success. Devolution of decision making, and the acceptance of accountability for these decisions, will need to go hand in hand as the organisation develops and sustains its shared Values and Behaviours, and fosters a culture that provides customers a rich digital environment. Sage will also need to create a culture of empowered leaders that supports the development of ideas, and that provides colleagues with a safe environment that allows for honest disclosures and discussions. Such a trusting and empowered environment can help sustain innovation, enhance customer success and drive the engagement	• Integration of Values and Behaviours into all colleague priorities including talent attraction, selection, onboarding as well as performance management. • All colleagues are actively encouraged to take up to five paid Sage Foundation days each year, to support charities and provide philanthropic support to the community. • Six commitments to diversity, equity and inclusion (DEI) including zero tolerance to discrimination, equal chance to everyone, inclusive culture, removing barriers, DEI education, and a DEI strategy to ensure we deliver on our commitments. • A three-year DEI strategy focuses on building diverse teams, an equitable culture, and fostering inclusive leadership. This strategy is supported by measurable plans and metrics to track progress. • Code of Conduct communicated to all colleagues, and subject to certification every two years. • Core eLearning modules rolled out across Sage, with annual refresher training.

PRINCIPAL RISK	RISK CONTEXT	MANAGEMENT AND MITIGATION
	that results in increased market share.	• Whistleblowing and Incident Reporting mechanisms in place to allow issues to be formally reported and investigated
Cyber Security and Data Privacy	**Improving Risk Environment**	
If we fail to responsibly collect, process and store data, together with ensuring an appropriate standard of cyber security across the business, we will not meet our regulatory obligations, and will lose the trust of our stakeholders. *Strategic alignment*: Scale Sage Intacct. Build the small business engine. Scale the network.	Information is the life blood of a digital business – protecting the confidentiality, integrity and accessibility of this data is table stakes for a data--riven business, and failure to do so can have significant financial and regulatory consequences in the General Data Protection Regulation (GDPR) era. In addition, we also need to use our data efficiently and effectively to drive improved business performance.	• Multi-year cyber security programmes in IT and products to ensure Sage is driving continuous improvement and cyber risk reduction across technology, business processes and culture. • Accountability within both IT and Product for all internal and external data being processed by Sage. The Chief Information Security Officer oversees information security, with a network of Information Security Officers that directly support the business. • The Chief Data Protection Officer oversees information protection. • Formal certification schemes maintained, across the business, and include internal and external validation of compliance. • All colleagues are required to undertake awareness training for information management and data protection, with a focus on the GDPR requirements. • An Information Security Risk Management Methodology is deployed to provide objective risk information on our assets and systems.
Data Strategy	**Stable Risk Environment**	
If we fail to identify, maximise and utilise the value of our data and customer data in a timely manner in accordance with our data principles, we will not be able to realise the full potential of our assets. *Strategic alignment*: Scale Sage Intacct. Build the small business engine. Scale the network. Learn and disrupt.	Data is central to the Sage strategy to deliver our ambition of a digital network. The strategy is underpinned by our ability to innovate and develop solutions to enhance customer propositions, improve insight and decision making and create new business models and ecosystems. Successful ability to use data will accelerate our growth and will be a key driver in helping customers transform how they run and build their businesses.	• Data strategy across customer, product, and enterprise data to support the delivery of customer value and solve customer problems, including the use of enhanced Artificial Intelligence / Machine Learning capabilities. • Global data function created to drive focus and alignment across the organisation. • Focus on developing Sage ID and Service Fabric to enable better data accuracy and insight. • Plan to increase digital network participation, which will contribute to more data to support the delivery of real customer value and solve real customer problems. • Customer consent service deployed to manage compliant usage of data assets. • Governance policies, processes and tooling to enhance and manage the quality and consistency of our data.

PRINCIPAL RISK	RISK CONTEXT	MANAGEMENT AND MITIGATION
Live Services Management	**Stable Risk Environment**	
If we fail to maintain a reliable, scalable and secure live services environments, we will be unable to deliver the consistent cloud experience expected by our customers. *Strategic alignment:* Scale Sage Intacct. Build the small business engine. Scale the network.	As Sage transitions to a digital company, we continue to focus on scaling our current and future platform services environment in a robust, agile, and speedy manner to ensure the delivery of a consistent and robust cloud platform and associated digital network. Sage must provide the right infrastructure and operations for all of our customer products, a hosting platform together with the governance to ensure optimal service availability, performance, security protection and restoration (if required).	• Accountability across product owners, underpinned by ongoing risk assessments and continuous improvement projects. • Formal onboarding process including ongoing management in Portfolio Management processes. • Incident and problem management change processes adhered to for all products and services. • Service level objectives including uptime, responsiveness, and mean time to repair objectives. • An established forum for continuous assessment and refinement. • Defined Real Time Demand Management processes and controls and a Disaster Recovery Capability and operational resilience models. • A governance framework to optimise operational cost base in line with key metrics.
Environmental, Social and Governance	**Stable Risk Environment**	
If we fail to fully and continually respond to the range of environmental, social and governance related opportunities and risks we may fail to deliver positive change to social and environmental issues and damage the confidence of our stakeholders. *Strategic alignment:* Build the small business engine. Learn and disrupt.	We are committed to investing in education, technology, and the environment to give individuals, small and medium businesses (SMBs), and our planet the opportunity to thrive. Our goal is to use our technology, time and experience to back a generation of diverse, sustainable businesses. The potential benefits of investing in our ESG strategy include: • Increased customer engagement. • Better use of resources, for example lower energy and water consumption and associated costs. • Enhanced stakeholder trust. • Improved ability to attract and retain talent, enabling colleagues to perform at their best. • Stronger community relations.	• Sage's Sustainability and Society Strategy was launched in 2021, focusing on three pillars: Tech for Good, Fuel for Business, Protect the Planet. • Underpinning the strategy is a robust cross-functional governance framework. • Tracking tools in place to enable horizon scanning and to track the Sustainability and Society Strategy's impact. • The Sage Foundation, established in 2015, remains focused on the areas of education, employment, and entrepreneurship via the contribution of time, investment, and capability. • Multiple projects designed to respond to specific ESG risks, for example, a project focused on TCFD readiness including risk and opportunities mapping and climate scenario analysis. • Further detail on the mitigation of this risk is described in our separate Sustainability and Society Report, available at: www.sage.com/en-gb/company/sustainability-and-society.

Statement of Directors' Responsibilities

The condensed consolidated half-yearly financial report for the six months ended 31 March 2022 includes the following responsibility statement.

Each of the Directors confirms that, to the best of their knowledge:

- the Group consolidated condensed financial statements, which have been prepared in accordance with IAS34, "Interim Financial Reporting" as adopted by the UK and as issued by the IASB, give a true and fair view of the assets, liabilities, financial position and profit of the Group; and
- the Directors' report includes a fair review of the development and performance of the business and the position of the Group, together with a description of the principal risks and uncertainties that it faces.

The Directors also confirm that the Interim Management Report herein includes a fair review of information required by 4.2.8R of the DTR (Disclosure and Transparency Rules).

The Directors of The Sage Group plc are consistent with those listed in the Group's 2021 Annual Report and Accounts. A list of current directors is maintained on the Group's website: www.sage.com.

On behalf of the Board

J Howell

Chief Financial Officer

12 May 2022

Independent review report to The Sage Group plc

Introduction

We have been engaged by the Company to review the condensed set of financial statements in the half-yearly financial report for the six months ended 31 March 2022 which comprises Consolidated income statement, Consolidated statement of comprehensive income, Consolidated balance sheet, Consolidated statement of changes in equity, Consolidated statement of cash flows and the related explanatory notes 1 to 13. We have read the other information contained in the half yearly financial report and considered whether it contains any apparent misstatements or material inconsistencies with the information in the condensed set of financial statements.

Based on our review, nothing has come to our attention that causes us to believe that the condensed set of financial statements in the half-yearly financial report for the six months ended 31 March 2022 is not prepared, in all material respects, in accordance with UK adopted International Accounting Standard 34 and the Disclosure Guidance and Transparency Rules of the United Kingdom's Financial Conduct Authority.

Basis for Conclusion

We conducted our review in accordance with International Standard on Review Engagements 2410 (UK and Ireland) "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Auditing Practices Board. A review of interim financial information consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing (UK) and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

As disclosed in note 1, the annual financial statements of the Group will be prepared in accordance with UK adopted international accounting standards. The condensed set of financial statements included in this half-yearly financial report has been prepared in accordance with UK adopted International Accounting Standard 34, "Interim Financial Reporting".

Responsibilities of the directors

The directors are responsible for preparing the half-yearly financial report in accordance with the Disclosure Guidance and Transparency Rules of the United Kingdom's Financial Conduct Authority

Auditor's Responsibilities for the review of the financial information

In reviewing the half-yearly report, we are responsible for expressing to the Company a conclusion on the condensed set of financial statements in the half-yearly financial report. Our conclusion is based on procedures that are less extensive than audit procedures, as described in the Basis for Conclusion paragraph of this report.

Use of our report

This report is made solely to the company in accordance with guidance contained in International Standard on Review Engagements 2410 (UK and Ireland) "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Auditing Practices Board. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company, for our work, for this report, or for the conclusions we have formed.

Ernst & Young LLP
London
12 May 2022

Notes: **[1]** The maintenance and integrity of the Sage Group plc web site is the responsibility of the directors; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the financial information since it was initially presented on the web site. **[2]** Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.