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SGE.L - Q1 2017 Sage Group PLC Trading Statement Call

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PRESENTATION

Operator

Good day, and welcome to the Sage Q1 trading update conference call. (Operator Instructions). Today's conference is being recorded.

At this time, I'd like to turn the conference over to Mr. Steve Hare. Please go ahead, sir.

Steve Hare - *The Sage Group plc - CFO*

Thank you very much, Sylvia. And welcome, everyone, to the Sage Q1 FY17 trading update. I'm going to start by making a few introductory comments and then obviously we'll move to Q&A.

As we've disclosed in the trading statement, the Q1 Group organic revenue increased by 5.1%. Excluding the US payments business, this growth was 5.9%. As we've previously disclosed, we're evaluating options for the US payments business, including a potential sale, and we will give further details in due course.

Recurring revenue grew by 9.6%, driven by software subscription growth of 31%. And the number of software subscription contracts now stands at 1.1 million.

Software and software-related services' revenue declined by 10%, reflecting the continued planned migration to subscription.

In our guidance for the current year, which we gave in November, at the time of the FY16 full-year results, we indicated progress would be non-linear and that we anticipated stronger second-half growth with accelerating momentum as we exit FY17 and continuing into FY18. Q1 highlights this non-linear performance.

Of our nine major geographies, which generate 95% of our revenue, seven of these are performing in line with or exceeding our plans. But we have called out challenges in France and to a lesser degree in the US.

In the case of the US, the execution of the Customer for Life strategy, led by our Sage 50 cloud products, continued to work well, and we are also seeing early traction through the partner channel with both Sage 100 C and 300 C. The slight decline in US payments was not entirely unexpected, and Nancy Harris, who previously led the Canadian business, which, by the way, is trading very strongly, is driving a greater focus in her role as interim North American President.

In the case of France, the main dynamic is a steeper decline in SSRS due in part to the delay in training revenue caused by a slippage in the deadline for compliance with social security legislation. This is expected to normalize for the year as a whole. This total reduction in services in France year on year has been about GBP2 million, of which half was due to the slippage in training for the compliance with social security legislation.

For the year as a whole, new product launches in France, particularly Sage 100 C, is expected to support an accelerated revenue growth in the second half.

As we look to the rest of FY17, we are confident that we are building the momentum throughout the year. We are already seeing signs of encouraging growth in January, particularly in the partner channel; and we announced yesterday the launch of a range of Cloud Accounting products which will help to continue to drive new customer acquisition.

We remain highly confident that we will achieve the guidance of at least 6% organic revenue growth and at least 27% organic operating margin for FY17.

So that's the summary of Q1. And now I'd like to open for questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions). James Goodman, Barclays.

James Goodman - *Barclays - Analyst*

I was wondering, first, if you might elaborate a little bit on the rationale behind the December announcement that you're considering options for the US payments business. Is that simply that the business is not able to contribute to the Group performance or -- certainly at the guidance level? Or is it that you've changed your thinking somewhat around the way payments sits with your accounting and payroll businesses? That was the first question.

And then just a quick follow-up was on Sage Live, if you could give us some qualitative comments around Sage Live: how the reception has been to the product; if people are choosing that instead of Sage 50 at all; and your optimism around that product. An update there would be great. Thank you.

Steve Hare - *The Sage Group plc - CFO*

So on payments, I think the first thing to say is we remain completely committed to the golden triangle. So as far as customers are concerned, offering them movement of money services is a very important part of what we offer as part of the solution we give them.

The reason we're doing the review is that we only really offer payments today in three countries: North America, the UK and Ireland and South Africa. So we don't really, across our major geographies, offer movement of money services.

I think secondly, we don't believe it's necessarily the case that to offer those movement of money services that we need to own the platform as such and that's really what we're assessing. Would we be better off partnering in what is a very innovative space as opposed to owning the delivery of the processing itself?

At the end of the day, the North American payments business is, at its heart, a merchant acquirer and whilst the part of the business that's integrated into Sage software makes some sense, there's also a significant part of the business which is just acquiring customers who only take payment services. And whilst we've been successful with some cross selling, we think that we could equally achieve that potentially if we partner with somebody.

So whilst we haven't made a final decision, I think that's -- at its heart, the rationale is not challenging whether we remain in payments, it's simply what's the best way of delivering the service to our customers.

As far as Sage Live is concerned, at the quarterly updates we don't give detailed numbers on the different product lines. But I think we're seeing good reception for Sage Live, both in terms of end customers but also in terms of the practice management that we offer to accountants.

So we're seeing both the partner and accountant channel and also the digital channel really starting to get some strong traction and, obviously, at the half year, we've give much fuller details.

In terms of the positioning of Sage Live versus Sage 50, Sage Live is positioned at a price point somewhat above Sage 50. So, typically, we're selling Sage Live for a price point around GBP200 a month; whereas Sage 50 tends to be somewhere around GBP50 to GBP75 a month.

James Goodman - *Barclays - Analyst*

Thanks, Steve.

Operator

Charles Brennan, Credit Suisse.

Charles Brennan - *Credit Suisse - Analyst*

I've got two actually. Firstly, can I just come back on the US payments business and the possibility of a disposal? I guess that kind of transaction's going to be earnings dilutive in isolation. What are your plans and what are your thought processes around offsetting that dilution? Are you intending to return the cash or maybe keep it for future M&A?

And then the second one is just on the technology road map. A lot of your competitors seem to be talking more and more about tighter integration with banks and financial services partners and leveraging their business relationships with offering financial services to their customers. Where is the Sage thinking on that initiative? Thanks.

Steve Hare - *The Sage Group plc - CFO*

So yes, on the US payments, the current -- our thinking is that if we do sell the business, we would retain any proceeds for suitable bolt-on acquisitions. Obviously, that relies on us identifying suitable bolt-on acquisitions, but we do have a pipeline of things that we're looking at. So our working assumption would be that we will reinvest to drive future growth.

In terms of your technology question, yes, absolutely, I think this is a wider question really around the whole ecosystem of how you work with both financial institutions but also governments in terms of driving things like tax digitalization, and how you embed a more integrated product offering to customers.

We are working on those initiatives and, actually, yesterday, we announced internally the appointment of a new Executive Vice President to head up, actually, banking and payments globally and the person who's doing that is Seamus Smith who is also the Head of the UK Sage Pay business.

So I think that appointment of a senior person to focus on banking and payments exclusively for the Company demonstrates that it is very high up our agenda.

Charles Brennan - *Credit Suisse - Analyst*

And just one quick follow-up actually. Do you think that UK payments can credibly stand on its own without the critical mass of the R&D that's supported by the US business?

Steve Hare - *The Sage Group plc - CFO*

Well, I think again, as part of the -- although we've called out that we're doing this review for the North American -- or for the US payments business, we're obviously reviewing it more widely. And as I said, I think what we've ultimately got to decide is what is the best way, across all our major geographies, to deliver our customers the movement of money services.

And Seamus, as part of both his new role and also, his role running the Sage Pay, we will make sure that we take what we're learning from our US review and apply that globally and then we'll make the appropriate decisions to be able to support our customers in the best way possible.

Charles Brennan - *Credit Suisse - Analyst*

Great, thanks.

Operator

Michael Briest, UBS.

Michael Briest - *UBS - Analyst*

Steve, are you basically then saying that all of the payment assets are under review? Is that what I should take from your last answer?

Then just on the French business, I'm a bit confused whether there's an issue there with the pace of regulations being implemented or the product being ready and, therefore, the training revenues coming in.

And then just finally, on the organic growth target, clearly, if you sell the North American business, it will no longer be part of organic growth and I think the margins are below Group average. You are saying that you would hit the 6% with the payments business still part of Sage?

Steve Hare - *The Sage Group plc - CFO*

So to take those in order, yes, on the payments, as I say, although the primary purpose of the review was to assess our footprint in the US, we have extended that to considering how we best offer our payment or movement of money payment receipts and also payments out across all our major geographies. And Seamus, in his new role, is assisting with that review.

So we are looking not just in North America, but more generally. But I would emphasize, we haven't made a decision and it is not necessarily the case that if we sell the North American payments business, that we would immediately sell the other payments businesses. All we're saying is it is under review and we will make a decision based on what we think optimizes our ability to deliver those services to our customers.

On the French business, yes, no, our training was ready to be delivered, but there is some legislation to do with small/medium-sized businesses complying with some social security legislation, which they're just being given. It's being phased out over a longer period of time.

We had originally assumed we would deliver all this training in Q1, whereas actually what's going to happen is it will be delivered progressively throughout the year. That's about half the shortfall in the services revenue in France.

I do believe that -- I think Q2 for France will be a bit better but I don't think it's all going to come through in Q2. But I think by the time we get into the second half, that will have normalized itself and therefore will not be an impact for the year.

Then in terms of the guidance, look, I think the way to think about it is our guidance clearly included the North American payments business. So when I say we will hit 6% and 27%, we will hit that including the North American payments business.

If we sell the North American payments business, we will obviously disclose to you the impact that that has. And we will obviously therefore revise the guidance according.

From a revenue growth perspective, the assumptions we'd made around the North American payment business was that it would be slightly dilutive to Group growth. Now at the moment it's obviously being a bit more than slightly dilutive, but the assumption was that it would be slightly dilutive. And it does make slightly below-average margins as well. But we'll give you full disclosure, should we decide to sell the business.

Michael Briest - *UBS - Analyst*

Thank you.

Operator

Amit Harchandani, Citigroup.

Amit Harchandani - *Citi - Analyst*

Firstly, Steve, if I may, just going back to the topic of margin -- actually two questions. Firstly on the margin, could you maybe at this stage give us a sense about how you are thinking about margins, exiting second half of this year. And in that context, maybe talk a little bit about the restructuring plan as well.

Secondly, some incremental clarity around new customer acquisitions and how that is likely to shape up into the second half of the year, particularly when it comes to the subscription dynamic. Thank you.

Steve Hare - *The Sage Group plc - CFO*

On the margin, I'm confident with how the cost savings are progressing. We said at the full-year results in November that we anticipated cost savings at least at the level that we'd seen in FY16. We're pretty confident at this stage that we'll probably do a bit better than that.

Just to cap any concerns around the exceptional charge, the exceptional charge for FY17 will definitely not be any higher than it was in FY16, and to be honest, probably a little bit lower. But it definitely will not exceed what we had in FY16.

To repeat, for this restructuring or for this transitional period, FY17 will be the last year that we will have an exceptional charge. Beyond that, it will all be built into OpEx.

What that means is as we exit the second half, structurally, the margins will be superior to the 27%. The only question, as always, is how much do we reinvest back into the business, and particularly into marketing? At this point in time, our guidance remains 27% for the year as a whole.

We've said that the first half we'll be front-loading the investments. You can expect that the first-half margin will not be at 27%; it'll be below that. So we're going to be exiting the second half at something in the high 20s-%.

If you look at last year, actually in Q4 we made a margin in excess of 30%. And we're probably going to be in a similar sort of territory this year. Then it'll be a case of assessing whether we do need to reinvest all of that back into the business, or whether there's an opportunity to start delivering an increased margin.

We'll give a fuller update at the half year, when we see where we are. Then both from a revenue growth and from a margin point of view, we'll give you a bit more granularity around how we see the second half playing out.

Then on new customer acquisition, I think both on -- in terms of the Customer for Life, I think Sage 50 C integrated into Office 365, which we've announced. I mentioned earlier Sage 100 C in France. I think in the Customer for Life, we're going to see in the installed base increasing growth rate supported by those products introductions.

I think on the cloud side, we've also announced in the last couple of days both Sage One and Sage Live going into new countries. I think that's very significant, strategically, that our Cloud products are now available in a wider range of countries, particularly non-English-speaking countries.

From a materiality point of view in H2, probably not going to have a significant impact as they'll be in the early stages of ramp-up. But I do think those cloud product launches are very relevant in terms of supporting the growth in FY18, where we'll really start to see particularly Sage Live kicking in and making a material difference to the growth.

Amit Harchandani - *Citi - Analyst*

Thank you, Steve.

Operator

David Toms, Numis.

David Toms - *Numis Securities - Analyst*

Couple from me. Just on payments, in the interests of balance, you've given us a lot of reasons on this call and previous calls as to why it might not make sense to own the North American payments business and that's now extended to, potentially, the other payments businesses.

Can you just flip the coin over and tell us what reasons you might have to keep the business because I'm not sure we've heard very many of those in the last year or so?

Then just secondly on a different topic, seasonality for the year. Can you give us a little bit more of a steer of how you might expect seasonality to evolve? You're at least 6%. Do you think you'll still get there for the first half, which was the implication when we spoke back at the full-year results, or do you think you're relying on a better second half to pick up the slack for the first half?

Steve Hare - *The Sage Group plc - CFO*

On the payments, I think the reason, potentially, to keep the payments businesses is whether we think, ultimately, we can offer a more integrated service, if it's within our control. I.e., is it easier for us to integrate and embed movement in the in-and-out services if we have more control over our destiny, if you like? And is it easier to cross-sell if you have it in-house, rather than partner?

And then I suppose the final thing is if you decide to sell the business, are there the appropriate partnerships that you can tie into, which give you the ability to offer the services that you want to to your customers in a way that is as robust as it would be if you own it? The advantages of owning anything is you're more in control of your own destiny. You're obviously more in control of the money you make and the margin and so on and so forth.

So there's two parts to it. There's the commercial economics, what makes most sense commercially. And then, crucially, what makes most sense in terms of our ability to offer the golden triangle integrated solution to our customers.

Because it is a very important part of the subscription model that we are able to offer easy-to-consume accounting, payroll HCM and movement of money services. And you have to balance your priorities and your resources and your core competencies and skills in terms of do you need to own all three of those and have ownership of the technology? Or are there others that you can partner with and do they have better technology? And that's really what it comes down to.

In terms of seasonality, yes, I think, as I said before, if you exclude France -- because really North America is more about the payments dilution. If you exclude France, the rest of the countries are pretty much on track and, in fact, I think six out of the nine are already growing above 6%. And, with the exception of France, the others, from where I sit today, look as though they will also be on track for the first half.

So I think we'll be there or thereabouts for the 6% at the first half. It will definitely be an improvement on where we are in Q1. And I think we'll be there or thereabouts for the 6%. And I think we'll also be there or thereabouts for the double-digit recurring revenue, which has obviously just dipped slightly under double digit.

But we still have 31% subscription growth in the first quarter, which remains very strong when you consider that that growth is really coming from the installed base.

As I was commenting earlier to Amit's question, I think as we get into the second half and particularly as we get into FY18, we're going to start to see a greater impact from the new customer acquisition. And that should give an additional boost, both to the subscription growth but also the recurring revenue growth.

So I think in summary, there or thereabouts in H1. We'll update when we do the H1 results in terms of how we see H2. But we've always said that we see the potential to accelerate into the second half to create the sort of momentum that we've planned for to give a stronger FY18.

David Toms - *Numis Securities - Analyst*

Thank you very much.

Operator

Vijay Anand, Mirabaud.

Vijay Anand - *Mirabaud Securities - Analyst*

I just had a clarification on the second-half acceleration in growth. Are there any particular legislations that we should be aware of? Or is all of the acceleration going to be driven by new customer acquisitions?

Steve Hare - *The Sage Group plc - CFO*

It's two things really. It is starting to see some impact from new customer acquisition. But it's also because we're continuing to upgrade the products that we have within our installed base, so both Sage 50 cloud products but also the Sage 200 family, so Sage 100, Sage 200, Sage 300.

And also I haven't really touched on X3, but also we're seeing increasing traction with X3. So across the board, we're starting to see things working. So in a number of the countries, they already have the pipeline to support accelerated growth into the second half.

But from a materiality point of view, the vast majority of the dollars are still going to come from the installed base in the second half. I think we'll be able to point to evidence that the new customer acquisition is starting to work. And then I think in FY18, you'll really see the new customer acquisition starting to have a more material impact on the revenue growth itself.

Vijay Anand - *Mirabaud Securities - Analyst*

Got it, thanks.

Operator

George O'Connor, Stifel.

George O'Connor - *Stifel - Analyst*

Two quickies from me. First of all, for any view on intra-quarter progression? And I guess I'm really asking there any disappointment in December?

And then secondly, can you give us any color in terms of the substitution effect on X3, i.e., customers from on-premise moving to cloud and the subscription contracts they might be signing?

Steve Hare - *The Sage Group plc - CFO*

In terms of the intra-quarter, I think in my opening comments I referred to the fact that we're seeing already a stronger January. I think December is never our strongest month, partly because in the southern hemisphere the latter half of December is summer holidays and in the northern hemisphere, it's the Christmas holidays.

And so that final one week to two weeks in December is never the strongest anyway. So I think apart from that, no particular unusual activity in Q1. But we're definitely seeing a stronger start to Q2.

In terms of X3, in most of our geographies, we continue to sell X3 on perpetual license. There are some parts of the world, mainly in international, where we're getting some early traction around subscription but it's relatively modest.

And then I think the other thing I would say about X3 is the majority of our growth in X3 tends to be acquiring new customers. We do have some migration to X3 from other Sage products, but it's the exception rather than the norm. So the way to think about X3 is that it is primarily a new customer acquisition tool and we are now in the market with our version 11, cloud version of X3. And so we're optimistic as we move through the year that that will be another helpful driver to continue the X3 growth.

George O'Connor - *Stifel - Analyst*

Thank you.

Operator

Paul Morland, Canaccord Genuity.

Paul Morland - *Canaccord Genuity - Analyst*

A couple of things from me. Just following up on the X3; so I had thought that, as the cloud version was sold of X3, then the revenues from that product would move from being in SSRS into the subscription line. So that's not the case yet, because I thought that was the explanation for the acceleration in decline in SSRS, because the X3 was moving out of that and into recurring revenues; is that not the case?

Steve Hare - *The Sage Group plc - CFO*

Well, the first thing is we've only just launched the cloud version, so we haven't actually sold any in this -- in Q1 we haven't sold any cloud X3. When we do sell cloud, absolutely we will lead with subscription. But we've yet to see what the mix will be between people wanting to retain on-prem and people going pure cloud. Because at the moment with X3, essentially the majority of our customers remain, well they are on-premise customers, so we have to wait and see what the traction for that cloud version looks like. But as I say, in Q1 it wasn't available.

Paul Morland - *Canaccord Genuity - Analyst*

I thought edition 10 was released in August, but anyway I'll send an email on that. But recurring revenue, this is the other question; it was up 10.1% in the first three quarters of last year, and 10.4% for the year, and I think that implies that it was up 11.3% in Q4. There was no acceleration in software subscription in Q4 last year, which suggests that it was the support and maintenance that caused that jump in recurring revenues in Q4 last year; is that right?

Steve Hare - *The Sage Group plc - CFO*

Yes, so in the latter half of last year, the software subscription growth was a little bit higher; I think it was about 34% or 35%, whereas in this quarter it's 31%. But you're absolutely right; the biggest swing is the maintenance and support.

And again this is something that differs significantly by geography. So in six of the nine major geographies, we have double-digit recurring revenue growth. The two countries where we have the lowest actually is France and North America, but for different reasons.

So France has the highest penetration of subscription of any of our countries, because it was one of the first countries to start to migrate to subscription. I refer to the Sage 100 C upgrade as being something which will be a catalyst in the second half for France to recover that growth.

North America is different. I've said before North America historically the growth came from upselling their maintenance and support base, and we have a very high penetration in North America of people on the top tier of maintenance and support. So in North America, or the US more specifically, what we're focused on now is migrating the installed base to subscription, but we're migrating them from a higher level of maintenance and support than anywhere else in any other geography.

So as a result, as we migrate them to subscription, we're having to work harder to give them the additional benefits of why to move to subscription, i.e., there needs to be product enhancement, because we can't offer them service enhancement because they're already at the top end of the tier.

So we're very focused on both North America and France to get their recurring revenue growth back to where it needs to be. But on an overall Group basis, we're very confident that, for the year as a whole, we will be into double-digit growth, back into double-digit growth territory for recurring revenue.

Paul Morland - *Canaccord Genuity - Analyst*

Okay, thanks. I'm sorry if I missed it at the beginning, but did you say what the 5.1% would have been ex the North American payments?

Steve Hare - *The Sage Group plc - CFO*

Yes, if you take North American payments out, it would be 5.9%.

Paul Morland - *Canaccord Genuity - Analyst*

Okay, lovely. Thanks.

Operator

(Operator Instructions). Steven Goulden, Deutsche Bank Research.

Steven Goulden - *Deutsche Bank Research - Analyst*

Three questions from me. Firstly just to touch on X3; so obviously in the full year you did 18% organic in X3, and I just wondered what was behind that, and why that business has been growing so well, so what your views are going forward.

Secondly, just in terms of converting your license and your maintenance users to subscriptions, can you give us any feel for how much legs there is really in that in-store base conversion and how long you expect that to go on for?

And thirdly, we touched on the maintenance revenue before but that has held up very well even though licenses have been falling off quite significantly over the last few years. Can you give us any feel for what the make-up of that maintenance revenue is and why that's been holding up so well? Maybe there's some pricing in that.

Steve Hare - *The Sage Group plc - CFO*

So X3, the big driver really is that it has a lot more focus. It was historically a very strong -- always been a very strong business in France. That's where the product originally came from.

In the early part of Stephen Kelly's tenure, the French business wasn't really growing, partly because the previous management team had had a cap on the size of deal that they wanted. So we didn't really pursue deals more than about 500 employees.

We've taken that away now; that's not the proxy that we should be using for suitability of the product. So the French business, which is about half the total X3 revenue, about half is in France; that business is now growing quite strongly, so well into the teens.

Also we've hired additional sales people in a number of markets, particularly in the UK and particularly in North America, and that's now starting to have an impact. International is also a very strong market, Africa, Middle East. And so we see X3 continuing to be a significant contributor to our overall growth. And indeed in Q1 it continued to grow at similar levels to what it did last year.

As far as the switched license to subscription, it varies by geography. So we only have two of the top nine countries where subscription is in excess of or around half of the revenue, and that's France and South Africa.

So to give you an idea, even in the UK where we've been pretty successful migrating the Sage 50 base through to subscription, we still only have about one-third or so, just under one-third of the revenue coming from subscription. In North America it's actually less than 10% of the revenue that comes from subscription.

So there's quite a lot of legs left in terms of migrating the installed base to subscription, and I think I've said previously that that can continue to give us very strong growth coming from the installed base probably for the next 12, 18 months.

But during that period of time, and as I've already indicated, we need to see really, in the second half and as we go into FY18, we need to see the new customer acquisition also kicking in to give us that additional lift in growth.

And then obviously ultimately the Customer for Life growth may start to ease back as we get to higher levels of subscription penetration.

As far at the maintenance and support is concerned, yes, our renewal rates have been gently increasing across the board, both as we switch to subscription but also our maintenance and support contracts tend to -- that the renewal rates are tending to go up.

Now the reason for that is that we continue to invest and support our on-premise products. We've always said we give all of our customers choice. We don't force them to migrate away from their on-premise products.

But obviously if you want us to support you, you need to be on a maintenance and support contract. So, particularly with payroll for example, if you want to be up to date with the latest tax tables and all that, you need to be on a maintenance and support contract.

So we are fully committed to supporting our customers and fully committed to supporting our installed base of on premise products, but we are encouraging all our customers to be on plan so that we can give them that support.

Then in some areas in the older products, we have put through some price rises on those maintenance and support contracts because obviously on the older products the cost of support is a little bit higher.

So at the moment if you look at the total number of contracts, total number of people on contracts, it's about 50/50 between subscription and maintenance and support by contract count. But actually by revenue, maintenance and support remains about 60% of the total recurring revenue. So by value we've still got more of a skew into the maintenance and support, which again gives you an idea of the level of the opportunity to continue to migrate to subscription.

Steven Goulden - *Deutsche Bank Research - Analyst*

Great, thanks a lot.

Operator

(Operator Instructions). Michael Briest, UBS.

Michael Briest - *UBS - Analyst*

Just a couple of clarifications. In terms of the payments business in the UK and South Africa, am I right to think it's about GBP40 million, GBP45 million of revenues?

And on X3, is that now primarily a direct sales and implementation model, because traditionally Sage has been seen more as a reseller driven model in the mid-market? I'm just wondering how you manage any conflict with channel partners; if they have the right to resell X3, how do you stop them competing against the Sage direct sales person?

Steve Hare - *The Sage Group plc - CFO*

So in terms of processing revenue, just to give you the number for Q1, our total processing revenue for Q1 was just a shade under GBP50 million for the quarter. And of that about, what is it, about 75% of that is the North American business. So you've got about, just over GBP10 million, a bit more than GBP10 million in the quarter that's non-North American payments.

And don't forget within that, within processing, it's not just payments, there's also some payroll processing in there, but your numbers are pretty close, Michael.

And then, sorry what was the second -- the second question was around X3 and partner channel. We continued -- the partner channel is a very important part of our go-to-market for X3. So yes, we have our own professional services people but we tend to position our professional services people as being the premium support and in most installations we would be working with a partner to do that installation.

It would not be the norm for Sage to lead on a totally integrated solution which we deliver to the customer wholly ourselves with no partner involvement; that would be very unusual. So we have a strategy of working very much in conjunction with and supporting the channel and that's true of all the countries in which we operate.

Now the amount that we support that with our own professional services does differ a bit throughout the world, depending on how things have developed over time. And we are, in order to drive the growth, adding more sales people to support both the channel but also to drive leads directly ourselves. But even where we drive those leads as I say, we nearly always involve a partner and bring a partner in to assist with the installation.

Michael Briest - *UBS - Analyst*

Okay.

Steve Hare - *The Sage Group plc - CFO*

Thank you. I think probably just time maybe for one final question, Sylvia.

Operator

There are no further questions over the queue at this time.

Steve Hare - *The Sage Group plc - CFO*

Okay, great. Well in that case I'll wrap the call up. Thanks very much everyone for attending the call and we look forward to updating you in early May when we talk to you about the half-year results. Thanks very much.

Operator

Thank you, ladies and gentlemen, that will conclude today's Sage Q1 trading update call. Thank you for your participation, you may now disconnect.