Operator
Good day, and welcome to the Sage Q3 trading update conference call. 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 - Sage Group PLC - CFO
Thank you very much. And welcome, everyone, to the call. I’m speaking you today from Sage Summit here in Chicago. So, I’d like to start by thanking everyone for accommodating the different time. But, we wanted to hold today’s call at the time that works for people on both sides of the Atlantic.

This is a trading update which I would put very much into the category of in line, with actually very little to highlight. But, I will just pull out a few things from the statement, the organic revenue growth year to date of over 6%, recurring revenue growth year to date of over 10%, and again underpinned by 33% subscription growth, so all three of those very much in line with what we’ve reported in the first half and in previous quarters.

Likewise, processing revenue growth continued to be in line with our expectations. And from a geographical perspective, all three regions continued to show momentum with an improved performance from international in the third quarter.

We’re maintaining full-year guidance and delivering at least 6% organic revenue growth and 27% organic operating margin. And the transformation remains on track.

We don’t see any material impacts from Brexit. We have -- we will continue to monitor that and very conscious of the various revised growth forecasts that are around at the moment. But, from our perspective, we’re not seeing any impact.

Actually, I will just read my quote because I think it’s a good summary of how we see things and the momentum that we see going into Q4 and beyond. So, the performance for the year to date demonstrates sustained momentum. And I think that’s a key word, momentum. And we are encouraged by the continued double-digit growth in our high-quality recurring revenue.

Our business transformation remains on track, and we’re focused on its execution, whilst continuing to deliver on our commitments to shareholders, customers, and the communities we serve. We take great confidence in the resilience of our strategy and our business model to deliver sustainable and high-quality growth.

So, that’s the summary there, the highlights. And I’d now like to open up for questions.
QUESTIONS AND ANSWERS

Operator
(Operator Instructions). David Toms, Numis Securities.

David Toms - Numis Securities - Analyst

Hi, Steve. Thanks for taking the questions. Just a quick one on potential impact of changes in global growth. There's not been a period in the last 15 years where Sage has accelerated when European GDP growth has fallen. So, if European GDP growth does fall and takes Sage with it, what kind of actions do you have up your sleeve that you could take that would mitigate out the impact?

Steve Hare - Sage Group PLC - CFO

Yes, thanks, David. I think, first of all, I think, compared to where we've been in the past, I do think our business model is more resilient. I think we have a high proportion of recurring revenue. And I think the breadth of what we're selling to our customers, particularly through subscription, is greater.

I think the area where potentially you could see the first impact would be in the enterprise market. Traditionally, in the enterprise market, customers can take longer to make decisions where there's uncertainty. People can defer decisions around migrating or upgrading. So, a good example would be, say, 300 customers thinking of migrating to X3 might just decide to delay that decision.

So, we're keeping a very close eye on the pipeline, looking to -- for leading indicators in case that happens. As everyone's aware, we're very focused on making our cost structure more efficient, taking cost out of G&A, which we are reinvesting into sales and marketing. So, if we saw our growth slowing due to economic impact, we could protect the bottom line by just making choices about how we allocate cost savings and slowing down investment if we thought that was appropriate.

But, I must emphasize that, at this point in time, we don't see that. We don't see any evidence of any impact, but we will monitor the leading indicators.

David Toms - Numis Securities - Analyst

Great. Thank you very much.

Steve Hare - Sage Group PLC - CFO

Thanks, David.

Operator

James Goodman, Barclays.
James Goodman - Barclays - Analyst

Yes, thanks, Steve. The growth in the third quarter, 6%, it was 6.6% in the first quarter I think, and the second quarter clearly had the tough Malaysian comp. Is there anything we should consider in this quarter in terms of comparatives or anything out of the ordinary, or was it just slightly slower than at the beginning of the year?

And if I could ask something on the product side as well, we’ve talked a lot about Sage Live in the past. I imagine you’re talking about it a lot at the Summit as well. Can you give us an update on how the launch of that product has gone? Thanks.

Steve Hare - Sage Group PLC - CFO

Sure. So, if we start with Q3, no, look, we’re talking pretty small decimal point percentages here. I think the key thing I would point to is the recurring revenue growth continues to be strong, continues to be double digit, and continues to be underpinned by software subscription revenue, not the 30%. So, I think that’s all on track.

And on a quarter-by-quarter basis, we are going to see different levels of SSRS. We flagged at the half year SSRS is now declining as we really push hard to the shift or subscription, so nothing in Q3.

On the product side, Sage Live, yes, we’re fully live with paying customers, both in the UK and the US. We’ve been launching new versions every month. And we’ve here in Sage Summit talked about some further enhancements, particularly also in terms of how we’re partnering with other applications providers to give an integrated -- a greater integrated offering around Sage Live.

So, we’re very pleased with progress. We haven’t created any sort of customers numbers, but I can say we have live customers. We’re now looking at launches into other countries. And we’ll give a more wholesome update at the year end.

James Goodman - Barclays - Analyst

Okay. Thank you.

Steve Hare - Sage Group PLC - CFO

Thanks, James.

Operator

Stacy Pollard, JPMorgan.

Stacy Pollard - JPMorgan - Analyst

Hi, thank you. Can I just touch on something, the Sage Integration Cloud, and how we can think about this from a financial perspective? Do we think -- is there something additive here? Do you think it will help drive cross-selling? And then which countries has it been launched in?

And then a second one is sort of standard, is can you just talk about the pricing and competitive environment? I doubt that you have many changes quarter to quarter, but always interested to see if you’re seeing anybody move in or out of your home market, the UK, or other markets where you’re competitive.
Steve Hare - Sage Group PLC - CFO

Yes, so, I think Sage Integration Cloud, which we announced today at Summit, I think the way to think about it from a financial point of view is that -- is exactly -- it should help drive greater integration and greater cross-sell.

In terms of whether we monetize it direct, I wouldn’t be building any material revenues into the model for the Integration Cloud per se. I think it’s the cross-sell that is the exciting opportunity. And actually, it’s very similar with the bot. For anybody who was watching, we’ve launched this bot interface called Pegg, which is a similar thing.

What it’s trying to do is change the way you’re able to bring what you’re using together and improve the usability and customer experience. And I think, what you’ll see us doing is using those things in order to drive an improved customer experience and drive greater cross-sell and integration, rather than monetizing these interfaces in isolation.

And then on the pricing and competition, we haven’t really seen any changes since we updated at the half year. Obviously, there’s -- most of our customers -- we have some customers who trade across border and, therefore, ultimately are going to be affected by changes in exchange rate, weakness of sterling, etc.

And that -- we -- that could ultimately I guess start to have an impact in terms of, for example, some of the dynamics with our US competitors. But, at this point in time and in the quarter that we’re talking about, we haven’t seen any changes.

Stacy Pollard - JPMorgan - Analyst

Great. Thanks.

Steve Hare - Sage Group PLC - CFO

Thanks, Stacy.

Operator

Milan Radia, Jefferies.

Milan Radia - Jefferies - Analyst

Thanks very much. Just thinking about the cost-reduction program, assuming you’re on track to deliver the GBP50 million of savings for the full year, how should we think about margin trajectory over the next two or three years?

You said in the comments here [there’s something] to be in the -- some of the heavy lifting in terms of the customer business centers and digital marketing investment seems to be out of the way. And there’s also repeated emphasis on doing more with reallocation of resources rather than necessarily spending more.

So, the GBP50 million seems to point to some sort of margin expansion trend, perhaps even from next year onwards. Would that be fair?
**Steve Hare - Sage Group PLC - CFO**

So, Milan, I admire your aspiration to get me to open up in terms of longer-term margin trajectory. But, the cost reduction, yes, is on track. I said at the half year, I can see the route to the GBP50 million of saving. And then I think I've said before, I think in terms of longer-term kind of structural -- the cost structure, the business is clearly capable of making a margin higher than 27%.

But, at the moment, we've said that, during the transitional period, we want to reserve the right to reinvest those savings to ensure that we're building that capability to -- for the business to grow more quickly.

And you I'm sure forgive me in a trading update for declining to be drawn in terms of exactly when that timescale might be. But, it's clearly a possibility at some point in the future.

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**Milan Radia - Jefferies - Analyst**

Fair enough. And just one follow up on license sales. So, within the SSRS decline, how did X3 fair in the period? Is it still trending on sort of double-digit blended growth rates?

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**Steve Hare - Sage Group PLC - CFO**

Yes, X3, yes, is still trending double digit. And most of the X3 sales remain on perpetual license. We do have some X3 on subscription. But, the majority is licensed. And yes, it is growing, continuing to grow double digit.

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**Milan Radia - Jefferies - Analyst**

Perfect. Thanks very much.

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**Steve Hare - Sage Group PLC - CFO**

Thanks, Milan.

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**Operator**

Vijay Anand, Mirabaud Securities.

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**Vijay Anand - Mirabaud Securities - Analyst**

Hi, Steve. I have two questions. My first question is also on G&A, unfortunately. With the cost savings coming from the second half, looks like G&A will reduce by 300 basis points this fiscal year from 19% of sales to 16%. 16% still looks quite high to me relative to peers. So, I was wondering if you could give us your thoughts about how you think about G&A and whether there might be another efficiency program as we think about 2017.

And linked to that, obviously, there are some product headlines coming out of Summit. So, I wondered if you could share the current thought process on product innovation and whether 10% of sales is still the right level for R&D. And I'll follow up.

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**Steve Hare - Sage Group PLC - CFO**

Sure. So, on G&A, I would completely agree that your numbers are about right. 16% remains too high. Obviously, the savings that we've secured in G&A have been somewhat backend loaded. So, we have a trajectory to get below 16% anyway.
I think, longer term, we should be somewhere closer to the kind of low double digit. I can see that probably in 2017, we may be somewhere more around 13%, 14%. And then we will continue to keep very focused on our efficiency. I don’t see that as an endpoint. I see it as a journey.

So, I see no reason, ultimately, why our G&A shouldn’t be somewhere close to 10%. Whether we get it absolute to 10%, we’ll see, but that sort of order.

And then on Summit and product innovation, yes, we’ve been announcing a number of innovative things that we’ve been doing in the Sage Labs. At the moment, we still think that around 10% is the right number.

We have over 2,500 engineers. And we’re very focused on making sure that they’re working on those products and technology innovation that allows us to both serve our existing customers and continuing to give them an upgrade path on their existing products whilst, at the same time, producing the next generation of Cloud products. And at the moment, we think we have sufficient resources to do that.

If we at any point think that’s not the case, then you -- we reserve the right, obviously, to allocate some of our additional investment into technology if we think that’s more appropriate than putting it into sales and marketing. But, at the moment, we don’t feel that that’s something we need to do.

Vijay Anand - Mirabaud Securities - Analyst

Great. Understood. And secondly, on the EU referendum, clearly, you’re saying you don’t expect a material impact on the business. However, I wondered if you could talk about perhaps some of the opportunities that this might create, as presumably things like accounting regulations, VAT rules, etc., are likely to change once the exit is finalized.

And historically, you’ve used such changes to expand your subscription base. So, perhaps some high-level thoughts on the medium-term implications for Sage.

Steve Hare - Sage Group PLC - CFO

Yes, I think the good news is that Sage has deep domain knowledge when it comes to accounting and payroll in all of the major European countries, including the UK, obviously, France, Germany, Spain, etc.

And so, I think, wherever we end up, from a regulatory perspective, we will be well placed to respond to that. And we will continue to use our innovation to help our customers simplify and deal with those, like all regulations. And the degree to which the UK kind of diverges away or has more unique regulations, it is likely compared to our competitors that we will be better placed to deal with that.

So, you could see that coming through as an opportunity. You could also see some of our UK customers who are exporters benefiting from the weaker sterling. But, I think, if you take it in the round, nobody really knows because nobody really -- we don’t know what trade deals will be struck. We don’t know what the environment will look like.

And I think, going back to some of the earlier questions, the key thing we need really is people need to understand or have certainty about what’s going to happen. And then they can deal with it. And so, the worst thing for business is a lack of business confidence because of uncertainty. And what we’re -- we remain hopeful, and we’re very confident in our own business model being very resilient.

But, we’re looking for similar leadership across governments, across financial services, etc., because we can’t predict -- if the banks stop lending and suddenly small, medium businesses can’t access capital, then we’re obviously not immune from that. Likewise, if credit is -- remains available and confidence remains stable, then I think we’re well placed to continue to benefit and continue to grow.

So, I think we’ve got probably time for one more question.
Operator
George O'Connor, Panmure.

George O'Connor - Panmure - Analyst
Good evening from Panmure. I missed the start of the call, Steve. I just wondered. Did you give the Sage One customer count?

Steve Hare - Sage Group PLC - CFO
I didn’t, George, no.

George O'Connor - Panmure - Analyst
Okie-dokie. Did you talk about revenue phasing in the quarter, anything different than usual?

Steve Hare - Sage Group PLC - CFO
Yes, no, it was -- I described it as a sort of pretty normal, in-line quarter with not very much to highlight.

George O'Connor - Panmure - Analyst
Okay. Did you talk at all about the bookings, given the strength in the subscription revenue?

Steve Hare - Sage Group PLC - CFO
I didn’t, no.

George O'Connor - Panmure - Analyst
Okay. I guess we can pick it up at Q4 then.

Steve Hare - Sage Group PLC - CFO
Sure. Yes, obviously, this is -- in a trading update, we tend to give less detail. And then obviously, at the year end, we’ll give a fuller update.

George O'Connor - Panmure - Analyst
Good stuff. I’ll let you run, literally.

Steve Hare - Sage Group PLC - CFO
Excellent. Well, good to speak to you, George. Thanks for your question.
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George O’Connor - Panmure - Analyst
Good stuff. Okie-dokie. Thank you.

Operator
There are no further questions. That will conclude today's conference call. Thank you for your participation, ladies and gentlemen. You may now disconnect.