

Trading update for the nine months ended 30 June 2020

The Sage Group plc (the “Group”) is today issuing its trading update for the nine months ended 30 June 2020.

Financial performance

Organic ¹ Revenue Mix	Q3 20 YTD	Q3 19 YTD	Growth YTD	
	£m	£m	£m	%
Revenue by Category				
Recurring Revenue	£1,247m	£1,144m	+£103m	+9.0%
Other Revenue (SSRS ² & Processing)	£148m	£196m	-£48m	-24.2%
Organic Total Revenue	£1,395m	£1,340m	+£55m	+4.1%
Portfolio View of Recurring Revenue				
Future Sage Business Cloud Opportunity	£1,105m	£999m	+£106m	+10.6%
Non-Sage Business Cloud	£142m	£145m	-£3m	-2.0%
Recurring Revenue	£1,247m	£1,144m	+£103m	+9.0%

Recurring revenue for the first nine months of the year increased by 9.0% to £1,247m, underpinned by software subscription growth of 22.6% to £885m (Q3 19 YTD: £722m), as Sage continued to focus on migrating existing customers and attracting new customers to Sage Business Cloud.

Recurring revenue growth was driven principally by North America and Northern Europe (UK and Ireland). In North America, recurring revenue grew by 11.3% to £474m (Q3 19 YTD: £426m), driven by cloud connected solutions and continued growth in Sage Intacct. In Northern Europe, recurring revenue grew by 10.6% to £281m (Q3 19 YTD: £254m), reflecting new cloud connected contracts together with good momentum carried into the period.

In terms of the portfolio view of recurring revenue, the Future Sage Business Cloud Opportunity (products within, or to be migrated to, Sage Business Cloud) delivered growth of 10.6% to £1,105m, offset by a decrease of 2.0% to £142m in products with no current path to Sage Business Cloud.

In the third quarter, recurring revenue grew by 6.5% to £421m (Q3 19: £395m), reflecting a resilient performance against the background of more challenging trading conditions due to COVID-19. While this led to a reduction in new customer acquisition and a slight increase in customer churn, our trading performance gradually improved as the quarter progressed.

Other revenue (SSRS and processing) reduced by 24.2% to £148m in the first nine months of the year, and by 34.8% to £39m in the third quarter (Q3 19: £60m). This reduction is in line with our strategy to transition to subscription revenue and away from licence sales and professional services implementations. As expected, the reduction accelerated in the third quarter due to the impact of COVID-19.

Total Group revenue increased by 4.1% to £1,395m in the first nine months of the year, and by 1.1% to £460m (Q3 19: £455m) in the third quarter.

¹ All numbers throughout this document are organic unless otherwise stated. Full definitions are available in the H1 20 results announcement

² Software and software-related services

Financial position

The Group's balance sheet as at 30 June 2020 remains strong, with cash and available liquidity of £1.2 billion, and net debt of £226m (£238m as at 31 March 2020).

COVID-19 update

Since the onset of the global pandemic, Sage has had three clear priorities: to ensure the health and wellbeing of our colleagues, to serve and support our customers and partners, and to remain focused on executing our SaaS transition strategy. While trading continues to be affected by COVID-19, our performance so far has been helped by our strong focus on customer success, together with a lower than expected level of churn among Sage's diversified small and medium customer base. Our actions to manage costs in the near term are on track, while we remain committed to investing for the long term in order to continue reshaping the product portfolio and repositioning the Group strategically.

Outlook

Given the Group's resilient performance in the third quarter, we now expect recurring revenue growth for FY20 to be in the region of 7% to 8%, with the decline seen in the third quarter in other revenue (SSRS and processing) expected to continue for the remainder of the year. Reflecting the overall performance of the business, organic operating margin is expected to be around 22% for the current financial year.

Going forward we remain cautious, given the continuing economic uncertainties and the risks to our small and medium business customers as government support schemes come to an end.

Jonathan Howell, Chief Financial Officer, commented:

"Sage has achieved good results in the first nine months, continuing to deliver against our strategy, in line with our vision to become a great SaaS company. Despite the disruption caused by COVID-19, our colleagues have performed exceptionally, providing strong support both to each other and to our customers. We are confident that our sustained investment in Sage Business Cloud throughout the economic cycle will form a strong base for the long-term success of Sage."

Foreign exchange

Sterling strengthened in the quarter against international currencies, particularly the Euro, leading to exchange rate headwinds in the year to date.

Analyst and investor conference call

Jonathan Howell, CFO will be hosting a conference call at 8.30am (UK time) today which will be webcast via a link on our investor relations website, www.sage.com/investors. The call may also be accessed using the dial-in number 0800 279 6619 (United Kingdom) or +44 (0) 20 7192 8338 (International) and pin code 17622112. A replay of the call will also be available for one week after the event: dial-in number 0844 571 8951 (United Kingdom) or +44 (0) 3333 009 785 (International), pin code 5213738.

Enquiries

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About Sage

Sage (FTSE: SGE) is the global market leader for technology that provides small and medium businesses with the visibility, flexibility and efficiency to manage finances, operations and people. With our partners, Sage is trusted by millions of customers worldwide to deliver the best cloud technology and support. Our years of experience mean that our colleagues and partners understand how to serve our customers and communities through the good, and more challenging times. We are here to help, with practical advice, solutions, expertise and insight.