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SGE.L - Half Year 2017 Sage Group PLC Earnings Call

EVENT DATE/TIME: MAY 03, 2017 / 7:30AM GMT

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PRESENTATION

Stephen Kelly - *The Sage Group plc - CEO and Executive Director*

Well, let's make a start. Hello, and a warm welcome to everyone here; both of those of you who are in the room with us at the London Stock Exchange and those on the phones for our first half FY '17 interim results. As always, please note the safe harbor statement, which you can find in your packs and on our website.

The agenda for this morning's presentation is outlined on the screen. I will provide a brief overview of Sage's performance in the first half of FY '17, and then I'll hand over to our Chief Financial Officer, Steve Hare, who will walk through the financial and operating performance. I will then update you on our progress against the strategy and close with our outlook for the full year before we open up for your questions.

So firstly, what are the headlines? Well, I'm very pleased to stand here today on what marks a positive first half year for Sage, where we can demonstrate further progress against our strategy. We delivered results in line with market expectations, with 7 out of our core 9 geographies, our markets that collectively generate 95% of our revenue, growing faster than our revenue guidance.

The transformation that we outlined at our Capital Markets Day in June 2015 is at an advanced stage. We said at that time, the phase-in would be carefully managed, starting with the product and business services. Organizationally, we've eliminated much of the fragmentation and unified the company and established professional crosscutting functions that are operating more efficiently, particularly in the back office, with finance, legal, IT, facilities and HR.

Product-wise, from virtually nothing 2 years ago, we've assembled a comprehensive set of cloud solutions in the portfolio that will underpin our competitiveness in the market and fuel our growth for years to come. And the feedback from our customers is that they love the new products. Indeed, we have leapfrogged the competition with our cloud products and are now seen as a market innovator, integrating new technologies like artificial intelligence. We've made huge strides simultaneously transforming our business model from license to subscription whilst maintaining top and bottom line performance, something we know that many companies have tried and failed to do.

We know we have more to do on all fronts, but the essential foundations are in place. In the first phase, we've deliberately wrapped the go-to-market functions and the customer-facing functions effectively in cotton wool. Now our attention is turning to sales and marketing execution. In the first half, our growth was underpinned by a strong Q2, and we will build on this stronger performance as we entered H2 and into FY '18.

And now with that, I'd like to hand you over to Steve Hare for the financial performance review. Steve?

Stephen Hare - *The Sage Group plc - CFO and Executive Director*

Thank you, Stephen, and I'd like to add my welcome to today's results presentation. Stephen and I have always been known for being completely transparent, and so, before I go through the detail of the results, a few words on the definitions, given that we now have some inorganic movements. All of these definitions have been in place for the last 2 years, but I just wanted to make sure that we have complete clarity upfront.

So firstly, now that the strategic review of Payments is complete, the North American Payments business is shown as an asset held for sale. As you've already seen, we've achieved organic revenue growth of 6.4%. Organic is the measurement without any contribution from divestments or assets held for sale, in other words, the measuring excludes any contribution from North American Payments and, indeed, XRT in Brazil. It also excludes any contribution from any acquisitions, in this case, Fairsail.

Underlying is the measure where we do include inorganic adjustments, and therefore, we do include the contribution of the North American Payments business. And on this basis, we achieved revenue growth of 5.7%, with the dilutive impact coming from the flat performance in the North American Payments business.

At the full year, we'll make sure we give you all of the data required so that we can demonstrate that we have achieved our guidance of 6% organic revenue growth. And so we will show organic revenue growth, but we'll also show organic, including the North American Payments business, as this is how the business was constituted when we gave our guidance. But we'll also show underlying, which will reflect our inorganic activity and, therefore, our capital allocation choices. We are very confident of exceeding the 6% revenue growth guidance, including the contribution from North American Payments.

So as I've said, the organic revenue growth was 6.4% in the first half; and in the second quarter, was 7% as we started to see some signs of accelerated growth both in the installed base and also, with new customer acquisition. As in previous periods, our revenue growth remains underpinned by strong recurring revenue growth of 10%, within which the subscription growth was 31%.

In line with last year at the half-year point, our operating margin is below the full year guidance of 27%. This is as a result of the planned front-loading of our investments into the first half. And we will deliver a margin of at least 27% for the year as a whole.

Underlying EPS increased in line with the higher operating profit, offset by a slightly higher tax rate. Nonrecurring items relate to the business transformation, and I will cover those later. And recurring items are an adjusting -- accounting adjustment which relate to the amortization of acquired intangible assets and other M&A-related costs. We show at the bottom the non-GAAP EBITDA of GBP 233 million and the EBITDA margin of 28%, which is very similar to last year.

And finally, we've announced an interim dividend of 5.22p, an 8.8% increase on last year, in line with our progressive dividend policy.

Underlying operating cash flow of GBP 238 million represents cash conversion of 104%. While still strong, this is a marginal reduction on a year ago due to an increase in working capital driven mainly by receivables. This is a short-term issue, and I expect to see improvement in the second half.

CapEx is in line with prior periods as we continue to invest in our internal systems and also upgrading our facilities, in line with our approach of having fewer locations but higher quality and more efficient.

Free cash flow of GBP 166 million represents 18% of underlying revenue.

As shown in the final column, we have a closing net debt of GBP 434 million, marginally up on last year due to M&A but remaining less than 1x trailing 12 months EBITDA.

Just a word on leverage. I've previously said that we are guided by our leverage target of 1x, but we wouldn't be a slave to it. And we've also said that we're comfortable temporarily increasing leverage to somewhere around 2x if we identify attractive acquisition opportunities. So for example, I'm now confident that we have the financial discipline to reinvest the proceeds of the North American Payments business, once sold, in order to accelerate growth. Organic revenue growth remains at the heart of our strategy, but so does effective capital allocation to accelerate profitable growth.

So turning now to the sources of revenue. Double-digit recurring revenue growth was achieved, as in previous periods, driven by software subscription growth of 31%. This has been offset by a planned M&S decline and is a result of our migration of customers to a subscription relationship. We now have over 1.2 million subscription contracts, including 382,000 with Sage One and over 110,000 with our Sage 50 and Sage 200 cloud-enabled products, which, combined with the accountant suite, means we have over 500,000 cloud subscriptions. We have also added net new customers in the half as total contracts reached just under 2.2 million. It is worth adding that recurring revenue is now 77% of total organic revenue, and subscription is 35% of total organic revenue, so there remains plenty of opportunity to continue the migration of existing customers to subscription.

Organic processing revenue grew at 11% year-over-year, driven by strong Sage Pay growth in the U.K. as a result of continued e-commerce adoption. As expected, SSRS declined by 8%. This was driven by a 17% reduction in non-Sage X3 perpetual license sales, which were offset by a 13% growth in Sage X3 licenses and also, slightly lower services revenue.

We now have an annualized subscriber base of GBP 618 million. This is 15% higher than just 6 months ago. The biggest individual contributor of this growth in ASP was again the Sage 50 product family, adding $34 million in the first half of FY '17. This was followed by the Sage 200 product family, which added GBP 22 million. Please note that the Sage 200 family includes Sage 100, 200 and 300.

So this is driven by the success of our cloud-enabled offerings, with Sage 50c contracts, for example, increasing 25% in the half to over 110,000; and with the Sage 200 family increasing by over 300%, albeit from a lower base. This growth is predominantly driven by Northern Europe and North America. And we expect this trend to continue with the Office 365 integration into the cloud-enabled products as well as the investment that we've put into refreshing the user interface in our Customer for Life products and the continued cloud-enabled rollout to other countries during FY '17.

It's also encouraging to see Sage One adding GBP 13 million in ASB growth in the first 6 months. This compares to GBP 4 million in the whole of last year and a sign that our NCA strategy is working as we continue to increase both paying subscriptions but also ACV. Sage One annualized recurring revenue is now GBP 22 million, with an average ACV of GBP 70, up from GBP 61 12 months ago.

So moving now to the regions. Due to changes in the way that we go to market, we now report 4 regions, as shown on this slide. However, I will walk through the 3 regions that you're all familiar with, in other words, Europe, North America and International.

So let's start first with Europe. Europe as a whole has performed well. In fact, every major European country, with the exception of France, grew above the group revenue growth guidance of 6%. As you can see on the slide, the subscription penetration for Europe is 35%, representing significant further potential for C4L growth. Northern Europe was the strongest performing subregion, with 8% growth in H1, driven by a strong demand for Sage 50 Accounts, our core solution in this subregion. Recurring revenue growth for Sage 50 Accounts was in excess of 30%. A strong enterprise pipeline also helped deliver 34% growth in Sage X3 in Northern Europe. Central Europe also performed strongly, delivering 8% revenue growth, as did Iberia.

So France remains the area of focus for Europe. Growth continues to be driven in France predominantly from C4L, with slow new customer acquisition traction, particularly in the partner channel. As we disclosed at the time of the revenue recognition changes 18 months ago, the French business model has utilized activation fees, which drive a first-year premium on subscription contracts. We are now phasing out this first-year premium to align the French model with our commercial approach in the rest of the world. As a consequence, there will continue to be a drag on recurring revenue growth until this normalizes. But with the large market share we have in France and the availability of a full suite of cloud products now launched in France, we are in a strong position to drive future NCA and, indeed, C4L growth.

Turning now to North America. Canada continues to perform strongly, with 9% growth in the half, driven by the Sage 50c and Sage 200c family. Whilst the U.S.A. overall did not perform as well as we would have liked, it was pleasing to see 25% growth in Sage X3, driven by an expansion of our quota-bearing salespeople and a more targeted approach to specific regions within the U.S.A. We again saw a triple-digit subscription growth in the cloud-enabled products in the U.S.A.

The recurring revenue growth in North America is below 9 -- is below 10%. This is a function of our success in the North American market in the past, where most of our M&S base are on the highest tier. Therefore, there is a lower value uplift compared to other countries upon the migration to software subscription. However, we are confident of seeing the recurring revenue growth accelerate as we have a renewed focus on our top 30 partners driving subscription revenue. And this channel is now very engaged, and we've already started to see some traction in Q3.

Also, as you can see on the slide, the subscription penetration in this region is only 22% but has creased -- increased significantly from 12% this time last year. We will also build on the success we've had in the transition to subscription through our cloud-enabled products integrated with Office 365 as well as capitalizing on the excitement around -- particularly from accountants around Sage Live.

And finally, in the International region. Brazil continues to drive accelerating growth, delivering 23% growth in the half, the strongest regional rate for the group. This was underpinned by double-digit recurring revenue growth, with NCA momentum really building. Africa also continued to deliver good NCA growth, with Sage One growing at 64% and Sage X3 growing at 14%. The Middle East continues to be a strong enterprise market for us, with a number of high-value Sage X3 deals driving 23% growth. Australia also continues to show good growth, with 8%, underpinned by 11% recurring revenue growth.

So Southeast Asia remains a focus as revenue declined in Malaysia due to challenges in our C4L initiatives. However, it is worth noting that the revenues are below GBP 10 million for the half, so this is not one of our major geographies.

The subscription penetration for International is 55%, and this is also the highest growth region. So this should provide some assurance that we can continue to achieve strong growth as subscription penetration increases.

So to briefly summarize the regional performance. Of the 9 geographies that make up 95% of our revenue, 7 are delivering growth in excess of group guidance. Our Customer for Life strategy continues to be the engine for our growth, and the rollout of the cloud-enabled products has bolstered this. We are seeing encouraging signs of NCA in a number of key markets, and we are confident of taking the momentum we have in Q2 into the second half and driving accelerating growth into FY '18.

And now to the -- my favorite part of the presentation, driving financial discipline. As I mentioned at the FY '16 results announcement, we were confident of delivering further savings in FY '17. To date, we have secured an additional annualized savings of GBP 28 million and remain confident of achieving at least GBP 50 million by the year-end. The majority of these savings have come from a reduction in headcount as we drive more efficiencies through a more aligned go-to-market model. The cost associated with these savings was GBP 19 million, giving a payback easily within our target of 2 years. This faster payback is important because it demonstrates how we're driving efficiencies through business as usual with a lower cost to achieve. This is comparing to the prior year, where we did this through larger and more formalized restructuring programs. We would expect to continue to achieve further efficiencies through the rest of '17 and into FY '18 and beyond. However, there will be no further transformational exceptional charges beyond FY '17. We also expect the total exceptional charge in FY '17 to be no more than GBP 75 million.

The efficiencies that we are achieving are as a result of building a solid foundation from which to scale, and I feel confident about the governance and the discipline that we now have in the business. We have increased our G&A costs -- sorry, decreased our G&A cost as a percentage of revenue by 450 basis points year-over-year. This is a combination of true cost out and operational leverage. Consistent with the prior year, we are investing the savings we're creating back into the go-to-market functions and also the product area. And we will continue to overinvest where we see appropriate growth opportunities.

But I wanted to give some specific examples as to where we've made additional investments. So for example, we have increased the number of engineers working on cloud products, and we now have over 50% of our engineers working on the cloud. We've hired 300 new high-performing quota-carrying sales colleagues. And you'll see -- you will have seen we've taken Sage Summit on the road in order to showcase the cloud products that we have both launched already in FY '17 and will be launching in the remainder of the year and also to drive engagement with colleagues, partners and accountants.

In London alone, we had 8,000 registrants for Sage Summit, with significant analyst and press coverage and enthusiasm from our partner community about the revenue potential of our new cloud products. Next week, we'll be in Atlanta and we'll be hosting a number of analysts and investors. So if you haven't already registered and you're interested in attending, please speak to Lauren, and we'd love to see you there.

So we're confident that these investments that we're making will continue to support and drive accelerating momentum as we exit this financial year.

So in summary. There's a lot to do in Sage, but there are clear signs that we have the right strategy and that we are executing that strategy more effectively. We have established stronger financial discipline and now have a real focus on efficient, profitable growth. We'll see the momentum we've built up in Q2 accelerating towards the end of the year as we enter into FY '18. We're therefore very confident of meeting our guidance of at least 6% revenue growth. And through the efficient and effective deployment of our cost structure, we will also deliver an underlying operating margin of at least 27%. This means if we complete any high-growth technology acquisitions like Fairsail, we will fund their growth through the cost savings and still deliver the margin commitment.

So on that note, I'm going to hand back to Stephen, who's going to give you an update on some of our more exciting plans.

Stephen Kelly - *The Sage Group plc - CEO and Executive Director*

Thanks, Steve. So an encouraging first half, with progress in the strategy.

So briefly, for transparency, I want to revisit our watch list, where we've highlighted 3 areas for improvement through FY '15 and FY '16. These included Enterprise Europe, Medium Business in North America and North American Payments. So firstly, Enterprise Europe is now showing sustained growth, with X3 growing at 11%. Secondly, Medium Business North America is also seeing strong traction from C-line products, with Sage 50c and 200 software subscription revenues growing in triple digits. Finally, North America Payments, I can confirm now that we've completed our strategic review of the business, and I'll share more detail on this later in the presentation.

So as Steve highlighted, our transformation is at an advanced stage, but our growth story is just beginning. We've implemented tremendous change at Sage over the past 2 years, refocusing the business on the customer, unifying the organization, driving efficiencies in the back office, investing significantly in building up a cloud portfolio and transitioning to a subscription business model. We expect to see the benefits of these starting to emerge in the second half and as we move into FY '18.

The market opportunity for Sage is vast, with over 70 million businesses within our core countries. The market is growing, due to the accelerated adoption of the cloud and the faster emergence of disruptive new technologies like artificial intelligence. With the innovation that we've led over the past 2 years, I would argue there's no company in the market better placed to embrace this opportunity than Sage, so we do have some exciting times ahead.

Now, before I give my normal update on the progress against the 5 strategic pillars and our plans to accelerate growth going forwards, I do want to spend a couple of minutes explaining how significantly we've improved our core product portfolio and why this gives us confidence for the future.

Internally, we refer to the core solutions we offer our customers as the golden triangle. As you can see from this diagram, there are 3 axis of the golden triangle, with Accounting, People & Payroll and our Payments & Banking. Individually, these are all essential for businesses, but the true enabling power for businesses come from when these complementary solutions are integrated and automated.

The boundaries between the solution categories are becoming increasingly blurred as technology is built around the customer, user behavior and expectations. For example, customers don't necessarily care when core accounting software ends and payments software begins. They just want it to work together. So we've built out our cloud portfolio and focused on all 3 axis of the triangle, with the customer at the center. Accounting has always been within our DNA, and we are investing in pure cloud and cloud-enabled on-premise solutions to delight our existing customers and win new customers across the startup, scale-up and enterprise segments.

Sage has always possessed market-leading payroll solutions, but increasingly, customers, particularly in the scale-up and enterprise markets, are looking for integrated payroll and people management solutions. What is known as human capital management marketplace is worth an estimated 2.5 billion and estimated to be growing annually in the mid-teens. Now, with the acquisition of Fairsail, now known as Sage People, one of the market's fastest-growing people solutions and integrated with Sage payroll cloud solutions, Sage will have the best cloud solutions in the market for people and payroll.

Now moving on to Payments & Banking. I've broken this area out because earlier in the year, we announced that we're evolving our Payments & Banking strategy, led by Seamus Smith, who joins us in the audience today. And today, I wanted to give you an update on this. Sage's 3 million customers across the world move the equivalent of over GBP 3 trillion annually through the software that we provide. That's larger than the United Kingdom's gross domestic product. This represents a significant opportunity for us. So I want to reconfirm our commitment as a key participant in the Payments & Banking services ecosystem. It's absolutely critical to our customers.

Historically, we've owned and sold proprietary payment solutions to our customers only in 3 geographies: U.K. & Ireland, South Africa and North America. However, the technology industry today is built increasingly on open standards, platforms and partnerships, with customers demanding best-of-breed solutions. Therefore, in order for Sage to compete successfully and grow, we must provide our customers with the best payment solutions, whether they're Sage products or integrated with partner offerings. And given the scale of the opportunity, we're now focused on offering these services across all our countries.

We will execute this by adding a strong collection of partnerships, and we already have some of these in place with leading payment and technology companies such as PayPal, Verifone, Mastercard, AMEX and major banks in key geographies. We will exit areas that are not a strong fit with our core business and strategy.

So following the U.S. Payments review, I can confirm that the North American Payments business, which essentially performs the function of stand-alone merchant acquirer, is now subject to a sale process. We will continue to leverage existing payment capabilities where it's complementary to our growth aspirations and our business model, supported by best-in-breed partner solutions.

Our U.K. and South African Payments capabilities, the businesses are very complementary to our Payments & Banking strategies. The U.K. is one of the fastest-growing e-commerce markets in the world, representing a good opportunity for Sage. For example, Sage Pay U.K., transactions alone grew by 26% in the first half of FY '17. And in South Africa, payments capabilities are deeply embedded within all our accounting solutions.

This payments strategy will complement our existing offerings with partnerships, speeding up the movement of money and allowing Payments & Bankings in all our major geographies to provide the very best of the golden triangle to all our customers. And we will hear more of this at a future Capital Markets Day.

This explains our recent strategic moves, particularly in the People & Payroll space and the Payments & Banking solutions categories.

So now for a broader update on the progress against the 5 strategic pillars, which we first introduced at a Capital Markets Day in June 2015. Back then, I think there was some concern about the loss of Sage's market share since the explosion of the Internet, and our customers were crying out for Sage to change and we'd fallen behind. Back in 2014, we had become known as a sleeping giant and, for some commentators, arguably a cloud denier.

So let's focus on what we've done around revolutionize business. When Steve and I joined Sage, we knew something had to change, and we started listening by -- absolutely fundamentally to our customers. They told us, firstly, we want easier-to-use technology with mobile access in the cloud; we want businesses in the moment; we want more insight into our business; we want business apps that are easier to use than consumer apps; and fifthly, we want to cut down on admin.

And since then, we've been working hard to achieve this. Fast forward now 2 years to where we are today. I've just outlined the progress we've made around establishing a comprehensive cloud portfolio for businesses from start-up to enterprise. But for us, this just has not been about catching up in the cloud. We're already building next-generation solutions, leveraging the very latest technology on cloud platforms.

Take Sage Live, a product that embodies Sage today. Sage Live works on smartphones, smartwatch, iPad or any browser. It feels just like using any other consumer app, through which you have access to a summary of your accounts with one tap of the screen. It's mobile, it's in the cloud, it's instant. With Sage Live, admin becomes invisible. Artificial intelligence is embedded within the solution to automatically perform bank reconciliations, no longer an arduous manual task, all created on open application program interfaces, allowing easy integration with other apps and independent software vendors to become a solution capable of managing the whole business and accessible by the business owner, the sales team, not just the bookkeeper.

Who could have imagined a couple of years ago that the most respected technology companies in the world would seek out strategic relationships and partnership with Sage? This screen illustrates how far we have come. And the customer response has been hugely positive. Let me share a direct customer who quote, "The combination of Salesforce and Sage Live has given a complete 360 view of our business. And it's a real lifesaver, producing analytics in minutes." You can see why we're so excited about Sage Live. And we're joined by a Sage colleague today, [Paula], outside the auditorium giving product demonstrations on Sage Live along with other cloud solutions. So if you haven't already seen them, please check them out after the presentation with Paula and the team.

This technology is a step change from Sage of old. And what's more, we're now streets ahead of the competition. But we aren't stopping there. Technology and product innovation is now at the very heart of Sage's DNA. And we'll continue to push the boundaries through leveraging technologies like artificial intelligence, data sciences, voice, block chain that deliver enhanced real benefits to our customers. Our recent technology acquisition of Compass, an innovative collective intelligence and e-commerce benchmarking platform, is testament to this.

Now Customers for Life. The cloud and inventing the future is very exciting for us. But I've always been clear that our #1 responsibility as a company is to look after our 3 million customers that we have today, most of whom who have built their businesses around Sage's flagship on-premise products. Customer for Life is the foundation for our growth and has sustained the growth through the transformation.

The transition to subscription has been successful, and it continues to progress well. Software subscription revenues increased by 31%. The total software subscription contracts grew by 48% to reach 1.2 million contracts, to drive renewal rates from 84% 12 months ago to 86% in H1 FY '17. There is much more we can do here as we continue to migrate the on-plan base to subscription as well as targeting our off-plan customers for reactivation.

But our Customer for Life strategy is much more than just about subscription contracts. Cloud technology is also an integral part of how we service our existing customers, and we are now starting to gain significant traction in our cloud-enabled products. We have invested significantly in these solutions, dramatically improving the user experience and providing the latest features like automatic bank feeds and integration with Office 365 and Microsoft Outlook.

Our cloud-enabled products provide the pathway for our on-premise customers to access the benefits of the cloud while still enjoying on-premise functionality and familiarity. These shots on screen show how far Sage 50c dashboards have come, and this is a far cry from the client-server technology days. We do not force-migrate our customers. Instead, we are seeing these solutions becoming more and more popular with our customers. Sage 50c grew by 25% in H1 '17, and we now have over 110,000 cloud contracts.

For those customers who aren't interested in changing the accounting solution that they've used for years, these are absolutely the perfect solution. And that brings us to winning in the market. While Customer for Life has been the foundation of our growth, we've started to see green shoots of success in our cloud products designed to win in the market. Sage is the only solution that allows a business to grow from startup to scale-up to enterprise, with thousands of employees and a complex business and supply chain. In this respect, from a customer point of view, Sage is truly the technology partner and solution for life.

Furthermore, the pure cloud products are starting to become even more financially significant: Sage One annualized recurring revenues increased by 88% to GBP 22 million, with an average contract value of GBP 70, up from GBP 61 at H1 '16 and expanded into 14 countries; Sage Live customers of approximately 900, with a March ACV of GBP 1,800; Sage X3 revenues grew by 17%, with 200 new customers added in H1 and with the product continuing to win higher contract values as it pushes higher up into the enterprise marketplace. In H1, in the U.K. & Ireland alone, we signed 3 transactions over GBP 100,000.

Winning in the market also means a renewed focus on our channel partners. Our launch of Sage Accountant Cloud and the global partner program will provide the most comprehensive and connected ecosystem of cloud solutions for our partners, our accountants and their clients. We said that FY '17 was all about delivery, and throughout the year, we've been rolling out our cloud-enabled and Cloud Accounting Products into our major geographies.

In HY '16 (sic) [FY '17], we had just cloud -- our products in a handful of markets, as you can see from the slide. By the end of FY '17, we'll have all our cloud and cloud-enabled products available in virtually all our major geographies that generate 95% of our revenues. It is an industry first that Sage launched Cloud Accounting Products for startups and scale-ups in multiple countries on the same day in January.

This road map shows you the path to accelerating momentum for our NCA strategy throughout H2 and into FY '18. As I said at the start, we now increasingly have the cloud products available, so our attention turns to improving sales and marketing execution.

Our ambitious product road map demonstrates the ways we have invested the cost savings identified through FY '16 and FY '17. This brings us to our fourth strategic pillar, Capacity for Growth. As Steve has already covered, financial discipline to generate the cost savings remains integral to our strategy. Our G&A margin has reduced by 450 basis points in the past 12 months, but we still have more to do here as we've identified savings both in G&A and across the business. This focus on efficiencies and simplification will continue beyond the transformation and is now business as usual at Sage. As we continue to drive this discipline, we're creating a business that is delivering operating leverage for the remainder of FY '17 and into FY '18.

And finally, One Sage. We recognize that it is imperative to continue to embed the right culture within our organization and align all our colleagues around the world to our vision and our strategy. To do this, we continue to improve engagement with colleagues. An example of this is Sage TV Live, a company-wide communications broadcast every 2 weeks to all our 13,000 Sage colleagues.

In addition, the Sage Foundation is integral as it seeks to give back to the communities and encourage all colleagues to take up 5 days paid volunteering each year. This year, we're on track to double the take-up of these volunteering days by our colleagues, which is a true indicator of colleague engagement and the power of Sage Foundation.

So what does all this mean for us going forward? Throughout the transformation, our growth has been driven largely from our Customer for Life strategy as we transition customers to subscription and upsell to our cloud-enabled solutions. Revenue contributions today from NCA have been less significant. But as we just highlighted, the NCA strategy is starting to gain traction as we roll out our cloud products and focus on sales and marketing execution. Then we should expect to see the NCA becoming a more significant growth driver in the future.

Finally, we see an opportunity for strategic acceleration, as with Fairsail. We may engage in future acquisitions where there's an opportunity exists to strengthen our golden triangle solutions in the cloud to accelerate growth.

To be absolutely crystal clear, organic profitable growth, led by Customer for Life and NCA, absolutely remains our priority. Our combination of building, buying and partnering will support our accelerated momentum into the midterm whilst also driving healthy operating margins. Through both organic and inorganic growth, financial discipline remain crucially important as we'll always seek to have a good return on investment.

Now, what does this look like for the full year outlook? The business as defined and constituted at the time of setting FY '17 guidance included North American Payments and excluded any acquisitions announced in FY '17. On this basis, we are very confident of exceeding full year guidance of at least 6% revenue growth. In addition, we confirm our guidance of at least 27% operating margins on an underlying basis, with acquisitions having no dilutive impact. There will be no further transformation-related exceptional expenses post FY '17, and the charge for the current year is not expected to exceed GBP 75 million. We expect our strong performance in Q2 to continue into H2 and as we exit FY '17.

So to summarize briefly, a very encouraging first half, where we have shown further signs our strategy is working. The Sage business model provides profitable growth, superior margins, operating leverage and strong free cash flow to support the progressive dividend and further investments in growth.

We now have the foundations in place to drive growth following a stronger Q2 and expect to build on this performance towards the end of the year as we focus relentlessly on execution.

And with that, Steve and I would like to open for your questions. So please, could you wait for a microphone, where there's a couple of roving microphones in the audience, and introduce with your question your name. Thank you very much. Steve? Maybe start with the -- down the front. A big incentive to be in the front row, yes, for future earnings calls.

QUESTIONS AND ANSWERS

Mohammed Essaji Moawalla - *Goldman Sachs Group Inc., Research Division - Equity Analyst*

Stephen, it's Mohammed Moawalla, Goldman Sachs. Two, if I may. Firstly, just on the top line, so the excluding payments you sort of guided to, or you said that you did close to 7%. I know in the past, you've said sort of just the installed base can sort of grow circa 6%. So as we look at NCA and sort of Customer for Life, how should we -- do you think that there's -- that 6% has some headroom, especially as the retention rates has started to tick up quite nicely in the base? And then sort of how should we think of the timing on the acceleration of sort of NCA? And the second question was just on the operating margin as we look beyond the 27% this year. Can you confirm that we're now on the path of the medium-term sort of margin expansion you had guided at the Capital Markets Day a couple of years ago, and I think it was sort of circa kind of 100 bps as these investments are kind of peak?

Stephen Kelly - *The Sage Group plc - CEO and Executive Director*

Right. No, I think that was definitely more than 2 questions. Let's -- just one thing we should say, that the chart you saw with the NCA products, just to keep our feet on the ground, a lot of these products are being launched now, so the materiality of their impact in FY '17 is probably going to be limited. So for example, Sage Live, Sage One, the single code base got launched simultaneously in January in France, Germany and Spain. But obviously, that bodes very well, given the early customer feedback, and the Customer Business Centers that we've built out in Dublin and Atlanta for future growth. So with that, probably breaking down Customer for Life, obviously, a key part of the growth supporting the single-digit growth. Then you saw the chart around the NCA becoming an increasingly part of the Sage story, particularly with the power of our cloud products. And just to give you a feel for that, for example, Sage Live, award-winning products, 6 major awards, Salesforce most innovative product of the year; Sage One now, a lot of momentum we have highlighted, with an ARR of GBP 22 million. And again, if you compare us in that start-up space, probably the first product in that space to reach 200,000 subscribers and a much newer technology generation, whereas the other companies sort of came from first-generation cloud, private cloud, whereas we went straight to the AWS public cloud. So we've got a lot of technology advantages there, where the other guys are now moving the plumbing and spending time on plumbing, where we're spending time on features, functionality, mobility, artificial intelligence and some of the more disruptive technology, which bodes very well for NCA. Steve, do want to kind of break down between the margins and growth?

Stephen Hare - *The Sage Group plc - CFO and Executive Director*

So the 7% growth in Q2 excludes North American Payments, so that's the continuing business. But I think what we're seeing in the installed base is that the cloud-enabled products, so the Sage 50 family and the Sage 200 family, are probably performing a bit better than we expected. And that's also being driven by the fact that we have much more collaboration now across the product development teams. So we always said Sage 50 in North America and Sage 50 in the U.K. are 2 very different code bases with the same name. But when we do the cloud enablement, that is done by one development team, who then adapt it into the local markets. So we're getting a lot of advantages now for working across the common family. So to answer your question, I think we're seeing probably more confidence around the continued momentum in the installed base and, at the same time, in markets like particularly in International, we're starting to see new customer acquisition starting to kick in, particularly in Brazil and in parts of Africa. And so if you take those 2 things together, plus as the Sage One and Sage Live start to get traction, particularly in the European markets, that's -- those combination of things is what gives us the confidence for the acceleration as we exit the year. But these things will -- as we've called out in France and the U.S., not every single country works perfectly at exactly the same time. So we have -- we still have a lot of different moving parts that need to continue to come together. And then in terms of the margin, look, structurally, we clearly are creating a business which is capable of delivering a higher operating margin. And we remain, in the medium term, committed to delivering an increased operating margin. The only reason we're being, perhaps, slightly cautious is we're also, at the same time, committing that if we do acquisitions like Fairsail, which is obviously not being bought for its earnings accretion, it's being bought for its growth which will ultimately turn into earnings accretion, we're also committing that we won't dilute the margin. So we're also using some of our cost savings to invest where we see the possibility for growth. So we just need to balance all of those different things and make sure that we're winning market share in all of our major markets. And as we get the operating leverage from there, yes, in due course, there'll be a higher margin.

Stephen Kelly - *The Sage Group plc - CEO and Executive Director*

Next question? Do you want to, Charlie? Thanks, [Katie]. And maybe in the next question, we'll get the mic.

Charles Brennan - *Crédit Suisse AG, Research Division - Research Analyst*

Yes, just a few questions from me, actually. Firstly, you seem to be emphasizing M&A more here. Should we be anticipating you to be using your leverage over the next 6, 12, 18 months? And when we think about M&A, the last deals and the latest product innovation has all been around the Salesforce platform. As you try and harmonize Sage onto a fewer number of code bases, will future M&A also be around the Salesforce platform? Secondly, just on the Payments business, I'm slightly surprised you've decided to sell the U.S. and keep the U.K. I was under the impression that quite a number of the U.S. Payments customers were also Accounts customers, so can you give us some visibility there? And just from a modeling point of view, is there any corporate overhead that's being absorbed by the U.S. business that will stay with you? So when we think about the disposal, is it going to be perhaps slightly more dilutive than the headlines?

Stephen Kelly - *The Sage Group plc - CEO and Executive Director*

Maybe start on M&A, and then I'll pass the second part to Steve. So I think in Phase 1, we're very focused on making sure Sage was effectively match fit. And that's why we eliminated and got very focused on the business, didn't have any discussions in terms of M&A. But the reality, as you all know, that this marketplace is right for consolidation over the next -- whether it's short term, but definitely over the next decade. The reality is now we think we're match fit, and we're looking to do bolt-on acquisitions that fit the strategy and accelerate the strategy. And Fairsail's a perfect example of that. Compass is another great example around collective intelligence. So I think, Charlie, the reality is that we will see M&A be part of the Sage story, but the really important thing you must take away is everything is predicated on organic growth. The engine room is organic growth through Customer for Life and NCA. And then anything on the M&A side will be additive to the growth, but that the absolute baseline is we're really committed and we absolutely think the strategy is paying off in terms of driving that organic growth. Steve, do want to cover the other perspective on the Payments, and maybe Seamus is in the audience and will answer.

Stephen Hare - *The Sage Group plc - CFO and Executive Director*

Yes. So the North American Payments business absolutely does have integrated customers with Sage Accounting. And the intention would be that when we sell the business, we'll also sign a partnership with whoever buys it so that we have an ongoing relationship, where we, as well as providing an ongoing service to our existing customers, depending on what the new owner does with the business, will also partner with them going forward on new customer acquisition. But the North American Payments business is, at its heart, a merchant acquirer, which, as well as integrating into Sage Software, also seeks to acquire stand-alone businesses through the ISO channel. The difference with the U.K. business and the South African business is more of their focus in terms of new customer acquisition is more closely aligned with what we do as a company. Now, strategically, let's -- if we didn't own those businesses, would we go and buy an e-commerce gateway in the U.K? No, probably not; we'd probably partner. But given that we own it and given that it's integrated and that it's performing and is in line with our strategy, we've decided to retain it. In terms of the corporate overhead, today, there is a bit of additional overhead, which we will seek to reduce when we sell the North American Payments business. So to give you a sense of that, G&A we said is just over 15% of revenue on a organic basis. If you put the North American Payments business back in, that would actually be just under 14.5%, i.e. there is stranded overhead cost which we will deal with. So when you're looking at your model, you don't need to change it because they'll still hit the same G&A number, but it will require us to take a little bit more cost out than we would have, had we kept the North American Payments business.

Stephen Kelly - *The Sage Group plc - CEO and Executive Director*

Stacy?

Stacy Elizabeth Pollard - *JP Morgan Chase & Co, Research Division - Head of Software and IT Equity Research*

Stacy Pollard with JP Morgan. Two questions from me. Speaking around the product set, to what degree are you trying to unify the code base? And how are you bringing in the legacy products? I know you talked about cloud enablement and that being a facilitator and then to the degree that you're just trying to push those customers onto the new product sets. So just the question around code base is one. Second question, around NCA, new customer acquisitions, what kind of targets do you have? What metrics do you encourage us to monitor? I know you've given, of course, some cloud customer numbers, numbers around Sage One, Sage Live, X3, et cetera. Is there one sort of unifying area that we can track going forward and then looking at targets that you have?

Stephen Kelly - *The Sage Group plc - CEO and Executive Director*

Yes, maybe I'll cover the code base and then actually pass to the kind of monetization of that and what the metrics should be. So in terms of the code base, you're absolutely right, Stacy, we sought to, in the first phase, obviously, make sure the Customers for Life have enhanced experience. So you saw some of the screenshots from Sage 50c. It's interesting to note the -- we've launched in about 6 countries now the Office 365 integration with Microsoft Outlook, and that's a strategic initiative as well for Microsoft. And we got a lot of early momentum in that product line with very good growth. But that is -- actually, the code base for that product, even though it touches products with different code base in Germany, Spain, France, U.K., U.S., that's a common code base. So one thing that's changed significantly is the consistency of the code base allows us to -- I mentioned, I think it's a world first, we launched in 6 geographies in January for Sage One and Sage Live common code bases, so consistent, and built on public cloud platforms, so one Salesforce1 and one AWS. So now we're seeing not only the more investment in R&D, and we've actually hired, probably over the last year, another 150 engineers, so we're about 2,600 engineers, R&D. But we also see the ways of working and the consistency of using cloud platforms and common code bases as a way to really accelerate the development. So the last 2 years, they've been really busy. And Steve said about 50 of our -- 50% of our engineers now are on the cloud products. So we are seeing, I think, those cloud products getting early momentum, being on the best platforms, being everything we said and kind of ticking the box to what our customers wanted around mobility, using artificial intelligence, where appropriate, to reduce the administration, create the sort of invisible admin. And now I think we're getting recognitions for the products, which you probably wouldn't have guessed a couple of years ago from luminaries and people like Salesforce and lots of awards and those sort of things. And now the key question for us and a key question for you is how do we get them monetized. So with that, Steve?

Stephen Hare - *The Sage Group plc - CFO and Executive Director*

So really, the key is the number of customers that we have under contract. So we've given a bit more granularity this time between Sage One and Sage Live, X3 and the cloud-enabled products and Sage 50 and Sage 200. And also for the first time, on Sage One, we've formally given an annualized recurring revenue number. So tracking the number of customers that we're bringing in, particularly to a subscription relationship, and then what's the run rate of ARR, and then obviously, what's the average revenue or the ACV that that's bringing in. And I think when we go for the kind of white space opportunity or the brand-new customers, we go with public cloud first, so Sage One, Sage Live and X3 in the enterprises is what we go to market with. But also, when you think about the Sage 50 and the Sage 200 family, there is some brand-new customer acquisition, but there's also quite a lot of reactivation. And whilst reactivation is not technically a brand-new customer, if the customer had a perpetual license and bought that perpetual license 3 or 4 years ago, and we've had no commercial activity with them in the last 3 or 4 years because that customer's gone off plan, if we can reactivate them and get them back into a subscription environment, from a revenue perspective, that's the same as a brand-new customer. So we'll separate it out, so you can see when it's the kind of on-premise cloud-enabled and when it's Sage One or Sage Live or X3. But it's all about those customer numbers, the ARR and then what's the ACV of the -- of each of those.

Stephen Kelly - *The Sage Group plc - CEO and Executive Director*

Next question, maybe David Toms. And then I will go -- I can't see so well at the back of the room, so pop your hands up. For the next question, we'll go to the back of the room.

David Iain Toms - *Numis Securities Ltd., Research Division - Analyst*

It's David Toms from Numis. A couple from me. If we look at the H1 this year compared to H1 last year, you spent an incremental 440 bps on go to market, yet the growth rate is 50 bps lower. So are we already seeing diminishing margin or returns? Are we seeing a sales force productivity dip? Or is this just a timing issue that we haven't yet seen the benefit of all the money you spent? And then just secondly, in the U.K., there was going to be potentially quite a big regulatory benefit to you, Making Tax Digital or government initiative coming through later this year. That's been suspended 12 months. Do you see a negative effect from people holding back and waiting to see what MTD really looks like given that we don't quite know the outcome of that yet?

Stephen Kelly - *The Sage Group plc - CEO and Executive Director*

Yes, maybe in terms of where we've invested the money, Steve highlighted, obviously, Sage Summit. Hopefully, some of you are coming to Atlanta next week. But a lot of kind of lead generation and investment, 300 sales heads, so a lot of investment to go to market and also increased investment in the product, which you've seen deliver. I think -- so to answer your question, I think it's going to be a timing issue. And it's particularly, we're very comfortable with the continued success in the Customer for Life strategy, and now the thing that has taken probably some time, but realistically, given we launched a lot of these products in January and some of the products are being launched now, then obviously, you don't kind of flick a switch from launching a product and monetize it overnight. It just takes time. We've got campaigns running. I think also, with Blair Crump's introduction, leading the go-to-market function as our President, we've really seen a new level of discipline around sales execution and marketing execution, and that will deliver better productivity. In -- do you want to add anything on that note?

Stephen Hare - *The Sage Group plc - CFO and Executive Director*

Yes, I think the way to think about it is, if you look at the 9 countries, right, so it is true that over the company as a whole, if you take those 2 comparisons, the growth rate hasn't accelerated. But who would have thought that if you go back 12, 18 months, that Brazil would be growing at 20%-plus; that Central Europe and Southern Europe, excluding France, would be growing at 8%. I mean, we have a Spanish business that's growing at 8%. That's never -- I mean, we struggled to grow the business at all 2, 3 years ago. So we've seen significant return in a number of markets from the investments that we've made. And we've been very open about the markets where we need to get them back on track. But I think we've had 2 returns: one is these kind of individual investments, which is driving growth in a number of countries; and then it's the money we've put behind the launches of the new products. So obviously, there's the development cost of producing the new products. But when we launch into new markets, that requires marketing, sales, et cetera, to get those products into the market. So I think there's a lot of things in place, and therefore, we are confident that in all of these markets, you'll start to see progress.

Stephen Kelly - *The Sage Group plc - CEO and Executive Director*

Yes. And then with regard to Making Tax Digital, it's just one of a whole load of portfolio of initiatives. There's another one, anti-fraud legislation coming out in France that will be probably an impact in the second half and going into next year. For the U.K., I see actually very little impact in terms of the numbers on the delay, yes, which was announced in the finance bill around Making Tax Digital. But I think what it gives the government and the HMRC the opportunity to do is make sure they reframe it to make -- have a project that's capable of delivery. We see Making Tax Digital as very positive, actually, because it'll take potentially a lot of cost out of small and medium businesses and allow them to move to digital. We've got loads of data to say small businesses, medium businesses that have gone digital tend to be more profitable and grow faster. So for the competitive nature of Britain plc, I think it's good news, and we're obviously a major player. I think 53% of businesses in this country pay their employees using Sage. A lot of those small businesses use our accounting software, so we'll be right at the heart of those discussions to make sure we shape a strategy that actually delivers success. The other important thing, David, is the government's initial outline pre-finance bill was that companies that are below the VAT threshold of GBP 85,000 would get freemium software. So we already started working on some of those initiatives. But the reality is they won't be monetized. There's, I think, about 2.8 million businesses in the U.K. out of the 5.4 million businesses in total that would be associated with that below-the-VAT threshold. So summary, long answer, but short answer is no material impact on Sage in the second half; but over time, a big opportunity, I think, for Britain to become a lot more competitive through digitization and for Sage. Do you want to go at the back, right at the back.

Stephen Hare - *The Sage Group plc - CFO and Executive Director*

It is difficult to see the back.

Stephen Kelly - *The Sage Group plc - CEO and Executive Director*

Sorry about that.

Vijay Anand Chandrasekaran - *Mirabaud Securities LLP, Research Division - Technology Analyst*

It's Vijay Anand from Mirabaud. My question is on the partner channel. Can you say historically what was lacking in terms of driving growth from the partner channel? You talked about launching a new partner program as well as the cloud product for accountants. Can you say what else needs to be done to reinvigorate growth from this particular channel? And then linked to that, at the recent Sage Summit, it was mentioned that you would like to generate 45% of your FY '19 revenues from the partner channel. Can you say where that number stands today?

Stephen Kelly - *The Sage Group plc - CEO and Executive Director*

Yes. So in terms of the partners, I think it's fair to say -- and for those of you who came to London, you might talk to some of the partners, and they would have said, a year or 2 years ago, they were kind of this close to giving up, partners who had been with us a long time. I think they've seen -- and when we showed the road maps, which you probably have seen in London, the number of partners getting their iPhones out and taking photographs, were fantastic. Now, the good news is everything we've put on the commitment at Chicago last year we've delivered on, and to time and to quality. So I think there's kind of a renewed energy in the existing partners. There's probably 3 categories that really matter. One is the existing partners. Particularly, we've seen a big uptick in the U.S. with the Sage 200 product line, and that's a pure partner-driven product line. And that's based on their confidence. They're now starting to invest in growth in the Sage business. And some of these -- I was with a partner in New York, and they just launched on -- an IPO on the NASDAQ. And they're seeing a very strong both investment in the Sage business and also projection into next year. So I think we're in a good shape there. And again, if you come to Atlanta, you'll get the opportunity to meet and walk the floors and chat to these guys. Secondly, for some of the pure cloud plays, obviously, we need to encourage our partners to come to for a subscription model and the cloud. But there'll be new partners out there within like the Salesforce ecosystem, where we've been recruiting new partners. And I think in a couple of areas, we probably haven't recruited the enabled partners sufficiently to accelerate the products like Sage Live, but we're fixing that now. So there will be recruitment of new partners, and you'll meet again some of those in Atlanta. And they're very excited around mobility, around the cloud. Obviously, again, Sage is the first product in the marketplace to be on the Lightning platform, the Salesforce platform, so we're first to market with that product. So I think there'll be a big focus on recruitment of new partners. And then thirdly, a very important area of accountants. For the very small businesses, about 40% of their technology decisions are influenced by their accountant, so that's a hugely important channel and slightly different from a traditional partner model, where the partners like to resell or integrate. But the accountants like to provide advice, services and more of a referral model. And we launched our Accountant Cloud actually at the Sage Summit in London, which is, without a doubt, streets ahead of any competitors, so it allows an accountant to run in the cloud with mobility their own business, practice management, all their time recorded and all their bill in, but also create an ecosystem where they can manage a heterogeneous sets of technologies for their clients. So you could have Sage, Sage One, QuickBooks Online and other technologies that need to be brought together. And typically, an accounting practice would have 300 clients per average practice. So you can imagine that their clients have many different technologies, and what that allows them to do for us is to see their clients' data in the cloud and share that client data, obviously, with their customers. So I think with the Sage Accountant

Cloud, again, massively through technology, got -- we got rave reviews from the accounting bodies. And again, we'll be showcasing that in Atlanta. So I think that's kind of regalvanized our focus on the accountants. And we're starting, through Jennifer Warawa, who looks after this area, to really step up on the accountants, particularly in the U.S. and the U.K. because they are very important. And I think our message is slightly different from competitors. Our message is we want to bring the accountants on the journey to the cloud, the new world, and that means the business model for the accountants will move upmarket and move into sort of more value-added services, fixed-price services and a virtual finance director role. Anything to add?

Stephen Hare - *The Sage Group plc - CFO and Executive Director*

Yes, so just over 35% of group revenue comes through the channel, but increasingly, a disproportionate level at new customer acquisition comes through the channel. So it does vary a lot depending on markets. So France is a very heavy partner channel. The U.K. is very heavy direct. But probably a better way of looking at it is if I use the classifications I used earlier when I was answering Stacy's question. If you think about the Sage 50 product family, that's pretty much all direct, both in the U.K. and in the U.S., whereas the Sage 200 family is predominantly a partner. Sage One is a mixture. We do -- we sell direct over the web, but we sell a lot through accountants as well. And actually, at the moment, it's more skewed towards accountants. Sage Live, we tend to send -- sell direct through the [CVCs]. But increasingly, we are engaging with partners to both sell and also to activate. And X3 is heavily partner related. Now, even if we take the deal, we front the deal, we nearly always have a partner involved in the next 3 deals, so it's a question -- just a question of whether we -- do we take prime or do the partner take prime. But particularly on the bigger deals, there's nearly always a partner involved. So -- and then the final thing I'd say is that you talk to any partner who's been to any of the Sage Summits, whether it be in London or Madrid or Berlin or Atlanta next week, they are absolutely front and center. London day 1 was a partner day. So we're getting a lot of feedback from partners now that they're getting a lot more confident that, actually, from Stephen down, they're getting taken a lot more seriously by the senior executives. And then the final piece is the Sage partner program is more geared towards giving partners rewards for acquiring new customers, whereas a lot of the old country programs were not. So I think particularly North America, where I called out the top 30 partners, and those of you who are at Atlanta next week, check this, go and talk to the top partners who will all be there in Atlanta, they're a lot more excited now about working with us to acquire new customers as well as continuing to upgrade and activate existing customers.

Stephen Kelly - *The Sage Group plc - CEO and Executive Director*

Maybe time for one more question. We'll go to Michael. And we'll be around afterwards if you want to come down the front.

Michael Briest - *UBS Investment Bank, Research Division - MD of Global Technology Research Group, Head of the European Technology Research and Senior European Software and IT Services Analyst*

Michael Briest at UBS. Steve, could you shine a light on Sage One in the U.S. just in terms of how customers have grown there and maybe what proportion of those are coming from the legacy Peachtree customers and how many Peachtree customers there still are? And then just in terms of M&A, I noticed you're selling XRT in Brazil as well. And there was a small German business that's departed. What's the thinking behind that because I thought Brazil did very well? And are there other assets that you would be looking to exit because there's clearly some legacy business in there?

Stephen Hare - *The Sage Group plc - CFO and Executive Director*

Yes. So the growth in Sage One in North America remains small, so of our 382,000 Sage One subscribers, less than 20,000 are in the U.S.A. We have slightly more in Canada, but at the U.S.A., it remains low, so the growth is negligible. We are in the process of sort of repositioning how we go to market with Sage One in the U.S., both through the accountant channel and also digitally. We've been doing a lot of work to unify our website and make sure that we drive the appropriate quality of traffic to the website. In the past, I think we've put digital marketing in, so trying to drive Sage One subscribers in the U.S. and ended up with a higher attrition rate because we haven't got the quality of leads. So we're having a bit of a reassess. On M&A, yes, we -- as well as buying Fairsail, we're doing a bit of tidying up of some of these sort of smaller businesses, smaller product lines, which are not core to what we're doing going forward. So XRT in Brazil, for example, is a few million dollars of turnover, as was the divestment that we did in Germany. So that is something that you may see us continue to do if we think it's a distraction and that it's consuming resources that could be spent elsewhere. And if we think that it creates more shareholder value by selling and realizing some proceeds, then we'll do that.

Stephen Kelly - *The Sage Group plc - CEO and Executive Director*

Yes, Michael, just on Sage One in the U.S., it's a very deliberate policy for management to have the 2 building blocks of the accountants. And again, in Atlanta, you'll see a big push on the Accountant Cloud; and secondly, Neil, sitting behind you, runs Digital Marketing. Early days, but in Atlanta, the new sage.com experience goes up, so I think world-class digital marketing, and you'll see it. It's landing first in the U.S., and it will launched at Sage Summit in Atlanta. But early days, but we are seeing like a 116% uptick year-on-year in terms of visitors. So lots to do, but you'll see, once we got those key platforms in place around the accountants and a really good digital experience, we'll start really focusing again in the U.S. on Sage One.

Stephen Hare - *The Sage Group plc - CFO and Executive Director*

The Sage Live, actually, in the U.S. is helping because you've got sort of complementary products. So actually, we have also got instances of where we're talking to customers and we say, "Well, actually, Sage Live is a bit of overkill for you, to be honest. We've also got Sage One. So actually, we'd recommend Sage One." And so having more to talk to the customer about in the U.S. is definitely helping.

Stephen Kelly - *The Sage Group plc - CEO and Executive Director*

Well, thank you very much for coming along today. And if you want to ask any further questions, we'll be here for about 5, 10 minutes.

Stephen Hare - *The Sage Group plc - CFO and Executive Director*

10 minutes, yes.

Stephen Kelly - *The Sage Group plc - CEO and Executive Director*

Great stuff. Thank you very much.
