

# Sage Full-Year Results

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For the year ended 30 September 2021

17 November 2021



NewsCafe,  
South Africa,  
Sage Payroll Cloud

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- Rounding  
As a result of rounding throughout this document, it is possible that tables may not cast and change percentages may not calculate precisely.
- Terminology  
Unless stated otherwise all references to revenue are organic.
- Materiality  
Only figures over £1m are considered to be material for the purposes of this presentation.



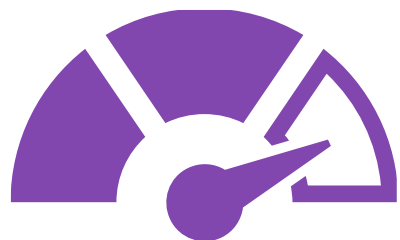
# Steve Hare

## CEO

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- Overview
- Financial review
- Strategic update and outlook
- Q&A

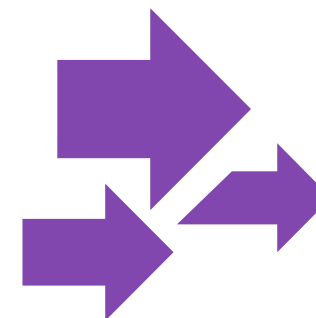




**Performance**



**Progress**



**Priorities**

# Jonathan Howell

## CFO

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- ☐ Overview
- ☒ Financial review
- ☐ Strategic update and outlook
- ☐ Q&A



# FY21 Financial highlights



High quality recurring  
revenue growth

**5.4%**

FY20: 8.4%

On-target  
margin

**19.3%**

FY20: 22.0%

Strong cash  
conversion

**126%**

FY20: 123%

ARR growth

**8%**

FY20: 5%

Cloud native ARR  
growth

**44%**

FY20: 26%

Renewal by value

**99%**

FY20: 99%

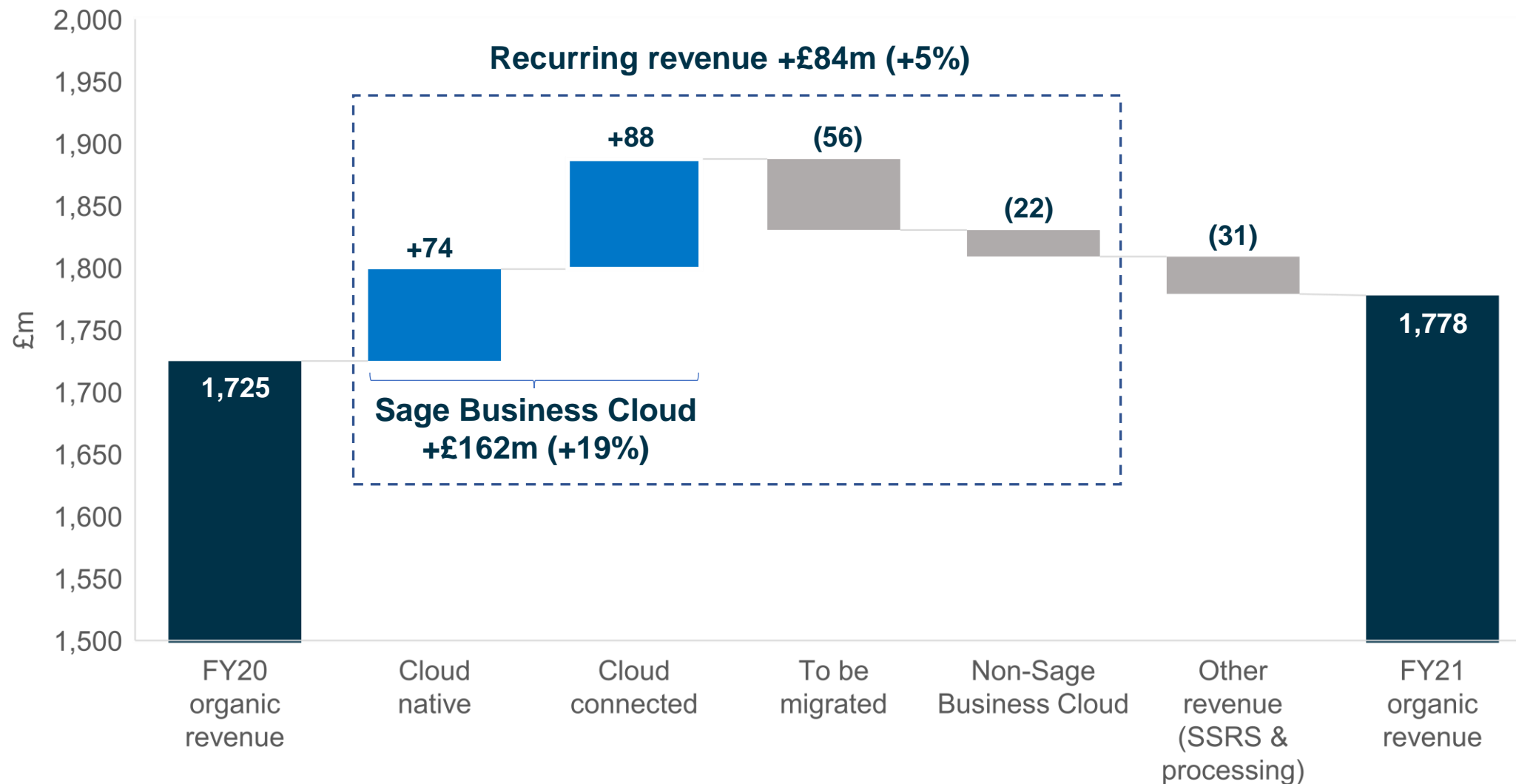
# P&L summary



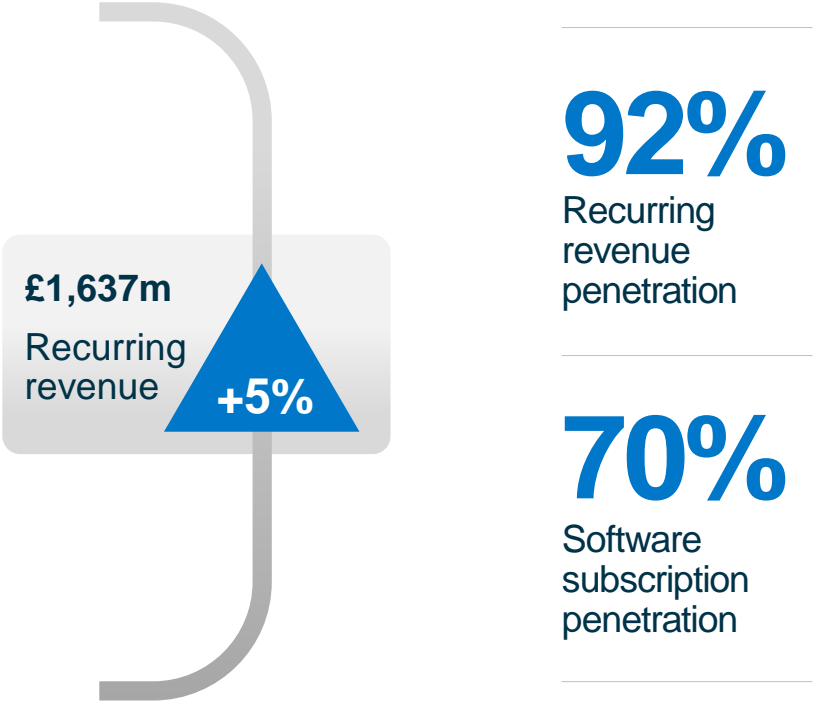
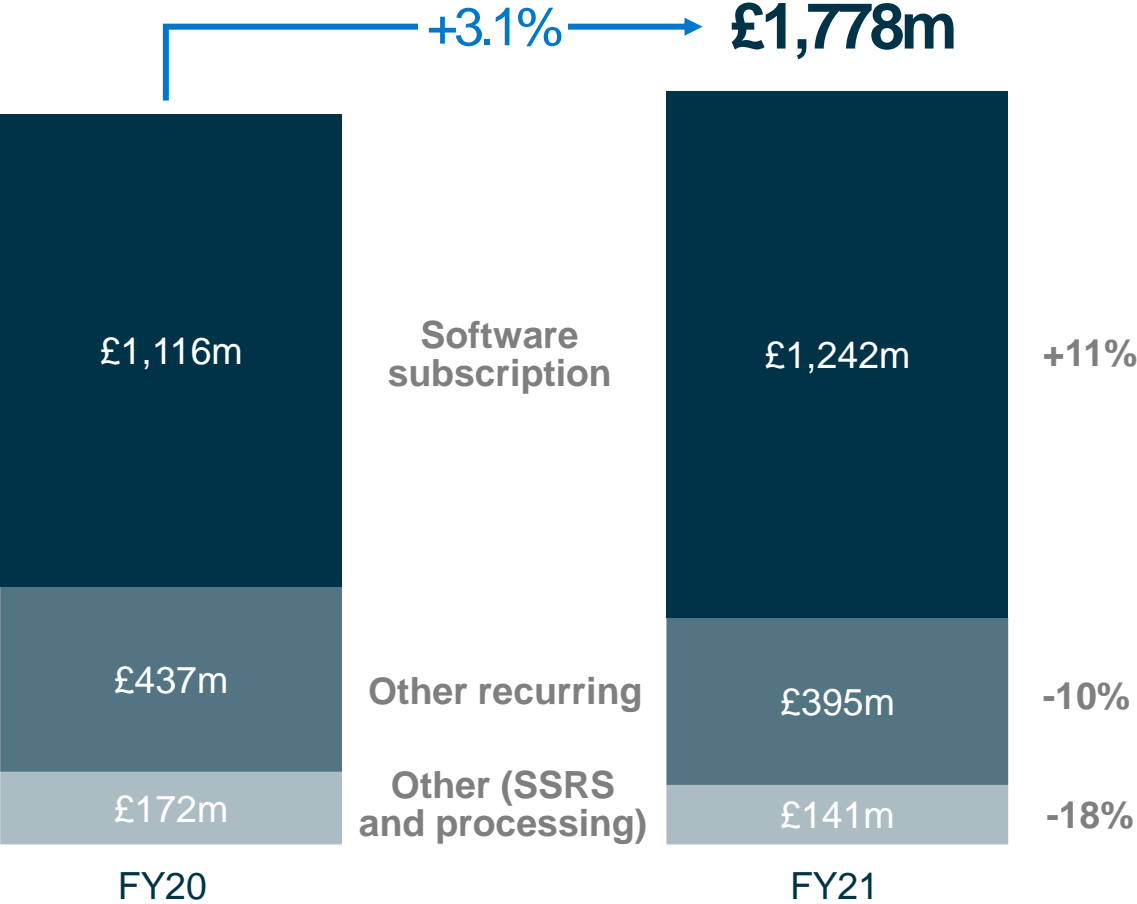
	FY21 £m	FY20 £m	Change
<b>Total Organic Revenue</b>	<b>£1,778m</b>	<b>£1,725m</b>	<b>+3%</b>
<b>Recurring revenue</b>	<b>£1,637m</b>	<b>£1,553m</b>	<b>+5%</b>
<b>Organic operating profit</b>	<b>£343m</b>	<b>£380m</b>	<b>-10%</b>
<i>Organic operating profit margin %</i>	<i>19.3%</i>	<i>22.0%</i>	<i>-2.7 pts</i>
<b>Underlying operating profit</b>	<b>£358m</b>	<b>£400m</b>	<b>-11%</b>
<i>Underlying operating profit margin %</i>	<i>19.4%</i>	<i>21.6%</i>	<i>-2.2 pts</i>
<b>Underlying basic EPS</b>	<b>23.09p</b>	<b>26.74p</b>	<b>-14%</b>
<b>Dividend per share</b>	<b>17.68p</b>	<b>17.25p</b>	<b>+2.5%</b>
<b>Annualised Recurring Revenue (ARR)</b>	<b>£1,680m</b>	<b>£1,560m</b>	<b>+8%</b>



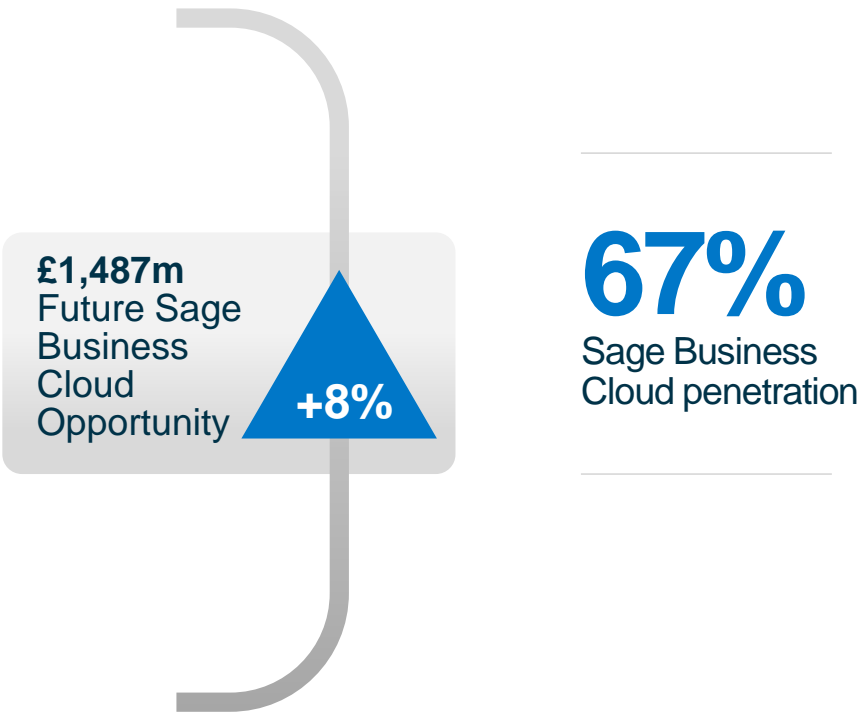
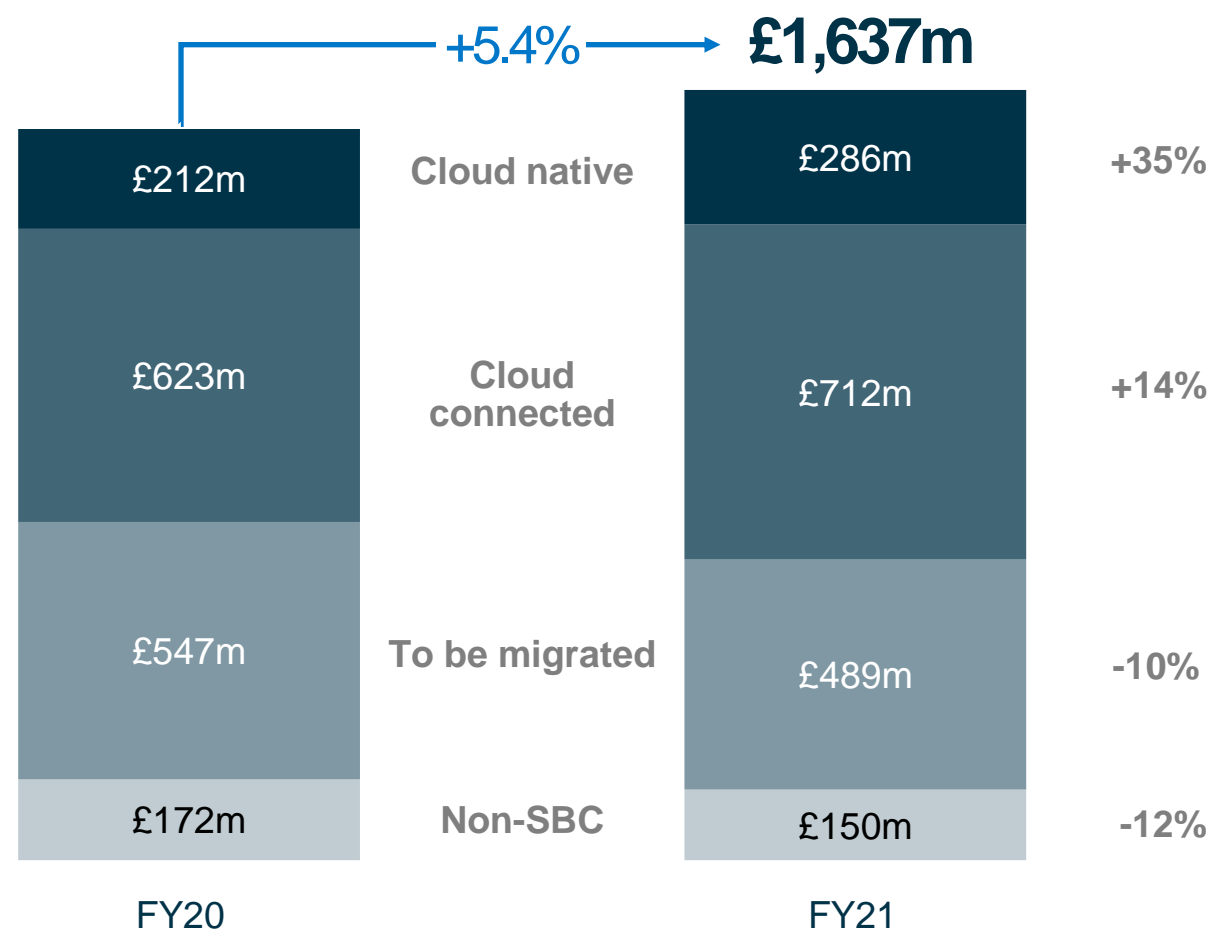
# Revenue bridge



# Revenue categories



# Portfolio view of recurring revenue



## Sage Intacct

- Recurring revenue growth of 22%
- Continued strength in new customer acquisition

## US

- Recurring revenue growth of 8%
- Progress in Sage Intacct and continued growth in Sage 200 franchise and Sage 50 solutions

## Canada

- Recurring revenue growth of 6%
- Sage 50 and Sage 200 cloud connected solutions driving growth

## Sage Business Cloud penetration



## Software subscription penetration



Organic Revenue by Category	FY21	FY20	Growth
Organic total revenue	£687m	£651m	+6%
Organic recurring revenue	£641m	£597m	+7%
Sub-region view – recurring revenue	FY21	FY20	Growth
US	£543m	£504m	+8%
Of which Sage Intacct	£164m	£134m	+22%
Canada	£98m	£92m	+6%

## Recurring revenue growth of 4%

- Sage Business Cloud penetration now at 86%
- Reflects strong and accelerating growth in cloud native solutions
- Supported by further growth in Sage 50 cloud connected

## Cloud native growth

- Cloud native growth driven by new customer acquisition in Sage Accounting, Sage People and AutoEntry, together with migrations to Sage HR
- Sage Intacct in the UK continues to grow rapidly through both direct sales and the partner channel

## Sage Business Cloud penetration



## Software subscription penetration



Organic Revenue by Category	FY21	FY20	Growth
Organic total revenue	£402m	£394m	+2%
Organic recurring revenue	£391m	£377m	+4%



## France

- 5% recurring revenue growth
- Strong performance in cloud connected products and further growth in cloud native solutions

## Central Europe

- 6% recurring revenue growth, reflecting growth in cloud connected and local products

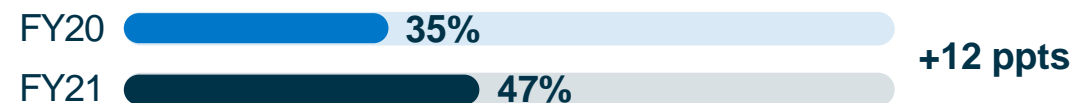
## Iberia

- 2% recurring revenue decline, reflecting a reduction in maintenance and support revenues

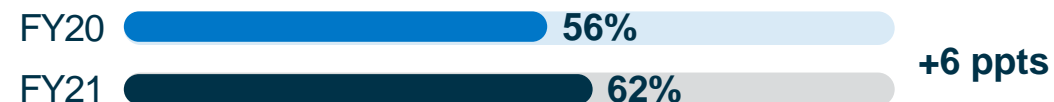
## Africa & APAC

- Continued good performance in cloud native solutions, particularly Sage Accounting in Africa

## Sage Business Cloud penetration



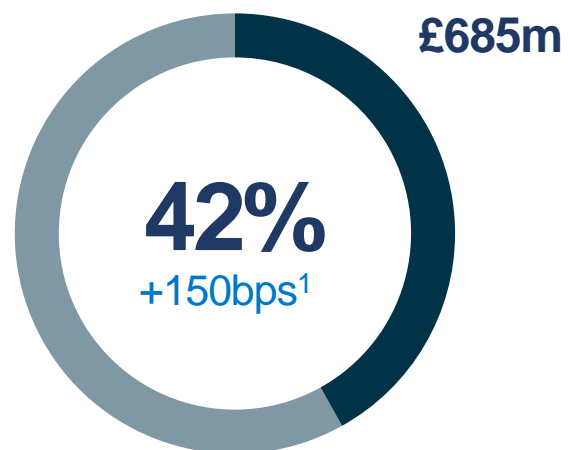
## Software subscription penetration



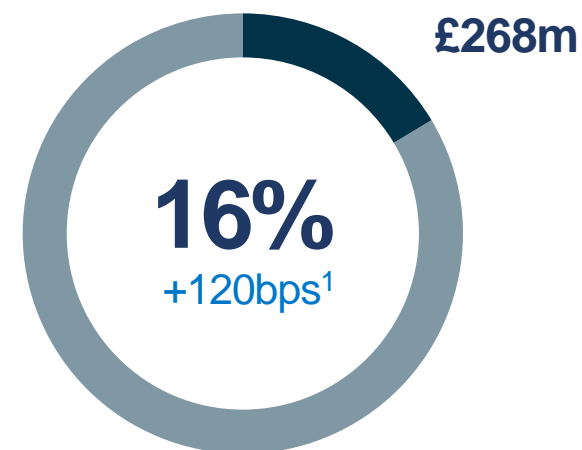
Organic Revenue by Category	FY21	FY20	Growth
Organic total revenue	£689m	£680m	+1%
Organic recurring revenue	£605m	£579m	+4%
Sub-region view – recurring revenue	FY21	FY20	Growth
France	£257m	£245m	+5%
Central Europe	£102m	£96m	+6%
Iberia	£121m	£123m	-2%
Africa & APAC	£125m	£115m	+9%

# Strategic investment to drive growth

## Sales & marketing costs as % of recurring revenue

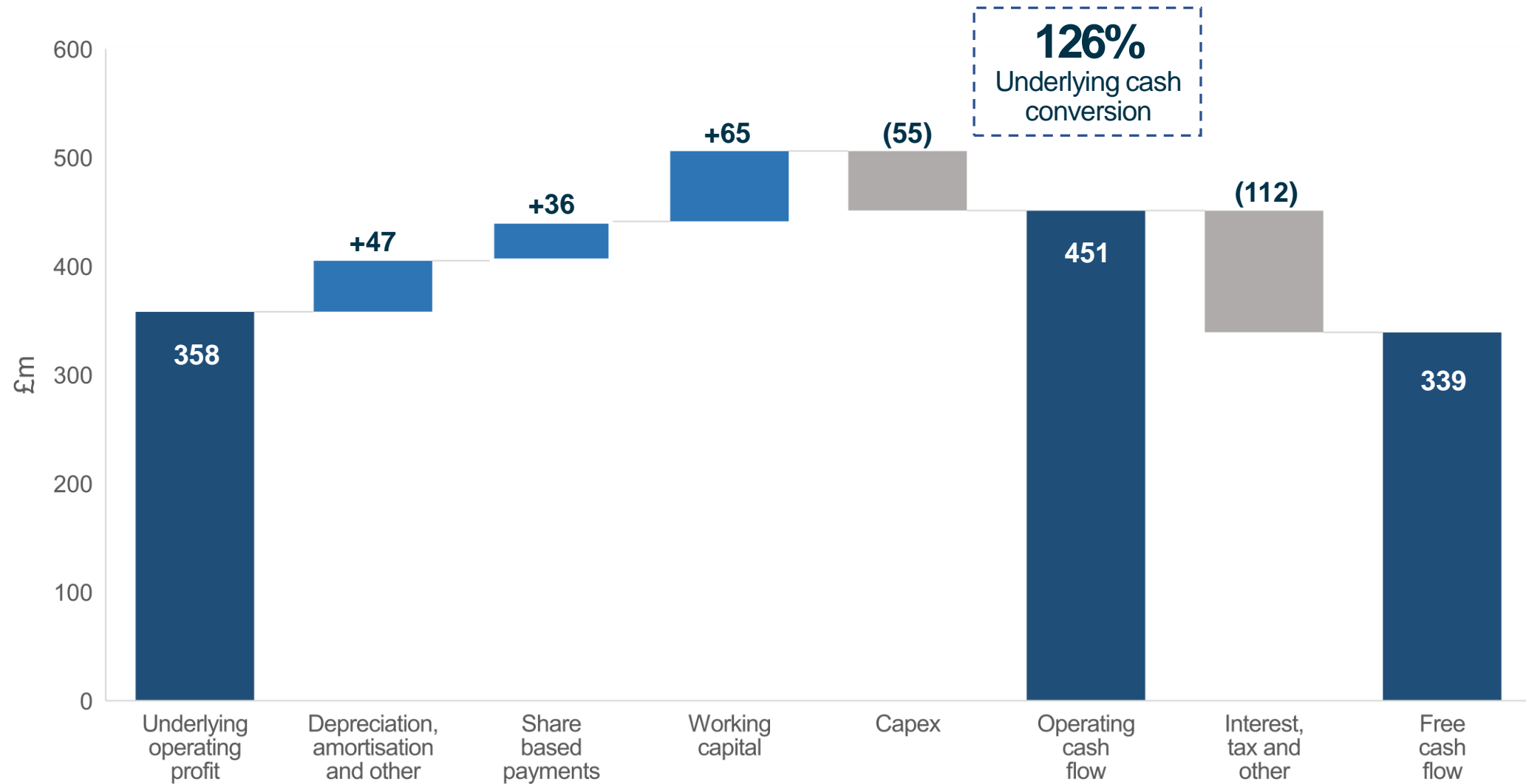


## R&D costs as % of recurring revenue



<sup>1</sup> FY21 year-on-year change

# Strong cash generation



See appendix for definitions

# Robust financial position



**Net debt leverage**  
**0.6x**

**Net debt**  
**£247m**

**Cash and liquidity**  
**£1.2bn**

- Returning £600m through share buyback programmes, of which £502m executed to date, reflecting proceeds from recent disposals
- Dividend increased 2.5% in FY21 reflecting strong financial performance
- Significant capacity for future capital priorities to support organic and inorganic growth
- Expect to move back within the target net debt to EBITDA range of 1-2x

See appendix for definitions

# FY21 Financial highlights



High quality recurring  
revenue growth

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FY20: 8.4%

On-target  
margin

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Strong cash  
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FY20: 123%



# Steve Hare

CEO

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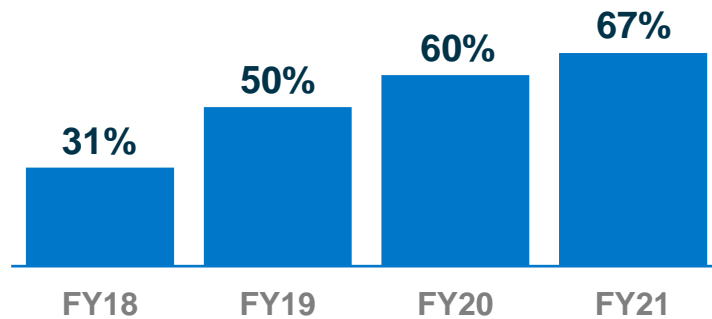
- ☐ Overview
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- ☐ Q&A



# Strong strategic progress since FY18

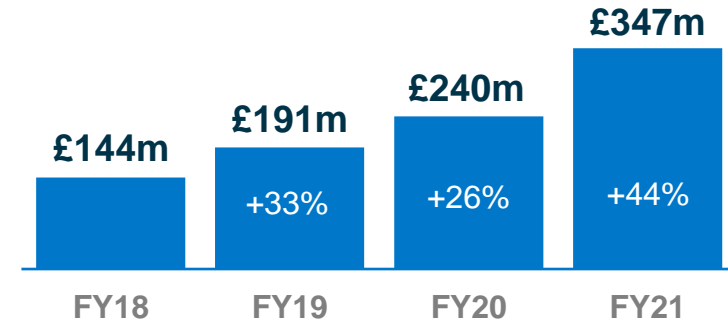
## Moving customers to the cloud

Sage Business Cloud penetration



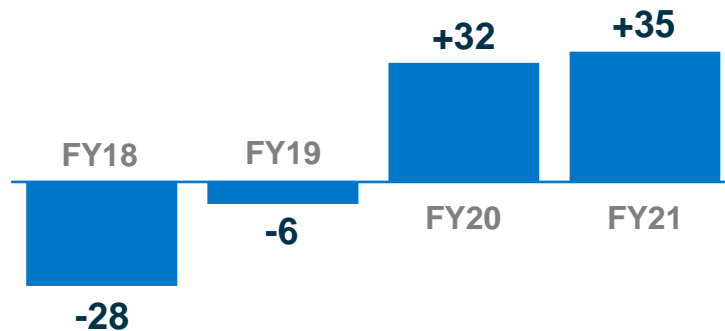
## Growing through innovation

Cloud native ARR (and growth)



## Transforming our culture

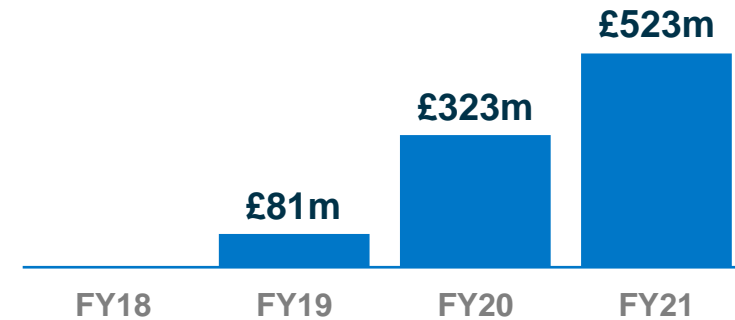
Colleague NPS



Transforming  
Sage into a more  
focused, higher  
quality business

## Focusing on the core

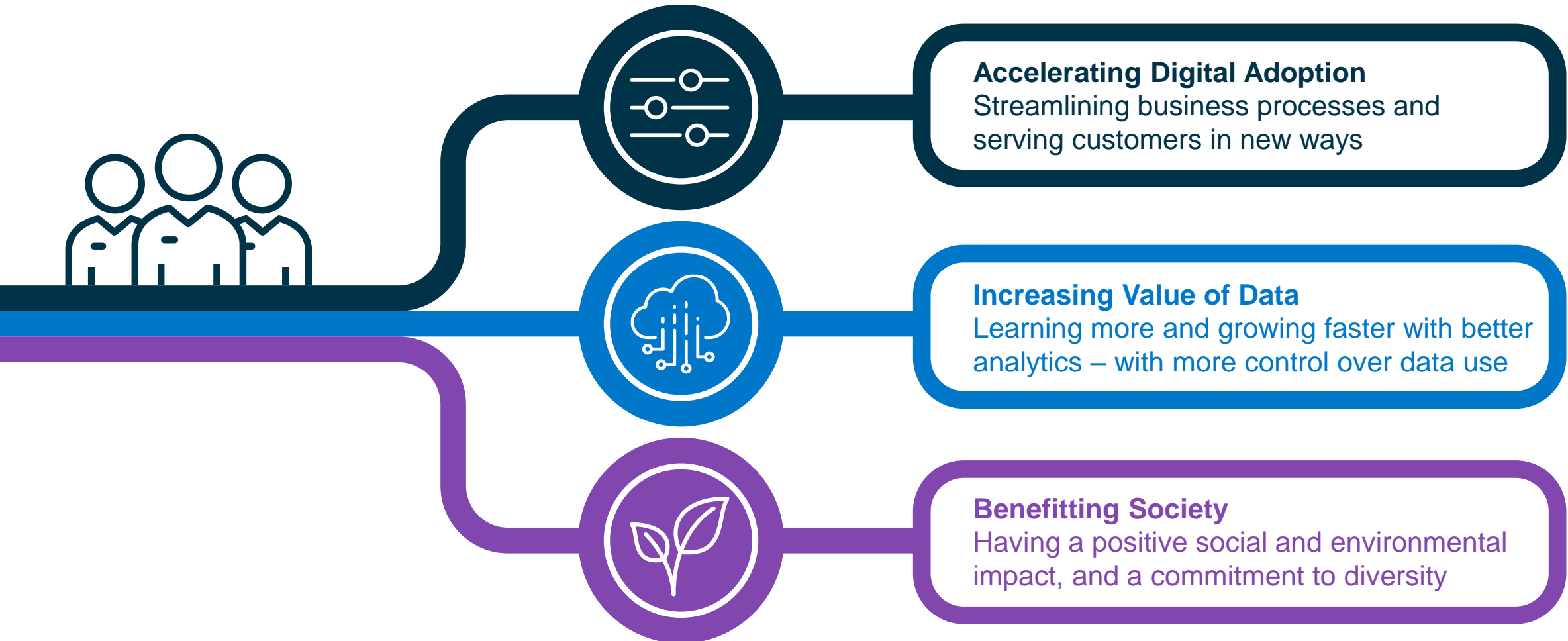
Value of disposals (cumulative)



Note: FY21 total includes Switzerland (expected to complete in H1 22)

# Customer insights and trends

Our customers tell us what's important to them today



# Refreshed strategic framework for growth



## Purpose

To knock down barriers so everyone can thrive

## Ambition

To be the trusted network for small and mid-sized businesses

## Strategic Priorities

Scale  
Sage Intacct

Expand Medium  
Beyond Financials

Build the Small  
Business Engine

Scale the Network

Learn and Disrupt

## Stakeholders

Customers

Colleagues

Society

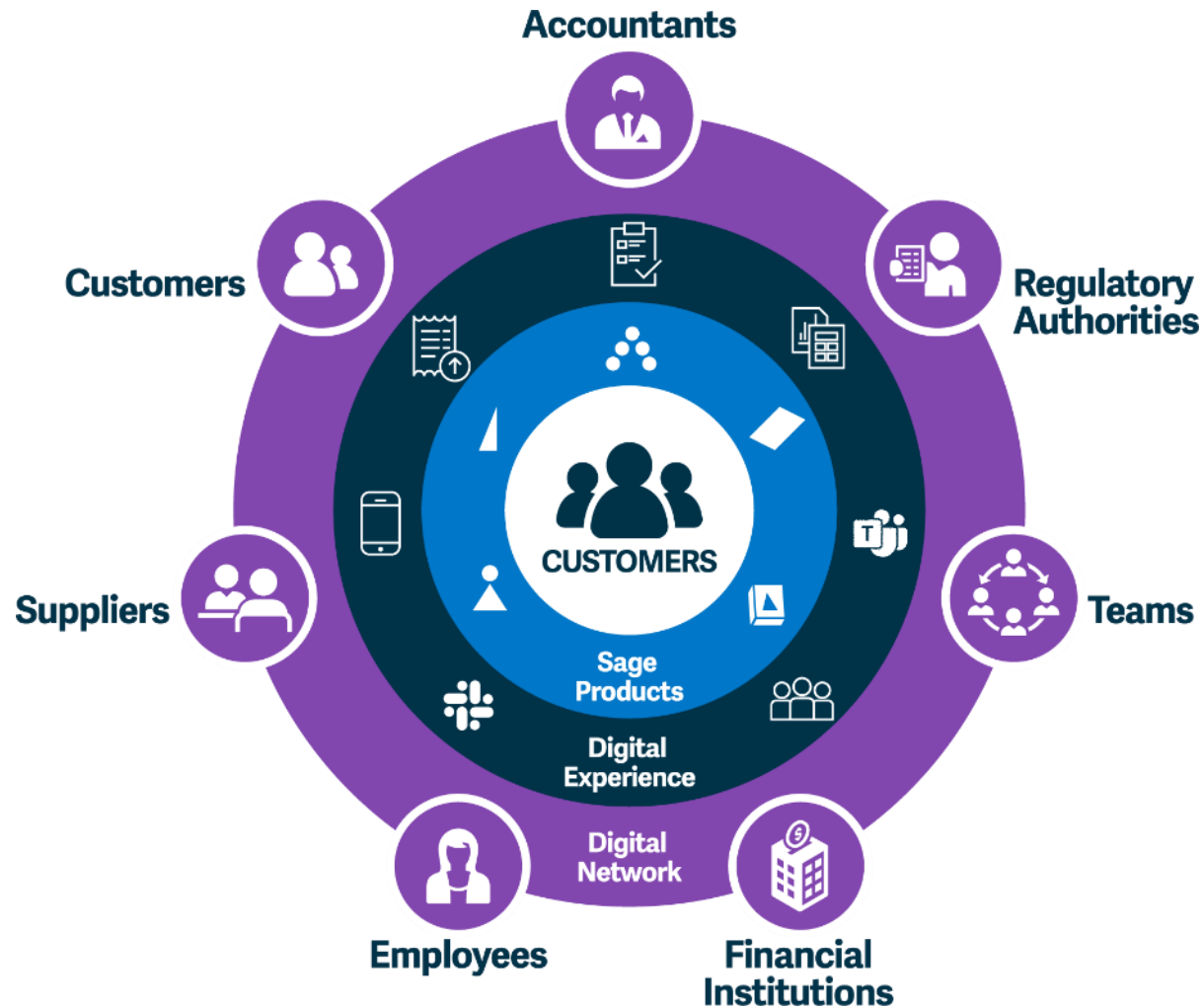
Shareholders

## Values

# Our ambition: to be the trusted network for SMBs



## Sage's digital network

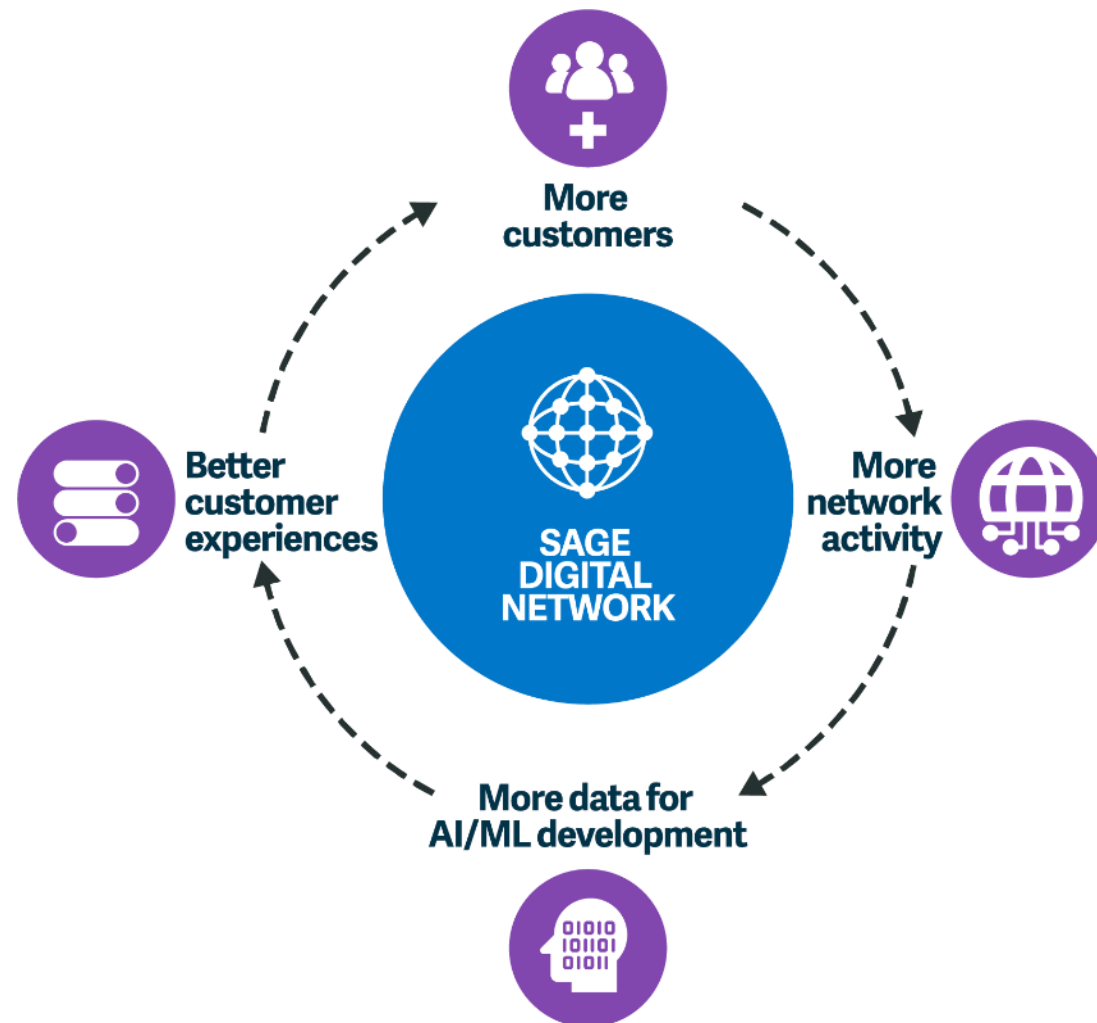


### Customer benefits of Sage's digital network

- Efficiency – digital services that automate workflows and interactions between businesses
- Business outcomes – helping customers overcome challenges and gain better insights
- Trust – through verified digital identities and a shared ledger



# Our strategic flywheel



# Scale Sage Intacct

sage

## Strategic priority 1



**Accelerate the expansion of Sage Intacct in existing and new markets**

### Progress in FY21

- Invested in sales & marketing and distribution
- Record year for Sage Intacct, with more than 2,000 new customer wins (up >50% on prior year)

### Future focus

- Expand vertical capability both in North America and internationally

### Pete Tantillo, CFO of RapidRatings:

*"Sage Intacct has helped us futureproof the business as we continue to grow. It integrates seamlessly with other systems and drives efficiency in our processes."*



Sage Intacct customer

# Expand Medium beyond financials



## Strategic priority 2



### Broaden the value proposition for mid-sized businesses

#### Progress in FY21

- Sage Intacct Budgeting & Planning sales up 60%
- Launched Sage Data & Analytics for Sage 100, Sage 300 & X3

#### Future focus

- Grow solutions across the CFO agenda to drive cross sell, enhance loyalty and increase lifetime value

#### Mette O'Connor, Controller at West Harbor Healthcare:

*"We went from limping along to being a fast-paced, highly automated finance department with Sage Intacct for both budgeting and accounting."*





# Build the small business engine

sage

## Strategic priority 3



Create a scalable digital 'engine' to acquire and serve small business customers

### Progress in FY21

- Invested in sales & marketing, eCommerce platform and solutions for accountants
- New Sage Accounting customers up 80% in UK; strong growth in cloud native small business suite

### Future focus

- Refine and develop in UK, scale internationally



**Rory Copplestone, Co-Founder of Foxglove Cocktails:**

*"Before adopting Sage, I did everything in Excel. Sage has given me a lot more structure, and that's down to the support we've received from the start."*



Sage Accounting  
customer



# Scale the network

sage

## Strategic priority 4



### Increase participation in Sage's digital network and accelerate the network effect

#### Progress in FY21

- More customers able to access the digital network; expanded the ecosystem with more ISV integrations
- Launched new cloud native solutions in International

#### Future focus

- Grow Sage Business Cloud penetration, drive cloud services via investment in Service Fabric

#### Peter Gaca, Owner, BITS Consulting:

*"With Sage, it's all online in one system. It's automated, it's connected to banks, it's connected to HMRC and it's connected to my accountant. So, I've got a single view of the world."*



Sage Accounting  
customer



# Learn and disrupt

sage

## Strategic priority 5



### Build innovative solutions underpinned by a culture of continuous learning and disruption

#### Progress in FY21

- Enhanced digital services: bank reconciliations, e-invoicing and a new tax engine for Sage Accounting
- Partnership with Tide for small business owners; invested in BrightPearl and CountingUp

#### Future focus

- Drive innovation, launch network-powered solutions



# Our stakeholders



**Customers**



**Colleagues**

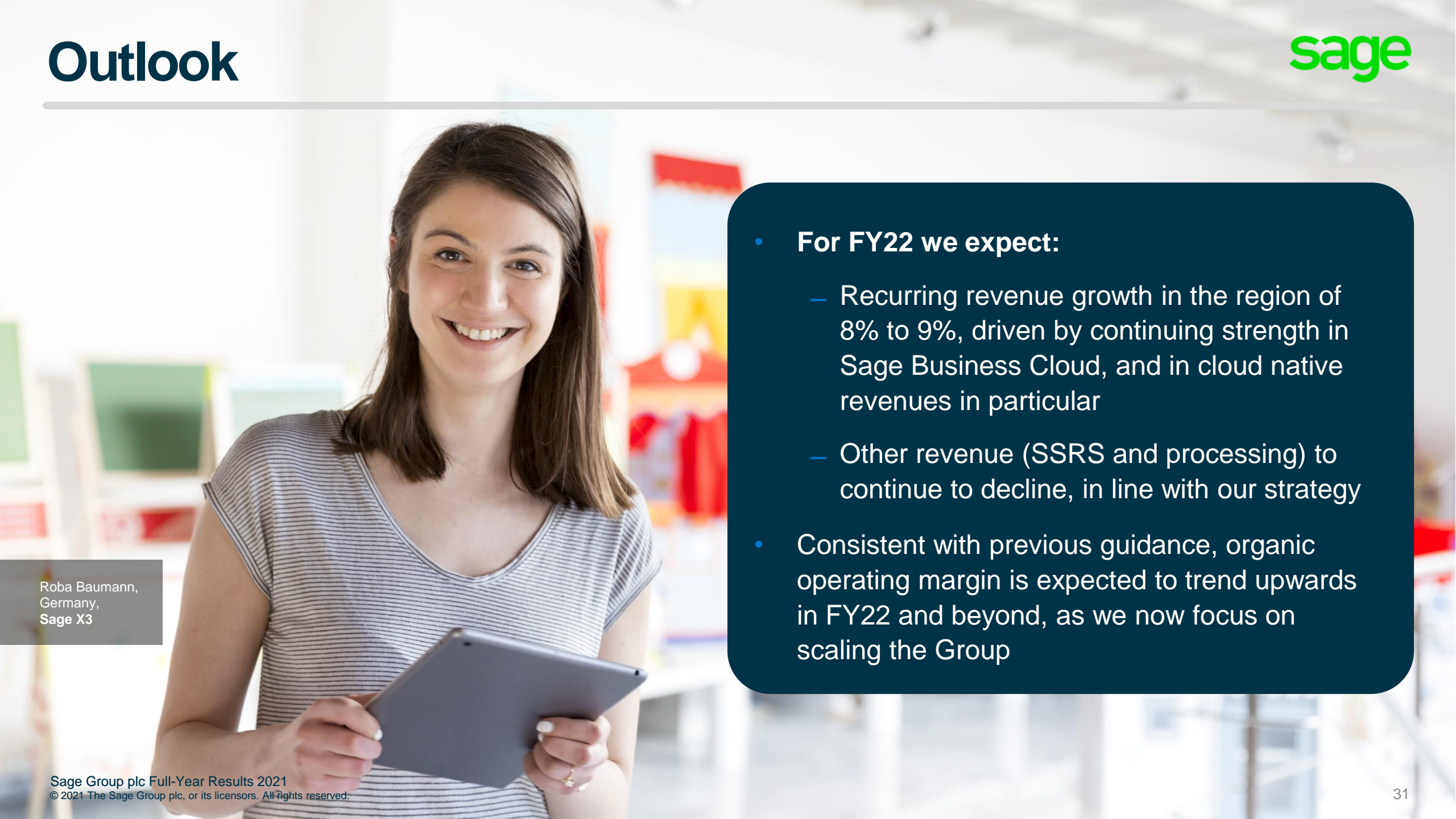


**Society**



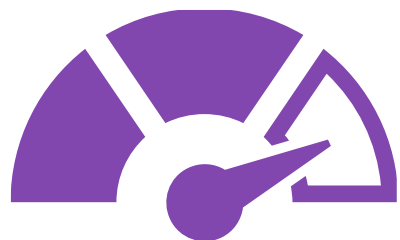
**Shareholders**





Roba Baumann,  
Germany,  
Sage X3

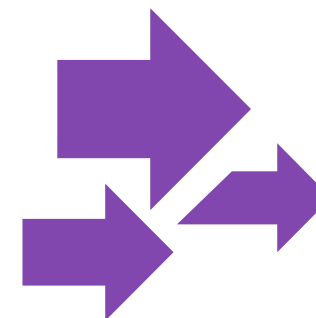
- **For FY22 we expect:**
  - Recurring revenue growth in the region of 8% to 9%, driven by continuing strength in Sage Business Cloud, and in cloud native revenues in particular
  - Other revenue (SSRS and processing) to continue to decline, in line with our strategy
- Consistent with previous guidance, organic operating margin is expected to trend upwards in FY22 and beyond, as we now focus on scaling the Group



**Performance**



**Progress**



**Priorities**

# Q&A

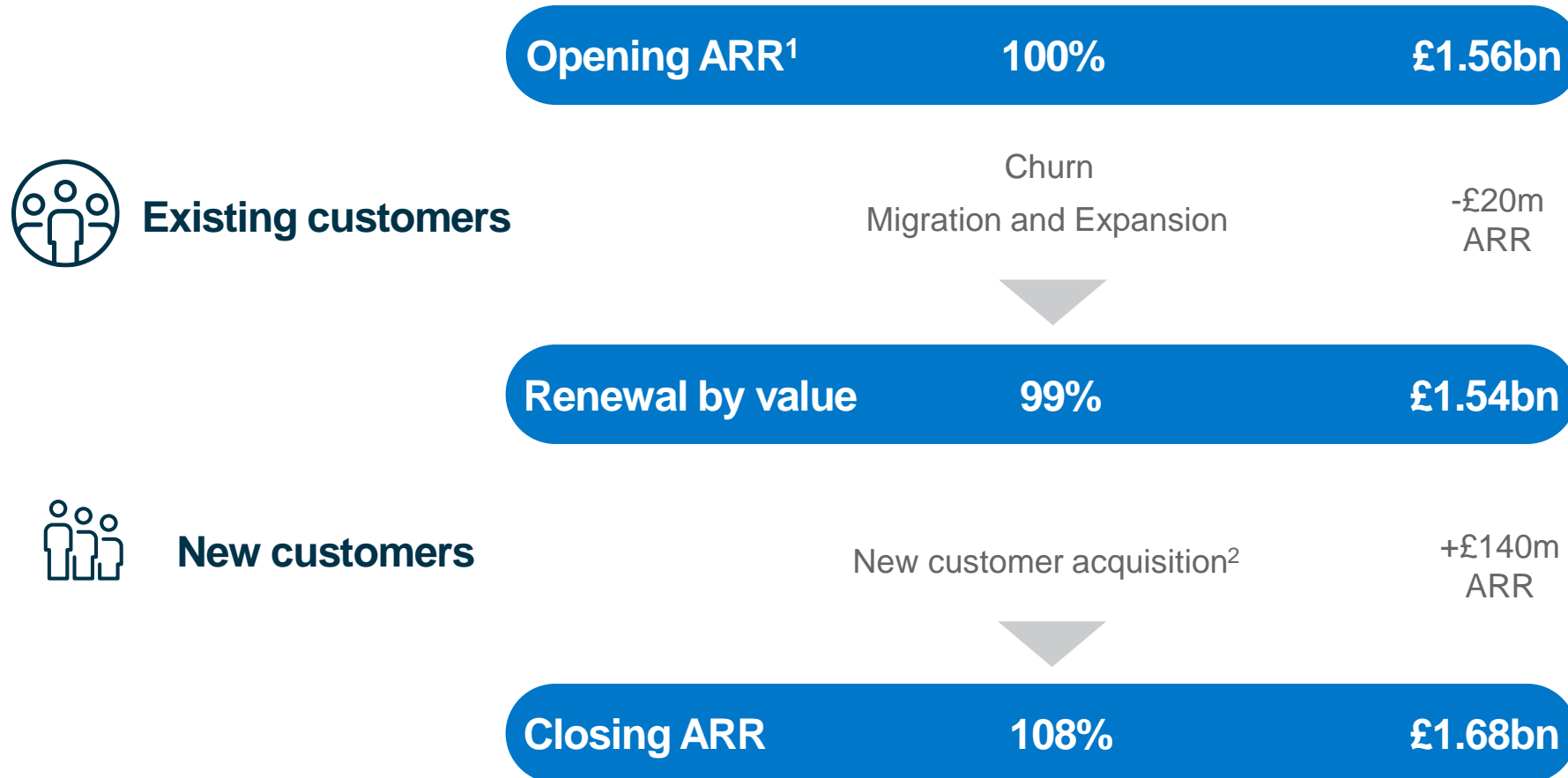
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- ☐ Overview
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# Appendix

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# Building ARR



1. As at the end of the comparative period (30 September 2020), stated on an organic basis at period end exchange rates

2. New customer acquisition includes reactivations

# Bridge from organic to underlying



£m	ARR		Recurring revenue		Total revenue		Operating profit	
	FY21	Growth	FY21	Growth	FY21	Growth	FY21	Growth
<b>Organic</b>	<b>1,680</b>	<b>+8%</b>	<b>1,637</b>	<b>+5%</b>	<b>1,778</b>	<b>+3%</b>	<b>343</b>	<b>-10%</b>
Assets held for sale <sup>1</sup>	21		22		28		8	
<b>Organic (incl. assets held for sale)</b>	<b>1,701</b>	<b>+8%</b>	<b>1,659</b>	<b>+5%</b>	<b>1,806</b>	<b>+3%</b>	<b>351</b>	<b>-9%</b>
Disposals <sup>2</sup>	(1)		34		40		7	
<b>Underlying</b>	<b>1,700</b>	<b>+4%</b>	<b>1,693</b>	<b>+3%</b>	<b>1,846</b>	<b>-1%</b>	<b>358</b>	<b>-11%</b>

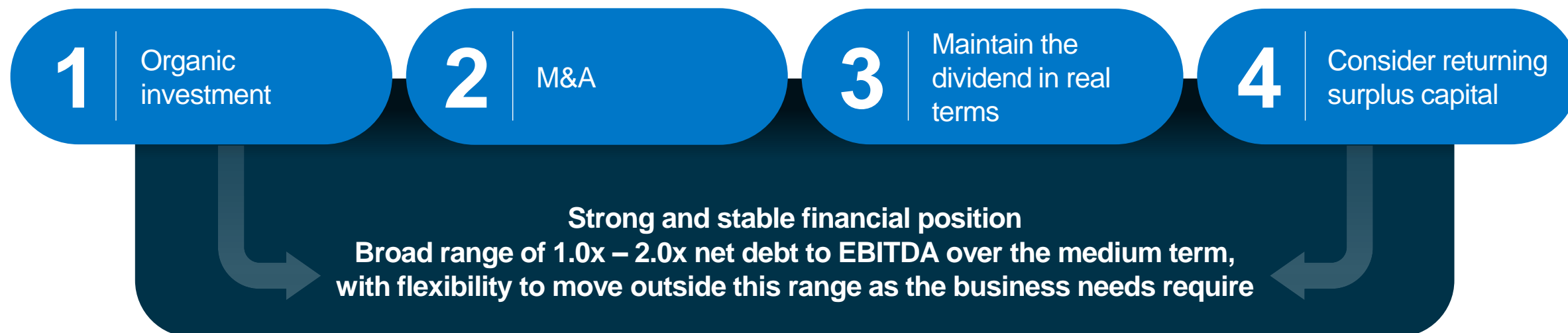
1. Includes Sage's business in Switzerland and South African payroll outsourcing
2. Includes Sage's Polish and Australia and Asia businesses



# Sage Business Cloud portfolio



Cloud Connected		Cloud Native	
Accounting & Financials		People & Payroll	
 <b>MEDIUM</b>	Sage 200 Cloud	Sage Intacct	Sage People
 <b>SMALL</b>	Sage 50 Cloud Sage 50 Payroll	Sage Accounting	Sage HR Sage Payroll
Sage Service Fabric			





## Measure/Description

### Underlying (revenue and profit) measures

Underlying measures are adjusted to exclude items which would distort the understanding of the performance for the year or comparability between periods:

- Recurring items include purchase price adjustments including amortisation of acquired intangible assets and adjustments made to reduce deferred income arising on acquisitions, acquisition-related items, unhedged FX on intercompany balances and fair value adjustments; and
- Non-recurring items that management judge to be one-off or non-operational such as gains and losses on the disposal of assets, impairment charges and reversals, and restructuring related costs.

All prior period underlying measures (revenue and profit) are retranslated at the current year exchange rates to neutralise the effect of currency fluctuations.

### Organic (revenue and profit) measures

In addition to the adjustments made for Underlying measures, Organic measures:

- Exclude the contribution from discontinued operations, disposals and assets held for sale of standalone businesses in the current and prior period; and
- Exclude the contribution from acquired businesses until the year following the year of acquisition; and
- Adjust the comparative period to present prior period acquired businesses as if they had been part of the Group throughout the prior period.

Acquisitions and disposals where the revenue and contribution impact would be immaterial are not adjusted.

### Underlying cash flow from operating activities

Underlying Cash Flow from Operations is Underlying Operating Profit adjusted for non-cash items, net capex (excluding business combinations and similar items) and changes in working capital.

### Underlying cash conversion

Underlying Cash Flow from Operations divided by Underlying (as reported) Operating Profit.

### EBITDA

EBITDA is Underlying Operating Profit excluding depreciation, amortisation and share based payments.

### Annualised recurring revenue

Annualised recurring revenue ("ARR") is the normalised organic recurring revenue in the last month of the reporting period, adjusted consistently period to period, multiplied by twelve. Adjustments to normalise reported recurring revenue include those components that management has assessed should be excluded in order to ensure the measure reflects that part of the contracted revenue base which (subject to ongoing use and renewal) can reasonably be expected to repeat in future periods (such as non-refundable contract sign-up fees).

### Renewal Rate by Value

The ARR from renewals, migrations, upsell and cross-sell of active customers at the start of the year, divided by the opening ARR for the year.

## Measure/Description

### **Free cash flow**

Free Cash Flow is Cash Flow from Operations minus non-recurring cash items, interest paid, tax paid and adjusted for profit and loss foreign exchange movements.

### **% Subscription Penetration**

Organic software subscription revenue as a percentage of organic total revenue.

### **% Sage Business Cloud Penetration**

Organic recurring revenue from the Sage Business Cloud (native and connected cloud) as a percentage of the organic recurring revenue of the Future Sage Business Cloud Opportunity.

## Measure/Description

Revenue Type	Description
<b>Recurring revenue</b> Subscription contracts Maintenance and support contracts	<p>Recurring revenue is revenue earned from customers for the provision of a good or service over a contractual term, with the customer being unable to continue to benefit from the full functionality of the good or service without ongoing payments.</p> <p>Subscription revenue is recurring revenue earned from customers for the provision of a good or service over a contractual term. In the event that the customer stops paying, they lose the legal right to use the software and the Group has the ability to restrict the use of the product or service.</p> <p>Subscription revenue and maintenance and support revenue are usually recognised on a straight-line basis over the term of the contract as control is transferred to the customer (including non-specified upgrades, when included). An exception is revenue from term licences embedded within a subscription contract for software with significant standalone functionality which are expected to recur upon renewal of the subscription offering. Revenue for these term licences is recognised when control is transferred at inception of each subscription contract period.</p>
<b>Other revenue</b> Perpetual software licences Upgrades to perpetual licences Professional services Training Hardware and stationery Payment processing services Payroll processing services	<p>Perpetual software licences with significant standalone functionality and specified upgrades revenue are recognised when the control relating to the licence has been transferred. This is when the goods have left the warehouse to be shipped to the customer or when electronic delivery has taken place.</p> <p>Other product revenue (which includes hardware and stationery) is recognised as the products are shipped to the customer.</p> <p>Other services revenue (which includes the sale of professional services and training) is recognised when delivered, or by reference to the stage of completion of the transaction at the end of the reporting period. This assessment is made by comparing the proportion of contract costs incurred to date to the total expected costs to completion.</p> <p>Processing revenue is revenue earned from customers for the processing of payments or where Sage colleagues process our customers' payroll. Processing revenue is recognised at the point that the service is rendered on a per transaction basis.</p>

## About Sage

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

[sage.com/investors](https://sage.com/investors)