

## Sage Group

Price 675.50p

FY16 results in line with our expectations, FY17 outlook in line with FY16

Fair Value 690p (+2%)

SELL

Bloomberg	SGE L
Reuters	SGE.LN
12-month High / Low (p)	756.0 / 544.5
Market Cap (GBPm)	7,296
Ev (BG Estimates) (GBPm)	7,425
Avg. 6m daily volume (000)	2 603
3y EPS CAGR	13.3%

This morning Sage reported FY16 results in line with our estimates and slightly above consensus. Following a 12% rise during the last 6 months due to strong fx tailwinds, we expect the share price not to react significantly in short term.

## ANALYSIS

• **FY16 results in line with our expectations.** For FY16, Sage reported sales up 9.3% to GBP1,569.1m (+6.1% lfl), an adj. operating profit up 12.4% to GBP427m or 27.2% of sales (vs. 26.5% for FY15), an EBIT up 1.1% to GBP300.4m after GBP107.7m non-recurring costs, a net profit up 6.8% to GBP207.6m, and an adj. EPS up 9% to 27.8p. We expected revenues up 6.3% lfl to GBP1,576m (consensus: GBP1,561m), an adj. operating profit of GBP427.5m of 27.1% of sales (consensus: GBP420m or 26.9% of sales), and an adj. EPS of 27.6p (consensus: 27.5p), while the management guided on revenues up at least 6% lfl and an organic operating margin of at least 27%. Recurring revenues (70% of sales) were up 10.4% lfl, processing revenues (13%) were up 6.1% lfl, and SSRS (Software/software-related services, 17%) revenues were down 8.5% lfl. Free cash flow was GBP254m, and underlying cash conversion was 100% vs. 106% for FY15. Finally, the total ordinary dividend proposed for FY16 is 14.15p per share (+8%).

• **More details on the figures.** 1). Europe: sales +6.6% lfl to GBP827m (+7% in the UK, +6% in France, +7% in Germany, +7% in Spain, +3% on Rest of Europe), with Recurring up 10.2% lfl, Processing up 11.5% and SSRS down 7.4% lfl, for a 30.9% EBITA margin (vs. 29.8% in FY15); 2). North America: sales +4.4% lfl to GBP535.5m, with Recurring up 8.5% lfl, Processing up 2.9% lfl and SSRS down 7.6% lfl, for an EBITA margin of 25.1% (vs. 22.9% in FY15); 3). International: sales +8.4% lfl to GBP206.6m (+19% in Africa, +12% in Brazil, +3% in Australia, -18% in Middle East & Asia), with Recurring up 16% lfl, Processing up 49.8% and SSRS down 12.4% lfl, for an EBITA margin of 17.9% (vs. 26.5% in FY15). Subscription contracts rose by 46%. Sage X3 ERP sales were up 18%, subscriptions for Sage One reached 313,000 paying subscribers (vs. 173,000 one year ago and 230,000 6 months ago) with revenues up 54%, Sage Live has 600 customers (o/w 400 in the last 90 days), and Sage 50 Accounts subscription sales were up triple-digit in the UK, the US and Canada.

• **Unchanged outlook.** Sage has achieved the first phase of its transformation programme and now enters phase 2, which will continue to be non-linear and focus on more technology innovation with increasing focus on new customer acquisition and continuing to improve execution. Annualised cost savings reached GBP51m in FY16 for a cost of GBP110m (o/w GBP76m in G&A). For FY17, the management forecasts at least 6% lfl revenue growth and at least 27% organic operating margin. Investments in growth will be front-loaded in H1 FY17, while H2 is anticipated to generate stronger growth and accelerating momentum. In other words, the operating margin will be below 27% in H1 and above 27% in H2. FY17 annualised cost savings are expected to reach at least GBP50m, as initially stated. We forecast for FY17 sales up 6.5% lfl to GBP1,889m (consensus: GBP1,773m) and an adj. EBITA margin of 27.6% (consensus: 27%).

## VALUATION

- Sage's shares are trading at est. 17.0x FY16, 13.4x FY17 and 11.7x FY18 EV/EBIT multiples.
- Net debt on 30<sup>th</sup> September 2016 was GBP397m (net gearing: 38%).

## NEXT CATALYSTS

Analysts' meeting at 8.30am BST / 9.30am CET / 3.30am EDT in London (London Stock Exchange, 10 Paternoster Square) or call +44 20 34 27 19 13.

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	1 M	3 M	6 M	31/12/15
Absolute perf.	-6.4%	-7.3%	11.7%	11.9%
Softw. & Comp.	-1.2%	-1.3%	3.7%	3.3%
DJ Stoxx 600	0.0%	-0.7%	-2.5%	-6.8%

YEnd Sept. (£m)	09/15	09/16e	09/17e	09/18e
Sales	1,436	1,576	1,889	2,028
% change		9.8%	19.8%	7.3%
EBITDA	418	461	554	606
EBIT	297.2	314.7	503.9	555.9
% change		5.9%	60.1%	10.3%
Net income	286.7	310.6	383.5	423.6
% change		8.3%	23.5%	10.5%

	09/15	09/16e	09/17e	09/18e
Operating margin	27.1	27.8	28.1	28.7
Net margin	13.5	13.7	18.9	19.6
ROE	22.5	23.5	32.3	30.1
ROCE	25.2	33.8	42.5	49.9
Gearing	39.6	14.1	-15.8	-34.1

(p)	09/15	09/16e	09/17e	09/18e
EPS	25.59	27.57	33.86	37.23
% change	-	7.7%	22.8%	9.9%
P/E	26.4x	24.5x	19.9x	18.1x
FCF yield (%)	3.9%	4.6%	6.2%	6.0%
Dividends (p)	13.10	14.15	15.28	16.50
Div yield (%)	1.9%	2.1%	2.3%	2.4%
EV/Sales	5.3x	4.7x	3.8x	3.4x
EV/EBITDA	18.3x	16.1x	12.8x	11.3x
EV/EBIT	19.6x	17.0x	13.4x	11.7x

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## Distribution of stock ratings

BUY ratings 55,1%

NEUTRAL ratings 33,5%

SELL ratings 11,4%

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