

7th December 2016

TMT

Sage Group

Price 619.50p

Exploring a disposal scenario for Sage Payments Solutions

Fair Value 645p (+4%)

NEUTRAL

Bloomberg	SGE L
Reuters	SGE.LN
12-month High / Low (p)	756.0 / 544.5
Market Cap (GBPm)	6,691
Avg. 6m daily volume (000)	2 658

	1 M	3 M	6 M	31/12/15
Absolute perf.	-9.4%	-15.4%	-1.0%	2.7%
Softw.& Comp.				
SVS	0.2%	-6.4%	2.2%	0.5%
DJ Stoxx 600	4.8%	-1.4%	0.6%	-5.8%
	09/16	09/17e	09/18e	09/19e
P/E	22.3x	18.4x	16.8x	15.4x
Div yield (%)	2.3%	2.5%	2.7%	2.9%

ANALYSIS

- **Yesterday evening, Bloomberg reported that Sage was exploring a sale of its US payments unit**, which could fetch at least USD500m, according to people familiar with the matter. This morning Sage confirmed in a press release that it is evaluating potential strategic options for its North American payments business, including a sale. Sage Payment Solutions is the US's 25th largest merchant acquirer in 2015, processing more than USD17bn in transactions, according to the Nilson Report. Sage acquired the unit (Verus Financial Management) for GBP164m in 2006.
- **Selling for up to 5x sales?** In our view, the rationale of such a scenario is to exit from a business which is quite different from business management software. During the past 2 years, Sage Payment Solutions suffered from issues with its partner channel. In addition, the turnaround takes long and cross-selling with accounting software was still pretty weak. Finally, the Payments industry in the US has been consolidating and left smaller players with a lack of critical size. We estimate Sage Payment Solutions sales at USD100-120m. As such, the price mentioned by Bloomberg would mean Sage would sell the business for up to 5x sales.

VALUATION

- Sage's shares are trading at est. 13.1x FY17 and 11.6x FY18 EV/EBIT multiples.
- Net debt on 30th September 2016 was GBP397m (net gearing: 38%).

NEXT CATALYSTS

Q1 FY17 trading update in late January 2017.

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