

Our business model

What we do...

Growing economies rely on successful SME businesses. We're committed to helping them achieve this success by being their most trusted supporter.

We've been dedicated to the success of SME businesses for over 30 years through the provision of localised products and services that help our customers to run their businesses with confidence.

Our support offering is a key strength and is highly valued because it gives our customers somewhere to turn if they have a technical problem, an accounting question or when they're affected by legislative changes.

Our commitment to supporting our customers in this way, where we look to maintain ongoing and active relationships with them, differentiates us from other software vendors.

It also means we've built a strong base of recurring revenue that underpins 73% of our total revenue, which is derived from 1.8 million support, subscription and payments relationships that we have with customers across the world.

Ultimately, we have the resources, vision and resilience to be there for our customers over the long term as their businesses grow.

Key inputs to our business model

Talented people

We rely on the flair, commitment and collaboration of 12,975 employees around the world.

Trusted brand

The Sage brand is synonymous with supporting SMEs. By striving to be our customers' greatest supporter, we remain their trusted partner.

Market insight

Our focus on the SME market means we have developed a deep understanding of what is important to small businesses.

Resource allocation

Our approach to how we deploy our R&D* and S&M** resources is governed by where we see our best opportunities for future growth.

Local knowledge

Our skill at localising our solutions has allowed us to contend with a range of different legislative environments across the world.

Value created

Shareholder returns

Dividends and share repurchases

£217m

Decrease of 62%[^]

Society

Tax paid in the year

£107m

Decrease of 10%[~]

Group organic operating profit

Representing a margin of 27.5%

£360m

Increase of 7%

Employees

Wages and salaries

£617m

Decrease of 1%

Resource allocation

Investment in R&D* and S&M**

£417m

Increase in spend of 17% on Invest products

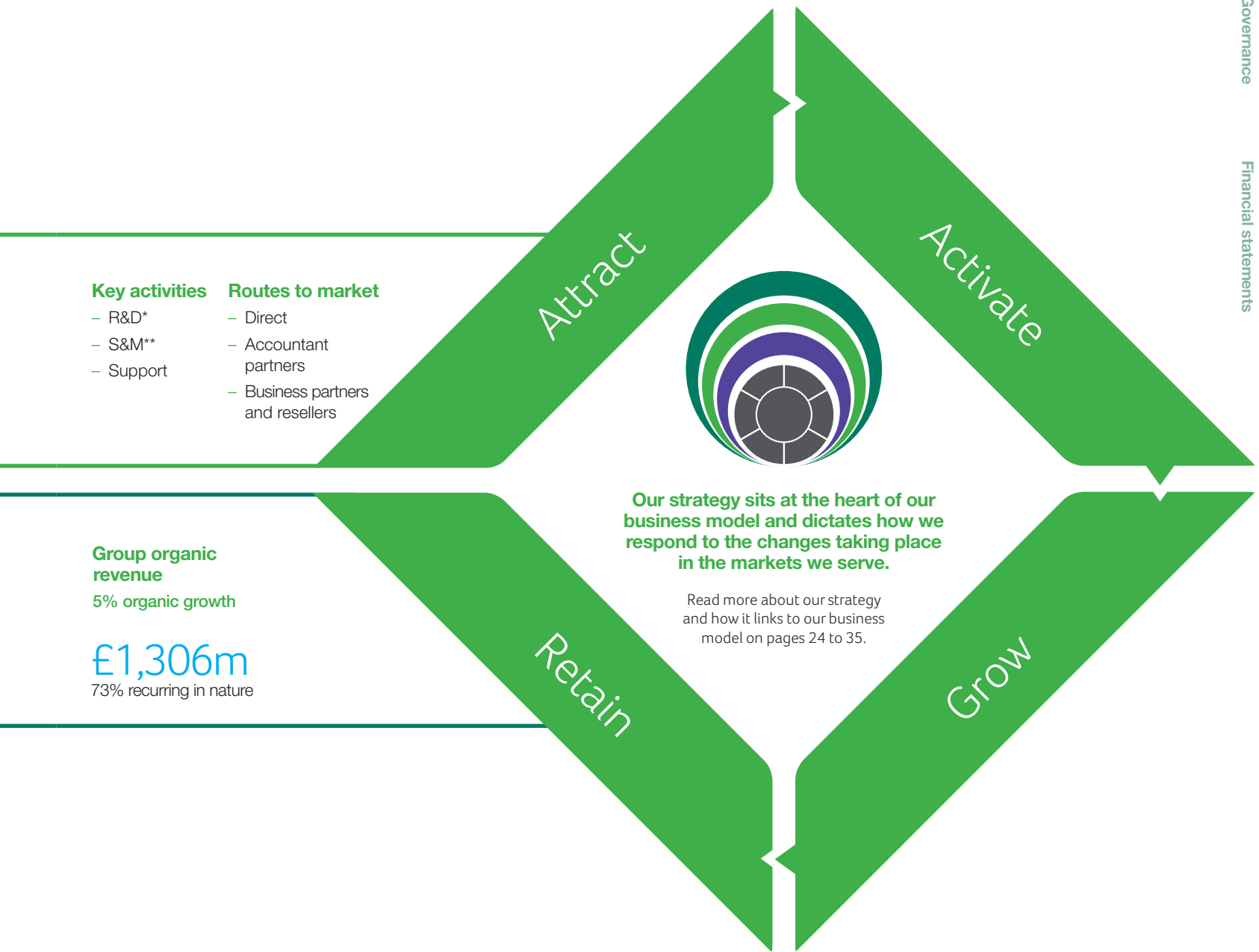
* Research and development.

** Sales and marketing.

[^] The decrease is due to the payment of a special dividend of £199m last year alongside an increased rate of share repurchasing as we worked towards meeting our net debt to EBITDA target ratio of 1x, which we met in June 2013. The total ordinary dividend per share has increased by 7% to 12.12p this year.

[~] The underlying effective tax rate has fallen this year to 27% as a result of a change in the mix of tax rates that we are exposed to across the globe. For more information on our tax policies, turn to the Financial and operating review starting on page 44.

...how we create value



Open to read more about the key elements of our business model.

...how we create value

Key elements of our business model



Attract

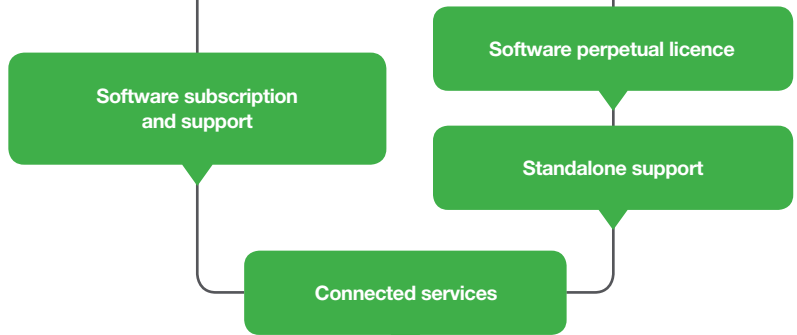
These are some of our unique selling points and are the reasons why customers are attracted to Sage.



Activate

Over the years, we've built a strong recurring revenue base by providing customers with additional services beyond their core software product, particularly through our support offering.

Software subscription offers us the opportunity to have closer relationships with more of our customers, particularly those who do not maintain a support contract and own their software product via a perpetual licence. This will help us to build on our existing base of over 450,000 software subscription contracts.



Grow

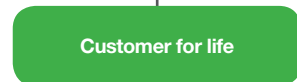
Technology and the cloud are changing how software is delivered and how businesses use their data. The new wave of value-adding services we are providing will help us to deepen the relationships we have with our customers and drive higher growth.



Retain

We aim to keep our customers for life by delivering them the complete, integrated suite of software, services and support.

This helps us to deliver great experiences that make our customers want to stay with us as their businesses grow.



Growth drivers

- Attract more new customers through key products such as Sage One, hybrid cloud and Sage ERP X3

- Activate customers through a support relationship
- Activate customers through a software subscription relationship – particularly where those customers don't have a support contract – either for their core product, a connected service or both.

- Grow licence average selling price ("ASP") through software upgrades and migrations
- Grow support ASP through up-selling support customers to premium support
- Grow share of wallet by expanding the number of services taken by each customer
- Grow share of wallet by expanding the number of paying users for each product

- Minimise the number of customers who leave us for another provider
- Minimise the number of customers cancelling their support contract
- Drive higher net promoter scores

KPIs and other metrics

Sage One paying subscriptions
86,000
(Up 146%)

Hybrid cloud paying subscriptions
1,500
(Up 100%)

Sage ERP X3 customers
4,800
(Up 14%)

Number of contracts
1.8m
Down 3%

Organic annualised value of the software subscriber base
£220m
Up 29%

Premium support penetration
92%
Rate maintained

Number of payments cross-sell customers
15,800
Up 14%

Recurring contract renewal rate
83%
Up 1%

Our sources of revenue

Recurring revenue

Organic growth: 7% (2013: 6%)

Recurring revenue comprises:

- Maintenance and support ("M&S")
- Software subscription
- Non-software subscription
- Payments

Around 73% of Sage's total revenue is recurring, with customers paying on a monthly, annual or usage basis in return for a range of different services.

Our subscription and payments contracts can be characterised as "pay-to-play", where customers retain the right to use a software application or service for as long as they continue to pay.

Recurring revenue is much less susceptible to economic cycles because many of these services are either critical to a business's ability to continue trading or are seen as indispensable and value-adding.

Our focus on having more active and productive relationships with all of our customers, preferably through subscription but also through support relationships, means recurring revenue growth is a strong indicator of whether we're succeeding in delivering on our strategy.

Software and software-related services ("SSRS")

Organic contraction: 1% (2013: flat)

SSRS revenue comprises:

- New licence sales
- Upgrades and migrations
- Professional services
- Other software-related services

SSRS revenue captures perpetual licence sales, where customers pay an up-front fee for the right to own and use their software forever. This represents the way software has been sold traditionally in the industry for many years.

SSRS revenue is typically more susceptible to economic cycles. When the economy is buoyant, businesses have more confidence and so are more willing to invest in their IT infrastructure.

However, when economic conditions are more challenging, businesses tend to reduce unnecessary expenditure and delay big investment decisions.

Our focus on a measured transition to software subscription will mean that, over time, revenue for our software products will increasingly shift out of SSRS and into recurring revenue.