

# SAGE Group PLC

SGE:L Sector: technology and services

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## Business model

The Sage Group plc was founded in 1981. Currently contains 51 members which operations range from software, Healthcare, HR, Construction, Real-estate, Distribution, Payroll, accountancy, manufacturing and retail.

Net Income for the year 2018 equalled to two hundred and eighty-five million pounds sterling. With total market cap of the group equalling six hundred and eighty billion.

The parent company's key performance indicators are as follows,

Firstly, renewal rate for their products has consistently sat around 85% for the previous three years. The movement to a subscription-based business model has led to growth of ASB, 'annualised software subscription base' by 31% bringing total value of ASB to £705m from £535m

Secondly, strong revenue growth caused by the 10% increase in adoption of Sage X3 has boosted revenue growth by 21%.

## Investment rationale

Our 'to watch' recommendation is derived from a valuation analysis which employs the following methods,

fundamental Analysis, Sage Group Plc has a cheaper buy in than its competitors as illustrated by its Price to earnings, price to sales, book and cashflow all being below the industry averages. Furthermore, also provides nearly double the average 5-year dividends yield for the sector.

Statistical analysis however provides a different perspective, using data from the last three years, Sage group plc on average provides 0.006% return per day, therefore on average we can expect a 2.19% return for a holding period of one year, if volatility provides no negative or positive effect. Daily variance from the mean averaged at 0.02066 or 2.06%. Therefore, each day on average we can expect movements between -2.06% to 2.07%

Our valuation range is 465 – 800 and so we believe it would be good to watch shares of this company. As fundamentally the company is performing well within the market. However, with given levels of market volatility Sage group plc may not provide the returns required in order to clear the transaction fees in a timely manner

## Investment risks

The main risk with Sage group plc is its risk to return relationship. Due to volatile markets and the upcoming increased volatility from Brexit and Chinese US trade discussion this may cause unexpected downturns in the market. Especially when considering that the group operates globally. Furthermore, with the current share price level being towards the upper quartile of the valuation range. Buying in at this level may not provide the returns expected and furthermore increases the potential for market volatility to destroy wealth through share price decreases.

## RECOMMENDATION

### WATCH

Current Price

**642.80**

Our Valuation Range

**465 - 800**

The Sage Group plc is a United Kingdom-based company, which provides integrated accounting, payroll and payments solutions.

## MARKET DATA

Revenue in GBP (TTM)	1.955bn
Net income in GBP	300m
Incorporated in	1988
Employees	13.292k
52-week range	491.30 – 715.46
Average volume	2.55m
Shares outstanding	1.09bn
Free float	1.08bn
P/E (TTM)	23.67
Market cap	6.89bn GBP
EPS (TTM)	0.268 GBP
Cash flow per share	5.03
Price/Cash flow per share	19.14
Book value per share	5.19
Tangible book value per share	---
Net profit margin	15.82
Operating margin	23.13
Annual div (ADY)	18.70 GBX
Annual div yield (ADY)	2.47%
Return on assets	8.96
Return on equity	23.41
Return on investment	13.03

	30-Sep-13 (£ m)	30-Sep-14 (£ m)	30-Sep-15 (£ m)	30-Sep-16 (£ m)	30-Sep-17 (£ m)
<b>Income Statement</b>					
<b>Continuing Operations</b>					
Revenue	1376.10	1306.80	1435.50	1569.10	1715.00
Operating Profit/(Loss)	366.40	298.40	297.20	300.40	381.00
Net Interest	-14.40	-18.90	-20.10	-20.70	-24.00
Profit Before Tax	164.10	277.50	275.80	275.50	343.00
Profit After Tax	47.50	187.70	194.30	208.60	258.00
<b>Discontinued Operations</b>					
Profit After Tax	n/a	n/a	n/a	n/a	43.00
<b>PROFIT FOR THE PERIOD</b>	<b>47.50</b>	<b>187.70</b>	<b>194.30</b>	<b>207.60</b>	<b>300.00</b>
<b>Attributable to:</b>					
Minority Interests	-1.10	-0.90	n/a	n/a	n/a
Equity Holders of Parent Company	46.40	186.80	194.30	207.60	300.00
<b>Continuing EPS</b>					
Earnings per Share - Basic	3.97p	17.07p	18.11p	19.28p	23.86p
Earnings per Share - Diluted	39.60p	17.04p	18.00p	19.16p	23.78p
Earnings per Share - Adjusted	n/a	n/a	n/a	n/a	n/a
<b>Continuing and Discontinued EPS</b>					
Earnings per Share - Basic	3.97p	17.07p	18.11p	19.28p	27.80p
Earnings per Share - Diluted	39.60p	17.04p	18.00p	19.16p	27.71p
Earnings per Share - Adjusted	n/a	n/a	n/a	n/a	n/a
<b>Dividend per Share</b>	<b>29.30p</b>	<b>12.12p</b>	<b>13.10p</b>	<b>14.15p</b>	<b>15.42p</b>

	30-Sep-13 (£ m)	30-Sep-14 (£ m)	30-Sep-15 (£ m)	30-Sep-16 (£ m)	30-Sep-17 (£ m)
<b>Balance Sheet</b>					
<b>Assets</b>					
<b>Non-Current Assets</b>					
Property, Plant & Equipment	128.80	126.70	122.70	123.40	133.00
Intangible Assets	1628.70	1531.10	1551.50	1767.80	2297.00
Investment Properties	n/a	n/a	n/a	n/a	n/a
Investments	n/a	n/a	n/a	11.70	17.00
Other Financial Assets	n/a	n/a	n/a	n/a	n/a
Other Non-Current Assets	0.00	0.00	0.00	0.00	0.00
	1776.20	1679.70	1708.40	1961.30	2508.00
<b>Current Assets</b>					
Inventories	2.20	2.00	2.00	2.10	3.00
Trade & Other Receivables	311.20	321.50	320.90	419.50	466.00
Cash at Bank & in Hand	100.80	144.60	263.40	264.50	231.00
Current Asset Investments	n/a	n/a	n/a	n/a	n/a
Other Current Assets	0.00	0.00	0.00	0.00	0.00
	414.20	468.10	586.30	695.00	715.00
<b>Total Assets</b>	<b>2190.40</b>	<b>2147.80</b>	<b>2294.70</b>	<b>2656.30</b>	<b>3223.00</b>
<b>Liabilities</b>					
<b>Current Liabilities</b>					
Borrowings	21.00	125.40	33.60	43.30	55.00
Other Current Liabilities	591.00	614.00	625.60	758.70	792.00
	789.30	912.70	822.60	988.30	1033.00
<b>Net Current Assets</b>	<b>-375.10</b>	<b>-444.60</b>	<b>-236.30</b>	<b>-293.30</b>	<b>-318.00</b>
<b>Non-Current Liabilities</b>					
Borrowings	440.60	415.80	571.40	534.40	914.00
Provisions	n/a	n/a	n/a	n/a	n/a
Other Non-Current Liabilities	54.20	0.00	10.40	36.90	36.00
	530.80	451.20	610.00	614.70	1022.00
<b>Other Liabilities</b>	<b>n/a</b>	<b>n/a</b>	<b>n/a</b>	<b>n/a</b>	<b>n/a</b>
<b>Total Liabilities</b>	<b>1319.10</b>	<b>1363.90</b>	<b>1432.60</b>	<b>1603.00</b>	<b>2055.00</b>
<b>Net Assets</b>	<b>871.30</b>	<b>783.90</b>	<b>862.10</b>	<b>1053.30</b>	<b>1168.00</b>
<b>Capital &amp; Reserves</b>					
Share Capital	11.70	11.70	11.80	11.80	12.00
Share Premium Account	532.20	535.90	541.20	544.40	548.00
Other Reserves	n/a	n/a	n/a	n/a	n/a
Retained Earnings	267.00	147.50	242.20	310.50	477.00
Shareholders Funds	871.30	783.90	862.10	1053.30	1168.00
<b>Minority Interests/Other Equity</b>	<b>-1.00</b>	<b>n/a</b>	<b>n/a</b>	<b>n/a</b>	<b>n/a</b>
<b>Total Equity *</b>	<b>870.30</b>	<b>783.90</b>	<b>862.10</b>	<b>1053.30</b>	<b>1168.00</b>

### Operating Activities

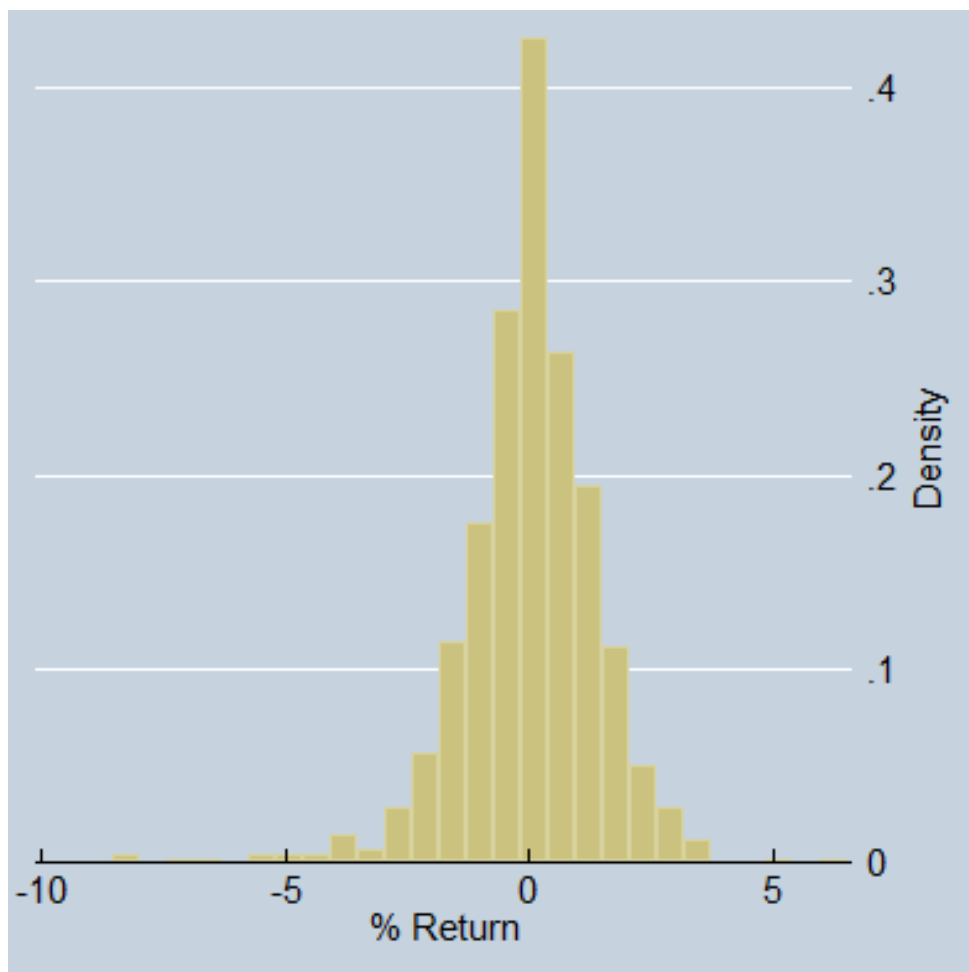
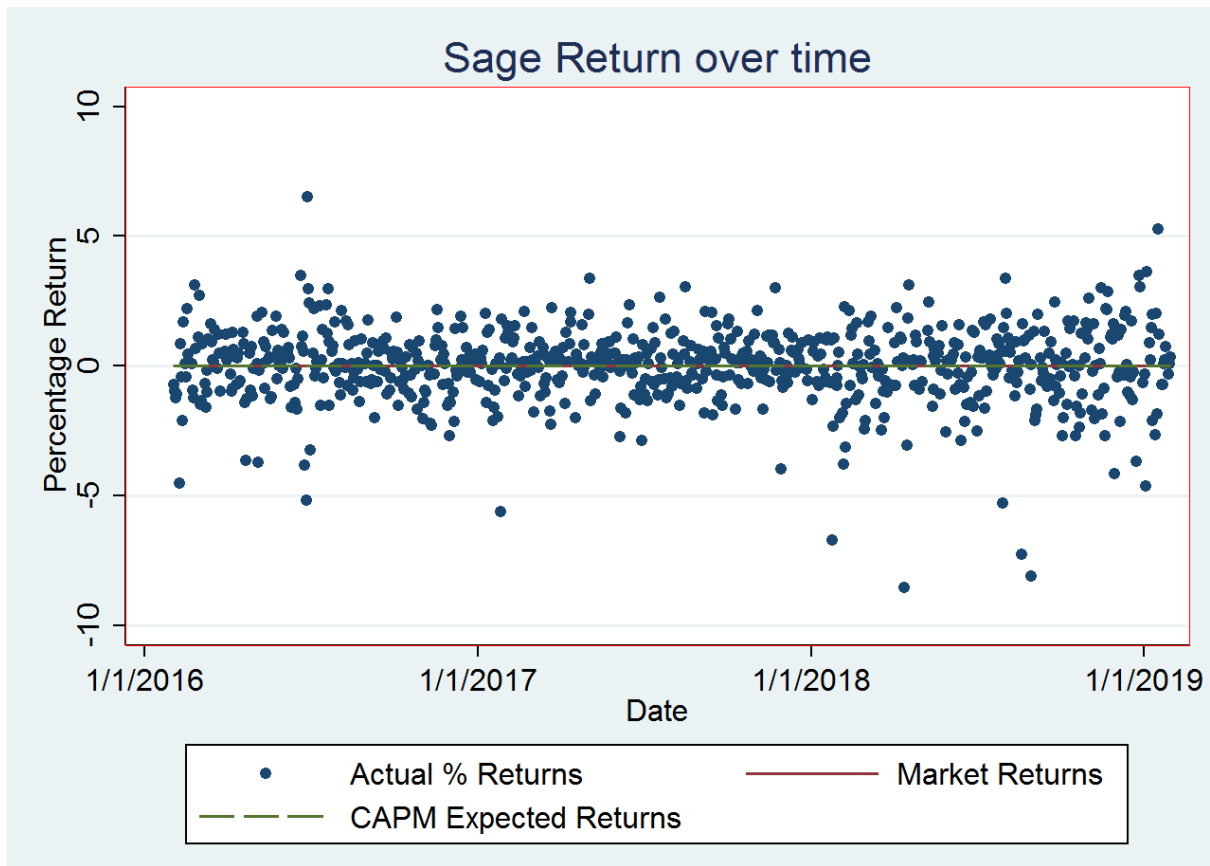
Fiscal year is October-September. All values GBP millions.					
	2014	2015	2016	2017	2018
<b>+</b> Net Income before Extraordinaries	188.9M	194.3M	188M	257M	295M
Depreciation, Depletion & Amortization	42.5M	47.3M	50M	58M	68M
Depreciation and Depletion	18M	18.2M	22M	22M	20M
Amortization of Intangible Assets	24.5M	29.1M	28M	36M	48M
Deferred Taxes & Investment Tax Credit	-	-	-	(5M)	-
Deferred Taxes	-	-	-	(5M)	-
Investment Tax Credit	-	-	-	-	-
Other Funds	27.9M	67.9M	19M	5M	56M
Funds from Operations	259.3M	309.5M	257M	315M	419M
Extraordinaries	-	-	-	-	-
Changes in Working Capital	(2.2M)	7.5M	30M	(11M)	(22M)
Receivables	(20.5M)	(8.4M)	(51M)	(46M)	6M
Accounts Payable	8.8M	(6.8M)	45M	4M	(61M)
Other Assets/Liabilities	9.4M	22.9M	36M	32M	32M
<b>+</b> Net Operating Cash Flow	<b>257.1M</b>	<b>317M</b>	<b>287M</b>	<b>304M</b>	<b>397M</b>

### Investing Activities

	2014	2015	2016	2017	2018
<b>+</b> Capital Expenditures	(28M)	(22.4M)	(31M)	(52M)	(56M)
Capital Expenditures (Fixed Assets)	(19.7M)	(16.4M)	(23M)	(30M)	(20M)
Capital Expenditures (Other Assets)	(8.3M)	(6M)	(8M)	(22M)	(36M)
Net Assets from Acquisitions	(14.1M)	(47.3M)	(6M)	(693M)	(8M)
Sale of Fixed Assets & Businesses	1.1M	2.1M	-	-	2M
Purchase/Sale of Investments	-	-	(10M)	7M	-
Purchase of Investments	-	-	(10M)	-	-
Sale/Maturity of Investments	-	-	-	7M	-
Other Uses	-	-	-	-	-
Other Sources	-	-	-	158M	-
<b>+</b> Net Investing Cash Flow	<b>(41M)</b>	<b>(67.6M)</b>	<b>(47M)</b>	<b>(580M)</b>	<b>(62M)</b>

**Financing Activities**

	2014	2015	2016	2017	2018
Cash Dividends Paid - Total	(126.2M)	(133.5M)	(145M)	(157M)	(171M)
Common Dividends	(126.2M)	(133.5M)	(145M)	(157M)	(171M)
Preferred Dividends	-	-	-	-	-
Change in Capital Stock	(87.3M)	(12.3M)	1M	(5M)	3M
Repurchase of Common & Preferred Stk.	(91M)	(17.7M)	(2M)	(9M)	-
Sale of Common & Preferred Stock	3.7M	5.4M	3M	4M	3M
Proceeds from Stock Options	3.7M	5.4M	3M	4M	3M
Other Proceeds from Sale of Stock	-	-	-	-	-
Issuance/Reduction of Debt, Net	95.9M	4M	(123M)	386M	(62M)
Change in Current Debt	-	-	-	-	-
Change in Long-Term Debt	95.9M	4M	(1M)	-	-
Issuance of Long-Term Debt	169.6M	479.9M	-	-	-
Reduction in Long-Term Debt	(73.7M)	(475.9M)	(1M)	-	-
Other Funds	(34.9M)	12.5M	(12M)	9M	2M
Other Uses	(50.4M)	-	(12M)	-	-
Other Sources	15.5M	12.5M	-	9M	2M
<b>+ Net Financing Cash Flow</b>	<b>(152.5M)</b>	<b>(129.3M)</b>	<b>(279M)</b>	<b>233M</b>	<b>(228M)</b>
Exchange Rate Effect	(2.8M)	(400,000)	36M	(4M)	2M
Miscellaneous Funds	-	-	-	-	-
Net Change in Cash	60.8M	119.7M	(3M)	(47M)	109M
<b>+ Free Cash Flow</b>	<b>237.4M</b>	<b>300.6M</b>	<b>264M</b>	<b>274M</b>	<b>377M</b>



## LINCOLN STUDEMENT MANAGED INVESTMENT FUND (LSMIF)

Founded in 2018, the Lincoln Student Managed Investment Fund (LSMIF) is exactly what it says on the tin, a fund which will analyse, determine upon, and purchase shares to create a portfolio. The only difference is we are students. No simulations, just our knowledge and ability vs the real market. The best test of our teachings and learnings.

The fund is set up with a structure similar to any other professionally run fund management company with students running every aspect of the fund, from CEO to analyst. It is designed to give any student involved the best experience of the financial world possible before getting a job.

The fund will be handed down to new students each year as those partake in this fund finish their studying. The fund aims to grow in the future, with more positions available to give the most number of students the chance to partake.

The ultimate goal of the fund is to raise the profile of each student involved to allow for them to get the best experience possible. We, however, set the following objectives to make the fund grow on sustainable basis:

- To generate long-term returns from investments using our stylized investment strategies.
- To raise funds through crowdfunding and donors to help increase the capital base.
- To increase the number of students involved in the fund with expanded capital base.
- To link the fund's activities with the related programmes and modules' assessments
- To get more outside sponsors who want to work directly with the fund as well, to further simulate the professional environment.

### Contact details

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