

# Sophos Group plc Capital Markets Day

4 June 2019

**SOPHOS**



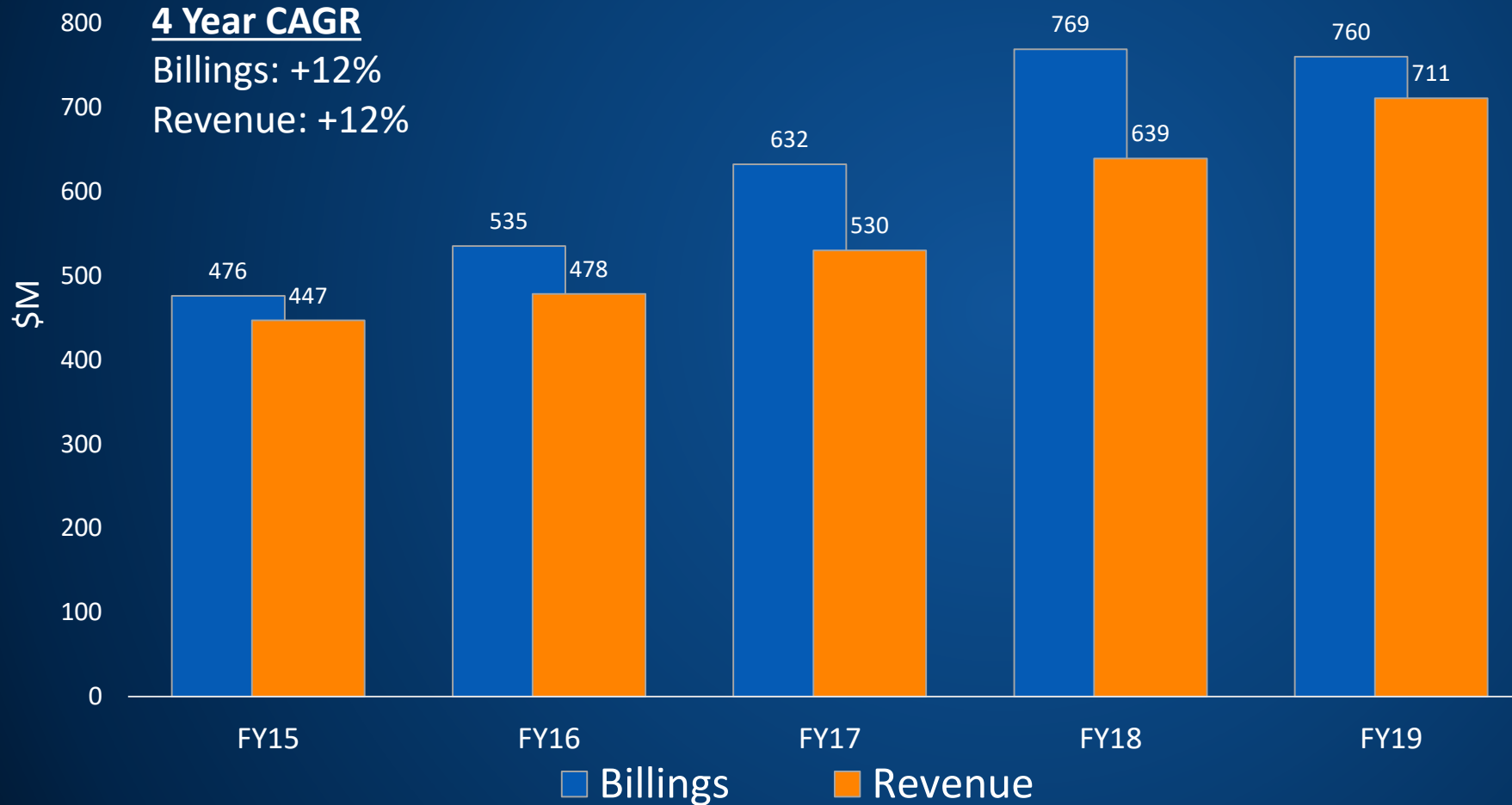
# Finance

**Nick Bray**

Chief Financial Officer

**SOPHOS**

# Growth Record Since IPO



## Key Drivers

- Deferred Revenue
- Renewals: Base / Rate
- New business
- Subscription: Term / MSP mix
- Hardware

# Strong Business Drivers

- There are clear fundamental, long-term drivers for Sophos
  - Cybersecurity is a large and growing market
  - Consistent growth in our subscription customer base
  - Product penetration among existing customers
  - An improving trend in customer lifetime value
- An evolving business
  - Next-gen is driving new business and existing customer upgrades
  - The move to next-gen delivers clear benefits for customers, partners and Sophos
  - Our MSP channel is developing rapidly
- Revenue visibility
  - Subscription revenue the principal long-term driver
  - Outlook is visibly supported by deferred revenue balance
  - Rapid growth in monthly billings from MSP
- Long-term profitability
  - Operating margin leverage
  - Continued revenue growth
  - Streamlined product portfolio and benefits of scale
- Cash generation
  - Strong cash flow profile supports targeted M&A

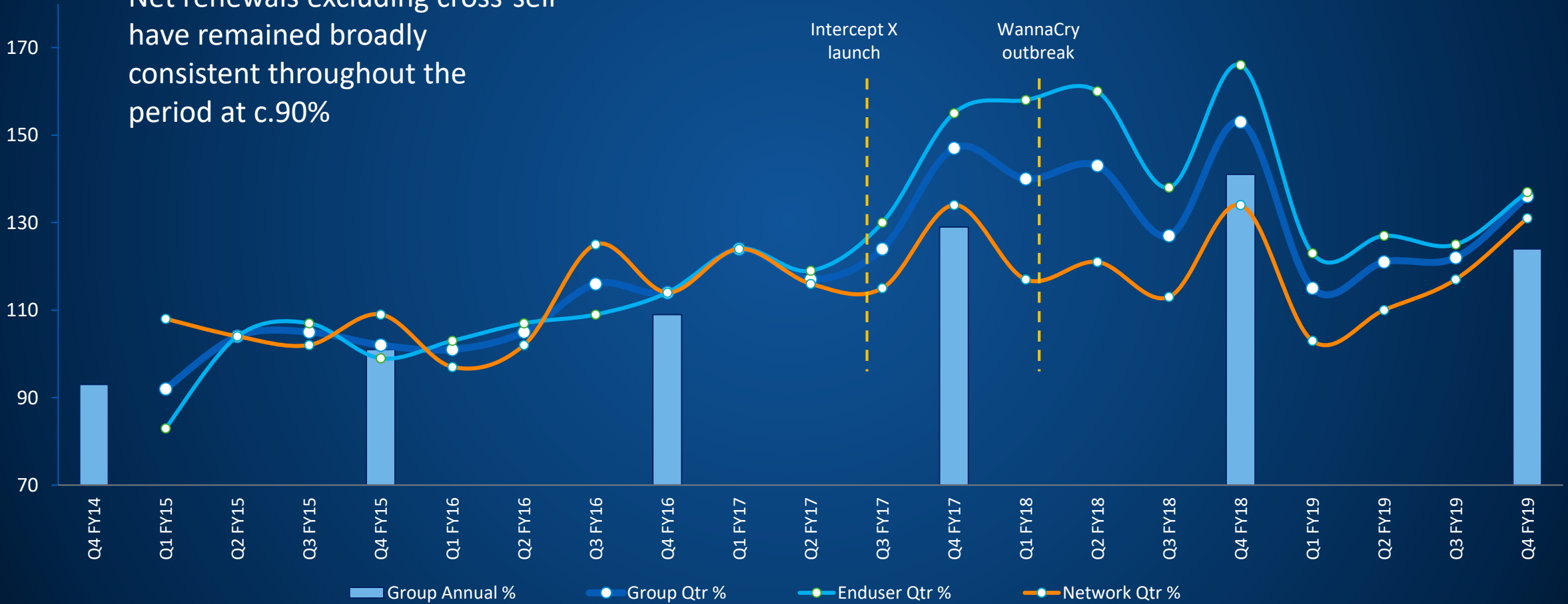
# Product Penetration and Cross-Sell

Customer Metrics	FY15	FY16	FY17	FY18	FY19
Total term customers (K)	200	220	260	300	335
Term customers with >1 product (K)	28	40	55	73	86
Term customers with EP & UTM (K)	11	16	25	34	41
Term customers with Intercept X (K)	-	-	8	27	44
<i>% term customers with Intercept X (%)</i>	-	-	3	9	13
Average # products – Term	-	-	1.33	1.37	1.39
Average # products – Sophos Central	-	-	1.62	1.67	1.69

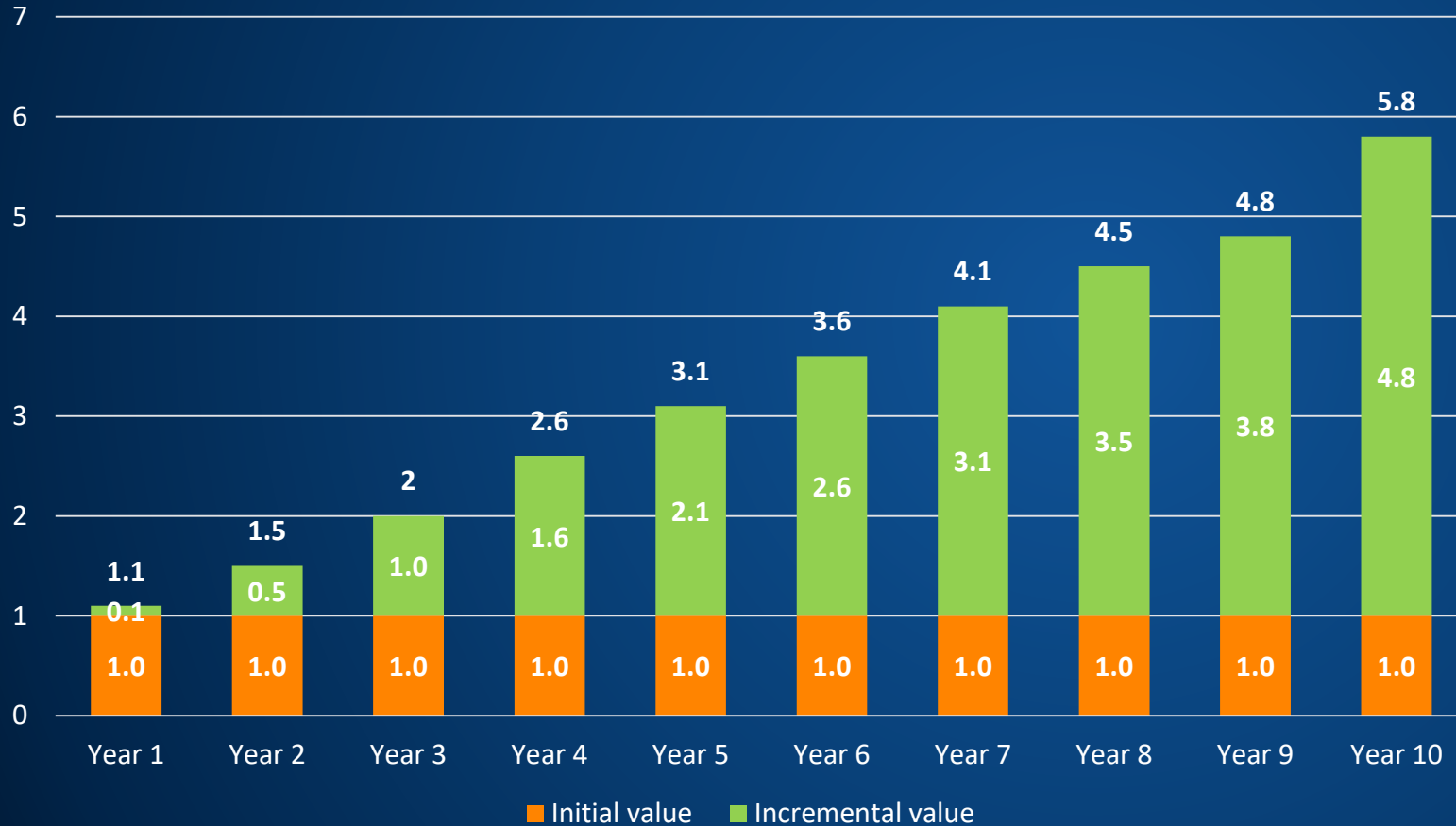
- We have seen good growth in number of customers with >1 product (+32% CAGR since FY15)
- Cross-sell is still at an early stage
- Intercept X penetration now at 13% of total customers, renewal rates in line with Group
- Sophos Central generates improved average customer spend

# Healthy Renewal Rates, Driven by Cross Sell

Net renewals excluding cross-sell have remained broadly consistent throughout the period at c.90%

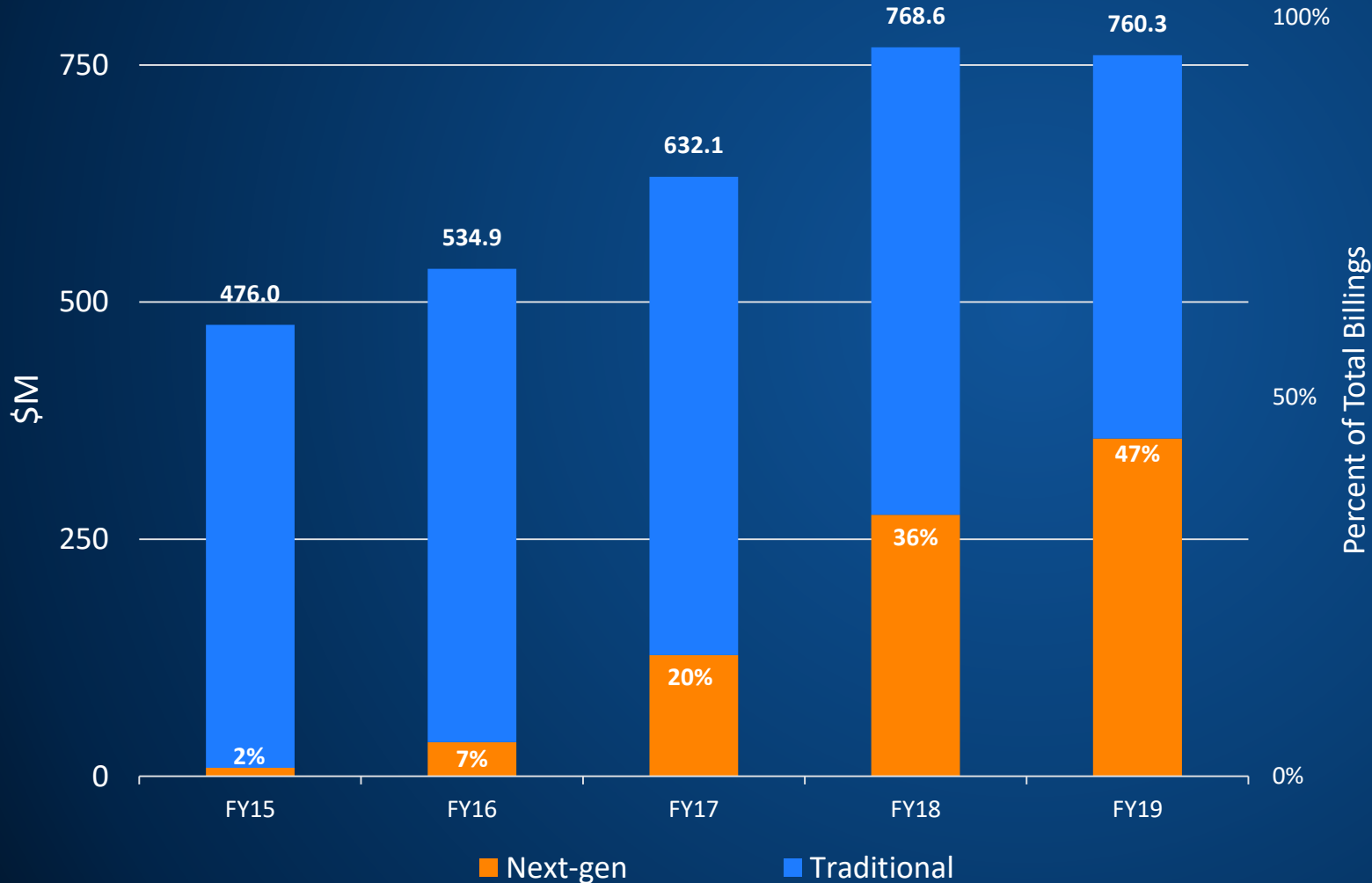


# Increasing Customer Lifetime Value



- 10-year cumulative cohort analysis
- By year 10, a customer on average spent 5.8x the value of their initial transaction
- Customer lifetime value is on an improving trend
- Driven by strong retention and increasing product penetration
- Sophos Central and Synchronized Security underpin this strategy

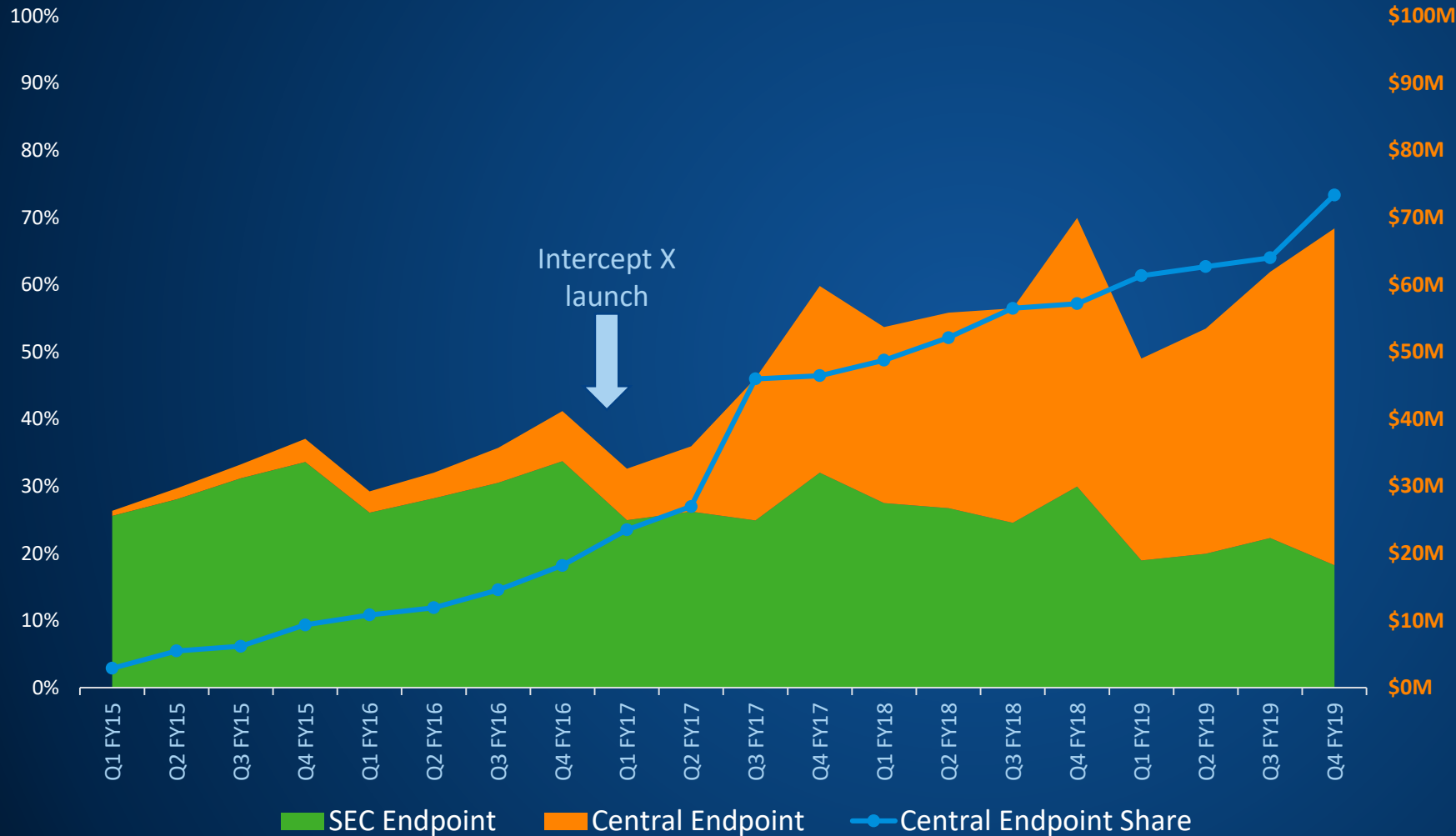
# Next-Gen Drives New Business and Upgrades



- Our next-gen portfolio is driving new business
- Also, customers upgrade from traditional products to next-gen
- Expect transitional period, before improved top line growth

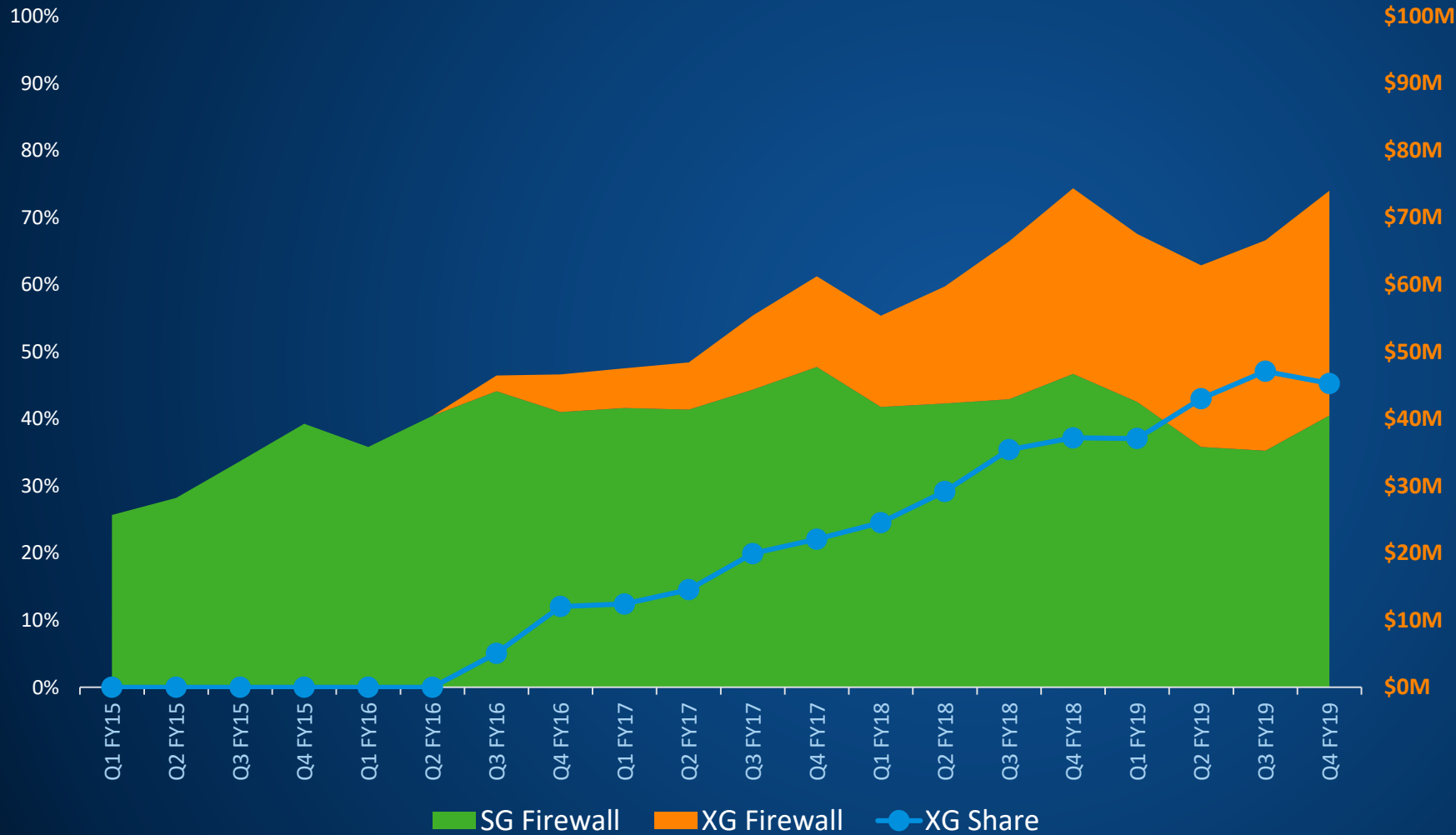


# Successful Adoption of Next-Gen Cloud Endpoint



- SEC to Sophos Central Endpoint upgrade is well progressed
- Nearly all new customers purchase Sophos Central Endpoint
- 25% of Sophos Central Endpoint customers are former SEC customers
- c.10% of SEC customers are upgrading annually, with momentum increasing

# Growing Adoption of Next-Gen Firewall, At An Earlier Stage

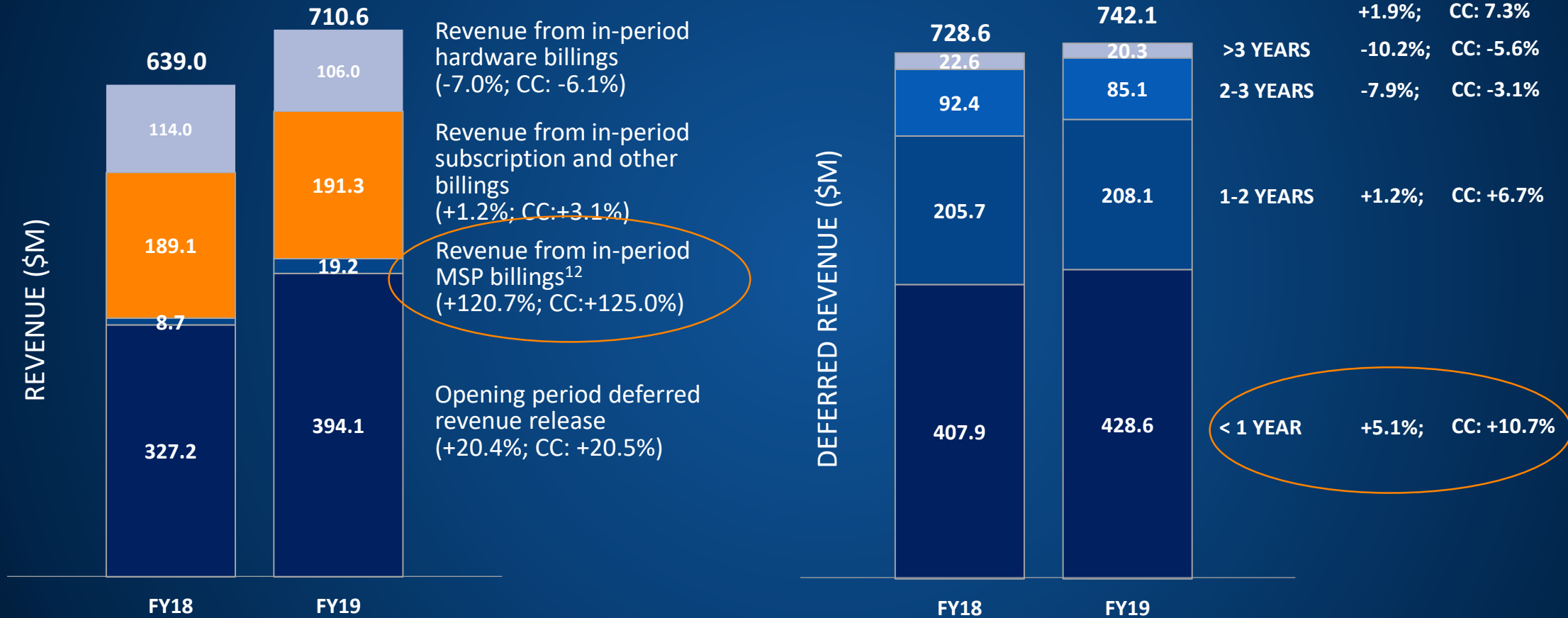


- Majority of new network customers purchase XG Firewall
- c.15% of XG Firewall customers have upgraded from SG Firewall
- c.4% upgrade from SG to XG firewall each year
- During upgrade expect transitional period, before improved growth

# Comparison of MSP to Term Business

	Term	MSP
Average Length	26.4 months	One month
Billing	All upfront	In arrears based on usage
Cash flow	All months upfront	Monthly
Revenue recognition	Mostly deferred, then ratable	Monthly
Pricing	Discount based on term (e.g. 3 for 2)	Monthly
Renewal rate	124% FY19	Strong, but limited data set
Average customer size	85% <5,000 employees	SMB
Key metric	Billings mostly drive future revenue	Subscription ARR
Buying decision	SME and/or partner	Partner

# Visibility Over the Drivers of Revenue Growth



# Next-Gen Drives Top-Line Growth, with Margin Leverage

## Long-Term Outlook

### Revenue

Strong markets, and growing proportion of next-gen products in the mix driving improved growth, after near-term migration effect

### Cost of Sales

Stable as business scales, dependent on proportion of hardware in the mix

### Research and Development

Leverage potential, with transition to next-gen and streamlined product portfolio facilitating more efficient development

### Sales and Marketing

Leverage potential, with growing scale and channel productivity

### General Finance and Administration

Leverage potential, with cost discipline to maintain efficient back-office organization

### Adjusted Operating Profit Margin

Return to delivering annual margin leverage after FY20

# Strong Cash Flow Profile

## ADJUSTED OPERATING PROFIT<sup>(2)</sup> TO UFCF RECONCILIATION

\$M	FY18	FY19
<b>Adjusted operating profit</b>	<b>58.3</b>	<b>109.0</b>
Net deferral of revenue and costs	121.2	48.8
Exceptional items*	(13.0)	(3.1)
Depreciation	11.6	11.6
Unrealised foreign exchange	8.1	(1.5)
Change in working capital	(12.2)	(5.2)
Cash tax	(26.3)	(16.7)
<b>Net cash from operating activities</b>	<b>147.7</b>	<b>142.9</b>
Exceptional items*	13.0	3.1
Capex	(21.1)	(22.2)
<b>Unlevered FCF</b>	<b>139.6</b>	<b>123.8</b>

\*Excludes non-cash fair-value adjustment on contingent consideration

- **Working Capital**

Continued focus on tight working capital management, expected to grow in line with the business

- **Capex**

Expected to remain at consistent levels as investment in business continues

- **Cash Tax**

Expected to increase modestly in future years with improving profitability' potential for one-off tax payment with resolution of overseas tax matters

# Summary Outlook



Drivers in place  
for continued  
future revenue  
growth

Return to  
operating profit  
margin leverage

Next-gen  
portfolio  
continue to  
grow as % of  
total business

**SOPHOS**  
Cybersecurity evolved.