

Sophos Group plc

JP Morgan 2019 Pan-European SMID Conference
London

September 11th 2019

SOPHOS

Mission

Our mission is to be the best in the world at delivering innovative, simple, and highly-effective cybersecurity solutions to IT professionals and the channel that serves them.

Strategy

- ✓ Innovative, simple, and highly-effective cybersecurity solutions optimized for modern computing and networks, and delivered as a service
- ✓ Sophos Central: Single, integrated cloud-based management platform
- ✓ Synchronized security: components actively work together as a system
- ✓ Open APIs to enable customers, partners, and other vendors to extend synchronized security
- ✓ *Channel Best*, including *MSP Best*, go-to-market

Large and Growing Market Opportunity

IT Security Software and Hardware Market

\$43
BILLION

8.4%
CAGR

Cross-Sell Opportunity  with Sophos Central

UTM and Next-Gen Firewall

\$12.5
BILLION

10.0%
CAGR

Additional Cross-Sell Opportunity Markets

Encryption: \$0.7B
Email Security: \$2.5B
Web Security: \$3.5B
Mobile Security: \$3.2B

Corporate Endpoint Security

\$7.6
BILLION

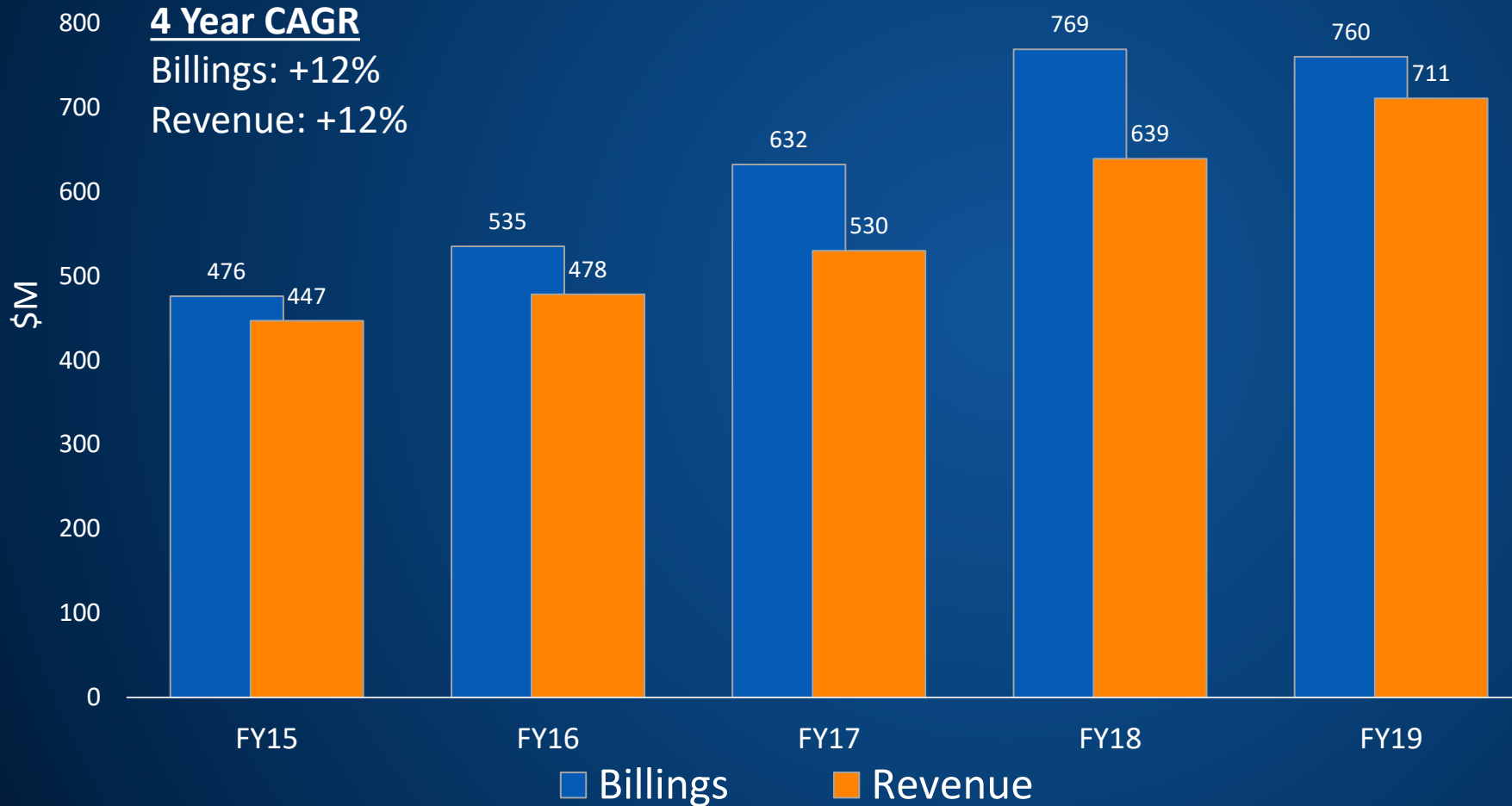
8.6%
CAGR

Source: IDC August 2018

Synchronized Security



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

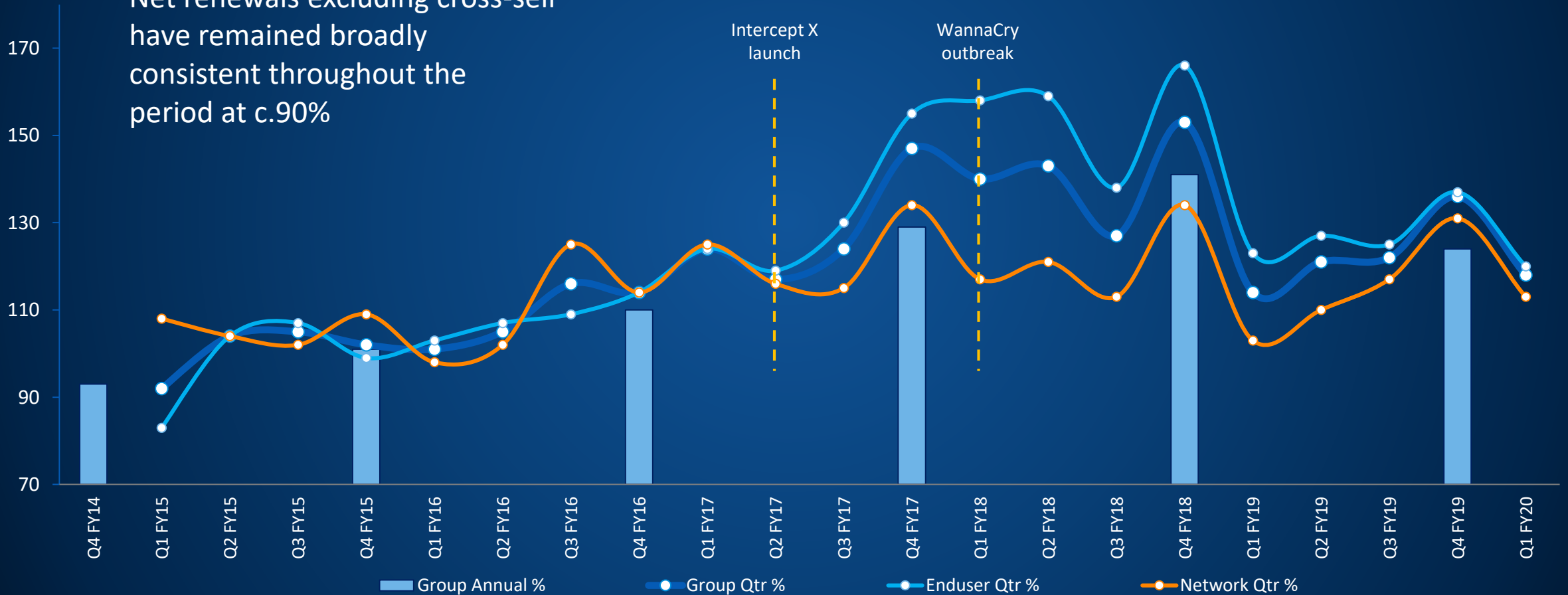
Product Penetration and Cross-Sell

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

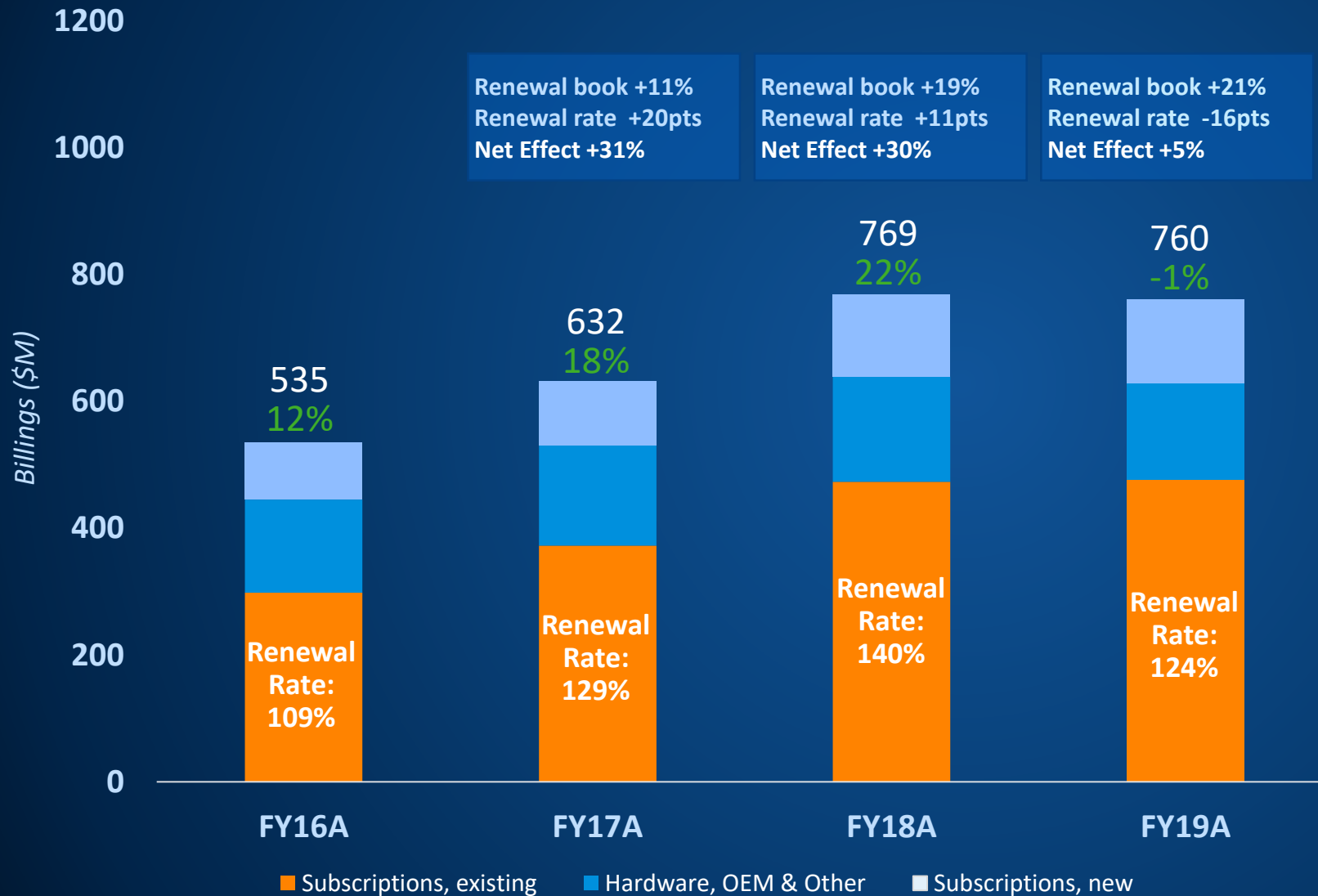
- We have seen good growth in number of customers with >1 product (+32% CAGR since FY15)
- Cross-sell is still at an early stage
- Intercept X penetration now at 13% of total customers, renewal rates in line with Group
- Sophos Central generates improved average customer spend

Healthy Renewal Rates, Driven by Cross Sell

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



Renewal Rate, Renewal Book, and FY20 Considerations



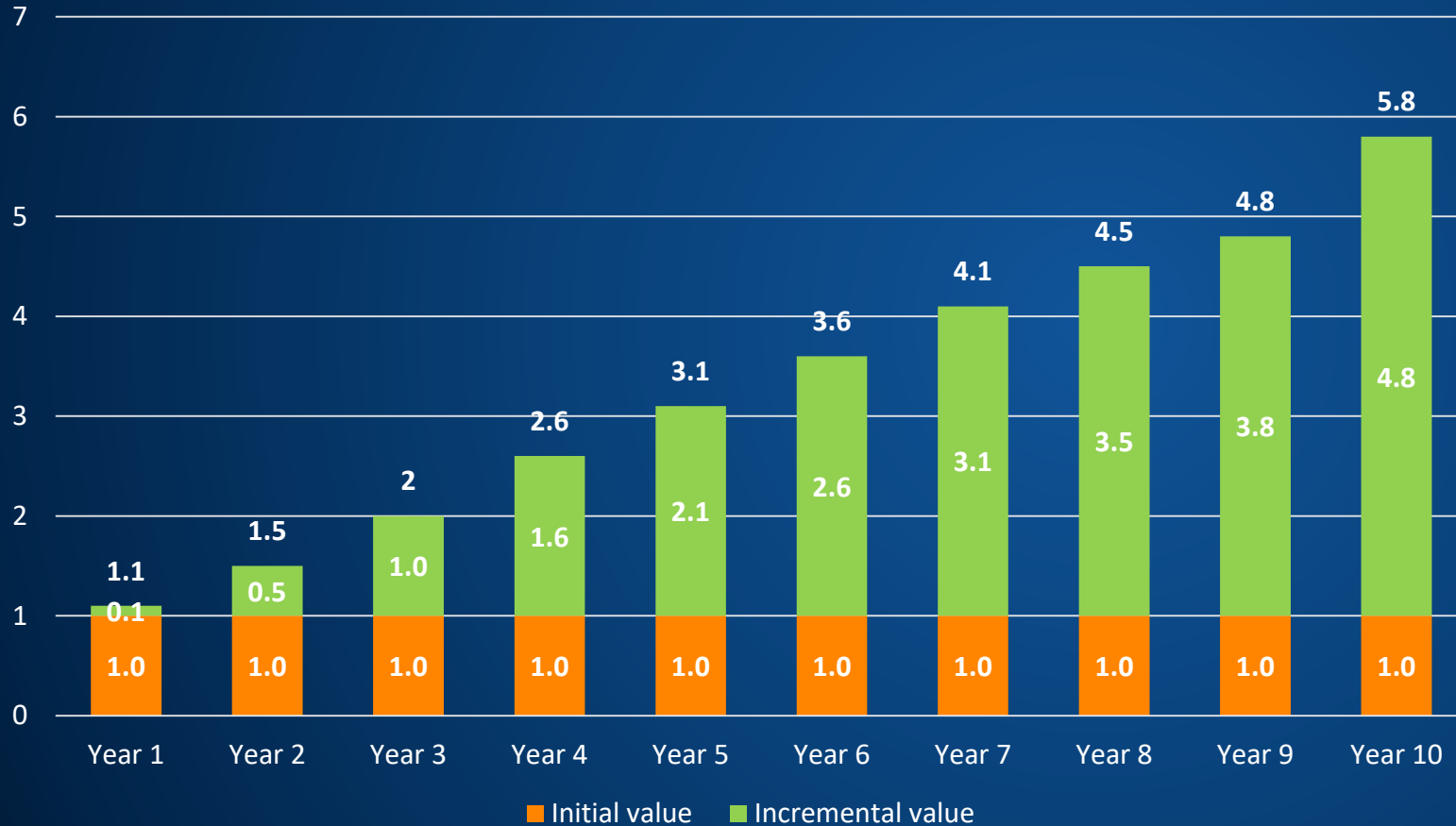
FY19

- Good growth in the annual renewal book, +21% to \$381 million
- Moderating renewal rate counteracted this growth

FY20 Considerations

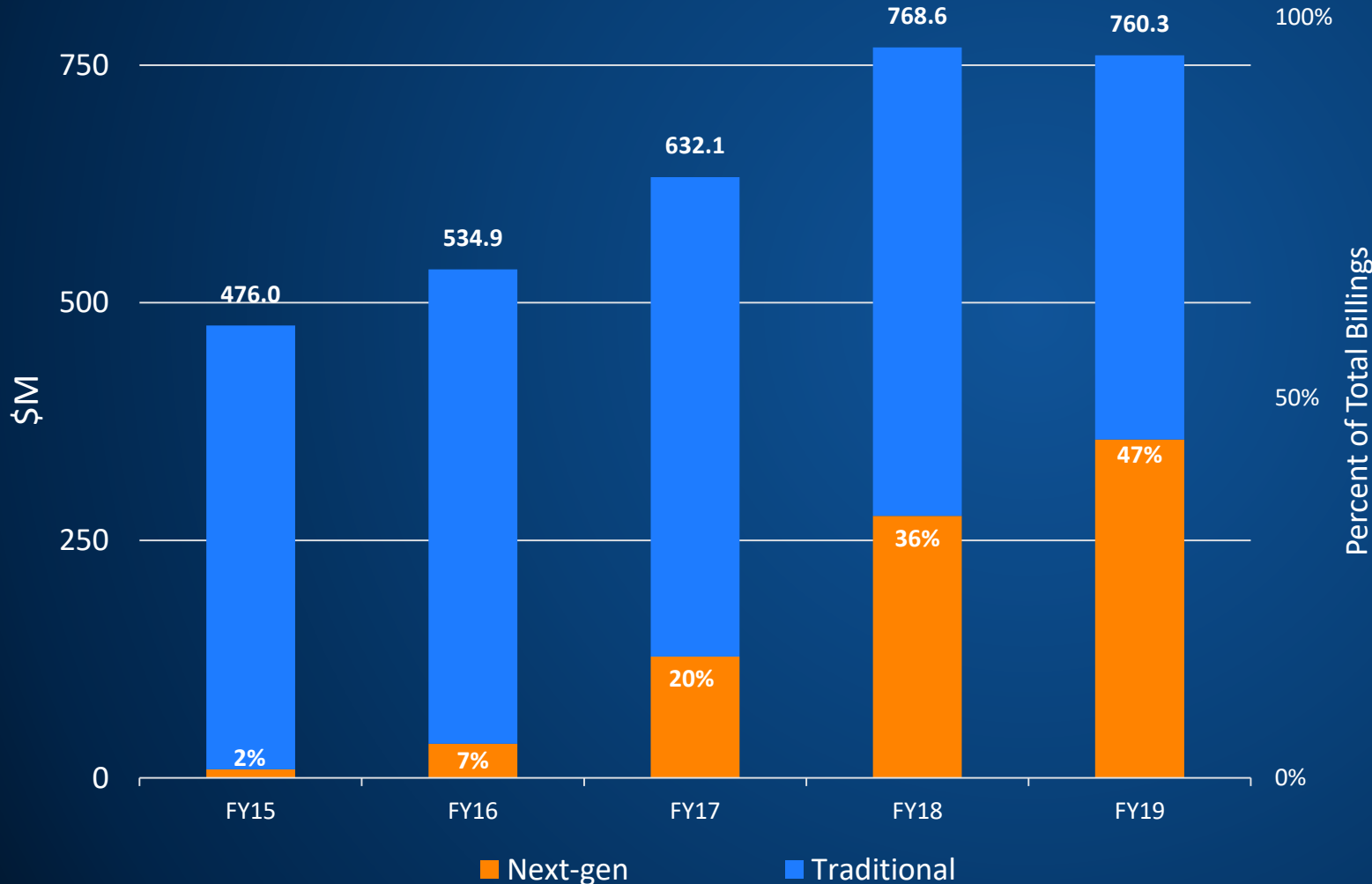
- Another year with good growth in the renewal book, with FY20 increasing by 14% (c.\$55 million) (19.5% at constant currency)

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

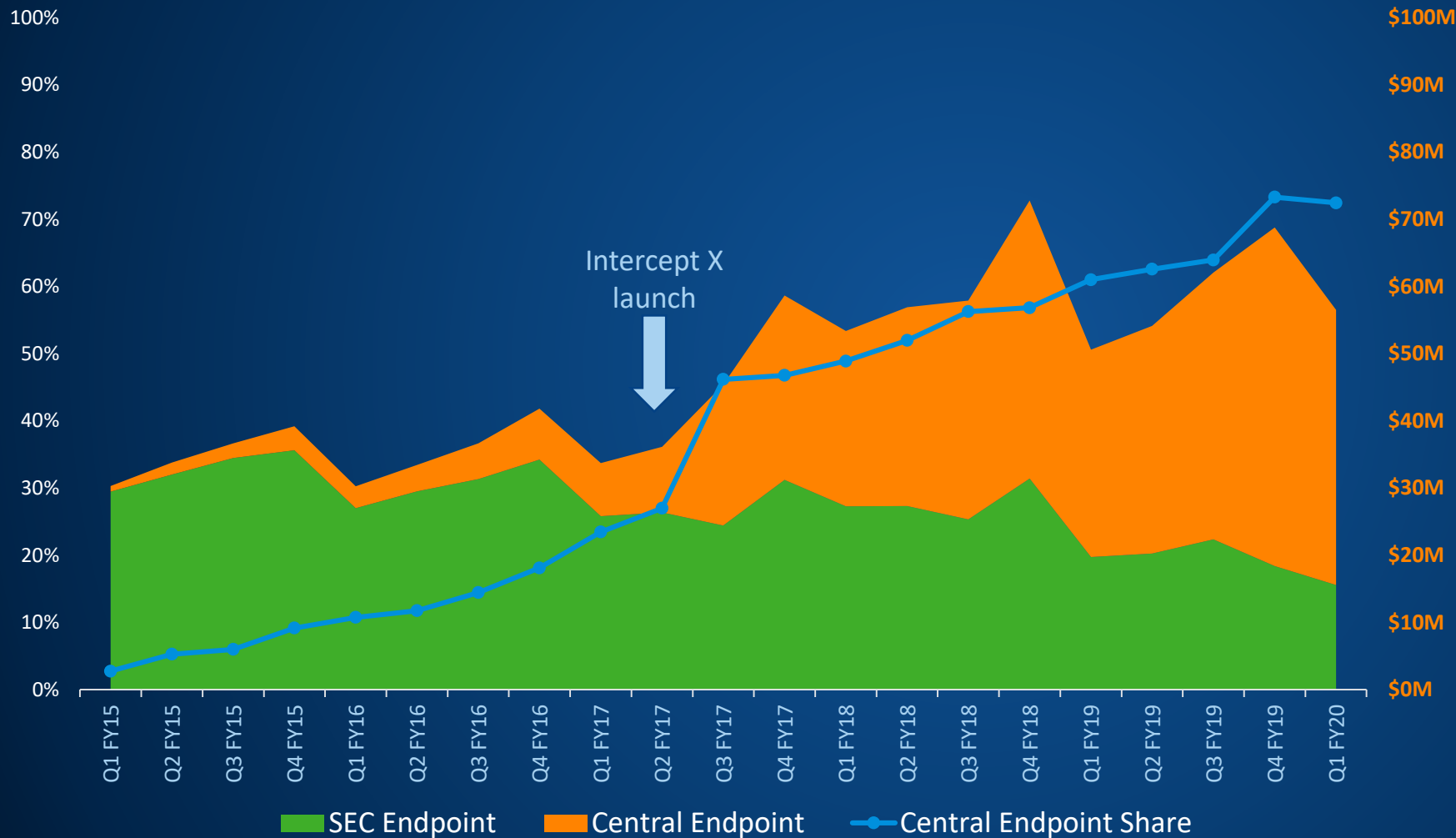
Next-Gen* Drives New Business and Upgrades



- 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
- Q1 FY20 Next Gen represented 55% of Total Billings (Q1 FY19: 39%) growing at 43% cc YOY

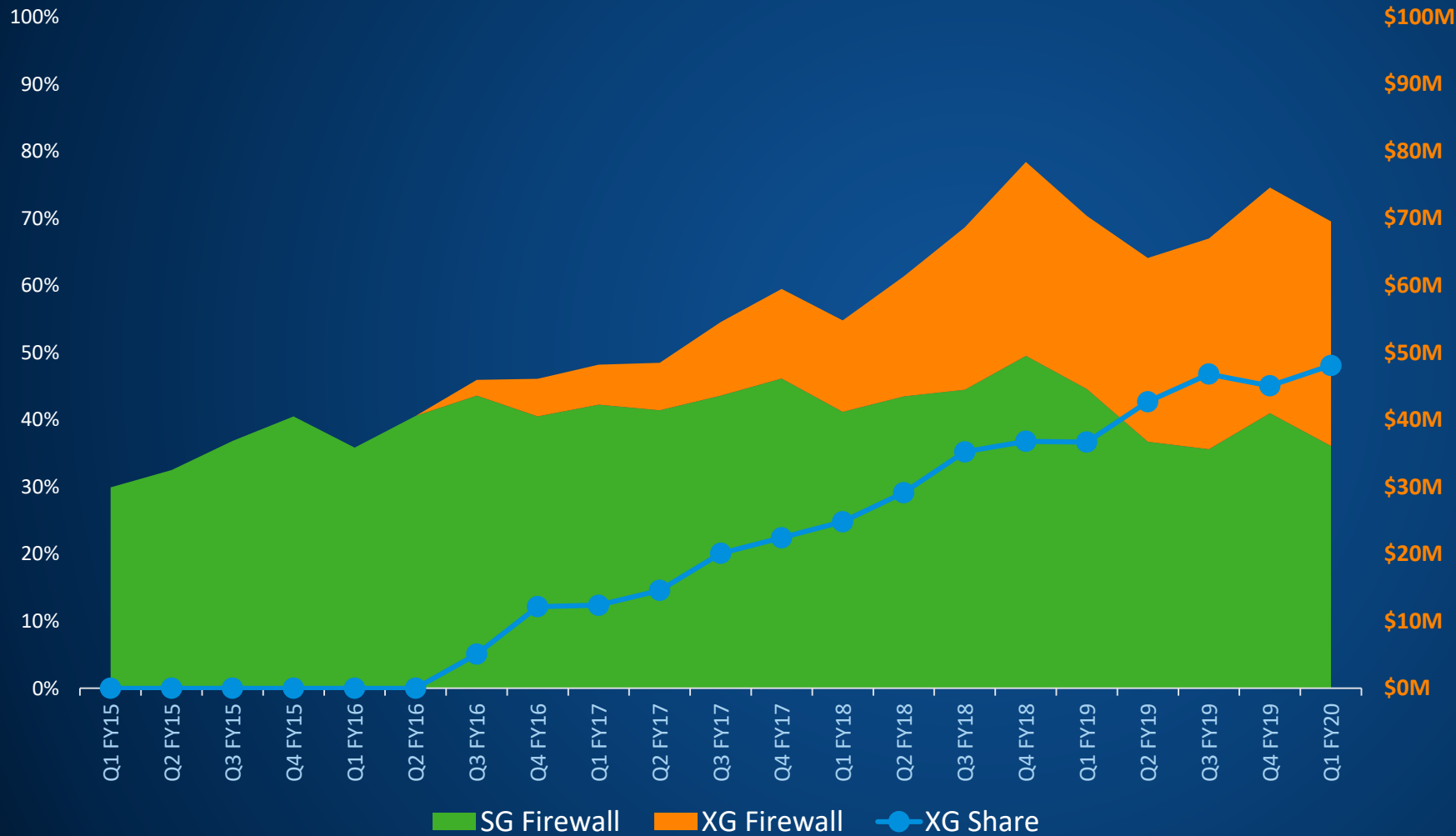
* The next-gen product portfolio consists of the Group's most advanced products, managed in Sophos Central, notably including Sophos Intercept X for endpoint protection and the Sophos XG Firewall.

Successful Adoption of Next-Gen Cloud Endpoint



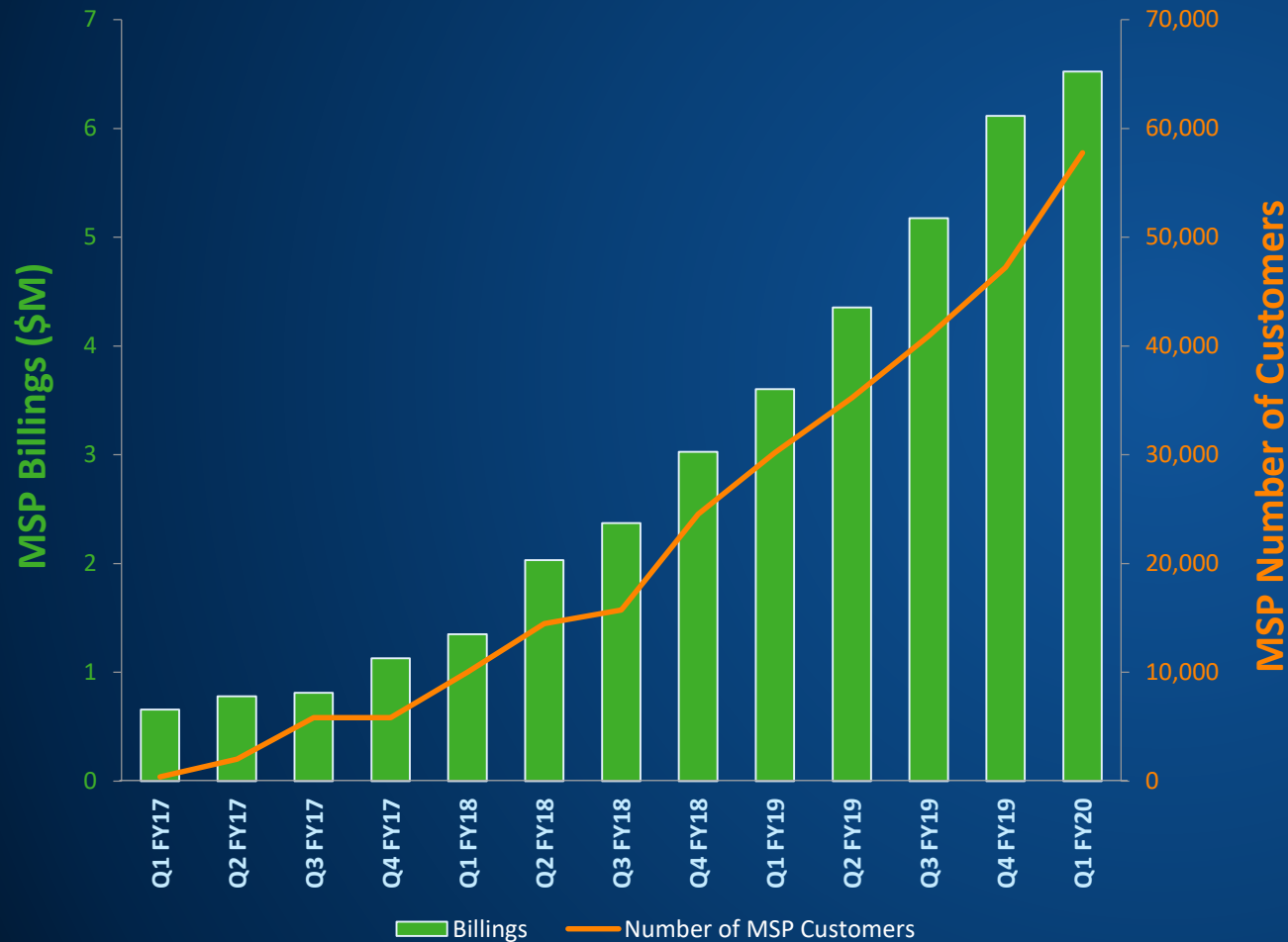
- SEC to Sophos Central Endpoint upgrade is well progressed
- Nearly all new customers purchase Sophos Central Endpoint
- 25% of Sophos Central Endpoint customers are former SEC customers
- c.10% of SEC customers are upgrading annually, with momentum increasing

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

MSP Momentum

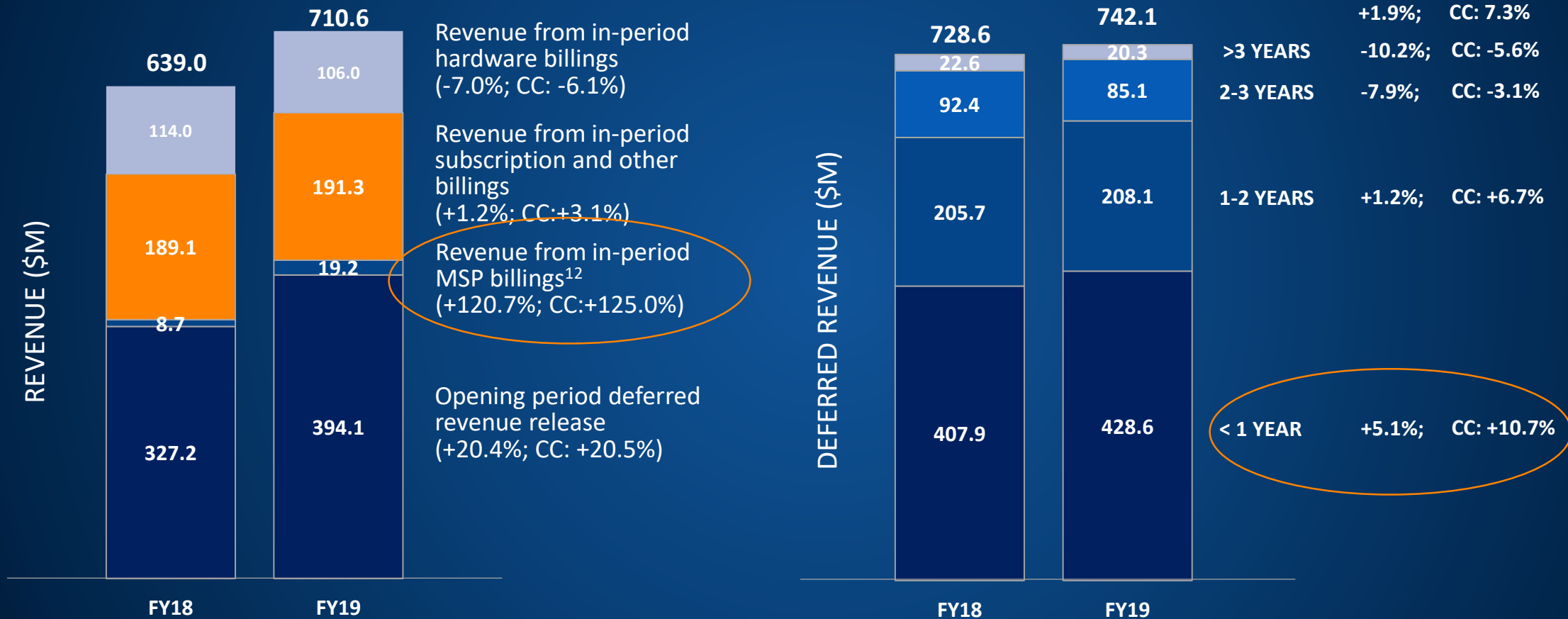


- Sophos Central and Synchronized Security represent compelling offering for MSP partners
- Significant growth opportunity as overall MSP market expands
- Particularly attractive model for smaller customers
- MSP business is billed monthly and recognized to revenue immediately
- MSP billings in Q1 FY20 equate to \$31.8 million in ARR

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⁽²⁾ TO UFCF RECONCILIATION

\$M	FY18	FY19
Adjusted operating profit	58.3	109.0
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)
Net cash from operating activities	147.7	142.9
Exceptional items*	13.0	3.1
Capex	(21.1)	(22.2)
Unlevered FCF	139.6	123.8

*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.