

# Sophos Group plc Interim Results Presentation

9 November 2016

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# Business Update

Kris Hagerman  
Chief Executive Officer

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# Key H1 FY17 Highlights and Outlook

- Billings growth of 15%, in line with outlook
- Unlevered FCF ahead of expectations at \$62 million
- Q2 reflects timing of renewal book
- Sophos Central now c. 10% of billings, up c.150% YOY
- Key new product releases of Intercept X next-generation endpoint and XG Firewall v16.0 next-generation firewall each off to a strong start, delivering on synchronized security strategy

*FY17 Outlook Reaffirmed*

# H1 Financial Performance Overview

*Strong results across key metrics*

**+15.1%**

## Like-for-Like Billings<sup>(1)</sup>

Strong billings growth for both Network and Enduser product groups  
Strong new and renewal business

**+15.6%**

## Reported Billings<sup>(2)</sup>

**\$279.8M vs. \$242.0M H1 FY16**  
Reflects relative stabilisation of Euro and modest impact of acquisitions

**+10.4%<sup>(3)</sup>**

## Constant Currency Revenue

Subscription growth of 12.7%  
Total revenue 9.7% at reported rates

**\$50.9M**

## Cash EBITDA<sup>(4)</sup>

**vs. \$45.5M H1 FY16**  
Reflects improved billings and continued focus on investments

**\$62.2M**

## Unlevered Free Cash Flow<sup>(5)</sup>

**vs. 19.9M H1 FY16**  
Driven by improved Cash EBITDA and normalisation of working capital

**28.1 Months**

## Weighted av. Contract Length<sup>(6)</sup>

**vs. 27.6 months H1 FY16**  
A modest increase YOY influenced by material contract in Q1



# Strong Momentum in Key Operating Metrics

- New customer billings +19.9% YOY driven by UTM and Sophos Central
- Like-for-like subscription growth +19.4% YOY
- Renewal rate, including upsell, improved to 104.1% (vs. 100.5% H1 FY16)
- Customers who have both Endpoint and UTM products increased from 6.4% to 8.4% YOY
- Number of customers increased to 240,000 (vs. 220,000 at fiscal year-end)

# R&D Investment Delivering Strong Product Innovation

- Intercept X next-generation endpoint (Released: Sept. 22)
- Sophos XG Firewall available on Microsoft Azure, in addition to existing AWS offerings
- Synchronized Encryption
- Expansion of Sophos Central cloud-based management platform
  - New products added to Sophos Central
    - Email / Encryption / Wireless / Web
  - Enhancements to existing Sophos Central components
    - Server / Endpoint / Mobile / MSP and partner-centric features
- XG Firewall v16 next-generation firewall (Released: Oct. 4)



# Continued Channel Progress and Industry Recognition

- Increased partners from 20K at fiscal year-end to 26K
- Increased blue chip partners from 4.7K at fiscal year-end to 5.4K
- SC Magazine, Europe UTM category winner
- CRN awards
  - Winner, Data Security
  - Winner, Network Security
  - Winner, Product Innovation for Endpoint Security
- A Leader in Gartner Magic Quadrant for UTM for the 5<sup>th</sup> consecutive year <sup>(7)</sup>
- A Leader in The Forrester Wave™: Endpoint Security Suites, Q4 2016 <sup>(8)</sup>



“Winner Best UTM Solution”



**FORRESTER**<sup>®</sup>  
“Sophos delivers the most enterprise-friendly SaaS endpoint security suite.”





# Our Differentiated Model

- Focus on mid-market enterprises
- Complete and intelligent security – made simple
- Integrated and synchronized technology, driving better protection, easier management, and significant cross-sell opportunity
- Managed and delivered through the cloud
- 100% channel, efficient global reach
- Recurring subscription model provides significant visibility and stability



# Financial Results

Nick Bray

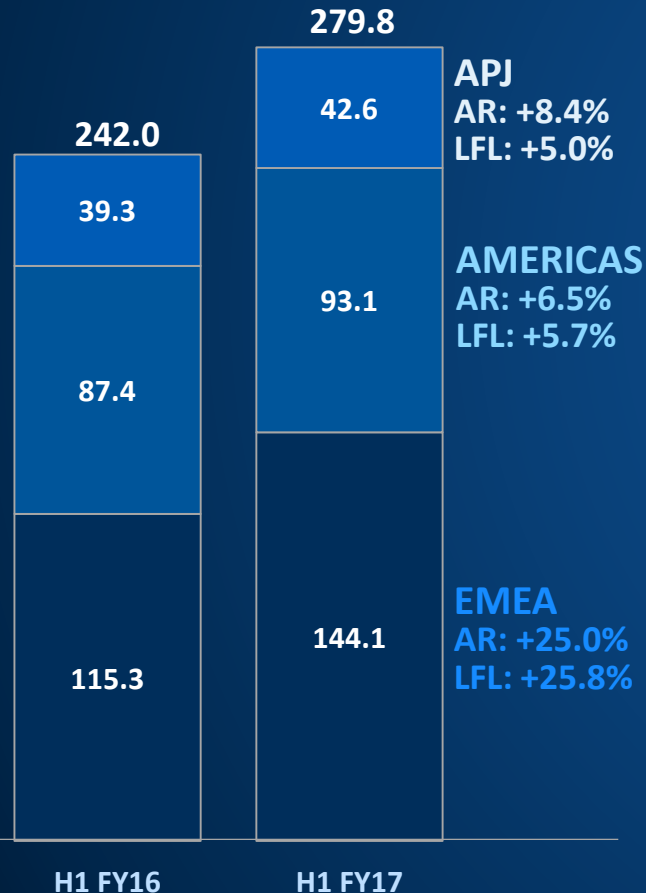
Chief Financial Officer

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# Billings Performance

*Like-for-like billings growth of 15.1%, reported billings growth of 15.6%*

REPORTED BILLINGS BY REGION (\$M)



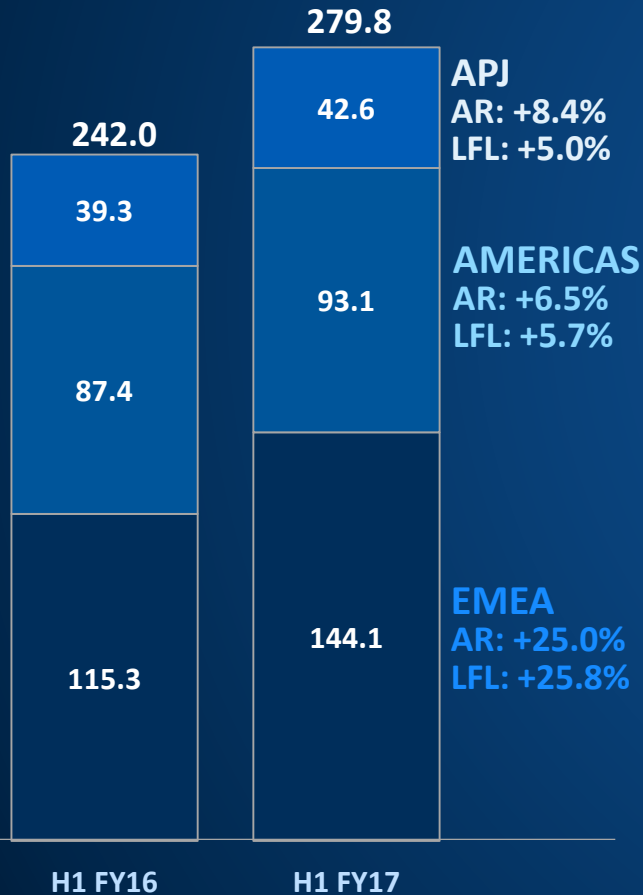
BILLINGS DRIVERS

- Brand new customer billings up >19%
- Existing customers renewal rates improved to over 104%
- High visibility of the renewal book
  - H1 renewal book c.+7%
  - H2 renewal book expected at c.+12%

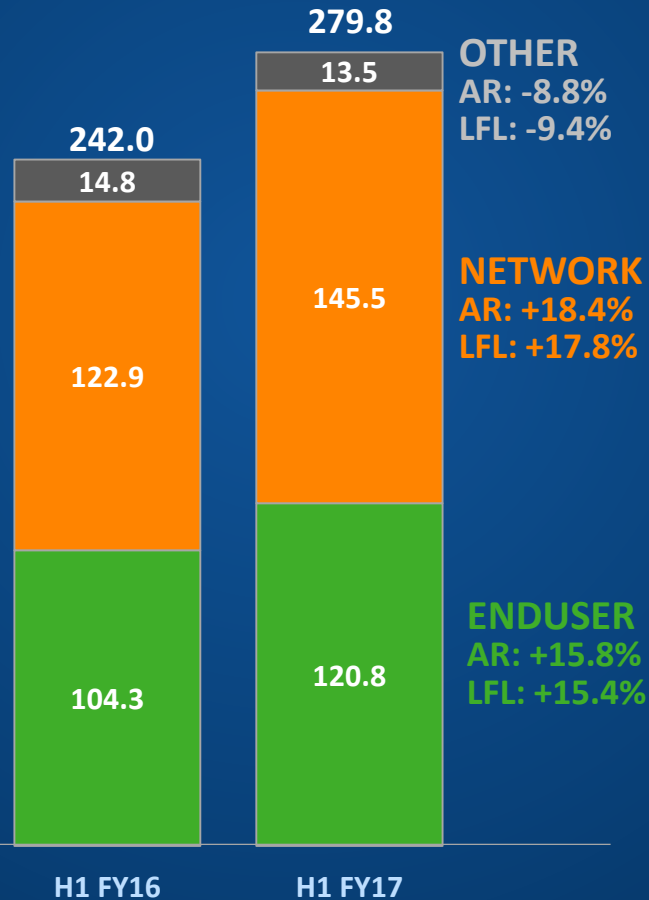
# Billings Performance

*Like-for-like billings growth of 15.1%, reported billings growth of 15.6%*

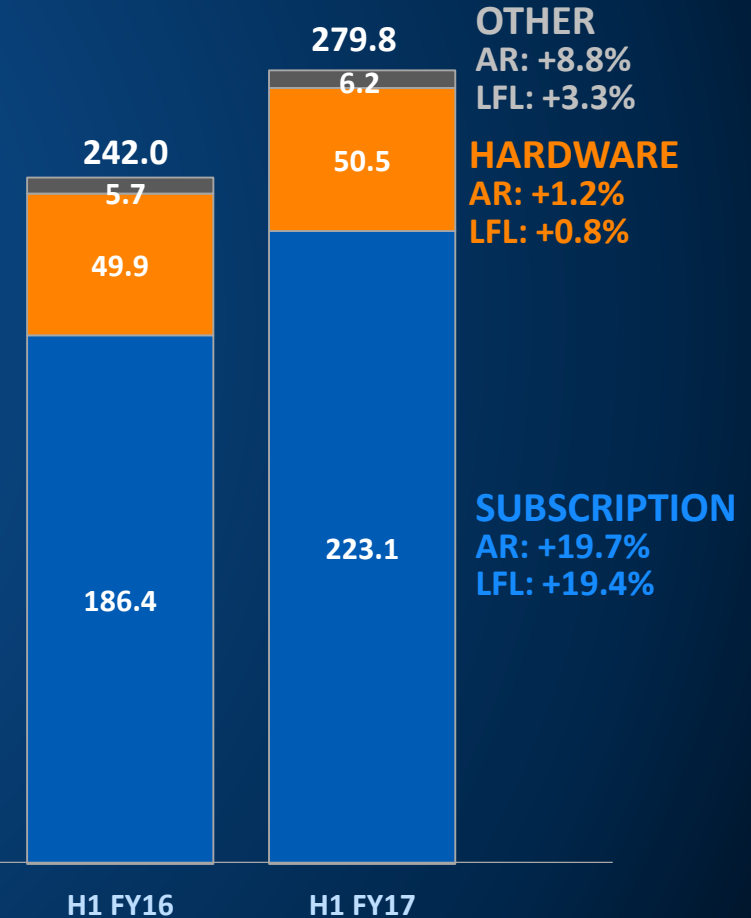
REPORTED BILLINGS BY REGION (\$M)



REPORTED BILLINGS BY PRODUCT (\$M)



REPORTED BILLINGS BY TYPE (\$M)



# Key Billings Metrics

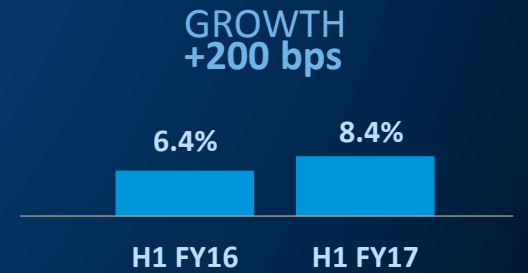
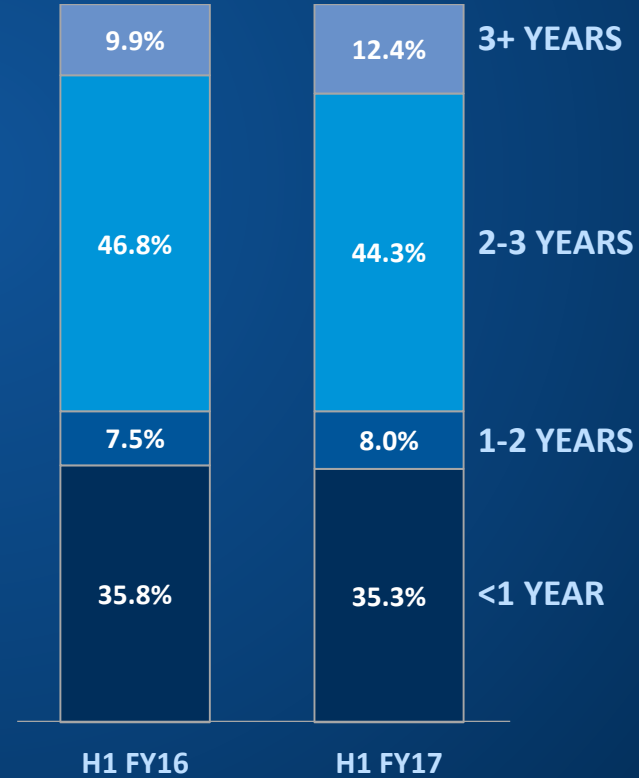
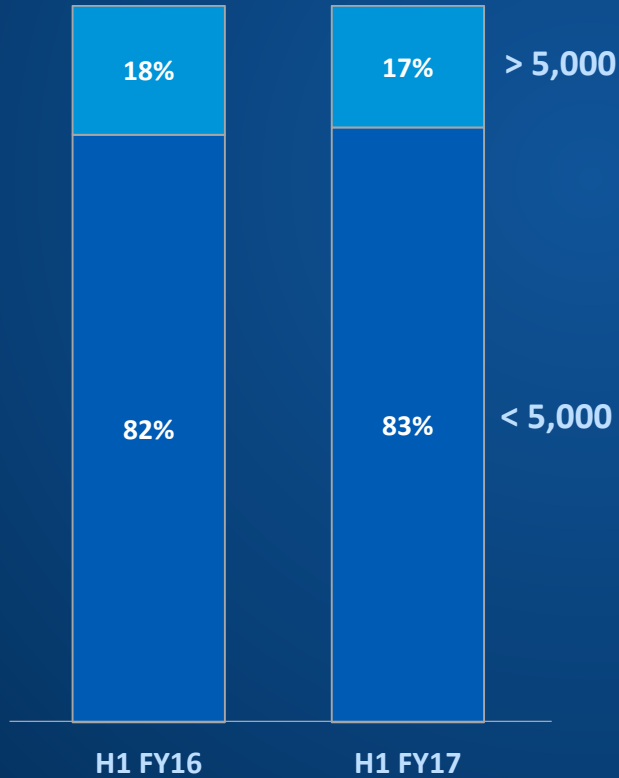
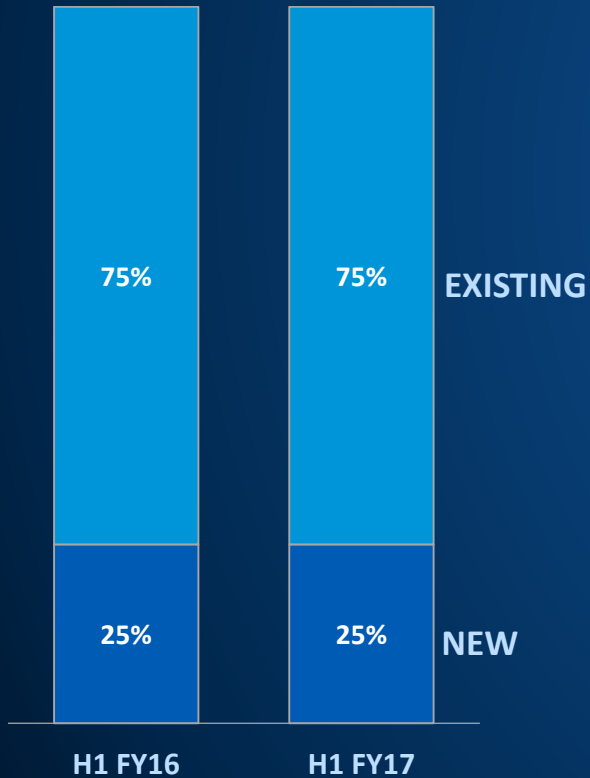
*Strong metrics improving visibility and sustainability; renewals up 360 bps YOY to 104.1%*

BILLINGS BY CUSTOMER TYPE<sup>(9)</sup>

BILLINGS BY SIZE (Employees)<sup>(9)</sup>

BILLINGS BY LENGTH OF CONTRACT<sup>(10)</sup>

PERCENTAGE OF CUSTOMERS WITH UTM AND ENDPOINT

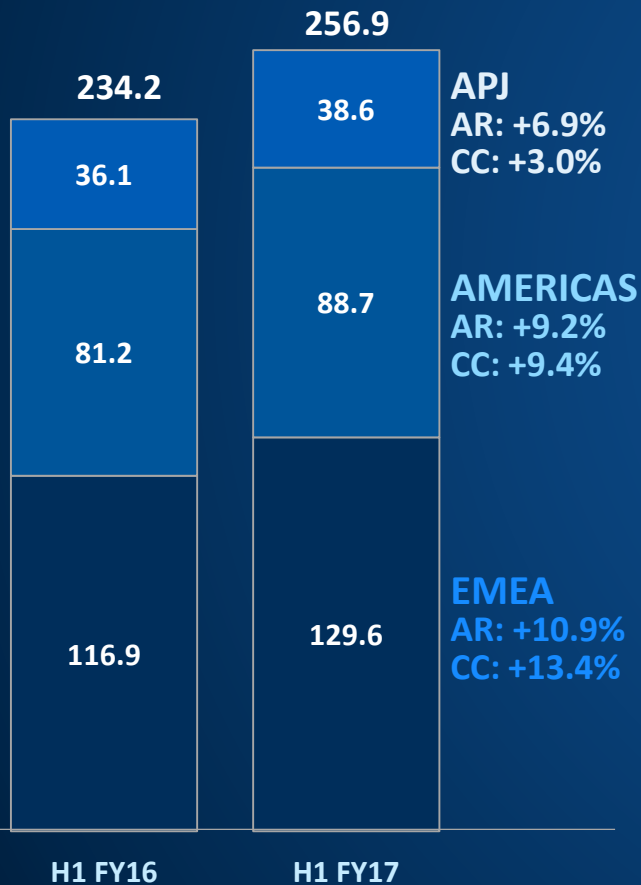




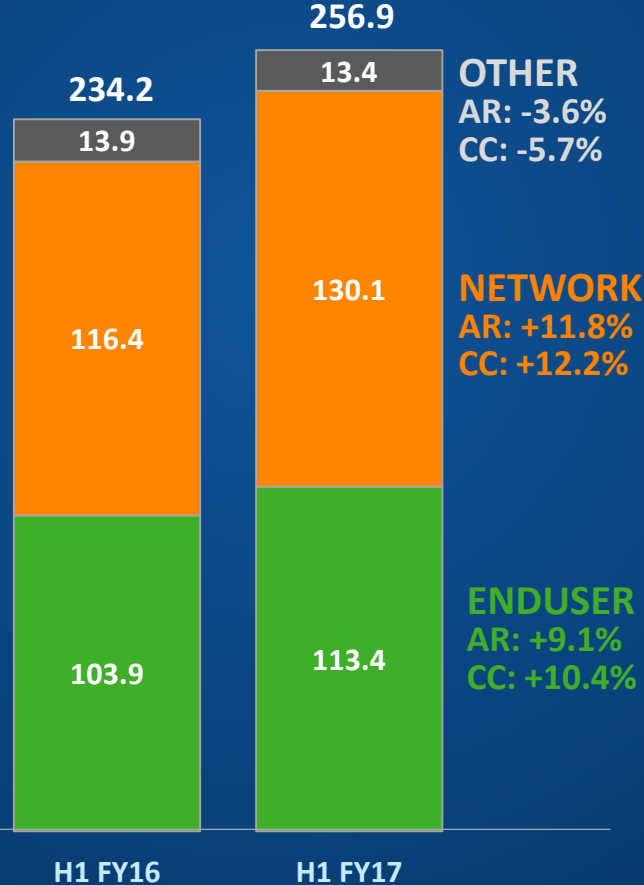
# Revenue Performance

Constant currency revenue growth of 10.4%, reported growth of 9.7%

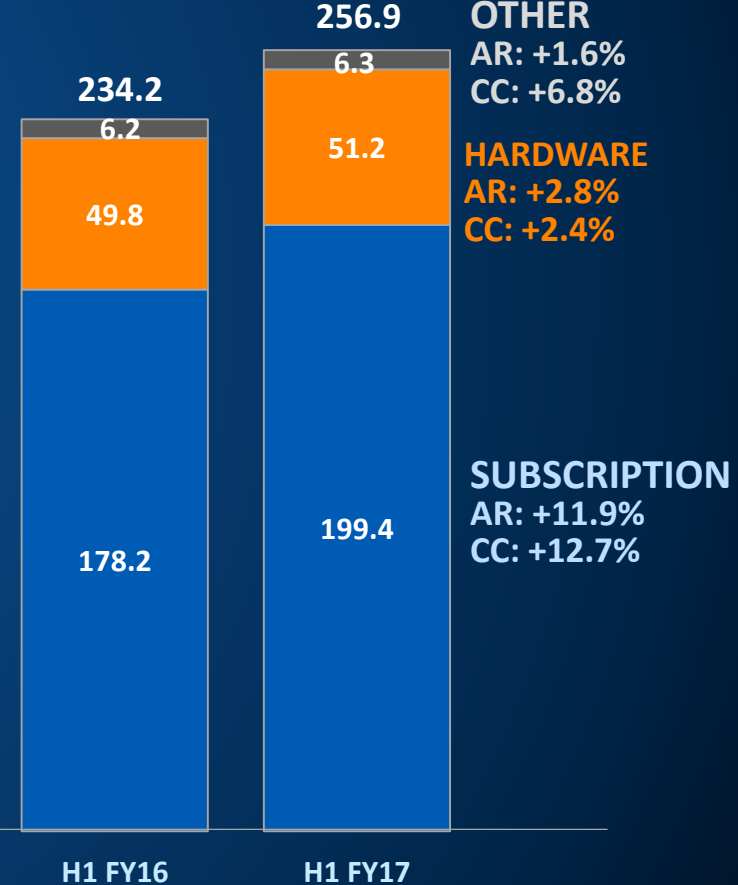
REPORTED REVENUE BY REGION (\$M)



REPORTED REVENUE BY PRODUCT (\$M)



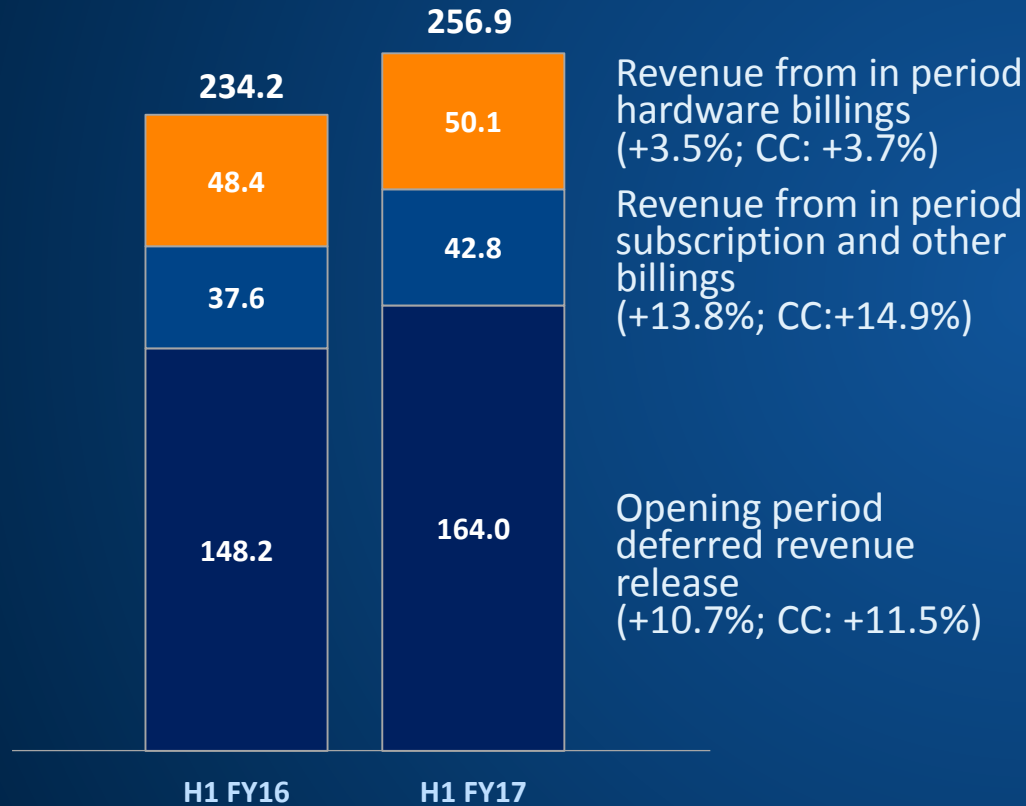
REPORTED REVENUE BY TYPE (\$M)



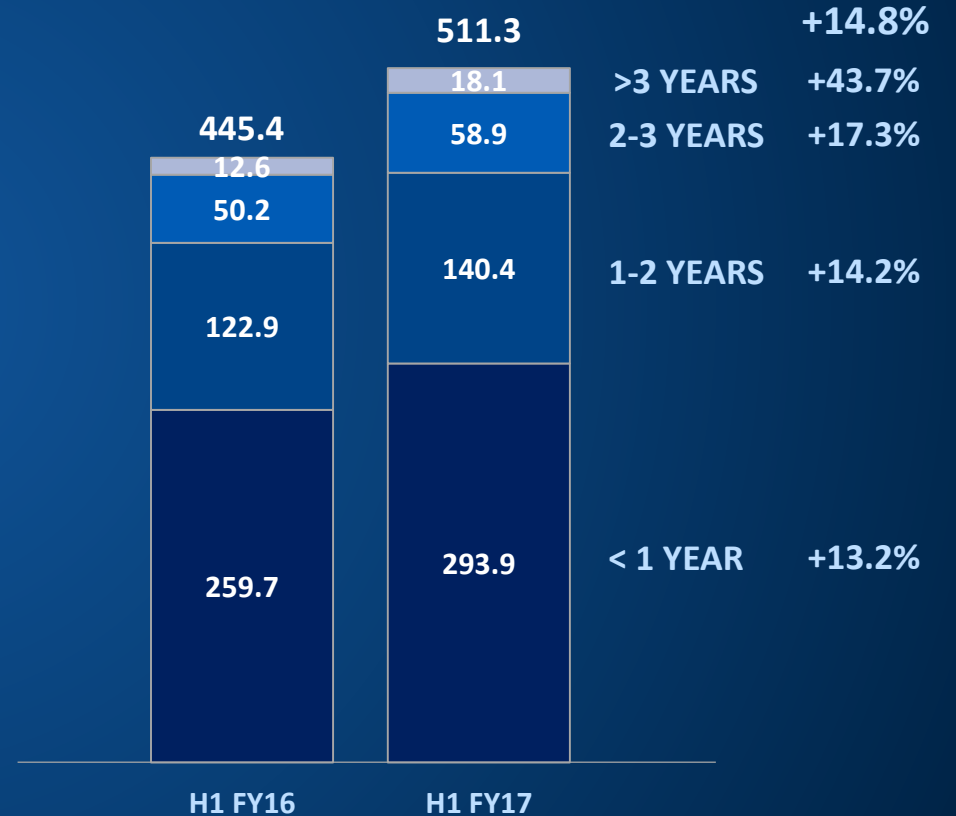
# Deferred Revenue by Year of Recognition

*Direction of future revenue growth strongly indicated by deferred revenue increase*

REPORTED REVENUE BY SOURCE (\$M)



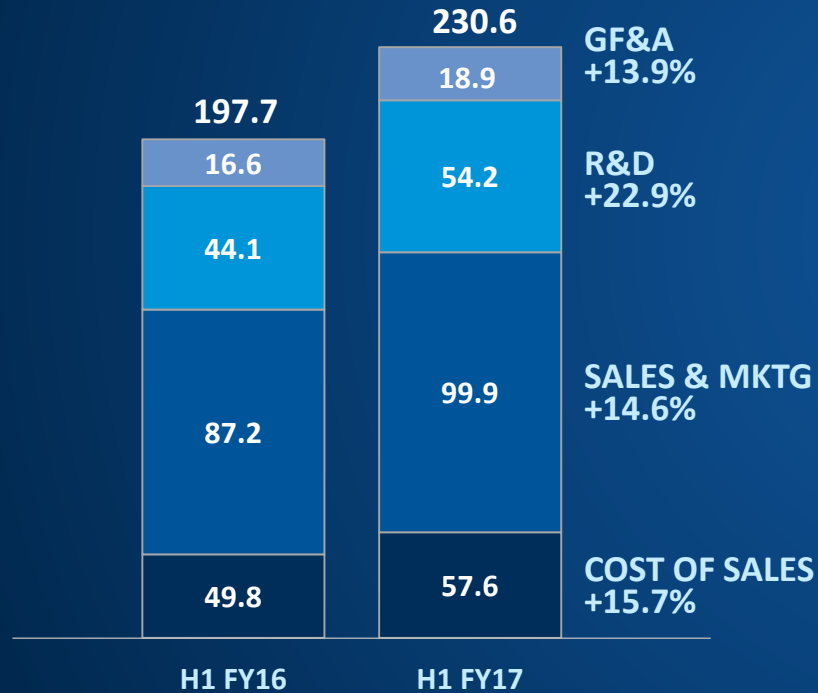
DEFERRED REVENUE (\$M)



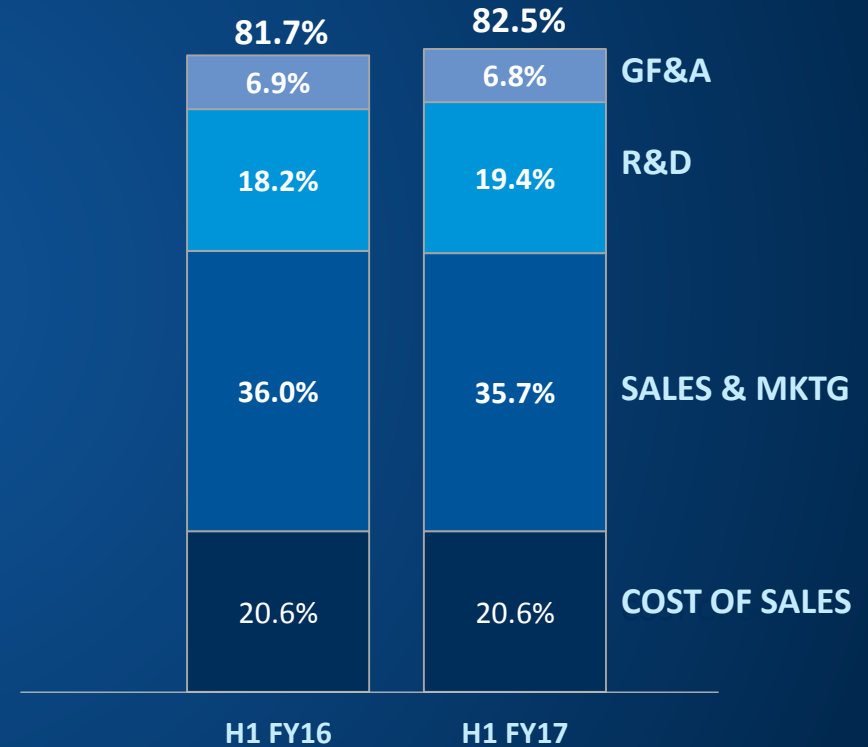
# Expense Performance

*Continued prioritisation of R&D*

COST ANALYSIS (\$M)<sup>(11)</sup>



COSTS AS % OF BILLINGS<sup>(11)</sup>



*Sterling and Euro costs at 18% and 22%, respectively, compared to 13% and 34% of billings*

# Cash EBITDA and Statutory Income Statement

*11.9% increase in cash EBITDA*

## CASH EBITDA RECONCILIATION

<i>\$M</i>	H1 FY16	H1 FY17
<b>Cash EBITDA</b>	<b>45.5</b>	<b>50.9</b>
Net deferral of revenue	(7.8)	(22.9)
<b>Adjusted EBITDA</b>	<b>37.7</b>	<b>28.0</b>
Share based payment expense	(2.2)	(15.5)
Depreciation	(4.0)	(4.4)
Amortisation	(15.6)	(10.8)
Exceptional items	(26.2)	(19.8)
Unrealised foreign exchange gain / (loss)	(3.1)	(2.1)
<b>Operating result</b>	<b>(13.4)</b>	<b>(24.6)</b>

## STATUTORY INCOME STATEMENT

<i>\$M</i>	H1 FY16	H1 FY17
Billings	242.0	279.8
Net deferral of revenue	(7.8)	(22.9)
<b>Revenue</b>	<b>234.2</b>	<b>256.9</b>
Cost of sales	(50.5)	(58.4)
Gross profit	183.7	198.5
Sales and marketing	(88.7)	(101.4)
Research and development	(45.6)	(55.9)
General finance and administration	(19.1)	(34.8)
Amortisation	(15.6)	(10.8)
<b>Operating result before exceptionals and FX</b>	<b>14.7</b>	<b>(4.4)</b>
Exceptional items	(26.2)	(19.8)
FX profit/loss	(1.9)	(0.4)
<b>Operating result</b>	<b>(13.4)</b>	<b>(24.6)</b>
Net interest expense	(29.5)	(3.8)
Result before tax	(42.9)	(28.4)
Tax	(4.2)	(5.7)
<b>Result for the period</b>	<b>(47.1)</b>	<b>(34.1)</b>

# Cash Flow

*Significant YOY improvement in uFCF*

## CASH EBITDA TO UFCF RECONCILIATION

\$M	H1 FY16	H1 FY17
Adjusted EBITDA	37.7	28.0
Net deferral of revenue	7.8	22.9
<b>Cash EBITDA</b>	<b>45.5</b>	<b>50.9</b>
Capex	(10.9)	(5.9)
Cash Tax	(13.6)	(5.0)
Change in working capital <sup>(1)</sup>	(1.1)	22.2
<b>Unlevered FCF</b>	<b>19.9</b>	<b>62.2</b>

## UFCF TO CASH RECONCILIATION

\$M	H1 FY16	H1 FY17
<b>Unlevered FCF</b>	<b>19.9</b>	<b>62.2</b>
Capex	10.9	5.9
Exceptional items <sup>(1)</sup>	(26.2)	(4.8)
<b>Net cash from operating activities</b>	<b>4.6</b>	<b>63.3</b>
Net cash from investing activities	(25.5)	(7.1)
Net cash from financing activities	16.4	(29.3)
<b>Increase /(decrease) in cash</b>	<b>(4.5)</b>	<b>26.9</b>
Net foreign exchange	0.1	(3.7)
Cash at start of period	72.6	66.8
<b>Cash at end of period</b>	<b>68.2</b>	<b>90.0</b>

- Unlevered free cash flow is expected to approximately double in FY17
- Interim dividend +86% to 1.3 cents per share

(1) Excludes the non-cash movement on the provision for the claim brought against the Group in relation to the Finjan intellectual property litigation case



# Priorities and Outlook

Kris Hagerman  
Chief Executive Officer

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# Operating Priorities



**Innovate** across our product portfolio to enhance capabilities and ease of use



**Leverage the cloud** to deliver better security and better manageability



Advance our **synchronized security** strategy through meaningful product integration



Grow our base of **channel partners** and our most active 'blue chip' partners



Expand Sophos' **brand visibility** and awareness

# Outlook: Confident on Key Metrics for FY17

- Mid-teens percentage billings growth on a like-for-like basis; contributing to mid-teens revenue growth
- Modest cash EBITDA margin expansion, reflecting the operational leverage in the business
- Unlevered free cash flow expected to approximately double

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# End Notes

- (1) Like-for-like billings represent billings on a constant currency basis excluding disposals and including acquisitions from the point of acquisition plus the pre-acquisition billings of any acquired companies on a reported basis. Like-for-like billings are presented to enhance comparability.
- (2) Billings represents the value of products and services invoiced to customers after receiving a purchase order from the customer and delivering products and services to them, or for which there is no right to a refund for undelivered items. Billings does not equate to statutory revenue.
- (3) The majority of billings are for licence subscriptions which are recognised as revenue over the period of the contract. Revenue growth is primarily a function of prior period billings and hence will not yet reflect the improved billings performance of the current period.
- (4) Cash earnings before interest, taxation, depreciation and amortisation (“Cash EBITDA”) is defined as the Group’s operating (loss) / profit adjusted for depreciation and amortisation charges, any gain or loss on the sale of tangible and intangible assets, share option charges, unrealised foreign exchange differences and exceptional items, with billings replacing recognised revenue.
- (5) Unlevered free cash flow represents Cash EBITDA less purchases of property, plant and equipment and intangibles, plus cash flows in relation to changes in working capital and taxation.
- (6) Last twelve months weighted average contract length is calculated on a constant currency billings basis, comparative has been re-stated to be on a total Group basis.
- (7) Gartner Magic Quadrant for Unified Threat Management (UTM) Jeremy D'Hoinne, Adam Hils, Rajpreet Kaur: Published: 30 August 2016 ID: G00291814. Gartner does not endorse any vendor, product or service depicted in its research publications, and does not advise technology users to select only those vendors with the highest ratings or other designation. Gartner research publications consist of the opinions of Gartner's research organization and should not be construed as statements of fact. Gartner disclaims all warranties, expressed or implied, with respect to this research, including any warranties of merchantability or fitness for a particular purpose. GARTNER is a registered trademark and service mark of Gartner, Inc. and/or its affiliates in the U.S. and internationally, and is used herein with permission. All rights reserved.
- (8) The Forrester Wave™: Endpoint Security Suites, Q4 2016.
- (9) Constant currency billings excluding Cyberoam, Reflexion and SurfRight.
- (10) Constant currency billings, comparative has been re-stated to be on a total Group basis.
- (11) Expenses included within the definition of cash EBITDA at actual exchange rates.



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