

1st Quarter Results

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Sophos Group Plc
28 July 2016Sophos Group plc
Trading Statement for the quarter-ended 30 June 2016

Strong first-quarter performance; significant cash generation

Oxford, U.K., 28 July 2016 Sophos Group plc (the "Group" / LSE: SOPH), a leading provider of cloud enabled enduser and network security solutions, today issues its Trading Statement for the three-month period to 30 June 2016 ("Q1 FY17").

Highlights

- Billings¹ grew 25.2 percent year-over-year ("YOY"), with growth across all major regions and product categories; 23.0 percent on a like-for-like² basis
- Revenue³ grew 12.2 percent YOY; 11.9 percent at constant currency; the subscription component of revenue grew 14.5 percent at reported exchange rates
- Cash EBITDA⁴ grew 55.2 percent YOY driven by the improvement in billings; 48.6 percent at constant currency
- Unlevered free cash flow⁵ of \$28.8M (Q1 FY16: \$3.7M out flow); significantly improved YOY due to stronger cash EBITDA and the normalisation of working capital

| | Q1 FY17 | Q1 FY16 | Growth | |
|--------------------------|---------|---------|----------|---|
| | \$M | \$M | Reported | % |
| Billings | 141.9 | 113.3 | 25.2 | |
| Revenue | 127.4 | 113.5 | 12.2 | |
| Cash EBITDA | 25.6 | 16.5 | 55.2 | |
| Unlevered free cash flow | 28.8 | (3.7) | n/m | |

- Strong European billings growth of 35.3 percent assisted by a material contract with an existing customer
- Network billings growth of 22.3 percent driven by acceleration of UTM; strong Enduser growth of 25.1 percent assisted by the material contract
- Last twelve months weighted average contract length⁶ of 29.2 months, a modest increase on the FY16 year-end equivalent of 28.6 months in the main due to the impact of the material contract

| | Q1 FY17 | Q1 FY16 | Growth | |
|----------------------|---------|---------|----------|-----------------|
| | \$M | \$M | Reported | Like-for-like % |
| | | | % | |
| Billings by Region: | | | | |
| - Americas | 42.8 | 38.0 | 12.6 | 10.3 |
| - EMEA | 78.2 | 56.6 | 38.2 | 35.3 |
| - APJ | 20.9 | 18.7 | 11.8 | 11.1 |
| Billings | 141.9 | 113.3 | 25.2 | 23.0 |
| Billings by Product: | | | | |
| - Network | 73.4 | 58.9 | 24.6 | 22.3 |
| - Enduser | 61.4 | 48.2 | 27.4 | 25.1 |
| - Other | 7.1 | 6.2 | 14.5 | 14.3 |
| Billings | 141.9 | 113.3 | 25.2 | 23.0 |

Kris Hagerman, Chief Executive Officer, commented:

"We are encouraged by our strong start to the year which underpins our confidence in the outlook for the full financial year. Our compelling strategy of targeting the underserved mid-market with a complete security offering through the channel that serves them continues to drive positive performance."

Outlook

For the year-ending 31 March 2017, the Board expects to deliver mid-teens percentage billings growth on a like-for-like basis whilst also delivering modest cash EBITDA margin expansion, reflecting the operational leverage in the business. Billings growth, together with a YOY increase in the deferred revenue to be recognised within one year, would be expected to contribute to mid-teens revenue growth. Unlevered free cash flow is expected to approximately double in FY17 as working capital normalises and the level of the Group's anticipated profit improves.

About

The Sophos Group is a leading global provider of cloud-enabled enduser and network security solutions, offering organisations end-to-end protection against known and unknown IT security threats through products that are easy to install, configure, update and maintain. For further information please visit: www.sophos.com. The Group has over 30 years of experience in enterprise security and has built a portfolio of products that protects over 220,000 organisations and over 100 million endusers in 150 countries across a variety of industries.

Forward-looking Statements

Certain statements in this announcement constitute "forward-looking statements". These forward-looking statements involve risks, uncertainties and other factors that may cause the Group's actual results, performance or achievements, or industry results, to be materially different from those projected in the forward-looking statements. These factors include: general economic and business conditions; changes in technology; timing or delay in signing, commencement, implementation and performance or programmes, or the delivery of products or services under them; structural change in the security industry; relationships with customers; competition; and ability to attract personnel. You are cautioned not to rely on these forward-looking statements, which speak only as of the date of this announcement. The Group undertakes no obligation to update or revise any forward-looking statement to reflect any change in expectations or any change in events, conditions or circumstances.

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Management will be hosting an analyst conference call to discuss the Trading Statement at 08:30 am London time on 28 July 2016; dial-in number +44 (0) 203 0095710, pin code: 52143513. A replay of the call will also be available for one week after the event on the Company's website.

1. 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.
2. 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.
3. The majority of billings are for license 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, stock 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 excluding the acquired businesses of Cyberoam, Reflexion and SurfRight on a constant currency billings basis.

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