

Sophos Group plc
26 July 2018

Trading statement for the quarter-ended 30 June 2018

Billings growth at 6%, with strong revenue and cash flow

Oxford, 26 July 2018. Sophos Group plc (the “Group” / LSE: SOPH), a leading provider of cloud enabled enduser and network security solutions, today issues its trading update for the first quarter-ended 30 June 2018.

Financial and operational highlights

- As previously announced, Q1 FY19 group billings¹ growth of 6%, (or 2% constant currency), was lower than anticipated
- Overall the Group continued to see a strong demand environment, with a double-digit increase in billings from new customers², and Sophos Central and Intercept X both continued to show good momentum in the quarter
- Enduser security billings declined by -1% (or -5% constant currency) versus the prior-year period, after a particularly challenging prior-year comparable, where billings growth was over 50% constant currency in Q1 FY18 after adjusting for the previously disclosed material contract in FY17
- Network security billings grew by 12% (or 7% constant currency) versus the prior-year period, and within this UTM growth was 19% (or 14% constant currency)
- The net renewal rate was 114% in Q1 compared to 141% a year ago. This level was below what we believe are sustainable norms, and was principally caused by two factors:
 - In Enduser security, we saw relatively lower levels of cross-selling activity than expected, in part due to accelerated demand in FY18 that resulted from the global Wannacry ransomware outbreak
 - In Network security, the renewal rate was affected by a legacy product transition, as the migration from Cyberoam to Sophos XG Firewall nears its conclusion
- Revenue increased by 24% (or 19% constant currency), principally driven by a 27% increase in subscription revenue
- Cash EBITDA³ decreased from \$27.3 million in Q1 FY18 to \$20.3 million in Q1 FY19, reflecting both lower than expected billings growth and a planned increase in annualised Research and Development and Sales and Marketing expenses
- Adjusted operating profit⁴ increased almost six-fold from \$3.7 million in Q1 FY18 to \$21.9 million in Q1 FY19, driven by strong revenue growth, demonstrating the operating leverage of the Sophos business model
- Cash generation in the period continued to be strong, with a 33% increase in net operating cash flow and a 31% increase in unlevered free cash flow⁵ compared to the prior-year period

Financial highlights

	Q1 FY19	Q1 FY18	<i>Growth</i>
GAAP measures	\$M	\$M	%
Revenue	175.5	141.4	24.1
Operating profit/(loss)	6.2	(15.3)	<i>nm</i>
Net cash flow from operations	40.4	30.3	33.3
Non-GAAP measures			
Billings	174.9	164.3	6.5
Cash EBITDA	20.3	27.3	(25.6)
Adjusted operating profit	21.9	3.7	491.9
Unlevered free cash flow	39.6	30.3	30.7

Kris Hagerman, Chief Executive Officer, commented:

“Sophos continues to execute against our core mission: to deliver innovative, simple, and highly-effective cybersecurity solutions to IT professionals and the channel that serves them. Our solutions are managed in a single integrated cloud platform where the products actively communicate and work together to deliver better security. This remains a highly differentiated approach and continues to resonate well with customers and partners.

As we look forward, we expect a return to mid-teens constant currency billings growth in the second-half of the year. In H2, prior-year comparisons become more favourable, the temporary effects of legacy product transitions diminish, and the renewal rate is expected to return to a more normal range. This, combined with the expected strong growth in our future renewal book into FY20, continues to give us confidence in our long-term outlook.”

IFRS 15

The results for Q1 FY18 have been restated for the adoption of IFRS 15 “Revenue from contracts with customers”. The restatement is consistent with the expected impact disclosed in the Annual Report and Accounts for the year-ended 31 March 2018; though the Directors will continue to monitor industry practice and experience of implementation through the coming months and update their assessment of the impact on the Group if required. Excluding the impact of IFRS 15, revenue growth has been estimated at 24.0 per cent.

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 300,000 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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Conference call and webcast

Sophos management will host a conference call and audio-webcast, for registered participants, at 09:30 (BST) today. A replay of the audio-webcast will be also accessible via the Sophos investor website following the presentation.

To register for the webcast and access the presentation materials please visit:

<https://investors.sophos.com/events-and-presentations>

Please dial into the conference call 5-10 minutes prior to the start time using the number/conference ID below:

Telephone:

+44 (0) 330 336 9411 (UK) / 0800 279 7204 (toll free)

+1 323 994 2131 (US) / 800 288 0540 (toll free)

Conference call confirmation code: 6864762

Participants are advised to visit the website at least 15 minutes prior to the commencement of the call-in order to register and, for those accessing the webcast, in order to download and install any audio software that may be required.

NB: Conference call participants will be able to ask questions during the Q&A session, but those on the webcast will be in a listen-only mode.

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. Billings does not equate to statutory revenue.
2. New customer billings includes MSP billings and excludes OEM and Consumer billings.

3. Cash earnings before interest, taxation, depreciation and amortisation ("Cash EBITDA") is defined as the Group's operating profit/ (loss) 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.
4. Adjusted operating profit represents the Group's operating profit / (loss) adjusted for amortisation charges, share option charges and exceptional items.
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.