Sophos Group plc
Capital Markets Day

6 September 2017

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Finance

Nick Bray
CFO

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Medium-Term Guidance

	CAGR FY17-FY20	FY20 Outlook	Underpinning the Outlook FY17-FY20
Billings	Mid-high teens	**c.$1bn**	Renewals visibility plus new business
Unlevered Free Cash Flow[2]	c.20%	**$220m to $240m**	Starting from high FY17 base, sustainable strong cash conversion
Adjusted Operating Profit[3]	c.35%	**>$100m**	Determined by rate of subscription billings growth

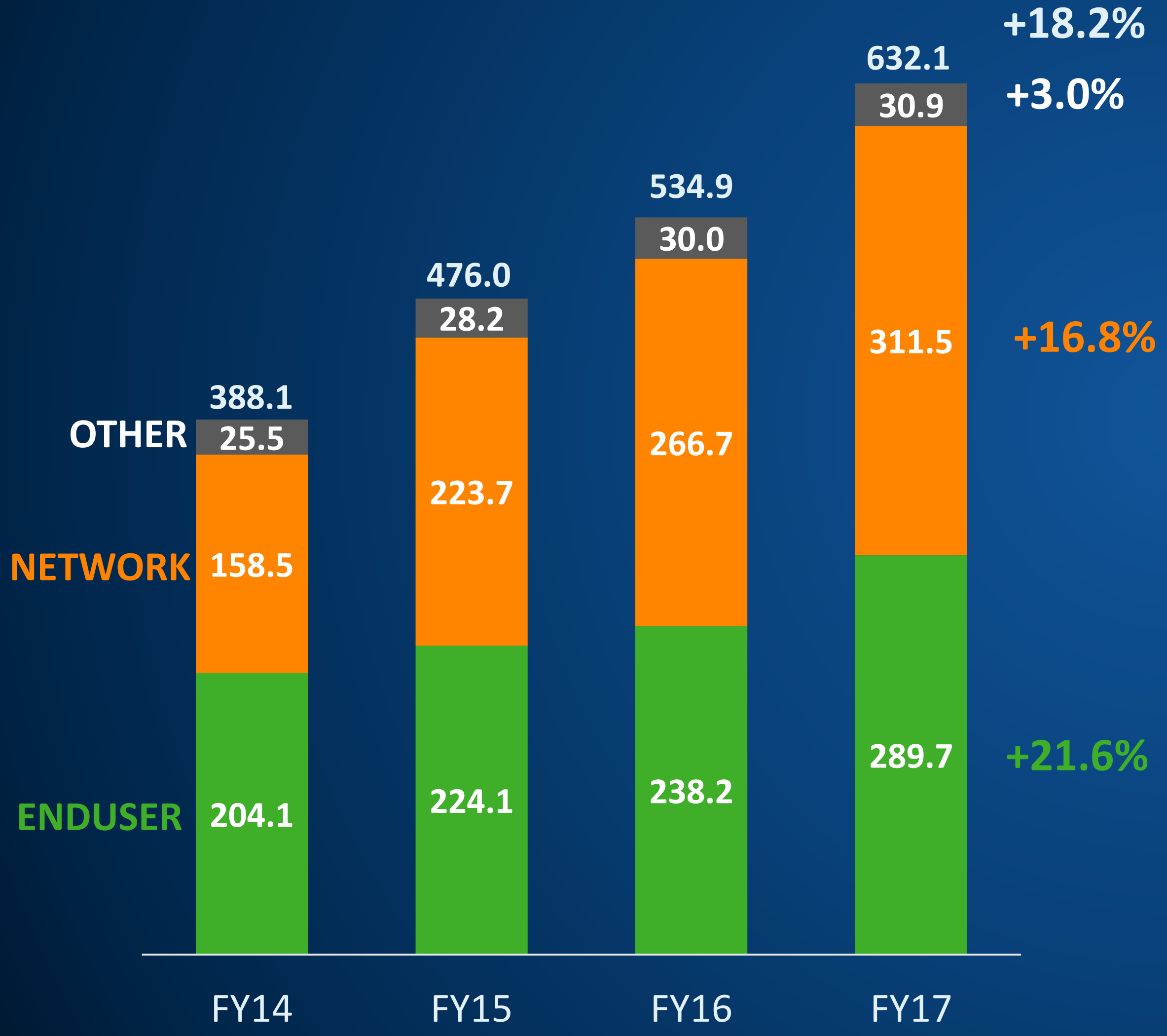
- Cash EBITDA[4] margin leverage of 100-150 bps per annum
- FY18:
  - c.20% billings growth
  - 50-100 bps improvement in Cash EBITDA margin
  - uFCF broadly unchanged

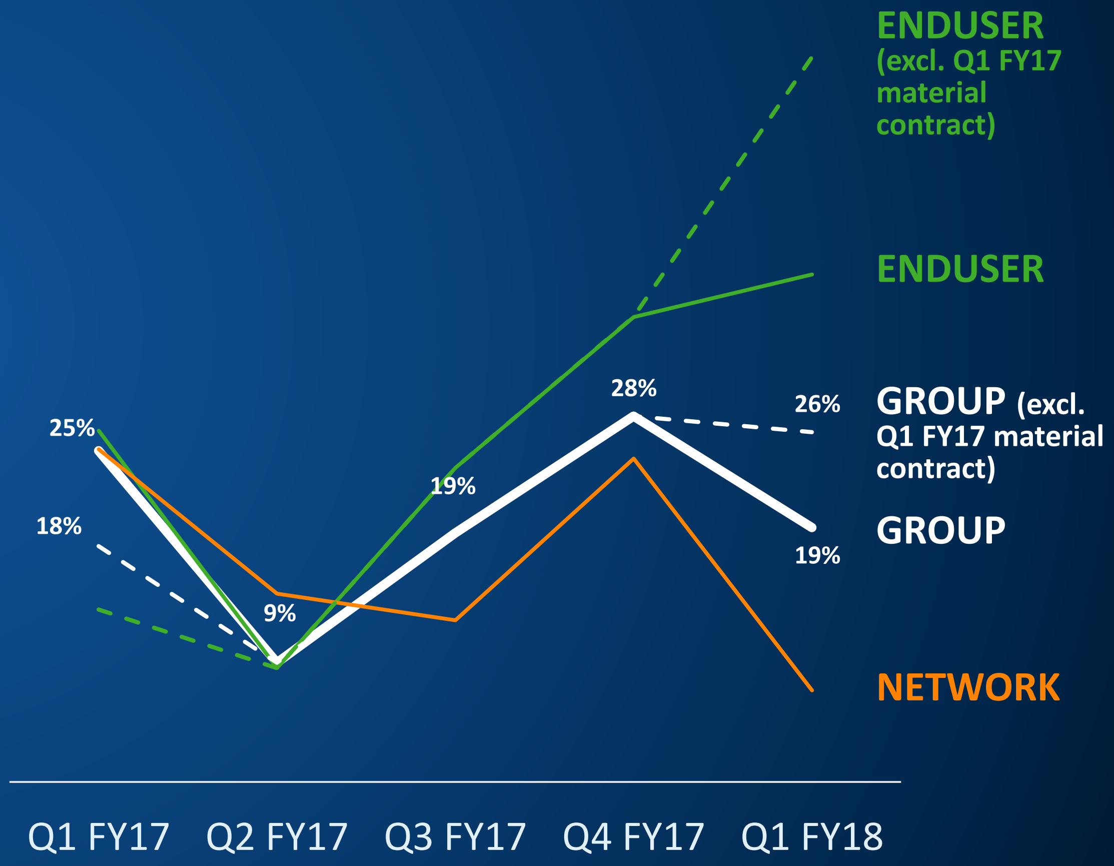
Factors Underpinning the Outlook

- SaaS subscription business provides strong visibility
  - Growing renewal book x improving renewal rate = business from existing customers (c.80% billings)
  - Consistent momentum in new business growth
  - Customer cohort: $1 new business today is worth around $5 by year 7 (renewal, cross-sell and upsell)
  - Now providing $ size of renewal book and detail of renewal rates (supplementing retention rate)
- Significant growth in profitability
  - Revenue acceleration combined with operating leverage
  - On a similar path to other best-in-class SaaS companies
- Improving uFCF margin
  - Sustained billings growth
  - Cash EBITDA margin leverage
  - Significant uFCF conversion

Billings Trends

Consistent high-teens billings growth over recent years; continued strong momentum in FY18

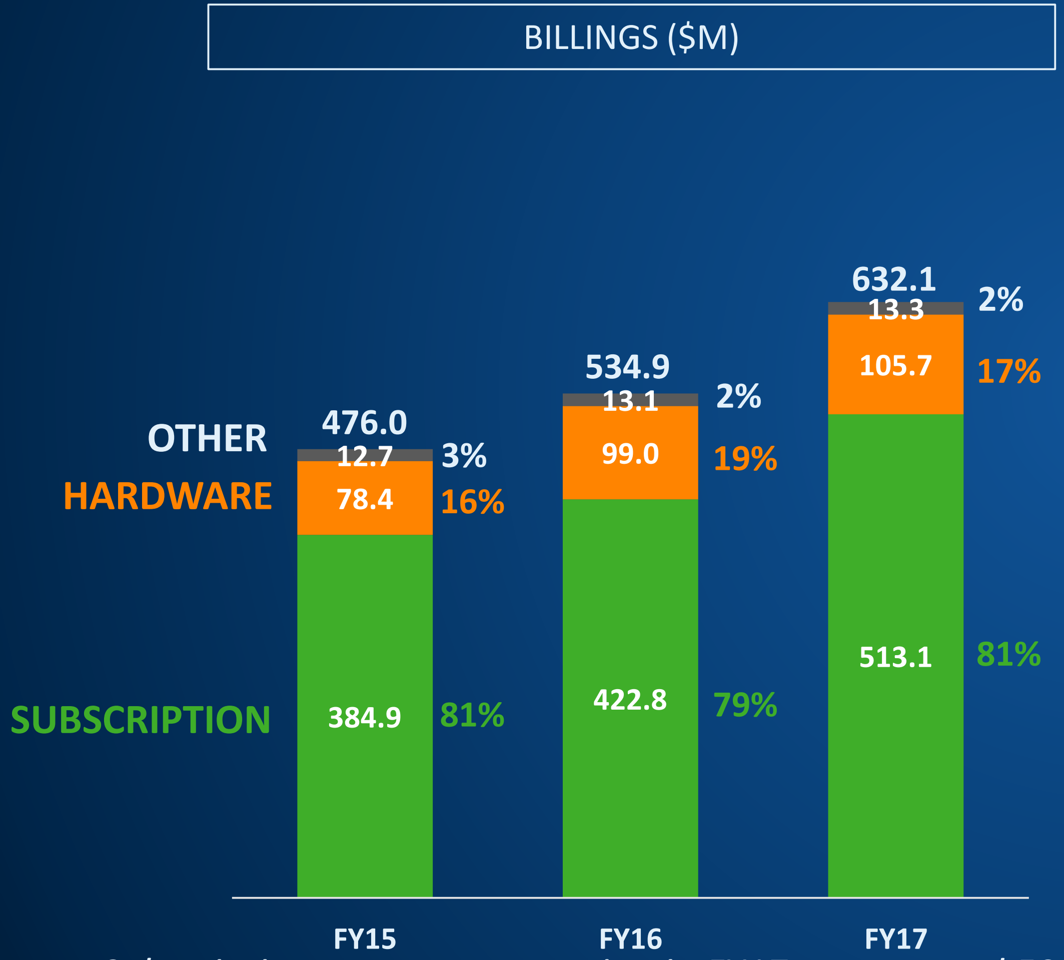


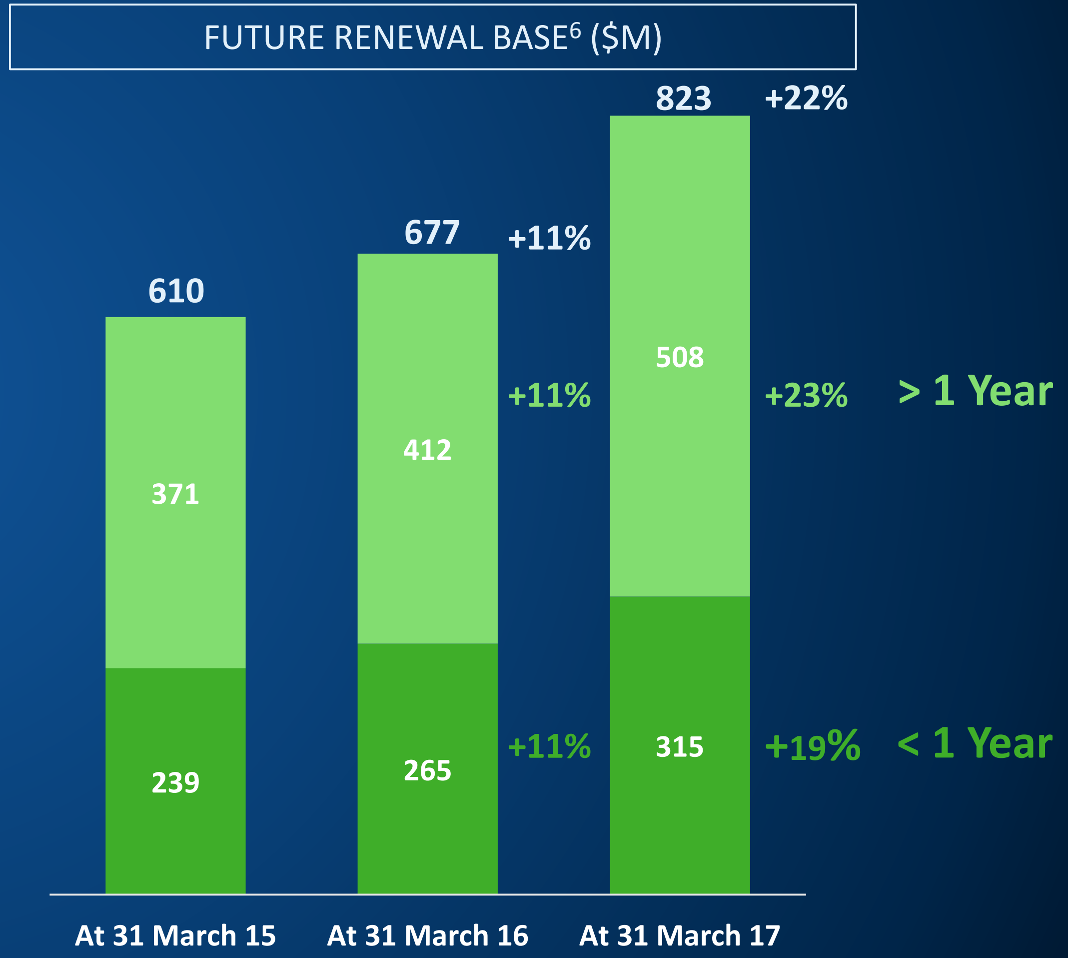


*At constant currency[5]

Billings Visibility and Sustainability

An expanding renewal base is a key component of growth





Subscription contracts renewing in FY17 represented 52% of FY17 actual subscription billings; with the equivalent renewal book increasing 19% YOY for contracts up for renewal in FY18

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Subscription Renewals

A closer look at retention and renewal rates

Retention rate

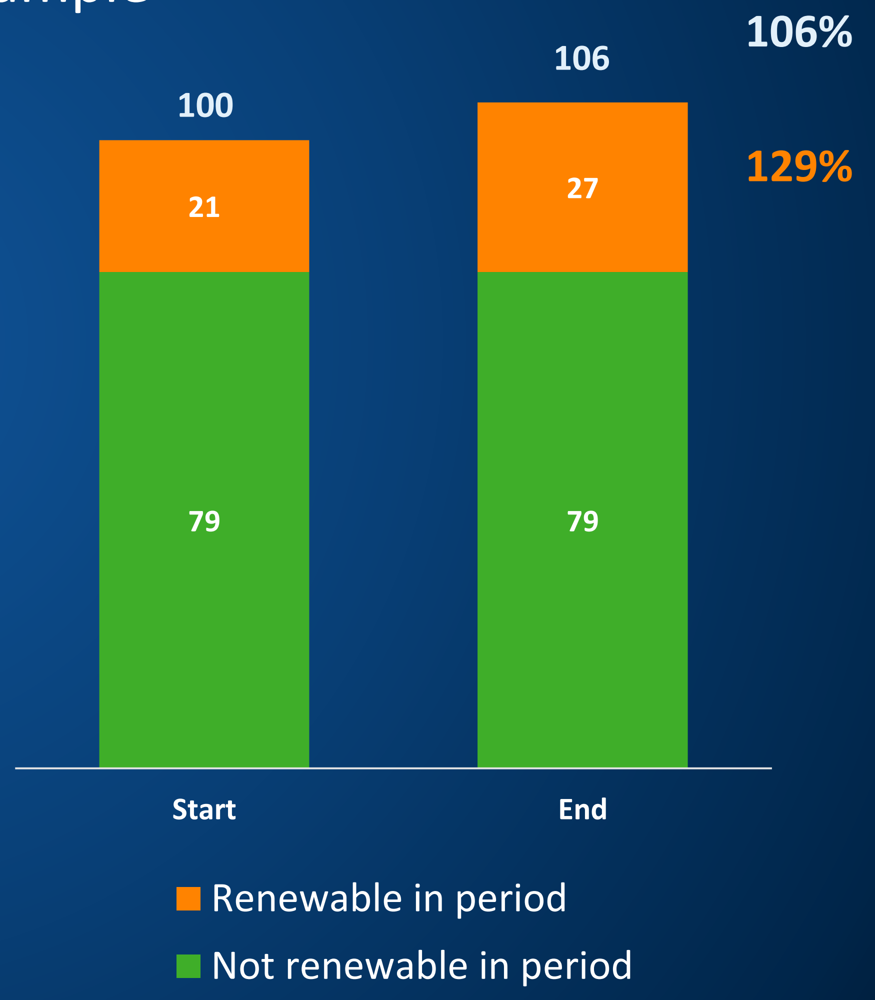
- Calculation = value of contracts renewed into following period / total contracts at the start of the period

Renewal rate

- Calculation = value of contracts renewed in a period / contracts up for renewal in the period

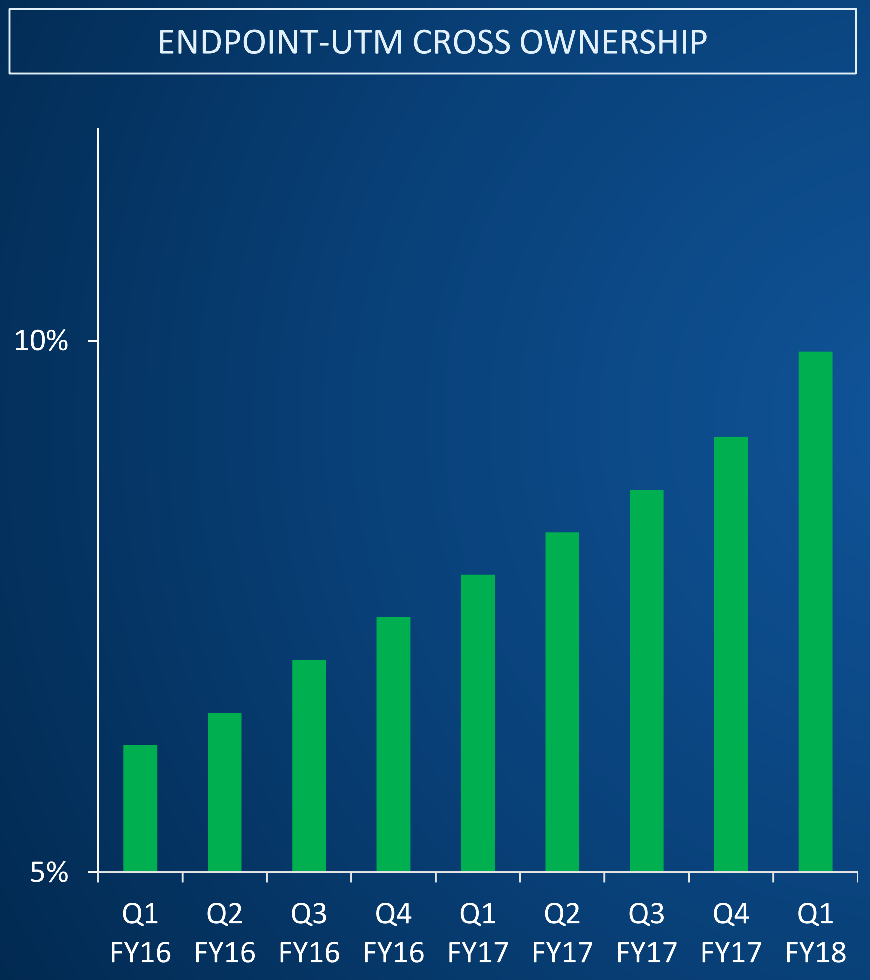
	FY15	FY16	FY17
Retention rate	100%	102%	106%
Renewal rate	101%	109%	129%

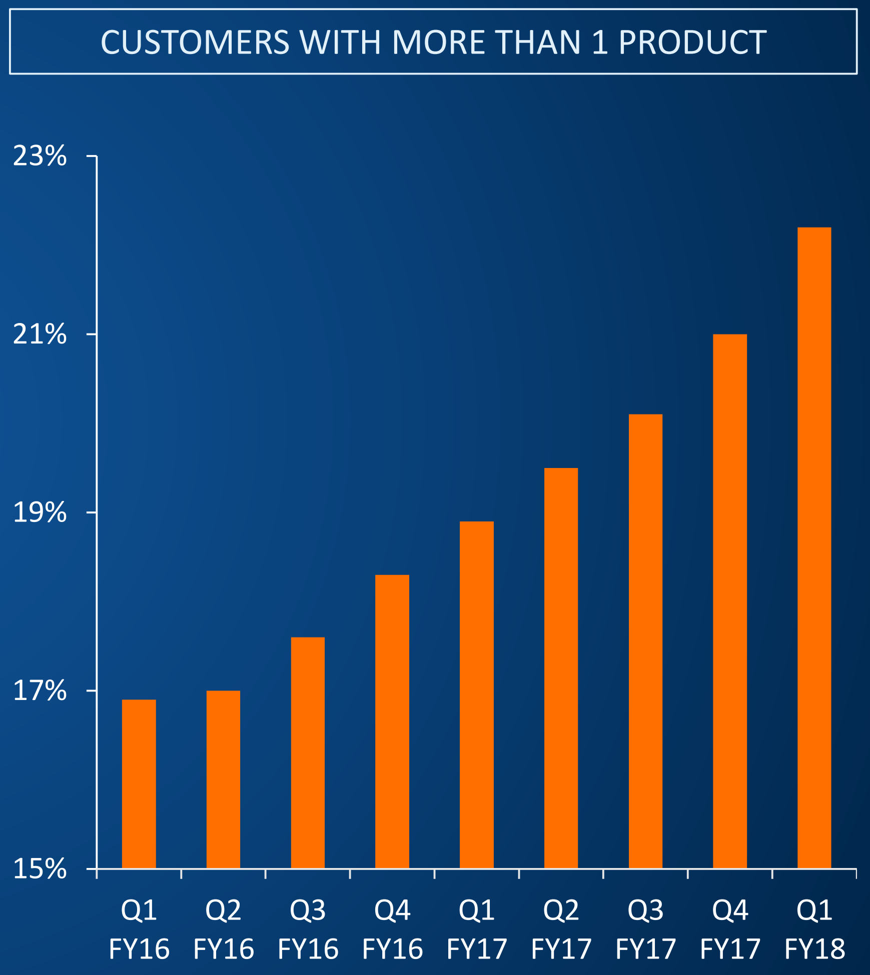
Example



Cross-Sell

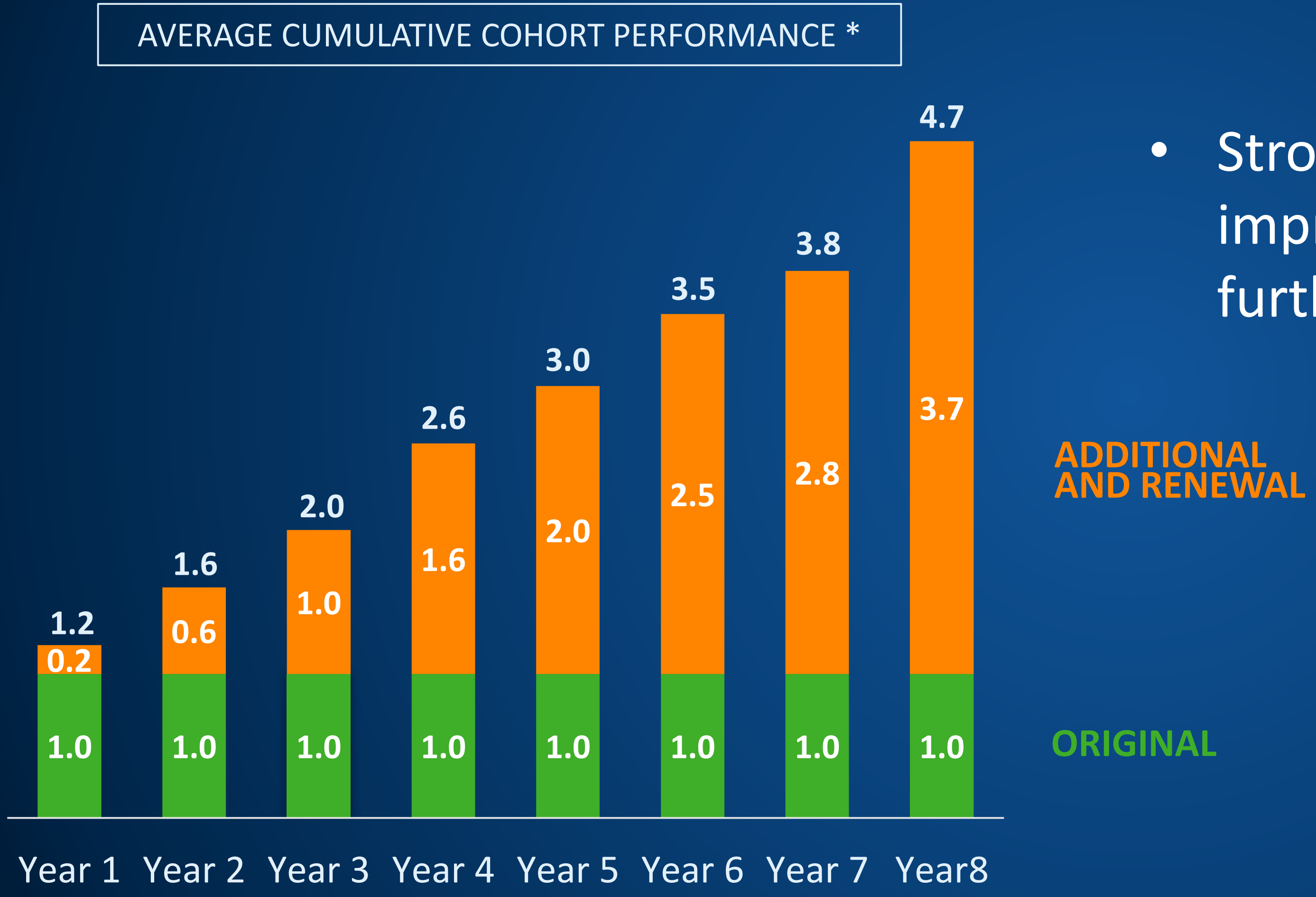
Continued improvement in cross-sell





Customer Cohort Analysis

On average, after 7 years, customers have bought nearly 5x their initial purchase



- Strong track record; renewal rates improving driven by cross-sell and upsell further underpinning future confidence

* Data represents new customers from 2010 onward and reflects average cumulative multiple of initial purchase made in each subsequent year after first purchase

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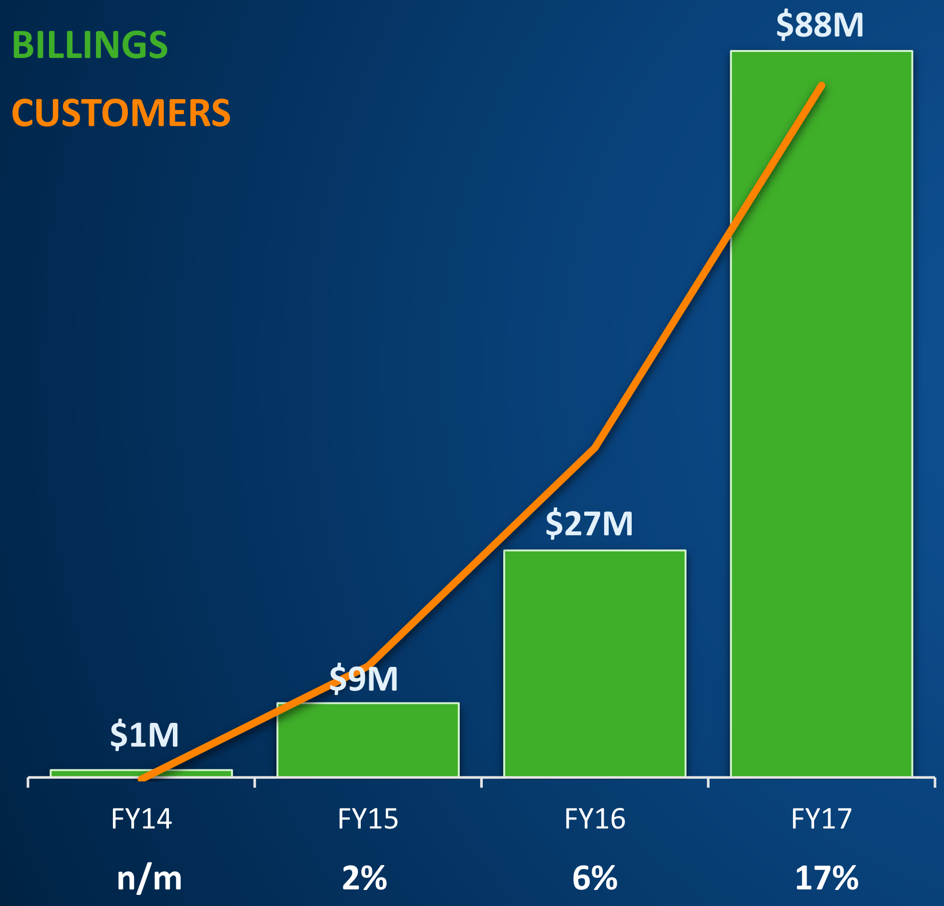
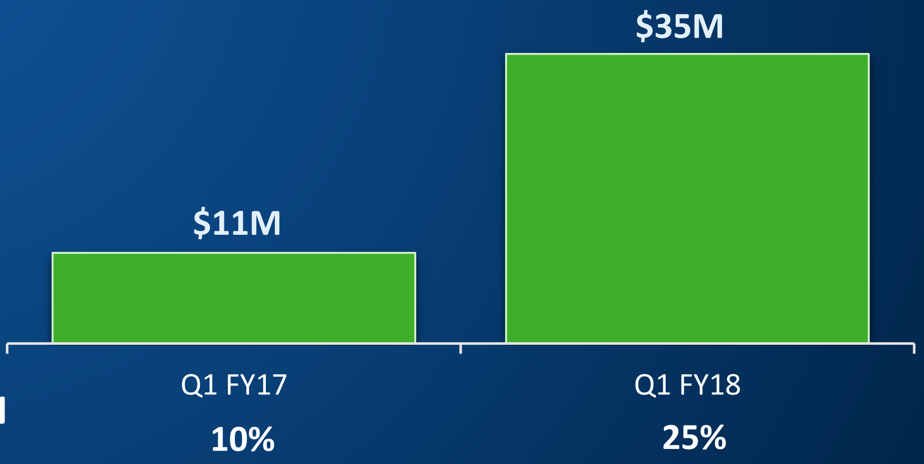
Sophos Central

Rapid adoption of cloud platform



- Sophos Central adoption drives improved renewal rates, cross-sell and customer and partner engagement; MSSP modest $ today yet rapid adoption

SHARE OF SUBSCRIPTION BILLINGS



New and Existing Customer Billings

Multiple growth drivers for new and existing customer business

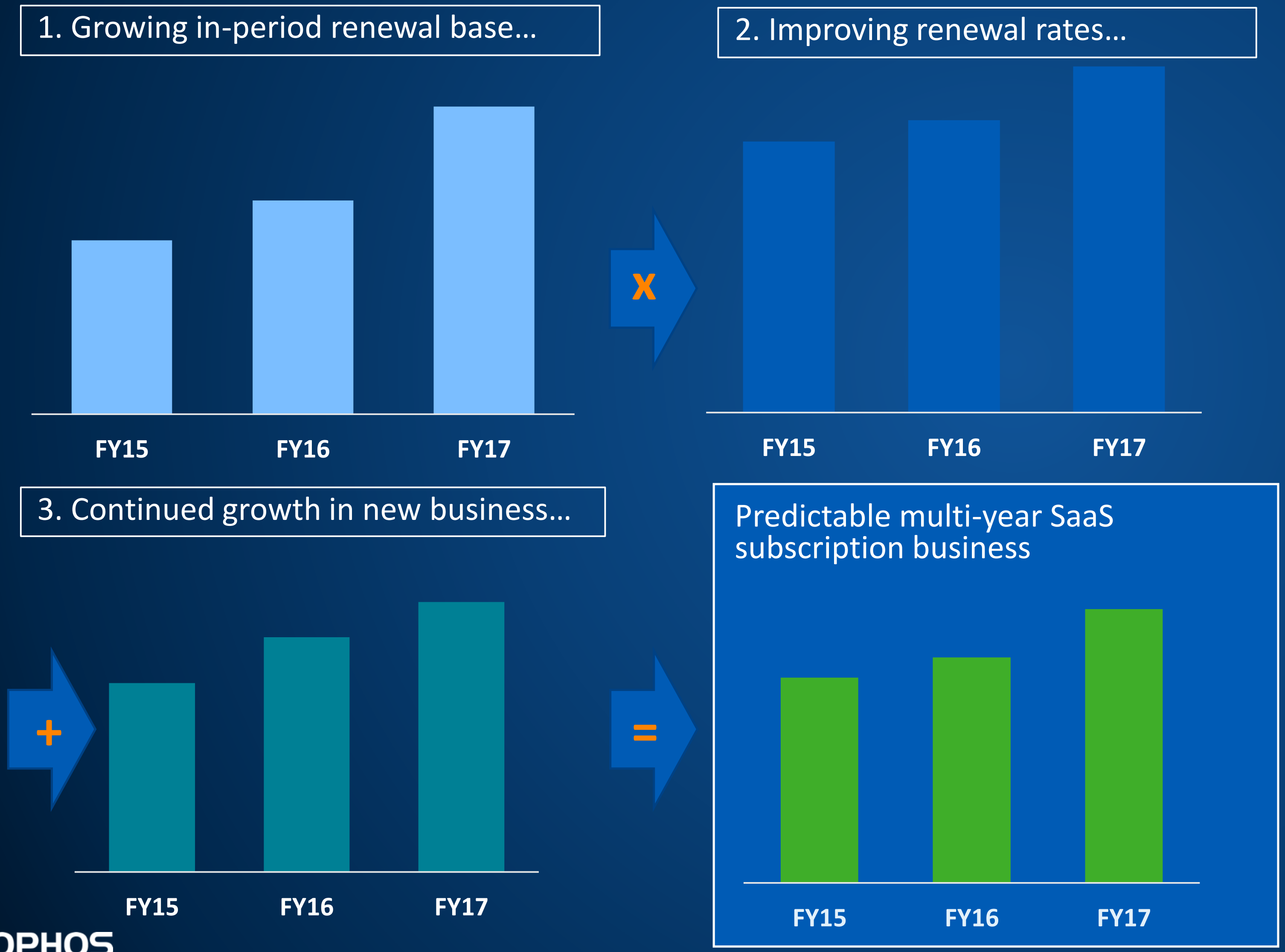
New Customer Metrics	FY15	FY16	FY17
New Customer Billings[7] YOY		33.1%	22.0%

Existing Customer Metrics	FY15	FY16	FY17
Customer billings[7] YOY		20.1%	25.5%
Retention rate	100%	102%	106%
Cross-sell % Endpoint / UTM	5.6%	7.4%	9.6%
Renewal rate	101%	109%	129%

Customer Metrics	FY15	FY16	FY17
Partners	15K	20K	30K
Blue Chip partners (>5 orders last 6 months)	3.4K	4.7K	6.1K
Number of customers	200K	220K	260K

Visible and Sustainable Long-Term Growth

Modelling Sophos' multi-year SaaS subscription business



- Solid visibility into the renewal book (increasing 19% in FY18)
- Weighted average contract duration is c.27 months
- Significant momentum in new customer business drives future renewal base

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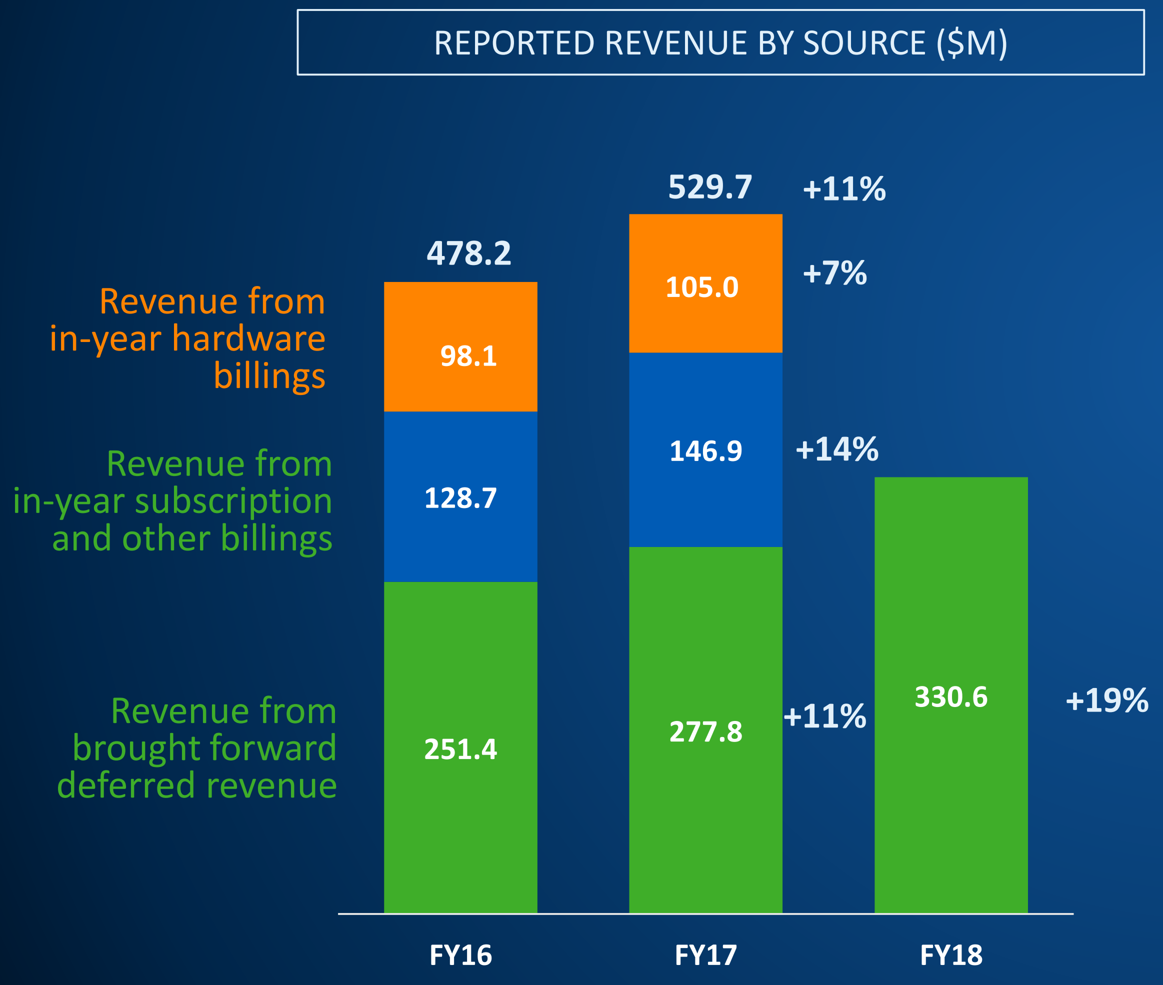
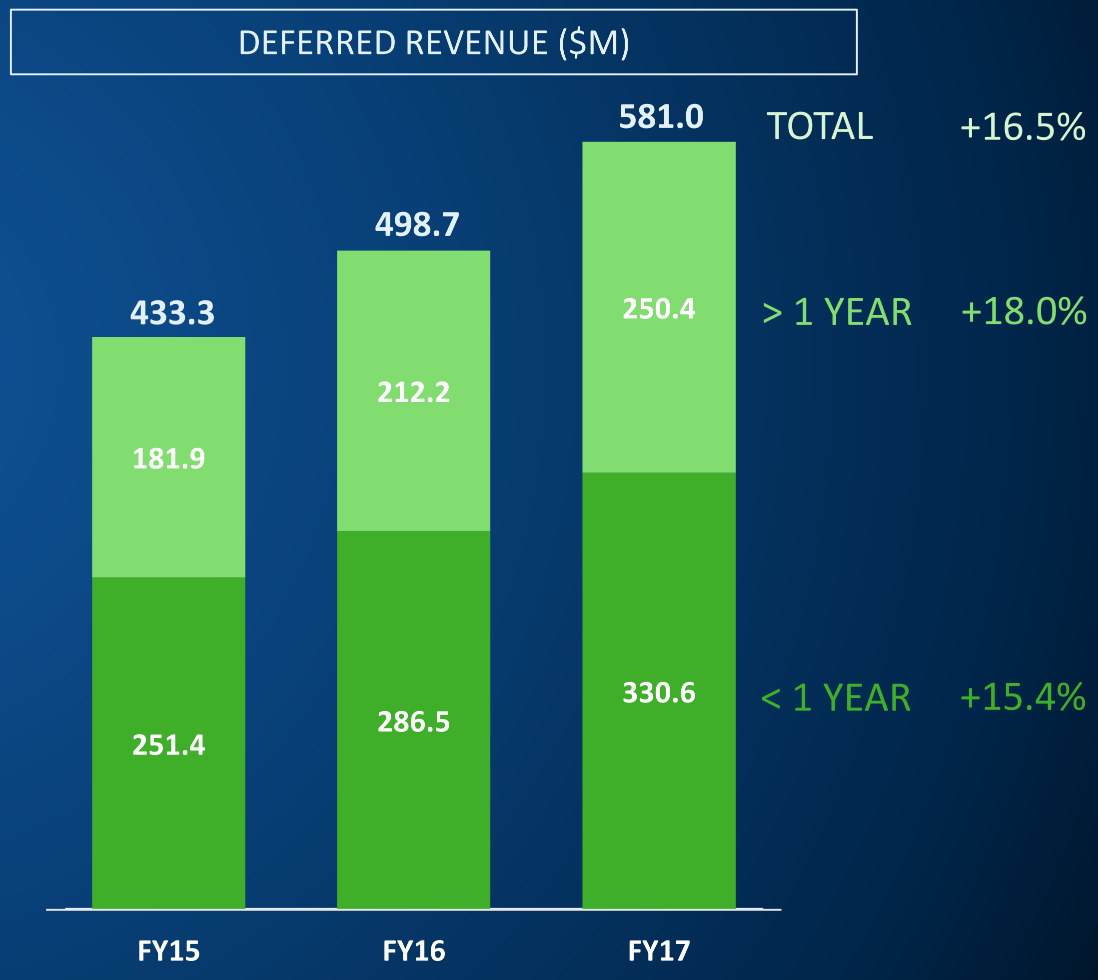
Revenue Analysis

1yr deferred revenue release is >50% of current year consensus and 15% YoY growth





Operating Leverage

We are on a path to margin expansion over the medium-term

Operating expense outlook	FY17 YoY	Medium-term growth to FY20
Billings	18%	Mid to high teens
Research & Development	18%	Inline with billings
Sales & Marketing	14%	Low to mid teens
General Finance & Administration	10%[8]	High single digit to low teens

- Operating leverage from Sales & Marketing and GFA as the business scales
- Expect 100-150bps per annum improvement in cash EBITDA margin
- Adjusted operating margin increases as revenue growth accelerates

Cash Flow

Significant YOY improvement in uFCF

CASH EBITDA TO UFCF RECONCILIATION

$M	FY16	FY17
Cash EBITDA	120.9	150.1
Net deferral of revenue	(56.7)	(102.4)
Foreign exchange	(2.4)	-
Depreciation	(8.4)	(9.4)
Adjusted operating profit	53.4	38.3
Net deferral of revenue	56.7	102.4
Depreciation	8.4	9.4
Foreign exchange	2.4	-
Change in working capital	(32.5)	19.0
Cash tax	(25.2)	(19.2)
Capex	(16.8)	(16.5)
Unlevered FCF	**46.4**	**133.4**

- **Sustained growth:** drives increased profitability and deferred revenue
- **Working capital:** levels expected to normalize
- **Cash-tax:** normal range of $19-25 million, expect modestly higher in FY19 due to one-off regional catch-up
- **Capex:** expect modest increase to support business expansion
- **Acquisitions:** continued focus on technology tuck-ins

Finance: Key Points

- SaaS subscription business provides strong visibility
  - Growing renewal book x improving renewal rate + new customer momentum = sustainable growth and visibility
- Highly profitable model
  - Revenue acceleration + operating leverage = margin improvement
- Improving free cash flow margin
  - Improving profitability + cash EBITDA leverage = significant uFCF conversion
- Confident in outlook for current year and FY20
  - Strong visibility underpins guidance

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End Notes

(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) Unlevered free cash flow (“uFCF”) is defined as cash EBITDA, less capex, less change in net working capital, less cash taxes.

(3) Adjusted operating profit represents the Group’s operating profit / (loss) adjusted for amortisation charges, share option charges and exceptional items.

(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) At constant currency. Constant currency rates for the period are the closing balance sheet rate at 31 March 2017.

(6) Renewal base excludes acquisitions and OEM and is at FY18 constant currency.

(7) At constant currency, excludes acquisitions.

(8) Excludes exceptional items, share-based payments, foreign exchange and amortisation.

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