

**Sophos Group plc**  
**18<sup>th</sup> January 2019**

**Trading update for the nine-month period ended 31 December 2018**

Oxford, 18<sup>th</sup> January 2019. 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 nine-months and third-quarter ended 31 December 2018.

**Summary Financial Performance**

- Constant currency Billings<sup>1</sup> grew 2% for the third-quarter and 2% for the nine-months year-to-date ("YTD")
  - o Continued subdued performance is set against the context of a challenging prior-year comparable
  - o A further sequential improvement in the renewal rate to existing customers in the third-quarter to 122%
  - o Offset by a modest decline in billings from new customers as well as a decline in hardware billings
  - o Sophos Central billings up by 22% YTD and 29% in the third-quarter at constant currency
  - o Enduser billings rose by 6% in the third-quarter at constant currency, an improvement over the small constant currency decline experienced in the first-half of the fiscal year
  - o Positive initial customer response to Intercept X Advanced with EDR, following a successful launch at the end of the third-quarter
  - o Network saw a small benefit from the launch of XG Firewall v17.5 late in the period, albeit overall Network subscription growth was offset by lower hardware billings
  - o We now expect the trends in the third quarter to generally continue into the fourth quarter, which would result in a modest decline in full-year constant currency billings
- Revenue increased by 14% YTD on both a reported and constant currency basis, principally driven by continued growth in subscription revenue
  - o Subscription revenue increased by 18% YTD and 15% in the third-quarter at constant currency, benefiting from prior-period subscription billings and offsetting a reduction in hardware revenue
  - o Deferred revenue increased by 8% year-over-year ("YOY"), as a result of the deferral of billings net of the impact of currency movements from the strengthening of the US dollar in the period
- Profitability significantly improved
  - o Adjusted operating profit<sup>2</sup> increased by 157% YTD, driven by strong growth in revenue
  - o Reported operating profit of \$51 million YTD, compared to a prior-period loss of \$25 million
  - o Cash EBITDA<sup>3</sup> declined 8% YTD reflecting the subdued billings performance
- Cash flow performance was strong, in the context of a strong prior-year comparative period
  - o Net cash flow from operations of \$100 million and unlevered free cash flow<sup>4</sup> broadly unchanged YTD
- Over 25,000 net new customers added YTD, including more than 9,000 in the third-quarter, with total customers of 327,000

**Financial highlights**

	Q3 FY19	Q3 FY18	Growth	9- months FY19	9- months FY18	Growth
GAAP measures	\$M	\$M	%	\$M	\$M	%
Revenue	178.0	165.9	7.3	527.5	462.7	14.0
Operating profit/(loss)	23.9	(1.6)	nm	50.9	(24.7)	nm
Net cash flow from operations	18.7	17.5	6.9	100.2	98.2	2.0
Non-GAAP measures						
Billings	193.7	194.8	(0.6)	546.4	536.3	1.9
Cash EBITDA	49.9	46.7	6.9	103.9	113.3	(8.3)
Adjusted operating profit	33.1	16.5	100.6	83.0	32.3	157.0
Unlevered free cash flow	14.9	16.8	(11.3)	86.5	88.2	(1.9)

Kris Hagerman, Chief Executive Officer, commented:

"Sophos remains strongly positioned from a technology, product, and strategic perspective. We are confident in our strengthening product platform and how it positions us for the future."

**IFRS 15**

The results for 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.

**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](http://www.sophos.com). The Group has over 30 years of experience in enterprise security and has built a portfolio of products that protects 327,000 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.

**Contact**

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**Conference call and webcast**

Sophos management will host a conference call and audio-webcast, for registered participants, at 08:30 (GMT) 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) 2071 928000 / 0800 376 7922 (toll free)

16315107495 (US) / 18669661396 (toll free)

Conference call confirmation code: 9249739

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. Adjusted operating profit represents the Group's operating profit / (loss) adjusted for amortisation charges, share option charges and exceptional items.
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, the net deferral of sales related costs, unrealised foreign exchange differences and exceptional items, with billings replacing recognised revenue.
4. 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.

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