

Sophos Group plc Full-Year 2016 Results Presentation

May 26, 2016

SOPHOS

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Business Update

Kris Hagerman
Chief Executive Officer

Key FY16 Highlights and Outlook



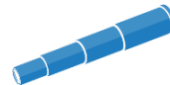
Strong FY16 financial results, at upper-end of our improved guidance



Outperformed industry market growth in both Enduser and Network security



Significant product innovation in FY16 with robust future product pipeline



Strong outlook on key metrics for FY17

Financial Performance Overview

Strong FY16 results across key metrics

+19.7%

Like-for-Like Billings⁽¹⁾

Strong billings growth across all regions and products

+12.4%

Reported Billings⁽²⁾

\$534.9M vs. \$476.0M FY15
Reflects significant devaluation of Euro and Sterling

+15.6%⁽³⁾

Constant currency revenue

7.1% at reported rates reflecting currency headwinds

\$120.9M

Cash EBITDA⁽⁴⁾

vs. \$101.4M FY15
Reflects improved billings and margin leverage; 22.6% versus 21.3% in FY15

\$46.4M

Unlevered Free Cash Flow⁽⁵⁾

vs. \$65.3M FY15
In line with management expectations

1.8 US Cents

Proposed Final Dividend

1.1 US Cents

Financial Results

Nick Bray

Chief Financial Officer

Financial Highlights FY16



Strong billings in all regions, product groups and types



Improving revenue growth in constant currency due to subscription-based model and increasing deferred revenue YOY



Business model featuring visibility and sustainability driven by customer growth, strong renewals and compounding effect of a subscription business

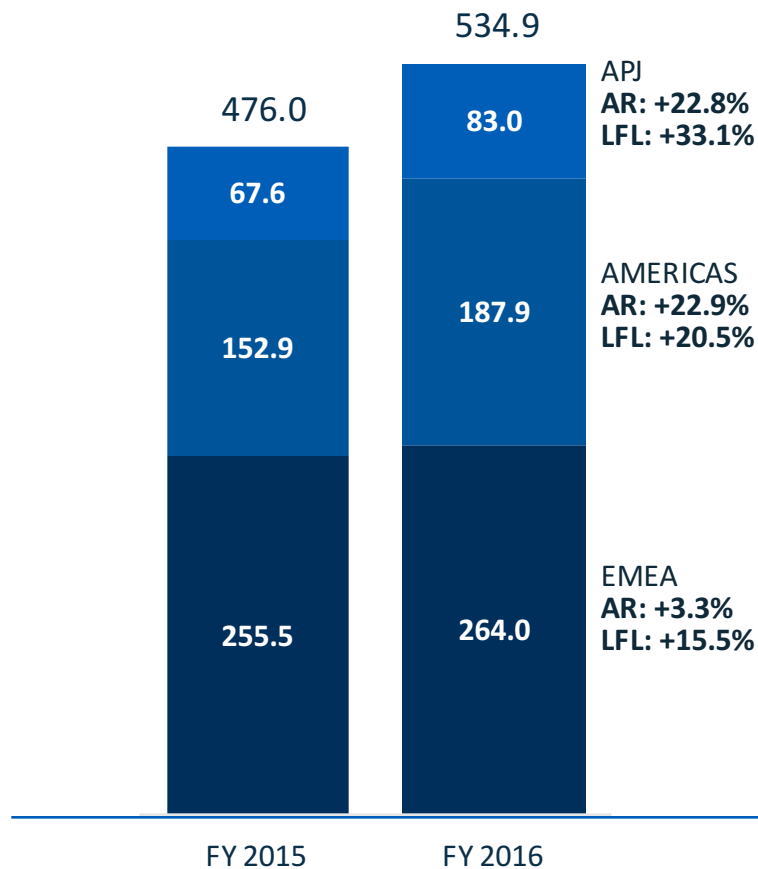


Leveraging profits and cash flows

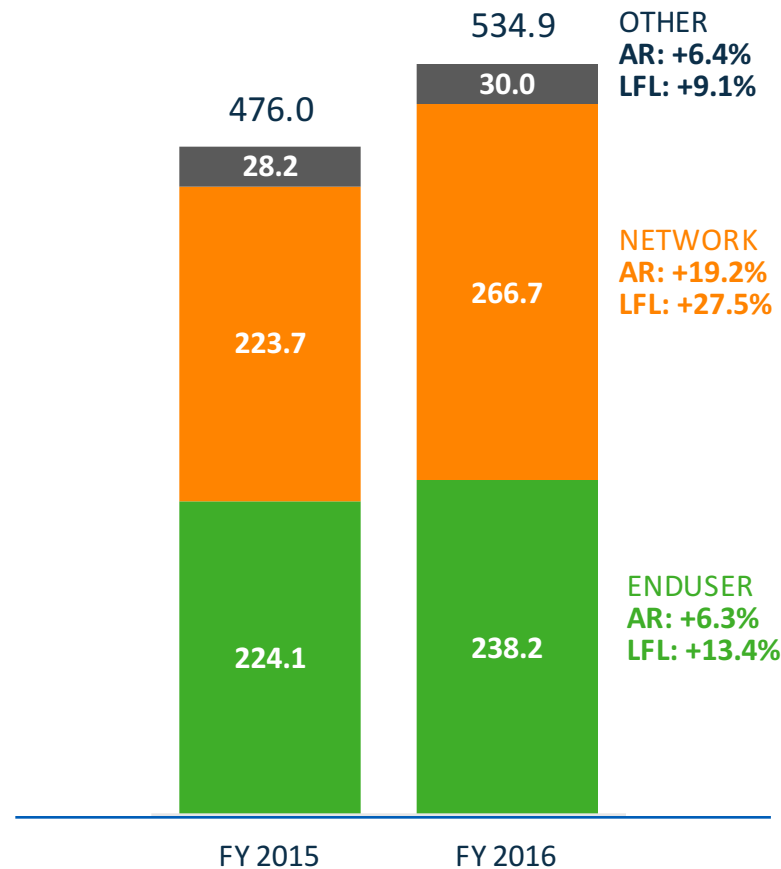
Billings Performance

Like-for-like billings⁽¹⁾ growth of 19.7%, reported billings growth of 12.4%

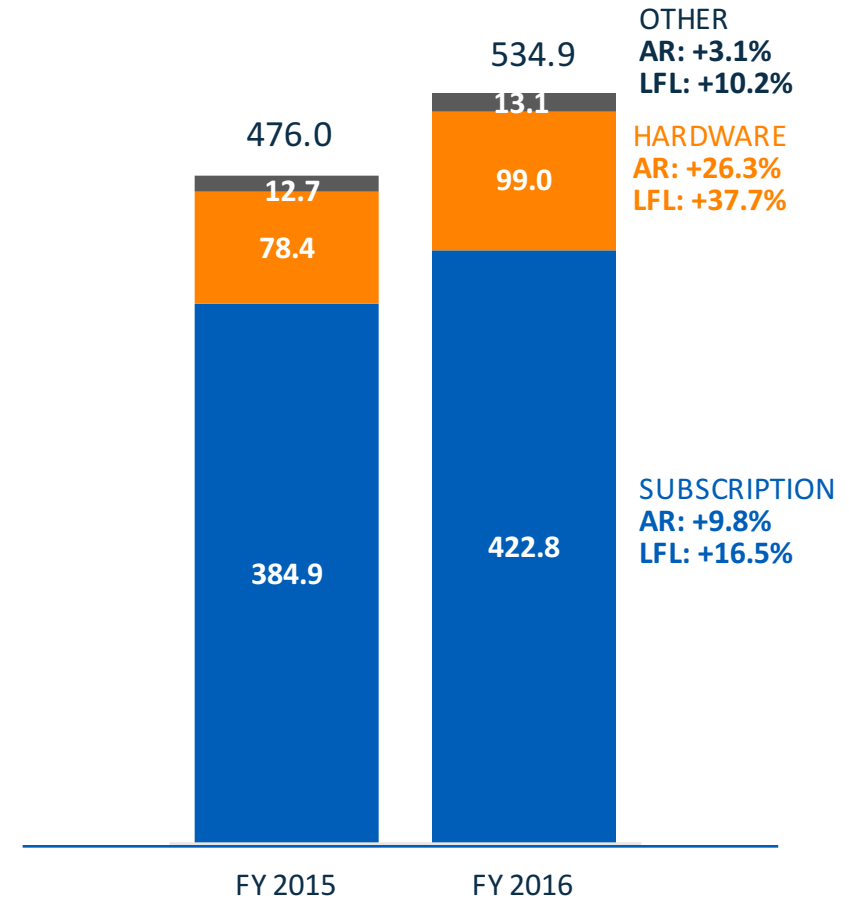
REPORTED BILLINGS BY REGION (\$M)



REPORTED BILLINGS BY PRODUCT (\$M)

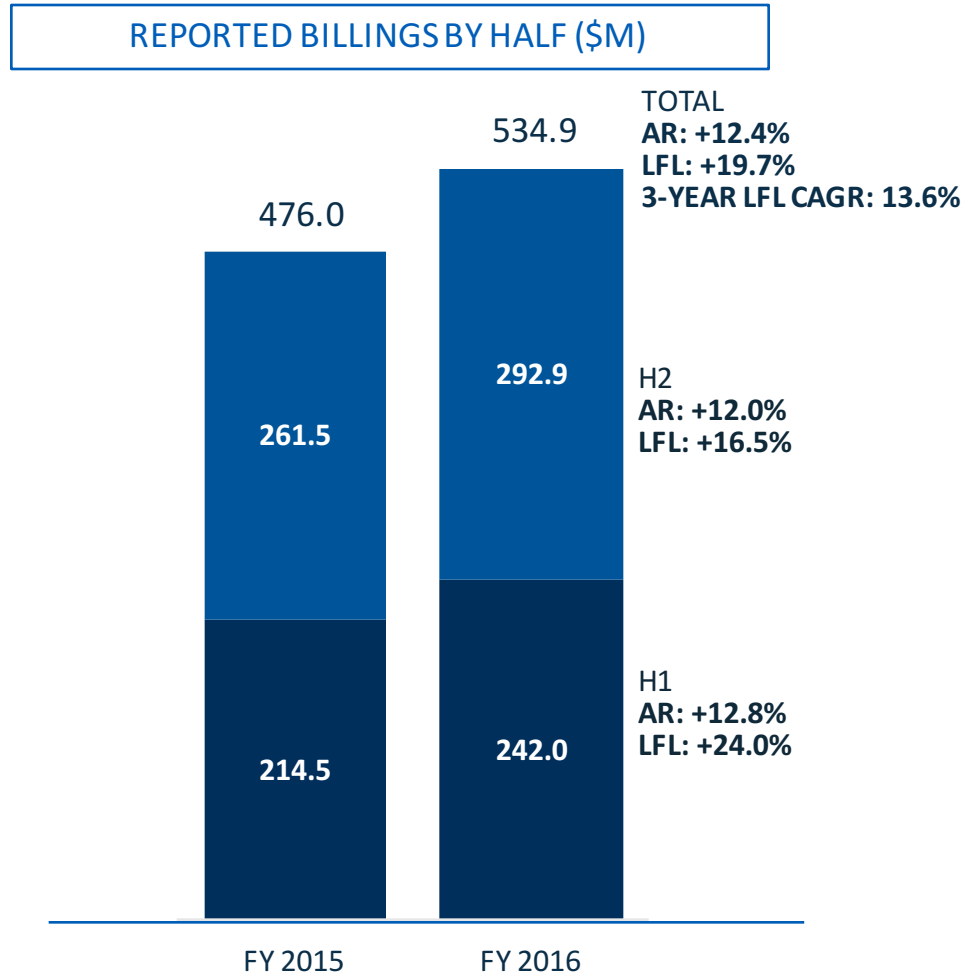


REPORTED BILLINGS BY TYPE (\$M)



Billings Performance

H1 like-for-like billings⁽¹⁾ assisted by a weaker compare; Q4 like-for-like billings⁽¹⁾ up 15.6% YOY

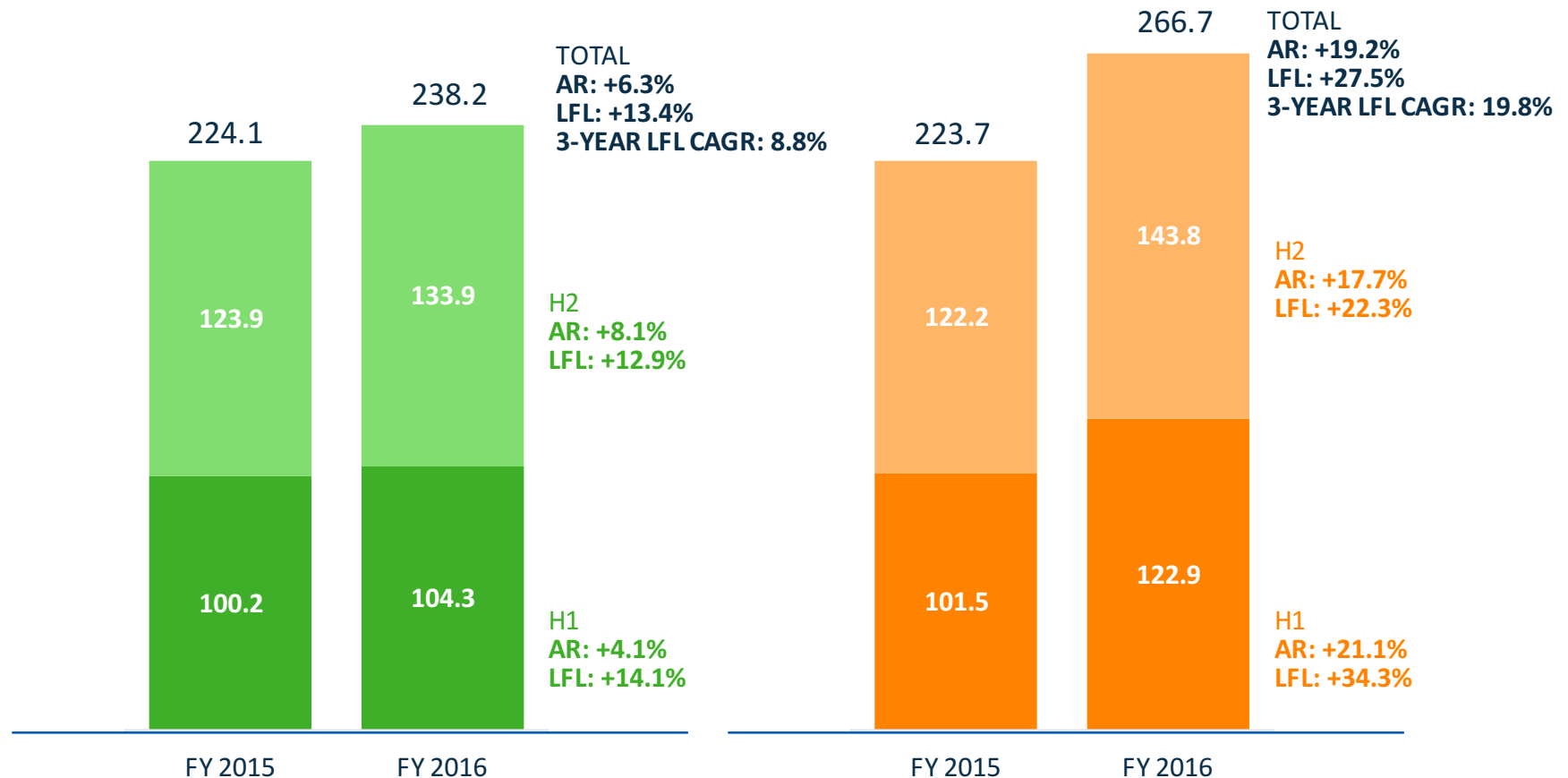


Billings by Product

Strong like-for-like billings⁽¹⁾ growth in Enduser and Network segments, outperforming the market⁽⁷⁾

REPORTED ENDUSER BILLINGS (\$M)

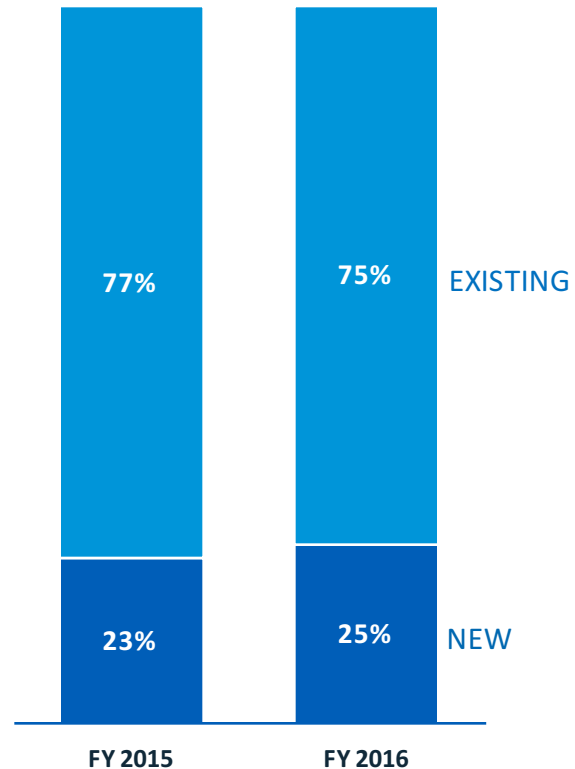
REPORTED NETWORK BILLINGS (\$M)



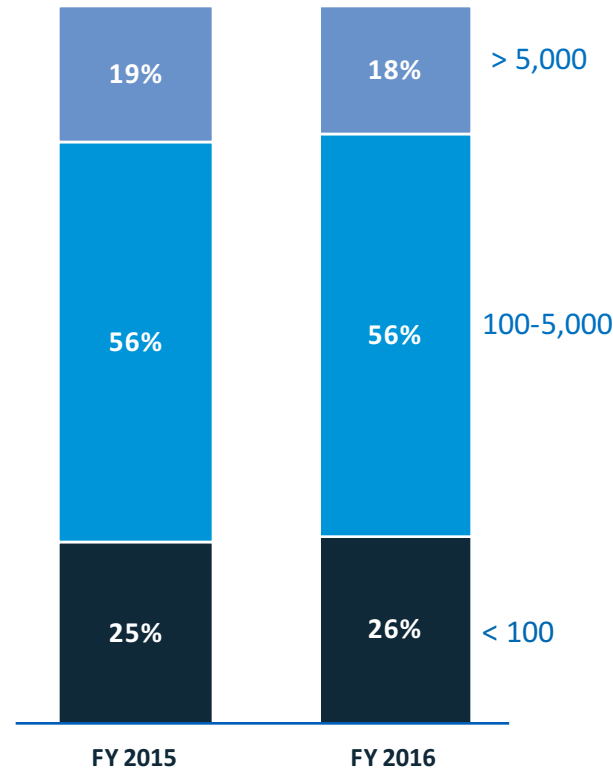
Key Billings Metrics

Strong metrics⁽⁸⁾ improving visibility and sustainability; renewals up 170 bps to 101.9%, new customer billings up 33% YOY

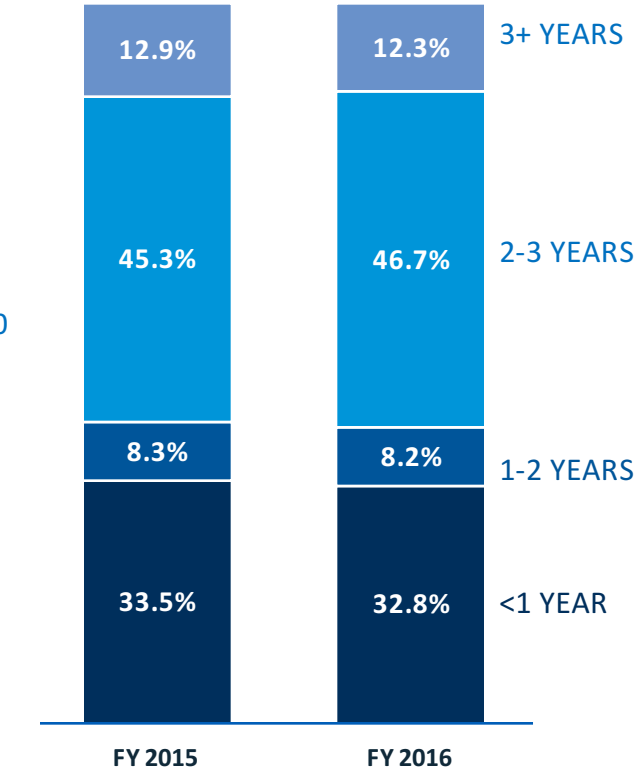
BILLINGS BY CUSTOMER TYPE⁽⁸⁾



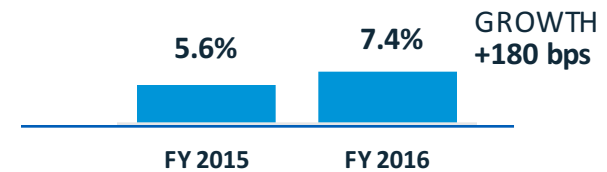
BILLINGS BY SIZE (Employees)⁽⁸⁾



BILLINGS BY LENGTH OF CONTRACT⁽⁸⁾



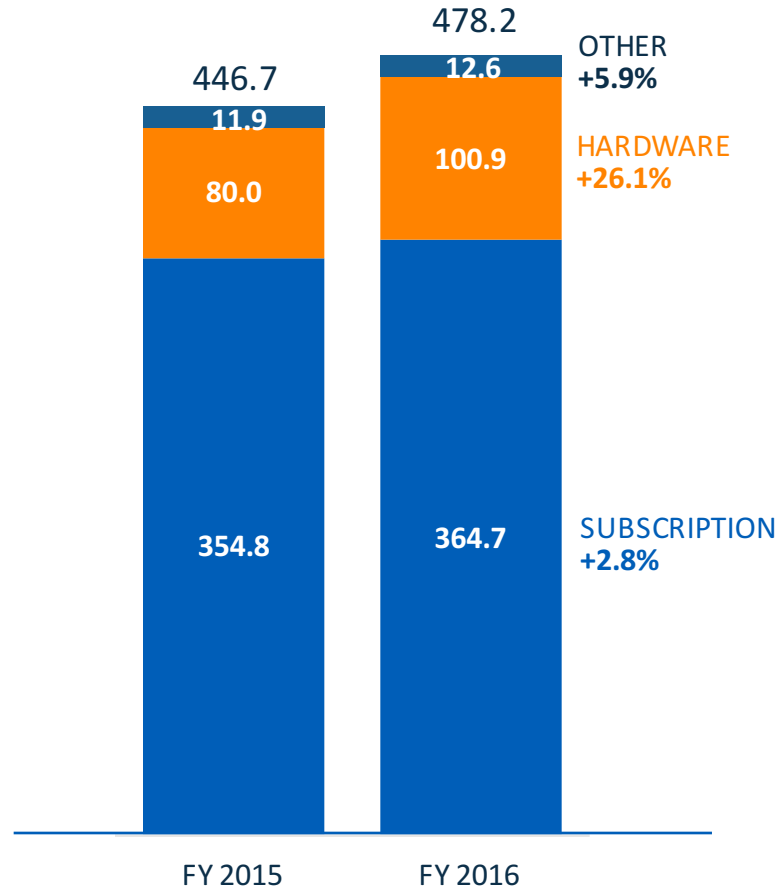
PERCENTAGE OF CUSTOMERS WITH UTM AND ENDPOINT



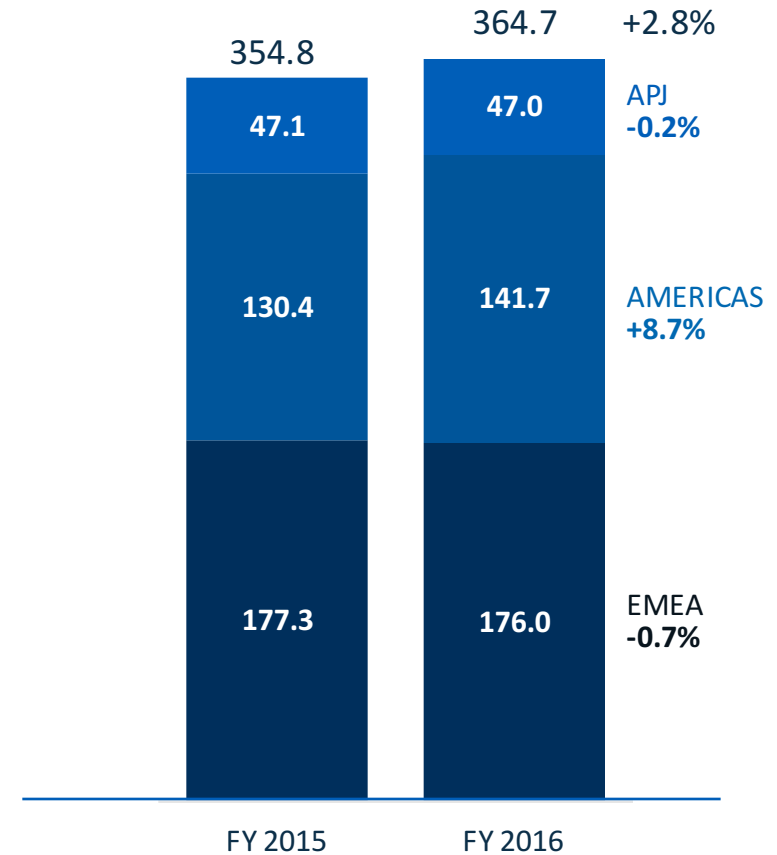
Revenue Performance

Constant currency revenue⁽³⁾ growth of 15.6%, reported growth of 7.1%

REPORTED REVENUE BY TYPE (\$M)



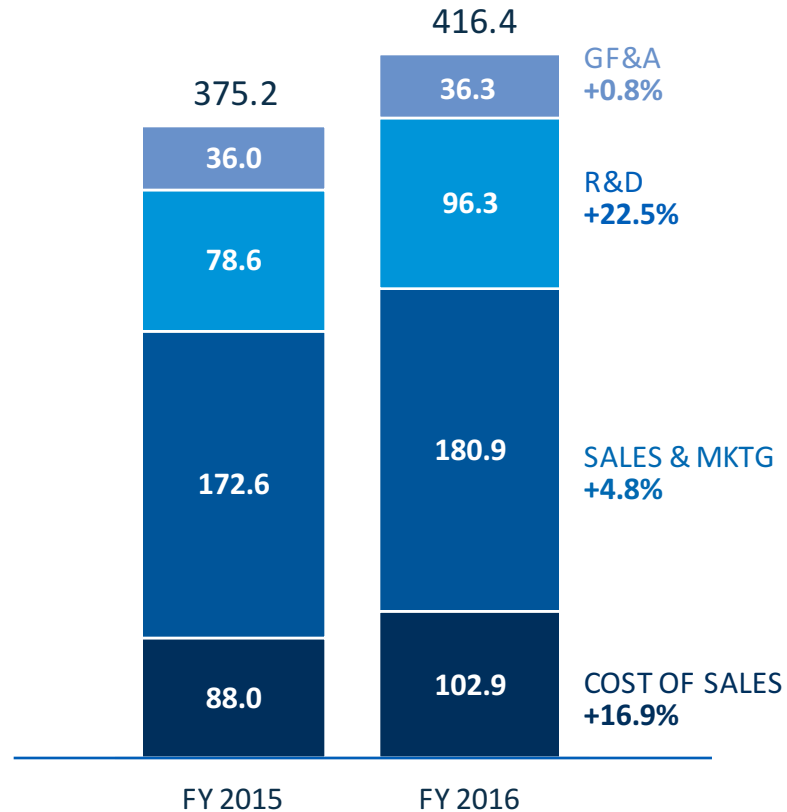
REPORTED SUBSCRIPTION REVENUE BY REGION (\$M)



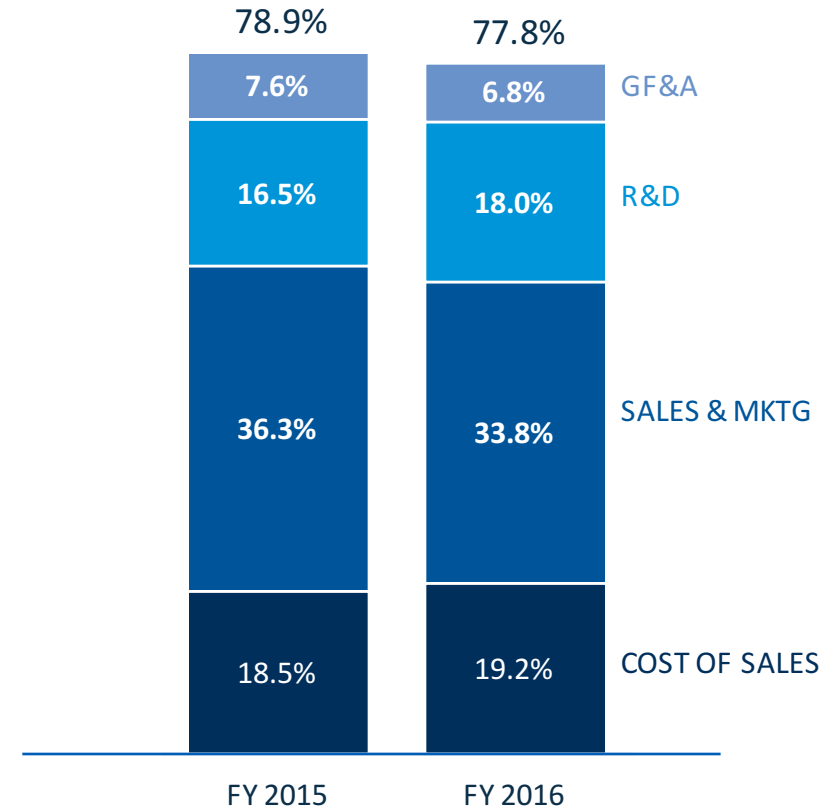
Expense Performance

Margins up 130 bps to 22.6%, reflecting the operational leverage in the business

COST ANALYSIS (\$M)⁽⁹⁾

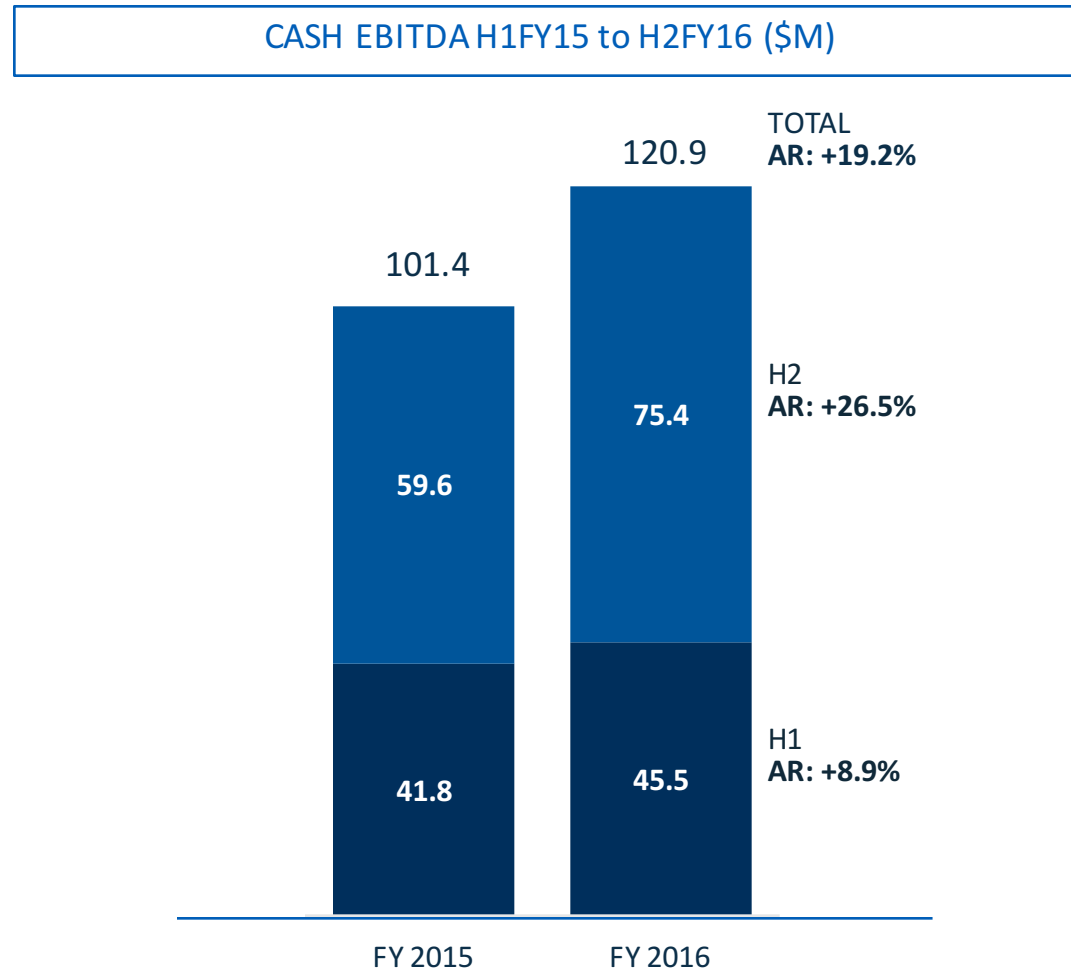


COSTS AS % OF BILLINGS⁽⁹⁾



Cash EBITDA⁽⁴⁾

H2 improvement aided by re-phased investments, principally marketing



Cash EBITDA and Statutory Income Statement

19.2% increase in cash EBITDA; IPO exceptional costs reduce operating result

| CASH EBITDA RECONCILIATION | | |
|---|--------------|---------------|
| \$M | 2015 | 2016 |
| Cash EBITDA | 101.4 | 120.9 |
| Net deferral of revenue | (29.3) | (56.7) |
| Share based payment expense | (1.4) | (15.0) |
| Depreciation | (8.3) | (8.4) |
| Amortisation | (47.6) | (29.2) |
| Exceptional items and disposal gains | (17.3) | (41.9) |
| Unrealised foreign exchange gain / (loss) | 2.0 | (2.4) |
| Operating result | (0.5) | (32.7) |

| STATUTORY INCOME STATEMENT | | |
|--|---------------|---------------|
| \$M | 2015 | 2016 |
| Billings | 476.0 | 534.9 |
| Net deferral of revenue | (29.3) | (56.7) |
| Revenue | 446.7 | 478.2 |
| Cost of sales | (89.3) | (104.4) |
| Gross profit | 357.4 | 373.8 |
| Sales and marketing | (175.4) | (184.0) |
| Research and development | (81.8) | (99.6) |
| General finance and administration | (38.4) | (52.0) |
| Amortisation | (47.6) | (29.2) |
| Operating result before exceptionals and FX | 14.2 | 9.0 |
| Exceptional items and disposal gains | (17.3) | (41.9) |
| FX profit/loss | 2.6 | 0.2 |
| Operating result | (0.5) | (32.7) |
| Net interest expense | (53.8) | (35.7) |
| Result before tax | (54.3) | (68.4) |
| Tax | (5.7) | (3.5) |
| Result for the period | (60.0) | (71.9) |

Cash Flow

uFCF in line with mgmt. expectations, lower YOY due to one-time movements in working capital; Cash balances maintained despite exceptional items and acquisitions in the year

CASH EBITDA TO UFCF RECONCILIATION

| \$M | 2015 | 2016 |
|---------------------------|-------------|-------------|
| Cash EBITDA | 101.4 | 120.9 |
| Capex | (11.9) | (16.8) |
| Cash Tax | (25.7) | (25.2) |
| Change in working capital | 1.5 | (32.5) |
| Unlevered FCF | 65.3 | 46.4 |

UFCF TO CASH RECONCILIATION

| \$M | 2015 | 2016 |
|---|-------------|--------------|
| Unlevered FCF | 65.3 | 46.4 |
| Capex | 11.9 | 16.8 |
| Exceptional items | (17.3) | (41.9) |
| Net cash from operating activities | 59.9 | 21.3 |
| Net cash from investing activities | (16.5) | (62.1) |
| Net cash from financing activities | (26.1) | 34.4 |
| Increase /(decrease) in cash | 17.3 | (6.4) |
| Net foreign exchange | (8.8) | 0.6 |
| Cash at start of period | 64.1 | 72.6 |
| Cash at end of period | 72.6 | 66.8 |

Unlevered free cash flow is expected to approximately double in FY17 as working capital normalises and the level of our anticipated profit improves

Operational Update and Outlook

Kris Hagerman
Chief Executive Officer

Sophos Snapshot

Scale, above-market growth, healthy profitability, visibility and sustainability

FY16

Compelling Industry Fundamentals

Security consistently is the top priority for corporate IT spend

\$38B TAM ⁽⁷⁾

7% CAGR ⁽⁷⁾

Complete Cloud-Enabled Security Offering for Mid-Market

Only player focused on the mid-market with a comprehensive endpoint and network offering

Large ⁽⁸⁾ 18%
 Mid-Market 56%
 SMB 26%

5% Other
 50% Network
 45% Enduser

Integrated through Sophos Central

Highly Efficient Sales Model

100% “channel first” approach delivers scale and operating leverage

800+ Sophos Partner Reps & Sales Engineers
 Work with **20,000+** Partners
 Who deliver **175,000+** Sales Reps
65,000+ Sales Engineers

+19.7%
Like-for-like billings growth⁽¹⁾

\$534.9M
Reported billings⁽²⁾

+13.4%
Enduser like-for-like billings growth⁽¹⁾

+27.5%
Network like-for-like billings growth⁽¹⁾

101.9%
Renewal rate including up-sell and cross-sell

22.6%
Cash EBITDA margin⁽⁴⁾

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⁽¹⁰⁾



Expand Sophos’ **brand visibility** and awareness

FY16 Operational Highlights

Continued product innovation, cross-sell progress, and industry and channel validation

Technology Innovation and Product Delivery



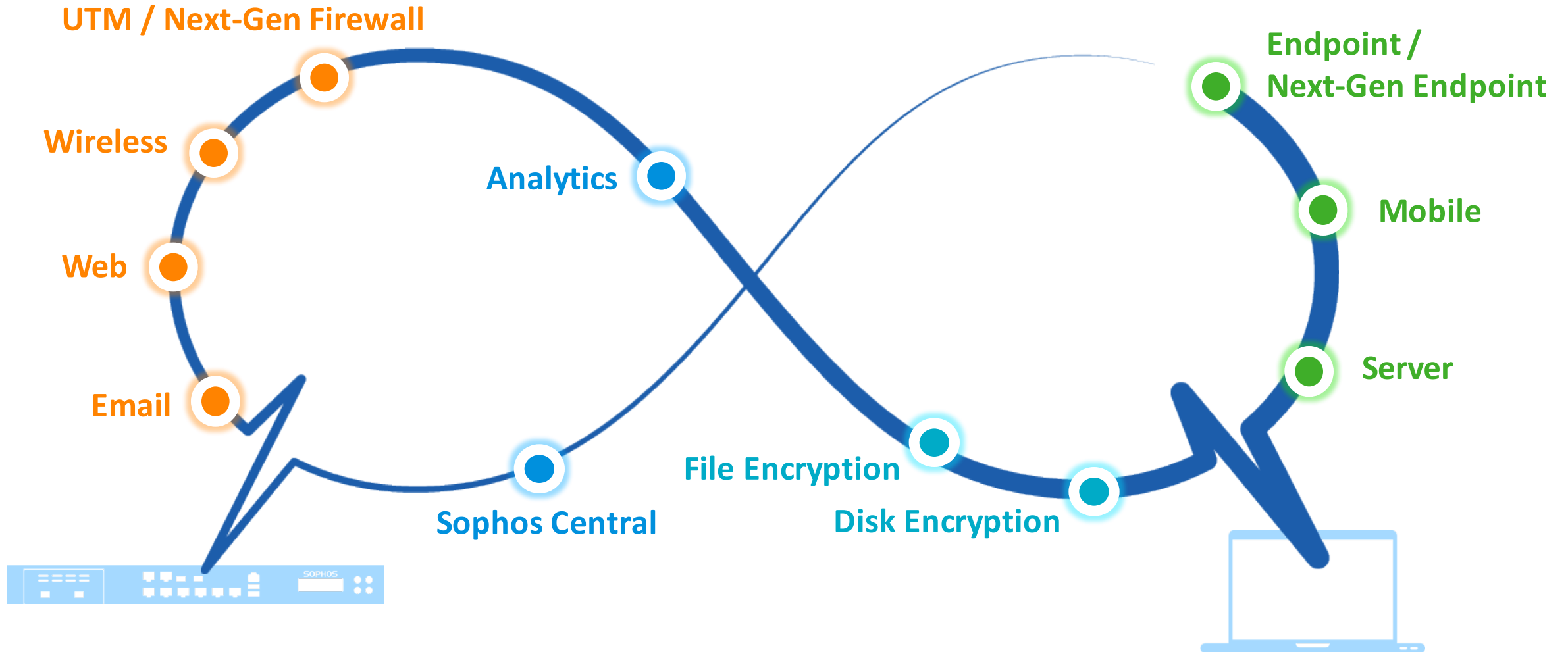
- **Sophos Central** management platform
- **Sophos Sandstorm** cloud sandbox in web appliance, email appliance, and UTM 9.4
- **XG Firewall** and **Sophos Central** endpoint with synchronized security
- **Server protection** in Sophos Central with one-click server lockdown
- **Next-gen** enhancements to Endpoint: automated incident response, malicious traffic detection, download reputation
- **Cloud-based web security** as part of Sophos Central
- **Acquisition of Reflexion** Networks for cloud-based email security (June, 2015)
- **Acquisition of SurfRight** for anti-exploit and remediation technology (December, 2015)
- **Cross-sell from 5.6% to 7.4%** from FY15 to FY16

Go-To-Market Progress



- **38% growth in “Blue Chip” partners**
- **49% of Blue Chip partners⁽¹¹⁾ sell Enduser and UTM** (up 37% YOY)
- More than **3,000 transacting partners⁽¹¹⁾ for Sophos Central** (up 92% YOY)
- Recognised as a **Leader** for Endpoint Protection; UTM; and Mobile Data Protection
- **Dennis Technology Labs “AAA” rating** for endpoint protection
- **CRN: 5-star Channel Program**
- CRN Annual Report Card award: Sophos voted the **winner in all three security-related categories.**
- Sophos Home: **Released Sophos Home** in December, gathering more than **250,000 accounts in FY16**

Synchronized Security Product Strategy



Outlook: Confident on Key Metrics for FY17

- Mid-teens percentage billings growth on a like-for-like basis; contributing to similar mid-teens revenue growth
- Modest cash EBITDA margin expansion, reflecting the operational leverage in the business
- Unlevered free cash flow expected to approximately double, as working capital normalises and the level of our anticipated profit improves

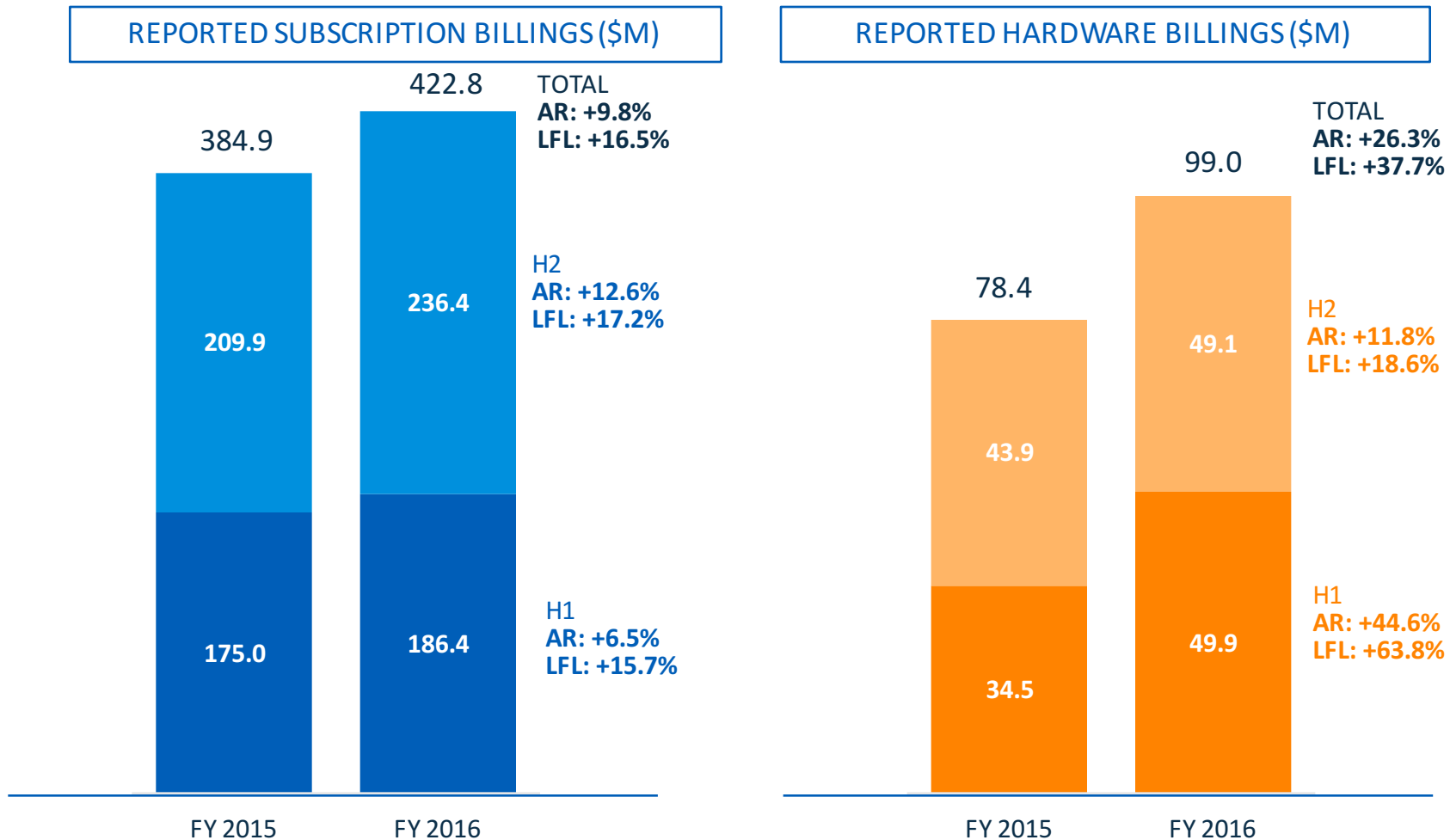
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**Capital Markets Day
29 June 2016
London**

See <https://investors.sophos.com/cmd-register-interest>

Billings by Type

Strong like-for-like billings⁽¹⁾ growth both in Subscription and Hardware



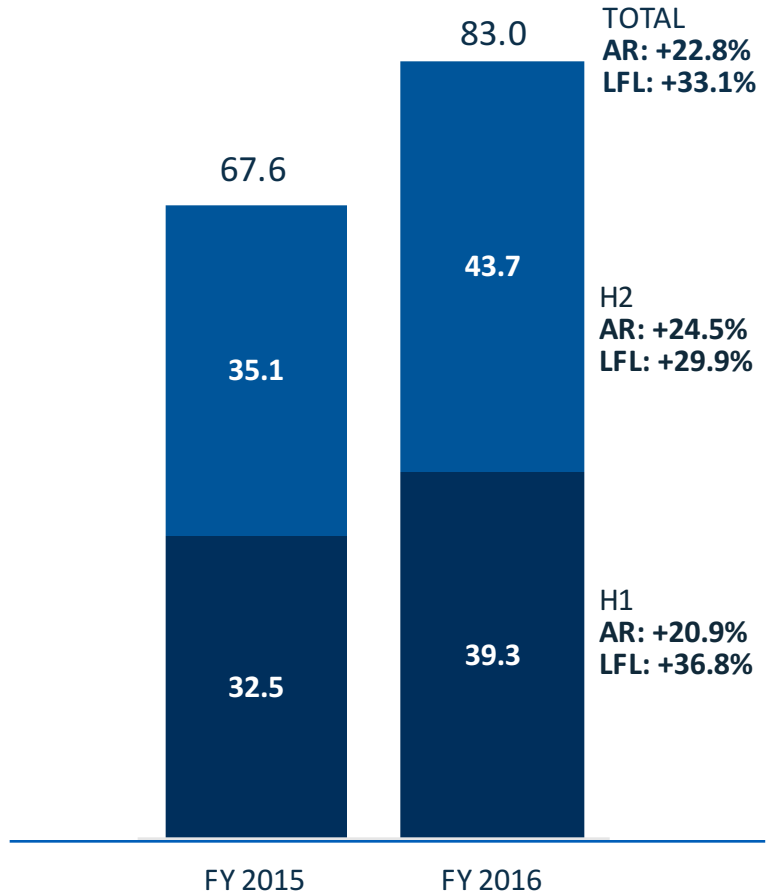
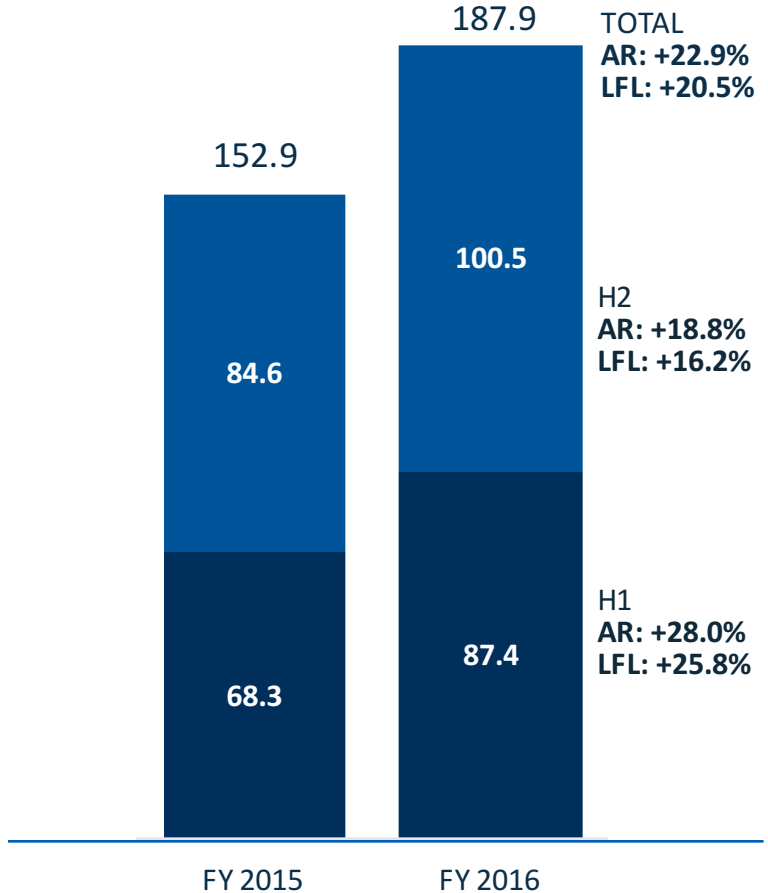
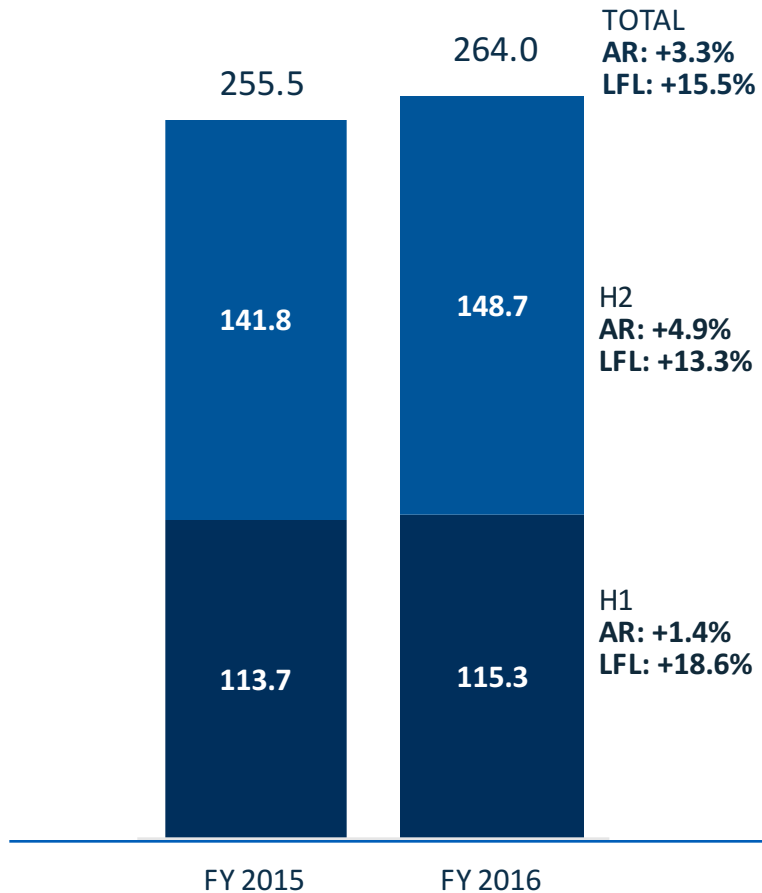
Billings by Region

Strong like-for-like billings⁽¹⁾ growth in all regions, with currency headwinds⁽⁶⁾ in EMEA and APJ

REPORTED BILLINGS EMEA (\$M)

REPORTED BILLINGS AMERICAS (\$M)

REPORTED BILLINGS APJ (\$M)



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. Key constant currency rates for the period were: USD vs. Euro of 0.931; USD vs. GBP of 0.674; and USD vs. Yen of 119.9.
- (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 (“uFCF”) is defined as cash EBITDA, less capex, less change in net working capital, less cash taxes.
- (6) Against the US Dollar, GBP, Euro and JPY have respectively devalued YOY by 7.3%, 14.4% and 9.8%.
- (7) Source for c.\$38Bn IT security market (hardware + software) is IDC WW IT Security Products 2015-2019 Forecast: Comprehensive Security Product Review (December 2015, IDC #US40709015) and represents expected market size in 2016. Growth of 7% represents 2015E-2019E CAGR
- (8) Constant currency billings excluding Cyberoam, Reflexion and SurfRight.
- (9) Expenses included within the definition of cash EBITDA at actual exchange rates.
- (10) Blue Chip partners are defined as those placing five or more orders in the last six months.
- (11) The number of partners who purchased relevant product in the trailing six-months divided by the number of partners who purchased any product in the trailing six-months.

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