

**Sophos Group plc**  
**Results for the quarter-ended 30 June 2019**

**Group revenue growth of 7% at constant currency**  
**Next generation<sup>(1)</sup> billings<sup>(2)</sup> grew 43% at constant currency**

Oxford, 12 July 2019. Sophos Group plc (the “Group” / LSE: SOPH), a leading provider of next-generation cloud-enabled enduser and network cybersecurity solutions, today issues its trading update for the quarter-ended 30 June 2019 (“Q1 FY20”).

**Financial highlights**

- Revenue of \$180.2M increased by 3% year-over-year (“YOY”), or by 7% at constant currency
  - Strong subscription revenue growth of 10% at constant currency, offsetting a reduction in hardware revenue of -11%
  - MSP<sup>(3)</sup> ARR<sup>(4)</sup> now at \$31.8 million, an increase of 78% YOY at constant currency
- Billings of \$183.1M increased by 5% in the period, or by 9% at constant currency
  - Next generation (“next-gen”) business, including Sophos Central and XG Firewall, grew 43% at constant currency to \$100.2 million, and represented 54% of billings in the quarter
  - Within next-gen business, Sophos Central billings grew 49% to \$64.3 million
  - Renewal rate<sup>(5)</sup> was 118% in the period, compared to 115% in the prior-year period
  - Enduser billings rose by 17% in the quarter at constant currency, whilst Network billings grew 1% reflecting as anticipated the phasing of new product releases, with subscription growth offset by lower hardware billings
- Profitability improved
  - Adjusted operating profit<sup>(6)</sup> increased by 10% YOY, reflecting revenue growth and phasing of expenses
  - Reported operating profit at breakeven, compared to a profit of \$6.2 million in the prior-year; primarily impacted by a one-off exceptional restructuring charge
  - Cash EBITDA<sup>(7)</sup> of \$26.6 million increased by 31% YOY reflecting in equal proportions the strength of billings and the impact of IFRS 16 in the quarter
- Cash flow continued to be strong in the quarter
  - Net cash flow from operating activities of \$54.4 million, compared to \$40.4 million in the prior-year period, the improvement principally reflecting timing differences on working capital; with unlevered free cash flow<sup>(8)</sup> at \$55.6 million, compared to \$39.6 million in the prior-year period
- Total customers now exceed 397,000 when including MSP customers (Q1 FY19: 341,000)

**Financial summary**

	Q1 FY20	Q1 FY19	Growth
	\$M	\$M	%
<i>Statutory measures</i>			
Revenue	180.2	175.5	2.7
Profit / (Loss) before taxation	(4.0)	7.3	nm
Net cash flow from operating activities	54.4	40.4	34.7
<i>Alternative performance measures</i>			
Billings	183.1	174.9	4.7
Cash EBITDA	26.6	20.3	31.0
Adjusted operating profit	24.1	21.9	10.0
Unlevered free cash flow <sup>(8)</sup>	55.6	39.6	40.4

**Chief Executive Officer, Kris Hagerman, commented:**

“This has been an encouraging start to the year which underpins our confidence in our prospects for the full year. The demand environment continues to be strong, and as we noted at the full-year, we believe we have a highly effective and differentiated next-generation security product portfolio that positions Sophos very well. Along with encouraging overall company growth, we saw significant continued growth in our next-generation products, including Sophos Central, Intercept X endpoint, XG Firewall, and our MSP business. Consequently, we believe we are well positioned for continued future growth.”

**IFRS 16**

The results for Q1 FY19 reflect the adoption of IFRS 16 “Leasing”. The impact is consistent with the expected impact disclosed in the Annual Report and Accounts for the year-ended 31 March 2019; 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.

**About**

As a worldwide leader in next-generation cybersecurity, Sophos protects nearly 400,000 organizations of all sizes in more than 150 countries from today’s most advanced cyberthreats. Powered by SophosLabs – a global threat intelligence and data science team – Sophos’ cloud-native and AI-enhanced solutions secure endpoints (laptops, servers and mobile devices) and networks against evolving cybercriminal tactics and techniques, including automated and active-adversary breaches, ransomware, malware, exploits, data exfiltration, phishing, and more. The award-winning Sophos Central cloud-based platform integrates Sophos’ entire portfolio of best-of-breed products, from the Intercept X endpoint solution to the XG Firewall, into a single system called Synchronized Security. Sophos products are exclusively available through a global channel of more than 47,000 partners and Managed Service Providers (“MSPs”). Sophos also makes its innovative commercial technologies available to consumers via Sophos Home. The company is headquartered in Oxford, U.K., and is publicly traded on the London Stock Exchange under the symbol “SOPH”. More information is available at [www.sophos.com](http://www.sophos.com).

**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 be hosting an analyst and investor meeting to discuss the Q1 FY20 results at 09:30 BST today. Please register your attendance at [YBalman@tulchangroup.com](mailto:YBalman@tulchangroup.com).

This event is also accessible via conference call and audio-webcast, for registered participants. 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) 20 7192 8000 (UK) / 0800 376 7922 (toll free)

+1 631 510 7495 (US) / +1 866 966 1396 (toll free)

Conference call confirmation code: 6372316

Participants are advised to visit the website at least 15 minutes prior to the commencement of the call, to register and, for those accessing the webcast, 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.

## End Notes

1. The next-gen product portfolio consists of the Group's most advanced products, managed in Sophos Central, notably including Sophos Intercept X for endpoint protection and the Sophos XG Firewall.
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. Billings does not equate to statutory revenue.
3. MSP Billings exclude Reflexion.
4. Annual Recurring Revenue is defined as the annualised equivalent of term licenses, subscription agreements and maintenance contracts including OEM and MSP but excluding perpetual licenses.
5. Renewal rates are calculated by comparing the US dollar amount of contracts renewed in a period (including instances of cross-sell and upsell) to the US dollar amount of contracts available for renewal in the period, where MSP business is treated as new business and is excluded from the calculation. New business grew 4.3% year-on-year of which term business was \$1.3 million lower and MSP business grew \$3.1 million.
6. Adjusted Operating Profit represents the Group's operating profit / (loss) adjusted for amortisation charges, share option charges and exceptional items.
7. 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.
8. 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.