

Trading statement for the quarter-ended 30 June 2017

Q1 billings growth and cash generation ahead of expectations

Oxford, 27 July 2017. 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 2017.

Financial and operational highlights

- Q1 billings¹ increased by 16% (+19% at constant currency), reflecting continued strong momentum despite a demanding prior-year comparative
 - Continued strong performance in enduser security, with billings growth in excess of 30%
 - Intercept X, our next-generation endpoint solution, and Sophos Central cloud management platform both showed continued strong momentum in the quarter
 - High single-digit growth in network security, reflecting a temporary shift in our go to market effort to appropriately respond to the surge in customer interest in our next-generation anti-ransomware endpoint solutions
 - At constant currency, the Americas increased by over 25%, with mid-teens billings growth in both EMEA and APJ
- Revenue increased 14% at constant currency with the subscription component up 20%, reflecting the contribution from prior-periods subscription billings growth now feeding into revenue
- Adjusted operating profit² declined to \$3.4 million, reflecting a higher proportion of subscription billings in the mix, the majority of which are deferred and recognised as revenue in future periods
- Continued strong cash generation in the period, with unlevered free cash flow³ of \$30.3 million
- Reaffirm outlook for FY18:
 - Mid to high-teens billings growth
 - 50-100 bps improvement in Cash EBITDA⁴ margin
 - Free cash flow broadly unchanged, from a high FY17 base

Financial highlights

	Q1 FY18	Q1 FY17	Growth
GAAP measures	\$M	\$M	%
Revenue	141.8	127.4	11.3
Operating loss	(15.6)	(4.9)	218.4
Net cash flow from operating activities	30.3	29.5	2.7
Non GAAP measures			
Billings	164.3	141.9	15.8
Cash EBITDA	27.3	25.6	6.6
Adjusted operating profit	3.4	9.4	(63.8)
Unlevered free cash flow	30.3	28.8	5.2

Kris Hagerman, Chief Executive Officer, commented:

“We are encouraged to report a first quarter financial performance ahead of our expectations. The demand environment in cybersecurity remained strong, particularly in the enduser segment, where we saw continued significant customer and partner interest in our leading next-generation anti-ransomware solutions, with awareness further raised following recent high-profile global attacks like WannaCry and Petya. Our core strategy continues to be differentiated and effective: we work in partnership with our channel to deliver innovative, simple, and highly effective cybersecurity solutions for mid-market enterprises, synchronizing across enduser and network security. Sophos continues to grow faster than the overall industry and gain share. We are well-positioned to continue our momentum and deliver against our full-year expectations and we are pleased to reaffirm our outlook.”

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 260,000 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 (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>

Conference calls dial in details:

Telephone:

+44 (0) 20 3427 1916 (UK)

+1 646 254 3367 (US)

Conference call confirmation code: 9489030

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. 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.
4. 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.