

# Sustained momentum in Q3; strong cash generation

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## Sustained momentum in Q3; strong cash generation

Oxford, 8 February 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 third quarter and nine-months ended 31 December 2016.

### Financial and operational highlights

- Strong momentum continued in Q3 with 16.1% billings<sup>1</sup> growth (18.3% at constant currency)
  - Particular strength in software subscription business with Sophos Central a key driver
  - Highly successful first full-quarter contribution from our industry-leading next-generation endpoint solution, Intercept X, with over 3,300 customers signed contributing to total enduser product billings growth in excess of 20%
  - Good momentum in network billings supported by recent product launches
  - A strong performance in Europe and an acceleration in the Americas, which delivered over 20% growth at constant currency, while APJ was steady against a strong prior-year comparative
  - Reported revenue on an accelerating trend increased by 11.0% in Q3 (13.4% at constant currency), strengthened by mid-teens growth in subscription revenue at constant currency
- Strong visibility over future billings and revenue underpinned by expansion of the renewal book, further improvement in renewal rates and continued growth in new customers
- Strong cash generation in the period, with unlevered free cash flow<sup>2</sup> increasing by 28.4% to \$18.1 million in Q3 and by 136.2% to \$80.3 million for the nine-month period
- The Board was strengthened through the appointment of new UK-based non-executive director
- Improved outlook, with unlevered free cash flow now expected to more than double for the full-year

### Financial highlights

(Reported actuals)	Q3 FY17	Q3 FY16	Growth (reported)	9-months FY17	9-months FY16	Growth (reported)
	\$M	\$M	%	\$M	\$M	%
<b>GAAP measures</b>						
Revenue	134.8	121.4	11.0	391.7	355.6	10.2
Operating profit/(loss)	1.7	(13.3)	n.m.	(22.9)	(26.7)	14.2
Net cash flow from operations	17.9	2.9	n.m.	81.2	7.5	n.m.
<b>Non GAAP measures</b>						
Billings	164.1	141.3	16.1	443.9	383.3	15.8
Cash EBITDA <sup>3</sup>	49.3	34.8	41.7	100.2	80.3	24.8
Unlevered free cash flow	18.1	14.1	28.4	80.3	34.0	136.2

Kris Hagerman, Chief Executive Officer, commented:

"The sustained positive momentum we experienced in Q3 was very encouraging. We continue to see growing demand for our cloud-based security platform, Sophos Central, the adoption of which is increasingly a major driver of our subscription business. There was also very strong customer uptake of Intercept X, our recently launched next-generation endpoint product. We continue to see robust demand in our target markets and the strength of our financial model provides good visibility over future revenues, profitability and cash flows.

With an improved outlook, we now expect unlevered free cash flow to more than double for the full-year."

### About

More than 100 million users in 150 countries rely on Sophos' complete security solutions as the best protection against complex threats and data loss. Simple to deploy, manage and use, Sophos' award-winning encryption, endpoint security, Web, email, mobile and network security solutions are backed by SophosLabs - a global network of threat intelligence centers. Sophos is headquartered in Oxford, UK, 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 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 1919 (UK)

+1 646 254 3366 (US)

Conference call confirmation code: 3757905

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 for undelivered items. Billings does not equate to statutory revenue.
2. 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.
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, unrealised foreign exchange differences and exceptional items, with billings replacing recognised revenue.

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