Half-year Report

Released : 08 Nov 2017 07:00

RNS Number : 8446V
Sophos Group Plc
08 November 2017

Sophos Group plc

Interim results for the period-ended 30 September 2017

Billings growth and cash generation for H1 and Q2 ahead of expectations, raising FY18 outlook

Oxford, 8 November 2017. Sophos Group plc (the "Group" / LSE: SOPH), a leading provider of cloud enabled enduser and network security solutions, today issues its interim results for the six-months to 30 September 2017 ("H1").

Financial and operational highlights

- Strong cash generation, reflecting both a strong operating performance and good cash management
  - Net cash from operations increased by 28% to $80.7 million, and unlevered free cash flow[1] grew 15% to $71.4 million
- Billings[2] momentum strengthened further with growth of 22% in H1 and 29% in Q2
  - Enduser delivered 39% growth in H1, principally driven by Intercept X and Sophos Central
  - Sophos Central grew more than 220% to $78.5 million in H1
  - Accelerating momentum in Network with billings up 16% in Q2 driving a 10% increase in H1
  - Good growth in all regions, with 25% growth in the Americas, 22% in EMEA and 17% in APJ
  - Steady pace of new customer additions, with over 280,000 customers at the end of September, compared to 240,000 a year ago and 260,000 at the prior year-end
- Subscription business further supporting long-term visibility and sustainable growth
  - Revenue growth of 16% in H1 with subscription revenue up 21%
  - Deferred revenue increased by 28% over the prior-year to $654.4 million, with $372.3 million of the balance due for recognition in less than one year (up 27% on prior-year)
- Further progress toward margin expansion over time
  - Cash EBITDA[3] up 31% in H1, with margins up 130 bps
  - Adjusted operating profit[4] declined to $15.1 million in H1, reflecting upfront costs associated with the strong subscription billings performance, and a negative foreign exchange charge; on a GAAP basis operating loss improved slightly to $23.8 million
- Raising FY18 outlook
  - For FY18 we now expect 20-22% billings growth with a 50-100 bps improvement in Cash EBITDA margin and modest growth in unlevered free cash flow

Financial highlights

GAAP measures	H1, FY18 $M	H1, FY17 $M	Increase/ (decrease) %
Revenue	298.1	256.9	16.0
Operating loss	(23.8)	(24.6)	(3.3)
Net cash flow from operating activities	80.7	63.3	27.5
Non GAAP measures			
Billings	341.5	279.8	22.1
Cash EBITDA	66.6	50.9	30.8
Adjusted operating profit	15.1	21.5	(29.8)
Unlevered free cash flow	71.4	62.2	14.8

Kris Hagerman, Chief Executive Officer, commented:
"We continued to see strong momentum for our industry-leading cybersecurity solutions, across all regions and product areas, particularly in the Enduser segment where we are establishing a market-leading position in the high-growth new segment of next-generation endpoint. We continue to offer cutting-edge technology, with robust third-party validation, that is easy to deploy and manage, through a single cloud console. We also saw solid demand in Network security, with improved growth rates in Q2 versus Q1. We view the second half with confidence, and we are raising our outlook for billings and unlevered free cash flow for the full year."

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 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 280,000 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

Sophos Group plc
Tel: +44 (0) 1235 559 933
Kris Hagerman, Chief Executive Officer
Nick Bray, Chief Financial Officer
Derek Brown, VP Investor Relations

Financial Public Relations
Tulchan Communications
Tel: +44 (0) 20 7353 4200

Conference call and webcast
Sophos management will be hosting an analyst meeting to discuss the H1 results at the London Stock Exchange, 10 Paternoster Square, London EC4M 7LS at 09:30 GMT today. Please register your attendance at CHorner@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. 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.

Conference call dial in details:
UK: 020 3427 1901 / 0800 279 4992
US: 1 646 254 3362 / 1 877 280 2296

Confirmation code: 3704900

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. 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.
2. Billings represent 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. 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.
4. Adjusted operating profit represents the Group's operating profit / (loss) adjusted for amortisation charges, share option charges and exceptional items.

Chief Executive Officer's Review

Operational review
The demand environment for cybersecurity remained strong in the first-half of the fiscal year. The good momentum we saw in the first quarter strengthened across all areas and geographies of our business in the second quarter. In the first-half, our Enduser security segment was particularly strong, with a 39 per cent increase in billings, driven principally by Intercept X and Sophos Central. Our Network security business also performed well with reported billings growth of 10 per cent in the first-half and 16 per cent growth in the second quarter. From a regional perspective, we saw good growth across all territories, with particular strength in the Americas and EMEA.

This strong set of results for the first half of the year has been driven by our differentiated growth strategy, which has seen Sophos continue to grow faster than the market. This strategy is built upon the strength of our industry-leading technology, entirely sold through our extensive, high-quality partner channel. This is underpinned by strong operational execution and the significant visibility that is a key feature of our financial model as a subscription software business.

Revenue growth continued to accelerate, increasing by 16 per cent from $256.9 million to $298.1 million, driven by strong subscription revenues which grew by 21 per cent in the period. Adjusted operating profit was $15.1 million, compared to $21.5 million a year ago, reflecting increased costs as a consequence of both the strong subscription billings performance, where costs are expensed upfront but revenue is deferred over the subscription term, and a negative foreign exchange charge. Our cash flow performance was a major highlight and we closed the first half with unlevered free cash flow of $71.4 million, an increase of 15 per cent compared to the prior-year.

Strategic progress
Sophos operates in a large and growing market with a highly differentiated and effective strategy. We deliver enterprise-grade security made simple, focused on any organisation that requires effectiveness and manageability, particularly mid-market enterprises. Our synchronized security solutions are all delivered and managed via Sophos Central, a single, integrated cloud-based management platform, and sold through our global channel.

During the period our channel grew to more than 34,000 partners, and our "blue chip" partner base, representing our most productive partners, increased to around 6,500 from 5,400 a year ago. We continued to add new customers at a steady pace and closed the first half with over 280,000 customers compared to 240,000 a year ago and 260,000 at the end of March 2017. Sophos Central grew to more than 54,000 customers from 30,000 in the prior year and billings exceeded 27 per cent of subscription billings in H1, compared to just over 10 per cent a year ago. The strong growth in Sophos Central has led to a further strengthening of our subscription business, which increased as a proportion of total billings to 84 per cent, compared to 80 per cent a year ago.

Our renewal rate improved further driven both by the strength of our product offering, which is continually improved and strengthened, and our ability to capture the cross-sell and upsell opportunity, such that over 10 per cent of customers now have both our next-gen firewall/UTM and Endpoint solutions, compared to 8 per cent a year ago and 23 per cent of customers have more than one product, up from 20 per cent in the prior-year.

Technology and innovation
Our continued investment in technology and innovation is enabling us to deliver on our vision of enterprise grade security software made simple. Innovation was the key theme of our recent Capital Markets Day, where we demonstrated how we are positioned to take advantage of the significant growth in the market for next-generation endpoint and how we have established a clear leadership position with Intercept X, our anti-exploit and anti-ransomware application. We are now significantly enhancing that lead with the incorporation of the Invincea deep-learning technology into the next version of Intercept X, where the early access program went live for our partners and customers at the beginning of November and which is expected to be generally available early in 2018.

We delivered a number of key new products and features during the first-half of the financial year. Notably, we announced the availability of CryptoGuard within Sophos Server Protection, adding signature-less detection capabilities to add another layer of protection to combat ransomware. We also added Synchronized Security to Sophos Central Server Protection Advanced, enabling IT administrators to leverage the Sophos XG Firewall to automatically isolate infected servers and endpoints and respond to potential compromises more rapidly. Furthermore, at the end of October we announced the general availability of Sophos XG Firewall version 17, a major new release containing many new features and functions, including Synchronized App Control, an industry-first that can reduce security risks associated with unidentified traffic.

We maintain a strong technology and innovation pipeline, with further investment in next-generation endpoint, analytics, network security, Sophos Central and the cloud platform. Synchronizing all of these components enables better security across our product portfolio.

Industry and channel recognition
In the period, we continued to be recognised as a leader by independent industry analysts. Sophos was named as a "leader" in the Unified Threat Management (SMB Multifunction Firewalls) Magic Quadrant and a "visionary" in the Enterprise Network Firewalls Magic Quadrant. Independent test organization NSS Labs evaluated the Sophos XG Firewall as one of the highest performing firewalls in the industry in its Next-Generation Firewall Group Test Report published in June. The XG Firewall was "Recommended" as one of the top three products for security effectiveness.

We also continued to gain recognition from our channel partners. Sophos was awarded a 5-Star rating by the readers of Computer Reseller News ("CRN"), the leading channel publication in the U.S. in the 2017 CRN "Partner Channel Guide" for the sixth consecutive year. This reflects the investment we have made in our partner program offerings supporting the channel through training, education, sales and marketing. Separately, eight of the Sophos channel and marketing team were included in CRN's "Women of the Channel" list, a recognition of outstanding leadership, vision and the unique role they play in driving channel growth and innovation. Sophos was named the 'overall winner' in the Network Security category, in the CRN Annual Report Card ("ARC") for 2017, winning all three sub-categories for the second consecutive year.

We continue to innovate and drive improvements in our partners' profitability and at the end of September Sophos expanded our global channel program to enable partners to become Cloud Security Providers, as they support customers who are moving to the public cloud. Sophos is the first security vendor to address this revenue growth opportunity for partners, making the purchase of its products in Microsoft Azure or Amazon Web Services channel-friendly.

I'd like to thank our employees and partners for their contribution in delivering this successful result for the first-half of the financial year. We are excited about the road ahead and view the second-half of this financial year with confidence.

Kris Hagerman
Chief Executive Officer

Financial Review

The Group has continued its strong momentum in billings and other key metrics, in the first-half of the financial year-ending 31 March 2018 ("H1, FY18"). As expected, revenue growth has accelerated as prior-period subscription billings have converted into revenue and the impact of foreign exchange headwinds has moderated.

Billings at reported exchange rates increased by 22.1 per cent to $341.5 million, within which subscription billings grew 27.9 per cent to $285.3 million. Reported revenue grew 16.0 per cent, from 11.3 per cent in Q1 to 20.7 per cent in Q2, with subscription revenue in H1 growing even stronger at 20.8 per cent.

Operating loss and adjusted operating profit were impacted by the delayed conversion of the billings growth into revenue as billings on subscription contracts are deferred to future periods, whilst expenditure is recognised upfront and is incurred on the basis of billings growth. The current period also incurred a currency exchange loss of $5.0 million compared to only $0.4 million in the comparative period. The deferral of subscription billings in the period has resulted in deferred revenue increasing to $654.4 million from $511.3 million at the end of the comparative period and from $581.0 million at 31 March 2017. This gives the Group good visibility of future revenue streams as $372.3 million of the deferred revenue is due for recognition in less than one year, an increase of 26.7 per cent year-on-year.

The table below presents the Group's financial highlights on a reported currency basis:

	H1, FY18	H1, FY17	Increase/ (decrease)

	$M	$M	%
Billings	341.5	279.8	22.1
Revenue	298.1	256.9	16.0
Cash EBITDA	66.6	50.9	30.8
Adjusted operating profit	15.1	21.5	(29.8)
Operating loss	(23.8)	(24.6)	(3.3)
Unlevered free cash flow	71.4	62.2	14.8
Net cash flow from operating activities	80.7	63.3	27.5

Billings

The Group's reported billings increased by $61.7 million from $279.8 million in the half-year ended 30 September 2016 to $341.5 million in the half-year ended 30 September 2017, with growth in all regions, products and major types, as detailed below. This represented a 22.1 per cent reported growth rate or 22.8 per cent on a constant currency ("CC") basis.

	H1, FY18	H1, FY17	Growth	Growth
	$M	$M	%	%
	(Reported)	(Reported)	(Reported)	(CC)
Billings by Region:				
- Americas	116.6	93.1	25.2	25.2
- EMEA	175.1	144.1	21.5	23.3
- APJ	49.8	42.6	16.9	16.2
	341.5	279.8	22.1	22.8
Billings by Product:				
- Network	160.0	145.5	10.0	10.0
- Enduser	167.4	120.8	38.6	40.6
- Other	14.1	13.5	4.4	3.7
	341.5	279.8	22.1	22.8
Billings by Type:				
- Subscription	285.3	223.1	27.9	29.0
- Hardware	51.9	50.5	2.8	2.4
- Other	4.3	6.2	(30.6)	(31.1)
	341.5	279.8	22.1	22.8

Subscription agreements represented 83.5 per cent of the Group's billings in H1, FY18, an increase on the prior-period resulting in part from the continued strong growth in the Group's Central products.

Billings by region

Americas

Billings attributable to the Americas increased by $23.5 million to $116.6 million in the half-year ended 30 September 2017, representing 25.2 per cent growth on both a reported and constant currency basis. The YOY increase was driven by Enduser growth and the continued adoption of the Sophos Central platform which includes the Group's next-generation endpoint products.

EMEA

Billings attributable to EMEA increased by $31.0 million to $175.1 million in the half-year ended 30 September 2017, representing 21.5 per cent growth on a reported basis and 23.3 per cent growth on a constant currency basis. This increase was due to Enduser growth, supported by a substantial increase in the adoption of the Sophos Central platform, as well as growth in Network.

APJ

Billings attributable to APJ increased by $7.2 million to $49.8 million in the half-year ended 30 September 2017, representing 16.9 per cent growth on a reported basis and 16.2 per cent growth on a constant currency basis, growth in the region being driven by both Enduser and Network products.

Billings by product

Network products

The Group's billings attributable to Network products increased by $14.5 million to $160.0 million in the half-year ended 30 September 2017, representing 10.0 per cent growth on both a reported and constant currency basis.

Enduser products

The Group's billings attributable to Enduser products increased by $46.6 million to $167.4 million in the half-year ended 30 September 2017, representing 38.6 per cent growth on a reported basis and 40.6 per cent growth on a constant currency basis. Enduser YOY billings growth were driven by the continued rapid adoption of the Sophos Central platform products including strong momentum in Intercept X which was launched at the end of the comparative period and aided in the current period by the world-wide impact of various high-profile ransomware attacks.

Billings by type

Subscription billings increased by $62.2 million to $285.3 million in the half-year ended 30 September 2017, representing a 27.9 per cent growth on a reported basis and 29.0 per cent growth on a constant currency basis. Hardware billings increased by 2.8 per cent to $51.9 million; though the hardware share of overall billings decreased due to the strength of subscription-based Central platform products.

Key billings metrics

Billings from new customers

Billings from new customers remained consistent at 24 per cent of total billings compared to 25 per cent in the period-ended 30 September 2016 with a growth of 19.7 per cent.

Retention and renewal rates

The Group's net retention and renewal rates include the impact of cross-selling and upselling, which helps the Group evaluate its success in fully leveraging its broad product portfolio throughout its installed customer base. The Group's net retention rate improved in the period from 104.1 per cent in the half-year ended 30 September 2016 to 108.1 per cent in the half-year ended 30 September 2017. The Group's renewal rate increased to 139.4 per cent from 118.1 per cent.

Billings by size

Sophos' products are designed for the Group's target market (enterprises with less than 5,000 employees), but are frequently also bought by larger enterprises. In H1, FY18, the proportion of billings to this target market increased to 87 per cent from 83 per cent as a result of continued strategic focus on the mid-market and the material contract previously disclosed in the comparative period.

Billings by length of contract

Subscription agreements sold by the Group are of differing durations, most typically being one to three years in length. The last twelve months weighted average contract length for the half-year ended 30 September 2017 was 27.6 months, a small decrease on the 28.1 months for the half-year ended 30 September 2016 due primarily to the previously reported material longer-term contract with an existing customer in the prior-period.

The billings analysis of contracts by subscription length for each half-year was as follows:

(Constant currency)	H1, FY18	H1, FY17
	%	%
Under one year	34.9	35.3
One to two years	8.0	8.0
Two to three years	47.9	44.3
Greater than three years	9.2	12.4

Cross-sell and upsell opportunities

As the security needs of the Group's existing customers evolve and as customers realise the benefits of the products and services they previously purchased, the Group's product portfolio provides an opportunity to cross-sell additional products and services or to upsell enhanced versions of products or additional enduser licences.

The percentage of customers who own both a Sophos Endpoint and UTM product has continued to improve. At 30 September 2017, approximately 10.5 per cent of customers had both a UTM product and an Endpoint product compared to 8.4 per cent of customers at 30 September 2016.

Revenue and deferred revenue

The Group's revenue increased by $41.2 million, or 16.0 per cent, to $298.1 million in the half-year ended 30 September 2017. Revenue growth in Q2 was 20.7 per cent, driven by subscription growth which was 20.8 per cent for the half-year and 25.0 per cent in Q2.

	H1, FY18	H1, FY17	Growth	Growth
	$M (Reported)	**$M** (Reported)	**%** (Reported)	% (CC)
Revenue by Region:				
- Americas	106.2	88.7	19.7	19.8
- EMEA	148.4	129.6	14.5	16.1
- APJ	43.5	38.6	12.7	12.8
	298.1	256.9	16.0	16.9
Revenue by Product:				
- Network	148.2	130.1	13.9	14.0
- Enduser	136.5	113.4	20.4	22.2
- Other	13.4	13.4	-	-
	298.1	256.9	16.0	16.9
Revenue by Type:				
- Subscription	240.8	199.4	20.8	22.0
- Hardware	52.2	51.2	2.0	1.6
- Other	5.1	6.3	(19.0)	(19.7)
	298.1	256.9	16.0	16.9

The majority of the Group's billings, which are recognised over the life of the contract, relate to subscription products (H1, FY18: 83.5 per cent; H1, FY17: 79.7 per cent), with the benefit from increased billings being spread over a number of years on the subsequent recognition of deferred revenue. Revenue in the period of $298.1 million comprised $196.4 million from recognition of prior-period deferred revenues and $101.7 million from in-period billings. The deferred revenue balance at the end of the period of $654.4 million increased $143.1 million year-on-year; an increase of 28.0 per cent mainly due to a net deferral of billings over that period amounting to $122.9M and a net currency revaluation of $16.1 million as a consequence of the strengthening of the Euro and Sterling currencies against the US Dollar.

Revenue in the Americas increased by 19.7 per cent to $106.2 million in the half-year ended 30 September 2017 due to growth in Network and Enduser, the latter including more of the impact of the growth in Central platform billings resulting from its earlier release in that region.

EMEA revenue increased by 14.5 per cent to $148.4 million in the half-year ended 30 September 2017 with growth in both Enduser and Network sales.

APJ revenue increased by 12.7 per cent to $43.5 million in the half-year ended 30 September 2017, growth being balanced between both Enduser and Network products.

Cost of sales

The Group's cost of sales increased by $7.4 million to $65.8 million in the half-year ended 30 September 2017, partially due to growth in Network product billings, which have a larger hardware component, and partially due to other costs associated with supporting the groups products and services that naturally increase with volume as the Group grows, albeit at a lower rate than the billings growth.

Sales and marketing

The Group's sales and marketing expenses increased by $18.5 million or 18.2 per cent, to $119.9 million in the half-year ended 30 September 2017. Sales and marketing expenses are targeted to increase below the rate of billings growth to enable them to continue to support the business and channel whilst also being leveraged as the Group grows.

Research and development

The Group's research and development expenses increased by $12.2 million, or 21.8 per cent, to $68.1 million in the half-year ended 30 September 2017. The Group has a strong focus on new and enhanced products to address the significant market opportunity that exists. Research and development expenditure is broadly targeted to grow at the rate of billings.

General finance and administration

The Group's general finance and administration expenses, excluding exceptional items, foreign exchange and the amortisation of intangible assets, increased by $7.6 million, or 21.8 per cent, to $42.4 million in the half-year ended 30 September 2017. The increase was predominantly due to a higher share-based payment expense, which increased by $4.5 million to $20.7 million, mainly as a consequence of the run-rate continuing to stabilise in the three year period post flotation and the impact of the rising share-price on cash settled schemes. Underlying general finance and administration expenses increased by 16.7 per cent to $21.7 million, decreasing as a proportion of billings as the Group has continued to leverage back office functions.

The Group's exceptional items, included within general finance and administration expenses, decreased by $12.9 million to $6.9 million in the half-year ended 30 September 2017. Current-period exceptional items relate primarily to restructuring and integration costs. Prior-period exceptional items predominantly related to expenses incurred in connection with the defence of certain claims brought against the Group in relation to the intellectual property litigation case brought by Finjan Inc.

Amortisation of intangible assets
The Group's amortisation of intangible assets increased by $3.0 million, or 27.8 per cent, to $13.8 million in the half-year ended 30 September 2017. The increase was due to the amortisation of intangibles added as part of the acquisition of Invincea, Inc, which completed on 21 March 2017.

Currency movements and impact
The Group's foreign exchange loss was $5.0 million in the half-year ended 30 September 2017, compared with a loss of $0.4 million in the half-year ended 30 September 2016 due to the strengthening of the Euro and Sterling against the US Dollar in the current period.

Cash EBITDA
Cash EBITDA increased by 30.8 per cent to $66.6 million in the half-year ended 30 September 2017. Cash EBITDA margins increased year-over-year to 19.5 per cent from 18.2 per cent in the prior-period due to a combination of billings outperforming expectations that led to a continued, but higher than anticipated, leverage of sales and marketing costs. The outperformance allowing the Group to accelerate additional development investments in H2. The reconciliation of Cash EBITDA to operating loss is included in note 3 of the Financial Statements.

Adjusted operating profit
The majority of the group's billings are from subscription contracts with the revenue benefit from increased subscription billings being deferred into future periods. Strong subscription billings growth, whilst very positive for the long-term health of the business and cash generation, can actually show as a detriment to the short-term income statement with most of the revenues deferred whilst all spending is recognised as incurred. For this reason, the Group primarily focuses on billings, cash EBITDA and cash flow as the key leading indicators and primary operating metrics of the business.

Adjusted operating profit decreased by $6.4 million to $15.1 million in the period-ended 30 September 2017, the decrease is principally due to an increase in the foreign exchange loss by $4.6 million reflecting the strengthening of Sterling and Euro in the period. The reconciliation of adjusted operating profit to operating loss is included in note 3 of the Financial Statements.

Operating loss
The Group's operating loss was $23.8 million in the half-year ended 30 September 2017 compared to a loss of $24.6 million in the prior half-year due to continued investments in R&D and sales and marketing activities with the decrease in exceptional costs being largely offset by increases in amortisation, share-based payment expenses and foreign exchange.

Net finance costs
The Group's net finance costs increased by $8.5 million to $12.3 million in the half-year due mainly to foreign exchange losses on the Euro denominated debt following the weakening of the US Dollar in the period.

Income tax
The Group's tax charge for the half year was $2.7 million (H1, FY17: $5.7 million) with an effective tax rate of -7.5 per cent (H1, FY17: -20.1 per cent). As in the prior year, the tax charge arises against a Group reported loss for the period as a consequence of local subsidiary taxable profits.

Loss for the period
The Group's loss for the period increased by $4.7 million, from a loss of $34.1 million in the half-year ended 30 September 2016 to a loss of $38.8 million in the half-year ended 30 September 2017 predominantly reflecting the increase in net finance expense, foreign exchange differences, partially offset by a decrease in the tax charge.

Cash flow
Net cash flow from operating activities increased YOY to $80.7 million from $63.3 million in the prior period. The increase was due to growth in billings, expense control, a decrease in exceptional items and continued management of working capital.

	H1, FY18	**H1, FY17**
	$M	**$M**
Cash EBITDA(1)	**66.6**	**50.9**
Net deferral of revenue	(43.4)	(22.9)
Foreign exchange	(2.7)	(2.1)
Depreciation	(5.4)	(4.4)
Adjusted operating profit	**15.1**	**21.5**
Net deferral of revenue	43.4	22.9
Exceptional items(2)	(6.9)	(4.8)
Depreciation	5.4	4.4
Foreign exchange	2.7	2.1
Change in working capital(1)(2)	29.0	22.2
Corporation tax paid(1)	(8.0)	(5.0)
Net cash flow from operating activities	**80.7**	**63.3**
Exceptional items(2)	6.9	4.8
Net capital expenditure(1)	(16.2)	(5.9)
Unlevered free cash flow	**71.4**	**62.2**

(1) Unlevered free cash flow represented by the sum of the marked rows and has been presented to enhance understanding of the Group's cash generation capability.
(2) Excludes the non-cash movement on the provision for the claim brought against the Group in relation to the Finjan intellectual property litigation case

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. Unlevered free cash flow is presented to enhance understanding of the Group's cash generation capability.

Changes in working capital
The change in working capital remains positive in the first-half with the variance year-on-year due to a marginal decrease in debtors' days outstanding to 42 days (H1, FY17: 43 days) and a continued control over expense payments.

Capital expenditure

Capital expenditure by the Group primarily comprises property, plant and equipment as well as intangible assets. In the half-year ended 30 September 2017, net capital expenditure increased by $10.3 million year-on-year, as a consequence of the prior period's expenditure being weighted more to the second-half of the financial year and investment in the current period including the purchase of intellectual property to strengthen the Group's network products.

Cash taxation
Corporation tax paid in the period is higher than in the comparative period due to the timing of overseas tax payments.

Financing
In the prior-year the Group agreed an additional revolving credit facility with its existing lenders in the amount of $40.0 million, which at the end of the prior-year was fully drawn along with $10.0 million from the original revolving credit facility. These drawings were made to partially finance the acquisition of Invincea, Inc. at the end of March 2017. During the current period both revolving credit facilities have been fully repaid.

Dividends
The Directors recommend that the half-year and final dividend be paid in the approximate proportions of one third and two thirds respectively of the total expected annual dividend. Accordingly, the Directors have recommended that the Company will pay an interim dividend in respect of the year-ending 31 March 2018 amounting to 1.4 US Cents per share, an 8 per cent increase over the prior half year dividend of 1.3 US Cents per share. The interim dividend would be paid on 15 December 2017 to all shareholders on the register on 17 November 2017.

Nick Bray
Chief Financial Officer

Principal risks and uncertainties
The principal risks and uncertainties which could have a material impact on the Group's long-term performance set out in the last annual report and financial statements, dated 16 May 2017, remain valid at the date of this report. These risks and uncertainties (in no specific order) are:

- Recruitment and retention of key personnel
- Defects or vulnerabilities in products or services
- False detection of threats
- IT security and cyber risk
- Product portfolio management
- Disruption to day-to-day Group operations

Following the decision by the UK population to exit, in due course, from the European Union ("Brexit"), the Directors have considered whether or not this will manifest itself as an additional risk to the Group. The Group's operations are globally diverse with only 11 per cent of the Group's revenue being sourced from the UK. The fluctuation of the Sterling exchange rate only has a limited impact to the Group, given a general balance between sterling denominated costs and revenues in a US Dollar denominated functional currency Group, and as such, Brexit is not considered a principal risk for the Group.

Directors' responsibility statement
We confirm that to the best of our knowledge:

- The condensed set of financial statements has been prepared in accordance with IAS 34 Interim Financial Reporting as adopted by the EU
- The interim management report includes a fair review of the information required by:
  (a) DTR 4.2.7R of the Disclosure Guidance and Transparency Rules, being an indication of important events that have occurred during the first six months of the financial year and their impact on the condensed set of financial statements; and a description of the principal risks and uncertainties for the remaining six months of the year; and
  (b) DTR 4.2.8R of the Disclosure Guidance and Transparency Rules, being related party transactions that have taken place in the first six months of the current financial year and that have materially affected the financial position or performance of the entity during that period; and any changes in the related party transactions described in the last annual report that could do so

By order of the Board

Kris Hagerman, Chief Executive Officer
7 November 2017

Nick Bray, Chief Financial Officer
7 November 2017

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS
FOR THE SIX-MONTHS ENDED 30 SEPTEMBER 2017

	Note	Six-months ended 30 September 2017 Unaudited $M	Six-months ended 30 September 2016 Unaudited $M	Year-ended 31 March 2017 Audited $M
Revenue	4	298.1	256.9	529.7
Cost of sales		(65.8)	(58.4)	(121.3)
Gross profit		232.3	198.5	408.4
Sales and marketing		(119.9)	(101.4)	(210.6)
Research and development		(68.1)	(55.9)	(117.8)
General finance and administration:		(68.1)	(65.8)	(124.3)

- Underlying		(21.7)	(18.6)	(39.3)
- Share-based payments	5	(20.7)	(16.2)	(32.5)
- Exceptional items	6	(6.9)	(19.8)	(31.4)
- Amortisation of intangible assets		(13.8)	(10.8)	(19.9)
- Foreign exchange loss		(5.0)	(0.4)	(1.2)
Operating loss		(23.8)	(24.6)	(44.3)
Finance income		0.3	-	0.1
Finance expense	7	(12.6)	(3.8)	(5.1)
Loss before taxation		(36.1)	(28.4)	(49.3)
Income tax (charge) / credit	8	(2.7)	(5.7)	2.6
Loss for the period		(38.8)	(34.1)	(46.7)
Earnings per share (US Cents)	9			
Basic and diluted EPS		(8.4)	(7.6)	(10.3)
Adjusted EPS		3.3	4.8	8.5
Diluted adjusted EPS		3.1	4.5	8.1

The accompanying notes form an integral part of these financial statements.

CONDENSED CONSOLIDATED STATEMENT OF OTHER COMPREHENSIVE INCOME

FOR THE SIX-MONTHS ENDED 30 SEPTEMBER 2017

	Six-months ended 30 September 2017 Unaudited $M	Six-months ended 30 September 2016 Unaudited $M	Year-ended 31 March 2017 Audited $M
Loss for the period	(38.8)	(34.1)	(46.7)
Other comprehensive (losses) / gains:			
Items that will not be reclassified subsequently to profit or loss:	-	-	-
Items that may be reclassified subsequently to profit or loss:			
- Exchange differences arising on translation of foreign operations	(1.5)	(0.5)	2.8
Total other comprehensive (losses) / gains	(1.5)	(0.5)	2.8
Comprehensive loss for the period	(40.3)	(34.6)	(43.9)

The accompanying notes form an integral part of these financial statements.

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AT 30 SEPTEMBER 2017

Company registered number: 09608658

	Note	30 September 2017 Unaudited $M	30 September 2016 Unaudited $M	31 March 2017 Audited $M
Non-current assets				
Intangible assets	11	874.3	744.3	856.0
Property, plant and equipment	12	26.6	22.0	23.4
Deferred tax asset		140.8	78.5	105.3
Other receivables		1.0	0.6	1.3
		1,042.7	845.4	986.0
Current assets				
Tax assets		9.4	5.8	7.7
Inventories		21.3	19.5	16.2
Trade and other receivables		122.4	99.9	145.2
Cash and cash equivalents		81.1	90.0	68.1
		234.2	215.2	237.2
Total assets		1,276.9	1,060.6	1,223.2

Current liabilities				
Trade and other payables		135.2	73.8	107.3
Deferred revenue	13	372.3	293.9	330.6
Income tax payable		25.2	24.4	21.0
Financial liabilities	14	18.4	1.2	71.1
Provisions		0.4	0.3	0.4
		551.5	393.6	530.4
Non-current liabilities				
Trade and other payables		9.3	0.9	3.9
Deferred revenue	13	282.1	217.4	250.4
Financial liabilities	14	303.7	299.3	296.3
Provisions		1.3	16.0	1.1
Deferred tax liabilities		11.1	8.5	14.4
		607.5	542.1	566.1
Total liabilities		1,159.0	935.7	1,096.5
Net assets		117.9	124.9	126.7
Represented by:				
Share capital		21.8	21.5	21.6
Share premium		120.3	116.5	118.4
Merger reserve		(200.9)	(200.9)	(200.9)
Other reserves		-	(0.1)	-
Retained earnings		94.0	166.6	148.1
Share-based payment reserve		113.6	54.0	68.9
Translation reserve		(30.9)	(32.7)	(29.4)
Total equity		117.9	124.9	126.7

The accompanying notes form an integral part of these financial statements.

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE SIX-MONTHS ENDED 30 SEPTEMBER 2017

	Share Capital	Share Premium	Merger Reserve	Other Reserves	Retained Earnings	Share-Based Payment Reserve	Translation Reserve	Total
	$M	$M	$M	$M	$M	$M	$M	$M
At 1 April 2016	21.3	115.9	(200.9)	(0.1)	205.7	36.2	(32.2)	145.9
Loss for the period:	-	-	-	-	(34.1)	-	-	(34.1)
Other comprehensive profit or loss:	-	-	-	-	-	-	(0.5)	(0.5)
Total comprehensive loss	-	-	-	-	(34.1)	-	(0.5)	(34.6)
Share options exercised	0.2	0.6	-	-	-	-	-	0.8
Share-based payments expense	-	-	-	-	-	15.5	-	15.5
Share-based payments deferred tax	-	-	-	-	-	2.3	-	2.3
Cash dividend	-	-	-	-	(5.0)	-	-	(5.0)
At 30 September 2016	21.5	116.5	(200.9)	(0.1)	166.6	54.0	(32.7)	124.9
At 1 April 2017	21.6	118.4	(200.9)	-	148.1	68.9	(29.4)	126.7
Loss for the period:	-	-	-	-	(38.8)	-	-	(38.8)
Other comprehensive profit or loss:	-	-	-	-	-	-	(1.5)	(1.5)
Total comprehensive loss	-	-	-	-	(38.8)	-	(1.5)	(40.3)
Share options exercised	0.2	1.9	-	-	-	-	-	2.1
Share-based payments expense	-	-	-	-	-	18.2	-	18.2
Share-based payments deferred tax	-	-	-	-	-	26.5	-	26.5
Cash dividend	-	-	-	-	(15.3)	-	-	(15.3)
At 30 September 2017	**21.8**	**120.3**	**(200.9)**	**-**	**94.0**	**113.6**	**(30.9)**	**117.9**

The accompanying notes form an integral part of these financial statements.

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE SIX-MONTHS ENDED 30 SEPTEMBER 2017

	Note	Six-months ended 30 September 2017 Unaudited $M	Six-months ended 30 September 2016 Unaudited $M	Year-ended 31 March 2017 Audited $M
Loss for the period		(38.8)	(34.1)	(46.7)
Adjusted for:				
Depreciation		5.4	4.4	9.4
Amortisation of intangible assets		13.8	10.8	19.9
Amortisation of fair value adjustment on deferred income		(0.1)	(0.8)	(1.0)
Foreign exchange		2.7	2.1	-
Share-based payments	5	18.2	15.5	31.3
Finance income		(0.3)	-	(0.1)
Finance costs	7	12.6	3.8	5.1
Income tax charge / (credit)		2.7	5.7	(2.6)
		16.2	7.4	15.3
(Increase) / decrease in inventories		(4.3)	(1.9)	1.1
Decrease / (increase) in trade and other receivables		28.9	26.5	(20.5)
Increase / (decrease) in trade and other payables		4.0	(3.2)	37.1
Increase in deferred revenue		43.8	24.5	104.4
Increase in provisions		0.1	15.0	0.3
Cash generated from continuing operations		88.7	68.3	137.7
Income taxes paid		(8.0)	(5.0)	(19.2)
Net cash flow from operating activities		80.7	63.3	118.5
Investing activities				
Purchase of property, plant and equipment		(6.8)	(4.2)	(11.4)
Acquisition of subsidiary net of cash acquired	15	(3.1)	(1.2)	(101.7)
Purchase of intangible assets		(9.4)	(1.7)	(5.1)
Finance income		0.3	-	0.1
Net cash flow from investing activities		(19.0)	(7.1)	(118.1)
Financing activities				
Proceeds from issue of shares		2.1	0.7	2.8
Dividends paid		-	-	(10.9)
Proceeds from borrowings		-	-	50.0
Repayment of borrowings	15	(50.0)	(25.0)	(25.0)
Transaction costs related to borrowings		(0.1)	-	(0.9)
Finance lease payments		-	(0.1)	(0.1)
Finance costs		(4.8)	(4.9)	(8.8)
Net cash flow from financing activities		(52.8)	(29.3)	7.1
Increase in cash and cash equivalents		8.9	26.9	7.5
Net foreign exchange differences		4.1	(3.7)	(6.2)
Cash and cash equivalents at the start of period		68.1	66.8	66.8
Cash and cash equivalents at the end of period		81.1	90.0	68.1

The accompanying notes form an integral part of these financial statements.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS CONTINUED
FOR THE SIX-MONTH PERIOD ENDED 30 SEPTEMBER 2017

1 GENERAL INFORMATION

Sophos Group plc is incorporated and domiciled in the UK. The Company's registered address is:
Sophos Group plc, The Pentagon, Abingdon Science Park, Abingdon, Oxfordshire, OX14 3YP, United Kingdom.

The Interim Financial Statements were approved by the Board on 7 November 2017 for issue on 8 November 2017.

These Interim Financial Statements do not comprise statutory accounts within the meaning of section 434 of the Companies Act 2006. Statutory accounts for the year-ended 31 March 2017 were approved by the Board of Directors on 16 May 2017 and delivered to the Registrar of Companies. The report of the auditors on those accounts was unmodified, did not contain an emphasis of matter paragraph and did not contain any statement on other matters prescribed by the Companies Act 2006.

These Interim Financial Statements have been reviewed by the auditor, but not audited.

2 BASIS OF PREPARATION

The Interim Financial Statements have been prepared in accordance with IAS 34 "Interim Financial Reporting" as adopted by the European Union and the Disclosure and Transparency Rules of the Financial Conduct Authority. The Interim Financial Statements should be read in conjunction with the Annual Report and Consolidated Financial Statements for the year-ended 31 March 2017, which have been prepared in accordance with international financial reporting standards as adopted by the European Union.

The Interim Financial Statements have been prepared under the historical cost convention and are presented in US dollars. All values are rounded to the nearest 0.1 million ($M) unless otherwise indicated. The Directors are satisfied that, at the time of approving the condensed consolidated financial statements, it is appropriate to continue to adopt a going concern basis of accounting.

ACCOUNTING POLICIES

The accounting policies adopted in preparation of the Interim Financial Statements are consistent with those used to prepare the Group's consolidated financial statements for the year-ended 31 March 2017. The impact of the application of new and revised international financial reporting standards ("IFRSs"), IFRS 15 "Revenue from contracts with customers" and IFRS 16 "Leases" in particular, are discussed in note 2 of the Groups consolidated financial statements for the year-ended 31 March 2017.

3 ALTERNATIVE PERFORMANCE MEASURES ("APMs")

The Group uses certain financial measures that are not defined or recognised under IFRS. The Directors believe that these non-GAAP measures enable a better understanding of the results of the Group and are used as key performance indicators within the business to aid in evaluating its current business performance. As the measures are not defined by IFRS other companies may calculate them differently or may use such measures for different purposes than the Group does, limiting the usefulness of such measures as a comparative. The APMs are fully discussed in the financial review.

3 ALTERNATIVE PERFORMANCE MEASURES ("APMs") CONTINUED

BILLINGS

Billings represent 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 do not equate to statutory revenue.

	Six-months ended 30 September 2017 Unaudited $M	Six-months ended 30 September 2016 Unaudited $M	Year-ended 31 March 2017 Audited $M
Revenue	298.1	256.9	529.7
Net deferral of revenue	43.4	22.9	102.4
Billings	341.5	279.8	632.1
Currency revaluation	(8.4)	(8.6)	16.6
Constant currency billings	333.1	271.2	648.7

ADJUSTED OPERATING PROFIT AND CASH EBITDA

Adjusted operating profit provides a supplemental measure of earnings that facilitates review of operating performance on a period-to-period basis by excluding non-recurring and other items that are not indicative of the Group's underlying operating performance.

	Six-months ended 30 September 2017 Unaudited $M	Six-months ended 30 September 2016 Unaudited $M	Year-ended 31 March 2017 Audited $M
Operating loss	(23.8)	(24.6)	(44.3)
Amortisation of intangible purchased assets	13.8	10.8	19.9
Share-based payment expense	18.2	15.5	31.3
Exceptional items	6.9	19.8	31.4
Adjusted operating profit	15.1	21.5	38.3
Depreciation	5.4	4.4	9.4
Foreign exchange loss - unrealised	2.7	2.1	-
Net deferral of revenue	43.4	22.9	102.4
Cash EBITDA	66.6	50.9	150.1

3 ALTERNATIVE PERFORMANCE MEASURES ("APMs") CONTINUED

UNLEVERED FREE CASH FLOW

Unlevered free cash flow represents net cash flow from operating activities adjusted for exceptional items and net capital expenditure. Unlevered free cash flow provides an understanding of the Group's cash generation and is a supplemental measure of liquidity in respect of the Group's operations without the distortions of exceptional and other non-operating items.

	Six-months ended 30 September 2017	Six-months ended 30 September 2016	Year-ended 31 March 2017

	Unaudited	Unaudited	Audited
	$M	$M	$M
Net cash flow from operating activities	80.7	63.3	118.5
Exceptional items	6.9	4.8	31.4
Net capital expenditure	(16.2)	(5.9)	(16.5)
Unlevered free cash flow	71.4	62.2	133.4

	Six-months ended 30 September 2017 Unaudited	Six-months ended 30 September 2016 Unaudited	Year-ended 31 March 2017 Audited
	$M	$M	$M
Cash EBITDA	66.6	50.9	150.1
Net capital expenditure	(16.2)	(5.9)	(16.5)
Change in working capital	29.0	22.2	19.0
Corporation tax paid	(8.0)	(5.0)	(19.2)
Unlevered free cash flow	71.4	62.2	133.4

4 SEGMENT INFORMATION

For management reporting purposes, the primary segment reporting format is determined to be geographic segments, as the Group's risks and rates of return are affected predominantly by the different economic environments in which the Group operates. The Group has only one secondary business segment, on the basis that the products and services offered to external customers are very similar and therefore do not result in different risks and rates of return for the Group. The Group's geographical segments are based on the location of the Group's operations consisting of Europe, Middle East and Africa ("EMEA"), Americas and Asia Pacific and Japan ("APJ").

Billings represent 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 do not equate to statutory revenue. Billings are classified by the geographic location of the direct customers, OEMs and distributors that purchase our products. The geographic location of OEMs or distributors may be different from that of end customers.

4 SEGMENT INFORMATION CONTINUED

The accounting policies of the reportable segments are the same as the Group's accounting policies. Segment profits represent the profit earned by each segment without allocation of central administration costs including Directors' salaries, finance costs and income tax expense. This is the measure reported to the Chief Operating Decision Maker, the Chief Executive Officer, and Senior Management Team for the purposes of resource allocation and assessment of segment performance.

The following tables present billings and expenditure regarding the Group's geographical segments for the six-months ended 30 September 2017 and 30 September 2016.

	Americas	EMEA	APJ	Total
Six-months ended 30 September 2017	$M	$M	$M	$M
Billings	116.6	175.1	49.8	341.5
Regional cost of sales	(7.0)	(17.1)	(7.7)	(31.8)
Regional gross margin	109.6	158.0	42.1	309.7
Regional sales and marketing expense	(37.8)	(36.7)	(16.2)	(90.7)
Regional operating profit	71.8	121.3	25.9	219.0
Revenue deferral				(43.4)
Central costs				(180.2)
Amortisation				(13.8)
Depreciation				(5.4)
Operating loss				(23.8)

	Americas	EMEA	APJ	Total
Six-months ended 30 September 2016	$M	$M	$M	$M
Billings	93.1	144.1	42.6	279.8
Regional cost of sales	(7.6)	(17.5)	(7.3)	(32.4)
Regional gross margin	85.5	126.6	35.3	247.4
Regional sales and marketing expense	(30.7)	(33.6)	(14.7)	(79.0)
Regional operating profit	54.8	93.0	20.6	168.4
Revenue deferral				(22.9)
Central costs				(154.9)
Amortisation				(10.8)
Depreciation				(4.4)
Operating loss				(24.6)

4 SEGMENT INFORMATION CONTINUED

Revenue from external customers by country	Six-months ended 30 September 2017 Unaudited $M	Six-months ended 30 September 2016 Unaudited $M
UK	33.7	29.6
USA	96.6	80.3
Germany	58.6	50.3
Other countries	109.2	96.7
Total revenue	298.1	256.9

Revenue from external customers by type	Six-months ended 30 September 2017 Unaudited $M	Six-months ended 30 September 2016 Unaudited $M
Subscription	240.8	199.4
Hardware	52.2	51.2
Other	5.1	6.3
Total revenue	298.1	256.9

5 SHARE-BASED PAYMENT EXPENSE

For the six-months ended 30 September 2017 the Group has recognised equity and cash-settled share-based payment expenses as follows:

	Six-months ended 30 September 2017 Unaudited $M	Six-months ended 30 September 2016 Unaudited $M	Year-ended 31 March 2017 Audited $M
Cash-settled transactions	2.5	0.7	1.2
Equity-settled transactions	18.2	15.5	31.3
Total share-based payment expense	20.7	16.2	32.5

The Group has made awards under its share-based payment plans with a weighted average share price ("WASP") on the grant date as follows:

	Six-months ended 30 September 2017 Unaudited		Six-months ended 30 September 2016 Unaudited		Year-ended 31 March 2017 Audited	
	Number 000's	WASP £ pence	Number 000's	WASP £ pence	Number 000's	WASP £ pence
RSUs	5,977	448.27	9,066	182.74	10,930	187.00
PSUs	1,719	440.50	3,900	183.36	4,090	186.75
SAYE -Options	917	463.68	1,882	201.65	1,882	201.65
Total awards	8,613	448.36	14,848	185.52	16,902	185.52

6 EXCEPTIONAL ITEMS

Exceptional items are those that in the judgement of the Directors need to be disclosed by virtue of their size, nature or incidence, in order to draw the attention of the reader and to show the underlying business performance of the Group more accurately. Such items are included within the income statement caption to which they relate and are separately disclosed on the face of the consolidated income statement within general finance and administration expenses.

During the six-months to 30 September 2017, restructuring and integration costs of $5.7M (H1, FY17: $Nil) and legal costs of $1.2 (H1, FY17: $19.8M) in relation to the defence of certain intellectual property litigation were incurred. The reduction in the Group's tax charge in respect of these items amounted to $1.2M (H1, FY17: $4.0M).

7 FINANCE EXPENSE

	Six-months ended 30 September 2017 Unaudited $M	Six-months ended 30 September 2016 Unaudited $M	Year-ended 31 March 2017 Audited $M
Interest expense on loans and borrowings	4.6	4.0	7.8
Other interest and bank charges	0.1	0.2	0.4

	4.7	4.2	8.2
Accretion on contingent consideration	0.6	0.1	0.2
Foreign exchange loss / (gain) on borrowings	6.8	(0.9)	(4.2)
Amortisation of facility fees	0.5	0.4	0.9
Total finance expense	12.6	3.8	5.1

8 TAXATION

The Group calculates the period income tax expense using the tax rate that would be applicable to the expected total annual earnings. The income tax expense for the six-month period ended 30 September 2017 was $2.7M (H1, FY17: $5.7M) representing an effective tax rate of (7.5%) (H1, F17: (20.1%)).

9 EARNINGS PER SHARE

Basic earnings per share ("EPS") is calculated by dividing the profit for the period attributable to equity holders of the parent company by the weighted average number of ordinary shares outstanding during the period.

Diluted EPS is calculated by dividing the profit for the period attributable to equity holders of the parent company by the weighted average number of ordinary shares outstanding during the period plus the weighted average number of shares that would be issued if all dilutive potential ordinary shares were converted into ordinary shares. In accordance with IAS 33, the dilutive earnings per share are without reference to adjustments in respect of outstanding shares when the impact would be anti-dilutive.

Adjusted EPS is calculated by dividing the adjusted operating profit for the period, attributable to equity holders of the parent company by the weighted average number of ordinary shares outstanding during the period. In the prior half-year financial report, Adjusted EPS was calculated by reference to cash EBITDA.

In each case, the weighted average number of shares takes into account the weighted average number of own shares held during the period.

The following table sets out the income and share data used in calculating EPS:

	Six-months ended 30 September 2017 Unaudited $'M	Six-months ended 30 September 2016 Unaudited $'M	Year-ended 31 March 2017 Audited $'M
Loss for the period attributable to the equity holders of the Company	(38.8)	(34.1)	(46.7)
Adjusted operating profit for the period attributable to the equity holders of the Company - (see note 3)	15.1	21.5	38.3

	Six-months ended 30 September 2017 Unaudited	Six-months ended 30 September 2016 Unaudited	Year-ended 31 March 2017 Audited
Weighted average number of shares (000's):	457,988	450,239	452,338
Effects of dilution from:			
Share options	12,384	15,883	11,434
Restricted Stock Units	15,327	8,711	10,589
Diluted	485,699	474,833	474,361

	Six-months ended 30 September 2017 US Cents	Six-months ended 30 September 2016 US Cents	Year-ended 31 March 2017 US Cents
Basic and diluted EPS	(8.4)	(7.6)	(10.3)
Adjusted EPS	3.3	4.8	8.5
Diluted adjusted EPS	3.1	4.5	8.1

10 DISTRIBUTIONS MADE AND PROPOSED

The Directors recommended a final dividend for the year-ended 31 March 2017 of 3.3 US Cents. This was approved at the Annual General Meeting held on 7 September 2017. Accordingly a final dividend of 3.3 US Cents per ordinary share (FY17: 1.1 US Cents) was paid on 13 October 2017 (FY17: 14 October 2016) to those members whose names were on the register of members on 15 September 2017 (FY17: 16 September 2016).

The Directors approved an interim dividend for the year-ending 31 March 2018 of 1.4 US Cents (H1, FY17: 1.3 US Cents) per ordinary share on 7 November 2017. Accordingly an interim dividend of 1.4 US Cents will be paid on 15 December 2017 (FY17: 16 December 2016) to those members whose name is on the register on the 17 November 2017 (FY17: 18 November 2016). The interim dividend is not recognised as a liability at the reporting period-end.

11 INTANGIBLE ASSETS

The Group spent $19.4M on intangible assets in the six-months ended 30 September 2017. The net book value of the Group's intangible assets at the end of the period are analysed as follows:

Intellectual

Net book value	Goodwill $M	property $M	Software $M	Others $M	Total $M
At 1 April 2017	809.3	26.7	11.8	8.2	856.0
Additions	-	14.8	4.6	-	19.4
Amortisation	-	(7.8)	(3.8)	(2.2)	(13.8)
Exchange movement	11.7	(0.1)	0.7	0.4	12.7
At 30 September 2017	821.0	33.6	13.3	6.4	874.3

Net book value	Goodwill $M	Intellectual property $M	Software $M	Others $M	Total $M
At 1 April 2016	716.1	12.6	15.3	12.6	756.6
Additions	-	-	1.7	-	1.7
Amortisation	-	(4.0)	(3.6)	(3.2)	(10.8)
Exchange movement	(1.9)	-	(1.2)	(0.1)	(3.2)
At 30 September 2016	714.2	8.6	12.2	9.3	744.3

12 PROPERTY, PLANT AND EQUIPMENT

The Group spent $6.8M on property, plant and equipment in the six-months ended 30 September 2017. The net book value of the Group's assets at the end of the period are analysed as follows:

Net book value	Land and Buildings $M	Plant and Machinery $M	Fixtures and Fittings $M	Total $M
At 1 April 2017	6.8	13.9	2.7	23.4
Additions	1.2	4.9	0.7	6.8
Depreciation	(1.3)	(3.7)	(0.4)	(5.4)
Exchange movement	1.3	0.3	0.2	1.8
At 30 September 2017	8.0	15.4	3.2	26.6

Net book value	Land and Buildings $M	Plant and Machinery $M	Fixtures and Fittings $M	Total $M
At 1 April 2016	11.7	10.5	2.7	24.9
Additions	0.4	3.2	0.6	4.2
Depreciation	(1.3)	(2.7)	(0.4)	(4.4)
Exchange movement	(2.3)	(0.3)	(0.1)	(2.7)
At 30 September 2016	8.5	10.7	2.8	22.0

13 DEFERRED REVENUE

The movement in the Group's deferred revenue balance was as follows:

	30 September 2017 Unaudited $M	30 September 2016 Unaudited $M	31 March 2017 Audited $M
Current	330.6	286.5	286.5
Non-current	250.4	212.2	212.2
At 1 April	581.0	498.7	498.7
Billings	341.5	279.8	632.1
Revenues	(298.1)	(256.9)	(529.7)
Net deferral	43.4	22.9	102.4
Acquired through business combinations	-	-	4.1
Translation and other adjustments	30.0	(10.3)	(24.2)
Current	372.3	293.9	330.6
Non-current	282.1	217.4	250.4
At end of period	654.4	511.3	581.0

14 FINANCIAL LIABILITIES

Total financial liabilities at the end of the reporting period, measured at amortised cost, are as follows :

	30 September 2017	30 September 2016	31 March 2017

	Unaudited	Unaudited	Audited
	$M	$M	$M
Current instalments due on finance leases	-	0.1	0.1
Current instalments due on bank loans	-	-	50.0
Contingent Consideration	18.4	1.1	21.0
Total current financial liabilities	18.4	1.2	71.1
Non-current instalments due on finance leases within 5 years	-	0.1	-
Non-current instalments due on bank loans due between two and five years	305.9	302.4	299.2
Contingent consideration	0.9	-	0.7
Unamortised facility fees	(3.1)	(3.2)	(3.6)
Total non-current financial liabilities	303.7	299.3	296.3
Total financial liabilities	322.1	300.5	367.4

The following terms apply to the bank loans outstanding at 30 September 2017:

Facility	Interest	Margin	Principal M	Principal $ M
Facility A	Libor	1.75%	$ 235.0	235.0
Facility B	Euribor	1.75%	€ 60.0	70.9
				305.9

Both Facility A and Facility B are repayable in full at the end of the 60-month term on 1 July 2020. The margin payable on both facilities is dependent upon the ratio of the Group's net debt to Cash EBITDA as defined in the facility agreement.

The bank loans are secured by fixed and floating charges over the trade and assets of certain Group companies.

15 NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS

ACQUISITION OF SUBSIDIARIES NET OF CASH ACQUIRED

	Six-months ended 30 September 2017 Unaudited	Six-months ended 30 September 2016 Unaudited	Year-ended 31 March 2017 Audited
	$M	$M	$M
Consideration paid, satisfied in cash			
- Invincea, Inc.	1.9	-	95.9
- Silent Break Security	-	-	3.0
- Barricade Security Systems Limited	-	-	1.9
- Reflexion Networks Inc.	1.2	1.2	1.2
Net cash purchased	-	-	(0.3)
Acquisition of subsidiaries net of cash	3.1	1.2	101.7

During the six-months ended 30 September 2017, the Group paid $1.9M (H1, FY17: $nil) to the previous owners of Invincea, Inc. and $1.2M (H1, FY17: $1.2M) to the previous owners of Reflexion Networks Inc. in accordance with the respective purchase agreements. The contingent consideration has been calculated based on the billings of the Invincea, Inc. product range for the quarter-ended 30 June 2017 and for the Reflexion Inc. product range for the year-ended 31 December 2016.

RECONCILIATION OF MOVEMENT IN NET DEBT

	31 March 2017 Audited	Cash flow	Non-cash Movements	Effect of movements in exchange rates	30 September 2017 Unaudited
	$M	$M	$M	$M	$M
Cash and cash equivalents	(68.1)	(8.9)	-	(4.1)	(81.1)
Obligations under finance leases	0.1	-	-	-	0.1
Bank loans	345.6	(50.1)	0.5	6.8	302.8
Gross debt	345.7	(50.1)	0.5	6.8	302.9
Net debt	277.6	(59.0)	0.5	2.7	221.8

	31 March 2016 Audited	Cash flow	Non-cash Movements	Effect of movements in exchange rates	30 September 2016 Unaudited
	$M	$M	$M	$M	$M
Cash and cash equivalents	(66.8)	(26.9)	-	3.7	(90.0)
Obligations under finance leases	0.2	(0.1)	-	-	0.1
Bank loans	324.7	(25.0)	0.4	(0.9)	299.2
Gross debt	324.9	(25.1)	0.4	(0.9)	299.3

Net debt	258.1	(52.0)	0.4	2.8	209.3

16 PRINCIPAL EXCHANGE RATES

	Six-months ended 30 September 2017 Unaudited	Six-months ended 30 September 2016 Unaudited	Year-ended 31 March 2017 Audited
Translation of Sterling into US Dollar ($:£1.00)			
Average	1.2902	1.3887	1.3200
Closing	1.3417	1.2990	1.2505
Translation of Euro into US Dollar ($:€1.00)			
Average	1.1319	1.1235	1.1017
Closing	1.1822	1.1238	1.0696

When calculating performance measures on a constant currency basis the Group uses the closing balance sheet rate of the previous year.

17 RELATED PARTY TRANSACTIONS

There are no related party transactions that have materially affected the financial position or performance of the Group during the period which would require disclosure under rule DTR 4.2.8R of the Disclosure and Transparency Rules. Transactions with related parties are fully disclosed in note 32 to the 2017 Annual Accounts.

18 EVENTS AFTER THE REPORTING PERIOD

There are no material events after the reporting period that require disclosure under IAS10.

INDEPENDENT REVIEW REPORT TO SOPHOS GROUP PLC

FOR THE SIX-MONTH PERIOD ENDED 30 SEPTEMBER 2017

CONCLUSION

We have been engaged by the company to review the condensed set of financial statements in the half-yearly financial report for the six months ended 30 September 2017 which comprises the Condensed Consolidated Statement of Profit or Loss, Condensed Consolidated Statement of Other Comprehensive Income, Condensed Consolidated Statement of Financial Position, Condensed Consolidated Statement of Changes in Equity, Condensed Consolidated Cash Flow Statement, and the related explanatory notes.

Based on our review, nothing has come to our attention that causes us to believe that the condensed set of financial statements in the half-yearly financial report for the six months ended 30 September 2017 is not prepared, in all material respects, in accordance with IAS 34 *Interim Financial Reporting* as adopted by the EU and the Disclosure Guidance and Transparency Rules ("the DTR") of the UK's Financial Conduct Authority ("the UK FCA").

SCOPE OF REVIEW

We conducted our review in accordance with International Standard on Review Engagements (UK and Ireland) 2410 *Review of Interim Financial Information Performed by the Independent Auditor of the Entity* issued by the Auditing Practices Board for use in the UK. A review of interim financial information consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. We read the other information contained in the half-yearly financial report and consider whether it contains any apparent misstatements or material inconsistencies with the information in the condensed set of financial statements.

A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing (UK) and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

DIRECTORS' RESPONSIBILITIES

The half-yearly financial report is the responsibility of, and has been approved by, the Directors. The Directors are responsible for preparing the half-yearly financial report in accordance with the DTR of the UK FCA.

As disclosed in note 2, the annual financial statements of the Group are prepared in accordance with International Financial Reporting Standards as adopted by the EU. The Directors are responsible for preparing the condensed set of financial statements included in the half-yearly financial report in accordance with IAS 34 as adopted by the EU.

OUR RESPONSIBILITY

Our responsibility is to express to the company a conclusion on the condensed set of financial statements in the half-yearly financial report based on our review.

THE PURPOSE OF OUR REVIEW WORK AND TO WHOM WE OWE OUR RESPONSIBILITIES

This report is made solely to the Company in accordance with the terms of our engagement to assist the Company in meeting the requirements of the DTR of the UK FCA. Our review has been undertaken so that we might state to the Company those matters we are required to state to it in this report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company for our review work, for this report, or for the conclusions we have reached.

Robert Seale
For and on behalf of KPMG LLP

Chartered Accountants
15 Canada Square
London
E15 4GL
7 November 2017

END

IR OKODNOBDDCDK