

Sophos Group plc

21:05 16 May 2019

Sophos surges as it swings to profit despite "challenges" and profit warnings in latest full year

Cybersecurity firm Sophos Group PLC (LON:SOPH) saw its shares surge on Thursday after it swung to a profit in its latest results despite "challenges" in the full year.

The FTSE 250 group reported a pre-tax profit of US\$53.6m for the 12 months ended 31 March, compared to a US\$41m loss the year before, while revenues jumped 11.2% to US\$710.6m.

READ: Sophos knocked down to 'Hold' by Liberum following profit warning
Sophos also upped its final dividend for the year by 6% to US\$0.052 per share.

The improved earnings were helped by a 16% increase in subscription revenues, with the company also citing "continued strong demand" for its next generation products. Billings, however, fell 1.1% in the year to US\$760.3m.

Looking ahead, Sophos said its subscription business would provide a driver for "continued future revenue growth" and a return to operating profit margin leverage after its 2020 financial year.

Chief executive Kris Hagerman added that demand for cybersecurity remained "robust" and that the group's next-gen products aligned well with demands for "cloud-native solutions, centralised administration, integrated products, AI-powered protection, openness, and a service-oriented approach to security".

READ: £400m wiped from Sophos's value as it fails to repeat two key targets for next year

The improved results came as a relief to investors, who had previously been alarmed by a profit warning from the group back in November, when news of slower customer orders sent the stock tumbling.

The gloom had continued in a January update, when Sophos had warned that its performance had continued to be subdued into the new year.

However, in lunchtime trading the shares were singing a different tune and were up 14.2% at 388.4p.

Broker takes 'wait-and-see' approach

In a note to clients, analysts at Shore Capital said that their estimates for Sophos were "understandably cautious" citing the company's recent history of missing estimates and said that the market would "likely take a wait-and-see approach".

The broker added that if billings growth improved as expected in the 2020 fiscal year valuations "should revert to a more normalised level" and could potentially unlock 20% upside from the shares.

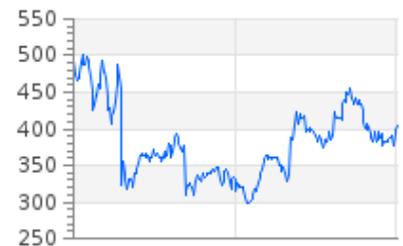
Shore Capital currently rates Sophos at 'hold' with a target price of 340p.

Results "first step" in restoring credibility, says analyst

Price: £4.04

Market Cap: £1.97 billion

1 Year Share Price Graph



September 2018 March 2019 September 2019

Share Information

Code: SOPH

Listing: LSE

52 week High Low
519.5 273.4

Sector: Software & services

Website: investors.sophos.com

Company Synopsis:

A Proven Global Leader In Delivering Complete IT Security to the Mid-Market We aim to be the best in the world at delivering complete IT security to mid-market enterprises and the channel that serves them.

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Nicholas Hyett, equity analyst at Hargreaves Lansdown, said that after being "caught out repeatedly last year with over-optimistic forecasts", the better than expected performance from Sophos went some way into patching up its "damaged credibility".

"Having seen billings growth crumble last year management had warned the market to expect a modest decline in total billings for the full year. In the event Sophos has been able to deliver better than expected numbers, billings now are crucial to revenue performance in the future."

Hyett added that while a full rehabilitation was "some way off", the latest figures were "the first step on the road".

--Adds analyst comment and updates share price--

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