

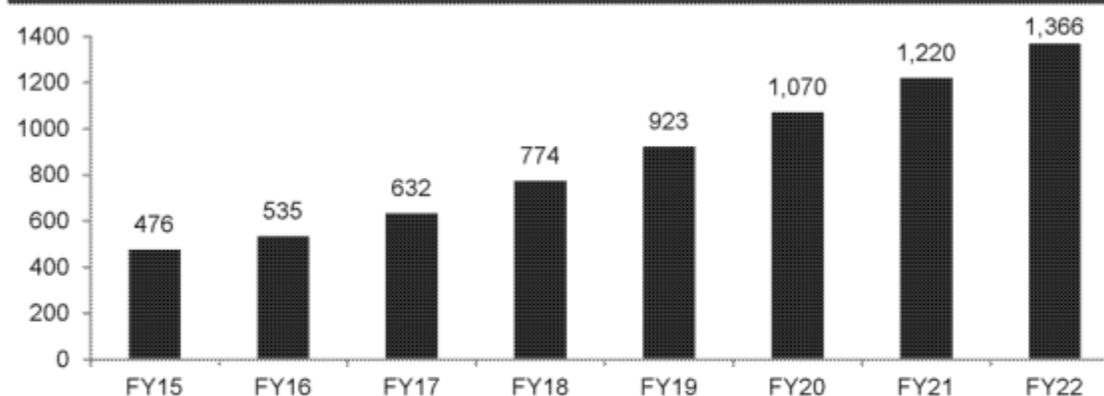
28 **Sophos – Alex Tout, BUY, close 600p, 790p tgt, 32% upside**

- **A significant player in IT security market** with differentiation from its balanced portfolio across Endpoint and Network security
- **Increasing confidence in management forecasts to FY20** due to traction with Intercept X and Central and high renewal rates (139% in 1H18). This supports **double-digit billings growth to FY22E**.
- Highly **supportive end market** demands as customer senior management **increase focus on cyber security** (particularly after the WannaCry and NotPetya attacks)
  - Sophos has the right product offering to benefit with its significant focus on Endpoint
- **Continued margin improvement** due to lower new customer billings mix and hence lower sales and marketing cost as a % of billings, as well as further scale on G&A spend.
- We believe recent weakness is driven by: 1) director selling; 2) Apax placing c10% of market cap, causing short term oversupply; 3) the tech selloff driving selling among shorter-term holders
- **Valuation attractive** at 21x CY18E EV/uFCF (adjusted for SBC) given its 20% uFCF CAGR (FY19-22E).
  - This compares to peers Palo Alto Networks (39x), Fortinet (19x) and Check Point Software (18x), all of whom are more geared to the slowing Network security market and have lower FCF growth.
- Catalysts: launch of fully AI based next gen Endpoint product Intercept X v2 in January, 3Q18 results 08-Feb

**Related DB Research:**

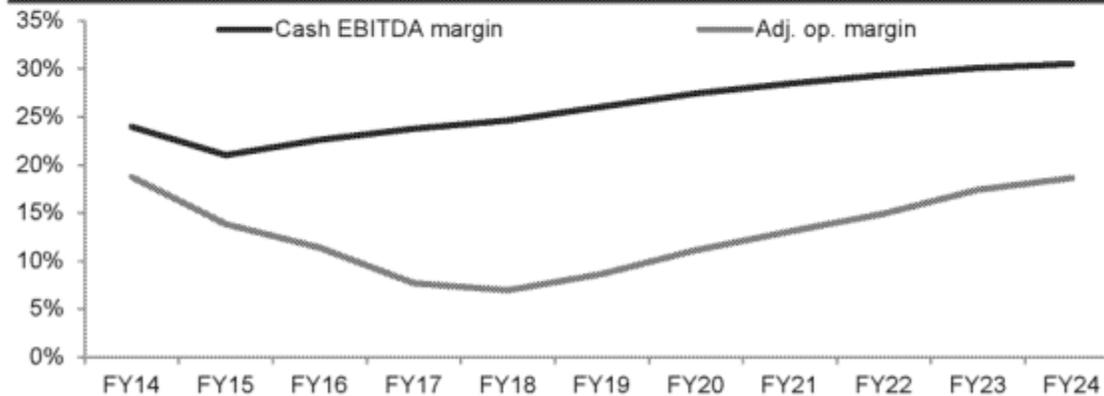
1H18 Review. TP Raised to 790p (Tout)

**We forecast substantial billings growth (USDm)**



Source: Company filings

**Cash EBITDA and adjusted operating profit margins improving**



Source: Company filings