



TO OUR STOCKHOLDERS:

We are SecureWorks. We deliver cybersecurity solutions to nearly 4,400 clients in 61 countries to identify, detect, respond and prevent security threats. We harness the power of our proprietary SecureWorks Counter Threat Platform™ (CTP) and leverage the threat intelligence we have amassed over 17 years from the visibility we have into the threat activity our clients face around the globe. Our artificial and human intelligence combine to help organizations fortify their cyber defenses to prevent security breaches, detect malicious activity in real time, prioritize and respond rapidly to security incidents and predict emerging threats.

The accelerating digital revolution has affected every aspect of our lives and businesses. The same technologies designed to remove geographic barriers and increase efficiency are being used by some to cause harm and disruption. Organizations in every industry and geography have fought back by investing in information security solutions of all kinds. From network to endpoint, there is no shortage of solution alternatives. However, despite all this effort and investment organizations remain exposed and vulnerable.

This environment creates a tremendous opportunity for SecureWorks. Our technology leadership and our singular focus on cybersecurity uniquely position us as a trusted partner to our clients, regardless of their security ecosystem. We integrate seamlessly within their

environments and help unify and simplify their security posture.

Fiscal 2017 was a pivotal year for SecureWorks. We spent our first year as a public company building upon the people, processes and technology platform that we have developed over our history. We made investments to position the company for growth. Most importantly, we kept our daily commitment to protect our clients.

Industry Recognition: We achieved placement in the “Leaders” quadrant of Gartner Inc.’s most recent Magic Quadrant for Managed Security Services Providers (MSSPs), Worldwide report¹. This marks the ninth time SecureWorks has received this recognition for our ability to execute and our completeness of vision.

We also attained Amazon Web Services (AWS) Advanced Technology Partner status in the AWS Partner Network (APN), the highest status an APN Technology Partner can receive. This designation demonstrates our continued commitment to bring additional layers of security to clients seeking to embrace the power of the cloud through AWS.

Technology: Our core technology, the CTP, is a vendor-agnostic, data analytics engine that ingests system data, and leverages advanced analytics and applied intelligence, global threat visibility, threat intelligence and historical attack data. We are continuously making investments in the CTP, to make it smarter and more efficient with every iteration.

¹ Gartner Magic Quadrant for Managed Security Services, Worldwide, Toby Bussa, Kelly M. Kavanagh, Sid Deshpande, January 26, 2017. See “Gartner Disclaimer” on the last page.

The CTP processes up to 230 billion events daily, an increase of almost 45% over last fiscal year, with no commensurate headcount increase in our global security operations centers. The CTP analyzes 99.9% of client data events without any human intervention. This equation demonstrates the powerful scalability of our platform.

In fiscal 2017, we launched our proprietary Advanced Endpoint Threat Detection (AETD) Red Cloak™, a fully managed Software as a Service (SaaS) endpoint detection solution, which we first developed during targeted threat hunting engagements. AETD Red Cloak reduces the time to detect a compromise and the effort to respond to a breach. Demand for AETD Red Cloak has been very favorable since launch, and we anticipate this demand to continue.

In addition, this year, we expanded the capabilities of the CTP to provide security monitoring of client applications and data being hosted in AWS. With this capability, SecureWorks established its solutions as environment-agnostic by offering comprehensive security solutions for on-premises environments and in the cloud, enabling organizations to pursue hybrid environments with confidence. We also previewed a new solution within our Cloud Guardian™ portfolio: Cloud Security Configuration Management. This SaaS-based product helps clients implement security policy and cloud security best practices for their workloads running on AWS. We look forward to adding to our cloud offerings this coming year.

Talent: We employ an elite group of engineers, threat researchers, security consultants, incident responders and security analysts who collectively make our clients safer in a digitally connected world.

Our Counter Threat Unit™ (CTU™) research team, which includes some of the world's most highly regarded researchers, sets us apart from other companies in the cybersecurity space. Our CTU team analyzes threat data across our global client base and actively monitors the cyber threat landscape to provide a globalized view of emerging threats, zero-day vulnerabilities, and the evolving tactics, techniques, and procedures of advanced threat actors. The CTU's relentless dedication to identifying new threats means our clients benefit from an early warning backed by meaningful, actionable intelligence. It is this threat intelligence that unleashes the power of the CTP and the security solutions we provide.

Following the retirement of our sales and marketing leader in late fiscal 2017, we added two information-technology industry veterans to our executive team – a Chief Marketing Officer (CMO) and a Chief Revenue Officer (CRO). Since taking over the role, our CRO has added several key sales leadership roles to his team. Together, their experience and expertise will be instrumental as we implement an integrated, client-focused marketing program with a scalable global sales process focused on both small and medium-sized businesses as well as large, global enterprises.

Thought Leadership: Whenever cybersecurity is the topic, the media seeks the expertise and vision from our cadre of security professionals. Top-tier publications consistently source knowledge and insight from our employees – from the Democratic National Committee e-mail compromise, to the pervasiveness of ransomware attacks, to the bust-up of West African cyber theft rings. In addition, SecureWorks' research released at both the Black Hat and RSA security conferences generated global syndication that further cements our

forward-thinking leadership position in cybersecurity.

We published our third Annual *Underground Hacker Markets Report*. Participants in illicit markets monetize every piece of financial data they obtain, and our security experts observed thriving markets on the dark web. With vigilance and dedication, we monitor these activities and share our knowledge so the business community can better understand the motives of active threat actors.

Earlier this year, SecureWorks released its *Cybersecurity Threat Insights Report for Leaders*, sharing key findings and observations from over 160 incident response engagements last year. Written for boards and executives, our report provided valuable observations and data points as they navigate their security investment strategies.

Financial Results:^{2,3} In fiscal 2017, revenue increased by 26.5% to \$429.5 million (up 26% over last year to \$430.4 million on a non-GAAP basis). Scale in our delivery model helped our gross margin expand 460 basis points for the year to 50.5% (up 210 basis points to 53.9% on a non-GAAP basis), and combined with diligent operating cost management, led to a narrowing of our net loss per share to \$0.49 (\$0.19 on a non-GAAP basis). We ended the year with two consecutive quarters of positive cash flow from operations, and fourth quarter positive adjusted earnings before interest, taxes, depreciation and amortization (Adjusted EBITDA).

Our leading indicator of revenue is a metric we call Monthly Recurring Revenue (MRR). Throughout fiscal 2017, MRR grew from

\$28.6 million to \$31.6 million. The growth of MRR over the prior year decelerated as we saw elongated sales cycles with large deals, and experienced sales challenges in our North American Enterprise team.

We are confident that the changes we have made in our North American Enterprise sales organization, and the simplified sales methodology we have rolled out globally, will raise productivity and accelerate sales momentum.

Our first year as a public company was a good year in many ways. While we have more work to do, I am confident we have an exceptional team of passionate people and the right technology solutions to lead us into the future.

On behalf of all of us at SecureWorks, thank you for your support as stockholders.



Michael R. Cote, Chief Executive Officer

² Fiscal 2017 included 53 weeks with the additional week included in the fourth quarter. Fiscal 2016 included 52 weeks.

³ Please refer to non-GAAP reconciliations on the following page.

Non-GAAP Financial Measures: The document presents information about the Company's non-GAAP revenue, non-GAAP gross margin, non-GAAP net loss per share and adjusted EBITDA, which are non-GAAP financial measures provided as a supplement to the results provided in accordance with accounting principles generally accepted in the United States of America ("GAAP"). A reconciliation of each of the foregoing non-GAAP financial measures to the most directly comparable GAAP financial measure is provided below for each of the periods indicated.

SECUREWORKS CORP.

Reconciliation of GAAP to Non-GAAP Financial Measures
(in thousands, except per share data)
(unaudited)

	Fiscal Years Ended	
	February 3, 2017	January 29, 2016
GAAP revenue	\$ 429,502	\$ 339,522
Impact of purchase accounting	884	2,769
Non-GAAP revenue	<u>\$ 430,386</u>	<u>\$ 342,291</u>
GAAP net loss per share	\$ (0.49)	\$ (1.03)
Amortization of intangibles	0.36	0.40
Impact of purchase accounting	0.03	0.05
Stock-based compensation expense	0.11	0.01
Other	0.01	0.20
Aggregate adjustment for income taxes	(0.21)	(0.25)
Non-GAAP net income loss per share *	<u>\$ (0.19)</u>	<u>\$ (0.62)</u>
 <u>Percentage of Total Net Revenue</u>		
GAAP gross margin	50.5%	45.9%
Non-GAAP adjustment	3.4%	5.9%
Non-GAAP gross margin	<u>53.9%</u>	<u>51.8%</u>

	Three Months Ended
	February 3, 2017
GAAP net loss	\$ (6,817)
Interest and other, net	(153)
Income tax benefit	(5,093)
Depreciation and amortization	10,177
Stock-based compensation expense	2,494
Impact of purchase accounting	221
Other	-
Adjusted EBITDA	<u>\$ 829</u>

* Sum of reconciling items may differ from total due to rounding of individual components

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