

Symantec Conference Call Script (05.14.18)

CYNTHIA HIPONIA

Good afternoon. I am Cynthia Hiponia, Vice President of Investor Relations at Symantec and I am pleased to welcome you to our conference call. To address concerns expressed by shareholders, the Company is today providing additional detail regarding the scope of the investigation and an opportunity for the investment community to ask questions regarding the Company's recent financial results and forward-looking guidance and outlook.

We've posted prepared remarks to our investor relations events webpage.

Speakers on today's call are Greg Clark, Symantec's CEO, and Nick Noviello, EVP and CFO. This call will be available for replay via webcast on our website. I'd like to remind everyone that all references to financial metrics are non-GAAP, unless otherwise stated. Please refer to the CFO commentary posted on the Investor Relations website for further definitions of our non-GAAP metrics. Please note, non-GAAP financial measures referenced during this call are reconciled to their comparable GAAP financial measure in the press release dated May 10, 2018 posted on our website and the supplemental materials dated May 10, 2018 and posted on our website. We believe our presentation of the non-GAAP financial measures, when taken together with corresponding GAAP financial measures, provides meaningful supplemental information regarding our operating performance for reasons discussed below. Our management team uses

those non-GAAP financial measures in assessing our operating results, as well as when planning, forecasting and annualizing future periods. We believe our non-GAAP financial measures also facilitate comparisons of our performance to prior periods and that investors benefit from understanding of the non-GAAP financial measures. Non-GAAP financial measures are supplemental and should not be considered a substitute for financial information presented in accordance with GAAP.

Today's call contains forward-looking statements based on the environment as we currently see it. Those statements are based on current beliefs, assumptions and expectations, speak only as of the current date and, as such, involve risks and uncertainties that may cause actual results to differ materially from our current expectations. Please refer to the cautionary statements in today's press release, as well as the press release dated May 10, 2018, for more information. You will also find a detailed discussion about the risk factors sections in our filings on Forms 10-Q and Forms 10-K with the SEC and, in particular, on our Annual Report on Form 10-K for the fiscal year ended March 31, 2017.

Before I pass the call over to Greg, I am going to read a statement, which was also just issued as a press release at the start of today's call:

The Audit Committee of the Board of Directors has commenced an internal investigation in connection with concerns raised by a former employee regarding the Company's public disclosures including commentary on historical financial results, its reporting of certain Non-

GAAP measures including those that could impact executive compensation programs, certain forward-looking statements, stock trading plans and retaliation. The Audit Committee has retained independent counsel and other advisors to assist it in its investigation. The Company has voluntarily contacted the Securities and Exchange Commission to advise it that an internal investigation is underway, and the Audit Committee intends to provide additional information to the SEC as the investigation proceeds. The investigation is in its early stages and the Company cannot predict the duration or outcome of the investigation. The Company's financial results and guidance may be subject to change based on the outcome of the Audit Committee investigation. It is unlikely that the investigation will be completed in time for the Company to file its annual report on Form 10-K for the fiscal year ended March 30, 2018 in a timely manner. At this time, the Company does not anticipate a material adverse impact on its historical financial statements.

That concludes the statement.

Please note that there isn't any additional detail regarding the investigation that we can share beyond what was just provided, so we ask that you focus your questions at the end of the prepared remarks on the business, including our financial results and outlook.

Thank you for your understanding. Greg?

GREG CLARK

Thank you, Cynthia. Good afternoon and thank you all for joining us today. I am pleased that Nick and I have the opportunity to discuss our expectations for fiscal years 2019 and 2020. We certainly welcome this opportunity to speak with you this afternoon.

I also want to echo the sentiment that **we have heard our shareholders loud and clear** and deeply value your perspective and candid feedback.

As you will recall from last week, we were very pleased with our performance in the fourth quarter, with both Enterprise Security and Consumer Digital Safety revenues above our prior guidance.

In a minute, Nick will discuss our financial guidance for fiscal year 2019 and our outlook for fiscal year 2020.

From a business perspective, we are pleased with the success of our Integrated Cyber Defense Platform, and our prospects for continued growth. At a high-level we expect that our shift to a more ratable-based enterprise business will continue in fiscal 2019, providing us with greater revenue visibility over time.

Further, we are seeing the success of our integrated bundled offerings in the Consumer Digital Safety segment, and we expect to further enhance our bundled offerings in fiscal year 2019, delivering an even broader suite of digital safety options to consumers and driving greater retention and adoption.

We remain confident in our long-term strategy to drive organic growth and leverage our scale, innovation and capital to create industry-leading platform solutions across our enterprise and consumer segments.

And before I turn the call over to Nick, let me also address one additional point. For anyone concerned about executive compensation at this time, I want to let you know that all discretionary and performance-based compensation for named executive officers is on hold pending the outcome of the Audit Committee investigation. **This is welcomed by management.**

With that, I will now turn it over to Nick to provide more details on our fiscal 2019 guidance and also provide fiscal 2020 outlook.

NICK NOVIELLO

Thank you Greg.

I, too, value your feedback and perspective, and understand it is important that you hear context from us on business and financial results and guidance. There are a number of questions related to our May 10th earnings release, and I am pleased to have the opportunity to address them with you now. Several of the questions relate to clarity on Q4 results, and our presentation of fiscal Q1 and 2019 guidance. I'd like to address some of these important questions now in prepared remarks, then discuss our FY20 outlook, which was not addressed last week, and finally, open up the line to Q&A.

All references to financial metrics are non-GAAP, unless otherwise stated.

Q4 and FY18 Results

Let's get started with Q4 of fiscal 2018. In the fourth quarter we posted year-over-year deferred revenue growth, adjusted for acquisitions and divestitures, of 34% in our Enterprise Security segment. This growth is reflective of our implied billings growth, continued shift toward ratable business, and increasing contract duration. Our standard policy is to bill up front, including for multi-year transactions. We expect that our deferred revenue will generally peak towards the end of the fiscal year, reflecting seasonal sales cycles. Last week, we supplemented our disclosures by identifying the expected rolloff of our deferred revenue within 24 and 36 months

to give you further context to how much of our business is sold under terms that don't extend beyond 3 years, and for overall revenue modelling.

Revenue Forecast

Turning to additional detail regarding our FY19 financial guidance, which is calculated using the revenue accounting standards in effect in fiscal year 2018. We expect our financial results to be impacted by the implementation of the new revenue accounting standards, ASC606, which we adopted in Q1 FY19, on a modified retrospective basis. On our Q1 earnings call we will walk you through the impact of the adoption of the new revenue accounting standard.

Our Q1 Enterprise Security revenue guidance reflects a meaningful mix shift from in-period recognized business toward ratable business in Q1 of FY19 as compared to Q1 and Q4 of FY18. For context, in the Enterprise Security segment, the ratable portion of our business activity in Q4 was over 80%.

For our ratable business, we expect continued increase in contract duration, which is consistent with our sales strategy and our increasing amount of multi-year business. In Q1, we expect deferred revenue to be approximately flat sequentially. We expect our implied billings for Q1 to be relatively flat compared to Q1 last year, adjusted for the divestiture, reflecting the underlying sales forecast for the quarter as we come off a strong Q4 and we set the year on territories, capacity, and new pipeline. We expect implied billings growth to improve over the course of the year.

Last week, we provided a forecast for FY19 Enterprise revenue, which suggests organic year-over-year revenue decline of 2% at the midpoint, **adjusted for the divestiture**.

On our 3Q FY18 earnings call we stated that we expect Enterprise segment revenue growth in the mid to high single digits in Q4 of FY19. We continue to have this expectation, supported by our end of fiscal year 2018 short-term deferred revenue balance and expected FY19 business activity and mix. While we continue to expect a greater portion of our business mix to be ratable in FY19, we also continue to expect a portion of our business to consist of form factors for which revenue is recognized in-period. Our estimates of business mix are factored into our FY19 guidance. Our guidance, underlying business growth expectations, and deferred revenue balance, underlies our continuing view that our Enterprise business should have top line revenue growth of high single to low double digits in FY20.

Operating Margin Forecasts

Now taking a closer look at our total company operating margin guidance:

Q1 FY19 operating margin for the total company is expected to be 26%-28%, compared to 31% in Q1 FY18. The decline is primarily attributed to the divestiture of our WSS/PKI solutions. In addition, our Q1 FY19 operating margin forecast reflects investments we are making in marketing and sales capacity, as well as a continued ratable shift in our Enterprise Security segment.

Our FY19 operating margin forecast is in the range of 30% - 32%. The reduction versus fiscal year 2018 operating margin of 35% is driven by the WSS/PKI divestiture, the continued shift of the Enterprise Security segment to ratable and related business implications, and the investments we are making in marketing and sales capacity.

Cash Flow From Operations Forecast

We are guiding to cash flow from operations for FY19 in the range of \$1.3B to \$1.5B, as compared to \$950M in FY18. From FY18 to FY19, the improvement in cash flow from operations is driven by continued deferred revenue growth, lower cash taxes, and lower use of working capital, partially offset by a loss of the cash flow associated with the divested WSS/PKI solutions.

Capital Allocation, Share Buyback, M&A

With respect to capital allocation, we noted on our last call that our strategy is to balance driving shareholder returns, managing financial risk, and preserving our flexibility to pursue strategic options, including M&A. We also said that we expect debt repayment, share repurchases, and our regular quarterly dividend to be methods that we use to implement our capital allocation strategy. During the course of the investigation we do not expect to repurchase our shares. Debt repayment continues to be a priority, and we are evaluating the timing and the extent of debt repayment as we enter fiscal year 2019. In the press release last week, we announced the authorization of our Q1 dividend of 7.5 cents per share. We expect to focus on M&A in the normal course of business.

Our capital allocation strategy will be funded by the cash we generate from operations, together with international cash that we plan to repatriate or otherwise utilize as a result of US tax reform.

FY20 Outlook

I now also want to take the opportunity to address our FY20 outlook, a topic that was not discussed last week. Our outlook for fiscal year 2020 is based on the revenue accounting standards in effect in fiscal year 2018. Consistent with our previous discussions, and with our updated view of the business, we expect that total company organic revenue will grow in the mid to high single digits. We expect Enterprise Security segment organic revenue will grow in the high single to low double digits, and Consumer Digital Safety organic revenue will grow in the low to mid single digits.

In FY20 our outlook for total company operating margins is in the mid-thirties. This FY20 operating margin outlook reflects expected revenue growth in both our Enterprise Security and Consumer Digital Safety segments. We continue to expect EPS growth in the low double digits, cash flow from operations growth at or above net income growth, and deleveraging of our balance sheet.

Turn to Q&A

We hope this information addresses some of your questions. We would now like to open the call up for more questions from callers. Operator?

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Forward-Looking Statements: These prepared remarks contain statements which may be considered forward-looking within the meaning of the U.S. federal securities laws, including Symantec's financial guidance for the first quarter and full fiscal year 2019 and fiscal year 2020 financial outlook, and other statements regarding Symantec's other projected financial and business results. These statements are subject to known and unknown risks, uncertainties and other factors that may cause our actual results, levels of activity, performance or achievements to differ materially from results expressed or implied in these prepared remarks. Such risk factors include those related to: our ability to continue to integrate and fully achieve the expected benefits from acquired businesses; general economic conditions; fluctuations and volatility in Symantec's stock price; the ability of Symantec to successfully execute strategic plans; the ability to maintain customer and partner relationships; the ability of Symantec to achieve its cost and operating efficiency goals; the anticipated growth of certain market segments; Symantec's sales pipeline and business strategy; fluctuations in tax rates and foreign currency exchange rates and the impact of the recently enacted tax reform legislation; the impact related to Symantec's adoption of the new revenue and other accounting standards; the timing and market acceptance of new product releases and upgrades; and the successful development of new products and the degree to which these products gain market acceptance. Other risks include, but are not limited to, risks relating to the ongoing internal investigation by the Audit Committee, including: (i) the risk that the internal investigation identifies errors, which may be material, in the Company's financial results, or impacts the timing of Company filings; and (ii) the risk of legal proceedings or government investigations relating to the subject of the internal investigation or related matters. Actual results may differ materially from those contained in the forward-looking statements in these prepared remarks. Symantec assumes no obligation, and does not intend, to update these forward-looking statements as a result of future events or developments. Additional information concerning these and other risk factors is contained in the Risk Factors sections of Symantec's Forms 10-K and Forms 10-Q filed with the Securities and Exchange Commission.