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SYMC - Q4 2019 Symantec Corp Earnings Call

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CONFERENCE CALL PARTICIPANTS

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Vincent Pilette

PRESENTATION

Operator

Good day, ladies and gentlemen. My name is Ian, I and will be your conference operator today. At this time, I would like to welcome everyone to Symantec's Fourth Quarter and Full Year Fiscal Year '19 Earnings Conference Call. (Operator Instructions)

Thank you. I'd now like to turn the call over to the Vice President of Investor Relations, Ms. Cynthia Hiponia. Ma'am, you may begin.

Cynthia Hiponia - Head of IR

Thank you, Ian, and good afternoon. This is Cynthia Hiponia, Vice President of Investor Relations at Symantec, and I'm pleased to welcome you to our call to discuss our fourth quarter and full year fiscal 2019 earnings results. We've posted the earnings materials to our IR Events webpage.

Speakers on today's call are Rick Hill, Symantec's Interim President and CEO; and Nick Noviello, our Executive Vice President and CFO. This call will be available for replay via the 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 supplemental materials posted on the IR 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 measures in the press release and supplemental materials posted on our website.

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

Also please note we have changed the name of our Consumer segment to Consumer Cyber Safety. Now today's call contains forward-looking statements based on conditions as we currently see them. Those statements are based on current beliefs, assumptions and expectations that speak only as of the current date. And as such, involve risks and uncertainties that may cause actual results to differ materially from current expectations. Please refer to the cautionary statement in our press release for more information. You'll also find a detailed discussion of our risk factors in our filings with the SEC, and in particular, in our annual report on Form 10-K for the fiscal year ended March 30, 2018, and our recently filed quarterly reports on Form 10-Q.

With that, let me now turn the call over to Rick.

Richard Hill - Independent Director

Thank you, Cynthia. Good afternoon, ladies and gentlemen, and thank you for joining the Symantec fiscal year 2019 fourth quarter and year-end conference call. It's a pleasure to be with you this afternoon and it's even a greater pleasure to be asked by Greg Clark, Dan Schulman and the entire Symantec Board of Directors to pitch for the team during the transition in leadership within Symantec.

As I said in the Board meeting, and will continue to say within the company and to you, our investors, Greg Clark has been the visionary for Symantec over the last 3 years. The Board, with Greg, embarked on a project to transform Symantec into the global leader in cyber security it has become today. Through key acquisitions and divestitures, Greg, Nick and the management team have transformed Symantec into a company prepared to defend and defeat global cyber crime, cyber espionage and cyber terrorism, perpetrated on our employees, our customer and shareholders worldwide.

Symantec has a long heritage of making the world a safer place. You'll hear more about just how we do that on this call and in the quarters ahead while I'm on the pitching mound. By the way, Greg asked me if I could use a rugby or soccer analogy so he could relate, but unfortunately, I grew up on the south side of Chicago and we never played those sports. So Greg, if you're still listening, you have to adapt.

Now let's talk a little about me and how I got into my role at Symantec. A year ago, Symantec began an investigation that happily resulted in our, albeit late fiscal year '18 10-K filing, with no adverse material finding. Around the start of the investigation, I had reached out to a board member of Symantec to offer my assistance. Several weeks later, unbeknownst to me, Peter Feld, Managing Partner at Star Board, a friendly activist investor, reached out to Greg Clark and the Symantec Board to see if they could help. Peter went to his bullpen for a left-handed pitcher and voila, I'm here. Since late October, I began to work with Greg. His team and the Board as an adviser. In early April, Greg introduced me to the Symantec field organization. And in late April indicated he had personal issues he needed to attend and wanted to spend more time with his aging father. The Board, subsequent to that event, asked me -- asked the Board for volunteers from the Board who could step into the role while a thorough search was conducted to find a permanent CEO. As I had personally pitched a few innings at the Marvell Technology Corporation as interim CEO, the Board selected me to fill in here. Having had the opportunity to see inside the company, meet the great people and see the great opportunity, the Board approved me as interim CEO at the Tuesday Board meeting, and here I am today.

As many of you know me as the long-tenured Chairman and CEO of Novellus Systems and others as the Chairman and CEO of Marvell turnaround in 2016, which resulted in the hiring of a great first time CEO, Matt Murphy.

There are many similarities between Marvell and Symantec which makes me ideal for the interim CEO role. Just like in Marvell, I take an active role as of day 1, as you can see, by me doing the conference call. Rest assured, I'm confident and prepared to operate this company without missing a heartbeat. As Peter Feld warned the entire Board, Rick is not afraid to break glass. I'm sure the executive staff can confirm this in just the last few days working with me to do this conference call.

Simultaneously, we are announcing this Vincent Pilette, former CFO of Logitech, as the new CFO of Symantec. Interestingly enough, I previously tried to recruit Vincent into another situation. So I know him, respect him and I'm confident you'll be delighted with him as our CFO. I certainly am.

I would like to share a short story with you about Vincent. A couple of weeks ago, Sue Barsamian and I, at the request of the Board, were meeting with the executive staff and others in the board room, where I was expressing my views on the importance of all the management having the fundamental skill of financial alacrity. Sue said to me, "What's that mean?" Well, on last Sunday, when Sue and I again were meeting with the executive staff, this time with Vincent Pilette present, I asked Vincent if he would like to say a few words to the group. He jumped up and in his deep Belgian accent, "Well, of course. He grabbed the marker and a flipchart and began to outline the financial model for the company in real-time." As he captivated the staff, I returned to Sue and said, that is my definition of financial alacrity. You will all be very pleased. This is Nick's last conference call. He's been an outstanding resource for me, and while I will miss seeing him at Symantec, I'll still see him at church when my wife drags me reluctantly there on Sundays.

Another interesting cooler fact on Nick you probably don't know is even at church, Nick is involved with money. He has a collection basket on a long pole that he uses to get the parishioners in the to put their donation into. And just like here at Symantec, when he gets to me as I put the money in the basket, if he thinks I have more to give, he hits me 2x in the chest with the basket. Well, that is a CFO. Nick, thank you for all you have done for Symantec customers, employees and shareholders. We will miss you.

Now both Vincent and I thank you, Nick, for the strong financial team you've established at Symantec and we'll build from that strength. Both Vincent and I are both keenly aware that growth and profitability are vital to sustainable high-tech companies, and our track records and results in delivering shareholder value in that type of environment is well-known and documented. A copy of my proudest accomplishments in my career are developing Tim Archer, current CEO of Lam Research into the best CEO in the semiconductor capital equipment industry, and also plucking Matt Murphy from Maxim Semiconductor, and installing him as a first time CEO of Marvell Technology. They both make me very proud, and I suspect the same thing can be done here at Symantec. So I not only can develop horses, I can pick them as well. So stay tuned.

So why would Rick Hill, a retired semiconductor equipment company Chairman and CEO for nearly 19 years come out of retirement from his daily downward dog poses? The answer is quite simple. The vision that Greg Clark and his team had painted for me for Symantec in an exponentially growing need for integrated cyber defense and cyber safety by every human, business and institution on the planet, period.

Being from the south side of Chicago, I have to go to Google and then use my reverse Polish HP 35 calculator who, for all of you that even know what that is, to realize Symantec plays in a market of roughly 760 billion. If Symantec could get every human on the planet to buy a subscription to our Symantec Norton LifeLock family protection plan, and every corporation to install Symantec Integrated Cyber Defense technology to protect our data and identity and our right to be forgotten, the world would be a much safer place. Unfortunately, we live in a world with unscrupulous people living among us. During my first night in aviation officer candidate school in Pensacola, Florida, in the early '70s, Marine Drill Instructor Staff Sergeant Kwiatkowski words ring true in my ears today. He said to me, "Maggot, if you would keep your bleeping footlocker locked, we wouldn't have criminals. It's your fault we have people in jail today." So I'm asking all of you on the phone to go home and lock your family foot -- cyber footlocker by joining the Symantec Consumer family and go to your CIOs and CSOs and ask them to call Symantec Enterprise solutions to ensure our corporate footlockers are protected by Symantec's Integrated Cyber Defense.

Now hopefully by the end of this call, you'll see that this semiconductor industry executive relieves pitcher, picked by the Board and Greg Clark, is quite capable on helping the executive management team execute and enhance their ability to deliver world-class cyber defense products and the best price performance value to yield the best return for our customers, employees, and equally important, you, our shareholders.

So let's talk about the business. First, let me tell you what you probably already know. I'm a straightforward clear communicator. If I feel disappointment in the numbers and I think it is bad, I'll tell you that and what we're going to do to fix it. I accepted this role because Greg and the management team convinced me we had solid industry-leading products with more on the way. I have verified that is true. We have issues and have determined that they are fixable. What will motivate us is our loyalty and honesty to all our stakeholders. We'll earn our customer trust day by day. I know sometimes it seems CEOs are evasive with answers. If it seems that I'm obfuscating something, it would only be because the question is trying to elicit information that I view as a competitive advantage and don't want to release it. Feel free to call me on it, but I've done hundreds of investor meetings and calls and know both our investors and competitors' investors are always in the same room at the same time. Also we want material data always to be released in compliance with SEC regulations.

Let me start by saying great products make great companies with great people. Symantec has great products and great people. In both our Consumer segment and Enterprise segment, we have world-class products. Our DLP product and our Enterprise group is essential to any company taking seriously their employees and customers' data and private information. That product grows at twice the rate of the market as more companies now realize how fragile their reputation is if their customers and employees data is compromised. There is no product on the market for data level protection in the cloud better than the combination of Symantec's DLP and CASB product bundle. For clarity, CASB is the acronym for cloud access security broker.

We have poorly communicated the power of our e-mail ATP bundle to the marketplace. Today, STAR, our security threat and response center, and all of our security operations center surveillance reports to us that e-mail is still the major delivery source of cyber threats throughout the world. Just like traveling to Chicago and walking around the south side of Chicago is perilous, you only do so because you don't know better. Take the time and let our STAR organization and Enterprise group walk you through the threats your company is exposed to getting. Our new e-mail ATP bundle blocks 98% of the threats delivered through e-mail, and we close them faster than any company in the world. While the industry standard Office 365 is only 35% accurate. That's why our customers choose Symantec to supplement the industry standard.

Our proxy, SG and web security service product plus Advanced Threat Protection production bundle has been the biggest surprise providing us headwinds. The ProxySG business, which is the Blue Coat hardware proxy bundle, has fallen off quicker than we anticipated, and as a result, not experienced as large a refresh cycle as we expected. Because it's clear, the move to the cloud was much quicker than thought. We were behind with our product offering, but today, are back with superior performance through our competitor, supported by a growth rate twice the market growth. But unfortunately, from a much smaller base. And our current share gain rate, I'm optimistic for the future.

Finally, SEP, the Symantec Endpoint Product, the foundation of Symantec's success, is back to growing. Our Endpoint is still the technology to meet with our newly released Endpoint Detection and Repair, we have the opportunity to significantly grow our position in the cloud while maintaining our and position in on-premise and virtual appliance applications.

Let's turn to our Consumer products which all too often get overlooked. Our Consumer group has once again raised the bar in the industry by providing consumers with total cyber safety. Norton and LifeLock are household names in Americas. Norton is a household name globally. Products are solid and the database and cyber threats at our Symantec vaults continue to grow from the realtime monitoring of our customers at our security operation centers and our security threat response organization. No other company offers their customers the depth and breadth of data about cyber threats than Symantec. A core competency no other competitors have. You will be hearing more about this in the future.

Now it is time to turn it over for Nick to report fourth quarter results and year-end results. Nick?

Nicholas Noviello - CFO

Great. Thank you, Rick, and good afternoon, everyone. I'll be limiting my comments to financial results for Q4 and fiscal year 2019 today. After which, I will turn the call over to Rick to discuss company guidance. All references to financial metrics are non-GAAP, unless otherwise stated. Please note we've posted information on our financial metrics other tables and reconciliations of GAAP to non-GAAP measures as well as currency impacts to our financial results in our supplemental materials to our Investor Relations website.

Starting in the first quarter fiscal year 2019, Symantec adopted the new revenue recognition accounting standard, ASC 606, under the modified retrospective transition method. Due to this adoption method, we did not recast any historical financial information prior to fiscal year 2019. However, to help investors understand our performance relative to historical results, in fiscal year 2019, we are also providing select results as calculated under ASC 605 in our supplemental materials to our Investor Relations website.

The company will not be providing this information in future periods.

As a reminder, the first 3 quarters of fiscal year 2018 included results from our website security and related PKI products that we divested on October 31, 2017. For comparative purposes, we report organic growth rate, which we define as growth adjusted for acquisitions and divestitures.

Now Q4 results. Total company GAAP revenue for the quarter was $1.189 billion. GAAP operating margin was 9% and GAAP EPS was $0.05. GAAP revenue and operating margin was inside our guidance range while EPS was $0.01 below our guidance due to a loss from our equity interest and income tax true-ups.

Total company non-GAAP revenue for the quarter of $1.195 billion was flat year-over-year on an organic revenue basis in constant currency, and was within our guidance range. Enterprise revenue came in slightly below the low end of our guidance range, with Consumer revenue at the high end of our guidance range.

At the end of the fourth quarter, contract liabilities of $3.065 billion were down 2% year-over-year. This ending contract liabilities balance was negatively impacted by $218 million due to the impact of ASC 606. Operating margin for the fourth quarter was 29%, just below our guidance of approximately 30% due to lower revenues than expected in our Enterprise Security segment.

Our effective tax rate for Q4 was 19.2% as compared to our guidance of 19.3%. Fully diluted earnings per share was $0.39, within our guidance range and based on 662 million fully diluted weighted average shares for the quarter. We generated cash flow from operating activities in Q4 of $547 million, up from $266 million in the year-ago period and Q4 CapEx was $54 million.

Now let's discuss our Q4 operating segment performance. First, Enterprise Security. Our Enterprise Security revenue was $590 million, flat year-over-year in constant currency. Our revenue was impacted by lower-than-expected levels of business including hardware and license sales. Enterprise Security contract liabilities were $2.011 billion, down 1% year-over-year. This ending contract liabilities balance was negatively impacted by $234 million due to the impact of ASC 606. Enterprise Security contract liabilities were up 6% compared to the prior quarter. Q4 Enterprise Security reported billings, which we have referred to up to this point as implied billings and are calculated the same as implied billings, were $712 million, down 24% year-over-year and lower than our expectations. Consistent with prior quarters, please see our supplemental materials posted to our Investor Relations website for details.

In our Enterprise Security segment in the fourth quarter, approximately 81% of our revenue was ratable and 19% was upfront under ASC 606 as compared to 76% ratable and 24% upfront in the third quarter; 81% ratable and 19% upfront in the second quarter; and 82% ratable and 18% upfront in the first quarter of fiscal year 2019.

As we stated at the beginning of fiscal year 2019, we are disclosing contract duration for our ratable business in Enterprise Security on a quarterly basis through fiscal year 2019. Please note this is an ASC 605 metric that the company will not be reporting after this earnings report. Contract duration for our ratable business in Q4 was approximately 18.5 months. This compares to approximately 18 months in Q3 and 18.5 months in the year-ago period.

Enterprise Security operating margin was 8% under ASC 606 as compared to 18% in the year-ago period under ASC 605. The decline in year-over-year operating margin was due to lower reported revenue and higher spending.

Now turning to Consumer Cyber Safety and our quarterly cyber safety metrics. Consumer Cyber Safety segment revenue of $605 million was flat year-over-year in constant currency. In the fourth quarter, our average direct customer count was 20.4 million, down slightly from Q3. Direct ARPU was $8.83 per month, up slightly from Q3. We expect these direct customer statistics to represent approximately 90% of our revenue at any point in time. Finally, consumer safety -- Consumer Cyber Safety operating margin was 49% compared to 53% in the prior-year period. Our operating margin is consistent with what we saw in Q3.

Now turning to fiscal year 2019 results. Total company GAAP revenue for the fiscal year 2019 was $4.731 billion. GAAP operating margin was 8% and GAAP EPS was $0.05. GAAP revenue and operating margin was inside our guidance range while EPS was $0.01 below our guidance due to a loss from our equity interest and income tax true-ups. We achieved our fiscal year 2019 total company non-GAAP revenue, operating margin and EPS guidance and exceeded our guidance for cash flow from operating activities.

Organic total company revenue growth in constant currency, adjusted for acquisitions and divestitures, was 1% year-over-year. This included flat Enterprise Security segment revenue versus fiscal year 2018 and Consumer Cyber Safety segment revenue growth of 3% year-over-year.

Operating margin for fiscal year 2019 was 30% as compared to 34% in fiscal year 2018. This year-over-year decline was primarily driven by lower reported revenue and higher spending in our Enterprise Security segment.

Our effective tax rate for the year was 19.2% as compared to our guidance of 19.3%. Fully diluted earnings per share was $1.59, down 5% year-over-year. Our fiscal year fully diluted weighted average shares outstanding were 661 million.

We generated cash flow from operating activities in fiscal year 2019 of $1.5 billion, up 57% versus $950 million in the year-ago period and CapEx was $207 million. Cash flow from operations in fiscal year 2019 benefited from lower transition costs, cash collections from billings in Q4 of fiscal year 2018 as well as lower cash taxes. Cash flow from operations in fiscal year 2019 was approximately $150 million higher than the high end of our guidance range, with approximately half of the benefit due to timing-related items and tax and working capital with the balance primarily related to onetime benefits.

We ended the year with approximately $2 billion in cash and short-term investments with $1.5 billion held in the U.S.

And finally, on capital allocation, debt paydown, share repurchase and M&A. We prepaid our $600 million term loan due August 2019 in the fourth quarter, bringing our total debt down to $4.5 billion. $1.75 billion of the year-end balance was comprised of convertible notes.

We executed repurchases of 11 million shares under a 10b5-1 plan for $252 million during the fourth quarter and have approximately $1 billion remaining of our $1.3 billion share repurchase authorization as of the end of the fiscal year 2019.

Finally, we have spent $180 million on several tuck-in acquisitions during fiscal year 2019.

Thank you. And let me now turn the call over to Rick to discuss company guidance.

Richard Hill - Independent Director

Thank you, Nick. And now with the details of the quarter 4 2019, as Nick just reported, and the year-end results, and also the perspective of where we are today with our product, I'd like to turn to our guidance. And our guidance reflects our current view of the business based on Q4 fiscal 2019 ending FX rates. We are not forecasting a significant impact on exchange rates on our revenue and operating income for the year. Additionally, fiscal year 2020 includes 1 extra week, which occurs in the first quarter. This additional week represents approximately $70 million of revenue and $40 million of expenses. So as usual, there's always some curveball that makes communicating our results a little bit cumbersome, but I'll make my attempt to make this as clear as possible.

We are forecasting a Q1 fiscal year 2020 revenue range of $1.175 billion to $1.205 billion, comprised of $555 million to $575 million in Enterprise Security, and $620 million to $630 million in Consumer Cyber Safety. At the midpoint, our guidance implies a 3.5% revenue growth for the total company, 5.5% growth in Consumer and 1.5% in Enterprise on a constant-currency basis. The growth includes the incremental week.

We are forecasting operating margins in the Q1 to be in the range of 25% to 27%, sequentially down below the 29% in Q4 of fiscal '19. The sequential decline in operating margin is due primarily to increased costs in our Enterprise Security business.

In Enterprise, we need to protect investments to grow revenue which includes the hiring of additional direct sales people, which is being done in conjunction with the goal of increasing individual sales productivity. Increased spend is also, as we invest in infrastructure to support the growth of our cloud business. We expect our effective tax rate in Q1 to be approximately 20% and our guidance assumes a fully diluted share count of approximately 650 million. Our Q1 fiscal year 2020 EPS is forecasted to be in the range of $0.30 to $0.34.

So now to our fiscal 2020 guidance. Non-GAAP revenue is expected to be $4.76 billion to $4.9 billion. Consumer is $2.46 billion to $2.5 billion and Enterprise is $2.3 billion to $2.4 billion. Operating margins our forecasted to be 30.7% to 32.7% which rounds to 31% to 33%. Non-GAAP EPS is forecasted at $1.65 to $1.80.

Finally, cash flow from operations for the year is expected to be $1.1 billion to $3.0 billion. The drop in cash flow is attributable to multiple items. First, it's attributable to a conservative relief pitcher who doesn't want to sell a new permanent CEO with a target that would limit his flexibility. The 24% decline in recognized billings is a factor. Timing differences on tax payments between Q4 '19 and fiscal year 2020, which Nick alluded to earlier, in a myriad of other puts and takes.

In the area of capital allocation, we are having a very balanced approach with share repurchases, debt repayment and general corporate purposes that are available for strategic options, including M&A. We have $1 billion left in our $1.3 billion repurchase authorization.

Up $1.1 billion to $1.3 billion

Nicholas Noviello - CFO

Cash flow.

Richard Hill - Independent Director

Cash flow. Oh, our cash flow. I just got corrected here, I apologize about that. Let me -- so --

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Nicholas Noviello - CFO

You said 3.

Richard Hill - Independent Director

I said $3 billion, it's $1.1 billion to $1.3 billion. I could've driven a truck through the $1.1 billion to $3.0 billion, so I apologize. I don't want to be quite that conservative, so I apologize with that. Although it would be nice to be able to give you guys numbers that far apart, it's just not going to work.

So with that, I have a couple of other comments that I would like to share with you. There are some top things on my agenda while I am pitching. Clearly, the first priority is to increase revenues. Our stretch goal is up 5%. This will be accomplished through demand generation to fill the pipeline. I started that earlier in the call, if you didn't notice, and haven't made the call to LifeLock yet. Also, through the combination of improved processes and communication, we're going to increase the rate at which we close business and simultaneously lower costs by shifting more cost to variable structure in the channel. Every second we fail to not inoculate another customer from cyber crime, another criminal is born. Second thing we're going to do is improve overall company productivity by 20% year-on-year. To do this, we've analyzed each line on the income statement, balance sheet and cash flow statements. Every member of the staff will own not only the targeted result but also the task to implement workout programs to achieve the goals. So please remember, the only foolproof forecasting system is Monday morning quarterbacking. Rest assured, I'm providing you the best data I have at this moment, sharing with you my personal agenda in promising complete and open transparency to the best of my ability. And for every moment after this call, you can be sure our entire Symantec team is striving to improve these numbers, the quality of our products and the quality of our service and our overall customer, employee and shareholder satisfaction.

With that, we'll open it up for questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Our first question is from the line of Saket Kalia from Barclays.

Saket Kalia - Barclays Bank PLC, Research Division

Nice to meet you by phone here, Rick. Maybe we'll just start with you, Rick, and sort of introduce the elephant in the room and start with Greg's departure. And so I guess the question is can you talk about the abruptness of the announcement? I think we've all seen management transitions that talk about the abruptness of the announcement? I were orderly, but it just seems a little unexpected given some of the commentary intraquarter. So just to make sure this question is asked in a public forum, could you shed some light on how much this is driven by the Board versus driven by Greg? And maybe more of a forward-looking question, what is the Board looking for in Greg's replacement?

Richard Hill - Independent Director

Well, it is a great question, and the answer is, we all know that the results of a company are always given to the CEO, good, bad or indifferent. And we also know that in today's environment in the CEO position is extremely stressful and difficult. And as I highlighted, I have had conversations with Greg, okay? And he has had issues with his father being ill. And the pressure is quite high that we want to continue to deliver strong financial results and also growth on the top line for shareholders simultaneously. And I think the Board, in combination with Greg, decided that given where the company is today, how well we've implemented the strategy and where we are, the next phase of executing this strategy requires both a clear, laser operational focus as well as the ability to be able to extend this strategy beyond where it is today. And so mutually, both Greg and the Board agreed that now is the right time. So the question is why the timing? Well as always was coming down, it was very close to the earnings announcement. And so it seemed the most effective way to do it was to announce it simultaneously with the earnings. And there was no more than that, that affected the timing of it. You're right, under normal circumstances, you would announce something early. But it really wasn't finalized up until less than a week before the earnings announcement and why have 2 announcements 2 days in a row. So I think that's the best answer I can give you and the most truthful.

Saket Kalia - Barclays Bank PLC, Research Division

That make sense. Maybe for a follow-up for you, Nick, just on the business. Can we just dig a little deeper into Enterprise Security? I guess, typically, we'd expect a sequential increase in Enterprise billings in this seasonally stronger quarter. I think you touched on maybe lighter hardware sales and something (inaudible) as well but maybe looking at it from a different lens, can you talk about sort of pipeline versus close rates? And how those kind of compared versus your expectations as you wrap up the quarter?

Nicholas Noviello - CFO

Yes. So Saket, maybe I'll reference back for a second to Q3 and then I may ask Rick to make some comments around the Q4 activity. But at the end in Q3 and leading up or in this conference call 90 days ago, you asked a question, in fact, about how we felt about pipeline, how we felt about capacity, et cetera, in those pieces. And we felt that obviously our guidance was grounded with the pipeline that we have, the capacity that we had, et cetera. So we're obviously disappointed by the results of down implied billings and the revenue results here. We talked about the lower-than-expected level of the business in the quarter as well as the lower and the impact of hardware and the license sales. And as I think you will know and the people in the call know that hardware license have an outsized impact to in-period revenue as well. Rick, I don't know if you have any other comments in terms of the fourth quarter business in Enterprise, but let me let you go from there.

Richard Hill - Independent Director

I think when we look at the fourth quarter, I think management of our funnel is a key area for some improvement. And we've already implemented some new processes that were rolled out at the global sales kickoff in the beginning of April. But while we have people who understand the numbers, I think we need a more routine process week-to-week during the quarter that involves the interaction of both the product groups and the sales organization. In other words, more cross-functional communication so we know exactly where we are so we can more exactly identify the opportunities and focus the resources necessary to close that business on it. We can't close all the business that is generated just by the 550 bag-carrying sales reps in the business. We need to employ a large support organization in order to do it. And I think that's a little disconnected and a little bit too colloquial rather than systematic. And we put in processes to change that. And Art has really reorganized in order -- and given specific objective to his product managers that are consistent with the objectives in the field. And I think you'll see that, the effect of that, going forward. But I think given the size of this company, we have to have more systematic and less tribal knowledge to generate forecast and control how we direct our energies and where we apply our energies. That's the best I can get. I've been working with the team for a little while now and we see a lot of opportunities to really create more feet on the street without inputting more fixed cost. And we think that's a key element. We've lost a lot of business in the mid- to small business area that we feel is part of the whole. One of the things we're experiencing is that the higher you move up the chain to hunt elephants, okay? You can thin out the herd, and as a result, you have large lumps that are so big they can make big swings in what the potential outcomes are. So we really have to rebuild that base core so that the big elephants that fall don't overwhelm on the downside our forecast to you in the market. I think we know exactly how to fix it. I think our products are ready and I do think we're going to change this trajectory. Any other questions?

Operator

Our next question is from the line of Fatima Boolani from UBS.

Fatima Boolani - UBS Investment Bank, Research Division

I had one question on the Enterprise business and one question on the Consumer business. So maybe I'll start with the Enterprise side and just to drill into the soft performance there. Rick, you did talk about some of the changes that Art has brought in to the organization. But just zooming out, there's been a significant degree of leadership transition within the Enterprise organization. So I wanted to understand sort of what are the gating factors for you to execute on what is a very large renewal pipeline for you against a very large customer base? And if you can step us through sort of factors that are to better self-inflicted and if you can tell us the competitive dynamics, sort of win rates against competition against your portfolio. And then I'll follow up with my Consumer question.

Richard Hill - Independent Director

Sounds good. And I'm -- because I'm well armed for battle here in this rapidfire question and answers, I'm going to turn that question over to Art, who is sitting on my right to let him answer.

Unidentified Analyst

My name is Art, I run the Enterprise business for Symantec. And I think if you look at the level of change, obviously, at the senior level, I joined 5 months ago, but I've also got a deep experience in the Symantec portfolio as I was here for 7 years from 2006 to 2012. And I've been in the security industry for about 20 years. And so I think in terms of an understanding of the business and understanding of the product portfolio, that brings some stability back to the group and the company, and candidly a lot of the folks that I work with when I was here before are still here in the product teams. And so I think from the stability side, although there's been changes at the top of this company over the last 6 years or 7 years-or-so, I think we're seeing the core of the product leadership, the core of the teams that are building the technologies are pretty stable. I think on the front end of the business, which was your other question around self-inflicted wounds on the -- or not on those pieces. and then also the question around renewal base. We have an extraordinary loyal customer base who gets a lot of value from the existing products that are there. We've been very consistent in being able to renew that business. We're quite accurate on the forecasting of the renewal base. I feel very comfortable that, that will continue with the quality of the technologies we deliver. Our focus on customer success and support as well as the execution there. I think where our challenges lie is in the front end of the new business forecasting. And so that's the area where we're going to be focusing on improving process, improving inspection and using more analytics to drive the forecasting process.

Fatima Boolani - UBS Investment Bank, Research Division

Fair enough. And maybe shifting back to you, Rick, on the consumer business, the revenue trajectory there has been fairly stable, but I wanted to unpack that a little bit as I think about and look at your direct customer count there. We've essentially seen a sequential decline for the last 6 to 8 quarters in that direct customer count. So I wanted to understand what's actually happening there to have that customer jump base erode, but at the same time, you are able -- you've been able to drive ARPU increases. So I wanted to get a better sense of that chunk prevailing factor that's helping ARPU move up as -- in contrast to customer count coming down? And that's it for me.

Richard Hill - Independent Director

All right, let me, this time, once again deflect and bring my other piece of armor in. I have Samir, who heads the Consumer business. So not to call him a horse, but you can get the answer right from the horse's mouth.

Unidentified Company Representative

So as it relates to the value proposition for Consumer, we have introduced the cyber safety program. A metric that we have shared with you annually. That has grown from 11% to 17%. That is a tailwind for us as we look at what's driving the ARPU increase. So our cyber safety program is one that combines value from security, from identity restoration and privacy, and that's been the driving force in the increase of value that's been translated into increasing price in ARPU.

Operator

And our next question is from the line of Keith Weiss from Morgan Stanley.

Keith Weiss - Morgan Stanley, Research Division

In the risk of kind of beating a dead horse, I want to drill down a little bit further into the Enterprise Security side of the equation because they're down 24% in terms of billings, that's a pretty big drop. And it's a part of the business that Greg had a lot of confidence was turning around. I felt it was actually going to accelerate into FY '20. So question number one is in terms of the degree of recurring revenues, can we have a sense of what that was last year just to be able to basically size kind of how much comes from the Blue Coat hardware side of the equation and the nonrecurring versus the recurring? And relatedly, can you give us a sense in terms of the recurring side of the business, how well have renewal rates sustained? How well are you guys sustaining the base versus this being more of an issue of getting more customers and new business in the door?

Richard Hill - Independent Director

Well, I give my best analysis that I've had since I've been working on this data for about 3 weeks. I think the largest single factor affecting this downward trend is what I spoke about in my initial remarks which is the fact that our core business, which is the Blue Coat systems, our customers are moving to the cloud more quickly, okay? And we had a weakness in our cloud solution. And as I spoke about it in my text, we, in fact, have strengthened that cloud offering, so we think we have that piece fixed. But the fact that the customer moves, we don't want to try to force the customer not to go where they want. So we're in a much better position to retain our key customers into the cloud now that we've improved the product. But the fact that our hardware business is declining more rapidly than we anticipated, that's what led to this downward position. Now having said that, we believe and we're planning that it's somewhat, we're still planning for decline but not at the rate it did decline in the last couple of quarters. So right now, that's the analysis we have of that business. I think the first thing you have to start with as a competitor versus a product and we spent a fair amount of time given how long I've been in the saddle, really, first and foremost, checking the product vitality. And I'm telling you that I feel that the vitality the product has improved dramatically over the last 6 months. But again, when you fall down and you don't really realize, that's what's causing the customer to move away from you. We got to go work and we got to win those people back. We also though had really got to expand how quickly we get these products through a wider cross-section of business opportunities. I think that's extremely important. So I can't say enough about how our channel is working has to be improved. We've got to accelerate what we get across the entire channel, whether it's targeted at small business, medium business or the high-end enterprise business itself. And I think we have effective plans in place today that are going to take us there. As you can tell by our projection for Q1, that's where we wanted to be, but when we go out to year-end and we drive for those results, we will get there. So that's the best answer I can give you, Keith.

Operator

And our next question is from the line of Phil Winslow from Wells Fargo.

Philip Winslow - Wells Fargo Securities, LLC, Research Division

Just to build on Keith's question earlier, obviously, you highlighted some changes that you've made (inaudible) on the cloud product, better positioning that service. But when you think about the idea of reacceleration from here from the guidance that you have given, what are the products that you've been looking for to drive to drive that needle higher? Why don't you just kind of walk us through how you're thinking about these?

Richard Hill - Independent Director

The one that I think is going to drive us the quickest, the fastest, of course, is our DLP product offering. And everybody only needs to look at the, really, in the intense focus on criminals trying to get at people's data is only accelerating. And you can see the damage that it does to corporations who will allow that to happen. Our DLP product actually accelerated dramatically and is growing at over 2x the market rate. The problem is it's from a small base. But it doesn't take long at those type of growth rates to get it back to where it's very, very substantive. And I think we're at that point, we're at the inflection point and should see that continue to grow handsomely over the next few quarters. And that's the major #1 product that we have a go to. Then I spoke about e-mail, all right? I think we've undermarketed the importance of our e-mail offering to the Enterprise. When you think of the amount of malware and everything else that comes through, phishing, spear phishing, whatever, through e-mail. And the #1 supplier of an e-mail platform is -- has a 30%, 35% effectiveness in stopping it, that's a huge opportunity. And we have to make sure that we are partnering with those people so that when they are selling Enterprise solutions to their customers, they're not selling them something that puts their customers in risk, and that will be our strategy going forward.

Operator

And our next question is from the line of Brad Zelnick from Crédit Suisse.

Brad Zelnick - Crédit Suisse AG, Research Division

Rick, welcome in your new role. I wanted to first follow up on Saket's question as the news of Greg's departure comes quite abruptly and I think I speak on behalf of many investors in saying we were very fond of him, and a lot of the positive changes he made at Symantec. But in the spirit of transparency, which you mentioned several times, I think I need to ask, is Greg's departure in any way related to a disagreement with the Board or the company or in and way related to either the still unresolved SEC investigation or any pending litigation against the company?

Richard Hill - Independent Director

Well, I can say there's no disagreement with me. My remarks were heartfelt about Greg's significant contribution to the position of Symantec today. He has a great strategic mind. I think that the reality of where we are today is -- it's been a hard slug. And for anyone, and certainly, someone with the pride of Greg, he doesn't like to see the results that happened in the fourth quarter, and I know myself, coming out of the semiconductor capital equipment industry, we have huge cycle swings, okay? That at times, when the business were down, I can tell you, I felt like getting out of the business for a while. So I can't answer for Greg. You certainly can talk to him as much as you want. From my perspective, there comes a time when CEOs, things happen in companies, CEOs aren't -- didn't do it or didn't have an effect on it other than you're at the top of the pyramid. And when you're at the top of the pyramid, sometimes things happen. So that's the best I can do with an answer. Because I don't have definitive and there's no question absolutely to the investigation I know of. At least no one's ever said that to me. I can say that factually.

Brad Zelnick - Crédit Suisse AG, Research Division

Should we assume that the incoming CFO was on board with the guidance you've given us? And also given the difficulty in forecasting the business over the past couple of years, how should we think about pipeline conversion rates embedded in your outlook? And what's embedded in terms of upfront revenue contribution within the Enterprise business?

Richard Hill - Independent Director

Well, rather than me speak, I'm going to let him speak for himself since he's in the room.

Vincent Pilette

Hi. This is Vincent. I (inaudible) for the last 10 days of the review of the management team and an observer. I observed how they put the plan together and how they came up with the guidance. As far as I can see, everything I looked at looks like a future opportunity. So I look forward to joining the team and we'll be delivering those guidance.

Richard Hill - Independent Director

All right. does that answer your question? That he's up to speed and he knows what's going on. I am extremely transparent, Brad. You all know that. Everybody that knows me knows it.

Operator

And ladies and gentlemen, unfortunately, we are out of time. We thank you, greatly, and I would like to turn it back to our presenters for any closing remarks.

Cynthia Hiponia - Head of IR

Great. Thank you everyone for joining us today and we look forward to updating on our next earnings call.

Operator

Ladies and gentlemen, this does conclude today's conference. Once again, we thank you, greatly for your participation. You may now disconnect.
