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EDITED TRANSCRIPT

SYMC - Q3 2019 Symantec Corp Earnings Call

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OVERVIEW:

Co. reported 3Q19 non-GAAP fully diluted EPS of $0.44. Expects FY19 non-GAAP revenue to be $4.76-4.79b and non-GAAP EPS to be $1.57-1.61. Expects 4Q19 non-GAAP revenue to be $1.19-1.22b, and non-GAAP EPS to be $0.37-0.41.

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PRESENTATION

Operator

Good day. My name is Ian, and I'll be your conference operator. At this time, I would like to welcome everyone to the Symantec Third Quarter 2019 Earnings Conference Call. (Operator Instructions)

I would now like to turn the call over to our host, Cynthia Hiponia.

Cynthia Hiponia - *Symantec Corporation - VP of IR*

Good afternoon. I'm Cynthia Hiponia, Vice President of Investor Relations at Symantec, and I'm pleased to welcome you to our call to discuss our third quarter fiscal year 2019's earnings results. We've posted the earnings materials and prepared remarks to our Investor Relations webpage.

Speaking on today's call are Greg Clark, Symantec President and CEO; and Nick Noviello, Executive Vice President 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 supplemental tables posted on the Investor Relations website for further definitions of our non-GAAP metrics. Please note, non-GAAP financial metrics referenced on 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 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 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.

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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, 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 about our risk factors in our filings with the SEC, and in particular, in our annual report on Form 10-K for fiscal year ended March 30, 2019, and on recently filed quarterly reports on Form 10-Q.

With that, let me now turn the call over to Greg Clark, our CEO. Greg?

Gregory S. Clark - *Symantec Corporation - President, CEO & Director*

Thank you for joining us, and good afternoon. For the third quarter of fiscal 2019, we posted operating results above our guidance. Our top line results were driven by both our Enterprise Security business, which achieved revenue above guidance, and solid revenue performance from our Consumer Digital Safety business. We achieved total company operating margins of approximately 32% above our guidance. We generated strong cash flow from operations of $377 million in the third quarter, up substantially year-over-year.

In Enterprise Security, we delivered revenue of $616 million, $31 million above the high end of our guidance range. And after a difficult first half of the year, we are pleased with the return to revenue growth in Enterprise Security, which grew 3% organically.

Our third quarter implied billings of $772 million at an average ratable billings duration of approximately 18 months represents one of the highest performance quarters for Symantec since the divestiture of Veritas. We are pleased with customer adoption in the quarter and, as a result, are guiding our full year fiscal 2019 Enterprise Security revenue higher. Importantly, third quarter duration was in line with our expectations and consistent with the prior year-ago period. Our growth in contract liabilities grew 9% quarter-over-quarter and 23% year-over-year, excluding the impact of adoption of ASC 606.

We continue to build a large installed base of customers, which provides us with opportunities to execute on our cross-sell strategy and, longer term, creates a higher renewal base. We continue to bring to market the world's most powerful cyber defense technologies. These last few months have been extremely productive in product development.

One of the biggest challenges in the security industry is the lack of skilled security professionals to meet the needs of the enterprise. Our customers have heavily benefited from our leading Managed Security Services, which provides expert threat hunting across their security estate. We were very pleased to announce of this week the release of our Managed Endpoint Detection and Response service, or MEDR, which allows us to attach a focused threat hunting service to our large installed base of endpoint security customers. This expands our value substantially to our installed base, especially in light of the skill shortage in the industry. Symantec is one of the few organizations that can deliver this kind of assistance on a global basis.

This week, we also announced several pioneering enhancements to our endpoint security offering, including the ability to isolate individual files and applications and place controls around them to mitigate even unknown attacks. This technology, developed internally, allows our customers to adopt the most aggressive defense posture on the endpoint.

We have also announced our threat defense for active directory, which addresses the #1 mechanism that attackers use to move laterally and expand their reach inside an enterprise. This product is based upon a technology that comes from our acquisition of Javelin networks in early November. We are pleased with the speed with which our organization has delivered this value to our large installed base.

These new solutions show the ability of our teams to organically innovate as well as rapidly integrate technologies from acquisitions. Gartner already recognizes Symantec in the leaders quadrant of their 2018 Magic Quadrant for Endpoint Protection Platforms, where our solutions scored the highest among all other vendors based on our completeness of vision and ability to execute. We believe these pioneering enhancements to our endpoint offering further distances us from our competitors and strengthens our business case with the customer.

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The strength of our integrated cyber defense platform continues to be recognized by our customers and the industry. In November, Forrester named Symantec as a leader and a juggernaut in Zero Trust. For those unfamiliar with the term, Symantec believes that, in the long term, our customers will operate on third-party controlled infrastructure but still retain responsibility for their users and the associated data that they're entrusted with. We are focused on bringing innovative solutions to this rapidly changing risk profile driven by the massive cloud adoption underway across the globe.

At Symantec, it has long been our mission to deliver security for our perimeter-less world. From our first mover acquisition of Elastica in the CASB space and Fireglass in the Web Isolation space, we have built an integrated platform that allows customers to implement a security architecture that protects against even the most sophisticated threats in the cloud generation.

For customers, implementing a perimeter-less architecture, or Zero Trust, means selecting vendors that provide superior protection and cross-product integration. Our Integrated Cyber Defense Platform offers this as well as what we believe is a lower overall cost of ownership versus the alternative of self-integrating multi-vendor technologies.

Turning to our customer wins in the third quarter. We are excited about the number of different verticals that are adopting our platform at scale and in different geographies, and we view this as a major indicator of the potential for our Integrated Cyber Defense Platform across the globe.

In the third quarter, a European household appliance manufacturing company signed an 8-figure deal as they adopted a substantial footprint of our integrated cyber defense solution, SEP. This is a great example of how CIOs are recognizing not only the breadth of our Integrated Cyber Defense Platform but also its superior protection and cross-product integration.

In Asia Pacific, a major securities and derivatives trading exchange that was a SEP customer expanded their Symantec footprint and adopted our cloud security stack, which includes CASB, cloud proxy, DLP, Web Isolation and cloud malware analysis. This customer chose Symantec to help them securely move to the cloud because of the strength of our integration between our endpoint technology and our powerful cloud security portfolio.

A global Fortune 500 power company, which already had a SEP installed base, was looking to build an internal SOC in face of a limited talent pool. In a 7-figure win against 2 large managed service providers, the customer purchased Advanced Threat Protection, SEP Mobile, Managed Security Services, DeepSight, Cyber Security Services and Managed Endpoint Detection and Response service. The customer realized that our Integrated Cyber Defense Platform could improve operational efficiencies, resulting in a faster ROI as well as reduce its soft staffing requirements.

We're also seeing customers of all sizes being able to deploy our technology at a rapid pace and positively resetting their expectations of time to value for security products.

To give one example, a regional hospital in Northern Europe purchased 4,000 licenses of our SEP and EDR endpoint technologies in late December. This purchase was the first phase of a rollout that would replace a competitive endpoint product which was about to reach the end of its license period in March. The hospital had cautiously planned to renew their existing solution for an additional year to create overlap and cover the possibility of a lengthy rollout.

In January, 3 weeks after their Symantec purchase, all 4,000 seats of our endpoint protection had been deployed significantly ahead of schedule. As a result, this customer is in the process of procuring and deploying an additional 10,000 seats, and they expect to avoid the planned license cost of the 1-year overlap with our competitor.

Let me now turn to our Consumer Digital Safety business. We are pleased with the third quarter outcome for Consumer Digital Safety, which was in line with our guidance. The third quarter marked the first anniversary of the cyber safety subscribers we acquired in connection with the 2017 Equifax breach, and we are pleased that we grew revenue against this difficult period compare. The core tenets of our cyber safety platform include identity protection, malware protection, privacy as well as home and family safety. We extended our platform with the launch of Norton Privacy Manager, which is a relevant topic in recent times and we believe a defining element in the minds of consumers.

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In the third quarter, we announced a strategic partnership with Aon, which we view as a validation of our longer-term strategy to drive consumer adoption through business-to-business-to-consumer relationships. Aon offers solutions to help high-net-worth individuals to defend their assets against cybercriminals. Our offering to Aon customers will include features across our Consumer Digital Safety platform. Cyber safety is synergistic with many brands globally such as insurers, banks, telecom providers and other member organizations that are anchored in trust. As we expand cyber safety internationally and address a growing array of vertical needs, we believe partnerships such as Aon will expand the value we bring to customers and the revenue potential for our consumer business.

Turning back to the company performance in the third quarter. We are pleased with the results.

Before I turn over to Nick, I wanted to take a moment to recognize his leadership and many contributions to our company. As we announced in our press release earlier today, Nick will be stepping down from his role as CFO in the coming months to pursue other opportunities. It has been a great privilege to work alongside Nick, first at Blue Coat and now at Symantec, where he has played an important role in successfully transforming our company, through the integration of both Blue Coat and LifeLock, the substantial improvements we've made in our business systems and processes and in helping me and the Executive team set the stage for Symantec's next chapter of growth and shareholder value creation.

Nick and I worked closely for over 3 years, and I'm grateful to have had such a committed, focused and talented partner. On behalf of the entire Symantec team, I thank Nick and wish him all the best in the next chapter of his professional life.

We are initiating a search process to identify a new CFO. While we're working expeditiously to conduct the search, we are committed to taking the time we need to find the best candidate for the role. We are grateful that Nick is staying onboard throughout that search process, help identify a strong successor and will remain with the company until mid-2019 to ensure a seamless and orderly transition.

In addition, today, we announced the appointment of Matt Brown as our Chief Accounting Officer effectively immediately. Matt has served has Symantec's Vice President, Corporate Controller since 2000 -- 2016 and is a valued member of our financial organization.

With that, I'll turn the call over to Nick for the financial details.

Nicholas R. Noviello - *Symantec Corporation - Executive VP & CFO*

Thank you, Greg, and good afternoon, everyone. Before I jump into our results and guidance, I want to thank Greg and everyone at Symantec for the opportunity to be part of this remarkable journey. As Greg noted, I will remain in this role until a successor has been appointed, and I will work closely with him or her to ensure a smooth transition with the goal of this being seamless for all of you on the phone as well as for our internal Symantec team. In the meantime, I look forward to continuing to work with Greg and the executive team as well as the strong team supporting me in the finance and operations organization to support Symantec's execution on our strategic growth, transformation and profitability initiatives in driving shareholder value.

Now moving on to our results. 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 of 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.

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 rates, which we define as growth adjusted for acquisitions and divestitures.

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Now Q3 results. Total company revenue was above our guidance range, with year-over-year organic revenue growth in constant currency of 3%. The upside was due to outperformance in Enterprise Security. At the end of the third quarter, contract liabilities of $2.928 billion were up 7% year-over-year. This ending contract liabilities balance and year-over-year growth rate was negatively impacted by $192 million due to the impact of ASC 606. Operating margin for the third quarter was 32%, above our guidance of 30%, driven primarily by the overachievement in Enterprise Security revenue. Our effective tax rate for Q3 was 19.3%, in line with our guidance. Fully diluted earnings per share was $0.44, above our guidance. We did not repurchase any shares during the quarter.

We generated cash flow from operating activities in Q3 of $377 million versus $294 million in the year-ago period, and Q3 CapEx was $58 million. While total company cash flow from operating activities was up 28% year-over-year, cash flow from continuing operations was up 45%. We ended Q3 with approximately $2.6 billion in cash and short-term investments, with $2.2 billion held in the U.S.

Now let's discuss our Q3 operating segment performance. First, Enterprise Security. Our Enterprise Security revenue was $616 million and reflected organic growth of 3% year-over-year in constant currency. Revenue was $31 million above the high end of our guidance range due to a higher mix of sales yielding upfront revenue than we had built into our guidance. Enterprise Security contract liabilities were $1.889 billion, up 11% year-over-year. This ending contract liabilities balance and year-over-year growth rate was negatively impacted by $210 million due to the impact of ASC 606. Enterprise Security contract liabilities were up 9% compared to the prior quarter. Our Q3 Enterprise Security implied billings were $772 million, down 4% year-over-year adjusted for the WSS, PKI divestiture and generally in line with our expectations built into our revenue guidance. In our Enterprise Security segment in the third quarter, approximately 76% of our revenue was ratable under ASC 606 as compared to 81% in the second quarter of fiscal year 2019 and 82% in the first quarter of fiscal year 2019. This decrease was due to a higher mix of sales yielding upfront revenue in the quarter.

As we stated on our earnings call in May, 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 we will not be reporting after this fiscal year. Contract duration for our ratable business in Q3 was approximately 18 months. This compares to just under 17 months in Q2 and just under 18 months in the year-ago period.

With respect to our performance obligations as of the end of Q3, consistent with Q1 and Q2, we project approximately 65% of our total Enterprise Security performance obligations will be recognized as revenue within 12 months, approximately 89% within 24 months and approximately 98% within 36 months. Enterprise Security operating margins were 16% under ASC 606 as compared to 23% in the year-ago period under ASC 605. The website security and related PKI products divestiture contributed to the year-over-year decline.

Turning to Consumer Digital Safety and our quarterly Digital Safety metrics. Consumer Digital Safety segment revenue of $602 million was in line with our guidance and reflected organic growth of 2% year-over-year in constant currency. In the third quarter, our average direct customer count was 20.4 million, down slightly from Q2. Direct ARPU increased to $8.84 per month, up slightly from Q2. We expect these direct customer statistics to represent approximately 90% of our revenue stream at any point in time.

Finally, Consumer Digital Safety operating margin was 49% compared to 53% in the prior year period. Our operating margin was consistent with what we saw in Q2.

Turning to our guidance under ASC 606. Our guidance reflects our current view of the business. Our organic growth rates are adjusted for the website security and related PKI products divestiture. Based on Q3 ending FX rates, we are not forecasting a significant impact from FX on our revenue and operating income for the rest of the year. For Q4, we are forecasting a Q4 fiscal year 2019 revenue range of $1.19 billion to $1.22 billion, comprised of $595 million to $615 million in Enterprise Security and $595 million to $605 million in Consumer Digital Safety. At the midpoint, our guidance on an organic basis and in constant currency implies approximately flat revenue growth for the total company.

We are forecasting operating margin in Q4 to be approximately 30%. We expect our effective tax rate in Q4 to be approximately 19.3%, and our guidance assumes a fully diluted share count of approximately 656 million. Our Q4 fiscal year 2019 EPS is forecasted to be in the range of $0.37 to $0.41.

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Now to our fiscal year 2019 guidance. We are adjusting guidance for the full year fiscal 2019 to reflect our outperformance in Enterprise in the third quarter. We are forecasting fiscal year 2019 revenue in the range of $4.76 billion to $4.79 billion, consisting of $2.36 billion to $2.38 billion in Enterprise Security and $2.40 billion to $2.41 billion in Consumer Digital Safety. At the midpoint, on an organic basis and in constant currency, our guidance suggests a growth of 1.5% in revenue for the total company, relatively flat revenue for Enterprise Security and 3% growth for Consumer Digital Safety. We are forecasting operating margin in fiscal year 2019 to be approximately 30%. We expect our effective tax rate in fiscal year 2019 to be approximately 19.3%, and our guidance assumes a fully diluted share count of approximately 660 million. We are forecasting EPS for fiscal year 2019 in the range of $1.57 to $1.61. We are forecasting cash flow from operations for fiscal year 2019 to be in the range of $1.25 billion to $1.35 billion as compared to total cash flows from operations of $950 million in fiscal year 2018.

Turning now to our fiscal year 2020 outlook. Consistent with prior quarters, we are providing our growth outlook for fiscal year 2020. On our next earnings call, we will provide specific fiscal year 2020 financial guidance. While our perspective on the growth potential for each of our business segments is unchanged, we are adjusting our revenue growth outlook at this time simply to reflect the increase in our fiscal year 2019 revenue forecast as reported this quarter. We expect that total company organic revenue will grow in the mid-single digits year-over-year in fiscal year 2020. We expect Enterprise Security segment organic revenue will grow in the mid- to high single digits year-over-year.

Our expectations continue to be built on a combination of factors, including: one, the roll-off from existing contract liabilities, which have grown substantially year-over-year; two, our expectations for performance in the fourth quarter; and three, the growth we expect in fiscal year 2020. Our expectations for Consumer Digital Safety organic revenue growth are unchanged at the low to mid-single digits year-over-year.

Our fiscal year 2020 outlook for total company operating margins is in the mid-30s. This operating margin outlook reflects continued revenue growth in both our Enterprise Security and Consumer Digital Safety segments as well as a set of cost reduction actions we announced in August. With operating margins in the mid-30s, we expect EPS growth in the low double digits and cash flow from operations growth at or above net income growth as we largely work through our restructuring, transition and transformation efforts in fiscal year 2019.

As noted in our Q3 income statement, we incurred year-to-date costs of $205 million related to restructuring, transition and other costs. These initiatives are largely coming to a close in fiscal year 2019, which will have a positive impact on cash flow in fiscal '20.

Now turning to capital allocation. We completed the review with our Board of Directors and plan to restart our capital allocation program in Q4. Consistent with our capital allocation strategy, we will take a balanced approach, including share repurchase, debt repayment and flexibility to pursue strategic options, including M&A.

Regarding share repurchase, we have increased our repurchase authorization by $500 million to $1.3 billion, giving us additional flexibility to deploy the excess capital on our balance sheet and future cash flow. We expect to start repurchases in Q4, and we'll update shareholders on the amount of equity repurchased on a quarterly basis.

Regarding debt repayment, we plan in Q4 to prepay our $600 million term loan due August 2019. This prepayment is consistent with our deleveraging plan. Pursuant to which, we will have repaid $3.8 billion of debt in fiscal year 2018 and fiscal year 2019 and reduce total debt from $8.3 billion at Q4 of fiscal year 2017 to $4.5 billion. Finally, we expect to continue to pursue acquisition opportunities and to continue our regular quarterly dividend of $0.075 per share.

Let me now turn the call back over to Greg for some closing remarks.

Gregory S. Clark - *Symantec Corporation - President, CEO & Director*

Thank you, Nick. As Nick discussed, we are pleased with the third quarter and look forward to delivering on our fourth quarter guidance. After a difficult first half in FY '19, we're gaining momentum, and the business is our core focus. As we raised revenue guidance in fiscal year 2019 to reflect our outperformance in Enterprise Security in the third quarter, this resulted in a higher revenue comparison, which affects the period compare in fiscal year 2020. Our comments on FY '20 outlook is based on the change in period compare from our increased FY '19 outlook. I would note that

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we are closely watching the widely reported concerns on potential softening of global economic growth as a material amount of our business is from outside the U.S.

With that said, it's important to note that we're still seeing a healthy pipeline in our Enterprise Security business. And over the long term, we believe that the cyber defense market has tailwinds for our business. The third quarter marks another quarter of installed bases expansion, which benefits future renewals.

Finally, we have increased our shareholder purchase authorization, which is a signal of our confidence and our ability to continue to drive strong operating cash flow and growth.

Thank you very much for your time. Nick and I would be happy to take your questions. Operator?

QUESTIONS AND ANSWERS

Operator

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

Saket Kalia - *Barclays Bank PLC, Research Division - Senior Analyst*

Nick, great working with you. Wish you best of luck in the future.

Nicholas R. Noviello - *Symantec Corporation - Executive VP & CFO*

Thank you.

Saket Kalia - *Barclays Bank PLC, Research Division - Senior Analyst*

Greg, maybe just to start with you. Obviously a nice bump up in enterprise billings here, seasonally. And I think you talked about -- you touched on this in your closing remarks, but can you just dig a little deeper into how the pipeline looks going into the March quarter? And how do you feel about things like sales capacity and other sales metric, whether that's churn or competitive win rates, for example? Just a little deeper in terms of how you're feeling about that setup going into Q4?

Gregory S. Clark - *Symantec Corporation - President, CEO & Director*

Thanks. Saket, thanks for the question. I think, as we have reported and we saw in FY '18, seasonally, the 2 big quarters for Symantec are the third quarter and the fourth quarter. And we're just entering our fourth quarter. So we do usually have a strong book of business in the back half of the year. As you can see from our guidance, were planning on delivering another substantial quarter in the fourth quarter. So our pipeline is good. We do also believe that we have the sales capacity in place even though we had a difficult first half. We feel like the [excess] capacity we have rolling into our fourth quarter is sufficient. In terms of demand, cyber defense continues to be a board-level and C-level topic across the globe. And I think there's plenty of opportunity for us to be able to, as I said in the prepared remarks, over the long term, deliver some good results for the business. So fourth quarter, sales capacity, good; pipeline, where it needs to be.

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Saket Kalia - *Barclays Bank PLC, Research Division - Senior Analyst*

Got it. That's really helpful. Maybe just a follow-up for you, Greg. I think we saw the upfront business, obviously, can ebb and flow from quarter-to-quarter, in the enterprise business, specifically. I guess the question is how do you think about that upfront mix as a percentage of enterprise revenue, sort of broadbrushes, long term?

Gregory S. Clark - *Symantec Corporation - President, CEO & Director*

Yes. So I think, yes, we definitely stand behind our comments that we've made in our prior conference calls about the shift to cloud, and we do believe that, that's going to continue. And as we think that the size of the business is quite large and small movements in mix for certain things is definitely in our future, but we stand behind our prior statements about how we think about that going forward. It is nice to see some of our large installed base of appliances being procured broad-based, which -- across the globe because that is still there and there's still a capacity need that happens in there. But we definitely think that, going forward, our comments on mix are still solid.

Nicholas R. Noviello - *Symantec Corporation - Executive VP & CFO*

Yes. Saket, it's Nick. You can actually see it in our -- some of our supplemental materials in the performance obligations information to see the -- just the compare between the upfront revenue in enterprise this quarter versus even last quarter. And that difference really rolls through straight through the results in Q3. Ultimately though, as you know, this is about building those contract liabilities over time and what that does in terms of future revenue and, in addition, what that means in terms of future installed base to go after and renew, et cetera. So we're showing you the implications or the impact to the end quarter. But the overall momentum in the business and the overall shift to cloud of the business are very focused and ongoing. And ultimately, there's things show up in our contract liabilities and what that revenue growth opportunity looks like over time.

Operator

And our next question is from the line of Michael Turtis from Raymond James.

Michael Turits - *Raymond James & Associates, Inc., Research Division - MD of Equity Research & Infrastructure Software Analyst*

I'll really just drill down a little bit more on the shift to upfront. I just want to make sure, it sounds like, I would think, it is a function of more appliance take rates. So maybe if you can put that in the context of your refresh and how people are choosing appliances versus virtual or versus your WSS cloud service.

Gregory S. Clark - *Symantec Corporation - President, CEO & Director*

Yes, so we are still seeing a very strong element of the form factors in cloud based. WSS, cloud access brokers are a big piece of what happens. And we do get -- plant refresh is also because capacity needs to increase there and things wear out. And as you can see in this quarter, we definitely saw some of that. I can say it wasn't one big deal. It's kind of across the geographies and broad-based. But again, it's a big business, and 30 million of mix is not a substantial swinger either way. I wouldn't read too much into it. We do believe that the cloud transformation is ongoing. And we think that, as we look to the future, that's where work is, and we look forward to talking about that when we guide 2020.

Michael Turits - *Raymond James & Associates, Inc., Research Division - MD of Equity Research & Infrastructure Software Analyst*

All right. So I just want to make sure, Nick, that I clarify the numbers and catch them all in terms of the mix impact. So are you saying that the upside to guidance was all for mix? Would you have been in line ex the mix if you had been at anticipated mix?

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Nicholas R. Noviello - *Symantec Corporation - Executive VP & CFO*

Certainly, the amount over the top in the 30-plus range was due to that enterprise mix, and you can see that on the revenue line, in the operating margins and straight down to the bottom line.

Operator

And our next question is from the line of Gabriela Borges from Goldman Sachs.

Gabriela Borges - *Goldman Sachs Group Inc., Research Division - Equity Analyst*

Greg, you made a comment in the prepared remarks about productivity and innovation in the R&D part of your business. It sounds like maybe you're competing with a stronger or broader set of products. The question is, is that having implications on pricing in the competitive environment? Meaning, could maybe extract a little more pricing power than what you are maybe able to do a year or 2 ago?

Gregory S. Clark - *Symantec Corporation - President, CEO & Director*

I think what's benefiting us at the procurement table is the fact that we are bringing a bunch more products to the table, which allows us to have more flexibility on pricing. So depending upon the competitive mix, it gives us a lot of different choices. But I definitely think, over time, people will value the fact that they don't have to integrate the pieces and they get them from us, which should allow us to command a little bit more price than perhaps a more commoditized elements of the bill of materials. So we think that we have aspirations for that to be a supporter of ASP as we go forward because we believe over time people will value that integration and pay for it.

Gabriela Borges - *Goldman Sachs Group Inc., Research Division - Equity Analyst*

That's helpful. And the follow-up is for Nick, if I may. Could you level set us on where we are with some of the cost initiatives that you targeted in the back half of the fiscal year? I think you had talked about $115 million potential savings. And are there still more block and tackle efforts that you can approach after that? Or are we pretty much coming towards the tail end of optimizing the business profile?

Nicholas R. Noviello - *Symantec Corporation - Executive VP & CFO*

Sure. thanks for the question, Gabriela. And I think if you look back over the last couple of years, we've talked about cost opportunities and integration opportunities in taking costs out of the business, which were very successfully done over time. So as we have moved through this fiscal year and as we pivot to '20 and as we pivot to our operating plans in '20, those cost actions and those opportunities are going to be and are reflected in the numbers that we give you. So the pace of those things can always change one way or the other. The amount of severance, if you will, in 1 quarter versus another or transition costs 1 quarter versus another can move around. But we are on track to our commitment and what we intend to do. I think, from the original comments of mostly done inside this fiscal year, that may move a little bit into '20 and have a little bit of cash implication in FY '20. But if you kind of look back at the prepared remarks from earlier, we have a substantial takedown of cash costs in general and restructuring-, transition-, transformation-type costs as we go from '19 to '20.

Operator

And our next question is from the line of Fatima Boolani from UBS.

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Fatima Aslam Boolani - *UBS Investment Bank, Research Division - Associate Director and Equity Research Associate Technology-Software*

Greg, maybe a question for you. Just in the context of the strength in the Enterprise Security business. I was hoping you can make a comment on some of those leadership changes that you've brought into the organization more recently and sort of how that is factoring into your expectations as you head into a seasonally stronger execution period for the company? And I have a follow-up for Nick as well.

Gregory S. Clark - *Symantec Corporation - President, CEO & Director*

So I think we announced last quarter, I can't remember exactly what the date was, restructuring in our enterprise to separate the product from selling and Art Gilliland coming onboard to look after our product pieces and Marc Andrews really taking control of the worldwide sales organization. I think this is definitely helping us as we go forward. We have a very focused and concentrated energy on the product side and also on the field side. So I think that transformation is going well for us. And I think, as we sit here reporting on that period, I think we had a good outcome. And so we feel like that organizational change is going well.

Fatima Aslam Boolani - *UBS Investment Bank, Research Division - Associate Director and Equity Research Associate Technology-Software*

Great. And Nick, a question for you. Just on the consumer business, specifically in the guidance there and maybe a little bit lighter than what we were -- we are looking for. So I just wanted to understand some of the puts and takes on the consumer segment guidance as we close out the year. And that's it for me.

Nicholas R. Noviello - *Symantec Corporation - Executive VP & CFO*

Sure. Yes, so thanks for the question, Fatima. And I think, first of all, let me talk about consumer in the overall in the year. And you'd hear -- heard about our view of 3% organic growth for consumer. We are basically on the plan and feel very good about what's going on in the consumer segment. You can see that in our kind of discussions on subscribers, on ARPU, et cetera. So we feel quite good about that. There's always going to be movement a bit quarter-to-quarter. We're coming off a compare on the Equifax side and as we've built all of that into our results here. But our organic initiatives, the cross-sell and the retention work that's going on in consumer, we feel very, very good about, and those operational teams deserve praise for the amount of work they have done.

Operator

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

Brad Alan Zelnick - *Crédit Suisse AG, Research Division - MD*

It's great to see the progress this quarter. And Nick, congrats to you. It's been a pleasure working with you over the years.

Nicholas R. Noviello - *Symantec Corporation - Executive VP & CFO*

Thank you.

Brad Alan Zelnick - *Crédit Suisse AG, Research Division - MD*

You're welcome. And Greg, I've got one for you and a follow-up for Nick. Greg, many have been speculating about your appetite for acquisitions, particularly large deals, and especially now that we're past the Audit Committee reviewed, should we see the addition to your buyback authorization signaling less of an interest? Or am I misreading this?

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Gregory S. Clark - *Symantec Corporation - President, CEO & Director*

No. I think Nick's prepared remarks covered, I'd say, the tenets of our capital allocation which included I think some supporting statements about maintaining some capacity for M&A.

Brad Alan Zelnick - *Crédit Suisse AG, Research Division - MD*

Okay. And Nick, as we look at your year-to-date implied enterprise billings adjusting for the divestiture of WSS and PKI, your year-to-date -- and I know it was a tough start to the year, but you're down 8% year-to-date, down 3.5% this quarter. And I'm just having a tough time seeing how you get to mid- to high-single-digit revenue growth in Enterprise next year. And I get you can -- there's more upfront business like you get -- like we saw this quarter. But how should we think about bridging to that kind of revenue growth? And in your prepared remarks, you talked about the business picking up in Q4 and into next year that helps to get you there. But what's kind of the billings growth that you would need to drive that revenue result?

Nicholas R. Noviello - *Symantec Corporation - Executive VP & CFO*

It's a really good question, Brad. So let me kind of walk you through it. And I think the first part that's really important here is understanding this is made up of multiple components. First component is the roll-off of existing contract liabilities. And you've seen, and we've disclosed in our supplemental materials, how those contract liabilities are growing and, certainly, how they grew in the third quarter, very similar to some of the heavy growth we had in last year. And as Greg comments on duration and you see it on our recognition charts on when this is all coming in, this is tight inside period of time and consistent in terms of the roll-off of contract liabilities. So we feel good about that. So you have to take, number one, that; number two, what's our expectations for the fourth quarter. And Greg talked about it, and I gave the specific numbers on that. There is an in-period recognition to that, and then there is a ratable amount, and there's a recognition in further periods. And we look at that go-forward recognition probably not that different from prior recognition. And then the final element is our billings growth expectation and our mix expectation for FY '20. So we'll talk more about that on our next call, but it's those elements and the stacking element on the contract liability side that has amortization to it that underpins and gives us strong evidence to how we think this business will grow. Remember, this all started back at the beginning of FY '18 with a business and a set of products and a sales force that came together under new way of how we were going to sell. So we see that, that machine that really got built over a year ago that's been adding to these contract liability balances that will yield benefit for us next year.

Operator

And our next question is from the line of Karl Keirstead from Deutsche Bank.

Karl Emil Keirstead - *Deutsche Bank AG, Research Division - Director and Senior Equity Research Analyst*

Greg, maybe one for you. If we could go back to the appliance strength that you saw. This is the second quarter in a row that, that's happened. And I'm just wanting to understand why you think that's happening. Is this just a fluke of a few large deals? Is there any kind of demand issue that's causing the upfront appliance strength to be a little bit better than you were expecting? And then maybe I'll ask my follow-up to Nick now as well. Nick, on the operating cash flow side, $377 million is the highest operating cash flow in some time, and looks like the 4Q cash flow guide is pretty strong too. So I'm just wondering if you take a minute to discuss maybe what a couple of the drivers of that strength are. And in particular, whether this upfront appliance strength, you mentioned the drops to the operating margin, could that have been a contributor to the cash flow as well?

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Gregory S. Clark - *Symantec Corporation - President, CEO & Director*

Yes, so to take your question on appliances first. So we don't have any single large deals with either appliance related in these results. This is more broad-based, cross-geography. And I think it does speak to the fact that there is some capacity growth. We are in a hybrid world. There are still on-premise networks and things like that around our capacity that needs growing there. And we still stand behind our transition to cloud, [Steven]. We're seeing a very good situation where incremental capacity and roaming user capacity is being purchased through our cloud proxies and through our cloud access brokers, which come -- only come in a pure cloud form factor. There isn't any on-premise corollary on things like our cloud access brokers in these things. So more broad-based, and I think it is that we are in hybrid situation in the world where there is still a substantial clip of information in computing done on-premise, and we do see some appliances there. We're now seeing that across the board. I think we look forward to talking to you more about that as we dig into the 2020 guidance, but I think it's a good guide for our appliance business, definitely not a sea change for how we things are going to go in cloud.

Nicholas R. Noviello - *Symantec Corporation - Executive VP & CFO*

Karl, let me just give you a couple of comments on the cash flow side [and answer, certainly, the coverage] on enterprise sort of rolls through. I think the other thing that's important to understand is that we have indicated that our restructuring, transformation -- or transition and other costs will be coming down over time, and that's obviously a benefit to cash flow. If you look at those costs on just a P&L basis for this quarter versus a year-ago quarter, they're lower, obviously. There's a translation to cash that needs to occur. But we also, when we look at cash and cash flow opportunities go forward into fiscal year '20, we benefit obviously from net income growth and some of the numbers we've talked about there in the high-level guidance. We've give -- given in outlooks for '20 there. But in addition, I think you need to look at that restructuring, transition and other costs line. And year-to-date this year, that's $205 million in expense, and that's an area that as we bring these projects to close, that's a benefit to cash flow.

Operator

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

Keith Weiss - *Morgan Stanley, Research Division - Equity Analyst*

Maybe 2 for you, Greg. One, just in terms of the competitive environment. We've seen better sort of appliance strengths [that's] sort of more so on the Blue Coat side of the business. Can you talk to us about sort of about the competitive environment you're seeing out there? And how well you're doing in competition against some of the newer vendors in the space, so we've seen a lot of momentum in guys like Zscaler, whether your kind of hybrid cloud offering has been an effective against those? And then one on the consumer side of the equation. It sounds like you guys are still pretty confident in the sort of durable growth in that business, but we have seen several quarters in a row of the -- like the subscriber count coming down. I think it's down like 5% on a year-on-year basis. What gives you guys confidence? Like, is part of the equation that, that's going to stabilize over time? And what gives you confidence that, that's stabilizing gives you guys sort of that good foundation for growth on a going-forward basis?

Gregory S. Clark - *Symantec Corporation - President, CEO & Director*

Yes, let me take the consumer question first, and then I'll come back to the competitive nature in enterprise. So we are very focused on bringing back net new member growth to the consumer business. That is something that we really care about, and we continue to, I think, narrow the gap there. I think we've got some good results in there. I think it's difficult period compares right now because, as Nick mentioned before, this is the period that's comparing back into the huge Equifax, I would say, identity protection procurement period, which is very high ARPU procurement, and we had some good results in that period a year ago. So I think we are very pleased that we managed to deliver a good quarter there and had businesses on plan for the full year. But definitely, our management team in consumer is definitely focused on net new member growth and turning that curve, and we measured that very carefully in our management reviews, and that's what a lot of our initiatives are at. I think the deal that we talked about in our prepared remarks around Aon are examples of new routes that can also help address that. And we do have better retention in

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the business, which is also, I think, part of our business case that when we sell our cyber safety platform, we lose less customers at the hardware refresh on the malware side of things, and they're a bit much easier to reacquire on the other side of a new PC. So we think all of those premises that are behind our strategy in consumer are still there. And we like the long-term outlook for the business. And I think we're innovating there. We launched our Norton Privacy Manager, which is very important topic for the world right now, which is just coming to market. And so we're -- I think we have a good premise for net new member growth. And thanks for asking that question. That's something that is ripe in the heart of our KPIs. So moving to competitiveness in enterprise. We are pleased with our pure cloud web proxy business and the integrated cyber defense element of that, which is when we sell a cloud proxy, which compete with some competitors. We also have a strong attach with the cloud access broker, and we have a strong attach of our very deep data protection technologies in that area. So our ability to compete there is strong. I think we are doing very well in that space, and the future is bright for the WSS, CASB and data compliance and cloud application story. We're the only vendor that brings all of those technologies to bear integrated and as a global service, and I think we're winning some fantastic accounts there. In the on-premise side, our appliance business is still there and is still happening, as you can see from some of the metrics this quarter. And we still maintain a very strong installed base there. And as that refreshes, we have the opportunity to pick up the rest of that. So that's really a big part of our network adjacencies. And I think we continue to execute well there. As we move to the future and Zero Trust becomes more important, and as we mentioned in our prepared remarks, you're running on other people's infrastructure. In many cases, you won't be able to completely trust it for your data. It'll be a very solid, very trustworthy company, but you're responsible for the data. Floating across the security over the top on that is in the future. That's what we're doing with the products I just mentioned. And as we integrate our very powerful SEP and SEP Mobile technologies with that, we think we create something that is going to be very hard to beat, and we're laser-focused on that strategy. And I think we've proven to the industry that our engineering works and it delivers here. And we intend to really continue to drive the envelope in that area. And I think there are a lot of upsides. They're endpoint solutions, and I think that those gaps between the point solutions will define the long-term winner, and we hope that to be Symantec.

Operator

And our next question is from the line of Shaul Eyal from Oppenheimer.

Shaul Eyal - *Oppenheimer & Co. Inc., Research Division - MD & Senior Analyst*

Congrats on the progress on the enterprise front. Greg, I'd like to know, given you guys have a sizable exposure to the European continent and there has been some conflicting messages with respect to macro demand, what can you tell us about what Symantec has been seeing during the quarter coming out of Europe?

Gregory S. Clark - *Symantec Corporation - President, CEO & Director*

So we don't break out our numbers in -- specific numbers on the geographies, but I can give you some longer-term views and what we've seen over the last little while. We have a very substantial amount of our business from overseas. And we've seen some very strong examples, a couple of them we used in our prepared remarks, the home appliance vendor and the hospital in Northern Europe. We are still seeing strong demand. I do believe that cyber defense is a nonnegotiable across the boardrooms of the larger organizations, globally, including every major geography of Western Europe, especially after what happened to a couple of companies over there in the 2018 calendar year -- in 2017 calendar year around some of the malware worms that took out shipping companies and things like that. So there is definitely a heightened sense of need for cyber defense there. And also, the privacy movement is alive and well there, and data privacy in corporations is a big care about. So we are happy with our outlook in Europe, but we are cautiously watching it because we're reading the same headlines and listening to everything else that are generating your comments, and we have a statement on that in our prepared remarks. But right now, for Q4, we're in good shape in Europe. And what we think, as we get to 2020, we'll have some more thoughts for you.

Operator

And our next question is from the line of Don DiFucci (sic) [John DiFucci] from Jefferies.

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John Stephen DiFucci - *Jefferies LLC, Research Division - Equity Analyst*

Greg, questions for you. It's been touched on here. When -- given in the guidance, even total revenue, mid-single digits into fiscal '20, I mean, that's still acceleration. And it's good to see some of the metrics working a little better, but they look a little better 2 quarters ago too, and then, last quarter, it didn't look as good. I just -- I don't think you've done mid-single-digit revenue growth on an organic constant currency basis. And I don't mean just you. I mean, I don't think Symantec has done it since they divested Veritas, at least seeing in our numbers. And maybe were off a little bit there, but I don't think so. So it's -- that's why I think I'm the fourth person to ask you this question on this topic because it does also sound like we should be seeing some kind of a hardware component here. Yes, we get that, like that's revenue is recognized right up front so that's going to help. But we've been waiting for that for sort of a couple of years, and I thought it just sort of passed us by. So I'm not sure. Like, is there like these customers that have -- they need to replace their proxies and the time is now to do it, and you're assuming they're going to do it. But can't they just go with other solutions too? And you said you're ready for the cloud, but -- and I think of it -- and it could be your solutions, but that would be less revenue. And I don't know. I'm just trying to figure it out because...

Gregory S. Clark - *Symantec Corporation - President, CEO & Director*

So John, I think if you -- yes, so a good question. And I understand that there's a lot of, I would say, want to understand this better in the analyst community. And I would just say that we just closed out Q3. We had a 3% organic revenue growth in enterprise, and we also grew the contract liabilities at the same time. So revenue growth is not coming at the expense of the billed in the forward contract liabilities database -- sorry, backlog. And so if you roll that forward, I think you'll get to the numbers we're at. And then I think the other thing to keep in mind is if you look at the discussion we're having and go back over the customer examples that we rolled out on many calls over the last few quarters and have a look at the product examples that we're giving in that, there is a lot, lot more for sale here than hardware proxies in our integrated cyber defense story. And in every solution that we talk about, we are talking about a number of products that are in there as adjacencies that are being sold. And I think that as you then close to those deals, the beautiful thing about that is that they renew. When their service delivered, they renew, and we -- and I think that, that's better for us. It's better from a cost of sales point of view, and it's better from a stickiness point of view. And I think, as we move through what was FY '18, and we had a big back half in FY '18, did some great billings numbers at 18-month duration. We're doing it again in the back half of '19, and we plan to do it again next year. But you'll find that, that renewal base gets very strong and that, that deferred revenue billed is, as Nick mentioned before, the stacking of that is quite good. And we believe that our longer-term outlook being mid-single for the company is achievable. We are in a transition, as we mentioned before, and we're going to be coming out of the other side of that as we look forward. And we think that's where we have built that guidance from. And I appreciate the question, but please pay attention to the size of the portfolio that's behind integrated cyber defense. And anchoring that growth on purely proxies and hardware proxies is not the case. And we're a big leader in cloud access brokers. Those things have never seen a customer's data center. They all run in the cloud. There's a bunch of products like that, our pure cloud here at Symantec, and they're driving a bunch of great adjacencies and growth for us. So I appreciate the question, but I think we have done a lot of work behind that answer, and that's why we talk about it.

Operator

And at this time, I would like to pass it back to the presenters for any closing remarks.

Cynthia Hiponia - *Symantec Corporation - VP of IR*

Great. Thank you, everyone, for joining us this afternoon, and we look forward to updating you on our next call.

Gregory S. Clark - *Symantec Corporation - President, CEO & Director*

Thank you all very much. Thanks for the question.

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Operator

Ladies and gentlemen, this does conclude today's conference call. We think you greatly for your participation. You may now disconnect.

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