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NortonLifeLock, Inc. (NLOK)

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CORPORATE PARTICIPANTS

Vincent Pilette
Chief Executive Officer & Director, NortonLifeLock, Inc.

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Keith Eric Weiss
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MANAGEMENT DISCUSSION SECTION

Keith Eric Weiss
Analyst, Morgan Stanley & Co. LLC

All right, excellent. Thank you, everyone, for joining us this morning. My name is Keith Weiss, I run the US software research group here at Morgan Stanley. And very pleased to have with us from NortonLifeLock, Vincent Pilette, CEO.

So, before we sort of dig down into the details, lot's been happening in NortonLifeLock over the past year. I mean, it's safe to say NortonLifeLock didn't exist at this time last year.

Vincent Pilette
Chief Executive Officer & Director, NortonLifeLock, Inc.

Correct.

Keith Eric Weiss
Analyst, Morgan Stanley & Co. LLC

It's a new entity.

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QUESTION AND ANSWER SECTION

Keith Eric Weiss
Analyst, Morgan Stanley & Co. LLC

Q

And can you give us a little bit of your background, sort of what you've been doing prior to NortonLifeLock, and what attracted you to the opportunity that you saw at NortonLifeLock to come on board as CEO and take on this challenge?

Vincent Pilette
Chief Executive Officer & Director, NortonLifeLock, Inc.

A

For sure. So before joining Symantec, I was a tenured public CFO over the last five years at Logitech. I always enjoyed companies that have a great balance sheet, a good brand, sometimes a growing market, sometimes a flatter market, but a lot of capacity and capabilities to turn around companies that had been from an operational perspective mis-executed if I can use that word.

I invested first in Symantec in 2018 when they announced an investigation from the audit committee about certain procedures. By the time they closed that investigations, Starboard's Peter Feld had joined the board, investing to the company, and they were looking for new CFO. So, moving a little bit the company from the outside in, that was the right time to join. The day I joined the company they missed the quarter back to the mis-execution of companies I like, and the new interim CEO came on board, Rick Hill. We put a turnaround plan in place. Everybody was advising to sell the consumer business and figure the enterprise business. So we put a turnaround plan in place, which we presented to the board and was kind of mightily excited. So we thought we did something wrong and then realized that that was only the fifth turnaround plan to turn around that enterprise business. So when a little bit later, Broadcom came up and proposed to buy the enterprise business, $10.7 billion for a division that generated $300 million of operating profit, we think that was a great opportunity for us to get the value today after a risky three year to five year turnaround plan.

We then look at the consumer business, the consumer division, which started as a endpoint security division, the Norton brand, and then in 2015, 2016, bought LifeLock Identity Protection business and merged those two to offer a membership structure to consumers that redefining consumer cyber safety for consumers and realized that that division was really run for profit inside the company to fund the enterprise turnaround plan. So we thought that by reviving the business, leaders in both markets, the security endpoint and the identity protection with a long term vision was the best output for shareholders.

We sold the business in August, closed the deal on November 4. At that point in time, we had interviewed a few CEOs from outside to come in, all of which had a great vision out there. But we, the board and myself, concluded that the best for the company was really to focus on operational execution and realizing the value of the deal we just had made. So I became the CEO in November and our focus has been on eliminating the stranded costs from the deal of the enterprise and refocusing the consumer business for growth.

Keith Eric Weiss
Analyst, Morgan Stanley & Co. LLC

Q

Got it. Got it. So, before digging deeper into sort of the execution thus far to the transaction but also sort of the points on a going forward basis, I'd like to get your perspective from like a high level like, what is the consumer safety mean? Like what does it mean for the consumer to be safe in, say, the digital landscape? What's the core

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offering that you guys are looking to put together today versus what a Norton was offering five years ago or LifeLock on a standalone basis was offering? What does it mean to provide safety for those consumers today?

Vincent Pilette
Chief Executive Officer & Director, NortonLifeLock, Inc.

A

Yeah. So, the first thing that I'm thinking about is in the physical world when I think about protection, I think about insurance, understanding where my kids are, making sure that they lock the home, that there is an alarm on the home, and that's a very much mature segment of the security, overall security market. When you think about cyber, there's a lot of activities we do that are unprotected. And if today the core antivirus on your PC is kind of a commodity and you feel protected. When I look at my daughter she spends half of her time online and it ranges from doing her homework on the PC all the way to watching movies, communicating, having new friends she's never met and many other things.

And when I think about all of those things, we are not really thinking about protecting our daughter the same way. She posts picture on Instagram, maybe things that for [ph] reputation (00:05:50) she will regret five, six years down the line. My son who is 12 years old has an iPhone. There was recently a problem of bullying at school. How do I know all of those things that I don't feel he's really protected. And so cyber safety for consumers is all of those aspects in terms of awareness.

And then that's one side of the spectrum in terms of the long term. Then I go and moving to the short term and as a new CEO I meet with a lot of CEOs in the industry just to bring up my knowledge and understand the competition in the whole environment. And I realized that every companies that come from the core plain anti-virus market has moved up adding new functionality. And it could be password management and other functionalities. But a lot of them are thinking in term of endpoint. And whether it's an endpoint that's a desktop or a mobile, it's still an endpoint. And the difference with our company having brought LifeLock, we're rethinking about user applications. And it goes from protecting on an endpoint all the way to restoration and maybe even insurance of any damages that your online activities could have caused. And so, I'm taking a very broad vision of cyber safety for consumers I think is our current approach.

Keith Eric Weiss
Analyst, Morgan Stanley & Co. LLC

Q

Got it. Got it. And from my perspective, when I look at the NortonLifeLock story to-date from an investment perspective, it's all about the ability to stabilize the customer base. You've seen two quarters of stabilization in terms of this 20 million consumer customers you have today. If you could continue to keep a stable customer base or even sort of grow it on a going-forward basis, I think the stock is a no brainer from where it is today. But I think there's a inherent investor distrust of the line. I think investors are continued to be concerned about a degradation in that base. What gives you confident in the – confidence in the ability to sustain that base over time? Yeah, I guess that's a good question in there.

Vincent Pilette
Chief Executive Officer & Director, NortonLifeLock, Inc.

A

So first of all, I love when there was a distrust from an investor base because it gives us the opportunity to...

Keith Eric Weiss
Analyst, Morgan Stanley & Co. LLC

Q

Definitely.

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Vincent Pilette
Chief Executive Officer & Director, NortonLifeLock, Inc.

A

... beat your expectations, so please keep being that distrusting buddy. We – you know before we talk about customer, I have to say that the division, the consumer division, NortonLifeLock operating within Symantec had the mission of maximizing profits to fund the overall profit commitment of the company where when the company was focusing on turning around the enterprise business. As they did that, they did a very good job at improving the ARPU, the average revenue per users from below $7 per month to now $9 per month to $108 per year, crossing the $100 barrier or psychological barriers. And I think how they did that is by continuously merging the portfolio into a membership and increasing the engagement with the members, so strongly job on that side.

In addition to that, there is a very strong job in improving retention. We have an average retention rate of about 85% by cohort and by tenure it may change. But average for the portfolio is 85%, and you see the industry benchmark in our sector is between 65% and 70%. So, very strong achievement there. How do they do that? Same thing, the continuously improve the engagement with the consumers demonstrating the value we brought to them to the members as well as operationally improving the renewal processes. So, good job on that one.

What we did not do as a division is investing to acquire more customers. And so, you saw a slight decline quarter-after-quarter-after-quarter of the customer base, about 20 million paying customers today into our membership. When we became a company, we said we're shifting the number one objective for the company was to return to customer growth.

We'll do a good job at continuously improving the ARPU and the retention rate, but that's not the primary objective. And that would require more customers even if that means a lower retention rate, a lower ARPU in an aggregate for our portfolio. Obviously by cohort has to continue to improve to demonstrate the value we do.

The first investment priority that we've made is returning to the marketing investment that a company had at the time of the acquisition of LifeLock. And returning to that level has enabled us to increase our investment into new marketing avenues like social media, paid search, et cetera, as well as moving our investments, marketing investments in Europe and Asia where we had really not invested in the past. It takes time to stabilize the marketing awareness and we've had, as you mentioned, two quarters of customer stabilization, a slight growth sequentially last quarter. It will take still many few quarters, and that's our objective and that's our priority.

Now, the last one I would make when you step back is also we had a decline in customer count. We have 20 million paid customers.

Keith Eric Weiss
Analyst, Morgan Stanley & Co. LLC

Q

Right.

Vincent Pilette
Chief Executive Officer & Director, NortonLifeLock, Inc.

A

That's more than our direct competitors. And that's still a fraction, if you think about the broader cyber safety for consumers, it's still a fraction of the 7.5 billion human being on earth. And so we still see a lot of potential to continuously push the portfolio by penetrating new adjacent market.

Keith Eric Weiss
Analyst, Morgan Stanley & Co. LLC

Q

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Right.

Vincent Pilette
Chief Executive Officer & Director, NortonLifeLock, Inc.

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And so, the second level of investment obviously is to redirect some of the infrastructure savings we are capturing from the separation from the enterprise to put that into product portfolio investment, which would yield an increased rate of innovation over the next 12 months to 36 months.

Keith Eric Weiss
Analyst, Morgan Stanley & Co. LLC

Q

Got it. On the sort of digging down into the customer base, so you talked about there's 20 million consumer customers today. If you just think about the US alone, there's 128 million households. What is your current customer look like? Is there any kind of commonality in the demographic of your current customer? And just again from a customer base expansion, are there other parts of that 128 million that seem underpenetrated or sort of low hanging fruit for NortonLifeLock to be going after?

Vincent Pilette
Chief Executive Officer & Director, NortonLifeLock, Inc.

A

Yeah. So, you mentioned 128 million households, I mentioned 7.5 billion human being, billion, so, that just show you that we're still fairly underpenetrated even if you sum all of our competitors and all the paid customers is still a fraction of what total available market would be in terms of that unit count whether it's households or human being. And we need to continue to drive the awareness of what cyber safety means for consumer only to push the value of the portfolio. Again, if you think about the basic plain anti-virus say why would I pay for that, but if you continue to increase the value and go into eliminating many of the pain points on new devices like password management but in your life like managing your kids et cetera you still have a vast amount of growth.

The cohorts today it's still in all the cohorts call like it 45 years and older. But as the boundaries, the new frontier of security being basically the privacy becomes more and more informed, I think you see more and more opportunity, providing of course that innovation and new products continue to address some of the those new needs. My daughter again 14 years old post everything online doesn't really care right now about privacy although she start to worry about Uber security and many other things, but it's very small. I'm sure the first time she'll [indiscernible] (00:13:58) 18 years old and people will surf on social media and say, are you the girl that did this or that? She'll worry. And so, reputation management, many other things will continue to be in my mind the next big, big view to transform.

So, make it practical moving from the older cohorts to the younger cohorts. How do you do that? We need to need to explore new markets like the gaming markets, other markets where you have younger cohorts can have needs and mainly go from the parents to the kids. So, the next cohort is really the family and the family offering.

Keith Eric Weiss
Analyst, Morgan Stanley & Co. LLC

Q

Right. Got it. I think the interesting part of sort of the evolution of the story and this even perceived you as moving Norton and NortonLifeLock away from a relationship between sort of the software and the individual machine to the software and a user or...

Vincent Pilette
Chief Executive Officer & Director, NortonLifeLock, Inc.

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A user case.

Keith Eric Weiss
Analyst, Morgan Stanley & Co. LLC

Q

...software in a household.

Vincent Pilette
Chief Executive Officer & Director, NortonLifeLock, Inc.

A

Yeah.

Keith Eric Weiss
Analyst, Morgan Stanley & Co. LLC

Q

And then the family. I think your core customer is like a guy like me who has a family is worried about someone stealing my identity, worried about what my daughter is doing online, kind of acting as the IT guy of the organization. Can you talk a bit about how sort of that membership concept helps to sort of shift the focal point from an endpoint where a PC to sort of a user or household type perspective?

Vincent Pilette
Chief Executive Officer & Director, NortonLifeLock, Inc.

A

Yeah. And that definitely preceded me. I give credit to Greg Clark, who did a brilliant move by buying LifeLock in the middle of doing many things in enterprise and integrating Blue Coat. He saw that opportunity to accelerate the move from an endpoint device software to much more for user case offering a broader portfolio and redefining that cyber safety if you want.

Part of that vision was to develop this membership and different level of membership. And you could subscribe for that and then part of that membership, you would have access to many new functionalities. And when we launched Dark Web Monitoring, that you get that Dark Web Monitoring, you see, the highest level premium you get, everything that's in our portfolio including the Connected Family for a certain number of family. Our view, I think, we are the beginning of that. When you look at the road ahead, in term of integrating all of those functionalities, we only there at the early stage in term of penetration, we're at the early stage.

And in the last point I would make is, the membership is kind of the vision, it will never fully replaced also selling an individual product, if there is an individual product that a consumer would want.

Keith Eric Weiss
Analyst, Morgan Stanley & Co. LLC

Q

Got it. And if we look kind of the other side of that equation, now that the story is less dependent on an endpoint, a couple of that that used to go down; like, one, does that change the competitive dynamic at all in terms of what's the dollar you're really trying to go after? So does it make, say, that Windows Defender less of a competitor because that's just about AV on the endpoint, or – I tell you that's the question number one, it's like how – what does that do you think – of that dynamic when we're not talking about an endpoint solution anymore?

Vincent Pilette
Chief Executive Officer & Director, NortonLifeLock, Inc.

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Yeah. So, every market has a life cycle, right? And if you take the plain antivirus, obviously, that's kind of a commoditized view, and you have Microsoft Defender and a few others that are there in that market. Your OS

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itself is more secure than it was 10 years ago. 10 years ago OS maybe the strong point for antivirus. And everyone in that industry, obviously, has moved up adding incremental functionalities.

Keith Eric Weiss
Analyst, Morgan Stanley & Co. LLC

Q

Right.

Vincent Pilette
Chief Executive Officer & Director, NortonLifeLock, Inc.

A

Multi-devices [indiscernible] (00:17:30) to mobile, multi-OS, and the new function, that I mentioned, password management, there are others tracking new data making sure, you have your cookies management [indiscernible] (00:17:41) endpoint. And then when you pass the endpoint, you get really in touch with the users. What is the user case from prevention to restoration all the way to insurance to restore or repay the [indiscernible] (00:17:54) of course when it happens.

And I think we are moving along that line. Every competitor is talking about moving from that [ph] point have I (00:18:03) up and they are in different stage. I think again the acquisition of LifeLock for us has enabled the division to rethink differently in term of total dollars. If you look at antivirus from third-party to date it's a $5 billion to $6 billion market. It's a flat market. As soon as you move into the identity market, it's still US centric. It's another $4 billion to $5 billion market. Now it's growing 5%.

If you think about some of the privacy elements although privacy is not well defined as a market but there are submarket in that overall broad area. You have another few billions, a very fragmented and early stage. When you think about connecting [ph] You Live (00:18:45) and managing through AI softwares, anti-bullying behaviors and others that's not even a defined market today, so the opportunity if you want in front of us is pretty big.

Keith Eric Weiss
Analyst, Morgan Stanley & Co. LLC

Q

Got it. Got it. And then digging in on that, since it's not as much about the endpoint as it was historically, how do you view OEM relationships? OEM relationships used to be the primary avenue that all the endpoint vendors or the AV vendors used to get new customers onboard. Would those ever be attracted to NortonLifeLock as an avenue just you're trying to grow the customer base or is that relationship just too strained now?

Vincent Pilette
Chief Executive Officer & Director, NortonLifeLock, Inc.

A

Yeah. So you mentioned a few times now, we're not so much depending on the endpoint and/or the antivirus, which is true in the story and you said the story, I want to really still be very clean and that's what I did in every turn on we've had. We need to have a core. The core is coming from that endpoint antivirus, right? To be clear, they feed the majority of our revenue.

Being good at the core, being very efficient, it drives all of the margin, all of free cash flow and you penetrate and then you build up on that adjacent capabilities, adjacent markets, adjacent offerings. LifeLock was one of them and there will be more. But protecting the core and we still want to be very good into the core is important. In the antivirus market, we have about 30% of that market. We have a few of the leaders that are of size and then there's still 40% that's [ph] strongly (00:20:12) amongst many small players.

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The way we get access in that market, the distribution, at a high level, three ways, one is you have a free premium approach, you get for free and then you get a customer or percentage of your customer base to upgrade. The second one is you partner with the PC or endpoint manufacturers and they preload and then you go and turn around a few, or you get direct-to-access to your customer through marketing and you have an e-commerce engine. We're the leader in the e-commerce engine and we like that because our brand is recognized. We have direct access to the customers and there is no in-between.

In the past, Symantec had the OEM relationship where they moved away from because those are long cycles, 5 to 10 years relationships. They burn cash at the beginning and then they become profitable at the end. And if you have many, then you can target them and [ph] so good luck (00:21:03) on that. We decided a few years ago to not participate in those OEM deals because we're managing the division for profit. And as I said, if there is a good financial case to make for it, we would not shy away from it.

On the other side of the spectrum, free software, we always decide not to go for that because our brand is US premium. We invest a lot in R&D and we develop innovative solutions. The advantage is the customer knows to pay for our solutions. When you are free software provider, it's always hard to come up with new product and convince your customer that they have now to pay for it versus what they got for free, and that's their challenge and so we'll always review all potential distribution. There is no sacred cow, but we'll make strategic choice and decide to pick this on many consideration, including the financial consideration.

Keith Eric Weiss
Analyst, Morgan Stanley & Co. LLC
Q

Got it. And pushing back in that a little bit in terms of the freemium model there's some companies out of Europe like an Avast that has been very successful with their freemium model particularly going into geographies like Brazil or Russia that are perhaps more price sensitive. You've talked a lot about sort of international expansion getting to the sort of – owing 25% of your business outside of the US. Is that a potential avenue that you guys would look at to get into the different type of economy or right now it's just off the table? It would be direct to consumer marketing is the preferred entry point?

Vincent Pilette
Chief Executive Officer & Director, NortonLifeLock, Inc.
A

So Avast is a direct-to-customer but they do too freemium...

Keith Eric Weiss
Analyst, Morgan Stanley & Co. LLC
Q

Correct.

Vincent Pilette
Chief Executive Officer & Director, NortonLifeLock, Inc.
A

...and other approach than us doing marketing and innovation and paid for customers. They're going still to monetize and I have to tell you, I don't know if it's the freemium model that's successful for Avast, but management team is very strong operationally focused. I have a lot of respect for what they did. It still requires you, if we want to move a premium brand to go into a freemium to have a different approach. As we expand it internationally that's why I say we have a membership structure but we also go single product.

So last quarter we launched [audio gap] (00:23:12) at a lower price point, not free but at a lower price point and trying to learn about some of the emerging market opportunities we could have going with the full membership, it

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may be too early for the development or for the offering in that country at this point in time for where we are in that country. But again we'll leave no distribution opportunity outside of our study and we'll look at all of them. Some will make sense, some will not make sense and we'll make choices based on that.

Keith Eric Weiss
Analyst, Morgan Stanley & Co. LLC

Q

Got it. Two quick market questions and then let's take a deep dive – dig into the prior portfolio a little bit more. Just from sort of a demand perspective, I'd be remiss if I didn't ask about any potential impacts from COVID-19. Some of the big companies like Microsoft's talking about disruptions in their supply chains and getting PCs out there. PCs are still sort of the core of your business, any sense of disruption in demand trends that you guys are seeing around your business?

Vincent Pilette
Chief Executive Officer & Director, NortonLifeLock, Inc.

A

I mean, the short answer is no we have no revenue in China, no employee or [ph] six people I think in (00:24:17) China, there's no employee in China.

Keith Eric Weiss
Analyst, Morgan Stanley & Co. LLC

Q

Okay.

Vincent Pilette
Chief Executive Officer & Director, NortonLifeLock, Inc.

A

We're not attached to PC shipments, are we attached to PC? Yes, we still have antivirus revenue in our environment but actually that's linked to the 1.6 billion PCs out there, many of which are outdated. So, the more outdated you are, the more antivirus you need. So, I'm glad that we dragged the lifecycle of that installed base but short answer is no.

Keith Eric Weiss
Analyst, Morgan Stanley & Co. LLC

Q

Got it. And then on the flip side of the equation, there is been a lot of focus over the past year or two years on privacy particularly with new regulation like GDPR or CCPA in California. Those have to do with consumer privacy. It impact lot of the spending definitely on compliance and data governance for larger enterprises. Is there any kind of demand impact that you guys have sensed in terms of – from a consumer side of the equation or more of an awareness and sort of wanting to do more to protect their privacy as of yet?

Vincent Pilette
Chief Executive Officer & Director, NortonLifeLock, Inc.

A

I think those are long term trends and definitely privacy is the new frontier of security if you want. And that will only open new opportunities, I think. Our brand is known as a trusted brand and the trust factor is an important one as we continue to look at privacy offerings. So short-term, I would say it's going to have an immediate impact but in terms of thinking and the evolution of our portfolio, definitely privacy is an opportunity.

Keith Eric Weiss
Analyst, Morgan Stanley & Co. LLC

Q

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Got it. So, I wanted to dig into the product portfolio [indiscernible] (00:25:53) particularly the various components of the Norton 360 membership plan. You have sort of separate areas of coverage, if you will, device protection, online privacy enablement, dark web monitoring, identity protection, is there anything – is there anyone within them that tends to be kind of the lead in terms of bringing new customers on board, or is it sort of all four kind of contributing?

Vincent Pilette
Chief Executive Officer & Director, NortonLifeLock, Inc.

A

You know this is the benefit of the membership. It has multiple functionalities and based on the event that's happening in the market, we have a fast response marketing team that then tweak the marketing message to the event of the time, early January or end of December, then remember there was a Facebook breach and immediately we can tweak about, what does it mean for you, not only tweak for selling more membership, but tweak to educate both our members of today and future members of Norton 360 about the risks of leaks and other things.

If there is some issue as around data privacy or other kind of things, then we can tweak our marketing around data privacy and those concerns. So fast reaction of new marketing messages is probably the more important one.

Keith Eric Weiss
Analyst, Morgan Stanley & Co. LLC

Q

Got it. Got it. So, in terms of migrating the customer base towards the membership programs, how far are we in terms of the overall installed base getting on to the membership programs?

Vincent Pilette
Chief Executive Officer & Director, NortonLifeLock, Inc.

A

With low-double-digit percentages, I think we're not very far yet.

Keith Eric Weiss
Analyst, Morgan Stanley & Co. LLC

Q

Yeah.

Vincent Pilette
Chief Executive Officer & Director, NortonLifeLock, Inc.

A

And it grows about continuously demonstrating the value, upgrading at the time of renewals or when we bring on new customers. Most of the new customers were picking Norton 360 which is basic. And then we have six-level of membership. So we have the upgrade cycle through the renewals. An average lifetime of a customers for us is over six years. That gives the view on how we're going to continue to increase the value over the 10 years.

Keith Eric Weiss
Analyst, Morgan Stanley & Co. LLC

Q

Correct. Got it. So from an investor perspective, if we're trying to externally monitor the success of getting customers onto the membership plans and getting them upward, it's just customer base and ARPU is the only metric that we could be looking at?

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Vincent Pilette
Chief Executive Officer & Director, NortonLifeLock, Inc.

A

Actually, I would even make it simpler. Of course, obviously the measure of success has changed compared August to now. But what I show investor when I became CEO is the company was managed for profit, ARPU and retention were great metrics. The number one success metric – there will be many but the number one is that we can grow our customer count. We're bringing new customers onboard because they like the value. Even if they come at a lower ARPU, the first ARPU for a membership level is [ph] $15 (00:28:36) a month, right, so about half of what the average ARPU is. But that gives us the installed base, the awareness and the opportunity to then upsell and cross sell as we move forward.

Obviously the customer acquisition costs, the long-term value of the contract, all of those are operating metrics [ph] were going to more and more disclosed (00:28:54) as the division becomes kind of a public company and focused solely on consumer cyber safety.

Keith Eric Weiss
Analyst, Morgan Stanley & Co. LLC

Q

Got it. You talked on the recent earnings call [indiscernible] (00:29:07) this discussion about new marketing initiatives that you guys put into place that help stabilize and actually grow sequentially the customer base in the most recent quarter. Is it new marketing initiatives in type? Are you sort of taking a different approach to these marketing initiatives or just new marketing initiatives because your management team was so focused on profit, they weren't doing that type of marketing spend to try to generate demand within the market?

Vincent Pilette
Chief Executive Officer & Director, NortonLifeLock, Inc.

A

Yeah. So first of all, out of respect and due respect of the management team of that division, the objective was clearly to stay – to maximize profit and that doesn't mean cash cowing the profit, it just means investing to maximize the drop through and so ARPU and retention were the two key metrics. And they've done a very, very strong job on that.

As we shifted to increasing customer count, the very simple first request was to go back to the marketing investments of the two separate divisions Norton and LifeLock, at which point in time, I think LifeLock was growing 8% to 10% and Norton was flattish.

And we went back to that marketing investment level, the first reaction was to use the current distribution we had [ph] and the mature (00:30:24) and so the first view of those investments were in the traditional way. Then we quickly say okay, let's now try to move to more social media, our new media side and internationally where we never expanded, so we did that. We're not trying to build fast response teams that can address on the events happening in the market to market one or multiple functionalities of few memberships. And so we're constantly refining, if you want, the degree of sophistication of that marketing engine.

Keith Eric Weiss
Analyst, Morgan Stanley & Co. LLC

Q

Got it, got it. So as we think forward and in terms of the longer term plans, we'd expect to get NortonLifeLock into mid-single digit growth or higher, but also, the overall company once we get through the restructuring which will dig down into [indiscernible] (00:31:14), back to the 50% type operating margin standpoint, which isn't too far off of where they're operating NortonLifeLock as – or NortonLifeLock as...

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Vincent Pilette
Chief Executive Officer & Director, NortonLifeLock, Inc.

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A division.

Keith Eric Weiss
Analyst, Morgan Stanley & Co. LLC

Q

...division. So, if we're making increased investments and now focusing on new customer adoption versus just focusing on the margin, how do we get back to that same operating margin? It seems like you want to have your cake and eat it too.

Vincent Pilette
Chief Executive Officer & Director, NortonLifeLock, Inc.

A

Yeah. So Keith mentioned a lot of numbers and things in that question including the mid or higher gross rate. So for now, we said, hey, after the transition of this deal, we'll grow about low single-digit. In the long term, we're shooting for mid-single digits comparing where the market is and the competition growing. That's a very non-ambitious target and that's probably why you mentioned higher for me. We definitely have higher objectives inside as we develop our plans, as you mentioned.

Keith Eric Weiss
Analyst, Morgan Stanley & Co. LLC

Q

It's not [ph] going to be (00:32:07) easy for you.

Vincent Pilette
Chief Executive Officer & Director, NortonLifeLock, Inc.

A

Yes. No, no, of course. At the time as the company was driven for profit, the operating margin was on the path of 53% to 55% operating profit margin that is, 53% in the first quarter of this fiscal year. And so we targeted about 3 points of margin to put into marketing investment which we knew would have the biggest of the short term ROI that we would be looking for.

As we did that, we also we directed about 3 percentage point of revenue that were tied into infrastructure costs, like G&A was above 8% of revenue, 3% of that into new products and products including our new product management which would have longer term returns. Those investment initiatives enable us to say with reasonable confidence that we will be growing at that mid or low- to mid-single-digit growth rate. We don't feel we need to increase or decrease the operating margin there. As to get to 50% we actually lowered the margin, and we feel good about where we are today in term of the target.

Many questions investor asked me is how do you pick 50%, why not 45%? And my point is first let's learn how to walk and by walking I would say grow at our current market potential, this 3% to 5% or low- to mid-single digit.

If we see a path to grow at high single-digit, which today I would have zero credibility to tell you, we will trade off happily some point of margin if it means incremental cash flow and incremental EPS. So, again a little bit like the distribution we're not married to a certain [indiscernible] (00:33:43) but it has to go hand-in-hand, if we invest more, it has to be for higher growth rate than the one we've committed to.

Keith Eric Weiss
Analyst, Morgan Stanley & Co. LLC

Q

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Got it. We have about three minutes left, so I just want to make sure we touch on the stranded cost and the restructurings that have been going through. When the deal first closed you talked about $1.5 billion in stranded costs. That's come down subsequently. Can you talk about one, sort of how you've been able to sort of take that overall level of stranded cost down? And two, where we are in terms of executing to sort of clearing that off of the income statement?

Vincent Pilette
Chief Executive Officer & Director, NortonLifeLock, Inc.

A

Yeah. So, first before I answer your question, I do want to make an observation. Not too long ago, three to six months ago, every one of your – every investor collectively defined were telling me [ph] awh, you guys can't (00:34:29) get anything right, this – selling the enterprise business is a mistake and the stock was trading at about eight times EPS on a forecasted basis, right?

Then we start to deliver, returning the cash to shareholders, started to eliminate the stranded costs and the stock went up and trading at maybe 12 times EPS, maybe where it is today. And thinking maybe you'd execute right and maybe you will get the stranded cost out. I do want to congratulate you because it's probably the first meeting I have with the investment community where we spent 98% of our discussions on the product, opportunity and future growth because I think we have a tremendous opportunity. And we've earned the right with the last quarter and hopefully next quarter to demonstrate that we will deliver on what we committed to and eliminating stranded cost has nothing more easier when the business has been sold, meaning there was no more revenue to support.

So, we had $1.5 billion of stranded cost estimated, no revenue to support anymore. It was only a matter of time to execution or elimination. We reduced this time by about three months and we also convinced Broadcom to use and take on more to support their business which means that they repaid some of the [ph] cash used (00:35:45) and that has enabled us to drive an estimated stranded cost of $1.5 billion down to now about but less than $1 billion on the run rate from time of closing the deal to the last dollar being eliminated.

Keith Eric Weiss
Analyst, Morgan Stanley & Co. LLC

Q

Got it. Got it. Thanks. And then one last question I'm going to try to sneak in. There is a remaining relationship between you guys and Broadcom. Some shared R&D, some shared kind of distribution. How is that been working out so far? How was Broadcom been as a partner in terms of enabling that [indiscernible] (00:36:20) security information and if you go back and forth?

Vincent Pilette
Chief Executive Officer & Director, NortonLifeLock, Inc.

A

So very good. As you know, Broadcom is targeting the top of the enterprise customers, so we're focusing [ph] omni-consumers (00:36:31).

Keith Eric Weiss
Analyst, Morgan Stanley & Co. LLC

Q

Right.

Vincent Pilette
Chief Executive Officer & Director, NortonLifeLock, Inc.

A

I see them as our big brother, if you want. They're sharing data. There is a perpetual license agreement to share data our consumer endpoint and what they see and we share data and we share some of this engine where you

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mentioned some of this is really targeted on that view. It's working as well as you would imagine, sometimes some escalations. Tom, the CFO of Broadcom and myself have a direct line discussions. We have still discussion with [ph] Od (00:37:00) and his team and there's a lot of engagement to resolve issues as they come up. But it's working well.

Keith Eric Weiss
Analyst, Morgan Stanley & Co. LLC

Q

Excellent.

Vincent Pilette
Chief Executive Officer & Director, NortonLifeLock, Inc.

A

Yeah.

Keith Eric Weiss
Analyst, Morgan Stanley & Co. LLC

Well, unfortunately, I think this is the end of our allotted timeslot. But I thank you very much, Vincent, for joining us.

Vincent Pilette
Chief Executive Officer & Director, NortonLifeLock, Inc.

Thanks, Keith.

Keith Eric Weiss
Analyst, Morgan Stanley & Co. LLC

Great.

Vincent Pilette
Chief Executive Officer & Director, NortonLifeLock, Inc.

Thank you, guys.

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