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# EDITED TRANSCRIPT

NLOK - Q4 2020 NortonLifeLock Inc Earnings Call

EVENT DATE/TIME: MAY 14, 2020 / 9:00PM GMT

**OVERVIEW:**

Co. reported 4Q20 revenue of $614m and non-GAAP diluted EPS of $0.26. Expects 1Q21 revenue, normalizing for IDA and 1Q20's extra week, to be $590-605m and non-GAAP EPS to be $0.18-0.22.



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## PRESENTATION

**Operator**

Ladies and gentlemen, thank you for standing by, and welcome to the NortonLifeLock's Fourth Quarter Fiscal Year 2020 Earnings Conference Call.

(Operator Instructions) Please be advised that today's conference is being recorded. (Operator Instructions) I would now like to hand the conference over to Soohwan Kim, Head of Investor Relations. Please go ahead.

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**Soohwan Kim** - *NortonLifeLock Inc. - Head of IR*

Thank you. I'm pleased to welcome you to our call to discuss our fourth quarter fiscal '20 earnings results. We posted the earnings materials and slides to our Investor Relations events web page.

Speakers on today's call are Vincent Pilette, NortonLifeLock's CEO; Samir Kapuria, President; and Matt Brown, Interim CFO. This call will be available for replay via webcast on our website.

As a reminder, in connection with the sale of certain assets for our Enterprise Security business to Broadcom on November 4, 2019, we changed our corporate name from Symantec to NortonLifeLock. The results of our Enterprise Security business were classified as discontinued operations in our condensed consolidated statement of operations and thus, excluded from both continuing operations and segment results for all periods presented.

Starting in the second quarter of fiscal '20, we operate in 1 reportable segment. Revenues and associated costs of our ID Analytics solutions, which were formerly included in the Enterprise Security segment, are now included in our remaining reportable segment. On January 31, 2020, we completed the sale of our ID Analytics solutions.



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I'd like to remind everyone that all references to final metrics are non-GAAP, unless otherwise stated. Please refer to the supplemental materials posted on the Investor Relations website for further definitions of our non-GAAP metrics.

Please note, non-GAAP financial measures referenced during this call are reconciled to their comparable GAAP financial 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, provide meaningful supplemental information regarding our operating performance for reasons discussed below. Our management team uses these non-GAAP financial measures in assessing our operating results as well as when planning and forecasting future periods. We believe our non-GAAP financial measures also facilitate comparisons of our performance to prior periods and that investors benefit from understanding our non-GAAP financial measures. Non-GAAP financial measures are supplemental and should not be considered as a substitute for financial information presented in accordance with GAAP.

Today's call contains forward-looking statements based on conditions we currently see. Those statements are based on current beliefs, assumptions and expectations, speak only as of the current date, and as such, involve risks and uncertainties that may cause actual results to differ materially from our current expectations. In particular, our statements regarding the impact of the ongoing COVID-19 pandemic on our business and industry, our sale of our Enterprise Security assets to Broadcom, any anticipated benefits from such sale and cost reductions associated with this transaction are subject to a variety of risks. Please refer to the cautionary statement in our press release for more information. You will also find a detailed discussion of our risk factors in our filings with the SEC and, in particular, our annual report on Form 10-K for the fiscal year ended March 29, 2019, and recently filed quarterly reports on Form 10-Q.

Let me now turn the call over to Vincent.

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**Vincent Pilette** - *NortonLifeLock Inc. - CEO & Director*

Thank you, Soohwan. Good afternoon, and thank you for joining us today.

I want to start this call by thanking all our employees, as I know many of you are listening. Each of you has persevered in driving our mission and supporting our customers while working from home and adjusting to this new reality. Our mission is to protect people's online activities, which has never been more relevant than today. And on behalf of all our employees, I also want to thank our customers for the trust you have placed in our products and in us. Our business is built around prevention, detection and restoration of potential damages caused by hackers. Managing and handling crisis is part of our DNA, and the entire NortonLifeLock team is rising to the occasion, adapting ourselves and our processes to help customers in need as well as communities by donating time and resources. There is no other company I would rather be part of as we navigate the challenges that the world is currently facing.

We are pleased to report better-than-expected results in Q4, the second quarter of NortonLifeLock as a stand-alone company. Consumer revenue was up 1% year-over-year in constant currency, supported by bookings growth of 4%. We generated $0.26 EPS, up $0.10 from a year ago, driven by strong execution and the elimination of stranded costs. In addition to year-over-year bookings growth of mid-single digits, we increased net customer count by 46,000 sequentially. We grew average revenue per users. We delivered industry-leading retention while maintaining our operating profit margin over 51% when you exclude the impact of stranded costs. This was our second sequential quarter of net customer growth, adding over 100,000 customers in the last 6 months.

For the first time since 2014, we've had 2 consecutive quarters of net adds. Through the quarter, we saw a steady performance with a strong finish in the month of March. However, we're still in stabilization phase, especially in this current environment. The business is moving in the right direction, and we believe that our focused execution will deliver consistent, sustainable growth over time. The need for our products is more present than ever, driven by working from home, virtual meetings, online gaming, streaming, e-shopping, telemedicine and numerous other online transactions and interactions that put us all at risk from cyber criminals, looking to take advantage of this accelerated trend.

As Samir will remind us all in a moment, our portfolio does a tremendous job protecting people from online threat, but it is not a static world. As the threats evolve with our behaviors and technology, we are focused on delivering a portfolio that protects each element of our customers' digital



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lives. That is our mission. And we will know that we are succeeding when these added products and features consistently deliver customer count growth. That is why it is our #1 measure of success.

Let me mention a few of these highlights now. This quarter, we expanded our family offering. We offered free usage during the COVID-19 crisis. We received 3 awards from AV-TEST Institute for our device protection solutions, and we made numerous other improvements to our platform and products. In April, we expanded our international reach and capabilities with the launch of Norton 360 with LifeLock in Canada. We have a long history of innovation here at NortonLifelock, and we know that product innovation will be a cornerstone of our long-term success.

Our fourth quarter performance not only reflects the strong execution of our team, but also demonstrate the resiliency and opportunity of our business model. We sell direct to consumers with minimal reliance on physical partners, delivering high-value at a relatively low ARPU, plus over 95% of our business is recurring.

Considering these challenging times and the various requests from our investors, let me expand on each of these points, starting with recurring revenue. 90% of our revenue is direct to consumers. The vast majority of our bookings are annual subscriptions, which are paid upfront, while revenue is recognized ratably each quarter. Our indirect revenue, about 10% of our total, is also half recurring. Partners like telecom carriers and employee benefit providers pay us every month as they provide our products to their customer base. On the first day of the quarter, we have visibility on over 70% of our revenue coming off our balance sheet, and as I mentioned, over 95% of our total revenue is recurring.

Secondly, we have minimal reliance on physical retail or OEM partners. The bookings generated by these channels represent about 5% of our total bookings and the revenues included in the indirect part of our business. This 5% might be impacted by a prolonged health crisis, and we will be conservative with our forecasting. However, we do not believe travel restrictions or supply chain disruptions have much impact on our distribution capabilities overall.

Lastly, and most importantly, we are providing tremendous and relevant value for a monthly ARPU of $9. During this environment when consumers are spending almost all of their time at home and online, we're providing a round-the-clock protection for our members. We've all heard about increasing instances of online criminal activity. In April, our restoration team already started handling the first cases of identity theft related to COVID-19 subsidy payments. The opportunity for cyber crime has substantially increased, and we know that Norton 360 is helping our customers manage their online activities with more confidence knowing that Norton 360 is keeping them safe.

In the back half of Q4 and during the month of April, we have seen this customer confidence in our products reflected in solid renewal rates and new bookings. So our mission to protect everyone's digital life is more relevant than ever. And our business and financial model is as resilient as any in these uncertain times.

Now our balance sheet and cash position are equally strong. At the end of the quarter, after dividend payments and buyback, our cash balance was $2.3 billion. As a result of refinancing actions taken in Q3, we have addressed all debt maturities until the end of fiscal year 2022. Our various stress tests show that we are well capitalized with strong liquidity and plenty of financial flexibility to strategically invest in our business, make interest payments and continue to return cash to our shareholders. Our balance sheet and capital structure give us optionality to make accretive stocking acquisitions, return further capital through buybacks or both. Matt will provide you with more details about the financial and the liquidity strength in his section.

So what about the stranded costs, you might ask. Well, if I only talk about it now, it is because I consider the transition to be almost done with all decisions made to cross the finish line in August. We've run our transition to a pure-play consumer company at a rapid and decisive pace.

As I stand in front of you today on May 14, essentially all transitions have been serviced and closed. All stranded job elimination notifications have been made, and our operational head count today is around 2,500. Q1 and the beginning of Q2 will reflect the last asset write-offs and other scheduled restructuring activities. By August, we will have spent a cumulative total of $750 million in cash stranded costs. The total proceeds from the sales of underutilized assets are still projected to be around $1.5 billion, and we have already realized half of it from the sales of DigiCert and ID Analytics, fully funding the cash stranded costs. The other half is made up of various properties that we put up for sale. Prior to the COVID-19 outbreak, we had multiple offers for each of the building we own. While some contract negotiations have been slowed down, we are confident in



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our ability to monetize this asset in the near future. We believe that our bargaining position is enhanced by our strong balance sheet and cash position. By the end of the summer, our transition should be completed, officially done in 9 months, which is 3 months faster than initially planned.

In fiscal year 2020, we sold the Enterprise business for $11 billion and rightsized the infrastructure functions to be leaner and nimbler, taking out $1.5 billion in annual run rate cost out. In fiscal year '21, it is all about the productivity of our product innovation and selling motions for our consumer business. We can now focus all of our attention and energy on developing great products, taking a platform approach through upselling various levels of membership and optimizing our marketing in an environment where consumers might be increasingly receptive to our products and services.

We are passionate about our mission to protect people's online activities. We are building a leadership team that is dedicated to fulfilling that consumer needs, and you will hear more about our progress in the future.

I will now pass the call over to my business partner, Samir, for more details on our product initiatives, selling motions and our position going into fiscal year '21.

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**Samir Kapuria** - *NortonLifeLock Inc. - President*

Thank you, Vincent. We're living through a generational event. A moment in history that I would say is bringing the world closer together despite the fact we have to stay physically apart. We have quickly evolved to a common purpose of focusing on health and safety for our families, our friends and our communities.

As cyber safety is at the forefront of this tidal wave of change, we're clearly seeing a rise in attackers taking advantage of the stay-at-home mode of life. We've seen new attacks focused on leveraging COVID-19 as a means to enable fraud and identity theft through tailored malware, phishing messages, online commerce scams and more. Hackers are preying on people's emotions, fear and panic to get them to click impulsively on various malicious links. We are seeing fake offers for masks and vaccines. We're seeing phishing e-mails purportedly coming from organizations like the World Health Organization and Center for Disease Control. Hackers are also targeting recipients of stimulus checks from various governments around the world. Instead of getting the help they're looking for, many consumers end up giving away personal identifiable information or downloading malware on their devices.

Our mission is to keep customers aware as cyber safety has become more important than ever. As all households now spend more hours online, whether for school, work or in the community, protecting the home and family in a simple way is even more of a need. That's why we've strengthened our offering here.

Norton Family brings the protection and security of our products to every member of the family across multiple devices and platforms. On top of that, we recently extended our time management capability for windows to include iOS and Android devices. With many kids spending more of their day on technology, the time management capability enables parents to easily manage the duration their children are on the Internet, akin to an online time allowance. When kids reach their allowance limit, they have the ability to simply request additional time, for example, to finish an online learning activity, and parents can add more time to their balance. Time extension is part of our continued commitment to go beyond supervision and blocking to also provide tools, which help parents keep the online safety conversation going on with their children, which leads to a deeper understanding of how to be safe online.

In addition to being a stand-alone product, Norton Family is also included as parental control in our Norton 360 membership. Norton 360 is our full cyber safety platform, bringing together end-to-end security, privacy, identity, home and family capabilities to provide the best safety coverage available to our members. Norton 360 is now available in 43 countries as we completed its global rollout during Q4. This had been a major undertaking, and I would like to thank all of our team for accomplishing this transformative goal with precision in execution time. We can now focus on adding new areas of value to our membership and delighting our customers in new ways. No other safety company has the reach and scale of Norton 360 to help as many consumers as we do.



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Rounding out our cyber safety portfolio with the other 3 pillars of privacy, security and identity, here's a quick update on each of these areas. Our privacy offering has become even more relevant in the current environment as people are exchanging more sensitive information through digital channels, be it personal health care information to enable telehealth or financial information for personal accounting or even shopping for food. A VPN, or virtual private network, has become even more crucial. A VPN uses encryption to help block hackers from stealing personal information over the Internet. VPN has included in most tiers of our Norton 360 membership, and we're encouraging our members to use it more frequently to help prevent hackers from eavesdropping on their internet activity.

While Norton is our flagship brand with end-to-end capabilities and premium positioning, we also started marketing another brand called SurfEasy to extend our reach into the value segment of the privacy market. SurfEasy provides VPN protection for 5 devices, unlimited bandwidth and ad tracker blocking technology for a very competitive price. We're currently marketing SurfEasy in the U.S., U.K. and India. As Vincent said earlier, growing our customer count is the #1 goal for our company, and we believe SurfEasy will be another way to bring in new customers within our product family.

Security. Security is an integral part of the value we deliver for our members, and we have maintained consistent leadership in device security. During the quarter, we received 3 awards from the AV-TEST Institute for our device protection solutions. These included the Windows Home User Best Protection and Best Performance awards as well as the award for Best Android Protection. This represents NortonLifeLock's fifth consecutive Best Protection win for Norton Security. We are committed to building innovative technology that helps protect consumers' devices from ever-evolving cyber threats.

As people spend more time online to work and play in this environment, we believe securing devices is the foundation for security and will be more important than ever. Identity crossed a major milestone this last quarter with our first full-fledged LifeLock identity restoration suite to a country outside of the United States. Last quarter, we mentioned that we signed a partnership agreement with a large international telecom service provider. That partner is TELUS, the second largest telecom company in Canada. Creating a safer, friendlier world online is one of TELUS' pillars, aligning our 2 companies together very closely.

Similar to the social security number of the United States, Canada has the social insurance number, which is the government's unique identifier for Canadian residents. It is used as a proof of identity for any and all types of credit, health insurance and education, amongst other things. This considers the most important piece of personal identifiable information in Canada and, therefore, highly targeted by hackers. TELUS launched our Norton 360 with LifeLock in April, and we're looking forward to bringing the same level of protection and restoration capabilities to Canadians that our American customers have enjoyed for over a decade. Canada is a nascent market where identity theft protection products have not existed before. Currently, the market has been limited to just credit scores and alerts, which are a small features of an overall protection plan. We believe that Canada will grow to be an important market for us over time, akin to the U.S. years ago. It will take some time to educate the market about the benefits of identity protection.

Partners like telcos, employee benefits, retailers and e-tailers are all an important part of our go-to-market strategy, and we continue to work to bring our products to more and more partners and their customers. Working with our partners helps broaden our audience, combine our capabilities and reach consumers closer to where they need cyber safety. Look out for more from us in this area in the near future.

In the fourth quarter, average revenue per user, or ARPU, increased to $9.07 per month, up 1% sequentially and up 3% year-over-year. We also had another quarter of customer increase, adding 46,000 in the quarter. For the whole year, our retention rate was stable at 85%. These metrics demonstrate that customers appreciate the value we are providing. We have more enhancements with our membership programs for the future, and we look forward to updating you in coming quarters about our robust R&D pipeline of products.

Let me now turn the call over to Matt to discuss the Q4 actual results in more detail.

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**Matthew Charles Brown** - *NortonLifeLock Inc. - Interim CFO*

Thanks, Samir. Let me review our Q4 results in a bit more detail, focusing on non-GAAP results. Q4 revenue was better than expected at $614 million. And revenue, excluding ID Analytics, which was sold on January 31, was $610 million, up 1% year-over-year in constant currency. Q4 reported



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billings, excluding ID Analytics, was up 3% year-over-year despite the FX headwinds, which reduced ending contract liabilities on our balance sheet. The reported billings growth was supported by our second consecutive quarter of net customer adds, adding 46,000 customers in Q4, along with a steady customer retention rate at 85% for the year. Diluted EPS was $0.26, up 63% year-over-year and exceeded our guidance range, driven by strong execution and better-than-expected stranded costs in our P&L.

As we stated in our prior quarter earnings calls, during this transition period, our reported cost structure will be complex and burdened with stranded costs. However, this is becoming less so as we progress through our accelerated transition. We expect Q1 to be the last quarter with significant transition-related moving pieces in our financials. In Q4, total company operating margin from continuing operations was burdened by approximately $60 million in stranded costs and reached 41.5% compared to 27.2% in the year ago period, an increase of more than 14 points, and 36.2% in the prior quarter. Our execution on eliminating stranded costs is evidenced by the steady operating margin growth, and we're well on our way to achieving the 50% post-transition operating margin for the total company. In addition, we continue to service and reduce our TSAs, and eliminate the positions that were linked to stranded activities.

In Q4, ending head count was down to approximately 3,700 employees. And as Vincent mentioned, we finished substantially all remaining notifications at the end of April. Notified employees will remain on our books through Q1 in accordance with country-specific notice periods, such as one in the U.S. But operationally, we are now running the business with approximately 2,500 employees, achieving the long-term model we targeted when we sold the Enterprise business well ahead of schedule.

On the topic of cash, and as we mentioned to you in last quarter's earnings call, Q4 cash flow from operating activities includes large onetime payments for divestiture-related tax amounts. And as a result of these payments as well as net cash outflows from stranded costs, our cash flow from operating activities in Q4 was materially negative as planned. However, absent the onetime payments and stranded costs, our business is operating in line with our long-term model of approximately $900 million in free cash flow on an annual basis. We ended the fourth quarter with cash and short-term investments of $2.3 billion, giving us plenty of flexibility, driving our business for growth.

This past quarter, we continued to return significant amounts of capital to shareholders through repurchases and dividends. We repurchased 29 million shares in the quarter for a total of $658 million, and we've utilized $1 billion, thus far, of the $1.6 billion share buyback authorization. In addition, we cash settled the principal and conversion rights of a $250 million convertible note, which lowered our overall debt level and reduced our diluted share count. We paid our regular dividend of $0.125 per share this quarter, and we remain committed to paying our annual dividend of $0.50 per share. And last, but certainly not least, we made good on our commitment to return 100% of the after-tax proceeds from the sale of the Enterprise business via the $12 per share special dividend at the end of January.

I'd like to now spend a couple of minutes discussing how we're positioned amid the economic uncertainty caused by the recent COVID-19 crisis. In the early days of the COVID-19 crisis, we paused our share buyback with approximately $600 million left on the authorization to be flexible with any challenges and opportunities that may arise in the new economic environment. This was a prudent approach as our excess cash capacity affords us greater flexibility. However, we remain open to a number of options and plan to resume our buyback program opportunistically.

Another impact of the COVID-19 crisis is the delay in the sales of our underutilized real estate assets as some potential buyers take a slower approach. However, we believe it is a temporary delay and remain confident we will be able to move forward with the sales in a reasonable time frame. Importantly, this slowdown does not impact our ability to achieve the post-transition operating margin outlook. And more importantly, we are not relying on that cash to run the business.

As Vincent mentioned, the vast majority of our business is direct to our highly recurring diverse subscriber base. The ratable nature of our business helps minimize disruption in our financials from short-term economic headwinds. In addition, our balance sheet is strong with $2.3 billion in cash and short-term investments as of Q4 as well as access to our undrawn $1 billion revolver. And we have a capital-efficient model reflected in our low CapEx spending. We spent just $3 million in Q4 and expect our annual CapEx should be approximately $40 million, with depreciation expense to be in the range of our CapEx spending going forward. In addition, the maturities of our outstanding debt extend well into the future. Our $750 million senior note that's due in September is being replaced by the $750 million delayed draw term loan that we structured back in November and pushes that maturity out to fiscal year 2025. The next debt maturities don't occur until almost 2 years from now. In addition, we are well within our covenant limits. We ran a series of downturn scenarios to stress test the business.



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Even under severe downturn sensitivity scenarios, we have sufficient room in our financial covenants as well as minimum cash flow needed to operate the business and protect our regular cash dividend. For example, our trailing 12-month adjusted EBITDA would have to drop by almost 40% before triggering any issues with our covenants at the current debt levels. So we feel very good about our liquidity and capital structure.

To recap, I'm very pleased with how we executed. We turned in a strong financial performance this quarter, delivering revenue and EPS growth, reducing debt, lowering our share count, accelerating our transition and maintaining strong liquidity heading into the COVID-19 economic environment.

Let me now turn the call back to Vincent to provide our Q1 outlook.

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**Vincent Pilette** - *NortonLifeLock Inc. - CEO & Director*

Thanks, Matt. Let me now provide our Q1 outlook and also discuss our long-term growth strategy for NortonLifeLock.

March trends continued into April. Quarter-to-date, we generated slightly positive customer net adds and almost mid-single-digit booking growth overall. Direct-to-consumers booking grew high single digit in April as people continue to adapt to life working from home. This growth was partially offset by decline in our retail sales, impacting our overall indirect partner sales. Maintaining this net positive trend, we expect revenue in the range of $590 million to $605 million or 0% to 2% growth when normalizing for IDA and the extra week in Q1 fiscal year '20. This revenue outlook is supported by bookings growth in the low to mid-single-digit range.

We expect Q1 non-GAAP EPS to be in the range of $0.18 to $0.22 per share with the business operating at approximately 50% profit margin when excluding the stranded cost. As stranded activities are expected to be fully eliminated by August, although we will write off additional assets in Q1 with the goal to be over 90% done by the end of June.

In fiscal year '20, we returned to previous marketing investment levels, primarily targeted at direct acquisition programs. And we will continue to invest in our distribution and product road map for long-term impact. While these initiatives take time to generate revenue, we are very encouraged to see 3 consecutive quarter of low to mid-single-digit bookings growth year-over-year.

I also said that while we have a fantastic opportunity to define a simple and reliable path to cyber safety, it won't be a linear road by any means. Certainly, no one could have anticipated the world to go into a full lockdown only a month after we last gave guidance. While we will be cautious and agile in managing our business, our mission to protect and safely enable customer digital lives is more relevant than ever.

And with that, Matt, Samir and I are now happy to take any questions. Operator?

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## QUESTIONS AND ANSWERS

**Operator**

(Operator Instructions) Our first question is from the line of Keith Weiss with Morgan Stanley.

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

A very nice quarter. Vincent, I was hoping you could drill down for us a little bit more into kind of what you think the impacts of COVID-19 were on the overall business. It sounds like it may have been a tailwind for the direct-to-consumer side of the equation, just given more people working from home and that heightened threat environment, but that was slightly offset by the retail environment because obviously, people just can't go to the stores in the same way. Can you help us understand kind of the puts and takes? And whether you think there's kind of durable tailwinds from kind of work from home and shelter in place that could persist for some time?



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**Vincent Pilette** - *NortonLifeLock Inc. - CEO & Director*

Yes. So let me first go back at the core. As we develop the cyber safety membership, Norton 360, we have underlying growth drivers, which is that more and more consumers are driving their operations, their lives online, and they want to do that in a safe environment. We have, since we became NortonLifelock in November, reinvested in marketing to make our products known out there. We had launched Norton 360 at the beginning of this fiscal year, as you know, and we pushed that rollout through. We were on a steady path, if you want, turning a situation where we had a declining customer count into bringing more and more new customers. It was passed through the quarter. We saw in the month of March, more demand and slow conversion or realization of that increased demand. We saw that through the month of April. And obviously, you can understand that all of the activities from working from home, not wanting to go into the shopping malls and all of those things, have only increased the need for better protection online. As you mentioned, that was offset partially by the fact that at physical stores, we couldn't go and buy a token or one of our products, but that was a mild offset. So we're encouraged by the trends. It will be a long-term trend. We believe that will continue, which is more people will work from home, will live their life online and will need our products.

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

Got it. And just one follow-up, just to make sure I'm clear on the real estate. So it sounds like the real estate transactions that you guys were expecting had slowed down a little bit, but you still feel pretty good on getting them closed. The fact that they don't impact our operating margin assumptions on a go-forward basis, is that because of the expectation that they still get closed? Or it's just -- it was a relatively minor part of OpEx, we still get to -- there is like 50% operating margin levels without selling the real estate?

**Vincent Pilette** - *NortonLifeLock Inc. - CEO & Director*

So we have reduced now our head count to what our long-term model structure is for the consumer business, about 2,500. And with that, we've vacated the buildings that are not needed anymore. We put them for sale and roll them off our P&L, put them on our balance sheet, teed up for sales. We've had multiple offers for each one of those buildings. And then through the outbreak, as you imagine, those discussions slowed down, some drop. Some tried to do an accelerated path coming back into the offers around, if you want. And it will take -- our expectation is that it will take a little bit more time. We have not revised our value down. We're not pressed for cash, as you know, and we have multiple options, including in the short term, one of the buyer came back with a short-term lease, while they were figuring out they need. So from that perspective, I don't see any impact in our operational business, and it's about time to cash in terms of realizing these underutilized assets.

**Operator**

And our next question is from the line of Saket Kalia with Barclays Capital.

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

Okay. Great. First, maybe for you, Vincent. Nice couple of quarters of positive subscriber additions. And I guess, as that renewal base kind of grows here in fiscal '21, how are you thinking about the importance of sort of retention rate versus sort of top of funnel? I know we're not guiding to fiscal '21 yet. And obviously, you've invested a lot more in marketing to improve that top of funnel. Is there anything that you could sort of do on the retention rate as well as you look forward a year?

**Vincent Pilette** - *NortonLifeLock Inc. - CEO & Director*

No, absolutely. So at a very high level, if you take the 3 areas that drive growth. One is, number one, more customers. The second one is offering a great product that they want at a higher level of membership. And you know we roll out Norton 360. We now have about 25% of our installed base into Norton 360, and that increased engagement. And the third one is to increase retention. We have great operational teams driving each 1 of



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those 3 areas and driving for growth. As I shared a quarter ago and shared with the team all the time, it's a balance between all those 3 drivers, but the #1 metric is increasing the customer count. Behind that, it is the marketing investment, it's the Net Promoter Scores and the customer satisfaction, and we're driving that. If you see our retention, it has improved in each one of the cohort by tenure. But you know that the first year of tenure is a lower retention and an increase as they've seen to our portfolio. And so the increased retention as they engage more and more on Norton 360 is slightly offset because we're returning to customer growth. Overall, though, it's all value for the business.

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

Got it. That makes sense. For my follow-up, maybe for you, Matt. Can you just talk a little bit about the EPS guide here in Q1 and perhaps the pace of stranded cost removal? It sounds like a lot of the TSA expenses are sort of wrapping up. To Vincent's point, we're down to sort of the head count that we were planning on. So how do you think about that sequential downtick in EPS in Q1?

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**Matthew Charles Brown** - *NortonLifeLock Inc. - Interim CFO*

Sure. So our stranded costs are coming to a close. But as they come to a close, they will impact different areas of the P&L in different quarters, depending on the types of activities and how they end. And so as we've sort of been consistent in this message over the last couple of quarters, our reporting structure is complex. The stranded costs show up in different areas of the P&L depending on the types of activities. And so for that reason, though, we expect these activities to come to a close, they may be impacting a different area of the P&L.

Having said that, our core business, we expect to operate at that 50% operating margin that we've discussed and have continued to discuss. And so we will, of course, make it clear next quarter when we report where those stranded costs showed up, but that is the reason for the guide of $0.18 to $0.22.

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**Operator**

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

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

Maybe Matt or Vincent for you, a question on retention. I think for all of us, it's a little bit harder to overlook the broader unemployment backdrop and weakening sense of consumer confidence and spending and sort of weakening spending signal. So as we take those dynamics into consideration, I'm wondering if you guys can talk to the renewal, churn and upsell trends that give you confidence that the level of retention that you're seeing today is sustainable. And then I have a follow-up as well.

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**Vincent Pilette** - *NortonLifeLock Inc. - CEO & Director*

Yes, absolutely. So as you imagine, at the beginning days of the COVID-19 outbreak went back to a lot of scenarios. We also went back to what happened in 2008, look at the retention rate during that time. And actually, it was pretty resilient and sustainable even then. Now every environment or every crisis is unique, and this one brings something that is very different. It changes the way we operate our lives. It changes the way we work. It changes the way we interact, the way we shop. And I think there is an underlying acceleration of the need for more privacy, more security online. That's why you see companies like Logitech selling more video conferencing systems, and us with that selling more security products. And I think the trends of having more awareness of few lives moving online is a structural trend. Now it may be impacting in the short term here and there by different economic headwind, but I think we're well positioned from that.

And we have the perfect solution, launching last year the Norton 360 membership, we saw an acceleration of the adoption rate through the last 2 quarters, and we're pretty pleased by that.



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

That's super helpful. And Samir, maybe for you, continue to appreciate your international rollout here. And so with more product available internationally and perhaps a lot of these offerings aren't as maybe comparatively comprehensive as some of your domestic offerings that include the LifeLock and the higher end LifeLock feature functionality, your ARPU is still up in the quarter. So can you help us understand what some of the puts and takes here are on the ARPU continuing to improve even as you go into ex U.S. geographies that typically have a lower comparative feature base within the product? And that's it for me.

**Samir Kapuria** - *NortonLifeLock Inc. - President*

Thanks, Fatima. Yes. As we look at the international expansion, for the most part, we're entering cohorts in markets where the needs have increased dramatically. And so our security, our privacy and even the identity solutions that we have designed for certain international markets allow us to hit those markets with a premium offering, and that's allowed us to maintain our ARPU. I think to the comments that Vincent just shared with a lot more at risk in today's environment given the masses of people that now are doing the digital equivalent of what their physical lives were, there is an appreciation for making sure that it's also safe and secure. And we're seeing that trend continue, both in our expansion in Europe and in Asia.

**Operator**

And next, we have a question from the line of Gregg Moskowitz with Mizuho.

**Gregg Steven Moskowitz** - *Mizuho Securities USA LLC, Research Division - MD of Americas Research*

Okay. Nice to chat with you. So it's good to hear that 25% of your installed base is on Norton 360, although you do have a few different SKUs, some, but not all of which, include LifeLock. And so I was wondering if you were able to share the percentage of the Norton installed base that has converted to LifeLock memberships as well as just how the conversion rate has been trending?

**Vincent Pilette** - *NortonLifeLock Inc. - CEO & Director*

So you're right. We have, at a high level, about 6 levels of membership, and it starts with what I would call basic securities and then add various level of functionalities, password managers and others. And then for the last 3 membership, it includes the identity. So that's Norton 360 with LifeLock and start basic and finish that premium. We've seen a good adoption of that Norton 360 across. When we sell today, so the new customer acquired in the vast majority on the Norton 360 platform, we're not going to share now between the different membership where the ratio is, but we've seen good adoption, and we expect that to continue over the next 4 quarters as we go through fiscal year 21.

**Gregg Steven Moskowitz** - *Mizuho Securities USA LLC, Research Division - MD of Americas Research*

Okay. And then maybe a follow-up for Samir. I think you talked about Norton Family, and I think one can make a clear argument that the need for something like Norton Family in the household is stronger than ever before. I think your 6-month free trial for that product has been in play for around 6 weeks now. What have you seen in terms of sign up?

**Samir Kapuria** - *NortonLifeLock Inc. - President*

Yes, thanks for that question. We've seen a lot of uptick in adoption of that Family for free. I think it goes back to the volume of children that are now schooling, gaming and communicating online, while there's a large cohort of parents that, at the same time, are working from home. And so with the adoption of that stay-at-home lifestyle, what we've seen is a much higher use of Norton Family, almost like a digital guardian for parents. And we're just happy to be able to contribute back in this time where we've got this crisis amidst us.



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**Operator**

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

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

It's great to see the durability of the business during such crazy times, and I hope everyone on the call is doing well. My question for you is, to what extent are you benefiting from lower advertising costs? And how has the ROI been trending on marketing spend? And how would that look on a more normalized basis? And perhaps even how to think about that equation shifting when marketing costs and CPCs trend back upward?

**Vincent Pilette** - *NortonLifeLock Inc. - CEO & Director*

Very good question. So as you mentioned, early March, we saw a drop in marketing rates. We were already trying to shift or doing shifting between long-form TV ads into more social and dynamic advertising. So we're in the process of improving the productivity of our recently increased marketing spend. I think we discussed in the last call that you first raise your marketing level and then you maintain that level for a consistent period to improve over time. We've seen a low double-digit improvement in our a CAC, customer acquisition cost, to the quarter, and we plan to leverage that, balance it between profitability and/or reinvestment as we see growth momentum mainly international.

**Operator**

And our next question is from the line of Walter Pritchard with Citi.

**Walter Herbert Pritchard** - *Citigroup Inc, Research Division - MD & U.S. Software Analyst*

Just wondering on the sub additions, the net, could you help us understand over the last 3 quarters with an inflection, how much of that has been the improvement in retention versus the gross adds that go in there?

**Vincent Pilette** - *NortonLifeLock Inc. - CEO & Director*

So as you know, right, for the last 2 quarter -- 3 quarters, we increased our marketing spend, it's really shifted for the last 2 quarters with over 100,000 new customers acquired. Our retention rates have been very stable, around 85%, and it's really about increasing the productivity and the return from our marketing investments. So it's net new coming from direct consumer acquisition programs.

**Walter Herbert Pritchard** - *Citigroup Inc, Research Division - MD & U.S. Software Analyst*

Got it. And then just a follow-up on the Family question that came up. That product is free right now. Do you intend to make that product free forever? And is there sort of a timing that we should think about, we might start to see some paid conversion off of that free product?

**Samir Kapuria** - *NortonLifeLock Inc. - President*

Yes, Walter. The Family FREE is something that we've decided to contribute. We're not looking at it as a business as much as it is a contribution to the situation at hand. But we do hope to deliver value and more awareness around the overarching cyber safety needs based on that. And we'll see what happens in the future. Hopefully, we get out of this current pandemic in a short amount of time, and we can reevaluate that.



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**Operator**

Our next question is from the line of Phil Winslow with Wells Fargo.

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**Philip Alan Winslow** - *Wells Fargo Securities, LLC, Research Division - Senior Analyst*

Vincent, just going back to your comment on the cost of customer acquisition. Have you seen any change in the efficacy of the marketing channels that you've been using? And how are you thinking about that allocation there?

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**Vincent Pilette** - *NortonLifeLock Inc. - CEO & Director*

Yes. I think we mentioned it, right. So we raised our marketing investment. 2 things we're doing is doing more social and pay search or search paid that goes into more quick returns than the long-form TV. And then it's moving more of our marketing dollars internationally. In the past and certainly in fiscal year '19, the marketing investment were solely dig in to the U.S. And so we've expanded that internationally as we roll out our Norton 360, now more than 43 countries. And then as we maintain this investment at a certain level, we should see a continuous improvement of our CAC as we progress through fiscal year '21.

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**Operator**

And our next question is from the line of Matt Hedberg with RBC Capital Markets.

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**Matthew George Hedberg** - *RBC Capital Markets, Research Division - Analyst*

A few questions on retention here. I just had one other one. It's great that it's been stable, and it sounds like you're seeing strong subscriber trends in April or May. I'm just sort of curious how you're thinking about retention relative to your Q1 guide? And I mean have you seen any change in that in the very short term, given the unemployment rates?

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**Vincent Pilette** - *NortonLifeLock Inc. - CEO & Director*

So we actually saw very solid trends of retention in the month of March and April. We are not forecasting, if you want, dramatic change in retention. We've seen increased engagement from customers moving to Norton 360 platform and that increased the retention, and then that has to be offset with bringing new customers and continuously growing our customer base with the first year retention being lower than the average we mentioned. And we have, of course, a program trying to improve the retention rate of the first year cohort. So as I mentioned, it's a balance between ARPU, retention and new customer counts. And our #1 objective is to grow customer count sustainably for the long term.

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**Operator**

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

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

Congrats on a solid set of results. I had a quick product-related question. I think you might have addressed it. I'm not certain. Part of your membership, I think, include your cloud backup products, which is, I think, now available strictly on the Windows operating system. Did you indicate that it's now available on iOS and Android as well?

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**Samir Kapuria** - *NortonLifeLock Inc. - President*

I'll take that one, Vincent. The comment we made was regarding our time management capability within Norton Family. That was originally Windows. And in the interest of expanding that to help parents at home, we have now added that to iOS and Android as well. So that's the comment we were making.

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**Operator**

And ladies and gentlemen, I would now like to turn it back to the CEO for final summary.

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**Vincent Pilette** - *NortonLifeLock Inc. - CEO & Director*

Thank you. We believe NortonLifeLock has a unique opportunity to build the best portfolio addressing the consumers' ever-evolving needs for cyber safety. While the economic environment might be volatile and uncertain, our resilient business model and strong balance sheet give us the ability to continue to execute our business plan with minimal interruption. We are adapting as we go. We are tactically focused on delivering to our best potential every single day. We have a bias for action and a mission to make the world cyber safe. Thank you for joining us today.

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**Operator**

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

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