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NortonLifeLock, Inc. (NLOK)

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MANAGEMENT DISCUSSION SECTION

Walter H. Pritchard
Analyst, Citigroup Global Markets, Inc.

All right. Thanks everybody for joining us for another session here at the Citi 2020 Virtual Tech conference. I'm Walter Pritchard of Citi, I'm happy to have with us the team from NortonLifeLock. We have Vincent Pilette who is the CEO and Natalie Derse who is the CFO. I was going to go through some questions that I have prepared, and Soohwan Kim, the Head of IR is on the line as well. I'm going to go through some questions that I had prepared and you'll notice in your – in your conference interface on the left hand side, there is a tab that says questions and if you want to send us any questions through that, you can do that and I will do my best to incorporate that into the discussion.

So again thanks both of you for joining us. Appreciate it very much.

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

Yeah. Hey, Walter.

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QUESTION AND ANSWER SECTION

Walter H. Pritchard
Analyst, Citigroup Global Markets, Inc.

Q

Hey. All right. So I guess, Vincent maybe we could start, you know you joined, you know Symantec sort of proper as the CFO and then you know, very quickly the company went through a process to, you know separate off the assets and you know you've gone through much of that process. Could you talk about sort of where we are today on, you know what that separation has enabled you to do as a company and, you know how clean are things at this point are you able to sort of operate the way you want, there are still some vestiges of what you've done with the separation to be done here before you can kind of get to where you want to be.

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

A

Yeah. Sure, Walter. Allow me to go back a little bit. First of all, I joined Symantec in May 2019 and it was definitely a full company and went through the full process of being approached by Broadcom to buy our enterprise businesses and asset sale. So the interim CEO of the time, Rick Hill, and myself went through assessment of the assets we had on hand and how those two division, enterprise – security enterprise and the consumer security division – where and how they were positioned in the market versus competition. And what everybody was actually advising, to sell the consumer security business because it was cash flow-rich stable business and try to fix the enterprise.

Selling the enterprise for $11 billion, more than the discounted value of any turnaround plan we had seen so far, was a great opportunity. And looking back and analyzing the consumer business, we realized that when we talk about security, most of the investors, the analysts and people in the industry think about Enterprise Security. But on the consumer space, there were a very few companies focused specifically on protecting consumers from cybercrimes. And my predecessor in the job, Greg Clark, did a brilliant move by buying LifeLock and merging for consumer the Norton division consumer security with LifeLock identity protection to create a vision around cyber safety for consumer. And the hypothesis was that more and more of your consumer life will be lived online and that security for consumer came from initially 15 years ago, very device-centric.

And as we bought LifeLock, we became user-centric in merging both security and identity protection. And the same way that we saw an explosion of devices, we've seen an explosion of digital identities supporting commercial and other activities moving online, and cyber criminals adapting to that new environment.

The team built Norton 360 as a platform, kind of an offering for membership, giving you the right to have cyber peace of mind, if you want, fully protected by – or from cyber criminals with Norton 360. And that was the vision. And we realized that that was not really well understood in the market. It was well ahead of where the competition was but the division was really managed as a profit maximization business.

So when we sold the enterprise business, the first order of priorities for the management team was twofold. One was to eliminate all stranded costs from the asset purchase from Broadcom. So basically taking a division and putting it as a standalone public company able to support itself. And the second one was to put marketing investment behind the rollout of Norton 360.

We now – three quarters later, as you know, Walter, we are fully done with the elimination of the stranded costs. At the last earnings call in July we said that 95% at the end of June were eliminated. We also said during earnings

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that in August we would write off the last ERP and after which we would be fully done, and we are completing that that process. We also invested more in marketing. We said we would return to a low-single-digit growth rate after transition and a mid-single-digit growth rate in the long-term model. And so far we've delivered three quarters of growth at around 4%, turned a declining customer count to what I will call a positive stabilization of customer count, which means slightly growing. And we're now all marching towards the long-term vision which is building that cyber safety to protect and enable consumers to live their digital life free from cyber criminals.

Walter H. Pritchard
Analyst, Citigroup Global Markets, Inc.

Q

Got it. Great. And so as we look forward, I think a lot of that complexity behind a company, it's a cleaner story. How should we look at the sort of drivers of growth for the business. Albeit your targets for growth are modest mid-single-digit, but how should we think about the drivers of that growth? Maybe you could break those out for us, and then I had a follow-up on what that growth rate can be.

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

A

Yeah, Walter, I love you said that mid-single-digit is a modest growth rate. Eight months ago, when we said we're going to grow low single-digit...

Walter H. Pritchard
Analyst, Citigroup Global Markets, Inc.

Q

Yeah.

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

A

People thought, well, now – and nobody believed us. And now we say [Technical Difficulty] (06:14) you only say mid-single-digit.

Walter H. Pritchard
Analyst, Citigroup Global Markets, Inc.

Q

Yeah. Sure.

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

A

I think we have to build – the long-term potential frankly would be 7.5 billion individuals that should and should have cyber safety. So the potential is vast. But we need to build to get there. In the long run – at the end of the day, in the long run, we are a product company. It will be about product innovation.

Cyber Safety is a broad umbrella. You still have the majority of the folks, whether it's in an IDC, a Gartner investor on that is – that will separate a security pillar, an identity pillar. Not sure it's totally defined, was that there was a privacy pillar. Privacy, maybe, is its own standalone pillar or it's a next frontier of security one can discuss. There is the connected home and family that can play into that as well.

And so, when we define cyber safety or protection and enablement of a digital life free from cybercriminals, the number of applications is vast. I can give you today 10 applications that will be exactly relevant for our portfolio but that we don't have yet, but if I have them tomorrow, you would say, make total sense.

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So, that's the long-term potential investment organically or inorganically to build up that portfolio. That's absolutely where we're going. When you bring it back more to today, the rollout of Norton 360 – to day we have slightly over 40% of the installed base on Norton 360. I think the ability to move more to that as an important one, as a vector of growth, the continuous investment in the user experience, you should consume cyber safety with the same simplicity than connecting to your Netflix and having streamlined opportunities, that these still are little more complicated. So, streamlining that overall portfolio is one membership and you have all of you unwind and protected. Investing in marketing to drive this new message and expanding that marketing from US-centric to international-centric, from traditional communications to new form of communications, are all of the operational growth driver that we are working on.

Walter H. Pritchard
Analyst, Citigroup Global Markets, Inc.

Q

Got it. And Natalie, to bring you into the conversation here, I think one of the things we've heard the company talk a lot about and Vincent already alluded to it, was on the marketing spend, that – just the investments in the business, generally, but this was a relatively starved business a year plus ago, and you've attempted to move that in the right direction. What have been the investments on the marketing side that have been the highest return so far, and how do you think about that – the sort of appropriate level of investment given where the past is and where the future could go?

Natalie Derse
Chief Financial Officer, NortonLifeLock, Inc.

A

Yeah. Thanks for the question. So, yeah, you got it right. In terms of – approximately last year, Vincent and the rest of the management team decided to create the capacity to invest. It wasn't zero to the annualized $300 million, it's more so a bit of a lift in terms of the existing marketing.

The business was relatively starved from a marketing perspective when we were still together with the enterprise side of the house. So, it was the right thing to do, it was the right time to really take a look at how do we fuel and how do we fund resources for growth. So at the time, really set the expectations, set the bar for approximately $300 million on an annualized basis.

What we've done with the fund so far, I would just generally categorize as we've started to diversify. And so I think it's no news, it's no surprise that historically we've been pretty heavy on more traditional forms of media such as TV and radio. We're not completely moving away from those. I would say we're diversifying into more of the online space, the performance media, the digital media space not only for international and more global diversification and expansion, also demographics, right.

We want to make sure that we are really allocating those resources as marketing resources to really test new markets, test new demographics, see a couple of kind of responses we're getting from a traffic and conversion perspective. I would say it's relatively too early to tell, to say do we have a winner? And which one is the front runner, in terms of the specific channel of media? Just know that we are absolutely pushing diversification within those resources. For sure we got all of the normal marketing ROI/payback/COB metrics on our radar. And we're assessing how we get not only efficiencies within that marketing spend, but how do we get the efficiencies across our cost structure, so that we can again turn around and just continuously fuel that marketing funds.

Walter H. Pritchard
Analyst, Citigroup Global Markets, Inc.

Q

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And how do you think about the different drivers, for either one of you or maybe both of you? I mean, to some degree, this is a very simple business. You have, Vincent, you mentioned 7.5 billion people on Earth; and there's a user account and then there's a price, and this isn't enterprise sales with some complexity there. Can you talk about sort of how we should think about the sort of user opportunity? And then, you've talked about the cross-sell and the 40% of the base on Norton 360 and, in the past, there has been price increases in this market and so forth. But how should we think just sort of loosely about those two sort of vectors of growth, the units and the price side?

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

A

Yeah. I can take a first crack, so the [indiscernible] (11:57). Yes, you're right, it is a much simpler set of levers. At the end of the day, our long-term success will be based on building up the portfolio that offer great user experience and, for a membership fee, you can have Cyber Safety or protection on your digital lives. There's a lot of complexity in moving customers that had a product that's in their back-end and if they don't hear from the product, it means it's good; if they hear from the product, there's something bad, to a positive experience even in Cyber Safety.

There's a lot of complexity to ensure that in a very simplistic way you can have all of your environment being safe. There's some complexity into enabling from one device to multiple device to one identity to multiple identities to an overlap of physical and digital identities and protecting that. And this is where our R&D investments, our 1,000 engineers, our experience, give us the right to play and to think about the long-term creating a lot of value.

Now when you come back to short-term, we said it pretty clearly. If our objective number one is to grow bookings, i.e., revenue, right, so to grow revenue; our number two metrics when you do some trade-off is to grow customer count, and it's to bring more customers to experience Cyber Safety. As we come in to improve the experience and build up the new functionality that give us a chance then to really retain them and do things like that. So, while we have multiple levers, I would say, total revenue growth driven by customer count growth is our priority.

Now that doesn't mean that we're going to forget about retention or forget about ARPU, the revenue per user. But even if I bring more customers and the first year retention is lower than the 85%, which is very high, that we have today or if I bring a first year customer at the lower price at the normal renewal price, then we put pressure on retention and on ARPU on an aggregated level and we're okay with that, because the priority is total revenue growth driven by more customer coming in experiencing Cyber Safety.

Walter H. Pritchard
Analyst, Citigroup Global Markets, Inc.

Q

Okay. Got it. Natalie, maybe on your end from this perspective, from a metrics perspective, I think the company sort of evolved out of being split out or taken out of Symantec, and so there's a set of metrics there. Vincent, I think you've had some influence on that. But how do you think about sort of the way to communicate the growth story to investors [indiscernible] (14:44) financial disclosure and so forth as you are taking over in the CFO role?

Natalie Derse
Chief Financial Officer, NortonLifeLock, Inc.

A

Yeah. I guess what I would say first, right out of the gate, is I'm very, very hungry for data and I'm pleasantly surprised as I come in, like, this is a very data-driven, data – lots of data available. So it's – and, folks, the leadership team, is just very hungry to have their data at hand, really understand our metrics, et cetera. So, there's a lot to work with here.

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What I would say is we won't be a company that has a set of metrics on a spreadsheet and us just manage off of the spreadsheet. We are very, very much driving the behavior, driving the rigor, driving the focus on those input metrics. And so, to the extent that we can really spend most of our time analyzing, projecting, and honestly reallocating resources to really a well-rounded set of input metrics, that's really where I'm going to be trying to drive the company.

Make no mistake, like every other CFO, we have a ton of metrics, we've got a ton of information that we're managing in the back-end; but, really, what I'm trying to push the team to do, especially in the sales and marketing functions, is really focus on those input metrics not necessarily the output metrics like retention or like the dollar-driven metrics. We really want them focused on the health; we want them focused on the top of the funnel; we want them focused on a very, very clear and crisp value proposition message to our customers in a diversified way.

Walter H. Pritchard
Analyst, Citigroup Global Markets, Inc.

Q

Got it. Okay. That makes sense. And then, I guess, Vincent, from a product innovation perspective, I'd imagine what's gone with the territory that you inherited was – it was business was somewhat starved from a marketing perspective. How do you think about just the culture of the engineering organization, the ability to build things internally, and what the pipeline looks like there; as well as, you already alluded to, organic and inorganic innovation and how we might expect you to use M&A to continue to innovate on the product side?

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

A

Yeah. So, first of all, I have to tell you, we have a long history of building things in that consumer business. They created the AV market, and we still have some of those architects that have a ton of experience. I think the R&D quality we have is extremely high, and we spread across three continents; and so, I'm really pleased by that. They did spend, over the last two years, between 2018 and 2020, really working on building that integrated platform, Norton 360, and it was the first platform.

We've seen some competitors doing some bundling and other things, but frankly, doesn't have the same architecture concept, if you want, that now enables us when the functionality become fully commoditized, if you want, to move it to a lower level of membership, or offering for free as part of our platform that you pay to which you bring new functionalities. And I think that's a great vision and a first step with the launch of Norton 360.

They were really consumed by that. As we're able to roll it out and announce it and with the traction we have, we've freed up some bandwidth. And I thought about shifting the culture and the mind-set to take a lot more risk, be a little bit more consumer-driven. And as you know, enterprise versus consumer, very two different software development processes and quality level, and you do a lot more trial and error on the consumer side, because if it isn't working you just drop the functionality and you haven't jeopardized an entire company's network, as an example.

So, the velocity of that R&D is improving. We are hiring people – we've hired people in Ireland, creating a new lab for prototyping. We are definitely building up momentum on that aspect of the house. And it takes time to get there [audio gap] (19:01-19:33) product, people in R&D, either a functionality or a product set. So, more work to do, but good momentum on that side of the house.

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Walter H. Pritchard
Analyst, Citigroup Global Markets, Inc.

Q

And so as we sort of extend that into maybe what investors should be watching for. Vincent, you mentioned a handful of markets. You've talked about sort of home safety, you talked about privacy. What are some of the sort of adjacent opportunities that you think investors should be focused on that might benefit from the products of that innovation internally?

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

A

There's plenty of opportunities. The great news is, it's not like we're suffering of saying what do we do next. I still have so many investors saying, ah, the market AV is a mature market and at one point in time Microsoft will have eaten all of it. And if you go back [indiscernible] (20:23) 2005, it was the same comments, but you still have those comments. And our view is we're not spending our time there; we're really spend our time on all of the new functionalities that could make sense and could be relevant under Cyber Safety umbrella.

I don't want to go into too specific, but any ideas that come either from our customers, from our product team, from the market, we put it into our funnel of product innovations, all of which came a few things like the home title protection that was customer driven, a Gaming Edition of our Norton 360 that was internally driven by our product management person that is really passionate by gaming, and then viewing that actually the digital identities in the e-gaming space is exploding and the overall umbrella of protecting your virtual asset in gaming environment could be an opportunity as well.

And like this, we continue to build up, that your kids get a cell phone now at 10-years-old that all get connected, expose them to cyber – if it's not crime it's definitely cyber challenges that you don't want them to be exposed to, and protect them from and that also brings a whole set of new functionalities we are teeing up and working on.

To your question you had asked before whether it's organic or inorganically, we don't start that way. What we really look at, what are the adjacencies that will make sense in two years or in the future horizon and then we decide, okay, do we have the capability in-house or do we have to hire people, or is there someone has already developed either a prototype product or a business around that functionality. But that's how we approach it, and at the end of the day if there is the opportunity to do kind of a functionality acquisitions it could be a financial trade-off discussion of doing it organically and time to market versus buying it.

Walter H. Pritchard
Analyst, Citigroup Global Markets, Inc.

Q

Got it. And you mentioned it from a competitive perspective with Microsoft. I think with Windows 10, they've more closely brought the protection functionality for the Windows operating system into Windows 10. You have a number of freemium sort of competitors in the market, then you have some peers that have pursued mostly paid for. How do you think about the changes in the competitive landscape; ones that are favorable for you, as well as ones that are maybe things you're having to contend with more so than in the past?

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

A

I think it's all about – it starts with a vision, and it's not a vision that will provide the best AV for any devices; it's really a vision that is user-centric and will provide the best Cyber Safety for all of your operations that you conduct online. And the recent events in the world have just justified the hypothesis more that all of your activities from

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schooling to shopping to learning are happening online. And it's a race towards filling up the portfolio towards that vision versus trying to really spend time to discuss what's happening at the bottom of your market.

We have to assume that, over time, any one of our functionalities in that portfolio can become commoditized or integrated or offered for free. But the integration of that overall Cyber Safety enable us to continue [indiscernible] (23:49) of these new innovative functionalities, while others become more commoditized. So, that's the first comment.

Today, we're not selling a simple AV competing with either a Defender in Microsoft or a freemium from any other competitors. The first level of membership is AV, but it's also smart firewall, it's about password managers, and we can come into add functionality at that basic level, and then move up the level of margin. And that's the way we compete, that's the way we see the market and how we drive it.

Walter H. Pritchard Q
Analyst, Citigroup Global Markets, Inc.

Got it. Great. Natalie, returning to the conversation we had about marketing, I think one of the things we've been trying to figure out recently is you turned on the marketing sort of three quarters ago. I think Vincent has an anecdote that he's talked about at one point of the team almost didn't believe him when he gave them more marketing budget because of it usually been pulled back. But how do we think about the sort of timeframe that that marketing has been effective and, sort of, potentially incremental effectiveness to come from the spend that you've already had, or you've already put in the market versus additional spend that you may put in on the marketing side?

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

Do you want to take it?

Natalie Derse A
Chief Financial Officer, NortonLifeLock, Inc.

Yeah. So I think that, yeah, it is a behavior shift, right, and I think that we definitely have the team that is responsible for that spend. I talked to you already about the diversification, I already talked to you about we will be very, very diligent in making sure that we understand what the paybacks and the returns are for that investment. But we will do it through a growth lens or a growth mind-set.

We want to invest for growth. And so, we want to make sure that the teams understand that. I mean, when you put in marketing just for putting in marketing's sake and you expect to be very, very specific or very stringent or very short-term in nature in terms of those returns, the teams can make different decisions, right. And so, we've been very, very clear with the team that, of course, we have a combination of short-, medium-, and long-term goals and we'll continue to fuel and fund the marketing.

I don't know if you would answer it differently, but...

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

No. No. So, look, in marketing, I would say, we're far from being fully efficient. We're going to anniversary here in Q3 when we started to really ramp up marketing, but in term of tweaking and adjusting our marketing spend, we still have a long way to go. How much more productive I can get out of it, I'm not sure I'm willing to go into the

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forecasting game here, but I can tell you from our daily review and yesterday, Natalie and I [indiscernible] (26:37) review on that marketing spend, we still are missing plenty of knobs, if you want, that we can turn.

Secondly, it comes also [indiscernible] (26:48) initially it was Norton 360 with marketing, it comes with new product and product functionality. We just launched the Gaming Edition in July. In July we also hired Krista Todd as our Head of Marketing coming from Logitech and have a long experience, as you know, in e-gaming. And she's like, oh my god, you guys are at the beginning only of what you can do, bring gamer influencer, communicate this, go to this shows. And so, tweaking our, I will call it, communication, but it's marketing, communication efforts to reach the right consumer based on how the products evolves and all new functionality comes in still has a long way to go compared to where we could be.

Walter H. Pritchard
Analyst, Citigroup Global Markets, Inc.
Q

I got it. Okay. That makes sense. And then you talked about shifting to some of the other channels from a marketing perspective. I think traditionally there has been quite a bit of sales and effort put forth around the OEM channel, for example, the PC makers. Specifically on that channel, is that a productive channel? I know at one point in time, it got very competitive. The PC market right now is quite strong, maybe not sustainable, but I was just curious how you're thinking about – Vincent, you obviously have a ton of experience...

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

Yeah.

Walter H. Pritchard
Analyst, Citigroup Global Markets, Inc.
Q

[indiscernible] (28:06)

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

Yeah. So, I study a lot of the consumer [indiscernible] (28:11) Symantec owns both the – owned the OEM channel at one point in time, a long time ago, right.

Walter H. Pritchard
Analyst, Citigroup Global Markets, Inc.
Q

Yeah.

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

And then maybe for many reasons because those channels requires a lot of investment upfront, you have to be on the PC shift and then you have to hold the new conversion ratio [indiscernible] (28:25) and changes. And they shifted away from that. We still have one or two relationship, but [indiscernible] (28:29).

Walter H. Pritchard
Analyst, Citigroup Global Markets, Inc.
Q

Yeah.

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

A

It requires a lot of money upfront and, of course, the assumption at the time is that the PC would kind of decline. And so, when you have a 2015 that has a decline of PC of 11%, you feel good not being in that channel. Now, if COVID-19 happens and your PC is up 11%, that quarter you're probably going to miss not having that channel for sure. I think you have to step back and say, okay, what is our mission? Our mission is not to be device-centric; it is to be user-centric, and there's multiple ways to reach the consumer. We love the fact that we have 90% direct-to-consumer – supported by marketing, but a direct relationship to the consumer, and that we have a lot of traffic on our website to get that. It's just a fantastic asset, if I can say.

We are exploring new channels and, for us, it's a maximum reach wherever we can. It could be [indiscernible] (29:27), it could be many other ways of hiring. We just hired Robert Clarkson from PayPal and he has a lot of history of building up relationships there. And I think we'll continue to invest into that indirect way of acquiring customers.

We will not be [indiscernible] (29:47) there are some we never touch, but there are some that up to now have not made sense, like a freemium or an OEM, so they have not made sense; but we should never say never. At the end of the day, we want to reach the customers, grow profitably, and really build that Cyber Safety, which is user centric versus device centric.

Walter H. Pritchard
Analyst, Citigroup Global Markets, Inc.

Q

Got it. That makes sense. And then another question on opportunities. Internationally, the security pieces is a fairly universal opportunity. I think with the identity piece, there's some nuances around the US market that have made that a very strong business here in the US. Can you talk about international opportunities with the former LifeLock brand and how you're thinking about that? And what changes are required to really make that a business that's large internationally?

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

A

I'll talk about the product in a minute and how the market evolves, but first let me make an internal comment. First of all, a lot of people are talking about international. And it's pretty logical if a CFO or even a data-driven CEO comes in, they're going to look at it and say, oh my god, I have 70% of my business in the US, I'm only 20% international [indiscernible] (30:54) competition in the market it has a different ratio. And then the conclusion is I have international opportunities, it makes total sense.

But to move from I have international opportunities to I'm really growing international and I'm able to rebalance, it's a lot more complicated. And, generally speaking, it goes with operationalization and somewhere smart localization of your messages and your approach to reach those customers. Because what works in the US may not work in every country. And frankly, what works in Germany may not work in Spain, or may not work in Russia. And therefore getting down to local operations of your international growth plan is very, very important. We have talked about the international opportunity for us, frankly the company or the division have talked about that way before I even joined, but we're still lacking in my mind a very strong operational plan the way I would define it.

Now, the great news is international has been growing faster than the US. We moved in the last quarter, we acquired more customer international than US. So, it is already getting good results, but it's not – nowhere I would want to have it. And not to always talk about the leadership team we've got assembled, although I think we have

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A+ team, a dream team, we've had Gagan, our Head of Product, that came from Avast; and Avast is one of those company that really mastered the internationalization, the operationalization of the international growth. And he and I come from similar background; as you know I come from Europe, too. We understand the need to have that operational framework.

Now, from an opportunity perspective, it's an interesting one because if security was, as you said, somewhat of a global because a device here could be a device over there, makes sense. And if identity the way we had [indiscernible] (32:54) mainly US because it was centered around your credit report and your social security number, both attributes not really available in the same format in Europe.

I can tell you that us taking a user-centric view outside of the device and a broad portfolio of a user-centric view has enable us to really push and say, we're not only protecting your device, we're protecting your digital lives. And most of the data is in the cloud anyway and even in Europe you have a big push to move from physical identity to digital identity; some through consortium, some through rules set by the European Commission, that says, hey, here are the way to set a digital number for identity. But all of the problems that come from that is about stolen identities, reselling identities, restoration of those identities, all of which we have experience in, as you know.

And so we see that, as a fantastic product opportunity, as the digital life becomes more and more globalized. But don't forget what I mentioned at the start of this comment, which is, even there the digital identities are governed and managed still in a fragmented way, depending on the country or the region you sit in and so, our global footprint that's able to operationalize they find locally is extremely important as we push more international.

Walter H. Pritchard
Analyst, Citigroup Global Markets, Inc.

Q

And how would you think about I guess in the US, I mean, the credit-centric view of identity for consumers is? So I think it's important and there's been so many events that sort of have made people realized that you have to pay attention to that. And so, as you think about internationally with identity, are there any other concepts or sort of calls to action, that you see in major countries that would give you sort of an angle on those opportunities, understanding that their system is different than the system we have here on currently?

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

A

Yeah. I can give you a few angles. But before that, I want to – the comment you made on credit was an important one, right. Similar than on the security, people say, oh my God, Windows with Defender will become so strong, you don't an antivirus. I don't know if it will be true, because you can move into multi-device, AI-driven cybercrime fight that sits above and beyond your operating system across all of the applications. But if that's the core comment, I say, hey, we're not selling anymore AV, we're moving security to a lot more – and password managers and smart VPN and others are progressing on top of your pillar.

I would say on the identity would be similar. Yes, credit report, very important. Social security protection, very important. It's not just that. It's about also the restoration of that. It's about all of your virtual assets. It's what makes you, paying attention to the attributes of the digital identities end-to-end from not only monitoring or learning but also restoring and ensuring all the way there.

I will say in Europe, in Asia and globally, you have some anchor point that exists. Today, I give you a case. I read yesterday – of course, we knew it through our research. But more and more, you have cybercrime stealing gaming identities for people who have spent real cash building virtual asset in the game, and selling that on the dark web. And so, protecting those digital gamers with their virtual assets by monitoring all of their credentials in

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the dark web and being able to alert them if something is happening to them, for them to protect those, I think, is one anchor point that is valid in Europe, valid in Asia, it's valid in the US, it's all across.

And so, you have some of those anchor point. If it's not around your Social Security, US-driven, or credit report, that still gives you a very important one. Most of the Europeans are now having a digital identity number. Sometimes it's stolen. That creates some effects on the bank. How do you go and alert or restore of those issues are all opportunities, if you want, that we can penetrate. But we're really at the beginning of that, to be fair.

Walter H. Pritchard
Analyst, Citigroup Global Markets, Inc.

Q

Okay. Got it. That makes sense. Sounds like there's a lot, a lot of things to explore and a lot of new people on board to help you...

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

A

Yeah.

Walter H. Pritchard
Analyst, Citigroup Global Markets, Inc.

Q

...explore those and think through those things. So that's, that's [indiscernible] (37:11)

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

A

And you know the great news is – 100%. And the great news is – when you build a new team is if maybe some of it feels like, oh my God, this division was declining by 2%, and now with this Norton 360 investment in marketing, it's growing 3% to 5%, it's a fantastic achievement. Those who come in, they say, well, wait a minute. 5%, that's a GDP plus. I'm not coming here for a GDP, I come here because of the mission and how do I build up that portfolio and drive as fast as possible the mission. So for us it's kind of a new beginning.

Walter H. Pritchard
Analyst, Citigroup Global Markets, Inc.

Q

Got it. Got it. I think I'll mention again to folks on the line here on the Zoom that if you want to ask a question, go ahead and put it in through the question tab there and I can incorporate it into the discussion. I've had a couple here that I've kind of used as follow-ups.

I wanted, Natalie, to ask you on – and Vincent as well. But on capital allocation, you have a dividend. How are you – there's been a massive sort of capital allocation series of events over the last two or three years, or I guess 18 months, at Symantec and NortonLifeLock. How should we think about capital allocation sort of a steady state strategy now that a lot of that is behind the company and we're looking forward at a going business?

Natalie Derse
Chief Financial Officer, NortonLifeLock, Inc.

A

Yeah. I can start. So from a capital allocation perspective, we will continue to focus on the key tenets of our structure. So for sure reiterate and continue to fund the dividend. And then beyond that we are really looking for ways to really fund and reallocate funds to resources to fuel our organic growth. And beyond that I would say we

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are very, very excited about future and opportunistic opportunities for M&A, and we'll continue to opportunistically buy back our shares.

If you take a look at, I would say, at the time we divested the Enterprise business, our gross debt was about $4.5 billion, right, and that was a little bit higher than 3 times net. And at the time we said that that was appropriate for the size of our business, whether you looked at revenue, whether you looked at the high margins, whether you looked at from a cash flow perspective.

And then, we're a bit lower than that right now, but our thinking stays consistent to the time when we were divesting. So we'll evaluate additional debt, if the circumstances make sense. We'll look to our capital allocation tenets for how we deploy cash. And we want to make sure that we just preserve as much flexibility to take advantage of those opportunities as they arise.

Walter H. Pritchard
Analyst, Citigroup Global Markets, Inc.

Q

Got it. Great. And then, the last one I wanted to ask you about, and again, I think it's come through very clear in this conversation that you're focused on growth as a product of the investments and so forth you're making. And I'm guessing, you're not really managing specifically to a margin number, but we do get a lot of investor interest, I would say, in your company, given its high profitability and funding the dividend and so forth. How should investors think about margins? And how sort of tolerant is the company to maybe dip down below where margins have been if there's a growth opportunity, either organically or inorganically, that you see? And just how are you thinking about that metric specifically?

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

A

Can I answer that one from a business perspective? So, we set the 50% margin kind of as a goal post of elimination of stranded cost, as you know, because stranded costs could become murky. And I say, okay, don't worry about it. It's about returning the company to 50% margin. And we know at the time of the separation, it was 24%, so we had a lot of work to do. We eliminated all of it and we said that for the second half of this fiscal year, we'll be running the company at around 50%.

We put a few metrics, sometime we say we're going to return to growth, low to mid-single digit, and we're going to deliver $1.50 EPS. Assume for a moment that we are now in Q3, Q4 and we've achieved those metrics. It was very important to build the credibility, to drive the discipline inside, to refine the strategy and drive investments, very good.

Moving forward, we want to continue to focus on growth for all the reasons we discussed. I don't have to reopen them. And so, sustain or accelerate the growth is number one objective for sure. And then, we believe in rigorous operational execution and the characteristics of our business would enable us to drive EPS faster than revenue. And at this point in time for the long-term, that's all we leave it at.

At all current characteristics, mid-single digit growth rate of the current portfolio I do not see us lowering the operating margin. But I had recently a discussion with someone who was looking at an adjacent market and we look at competition and where the price is and what we could do by price and say what, we can't look at that business because it would be a 30% operating margin. And we don't want to be driven by that because if it's good to build Cyber Safety and if it's accretive to the bottom line, we will look at that business. And therefore, in the long-term, while we commit to rigorous execution and short-term metrics that we shared, sustain or accelerating the revenue growth and growing EPS faster than the revenue is kind of the balance we'll operate within.

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Walter H. Pritchard
Analyst, Citigroup Global Markets, Inc.

Q

Okay. Great. And Natalie, anything to add to that on the margin?

Natalie Derse
Chief Financial Officer, NortonLifeLock, Inc.

A

Yeah. I'm just reiterating. Look, we talked about growth, I feel like, in almost every response which I love. That's why I came here.

Walter H. Pritchard
Analyst, Citigroup Global Markets, Inc.

Q

Right.

Natalie Derse
Chief Financial Officer, NortonLifeLock, Inc.

A

I would say that what – we'll reiterate that you know we want EPS to grow faster than the rate of revenue, right, and how I look at the operating margin is more of a guardrail, not necessarily you know what we're driving towards but something to kind of keep us in our range of our financial structure.

I think what you'll see from us is just a continuous evaluation of how we get more and more and more operationally efficient so that we can self-fund and reallocate within our current architecture, especially as it pertains to how we feel the organic growth. And then again we'll really look to the capital allocation for the more opportunistic opportunities that come our way to make sure we stay in balance. We'll stay focused on that top line growth in a sustainable, profitable way and we'll continue to deliver value back to shareholders.

Walter H. Pritchard
Analyst, Citigroup Global Markets, Inc.

Okay, great. Now that makes sense I think we've – we're almost the time to kind of come to a logical place to end it here. Vince or Natalie, happy to [indiscernible] (44:08) thing you want to add, make sure it gets across the audience. Happy to have you do that.

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

Yeah, look. Thanks for inviting us. We are always happy to, as every shareholder knows, to tell our story. We're all in this business because of the vision, the story, the potential. And I think hopefully the excitement and the passion here is perceptible to you who are listening to us today. Thank you.

Walter H. Pritchard
Analyst, Citigroup Global Markets, Inc.

Yeah, thank you. All right, Natalie, Vincent thank you very much for joining us. And thank you for holding this call.

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

Thank you.

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Walter H. Pritchard

Analyst, Citigroup Global Markets, Inc.

We'll talk to you shortly.

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