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NortonLifeLock, Inc. (NLOK)

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Fatima Boolani
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MANAGEMENT DISCUSSION SECTION

Fatima Boolani
Analyst, UBS Securities LLC

Good afternoon to everybody joining us to day two of the UBS Global TMT Conference. I'm the resident UBS Software Analyst here covering the SMID space. My name is Fatima Boolani and I have the pleasure of hosting the NortonLifeLock management team at this hour. And with me on the line today is CEO, Vincent Pilette; CFO, Natalie Derse; as well as Head of Investor Relations, Mary Lai.

Before we jump right into the meat and potatoes of the discussion, Mary, I'm going to turn it over to you to just share some Safe Harbor and some disclosure statements. Mary?

Mary Lai
Vice President-Investor Relations, NortonLifeLock, Inc.

Thank you, Fatima. Hello, everyone, and thank you for joining our session today. This presentation may contain forward-looking statements which are based on current expectations, assumptions that are subject to risk and uncertainties, and actual results could differ materially. For our full Safe Harbor statement, please refer to our website, investor.nortonlifelock.com. Thank you.

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QUESTION AND ANSWER SECTION

Fatima Boolani
Analyst, UBS Securities LLC

Q

Excellent. Thanks, Mary. Just crossing our T's and dotting our I's. Vincent, maybe to start with you, and while I'm very tempted to begin our discussion with some of the splash you made yesterday with an announcement, an M&A announcement, I do want to level set with the audience and the investors listening in. There's been a lot of change at the company. You've just marked your first year anniversary as a stand-alone company, so for all the new ears and eyes on the story over this period, can you maybe set the tone by sharing some of the milestones that you've achieved in the last 12 months, and maybe what objectives do you have that are still open ended as you embark upon year two as stand-alone NortonLifeLock?

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

A

That sounds good, Fatima, and thanks for hosting us and thanks, everyone, for joining this chat. I want to clarify that we actually make splash every day we are in the business but some are more visible than others. And so we'll come back to the acquisition of Avira, which we announced yesterday.

So, a year ago, just to make it simple, we sold as part of Symantec the Enterprise Security business to Broadcom. We created a stand-alone company, NortonLifeLock, combining security assets with identity protection and restoration asset, and making a mission 100% focused on protecting consumers against cyber criminalities.

We had four objectives at the time. The first one was pretty simple. It was establishing credibility, basically delivering on what we said. And six quarter later, I can say that we either met or delivered better than what we had promised. So, mission achieved on that first one.

The second one was to transition the company from really a division – actually two divisions, Norton and LifeLock, as a combined company, a combined portfolio. We launched Norton 360 as a fully integrated product, and we developed a set of structure, leadership, processes and operations to deliver on our mission. So, on that two, would say mission accomplished.

The third objective was to return the company to profitability, because Broadcom did an asset deal of our Enterprise Security business, we were left with a lot of operations that we're not [ph] fillers (00:03:30) for our Consumer business. And in the nine months period, we delivered on that transition, fully transitioned any residual activities out of the company and concentrated every dollars to our mission. And we returned the company, as a goalpost, to 50% operating margin and delivering with less than 2,500 employees, $1 million revenue per employee. So, on that one too, profitability and productivity, I would say mission accomplished.

And the fourth objective was to return the company to growth. The division inside Symantec was focused on nurturing the current portfolio instead of customers and maximizing for profit as other higher level corporate objectives, like turning around the Enterprise business, were really the focus. So, we reinvested about $100 million of marketing, some of the savings we generated redirected to marketing activities, which is really our sales activity, if you want, creating the awareness with consumers, 90% of our business being a direct to consumer

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business driven by marketing investments, and changing the customer count – declining for many years since 2014 since that was not the focus – to a growing customer count.

And a year later, we've delivered on all of our objectives. We have increased – a net customer increase of 600,000; actually acquired or hired, if you want, more customers, 3.5 million over a 12-month period; [ph] stay (00:05:02) the retention rate; delivered a billing growth rate of above mid-single-digit, revenue growth of mid-single-digit. And on that one, I would say while we delivered on what we said, I think we can do better.

Because through that period, what we've realized is actually the mission is a very broad mission. It's a transforming mission because more and more of our lives will be lived online. And if 10 or 20 years ago, you had a desktop and needs to be protected against that, then move to multiple OS and devices, then had a digital identity, had to be protecting, then the explosion of your digital persona creates plenty of challenges for consumers. And that's our mission.

And you've realized, as you look at computers and the market, it's a growing opportunity. The rate of which will, of course, will be dictated by product and product innovation, but definitely a growth opportunity. So, moving forward, we move from transition to transformation, and the transformation is really articulate around the growth, how do we transform our portfolio, our operations, our goods market activities to sustain and accelerate the growth that we've delivered so far.

Fatima Boolani
Analyst, UBS Securities LLC

Q

Vincent, this is a great segue into what I want to talk to you about, is the market opportunity for you. I think there is sort of a skepticism and maybe a sense of pessimism in the investor community about what your market opportunity actually is. So, just breaking it down for us, what are some of the very tangible demand drivers and big picture trends that you feel that now – that NortonLifeLock now can capitalize on? And where do you think investors have the largest gap of misperception and maybe an underestimation or appreciation of these opportunities?

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

A

Yeah. And I think that at a very high level, I would say the shift of our day-to-day lives into the digital world and combined with, of course, criminality that exists in physical and cyber worlds. But as more and more digital opportunity arise for criminals to abuse anyone in the world, I think that also is increasing rapidly.

And as I mentioned, it's not only about protecting a device or multiple devices or a physical identity, it's now the overlap of physical and digital world and the explosion of your digital personas which could be day-to-day life, homeschooling, [ph] tilly (00:07:36), health or many others. What you want as a consumer, to have full peace of mind. When you buy a car, you buy an insurance. When you buy a house, you have an alarm system. When you put your life into this cyber world, you're not protected.

And that awareness, if you want, is the gigantic opportunity, that billions of people connected to the Internet. And if you sum up the direct competitors, you have less than 100 million people paying for cybersecurity. So, now why do you have the gap in perception? I was really stunned when I talked to a lot of investors and when I became CEO and joined this industry how much of the old world was being described, antivirus, desktop. People were asking me how much of Windows improvement would create as a headwind for your business.

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And inside the company, we're all talking about the user case, the ability to protect your digital personas and activities. We are moving beyond the device or the operating systems. Now, why is it that – then we don't rush faster from 100 million of people paying for cyber safety all the way to billions? It's because product innovations, architecture, awareness, all of that still has to be built, if you want. And I think the rate of closing the gap between that old antivirus offsetting the weakness of an operating system, which will be declining over time, versus the opportunity still has to translate into a real traction.

But if you sum up, a lot of our competitors, they are growing. And so the perception that this is a declining market I think is wrong. And we face a structural growth opportunity, some of which did a step function with the pandemic and people being more aware of the potential exposure in the digital world. And hopefully, we'll continue to improve, maybe at a different rate but we'll continue to improve to bridge that gap.

Fatima Boolani
Analyst, UBS Securities LLC

Q

That's helpful. And in terms of your backup crew along with some of the initiatives you've undertaken at the company, you've also been at the helm of really adding to the executive bench here. And maybe I'll pull Natalie into the conversation here, but you've hired a new Chief Commercial Officer, certainly Natalie has come on board at the – as the CFO in the last couple of months, a new Chief Product Officer, a new VP for Marketing and Branding. So can you talk a little bit about these new executive hires and what is on their agenda to take you into year two from here, especially given some of the opportunities that you just laid out within the market?

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

A

Very good. And frankly, let me portray the overall thinking as we did that and Natalie will give her own personal experience coming in. We definitely understood that we're moving from Symantec to a consumer pure play. And consumer has a different mindset. It's not about putting the most tested product out there. It's about innovation, it's about branding, it's an element of technology, has an element of services, and it has a fast pace of repeating, if you want, the product and coming up with new products which is both an opportunity and a different business model to drive.

So, we knew that bringing experienced executive that have had exposure to that consumer market – myself, I was at Logitech for seven years – it's an important one in our component. And so we did a mix between securities, technology, capacity, if you want, or skills, and experience with the consumer world. I have to correct you on one word, you call in the backup crew, I'm telling you, it's a frontline crew. The 2,500 employees we have are all on the frontline, was thinking customer experience first.

As we brought those new leaders onboard, it's very unique to have a new team at this level coming at the scale that we have, $2.5 billion of revenue and the balance sheet that we have. And so we feel like a start-up mentality where everything has to be created, everything can be tested. Fail fast, learn fast and move forward is our motto inside. And when they come in, frankly, is setting a mid-single digit growth rate target a year ago felt like a good long-term target. For all of the people on the team now, that's the baseline. That's not success and I think that's where we've been. You can check the background of each one of the executive on our website, but let me pass it to Natalie to share her experience.

Natalie Derse
Chief Financial Officer, NortonLifeLock, Inc.

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Yeah. I honestly would – I would just reiterate what Vincent is talking about and I would expand it to be around just the cultural shift, the behavioral shift, the engagement shift away from what used to be predominantly B2B now into a B2C and a direct to consumer pure play business. It's – it requires a complete change of mindset and engagement. And what I mean by that is you've got to lead this business through the lens of your existing customers and your potential new customers, whether that is where we are showing up, where we – where the consumers are in their consideration and purchase journey, whether it's the events that are top of mind for our consumer base such as where they are in – what's very, very relevant right now, which is COVID, or whether it's holiday.

And no matter what function you're talking about, whether you're talking about cut-through on brand, brand awareness, the different tiers of our offering, whether it's the go-to-market strategy that Robert Clarkson is driving, whether it's from a finance and analytics perspective, whether – when we're talking about marketing analytics and being data-driven and what's our next best dollar investment, it is just broader than the executive leadership team.

We're on a journey and a cultural shift across the company to just do exactly and lead through exactly in the way that Vincent talked about, which is be very consumer-focused, customer-focused, innovate, test, reiterate, iterate, and move forward. And so it's just – it's very, very dynamic, it's very fast paced, it requires a lot of energy and engagement, and that's exactly what the executive leadership team is coming together on.

Fatima Boolani
Analyst, UBS Securities LLC

Q

That's super helpful, Natalie. Thank you for that. If I can drill into the growth trajectory of the business, clearly there's been a ton of improvement in the billings profile and the revenue growth profile, and certainly the subscriber profile. But I think some historical context is in order, and you sort of alluded to this earlier, but maybe can you talk to investors about some of the differences between your current and historical growth profile relative to a McAfee, relative to an Avast, and what are some of the steps you're taking to maybe narrow that delta?

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

A

Yeah. Let me do that. So, when I became CEO, I think I shared that with many investor, and certainly with you, Fatima, I met with all of the CEOs in the industry and around the industry, and one thing that was very interesting is they were all growing. And Symantec division, Consumer division was the one that was starting with kind of a flat top line and see how they maximized the profit.

And so I really got the conviction that the market had the growth opportunity. I'll talk about the product in a message in a minute, but had the growth opportunity. So when we said we're going to return to growth, looking at our capabilities, at what we're going to launch and what we could do, I had very high confidence that we would get the – [ph] I (00:15:41) connected all the dots now, but based on the market horizon, I – we go that conviction as we developed our plan.

Many investors say, well, you've been declining customer count since 2014 so how is that possible? And certain investors had doubt, of course, and I understand that. Now, the McAfee going public as at least [ph] four (00:16:07) investors shown one thing and reinforce one [ph] comment (00:16:12), which is, hey, this market might be actually at a turning point and have growth opportunities. And very interestingly, now the question is not too much, hey, will you deliver mid-single-digit? It's why are you not growing faster?

And while I accept the challenge, I think it's a fantastic position to be in to now have the opportunity to look at the market with growth, everybody understanding it and trying to accelerate that. At the core, it comes from product

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innovation and a vision that I think now is at least getting aligned to – and I have to give credit to this vision to Greg Clark, my predecessor – into the job and the person who hired me in Symantec. Despite all of the challenges the company was facing, he pushed through of the acquisition of LifeLock.

And Norton plus LifeLock changed the discussion, at least inside our company, moving from being really device-centric at the beginning, one source, desktop, there's a desktop and a laptop and a desktop, a laptop versus cellphone, multi OS, to being really more user-centric and balanced across the consumer experience, some technology, some services, some branding, offering a full cyber safety solution. That's the vision.

There's plenty of value and functionalities that can be added to – under that umbrella, and I think we'll never be done because the need, like privacy, anti-bullying, et cetera, will continue to evolve. And I think the long-term winner will be the ones going to be able to continue to invest into innovative products integrating that function. And Greg Clark's vision was around that one integrated solution that offer that cyber safety, peace of mind for the consumer.

Fifteen months ago, now a little bit more – in April 2019, we came out with the first fully-integrated platform, Norton 360, offering cyber safety to consumer for membership fee per month. You get access to multiple functionalities, functionalities that will continue to evolve and continue to add to the solution.

Now, when it comes to distance – and we've seen and you've heard from Avast talking about that and McAfee talking about Total Protection, so definitely an understanding that there is a growth opportunity around this billion of people connected to the Internet and providing them with a peace of mind, and so they've been very under penetrated from that perspective.

In between the main difference across these three main competitors is around distribution. Symantec, at one point in time, now NortonLifeLock, made a decision to focus on an e-commerce platform. And we have a direct customer relationship, 90% of our business is coming from their awareness through marketing investments. On the other side of the spectrum, you have an Avast that actually created a freemium market and really draw the kind of a first phase to the freemium market for customers then to either [ph] enjoy (00:19:01) or realize the value of the product and upselling from there.

And then I would say, McAfee has developed a very strong angle on the other side of the spectrum around strategic partnership, alliances like the PC manufacturer that Symantec had in the past but moved away from. And that's currently the difference. I told every investor I – inside how we drive from a go-to-market perspective, from a distribution perspective. We will not be married to one or the other or exclude one versus the other, [ph] what (00:19:32) makes tactical and financial sense to reach a maximum number of consumer, we will.

So, we're reviewing and trying to increase our number of strategic alliances and partnership. It takes time to do those, but definitely we are on that case. And then I also said that if an opportunity arise to reach out to more customers on the freemium side to give them a first taste of cyber safety with an opportunity to upsell, we will do that as well. So that's, at a very high level, the overall environment.

Fatima Boolani
Analyst, UBS Securities LLC

Q

And we can definitely come back to the freemium angle for a second, because I think that directly ties back to the transaction yesterday, but before we move on to that topic, just around our strategic partnerships, can you give us some examples of the type of strategic partnerships and engagements that you're currently really excited about?

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What has – what type of relationships have really flourished for you that investors might not have a good understanding of and may not...

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

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Yeah.

Fatima Boolani
Analyst, UBS Securities LLC

Q

...be as easy to understand as a PC OEM placement when a laptop gets shipped, for instance?

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

A

That's right. When we talk about partnership, most of the investor are asking me, hey, would you go back into the PC manufacturing relationship, which they call PC OEM relationship. And frankly, when the PC shipment is up like it was in the last couple of quarters, it's definitely favorable. You could have a long view on new PC environment and a good conversion rate. And if everything works well, those relationships, especially with the PC manufacturers, requires a lot of upfront investment. Over the first few years, the financial profile is not too great but then, over time, if you sustain, it becomes very favorable and profitable. And so I see those a little bit more as tactical financial decisions versus strategic.

When you move up the strategic angle, combining with an Aeon or with a TELUS to either, on one side, offer a tool of cyber safety protection from digital technology production all the way to an insurance premium, although with the TELUS to penetrate Canada with LifeLock solutions and other partnerships that either we have already announced or we're working on are the kind of things we're thinking about; something where we can deliver together incremental value to the consumer so we can derive also the value back into the company and reinvest into innovation.

That would be the one we favor and it takes more time. It takes development time. It takes awareness time, et cetera, but we're all here for the long-term mission of providing cyber safety to a maximum number of consumers.

Fatima Boolani
Analyst, UBS Securities LLC

Q

That's very helpful. Just with regard to your open mindedness on evaluating all types of models and routes to market, freemium is something that you just mentioned. There's a peer and competitor in the market, Avast that has really worked at this model for a very long time. But yesterday you did acquire Avira for $360 million. One of the interesting aspects of Avira's platform is that it's a freemium model.

So I'm wondering if you can just kind of give us the 101 of the transaction and sort of why it was so intriguing and interesting for you to bring Avira into the NortonLifeLock family and why now?

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

A

Yes. So, first of all, why now? Because we finished with the transition. We have a strategy that works. We have a leadership team in place. We have an operational execution, both credibility and rigor. And we feel ready to actually double-down on sustaining and accelerating our growth. And we've always said that M&A is just another lever for us to accelerate that transformation for growth.

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In the case of Avira, it has a mix of characteristics. One could call it a tuck-in acquisition. We paid less than NortonLifeLock valuations. When you take the synergies, we'd be between 8 and 9 times EBITDA. And so from a valuation perspective perfect and we can put into our financial model in an accretive way.

But it adds more. It adds an international presence; 80% of their revenue and customers are in Europe. As you know, NortonLifeLock is still very much America-centric, 72% of its business. And very important when you drive an international growth plan, is to not only look at the global product and the global message but it's about tailoring your execution to the country you penetrate and I think Avira will offer us some more capabilities to do that.

The second aspect is the freemium. In certain countries, penetrating with a freemium is absolutely the way to go. Avira is a known brand in that respect. And, frankly speaking, taking the Norton brand globally that has a freemium and innovation behind and trying to get into the freemium could dilute the value of the brand. Getting with Avira will be a way to penetrate the key markets and accelerate our growth internationally.

So, international operations, a freemium model, that maybe later on also a freemium model can be used to test some of new functionalities without having to charge for it and being able to use that brand. And if something works, double-down into innovating and moving into a business model. So, more flexibility to drive towards our mission.

And the third one is the technology. They broke down their engine and antivirus and security technologies to be reused multiple times in different client environment. And that will enable us to continue on the path of organic and inorganic acquisition as we embark on our mission.

Fatima Boolani
Analyst, UBS Securities LLC

Q

And just with respect to the technology and some of the incremental capabilities that you're bringing into NortonLifeLock, can you talk about maybe some of the overlap within the product bases and maybe the areas and the functionalities that you're most excited about?

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

A

Yeah. And so, first of all, the flexibility in the way they've composed their technology is probably the most exciting. It would require a little bit more time and technical elements described but that's pretty exciting. They have some functionalities that we didn't have such as like a gaming booster that will fit really well in our Norton 360 gaming edition we launched in July. So, some of those functioning will help us accelerate some of our roadmaps on the NortonLifeLock side.

Third, they definitely have some overlapping of some functionalities. For example, they also have the VPN solutions. We don't need double functioning there. And so we'll use some of that overlap to redirect dollars into new incremental functionalities that we had in our roadmap but one year or two year out. So, accelerating that innovation will be part of freeing up that product and R&D capacity.

Fatima Boolani
Analyst, UBS Securities LLC

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Understood. Maybe just to put some numbers around the transaction, you've talked about Avira has really given you a shot in the arm in accelerating your growth from here. So what does that mean at high-level for your billings trajectory, your revenue trajectory and most importantly your subscriber growth trajectory from here?

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

A

Yeah. So, I think as we achieve mid-single digit growth rate, whether it's in overall customers or in billings or in revenue, every investor is asking what's next, and frankly we haven't repainted, if you want, what are the next three-year goals in term of business targets but also capital allocation and how does that fit altogether? So we're planning a little bit longer session, kind of a virtual analytic, if you want, in the coming quarter.

At the end of the day, as I mentioned, we're transforming the company for growth. So it's about really sustaining or accelerating the growth rate from where we are here today and we'll talk about our product strategy. We'll talk about our go-to-market expansion and then we'll talk about also some of the elements that an Avira would bring that are new to the environment, obviously an access to the freemium, 30 million customers that they bring in; 1.5 million paid customers but an ability to expand from there. And then, frankly, an ability to use our marketing analytics and our marketing programs and maybe some of the power of our brand to accelerate the growth of Avira is also part of that overall equation.

Fatima Boolani
Analyst, UBS Securities LLC

Q

Vincent, there is a aspect of Avira that I actually found very interesting. There is a business or almost enterprise-esque component to Avira. Can you talk a little bit about that and what incremental opportunity that gives you?

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

A

Yeah. So, the element of Avira that you mentioned is what they call their OEM business. It's basically still a consumer-centric company. 80% of their revenue is coming from consumer and 20% is coming from that OEM business. That OEM business has a portion that could be viewed as a B2B2C that we referred to. So they sell their product via another bigger enterprise or they sell some of their security functionalities to other security companies that then expands into the consumer world.

So, there's a different element there. I think the most exciting piece behind that is the fact that they develop their security technologies in two different level of SDKs that can be reused in different clients' environment, if you want, and that flexibility in the technology will give us a degree of freedom that we didn't have before.

Fatima Boolani
Analyst, UBS Securities LLC

Q

Very interesting. Vincent, I want to shift gears to sort of the go-to-market engine here; $100 million of investment that's been put to work over the last 12 months. I want to break that down a little bit in terms of your marketing initiatives and where exactly it is that you're spending and deploying your customer acquisition capital?

Fatima Boolani
Analyst, UBS Securities LLC

Q

Sure. Natalie, do you want to take that one?

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Natalie Derse
Chief Financial Officer, NortonLifeLock, Inc.

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[indiscernible] (00:30:12) Yes. I'll just jump in here. So, yes, we're about five quarters into the elevated level of spend. You're correct in terms of the incremental of $100 million. On a basis of what used to be about $200 million. Right out of the gate, it wasn't just increased spend. We've significantly swung the pendulum in terms of the channels at which that spend is allocated, historically been much more performance media center-driven, a.k.a. long-forms of TV, radio, et cetera. And those channels brought us a very, very loyal base of consumers and that worked for a long, long time but we all know that that is very, very expensive.

And so as we look to not only deploy more money but also expand our global reach, diversify the types of customers where our growth was going to be coming from, we really looked at diversification in channels. We really are spending a lot of those dollars now in digital media as well as the affiliate channels, and then, of course, as we expand internationally, putting more and more dollars at work there as well. So we see significant diversification. We also see significantly lower tax. I'm not – I think anybody who understands the different channels of marketing spend can relate to a fraction of the CAC required in digital and affiliate versus more long-form TV. So, we're seeing those efficiencies there. And then just as we put those dollars to work, seeing growth across, pretty broad-based across all markets, across all of our offerings, and so really feeling strong about what those dollars are doing for us. And then as we look forward, there's no intel that would tell us that we're at the point where we need to spend more money right now.

We've talked to you guys about really focusing on sustainable profitable growth. I believe that we still have a lot of fruit to bear in the $300 million annualized level. We'll continue to diversify. We'll continue to focus on effectiveness and efficiency in that spend, and we'll continue to focus on global reach which circles right back to the Avira acquisition. Wow, Avira really helped us just really propel forward in that international reach, especially in the European markets.

Fatima Boolani
Analyst, UBS Securities LLC

Q

And what impact does, if you can frame for us, Avira's freemium model? What type of ramification does that have for your blended CAC, if you will?

Natalie Derse
Chief Financial Officer, NortonLifeLock, Inc.

A

We love the freemium.

[indiscernible] (00:32:58) Yeah.

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

A

Yes. They do.

Natalie Derse
Chief Financial Officer, NortonLifeLock, Inc.

A

Sorry.

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

A

Go ahead. Go ahead, Natalie.

Natalie Derse
Chief Financial Officer, NortonLifeLock, Inc.

A

Oh, sorry. No, I was – I was just saying we love the freemium. That's going to expand our customers' choice. We're going to have greater choice. We're going to have a broader portfolio of products and solutions to offer. We're going to have more accessibility to – with a range of buying options, all the way from freemium to what we have as standalone, what we have is integrated memberships. And then when you just think about the diversification that we can connect to with our go-to-market strategy and then again that diversification of marketing, we're really looking towards – when you talk about new customer acquisition and now with a lower hurdle in terms of offering a freemium product, allows the accessibility of the customers to really start to get to know us as a brand, get to know us as our end-to-end offering, as we couple that with the strong product innovation that Vincent referred to, we're really looking at more of the inputs and the health and the growth of our business.

And then we'll look at the CAC; it's much more of an output metric. But if we get the full value of what we're talking about here, all the way from broader reach, global reach, et cetera, and can really cut through on our value proposition message, our brand and really get those customers to understand and stick with us, increase their value, and really employ. So all the great things that we have to offer, the CAC will be strong.

Fatima Boolani
Analyst, UBS Securities LLC

Q

Natalie, I know we can't talk about CAC without talking about lifetime value as well as ARPU. How do you think about those two metrics; again given the opportunity, given the intense focus on reinvesting to grow the business? So how should we internalize the impacts to ARPU as well as LTV for you and the base?

Natalie Derse
Chief Financial Officer, NortonLifeLock, Inc.

A

Yeah. They're both important metrics, but I'll tell you, for me, they're both output metrics, and I'm focusing much more in the input. When we're building an on a journey to accelerating rate of growth, we've got to look at the health of the top of the funnel that starts for me with customer consideration. And so that's where we're talking – when we're talking about diversification, increased marketing, different channels, adjacent markets, et cetera, I'm talking about the top of the funnel; the health and really seeing accelerating rate of growth. As we see those customers navigate through their customer lifetime value, what I'll tell you is we've been on this journey now for five-plus quarters and we know that the first-year renewal rates, retention rates, et cetera; they're lower in the first-year renewal. But I have not seen anything in terms of are we dipping down, are we – there's – it's staying relatively stable even though as we're deploying those new funds. And so, even with the customer growth that we have seen, that isn't mix shifting us down. Our retention rates continue to stay strong. Our ARPU continues to grow. And so, for me, it's about a balance.

Right now, we're focusing on how we build towards accelerating rate of growth as those new customers come through the different channels and as we see them navigate from – whether it's from the freemium entry point through our more advanced or increased value proposition, we'll keep an eye on those metrics. Again, they're very critical but they're much more on the output stage.

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Fatima Boolani
Analyst, UBS Securities LLC

Q

Natalie, you touched on retention rate and that's something I want to unpack a little bit. You do share a metric, 85% retention rate. And so just vis-à-vis coming off of a banner recovery year in terms of subscriber growth over the last 12 months, the good news is the base has certainly increased. But the next 12 months or so, the hard work is going to be renewal and retention. So, can you sort of double-click on – and more specifically around the retention trends you're seeing in this, call it, cohort of customers who are basically going to start approaching their one-year anniversary because they've come into the NortonLifeLock platform over the last 12 months; the net-adds?

Natalie Derse
Chief Financial Officer, NortonLifeLock, Inc.

A

Yeah. Sure. Sure. So, our overall retention continues to be stable and very, very high and strong. So, that's great. As it pertains to the cohorts that are coming through, so far, obviously we're very, very early into that. Just moving – now being in the fifth quarter. So, I have small cohort numbers to look at. But the data that we're seeing early on – the early warning indicators are positive.

When you look at, like I just mentioned, the retention rates of the first years are lower than our total customer average. But when you kind of hone in and just look at that first-year retention, they continued to be at or better than we've historically seen. Now, is it statistically relevant? No, the numbers are small. It's early. I'm just talking about the green shoots that I see in those new customers as they start to renew are good.

And I think, for me, the other flavors of that that I take a look at or I keep my eye on are those cohorts are the ones that have chosen to go into our Norton 360 integrated platform, and so there's strength there. There's lots of green shoots there. And then as you kind of circle back to the diversification of the channel acquisition that we just talked about, just so good to see that one year in, we're still seeing strong high-quality traffic, high-quality acquisition come through there.

Now as we look forward, it's about continuously seeing the help of the new customer cohorts. And then as we move those – the customer cohorts from a renewal year one into the two's and the three's, we've got to focus on and stay strong in terms of upgrading and cross-selling them across our entire value proposition, whether that is through our standalone product offerings or our integrated membership offerings.

Fatima Boolani
Analyst, UBS Securities LLC

Q

Natalie and Vincent, I want to cap off our discussion because I'd be remiss if I didn't ask you or talk to you about capital allocation and your priorities from here. Where should investors see you put your capital to work from here?

Natalie Derse
Chief Financial Officer, NortonLifeLock, Inc.

A

Yes. So, from a capital allocation perspective, I would point you back to the three main tenets we've got which is of course about a third of our capital is going to continue to go to the dividend. We've talked to you guys about balancing between opportunistic share buyback as well as M&A. The events from yesterday show you what we've been working on. And, we – although we're getting a lot of pressure, we did get a lot of questions over the last month as to, hey, why aren't you in the market buying back shares? Now, you kind of understand why.

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On a look-forward basis, we absolutely will continue to stay in-line with our capital allocation, balancing our appetite for accelerating growth as well as leveraging our opportunistic share buyback lever. And then as we move into next year, I think we'll be happy to get back to you guys in terms of what's the future look like, what's a renewed view on our capital allocation and some other [ph] biomarkers (00:40:45) as it pertains to growth and profit.

Fatima Boolani

Analyst, UBS Securities LLC

That's very helpful. Well, we'll try to keep you on schedule here. Appreciate the dialogue. As always, thank you so much. Really appreciate the conversation. Vincent and Natalie, thank you.

Natalie Derse

Chief Financial Officer, NortonLifeLock, Inc.

Thank you.

Vincent Pilette

Chief Executive Officer & Director, NortonLifeLock, Inc.

All good. Thank you, Fatima. Thank you.

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