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NortonLifeLock, Inc. (NLOK)

Q1 2022 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Operator: Good afternoon, everyone. Thank you for standing by. My name is Chino and I'll be your conference operator today. I would like to welcome everyone to the NortonLifeLock Fiscal 2022 First Quarter Earnings Call. Today's call is being recorded and all lines have been placed on mute to prevent any background noise. After the speakers' remarks, there will be a question-and-answer session.

At this time, for opening remarks, I would like to pass the call over to Ms. Mary Lai, Head of Investor Relations. Miss, we may begin.

Mary Lai

Vice President-Investor Relations, NortonLifeLock, Inc.

Thank you, Chino, and good afternoon, everyone. Welcome to the NortonLifeLock's fiscal 2022 first quarter earnings call. Joining me today to review our Q1 results are Vincent Pilette, CEO; and Natalie Derse, CFO.

As a reminder, there will be a replay of this call posted on the IR website, along with our earnings slides, press release and supplement materials defining our non-GAAP metrics. I'd like to remind everyone that during this call, all references to the final metrics are non-GAAP and all growth rates are year-over-year, unless otherwise stated. A reconciliation of non-GAAP to GAAP measures is included in our press release, which is available on our IR website at investor.nortonlifelock.com.

Today's call contains statements regarding our business, financial performance and operations, including the impact of the ongoing COVID-19 pandemic on our business and industry, which may be considered forward-looking statements, and such statements involve risks and uncertainties that may cause actual results to differ materially from our current expectations. Those statements are based on current beliefs, assumptions, and expectations and speak only as of the current date.

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For more information, please refer to the cautionary statement in our press release and the risk factors in our filings with the SEC, and in particular, our Annual Report on Form 10-K for the fiscal year ended April 2, 2021.

And now, I will turn the call over to our CEO. Vincent?

Vincent Pilette

Chief Executive Officer & Director, NortonLifeLock, Inc.

Thank you, Mary. Welcome and good afternoon, everyone. So before we dive into our first quarter results, let me start by addressing the Possible Combination with Avast. We confirm that we are in advanced discussions with the board of Avast regarding a possible merger. As we've said many times, M&A is a key part of our strategy, and we're constantly looking at potential acquisitions and investment opportunities, some small, some larger in size. We believe in being disciplined in our approach and playing for the long term. So if or when we have material developments, we will share those with you. I'm sure you understand that today, we will not be able to answer any question related to specific cases.

So now, with that out of the way, just barely over two months ago, at our Investor Day, we shared with you our long-term strategic path to meaningful and sustainable growth. And the ambitious big goals we set then should tell you everything you need to know about our opportunity that we see in front of us. Big audacious goals are not achieved in the short term, of course, but quarter-by-quarter, strong execution creates the momentum that will allow us to meet our long-term goals. And Q1 is just that, a strong execution and solid results that put us right on track to achieve our ambition.

We are off to a strong start to fiscal year 2022, with solid financial results for Q1. The direct-to-consumer demand for Cyber Safety remains a global opportunity, and our Q1 results are evidence of that evolving and underpenetrated opportunity. Overall, Q1 performance was in line with short-term and long-term commitments. Bookings and revenue growth were 12% and 13%, respectively, and EPS grew 35%.

We sustained our growth momentum in Q1, managing our business through the unpredictable macro environment and the transition to post-pandemic environment in many parts of the world. At the heart of it, it is critical for us to focus on product and service innovation. This is the only way we can stay at the forefront of the ever-changing scope and sophistication of cybercrimes and offer consumers the best in Cyber Safety.

In the first quarter, we unveiled four new products, doubling the number of new product introductions compared to a year ago. As we have said at our Investor Day, it is about being nimble, showcasing our ability to move faster, and being better by learning along the way.

Let me tell you about a couple of these product releases in Q1. As planned and previewed, we launched the very first integrated product with Avira called Game Optimizer. This new feature on Norton 360 platform is designed to maximize gaming performance while strengthening security, freeing PCs from programs that are typically running in the background and hogging CPU system resources. This is another tool in our expanding toolbox, and we're excited and eager to give gamers tools that they not only need but want.

Another new product is Norton Crypto. While we see the investment is in its infancy, it is another example of how we are committed to innovation and how we are looking to enable and empower the digital lives of consumers. Digital currency is becoming an increasingly important part of consumers' digital lives, and this feature allows you to use your idle PC time to earn digital currency. And our Norton Crypto Wallet allows you to track, transfer, and store earnings in the cloud. We accelerated our pace of innovation to be the first Cyber Safety company to

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provide such a feature to help ensure our customers have a safe and easy way to mine crypto without having to make tradeoffs that could compromise their cybersecurity.

As we transform our company to offer richer portfolio, we've also made great strides in expanding our overall consumer reach. In Q1, our direct-to-consumer revenue, which represented the majority of our business, was up 11%. Our global expansion efforts are working, as Q1 growth was partly driven by record growth in international. While our North America business remains larger than the rest of the world, the international growth rate once again outpaced the Americas.

Similar to last quarter, our direct business grew double digits across multiple countries, including the UK, Germany, France, Australia and New Zealand. We continue to make great progress in leveraging Avira's freemium model to broaden our reach while accelerating the free-to-paid conversion using our marketing capabilities.

Another area of strength is our partner business, which posted double-digit revenue growth for the third straight quarter, up 29% in Q1, including Avira. Key channels continue to drive the growth from employee benefits to online retail and service providers. As part of our all-in effort to build the most comprehensive go-to-market model, we recently expanded our partnerships with Lenovo for our OEM business. Selected 5G Lenovo laptop PCs will be preinstalled with Norton Security and VPN app, available now in selected markets.

While our OEM business is small, it demonstrates that we will continue to explore all avenues to reach customers. We've been highly engaged in various opportunities and markets globally in our partner business. Our goal is to continue to build and expand these long-term partnerships and increase Cyber Safety awareness everywhere.

In Q1, our direct customer count grew over 150,000 sequentially, and including Avira, over 2.5 million customers year-over-year, bringing our total direct customer count to 23.1 million. This was our seventh straight quarter of net direct customer adds sequentially in a quarter that has been historically down sequentially driven by normal seasonality.

Our customer retention rate remained strong at 85%, as we drive new initiatives to further improve retention overall and within specific products and customer cohorts. As we've shared at our Investor Day, we have started multiple operational initiatives, targeting areas of improvement such as our first year cohort or geographies with different customer profiles. Customer satisfaction and retention will continue to be a long-term focus for this leadership team.

Finally, before I pass it to Natalie, I want to reiterate our core values and our inspiration to fulfil our vision to protect and empower people to live their digital lives safely. We think customer first. We innovate and grow. We scrap it. We own it and we are open and authentic. These are the core values that push us to be better every single day to make the world cyber safe.

Quarter in, quarter out, we have been and continue to exercise financial discipline and reinforce our cadence of innovation. We have demonstrated our ability to grow this business, relentlessly building a strong financial track record with consistent and accelerated growth. We are far from being down, of course, and we're just getting started as we look to transform our company to redefine consumer Cyber Safety.

And with that, let me turn it over to Natalie.

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Natalie M. Derse

Chief Financial Officer, NortonLifeLock, Inc.

Thank you, Vincent, and hello, everyone. For today's discussion, I will focus on non-GAAP financials starting with our Q1 results and then provide our outlook for Q2 and full year.

Fiscal year 2022 is off to a strong start. Our Q1 revenue was $691 million, up 13% year-over-year on an as reported basis, delivering above the high end of our guidance range. We grew bookings by 12% in the quarter. Our growth was driven by broad-based strength across all geos and products and included 2-point positive impact from [ph] net FX (10:40).

Our total direct customer count increased to over 23.1 million, adding 2.6 million customers year-over-year and adding 150,000 net new customers quarter-over-quarter. This was our seventh consecutive quarter of sequential net customer adds, a testament to our growing value proposition.

Our customer retention rate, a unit retention metric, remains stable at 85%. Our monthly average revenue per user, or ARPU, is up on a sequential basis to $8.84. Our growing customer base, combined with our strong retention rate and expanding ARPU, accelerated the revenue growth of our direct business to 11% year-over-year. We continue to add more in-demand products and features into the portfolio to assist our cross-sell and upsell efforts, keeping loyal customers engaged through their life cycle.

As we continue to grow our customer base, it is important to note that our first year ARPU and retention rate for newly acquired customers is generally lower than our total average. But our growing product portfolio and customer-centric mindset make us well-positioned to foster growth of these customers while expanding our reach to new audiences.

Our partner business is a key tenet of our go-to-market strategy and once again posted strong results in Q1, up 29% year-over-year, including Avira and with broad-based growth across our distribution channels.

Our employee benefits channel continues to post double-digit growth with an expanded pipeline. More small and mid-market employers are discovering that our identity theft protection solutions help mitigate the rapidly evolving Cyber Safety threats, including recent concerns related to unemployment and tax fraud. We're proud of the progress we've made so far and are excited about the upcoming expansion efforts in this channel.

We also drove double-digit retail growth in key European countries as we continue to adapt to the market conditions in each country and focus on building the strategic partnerships needed to achieve our long-term goals.

Turning to profitability, we remain focused on executing to achieve our long-term strategy and consistently drive sustainable growth with operational discipline. As I shared at our Investor Day, we continue to drive the core business at or above a 50% margin rate, with Q1 operating at 51%, up 410 basis points year-over-year.

In the quarter, we invested in performance marketing and product innovation. With our marketing investments, we operate with a disciplined approach in new customer acquisition, measuring and ensuring effectiveness along the way while adapting to consumer behavior shifts in the market and newer media offerings. We keep our eyes on the marketplace and continue to evolve our marketing spend mix to expand our reach in a relevant and efficient manner.

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With R&D, we continue to accelerate the pace of product introductions, investing to expand our product portfolio and provide an increasingly differentiated value proposition for consumers all the while focused on operational excellence and funding additional investment capacity through G&A efficiencies.

Q1 net income was $248 million, up 32% year-over-year. Diluted EPS was $0.42 for the quarter, up 35% year-over-year and at the high end of our guidance range. We continue to prioritize sustainable growth and maintain strong operational discipline to deliver EPS expansion in line with our long-term strategy.

Turning to our cash flow and balance sheet, Q1 operating cash flow was $258 million and free cash flow was $257 million. We ended Q1 with over $1.2 billion of total cash and $1 billion of undrawn revolver capacity. Please note, this does not reflect the cash proceeds from the sale of our Mountain View Ellis buildings which closed in mid-July for total cash proceeds of approximately $358 million. We continue to have a strong liquidity position, healthy balance sheet, and are levered at approximately 2 times net debt.

Now, let me spend a few minutes specifically on capital allocation. In Q1, we returned approximately $74 million to shareholders in the form of our regular quarterly dividend of $0.125 per common share. At the end of Q1, there was approximately $1.8 billion remaining in the current share buyback program which we intend to deploy opportunistically.

As described in the press release, for Q2, the board of directors approved a regular quarterly cash dividend of $0.125 per common share to be paid on September 15, 2021 for all shareholders of record as of the close of business on August 23, 2021.

Now, turning to our Q2 and full year outlook, we expect Q2 non-GAAP revenue in the range of $690 million to $700 million, which translates to 10% to 12% growth year-over-year. We expect non-GAAP EPS to be in the range of $0.41 to $0.43 per share, assuming stable currency rates. We also reiterate our full year non-GAAP guidance presented in May at Investor Day, which is revenue growth of 8% to 10%-plus year-over-year and EPS in the range of $1.65 to $1.75.

Q1 was a great start to the year, and we look forward to building on this growth momentum with our scalable foundation. We're excited about the tremendous opportunities ahead. Thank you for your time today, and I will now turn the call back to the operator to take your questions. But please do keep in mind we are not able to answer any questions related to any specific M&As at this time. Operator?

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QUESTION AND ANSWER SECTION

Operator: All right. [Operator Instructions] We do have a question from Saket Kalia from Barclays. You are now live.

Saket Kalia
Analyst, Barclays Capital, Inc.

Q

Okay, great. Hey, guys. Thanks a lot for taking my questions here. Maybe to start out with you, Natalie, just on the core business, I was wondering if you could talk a little bit about how you think about the seasonality of net adds in a typical year and perhaps any color that you could give on retention rates in the quarter. Does that make sense?

Natalie M. Derse
Chief Financial Officer, NortonLifeLock, Inc.

A

Yeah and thanks for your question, Saket. On customer count, look, as you heard me say, we added 2.6 million year-over-year, 150,000 quarter-over-quarter. Yes, you're right. Q1 seasonally is lower. Note, last year, we were right in the heart of COVID but from a seasonality perspective, Q1 honestly landed exactly how we expected it to.

In terms of retention, retention is stable. 85% is our overall unit retention and, look, we are where we expected to be. Our focus now is on as we move forward, just driving new acquisition, retaining existing customers. Both are key priorities for us. We're not only focused on staying relevant where the consumers are and making their buying decisions, but we are just continuously driving and fuelling innovation in our product road map coupled with world-class customer service to really keep the current customers happy and satisfied, sustain and grow our retention rate, and again, prioritize new acquisition at the top of the funnel.

Saket Kalia
Analyst, Barclays Capital, Inc.

Q

Got it, very helpful. Maybe for my follow-up for you, Vincent, understanding we don't want to ask anything about sort of the headlines out there, maybe I can ask a broader question about capital allocation. Maybe outside of M&A broadly, how do you think about the priorities for capital allocation sort of going forward?

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

A

Yeah, I can talk about capital allocation but first, let me talk about the overall strategy moving forward. It's really about investing into innovation, bring more product to redefine Cyber Safety, investing. Natalie talked about marketing, but broadly defined, investing in the more solid go-to-market model.

We know that this market is still vastly underpenetrated when you take a broad definition of Cyber Safety and reaching out to all customers is very important. We said it at the Analyst Day. We are operating management team that create levers within the P&L, so improving capacity to drive more innovations, more productivity there, more marketing spend. But we are also using all levers of our business, including the balance sheet and there, you talk about the capital and its capital allocation.

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It's not rocket science. There are really three areas we use capital for. One is for inorganic investments, and we talk about M&A and all capitalized investment. The other one is buyback and the other one is dividend. And we use all three in a balanced way.

Now, when we talk about balanced way, it doesn't mean that every quarter, it will be balanced. Also last year, over 12 months, it was exactly a third, a third, a third, but we really take a very long-term view of our business when it comes to investment and use of cash.

Saket Kalia
Analyst, Barclays Capital, Inc.
Q

Very helpful. Thanks, guys. I'll get back in queue.

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

Yeah. Thanks, Saket.

Operator: Next one on the queue is Jonathan Ruykhaver from Baird. You are now live.

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

Hey, Jonathan.

Jonathan B. Ruykhaver
Analyst, Robert W. Baird & Co., Inc.
Q

Yeah. Hello. Good afternoon. So Vince, this is again along the lines of trying to understand your thinking around M&A and specifically at the Analyst Day session, you highlighted $0.30 to $0.35 from M&A as part of the bridge to $3 in earnings. So I'm just curious if you can add some perspective to that in terms of how scale from an acquisition might change the timing and/or a contribution to the doubling of that earnings profile.

And then kind of as a follow-on, when you think of scale, how does dilution factor into that? Is dilution something you're willing to accept? And if so, for how long?

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

So to be very clear, right, so we are under strict rules. We cannot talk about specific case and I wanted to make sure we follow all the rules, including the UK rules considering one of the case, I think, as you know.

So I'll remind you what we said in May in term of the broad business. We talk about our long-term aspirational view and we said that we have multiple levers at a high level split between business growth, efficiencies, and then use of capital. And use of capital, we talk about just the capital allocation model, which has two prong, the buyback and the M&A.

And we said that the way we manage the business in the long-term, all of those levers should be contributors to our long-term aspiration. When we think about more tactical capital or capital structure, we look at, again, [ph] they are true (23:49) at all levers, all possible with our long-term ambition goal in mind to make sure we achieve

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those. And I'll leave it at that and hopefully, you understand that we are under strict rules we intend to respect fully.

Jonathan B. Ruykhaver
Analyst, Robert W. Baird & Co., Inc.

Q

Yeah. No, I appreciate that color, Vincent. So the other question I have is that looks like you're dipping your toes back into the PC OEM channel and so I'm just wondering if you can walk through what you see around the opportunity there. Is this a channel that you are likely to pursue more aggressively going forward? And maybe just remind us on how you see the economics of that go-to-market. Years ago, Symantec walked away from that channel because of those economics.

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

A

100%. So, Symantec kind of almost own the majority of those channel in the past decade ago or five, six, seven years ago. Those relationship have long tail and we still have a little bit of those into our business today. As you know, the economic on a long-term basis, take a 7-year or a 10-year view, requires more investment upfront and then profitability over time as your total customer value has a long tail, six, seven years. So that's how it works.

When Symantec decided to really focus on maximizing the profit of the consumer division to fund the enterprise turnaround, they made certain decisions. When we became NortonLifeLock and 100% focused on consumers, really maximizing the protection for digital lives of every consumers connected to the Internet. We said, and I'll confirm that today, we look at always to reach the customers, all go-to-market channels. It's just they have to make sense financially in the short, mid, or long-term view, and we'll go and develop the best, most diversified distribution channel for reaching all those consumers, creating the awareness, and fulfilling the demand.

As part of that, I also said we don't have anything that we want to exclude from and obviously, relationship with PC manufacturers although we are focused on the user experience and the Internet and the cloud digital lives is one of the ways that could be favorable. And so the relationship we announced with Lenovo or the few remaining relationship we have in our current distribution channel are important and we'll continue to look at creating capacity in our P&L to go and develop all channels if you want to go to consumers.

Jonathan B. Ruykhaver
Analyst, Robert W. Baird & Co., Inc.

Q

That's helpful. Thanks, Vincent. I'll get back in the queue.

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

A

Sounds the good. Thank you, Jon.

Operator: Next question comes from the line of Matt Hedberg from RBC. You are now live.

Matthew Hedberg
Analyst, RBC Capital Markets LLC

Q

Oh, hey, guys. Thanks for taking my question. Vincent, I wanted to follow-up on Saket's question on retention. Obviously, it's clear that it remains strong overall at 85%. I guess I'm wondering if you could provide a little bit

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more color on obviously, you noted the strong sub add quarter last year due to COVID. How's some of those initial COVID subs are doing from...

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

Yeah, no.

Matthew Hedberg
Analyst, RBC Capital Markets LLC
Q

...the retention? And also...

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

Totally.

Matthew Hedberg
Analyst, RBC Capital Markets LLC
Q

...Avira because – yeah.

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

Yeah, yeah. Yeah, totally good. So, [ph] you point (27:15) on the two and I'm sure Saket meant them behind his questions, which is this is the first full quarter where you're leaping the first big growth we had as we entered the COVID locked-in periods last year, as you remember, starting in March but really impacting this quarter.

So, it's the first time we have three months, a full quarter of 12 months looking back. And a lot of investors and a lot of people were wondering were we going to be able to maintain a customer count growth. And we definitely have seen the impact of a lower quarter Q1. As you know, when it's summer, people get out and they're less into their digital lives.

But I think the progress we've made in expanding the needs for Cyber Safety platform, which is different than just a PC antivirus, if you want, has shown, and we were able to maintain not only a year-over-year growth, but a sequential growth, which is pretty extraordinary considering Q1, while Q4 is a big quarter with the tax quarter, and then normally, Q1 sequentially is down and we're able to grow it. So, very happy by the result. As Natalie mentioned, it's in line to what we had embedded into our guidance. So, we are on plan and put a big deposit into our full-year plan.

The second question I get from investors is those people or those customers that signed in for the first time during the COVID period, are they going to renew at the same level. And what we have seen in now four months looking back, March to end of June, we've seen very stable renewal rates. Now, they are first year renewal rates, so they are lower than the average 85%, but the first year renewal rates a year ago, two years ago, are in line to what we saw this quarter. We believe it's an opportunity to improve retention rates by specific – or driving specific operational initiatives around the first year cohort and customer satisfaction and experience. But we have not seen a change in behavior with what – some of you may have called the COVID cohort, if you want.

The third question I get is around Avira. Avira was slightly below in their retention rate, below our average Norton customers but not that far behind. And despite the addition of a little bit less than 2 million Avira customers, we've

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seen an overall retention rate for our business that maintained around 85%. Now, I have more details and we've not made them public for obvious reasons, but I have more details, and I can tell you that we've improved on every line, and Avira, too, continues to have a solid, although small incrementally, a solid performance on both acquisition and retention. In addition, they have a third dimension we are learning or we're building is really the free-to-paid conversion, and we've redeployed some of our marketing capacity and capabilities to drive and increase that conversion rate as well. So, we're very pleased by the performance of all of our lines of businesses.

Matthew Hedberg
Analyst, RBC Capital Markets LLC

Q

That is super helpful. Thank you for all that color. And then, something else that's kind of stood out to me, ARPU grew sequentially, and it hadn't been growing for a while. I think we always thought with Norton 360, there would be an upward bias to ARPU. I know it was a subtle increase sequentially, but it was up. Anything to call out there in terms of trends or anything that you noticed?

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

A

Yeah. As we mentioned last quarter, the Avira ARPU was roughly half of our Norton ARPU, more focused, of course, on the Security. And so, it lowered our aggregated ARPU that was at $9.10 before the acquisition to $8.80 when you take the aggregate, by the pure fact of adding new customers that only had exposure to Security plus a few other products, but didn't have exposure to a full Cyber Safety platform. And from here, we continue to see good traction on ARPU.

Now, as you know, as we continue to acquire new customers and net – be a net grower overall, the first year ARPU is lower than the multi-year. And so, the headwind from that first year cohort growing is then offset by the slight but consistent and incremental improvement from the Norton 360 and the upselling to the portfolio.

Matthew Hedberg
Analyst, RBC Capital Markets LLC

Q

Got it. Super helpful. Thanks.

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

A

Yeah.

Operator: All right. [Operator Instructions] Next question on the line is Hamza Fodderwala from Morgan Stanley. You're now live.

Hamza Fodderwala
Analyst, Morgan Stanley & Co. LLC

Q

Hey, guys. Thank you for taking my questions. Just on the – so I understand from the subscriber standpoint, a lot of that had to do with sort of normal seasonality. But Vincent, I think you mentioned earlier sort of the post-pandemic demand trends. I'm wondering how much of maybe the dip in subscriber adds was due to that post-pandemic demand trend that we saw much of last year versus typical seasonality from Q4 to Q1.

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

A

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So I just want to be clear, when you call dip and every time I'll see that I want to be sure we clarify it correctly. Last year...

Hamza Fodderwala
Analyst, Morgan Stanley & Co. LLC

Q

Right.

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

A

Yeah. Last year, we grew sequentially between 100,000 net new customer to up 400,000 net new customer, depending on the quarter. We also know that Q1 and Q2 are the seasonally low quarter on a sequential basis, and then Q3 is more security-driven and Q4 is our tax identity-driven quarter. And so, growing 150,000 quarter one, it's less than Q4, of course, the last quarter, it is a very strong performance in a first seasonally low quarter sequential net customer adds. So, it's right on our plan. It's right on our short-term and long-term commitment. Would we want to have a higher awareness and penetrate faster? Of course, but we feel pretty good about that plan.

What is the impact of the COVID or post-COVID market opening versus the normal effect of more people being in summertime on vacation [ph] the month (33:34) and on the beach and less on their digital life, that we cannot say, and I think it will always be a business that in the winter is a bit more dominant than it is in the summer.

Hamza Fodderwala
Analyst, Morgan Stanley & Co. LLC

Q

Makes total sense. And just maybe a follow-up, the partner revenue continues to grow quite strongly, obviously a much lower percentage of the overall revenue. But can you maybe give some color as to what's driving that in your recent partnerships that we should be aware of here?

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

A

Yeah. Yeah. And for those of you from NortonLifeLock that are listening, I want to thank you for driving a spirit of growth. I can tell you since we became NortonLifeLock, we told everyone, look, the opportunity also we committed to a mid-single digit is much bigger than that. Look at the underpenetrated market. It is a business that had not been invested enough in the past as they shifted from partnership, the OEM mainly, into direct-to-customer and build a very strong direct-to-consumer engine.

We said it will be much more diversified and go in every area. There is no one salesperson within our go-to-market [indiscernible] (34:46) that doesn't come during our weekly or our monthly reviews and say I have a new idea, should we invest in that. And then, Natalie and I are going through the reviews, look at the investment and decide to invest.

We have increased our sales capacity in a few of the channels. I mentioned a quarter or two quarters ago, our employee benefit channel that has been growing double digit and we continue to build that up, mentioned, of course, the OEM is still small but we can do more. We have our xSP business that continue to grow. And then, Natalie mentioned that between online and physical retails, balancing it and really strategically moving through the different opportunities by local market has always been an effort.

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Recently, a few months ago, we also started a country-by-country strategy that look at all of our different channels, if you want, and trying to balance our investment in a coordinated way at the local level, and that also is bearing its fruits. You should see us continue to invest in our GTM organization.

Hamza Fodderwala
Analyst, Morgan Stanley & Co. LLC

Q

All right. Thank you so much.

Operator: We do have a follow-up question from Saket Kalia from Barclays. You are now live.

Saket Kalia
Analyst, Barclays Capital, Inc.

Q

Great. Thanks. Thanks for letting me back in queue here.

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

A

Sure.

Saket Kalia
Analyst, Barclays Capital, Inc.

Q

Vincent, you mentioned the Avira acquisition earlier. I was wondering if you could just comment a little bit about what you're seeing in sort of their end markets in Europe specifically. What are you seeing in that mark – maybe just to expand, what are you seeing in terms of Europe around market share in core antivirus, as well as perhaps the opportunity to cross-sell your identity monitoring products in that geo?

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

A

I think the latter part of your question is the right one. I still get the question around competition and is it like McAfee or Microsoft on antivirus and what it – we see the market Cyber Safety is much more broad, antivirus almost being kind of a free or commoditized product, and building up the Cyber Safety platform around identity, around privacy, around new digital services, if you want, is really where we see the demand.

And in Europe, it's definitely driven by new concerns around identity and privacy. We introduced Dark Web Monitoring in many of those countries. We are trying to build a richer portfolio around Norton identity for all of those customers. And you touched at the opportunity to cross-sell, a currently strong focus on identity into an Avira freemium installed base is a huge potential. It won't happen over one quarter. It will be multi-quarter to build that offering and drive that awareness and then that conversion, but it's a huge opportunity for us, for sure.

Saket Kalia
Analyst, Barclays Capital, Inc.

Q

Got it. Very helpful. Thanks.

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

A

Good.

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Operator: All right. At this time, there are no more questions. I will turn the call over back to Vincent Pilette, CEO, for closing remarks.

Vincent Pilette

Chief Executive Officer & Director, NortonLifeLock, Inc.

Excellent. Thank you, Chino. Well, let me be very short. Thanks for joining. Thank you for your support. Obviously, we'll continue to drive our business towards our long-term ambition, and we look forward to connecting with you very soon. Thank you.

Operator: This concludes the conference call. Thank you.

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NORTONLIFELOCK PROFIT FORECAST

This document contains the following statements relating to NortonLifeLock's anticipated EPS:

"*We expect non-GAAP EPS to be in the range of $0.41 to $0.43 per share, assuming stable currency rates*."

"*We also reiterate our full year non-GAAP guidance presented in May at Investor Day, which is revenue growth of 8% to 10%-plus year-over-year and EPS in the range of $1.65 to $1.75.*"

Each of the above statements (together, the "**NortonLifeLock Profit Forecast**") constitutes an ordinary course profit forecast for the purposes of Rule 28.1(a) and Note 2(b) on Rule 28.1 of the UK's City Code on Takeovers and Mergers (the "**Code**").

Notes

This document contains the statements set out below. References to "GAAP" in the NortonLifeLock Profit Forecast are to U.S. GAAP, being the accounting policies applied in the preparation of the NortonLifeLock's annual results for the year ended 2 April 2021.

"*[NortonLifeLock uses] non-GAAP measures of operating margin, net income and earnings per share, which are adjusted from results based on GAAP and exclude certain expenses, gains and losses. We also provide the non-GAAP metrics of Consumer revenues, constant currency revenues and Consumer reported billings, which exclude revenues from our divested ID Analytics solutions, and free cash flow, which is defined as cash flows from operating activities less purchases of property and equipment. These non-GAAP financial measures are provided to enhance the user's understanding of our past financial performance and our prospects for the future. Our management team uses these non-GAAP financial measures in assessing NortonLifeLock's performance, as well as in planning and forecasting future periods. These non-GAAP financial measures are not computed according to GAAP and the methods we use to compute them may differ from the methods used by other companies. Non-GAAP financial measures are supplemental, should not be considered a substitute for financial information presented in accordance with GAAP and should be read only in conjunction with our consolidated financial statements prepared in accordance with GAAP*."

Basis of preparation

The NortonLifeLock Profit Forecast has been prepared on a basis consistent with the NortonLifeLock's accounting policies, as set out in the notes above.

Assumptions

The NortonLifeLock Profit Forecast is based on the assumptions listed below.

Factors outside the influence or control of the NortonLifeLock Directors

- There will be no material changes to existing prevailing macroeconomic or political conditions in the markets and regions in which the NortonLifeLock operates.
- There will be no material changes to the conditions of the markets and regions in which the NortonLifeLock operates or in relation to customer demand or the behaviour of competitors in those markets and regions.
- The interest, inflation and tax rates in the markets and regions in which the NortonLifeLock operates will remain materially unchanged from the prevailing rates.
- There will be no material adverse events that will have a significant impact on the NortonLifeLock's financial performance.
- There will be no material adverse events that will have a significant impact on the timing and market acceptance of new product releases and upgrades by the NortonLifeLock.

- There will be no business disruptions that materially affect the NortonLifeLock or its key customers, including natural disasters, acts of terrorism, cyber-attack and/or technological issues or supply chain disruptions.

- There will be no material changes to the foreign exchange rates that will have a significant impact on the NortonLifeLock's revenue or cost base.

- There will be no material changes in legislation or regulatory requirements impacting on the NortonLifeLock's operations or on its accounting policies.

- There will be no material litigation in relation to any of the NortonLifeLock's operations.

- The possible merger, if it were to occur, will not result in any material changes to the NortonLifeLock's obligations to customers.

- The possible merger, if it were to occur, will not have any material impact on the NortonLifeLock's ability to negotiate new business.

Factors within the influence and control of the NortonLifeLock Directors

- There will be no material change to the present executive management of the NortonLifeLock.

- There will be no material change in the operational strategy of the NortonLifeLock.

- There will be no material adverse change in the NortonLifeLock's ability to maintain customer and partner relationships.

- There will be no material acquisitions or disposals.

- There will be no material strategic investments over and above those currently planned.

- There will be no material change in the dividend or capital policies of the NortonLifeLock.

- There will be no unexpected technical or network issues with products or processes.

NortonLifeLock Directors' confirmation

With the consent of Avast, the UK's Panel on Takeovers and Mergers has granted a dispensation from the Code requirement for NortonLifeLock's reporting accountants and financial advisers to prepare reports in respect of the NortonLifeLock Profit Forecast.

The NortonLifeLock Directors have considered the NortonLifeLock Profit Forecast and confirm that it remains valid as at the date of this document, and has been properly compiled on the basis of the assumptions set out above and that the basis of the accounting used is consistent with NortonLifeLock's accounting policies.