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NortonLifeLock, Inc. (NLOK)

Q3 2022 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Mary Lai
Vice President-Investor Relations

FINANCIAL MEASURES

- As a reminder, there will be a replay of this call posted on the Investor Relations website, along with our earnings slides, press release 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 y-over-y, 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

Vincent Pilette
Chief Executive Officer & Director

Q3 REVIEW

Q3 Highlights

- This was another strong quarter, double-digit growth on both the top and bottom line, and we continue to drive improvements across several key business areas that we believe are critical to our long-term success
- Q3 revenue and bookings grew 12% and 11%, respectively
- The growth profile we delivered was broad based, reflective of diversification across our product portfolio, our channels and our geographies

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- And with 16% growth in EPS, our profitability remained strong and continues to grow faster than revenue

Cyber-Security

- Later in this call, Natalie will provide you with more details on our Q3 results, but let's take a step back for one minute
- It is clear to all of us that we are living more and more of our daily lives online: shopping, working, learning, creating, sharing, you name it; we are doing it all online
- All of it is designed to make our lives easier and better, but it does come with a very real risk of more cyber criminality
- Every day, this team wakes up driven by a singular purpose, making the world cyber-safe for everyone and ultimately powering their digital freedom
- Today, we are protecting and empowering approximately 80mm users in more than 150 countries, but we are just getting started
    - Our strategy is built around our customers and their digital lives

Key Focus Areas

- We are focused on accelerating innovation, expanding access and reach and relentlessly serving our customers' needs
- Our innovation engine continues to thrive
- In Q3, we introduced Avira Breach Monitor, where we actively scan their Internet and alert users if their e-mail is a part of a data breach
- In identity and in privacy, we continue to expand our reach internationally, combining Dark Web Monitoring, AntiTrack and ID Navigator and bringing it to over 20 countries
- Not only do we bring new products to market, we also improve upon category-leading products that we have offered for years
    - For example, using machine learning, we rolled out new alerts detecting unusual transactions for our LifeLock subscribers, better protecting people from various frauds or unusual activities

Norton 360

- Day after day, this team brings energy and new ideas about how we can better build out the Norton 360 cyber safety integrated platform
- Within various plans of Norton 360, our members automatically receive the benefits of our latest innovation:
    - Simplified and frictionless onboarding experiences
    - New device detection and addition through QR codes
    - Easy backup activation
    - Software updater
    - Improved integrated VPN
    - Game booster
    - Cryptocurrency mining and wallet options
    - And enhanced identity protection features like Identity Lock and social media monitoring
- These are just a few of the new features made available into our Norton 360 platform over just the last few months

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Award Wins

- And it's not just innovation, it is a continued commitment to protecting our users as highlighted with multiple AV-TEST Awards and the most recent, the SE Labs' Best Consumer Anti-Malware Awards for 2021
- We know we are on the right track as over 14mm customers are now on Norton 360, with more than 1mm members added since our Investor Day last May
- We are thrilled that over 60% of our direct customers are now protected by the Norton 360 platform and it keeps growing
- Whether it's launching entirely new products, bringing these products to more people or improving our industry-leading platform, we know that innovation is a core driver of our success
- When customers make the decision to trust us to help protect their digital lives, they stay with us

Net Promoter Score

- We have improved our Net Promoter Score by 5 points to high-40s in the last 12 months
    - That strengthening engagement is also reflected in our retention rate, which is something we are particularly proud of
- In Q3, it was slightly above 85%
- If you exclude the first year customers, retention is at 87% in aggregate and as high as 90% for some cohort of customers with the identity offering
- It speaks to the power of our Norton 360 platform with identity protection as traditionally in this industry, renewal rates for the first year customers or security-only customers are lower
    - But even in this category, we believe we have room for improvement

Avira Retention

- We've already improved Avira retention to 83%, up 3 points since we acquired them
- Through our evolving and innovative product portfolio and expanding distribution channels, we have now added customers to the platform consistently over nine consecutive quarters
- Total direct customers are now over 23.4mm, up 12% or 2.4mm customers added y-over-y and 126,000 sequentially
    - The growth was broad-based, although slightly higher mix in security as expected for a December holiday-driven quarter

Direct-to-Consumer Channel

- In our direct-to-consumer channel, we observed some market pressure on ad prices that slightly pushed up our customer acquisition cost
- We partially offset those increases with improvement in shopping cart conversion
- One of the key investment areas in our go-to-market strategy is the expansion in indirect channels
- The net direct customer count increase that I just shared does not include customers coming through our partner channels, including employee benefits or through the app store, for example
- In those two channels alone, we added almost 0.5mm customers y-over-y and over 100,000 customers sequentially
    - And interestingly, almost two-third now of our new customer from app stores have installed the Norton 360 app
- You will see us continue to expand and invest in our multichannel approach to reach more customers

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- While it is great that we've brought innovations to the market, added customers to our platform and retained them, it is also clear that we are delivering value

Q3 ARPU

- In Q3, our average revenue per user or ARPU was $8.87, but excluding Avira, we achieved a record organic ARPU well above $9, driven by higher Norton 360 adoption and successful cross-sell and upsell activities
- Avira's installed base is more focused on traditional security feature, which drives an ARPU at just below $5
- But we view this as one of the many opportunities we have to continue to grow and provide more rounded protection to all customers, Avira and internationally
    - Natalie will provide more details on ARPU in her section

Merger with Avast

- To wrap up, I'm also excited to announce that we are driving to an accelerated close date for the merger with Avast
- As you will recall, we originally expected to close in mid-CY2022
    - However, while there remain some outstanding regulatory conditions that will need to be satisfied or waived before we can close, we currently expect to close on February 24, 2022
- We have made great strides towards combining the two companies, including receiving approvals from both NortonLifeLock and Avast shareholders, satisfying regulatory conditions in the US, Czech Republic, Australia, New Zealand, and securing permanent financing commitments
- On the remaining regulatory conditions, we have submitted antitrust filings for the UK, Germany and Spain and are fully engaged with each of them
- We fundamentally believe that this merger will allow us to increase our pace of innovation and better serve consumer around the world
- In the meantime, we'll keep driving our business forward
- We've made great progress and frankly can't wait to merge with Avast
- Together, we will accelerate the transformation of consumer cyber safety and power digital freedom for everyone
    - And now I will pass the call over to Natalie to cover details of the financial results and the activities supporting our merger with Avast

Natalie M. Derse

Chief Financial Officer

FINANCIAL PERFORMANCE

Revenue and Bookings

- For today's discussion, I will focus on non-GAAP financials, starting with our Q3 results and then provide our outlook for FY2022
- We delivered another excellent quarter
- Our Q3 revenue was $704mm and at the high end of our guidance range

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- Revenue was up 10% in USD and up 12% in constant currency, including a 2-point currency headwind as the euro and yen weakened against the US dollar
- Bookings growth accelerated sequentially and y-over-y, up 10% in USD and 11% in constant currency
    - We continue to effectively utilize the levers we have at our disposal to accelerate growth

Customer Count

- Our total direct customer count increased to 23.4mm, adding 2.4mm customers y-over-y and adding 126,000 net new customers q-over-q
    - This was our ninth consecutive quarter of sequential net direct customer adds, with close to 0.5mm net new customers added already this year
- We remain focused on acquiring more customers at the top of the funnel in an increasingly competitive landscape
- Q3 growth was broad based
- We saw strength in both the US and international regions
- Our new products and services in key international markets have improved our overall global reach
    - While our customer mix still skews higher in the US, we are capturing more international opportunities as we scale

ARPU

- Looking at our performance in Q3 across key operating metrics
- Overall, unit retention was slightly above 85% in Q3, and our monthly average revenue per user, or ARPU, expanded sequentially to $8.87
- Collectively, this contributed to 9% revenue growth in our direct business vs. 5% growth in Q3 last year and no growth the year before
- We believe this consistent growth momentum is built on the foundation of our Norton 360 platform as well as our expanding product portfolio and the increasing value we provide to our customers

Retention

- Retention is a major area of focus for us
- Our renewal rates remain strong across cohorts, including our newer customers, which now reflects a larger mix of our customer base
- Our cross-sell, upsell efforts are also beginning to bear fruit, supported by new product velocity and expanding feature releases in global markets
- While driving strong engagement throughout the customer journey and bringing more value to our customers, we, in turn, continue to increase retention and drive growth in our ARPU over time
- Our partner business continued to grow double-digits in Q3, with revenue up 17%, scaling in multiple channels including employee benefits and app store

Employee Benefits Channel

- Our employee benefits channel continues to grow double-digits as we broaden our identity offerings to more employees in North America
- Our app store channel was up double-digits for the fifth consecutive quarter, driven by the success of our Norton 360 app

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- While our indirect business is just over 10% of our total business, we continue to dedicate more resources in this area as we focus on broadening our go-to-market reach and drive this as a key tenet of our long-term growth strategy

Gross Margin

- Turning to profitability, we continue to deliver high operating leverage
- Q3 gross margin sustained at 87% and operating margin was 52.8%, up 180BPS y-over-y
- We remain diligent in our cost structure in pursuit of efficiency opportunities and to create capacity for reinvestment to drive growth

G&A and R&D

- We are operating our G&A functions at a cost of approximately 4% of revenue, down from 10% of revenue just two years ago
- We continue to make investments in sales and marketing while navigating through the competitive advertising environment and higher [ph] ad (15:09) costs
- With R&D, focused our energy on increasing the pace of new product launches while also effectively driving efficiencies

Net Income and EPS

- Looking ahead with Avast, we will continue to operate with a disciplined approach in our cost management in order to drive synergies we committed, and pre-integration plans are already underway
- Q3 net income was $260mm, up 14% y-over-y
- Diluted EPS was $0.44 for the quarter, up 16% y-over-y and at the high end of our guidance range
    - We remain committed to driving EPS expansion and achieving our long-term EPS objective of $3

Cash Flow and Balance Sheet

- Turning to our cash flow and balance sheet, Q3 operating cash flow was $330mm and FCF was $328mm
- YTD operating cash flow is $648mm, growing over 80% y-over-y
- We continue to maintain both a strong liquidity position and a healthy balance sheet
- Our net debt leverage lowered to approximately 1-point times in the quarter – 1.5 times in the quarter; but please note, this does not include any of our expected acquisition financing as that does not become funded until the deal close
- In Q3, we returned approximately $73mm to shareholders in the form of a regular quarterly dividend of $0.125 per common share
- For Q4, the Board of Directors has approved a regular quarterly cash dividend of $0.125 per share to be paid on March 16, 2022, for all shareholders of record as of the close of business on February 22, 2022, as described in the press release
- We still have approximately $1.8B remaining in the current share buyback program, which is not being deployed at this time due to the pending Avast transaction
    - As a reminder, depending on the Avast merger shareholder elections, an incremental share buyback of up to $3B is possible to the extent that Avast's shareholders elect for the majority stock option

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AVAST MERGER FINANCING UPDATE

- Before I get into our guidance, let me give you a brief update on the Avast merger financing
- As you may recall, back in August of last year, we successfully syndicated our term loan A commitments for the acquisition financing
- At the start of this CY, we launched the syndication of our term loan B commitments to be prepared for the deal close
- We received strong interest and great reception in the debt markets
    - In fact, the demand was notably oversubscribed
- We're pleased to report that we have successfully raised all of the required financing we had planned for this merger and we'll be ready to fund at the accelerated date for the deal close

FY2022 OUTLOOK

- Now, turning to our outlook, we have narrowed our full year FY2022 non-GAAP guidance to the high end of the range
- We now expect to achieve FY2022 annual non-GAAP revenue in the range of $2.795B to $2.805B, assuming stable currency rates q-over-q, which translates to approximately 10% growth y-over-y in constant currency
- For FY2022 annual non-GAAP EPS, we expect to be in the range of $1.73 to $1.75, narrowing against that high end
- Please note this guidance does not include any impact from the anticipated Avast merger close
    - We look forward to closing out another successful FY
    - We remain well positioned as the leader in cyber safety
    - We have growing momentum, a very healthy business model and strong operating capabilities
- I want to reiterate what we said last quarter
- As we navigate forward, we will continue to challenge ourselves to anticipate, prioritize and meet customer needs in a growth-focused manner
- Thank you for your time today and I will now turn the call back to the operator to take your questions
    - Please do keep in mind, we are not able to answer any questions related to any specific M&A at this time

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QUESTION AND ANSWER SECTION

Saket Kalia
Barclays Capital, Inc.

Q

Thanks for taking my questions here and great to see the results. Vincent, maybe I'll start with you. I understand the disclaimer just on talking about specific M&A, but I think the most surprising news with the release here, in my view, is the earlier expected close for Avast on February 24. And so, maybe to the extent you can, can you just share with us just some of the regulatory hurdles left, right, just to understand the timeline from here to the 24th? And then also, to – in as much detail as, I guess, you're allowed to, what gives you the confidence in that earlier close date compared to the June timeframe that we earlier thought – that we thought about earlier?

Vincent Pilette
Chief Executive Officer & Director

A

Yeah. And to be honest with you, I never believed that I would say what I'm going to say, which is despite the fact that we posted a double-digit quarter – quarter, the most exciting news is, for me, too, that we are now scaling the close of the merger with Avast for February 24. We, as you imagine, are super eager to get started. We've made great progress in our planning activities and we know that this merger will offer an increased capacity for innovation, for global reach, to make cyber safety richer for consumers. So, we've been patiently working all the processes.

As I mentioned in my prepared remarks, we made great progress on many fronts. We still have regulatory conditions to meet in the UK, Germany and Spain. We've done now all of the filings and we are openly and actively, if you want, collaborating with those [ph] stories (21:56) answering all of the questions they have. Based on the progress, and I won't go into every detail, we're now confident that we will be in a position on February 24 to either meet all conditions or waive all conditions and be able to close. So that's, as you mentioned, a great news.

Saket Kalia
Barclays Capital, Inc.

Q

Yeah, absolutely. We'll look forward to that. Natalie, maybe for you just to zero in on the core business. To Vincent's point, I mean, great to see the double-digit bookings growth. You talked about a couple of the levers in your prepared remarks, the better retention, the ARPU and continued customer acquisition; can you just go one level deeper into sort of how you've been able to accelerate that growth to double-digits here?

Natalie M. Derse
Chief Financial Officer

A

Yeah. Hi, Saket, thanks for the question. In our prepared remarks, you heard us, right? The growth was pretty broad based, both the US and international across security and identity. How we continue to post double-digit growth, I think, is exactly what we've said. It's really having our new products come to market faster, which is allowing us to offer increasing value to our new as well as our existing customers. We continue to focus our efforts in expanding our customer reach across the globe, that's driving both domestic expansion as well as international expansion. We've got – with Avira, really seeing the premium to paid conversions as well as combined and diversified through the partner and indirect channels. I think all of that's just really coming together, and we're focused on all of those key tenets to drive that double-digit growth.

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Saket Kalia
Barclays Capital, Inc.

Q

Got it, got it. That makes a lot of sense. Vincent, if I could squeeze another one in, it's a product question. I thought the social media monitoring solution that was announced recently was very interesting. I was wondering if you could just talk a little bit about the competitive landscape there and the additional value that you can capture with a tool like that, because I guess in the world of, unfortunately, cyberbullying, I imagine that's an interesting product. So can you just dig a little deeper into that?

Vincent Pilette
Chief Executive Officer & Director

A

Yeah. I'm totally with you. And to be honest with you, so we have a very broad purpose, right, really protecting and empowering everyone to help their digital lives being safe and getting the maximum value for it. As we know, as we move more online, we of course, expose either the users or our kids or our family to more risk coming from that cyber criminality that continues to evolve all the time. I mentioned at our Analyst Day that moving up the stack of value from that core device security to multi-device to then including password manager, VPN, then adding identity features and then moving into privacy features is what our mission is to build just the best cyber safety platform, full stop.

And then on top, offering additional services that would have a lot of value because they are part of that cyber safety platform. I mentioned a category we really look at very closely within that privacy and protection is your reputation online, reputation, privacy, reputation management, and then protecting against all sort of activities that would expose you; cyberbullying being one of them. And so social monitoring is just another feature, if you want, in a long road map that we keep developing to protect our children against different worlds, different exposure that you would not want to have and creating an alert system and a blocking system that help spotting that. You should, as part of kind of a seed development, as we continue to build up the different categories.

When it comes to competition, I have to tell you, we see a lot of innovation, start-ups, either geographically located or product category-focused, that bring interesting new ideas. And this is why we like the position we have. And we will even reinforce with Avast. We're going to free up capacity for innovation and continue to accelerate the rate of value we bring into the overall portfolio. So you should see it as a long-term development and understanding that we continue to move the value and build up that full definition of what cyber safety means for an Internet user.

Matthew Hedberg
RBC Capital Markets LLC

Q

Vincent, you talked about capturing more international business, and obviously, Avast will accelerate that. But wondering if you can provide a bit more detail on what's working internationally. And maybe how is Norton 360 resonating in international markets?

Vincent Pilette
Chief Executive Officer & Director

A

Yeah. No, very good question. So every geography is important. But as you know, Norton came with a more US-centric base, right, 70% of our business coming from there. And when we started as a company two years ago, [indiscernible] (27:30) we say, hey, we have a big opportunity internationally; first, with the current product portfolio and we did that. Then we realized that in many local countries, there's many features that are more free features and introducing in our portfolio the ability to manage a freemium model was important.

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We acquired Avira and we did a lot of testing and realized that actually combining in one country under the same roof at full life cycle from freemium to premium to full cyber safety platform is actually working. And we were able to grow almost all line or all cohorts when we're doing those tests locally. So that has been, of course, a proof point that give us the confidence to say, hey, the combination with Avast would be definitely a fantastic, very powerful move to offer more innovation to these customers, including the commitment to the freemium, that's number one.

Number two is we have seen it with Avira but also with Norton, as we continue to move more value up the, if I can call it, value chain, when you look at the pyramid at the base, the basic security moving into your data being protected, then your data inform a live, protecting you full live and that's an identity or multiple identities and protecting that. We can see both, of course, the value creation of the ARPU going up and then the retention actually going up along with the customer satisfaction.

We started to launch more combined product, AntiTrack, starting at the basic with Dark Web Monitoring in many different countries to introduce the notion of that identity protection. And you will see us more committed and going to drive that digital identity internationally.

In Europe, as you know, digital identity has a different meaning than in the US. And so, having a presence in each region and understanding the – both the – the local market in a global framework is very important and we'll be fully committed to that.

The third one, I would say, internationally that we have seen is once a customer gets more of that value that I mentioned under either Norton Identity or different single product, AntiTrack or others, we've seen retention improving. Some of the Avira retention improved internationally and we can see in the various countries.

Every country has different renewal rate, but they move up when they move up the value chain and become more a member of a cyber safety platform. So, that gives you an idea, if you want, of the different levers we will have to continue to accelerate growth as we share best practices with our friends at Avast.

Matthew Hedberg
RBC Capital Markets LLC

Q

No, that's super comprehensive. Thank you, because I think we all recognize the international opportunities is significant for you guys. The other thing that really stood out to me, you had a lot of positive things to say about indirect success as well. Now, I think you said it's just over 10% of your business. You're focused on driving more success there. Maybe tell us, what are some things there? Obviously, it's been more of a direct focus historically, but it's really, I think, exciting to see a lot of indirect success, which seems like another lever of growth.

Vincent Pilette
Chief Executive Officer & Director

A

I totally agree with you. Let's be very clear. We know that to reach out the 5B Internet users, we can't just do it through a DTC business model. We have to continue to partner, whether it's going indirect through a simple channel or combining with other solutions to offer a better mix or a fully integrated value, combining, for example, with an insurance provider and a cyber safety offering, et cetera. So, expect us to continue to develop our channels that way. I think we mentioned publicly that employee benefit was one of them.

That's more US-centric. We've increased our investment a year ago in that and we now see the fruition to that. There, too, it's not only a channel, because then we get feedback around adjustment to the product portfolio and we can add more value for the employee benefit of customers, so customers that come through that channel. We

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want to be – of course, we want to move fast. Of course, we want indirect channel to be bigger, but we're going to be very thoughtful, making sure that our brand is recognized, that we have engagement with the customers, which is not the case with every legacy indirect channels, making sure we have the ability to continue to move up the value chain of customers.

Those are some of the criterias we really consider before really putting the trigger on increasing an investment in one area. But a lot of opportunities there, want to be thoughtful. We're particularly excited. Sorry to come back all the time with that, but when Avast will come in, they have a VSB/SOHO channel, so focusing on the gig economy or the homeworker person around that cyber safety, we expect to increase that channel as well, so – and we have none in our NortonLifeLock. So, definitely expecting direct channel to continue to be an expanding part of our go-to-market strategy.

Fiona G. Hynes
Morgan Stanley & Co. LLC

Q

So, first question is on the net subscription adds, which was a little bit below typical seasonality. We were wondering if you could just please expand on that a little bit. Has there been any change in renewal rates?

Natalie M. Derse
Chief Financial Officer

A

Yeah. Thanks for the question. So, look, growing our customer base has consistently been and will continue to be a key ingredient to our strategy. And we've just posted our ninth consecutive quarter of q-over-q net adds. But we've chosen to report our customer adds to you defined as direct customers. We'll continue to invest in driving this area very, very fruitful to acquire customers through direct acquisition.

But it's not the only avenue to customer acquisition. I think you've heard us today a couple of times talk about the indirect channels. These are diverse channels that we can go to market and really expand our reach, and we're putting resources behind that. We absolutely want more customers, direct paying customers through our funnel. And that's why it's so important for us to focus on how we expand our reach globally in all different channels. The direct channel is becoming increasingly more competitive both from a competitive spend perspective, but also just add costs. And so we're trying to strike the right balance and really leverage all of the diversity of the channels that we have out there to acquire users and/or indirect customers that will, over time, feed into our installed base.

Vincent Pilette
Chief Executive Officer & Director

A

Hey. There's one – add – I want to say and I know it's doubling down on what I already said and Natalie mentioned it briefly, but we have a lot of also indirect customers. A year ago, we launched Norton 360 on mobile, Android and iOS. In employee benefit and mobile app, we increased 100,000 net new customers or over 100,000 net new customers in those two channels q-over-q. We saw, for the first time actually in mobile app, 65%, about two-thirds of the mobile app purchases were Norton 360, which is a very big change. That is impacting how we report the direct customer count. We've made some analysis. Avast, for example, is including the mobile app into the customers, so as we merge with Avast, we're going to take a fresh look on how we report this customer count so investors can have a full view on how we look at our business across all dimensions.

Fiona G. Hynes
Morgan Stanley & Co. LLC

Q

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Okay. Got it. That's very helpful. One follow-up, if I could. So how should we think about ARPU going forward now that the Avira acquisition has lapsed? Any thoughts on price increases given the current inflation that we're seeing? Thank you.

Natalie M. Derse
Chief Financial Officer

A

Yeah. So as it pertains to price increases, inflation, etcetera, I know it's being talked about across the globe; very, very top of mind and relevant. For our business though, we're software based, so we really don't have a ton of logistical and raw material inflation in our business. What we focus on when we think about price, when we think about inflation, it's more so how are we driving customer value? How are we bringing innovation faster to market? How are we making sure that we are the number one customer choice in the decision where they choose how to protect themselves and their family? And that's how we focus and that's how we think about our price. We want to make sure that the price to value equation makes sense and not necessarily focusing on price increases just because it's top of mind across the world today.

Vincent Pilette
Chief Executive Officer & Director

A

And when it comes to growth, we balance retention, ARPU, new customer acquisitions. If your question is, can you go higher than the $9 average? The answer is, yes. We still have the majority of our customers that don't have identity protection but are just on the core security. Nobody is anymore just on the AV. They have more than just security like Password Manager, et cetera, but they haven't really made the leap yet on understanding the benefit of having identity – digital identities being protected. And I think that's really our effort, creating the innovative portfolio to really drive that increased adoption of identity protection.

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NORTONLIFELOCK PROFIT FORECAST

This document contains the following statements regarding NortonLifeLock's anticipated earnings per share ("**EPS**"):

"*For fiscal 2022 annual non-GAAP EPS, we expect to be in the range of $1.73 to $1.75, narrowing again to the high end.*"

The above statement (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

References to "GAAP" in the NortonLifeLock Profit Forecast are to U.S. GAAP, being the accounting policies applied in the preparation of NortonLifeLock's annual results for the year ended April 2, 2021. The press release published by NortonLifeLock on February 3, 2022, being the same date as the earnings call of which this document constitutes a transcript, contains the following explanation regarding non-GAAP financial measures:

"*We use 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 revenues, constant currency revenues, 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. Readers are encouraged to review the reconciliation of our non-GAAP financial measures to the comparable GAAP results, which is attached to our quarterly earnings release, and which can be found, along with other financial information including the Earnings Presentation, on the investor relations page of our website at Investor.NortonLifeLock.com. No reconciliation of the forecasted range for non-GAAP EPS guidance is included in this release because most non-GAAP adjustments pertain to events that have not yet occurred. It would be unreasonably burdensome to forecast, therefore we are unable to provide an accurate estimate*."

Basis of preparation

The NortonLifeLock Profit Forecast has been prepared on a basis consistent with NortonLifeLock's accounting policies, as summarized in the paragraph entitled "Use of Non-GAAP Financial Information" above. The NortonLifeLock Profit Forecast excludes any transaction costs attributable to the Merger or any other associated accounting impacts as a direct result of the Merger.

NortonLifeLock currently believes that it may be possible to accelerate the timeline for closing of the Merger from the original expectation of mid-calendar year 2022. The currently anticipated closing date, subject to the satisfaction or, if applicable, waiver by NortonLifeLock of each of the relevant regulatory conditions, is February 24, 2022. However, the NortonLifeLock Profit Forecast assumes that completion has not occurred by April 1, 2022 in order for NortonLifeLock shareholders to assess the performance of NortonLifeLock on a standalone basis

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 NortonLifeLock operates.
- There will be no material changes to the conditions of the markets and regions in which NortonLifeLock operates or in relation to customer demand or the behavior of competitors in those markets and regions.
- The interest, inflation and tax rates in the markets and regions in which NortonLifeLock operates will remain materially unchanged from the prevailing rates.
- There will be no material adverse events that will have a significant impact on 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 NortonLifeLock.
- There will be no business disruptions that materially affect 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 foreign exchange rates that will have a significant impact on NortonLifeLock's revenue or cost base.
- There will be no material changes in legislation or regulatory requirements impacting on NortonLifeLock's operations or its accounting policies.
- There will be no new material litigation and no unfavorable resolutions of existing material litigation in relation to any of NortonLifeLock's operations.
- The announcement of the Merger will not have any material impact on 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 NortonLifeLock.
- There will be no material change in the operational strategy of NortonLifeLock.
- There will be no material adverse change in 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 NortonLifeLock.
- There will be no unexpected technical or network issues with products or processes.

NortonLifeLock Directors' confirmation

With the consent of Avast, the Panel on Takeovers and Mergers has granted a dispensation from the UK Takeover 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 has been properly compiled on the basis of the assumptions set out in this document and that the basis of the accounting used is consistent with NortonLifeLock's accounting policies.