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GEN.OQ - Q1 2024 Gen Digital Inc Earnings Call

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Company Summary

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PRESENTATION

Operator

Good afternoon, everyone, and thank you for standing by. My name is Hannah, and I will be your conference operator today. I would like to welcome everyone to Gen Fiscal Year 2024 First Quarter Earnings Call. Today's call is being recorded (Operator Instructions) At this time, for opening remarks, I would like to pass the call over to Ms. Mary Lai, Head of Investor Relations. Miss, you may begin.

Mary Lai - *Gen Digital Inc. - Head of IR*

Thank you, Hannah, and good afternoon, everyone. Welcome to the Gen First Quarter Fiscal Year 2024 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 slides and press release. I'd like to remind everyone that during this call, all references to the financial metrics are non-GAAP and all growth rates are year-over-year unless otherwise stated. A recon of non-GAAP to GAAP measures is included in our press release, which is available on our IR website at investor.gendigital.com.

Today's call contains statements regarding our business, financial performance and operations, including the impact of our business and industry that may be considered forward-looking statements, and such statements involve risks and uncertainties that may cause actual results to differ materially from our expectations. Those statements are based on current beliefs, assumptions and expectations and speak only as of the current date. For more information, please refer to the cautionary statement in our press release and the risk factors in our filings and the SEC and in particular, our most recent reports on Form 10-K and Form 10-Q.

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

Vincent Pilette - *Gen Digital Inc. - CEO & Director*

Thank you, Mary. Good afternoon, everyone, and welcome to our earnings call. Our fiscal year is off to a great start. This quarter is what many of you have come to expect from us; strong execution, consistent operating discipline and solid results. This quarter marks our 16th consecutive quarter of growth, with Q1 cybersafety bookings and revenue, both up low single digits in constant currency when including Avast historical results in the base. We continue to make progress with our direct customer count, reducing our gap between acquisition and churn in the post-COVID environment and on our way to breakeven.

With operational integration essentially complete, we expanded our operating margin by another 50 basis points sequentially and 6 points since the Avast merger, which only started 9 months ago. We expanded our earnings power, growing EPS, 5% in U.S. dollars and 9% in constant currency. Our consistency can be easily taken for granted. But make no mistakes, these sustained results speak to the talent and commitment the Gen team shows every day. Our team is second to none. As you can tell, I'm proud of what we have accomplished, but what really excites me is when I look

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ahead, we are well positioned to drive innovation and leadership in cybersafety, protecting people against the growing threats facing our expanding digital lives. And we really have only just gotten started.

As the footprint of our digital lives continues to expand, people everywhere need easy-to-use solutions that help protect them and enable all the digital world has to offer. When Andre and I first talked about bringing NortonLifeLock and Avast together 2 years ago, delivering this type of protection to more people in more geographies with a comprehensive product portfolio was the fundamental vision for bringing the companies together. And if you go back and look at the road map we shared with our stakeholders, you can not only see our progress on each dimension, but more importantly, I believe you can clearly see that Gen is delivering on our mission to empower and protect people everywhere.

One of the key elements for Andre and I was that our combination would create unmatched reach and scale. Today, Gen touches hundreds of millions of people with our free services and 65 million subscribers, direct and indirect with our premium offerings. We serve consumers in over 150 countries. And at the end of Q1, 60% of the people we serve were outside the U.S versus 40% 2 years ago. While we continue to believe in growth in all countries, we have tremendous opportunities internationally to serve more people and over time, grow the value we deliver to them. In fact, our customer acquisition success in Latin America is a showcase of this global expansion.

In Q1, we reached new customers through new channels, new countries and new products, all 3 dimensions in that region. Our Q1 international growth was supported by positive customer count and expanding ARPU for longer tenure customers, which we view as a strong proxy for those customers adding value over time. With our global reach, we bring to market the broadest and most comprehensive portfolio in consumer cybersafety. Norton and LifeLock's leadership in security and identity, coupled with Avast strength in security technology and privacy are also unmatched. Not only do we have the breadth of offerings. We have many trusted industry-leading brands. Our portfolio of brands allows us to best serve the different needs of our diverse customers, whether that be from regional or local needs, different life stages or levels of tech awareness with Norton, Avast, LifeLock, Avira, AVG, amongst others, we can meet consumers where they are and with what they need.

With Avast and Avira, we can reach less mature markets with freemium offerings. With Norton, we can offer comprehensive suite that delivered tremendous all-in-one value with higher entry price points. And with LifeLock, we offer unmatched identity theft protection plans, including award-winning restoration services. The portfolio and our family of trusted brands are great enablers for us to deliver the right value to consumers in the U.S. and abroad and grow that as they need to evolve. This quarter, we delivered our third quarter of sequential improvement in ARPU and retention, driven by double-digit growth in cross-sell and adoption of our comprehensive integrated suite. Today, almost 40% of our direct paid customer base have adopted Norton 360 or Avast One.

Most importantly, Gen's investment in technology and innovation are really the engines that power our current and future success. In this first year as Gen, we launched several new products and features, expanding the portfolio offering to provide our customers more protection and control in the digital world. Products like Avast Identity AntiTrack on Android, Norton Secure Browser and Executive Protection in Employee Benefits, all come from the combination of our complementary portfolios and expand the protection and digital empowerment we offer to consumers. We promised accelerated innovation when we brought Avast and NortonLifeLock together. And now with the integration essentially complete and the strong progress we've made in our next-generation modular cyber safety platform, we are beginning to double down on our innovation efforts and revenue synergies.

It is still early days, but just last week, we introduced early access program to our latest innovation called Norton Genie. Norton Genie is an AI-powered tool that is designed to help consumers quickly identify whether a text, an e-mail, social media message or web link is a scam or fraud. With a few clicks or taps, Genie will provide real-time guidance and advice on what to do next. Because it's built on AI technology, it learns as it goes and will constantly get better. It is an exciting innovation that's built on our decades of experiencing data and advanced technology in consumer cybersafety. But just as important as the tech is Genie takes our customer-centric approach to another level. We created Genie for everyone. It's free, it's interactive, engaging and is right at your fingertips so you can be sure that your daily digitalized is not being compromised by sophisticated and creative scammers.

Genie is just a glimpse of how we plan to innovate and reimagine how people can stay cybersafe and there is so much more we can and will do with Genie platform. Now innovation is hard and it's hardly free, so we remain committed to investing in it. We are on a mission to make cybersafety something people won't want to live without. That's why we focused on delivering and frankly, exceeding on our promised synergies while

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reinvesting a portion for innovation and future growth. We originally promised $280 million in cost synergies, which we later raised to over $300 million. In record time, we fully integrated our sales, marketing and overall infrastructure processes. The day we operate out of a unified go-to-market structure, a single ERP system and code to cash framework and with a committed workforce of under 3,500 down from over 4,500.

Halfway through our 18 months timeline, we've already achieved 80% of the cost synergies, enabling us to reach almost 58% operating margin in Q1. The remainder will come from our phased product integration work, which we are careful with so as to not disrupt the service and experience of our subscribers. Rest assured, of course, that these are all planned out and will roll out our progress in the coming quarters.

As part of the combination, we also see revenue synergies, which we size at around $200 million. A big portion of this revenue opportunity is largely dependent on our next-generation platform, which will enable us to offer more value in a more personalized and targeted way across our brands. While the teams are hard at work bringing that to life, we are already leveraging one of our centers of excellence to increase the Avast customer retention rate, another pillar of revenue synergies. In Q1, Avast retention was up over 2 points since the close of the merger.

We believe that investing in innovation and growth is a must, but we are already disciplined about funding those investments responsibly through efficient and streamlined operations. We've made tremendous progress in the integration and our overall operations which we know will directly support our long-term growth. The 16th quarter of growth and the capabilities we have built coming together with Avast demonstrate that our strategy is working. Two years ago at our last Investor Day, we showcased our strategic playbook and transformation. Today, no one is better positioned than Gen to bring cybersafety to everyone. And the big aspiration goals we set then are more relevant than ever to achieve our vision.

As a reminder, we committed to consistently delight our customers, doubling our NPS score to above [70]. We're committed to protect and empower people with cybersafety, doubling our user base, and we committed to accelerate our growth while maintaining our operating discipline, doubling our EPS to $3. We've made solid progress as we executed on the merger plan and created Gen, providing customers with a great experience is our #1 metric. We will continue to make our solutions easy to use and bring added value to their digital lives.

In Q1, LifeLock reached an all-time high NPS of [60], giving us the blueprint to leverage the operational learnings across our entire portfolio. Our user base moved from about 80 million as NortonLifeLock to hundreds of millions of users as Gen and our direct customer moved from 23 million to over 38 million. And also we have been managing through a challenging post-COVID environment, including our cost of debt, that is much higher than 2 years ago, costing us over an incremental $0.50 in EPS. We remain fully committed to accelerating our long-term growth and delivering our $3 EPS commitment.

With our first full year as Gen almost behind us, we look forward to sharing more about our vision and our growth opportunities at our next Investor Day planned for the fall. So stay tuned for the exact date. Natalie will now review our quarterly performance and with the merger and integration essentially behind us, she will also share our full year guidance. On the low end, our guidance is based on the current trends, growing low single digits. On the high end, growth accelerates to a mid-single-digit rate towards the end of the year, supported by initiatives and investments in key strategic areas such as international expansion, partnership above and beyond security, and our product innovation road map. On direct customer account, we expect to continue to drive improvement over time and exit the fiscal year '24 on a very positive trend.

And with that, let me pass it to you, Natalie.

Natalie Marie Derse - *Gen Digital Inc. - EVP, CFO & Principal Accounting Officer*

Thank you, Vincent, and hello, everyone. For today's call, I will walk through our first quarter fiscal 2024 results followed by our outlook for Q2 and full year fiscal 2024. I will focus on non-GAAP financials and year-over-year growth rates unless otherwise stated. Q1 was our 16th consecutive quarter of growth, reflecting another quarter of solid execution. We came in above the midpoint of revenue and at the high end of EPS guidance. Q1 non-GAAP revenue was $946 million, up 34% in USD and 35% in constant currency. When including Avast historical results, cybersafety revenue and bookings both grew 2% year-over-year in constant currency with broad-based growth across brands and across regions. We continue to execute on our committed cost synergies in an accelerated fashion, which helped expand our operating margin to 58%, up 50 basis points sequentially and up 6 points since the merger.

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Direct revenue was $832 million, up 33% in USD and up 2% when including Avast historical results. We continue to make progress across our key performance metrics, with consistent retention rate improvement and ARPU expansion, which represents our customers' resiliency and loyalty and the strong demand that our product innovation drives.

Our quarter-over-quarter direct customer count growth is approaching breakeven. Ending Q1 direct customer count was $38.2 million, a decline of only 29,000 customers quarter-over-quarter, a trend we have worked hard to improve. During the COVID period, customer acquisition was at an all-time high as the step function change in our digital lives pushed people to find solutions to protect themselves and their families as we were forced to live more of our lives at home and online.

And over the last year, as the world mobilized back to a normal life with more employees back in office and students back in school, we've seen the levels of customer acquisition normalize in line with that shift. Throughout this period, as the elevated number of customers cycled through the life cycle, even though our retention rate remained strong, the units of churn were not in line with our current state of customer acquisition and therefore, resulted in 5 quarters of net quarter-over-quarter customer count decline.

It's worth noting, however, that when you normalize for the COVID periods of acquisition, in Q1 this year, our gross adds grew high single digits when comparing to pre-COVID periods, representing a low to mid-single-digit CAGR over a 3-year period.

We are proud of that level of acquisition driven by our high innovation rate and marketing efficiency, especially given the current market conditions. With our newly expanded Gen product offerings and broader geographic expansion efforts, we see growing demand in mobile and higher acquisition in international markets. Always operating with speed and intent, we have deployed marketing spend to capture growth as we evaluate the long-term sustainability of these green shoots.

In our more mature channels, we remain focused on improving the conversion of our direct-to-consumer traffic, leveraging our strong brand presence and engaging our customers with our additional product offerings to ensure they are fully protected against the ever-changing cyber threats. Customer count remains a priority for us, and we are making continued progress. We expect to return to sequential customer count growth in this fiscal year as we stay steadfast in our go-to-market expansion, our marketing investments continue to offer the broadest and strongest product portfolio and drive growth in our green shoots.

Turning to retention rate. Since we became a stand-alone consumer company in fiscal year 2020, our total direct customer base of 20 million grew to over 23 million by fiscal year 2023, a 5% CAGR over 3 years. Over that period of time, we had stable retention of 85% and even improved it slightly above 85%. Fast forward to now, post-merger, our combined customer retention rate continues to increase sequentially, now over 76% with 150 basis points of improvement since the merger.

When we unpack this further, we have improved Avast retention rate by over 2 points in line with our revenue synergy plans and the industry-leading Norton and LifeLock retention rates remain stable with more tenured identity cohorts at 90% plus retention rate. We know we still have opportunities to improve churn across cohorts. We see a strong correlation between retention rate and increased adoption of our cybersafety membership suites, now closer to 40% of our direct customer base after the merger. We are focused on driving higher retention through higher engagement, continuously bringing new products to market and demonstrated value to the customer with comprehensive protection and world-class service.

On the monetization front, monthly direct ARPU was USD 7.26 , an increase of $0.28 since the merger. The growth in our revenue per user is primarily driven by engaging our customers and demonstrating increased value through additional products and services we provide. When we closed the deal, one of the exciting opportunities we shared was the cross-pollination of our operational know-how between both companies. Avast had built a $900 million-plus top line from free-to-paid conversions and cross-sells, forging a strong operational expertise in driving high first purchase and conversions with the right moments of truth messaging and product offerings. Meanwhile, Norton and LifeLock had industry-leading retention rates of 85% plus with a strong emphasis on elevating membership value and customer service.

As we've leveraged the strength of both companies, we are now driving higher conversion and penetration across multiple customer cohorts, product lines, and geographies as well as improving retention on cross-sell products. As we progress through the fiscal year, we are excited to continue scaling this arm of the business with future product introductions.

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Our partners business remains an important distribution channel for us and is a growing contributor to our paid customer base. Partner revenue was $97 million in Q1, up 35% year-over-year as reported in USD and up 3% when including Avast's historical financials. With the secular tailwinds from the growing pervasiveness of breaches, the need and demand for consumer identity protection is increasing, not only for consumers but also businesses and state agencies. More institutions are now turning to our solutions to protect their employees and residents. Although there is a longer sales cycle, we expect the partner business to continue benefiting from a growing pipeline in the coming quarters, and we will continue our investments in diversified channels.

Rounding out our revenue, our legacy business lines contributed $17 million this quarter and continue to make up less than 2% of our total revenue. We expect legacy to continue declining double digits year-over-year.

Turning to profitability. Q1 operating income was $545 million, up 43% year-over-year. We expanded operating margin to 58% as we continue to make strong inroads to the 60% plus margin framework we've outlined in our long-term model. In Q1, our operating expense profile was 30% of revenue, moving within our target of 28% to 30% and down from approximately 35% at the time of the merger, a testament to the progress we've made on cost synergies. The speed of execution enables us to redirect some of the efficiency gains back into our growth investment framework. You will see us continue to invest to bolster our product portfolio with differentiated solutions, amplify our international presence, especially in identity and privacy and expand into trust-based adjacencies that will touch more parts of the consumers' digital life. These investments, along with the revenue synergies enabled by our remaining product integration will strengthen our mid-single-digit rate of growth assumption built in our long-term model.

Q1 net income was $305 million, up 15% year-over-year. Diluted EPS was $0.47 for the quarter, up 5% year-over-year and up 9% in constant currency, including $0.02 of currency headwind. Interest expense related to our debt was approximately $164 million in Q1, an EPS impact of $0.20 and a $0.16 headwind compared to last year. Our non-GAAP tax rate lowered to 22% following our legal entity integration, and our ending share count was 643 million, down 1 million shares quarter-over-quarter, reflecting the weighted impact of share repurchases in the quarter.

Turning to our balance sheet and cash flow. Q1 ending cash balance is $623 million. We are supported by a total liquidity of over $2.1 billion consisting of our cash balance and $1.5 billion revolver, and we have no near-term maturities due in the next 2 years. Q1 operating cash flow was $226 million, and free cash flow was $222 million, which includes approximately $152 million of cash interest payments this quarter. Despite the increase in interest payments year-over-year, our EBITDA to interest coverage ratio is 3.4x, a testament to our strong earnings power.

Since the Avast merger 9 months ago, we've generated $850 million in free cash flow and over $1.3 billion in unlevered free cash flow, approximately 1x EBITDA, as our business consumes very little CapEx. This also includes $55 million of restructuring cash payments since the merger. Please keep in mind that in Q2 every year, we have seasonal cash tax payments that will impact free cash flow next quarter.

Turning to capital allocation. We remain intentional and balanced with our capital deployment. In the last 9 months since the merger, we've returned $1 billion of capital to shareholders, with nearly $650 million of share buybacks and the rest in the form of our regular quarterly dividends. In addition, we've paid over $500 million in debt repayments in the same time period. In Q1, we paid $83 million to shareholders in the form of our regular quarterly dividend of $0.125 per share. For the next quarter, Q2 fiscal '24, the Board of Directors approved a regular quarterly cash dividend of $0.125 per common share to be paid on September 13, 2023, for all shareholders of record as of the close of business on August 21, 2023.

With our strong cash flow generation and disciplined capital deployment, we will continue to utilize our capital to deliver EPS expansion. Our net leverage is 3.9x, and we remain committed to the target of approximately 3x over the long term. We will maintain a balanced approach, commit to regular dividends, pay down debt and deploy opportunistic share buyback.

Now turning to our Q2 fiscal '24 outlook. For Q2, we expect non-GAAP revenue in the range of $940 million to $950 million, translating to a single-digit growth in cybersafety expressed in constant currency. We expect Q2 non-GAAP EPS to be in the range of $0.46 to $0.48 per share as cost synergies are partially offset by near-term increased interest expense based on current SOFR forward curves. Now that we are largely complete with our operational integration, we are reintroducing guidance for the full year fiscal 2024. We expect full year non-GAAP revenue in the range of $3.8 billion to $3.85 billion, translating to single-digit growth in cybersafety expressed in constant currency. We expect full year non-GAAP EPS to be in the range of $1.95 to $2.02 per share. We're off to a great start in fiscal 2024. We are relentlessly focused on executing on our plan and

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delivering on our commitments, always in a disciplined and balanced manner. Our key performance indicators are trending in the right direction, and our financial model is resilient. As we look to the future, we're committed to reinvest into our business to drive sustainable growth and create shareholder value in the long term. Our future is very bright, and I look forward to the opportunity to share more details with you at our Analyst and Investor Day in the fall.

As always, thank you for your time today, and I will now turn the call back to the operator to take your questions. Operator?

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Our first question is from the line of Peter Levine with Evercore.

Peter Marc Levine - *Evercore ISI Institutional Equities, Research Division - Analyst*

Congrats on a good quarter, sort of fiscal year. Vincent, maybe 1 for you and then a follow-up for Natalie. You mentioned doubling down on innovation. You mentioned, Genie, new AI power tool that you're offering for free. But maybe can you maybe dive into it and explain, I mean, is this an opportunity to kind of down the road charge, have an up charge customers? Or are you viewing this more as a retention tool? And then as you think about I think expanding out in your commentary, touching upon other areas of consumers, security life. What other areas do you think are attractive, I think, longer term to start thinking about now?

Vincent Pilette - *Gen Digital Inc. - CEO & Director*

For sure. And obviously, the topic of innovation and the future development is a huge important framework discussion that's difficult to address in a very fix time frame here. So we'll share more at our Analyst Day about that specifically, where do we want to invest, how we use technology and the new capabilities we've built to address the next Gen of cybersafety and more. And when it comes to genie, it's both a future acquisition tool, if you want, we actually acquired Avast as capabilities with freemium. Today, the #1 priority is adoption. And then we're going to continue to add values into the tool and turn a freemium into a premium. And at the same time, it's also a retention rate because it's adding functionalities and value to the current members.

So that's that. It's more than that because the AI new developments, if you want, have impacted both for us, the threat landscape on one side. So it's changing what the threat looks like, and from the past, device security and protecting new data to personification, scams and frauds becoming a big topic. AI is accelerating that in ways that are multiple, and we'll share more at the Analyst Day. And at the same time, it's also an opportunity for us to continue and improve our platform. The value we bring, not only against a lack of protection, but also an empowerment tool for you to help understand in the AI safety, how algorithm and other machine learning and AI models can influence what you're looking at in the digital world and how you use it. So we see the whole technology as a transformational strength here, both on the threat and on the protection side that give us plenty of opportunity. We started currently with a very simple easy-to-use anti-scam tool that you can download and very quickly check whether it's a scam or not, gives you advice on what to do and how to address it, and then we'll continue to expand today in early access, and you'll hear more over the next few weeks, months and quarters how it goes. And then at Analyst Day, we'll share more about how we envision the Genie platform to be part of our next-gen cybersafety.

Peter Marc Levine - *Evercore ISI Institutional Equities, Research Division - Analyst*

And then Natalie, you talked about seeing positive customer growth this year. Maybe 1 is just what gives you the confidence of what are you seeing today that you're going to hit that inflection point? And then second, you talked about operating -- impressive to see the Avast churn improve, I think you mentioned there was operating efficiencies to go beyond further that you're working on this year. Can you maybe dive into that and kind of tell us what you're doing today to kind of get that number even higher to where the Norton number is?

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Natalie Marie Derse - *Gen Digital Inc. - EVP, CFO & Principal Accounting Officer*

Sure. So we've been on a path of diversification on our go-to-market. Even if you date back 2 years when we did our Analyst Day, we said we were going to expand internationally from a go-to-market perspective, diversified through partners really extend our reach. And I would say what I see coming through in the gross adds is that coming to fruition. So we're really seeing a lot of the seeds that we've been planting over the last couple of years, especially in terms of international expansion, really take hold. And so that's going to be a continued feeder into our gross adds as we move forward. as we continue to put investment behind that as we continue to diversify our marketing and really leverage the go-to-market sales reps that we've got across many different channels.

In addition to that, what we're really seeing is customers come through the mobile platform. And so -- and I would say that is what -- we see that happening across the globe -- in conjunction with NortonLifeLock with in Avast, we see the mobile channel being 1, that we're going to put a lot of dry powder behind in terms of being able to access our products and service anywhere you are in your digital life. And then as it pertains to the Avast retention rate, we've seen nice gains since the merger, we're not surprised. We expressed that through our revenue synergy modeling and commitment. And so the teams just really worked strongly together and got out of the gate relatively strong on any best practices that could be shared both ways from NortonLifeLock to Avast, Avast to NortonLifeLock. And we see a couple low-hanging fruit wins, so to speak, since the merger. And we've continued to build on those learnings. And as the teams just become 1 Gen team really having the best practice sharing, really pushing the envelope as to what you can believe and how we can reimagine how we go to market in a collective fashion is really -- has really been beneficial to us, and we see that not only in the retention rate, we see that in ARPU as we strengthen and continue to scale the cross-sell, upsell muscle across all the brands. And as we continue to just have the robust product portfolio and the innovation come to come to fruition or come to market, it's just really all things combined has really helped us make some sequential progress there.

Peter Marc Levine - *Evercore ISI Institutional Equities, Research Division - Analyst*

Congrats on a very good quarter.

Operator

Our next question is from the line of at Saket Kalia with Barclays.

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

Vincent, maybe just for you, just on the back of that last question. Great to see the gross adds kind of get back to more historical levels and really hear that those investments are starting to bear fruit. Vincent, maybe for you, could you just dig into international a little bit? I thought that was really interesting. What geos or countries are maybe surprising you to the upside. And what's the profile of those subscribers? Are they more security? Are they more identity -- or are they both a little bit -- maybe just 1 level deeper just on that part of the investment that seems to be starting to pay off.

Vincent Pilette - *Gen Digital Inc. - CEO & Director*

Yes. So absolutely, right. We -- first of all, yes, it's nice to see the direct customer count pressure we've seen for the last 5 quarters continuously being reduced on the path to breakeven and returning to growth. And if you look at the really, really post-COVID effect, where I think we lost 400,000 customers that quarter. We've been reducing that gap all the way to almost breakeven here in Q1. We, for the first time, talk about those gross adds because many of you investors or analysts had the impression that maybe we're facing like a headwind that we were not controlling and it's really about flushing through the post-COVID impact that Natalie described, I won't reiterate it. But when you look at the gross adds and where we are here in Q1 and it's up high single digits over the last 2.5, 3 years, low single-digit CAGR it's actually right in line to what we had said 3 years ago, which we will grow balancing all of our drivers, including low single-digit growth rate on customer count and normalizing for COVID, that's where we're getting to.

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Now that is coupled with now having merged with Avast, built Gen that has accelerated capabilities and the capabilities, as we had mentioned, was the breadth of the portfolio, the capabilities, whether it's renewal, cross-sell or technology and then the channel and international expansion. You talked about the expansion internationally. And I'll give you 1 example because we actually -- internationally, we feel pretty good about almost all areas. But Latin America was particularly strong and when you decompose the last 3 quarters' strength we've seen there, it's really coming down together with our capabilities. NortonLifeLock was almost inexistent, Avast already had a lot of presence. Then we brought into that region the portfolio of brands, introduced products under Norton as well as we continue to then beef up the portfolio in introducing the first identity offering, if you want -- so expanding the brand, expanding the cross-sell and then expanding the channel, not just direct, but also indirect and having a combined view. Basically leveraging the strength of Gen as we came together with LifeLock -- NortonLifeLock and Avast. Basically, the capabilities are coming together -- and over the next 2 years, you should see us managing the macro level environment, but really driving on our revenue synergies and accelerated our growth to that mid-single digits.

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

That's awesome. That's really great to hear. I want to come back to net adds in a second. But Natalie, maybe just over to you. I think that 1 highlight here actually just zooming out from the quarter. is that we now have an annual guide out there, right? Like I think we were kind of going quarter-to-quarter after Avast -- for a lot of good reasons, right? But I'm wondering what's changed in your view that gives you more visibility or confidence to start giving that slightly longer-term view that was a little bit tougher to do before.

Natalie Marie Derse - *Gen Digital Inc. - EVP, CFO & Principal Accounting Officer*

Saket, thanks for the question. I would say, from my perspective, it's not things that are new or that have changed. I would say what we really wanted to do was focus on the close and the integration of the deal, we'll get the businesses collectively running as Gen and really get through the lion's share of the integration. It was important for us to focus on achieving the cost synergies, which, as you've heard, we're about 80% achieved. We're in an accelerated time frame. So this is just the right time for us to reintroduce a full year guide and really lay out for everyone what our expectations are for the performance.

So from a top line perspective, bookings, revenue, a range of outcomes in low to mid-single-digit rate of growth isn't new or isn't changed. We're just putting the marker down. We expect our growth to continue and to continue to build upon all of the actions that we're taking that are built into our operating plan. With that, we should see the rate of growth on bookings and revenue build throughout the year, not new, but we will continue the cost discipline that we've expressed and that you know we're known for.

And we are building throughout this year as we build towards the financial framework of a 60% plus margin business, we'll continue to do that. And then as the growth continues to scale throughout the year, we're going to take the opportunity to put some investment and solidify that rate of growth, further accelerate that rate of growth and really put the support behind any productive green shoots that we're seeing, albeit still within the margin structure that we've clearly laid out for everyone. What's new, I would say, if anything, or what's constantly changing is the interest rate environment. And so you saw what happened just as recent as last week with the cost of debt and the interest rate market. And so that will -- every single rate hike, just -- it creates another hurdle for us and our cost structure to overcome.

Now we've been very disciplined and very quick to iterate as we see those headwinds, which is why we're continuously recommitting to our profit structure. But if there's anything that's changed, I would say, it would be what's out of our control, which is 1 example is the cost of debt.

Vincent Pilette - *Gen Digital Inc. - CEO & Director*

Saket, if I can add also my perspective on this one for as good as operator as we believe we are and for as far as we wanted to integrate these 2 leaders together into Gen. The reality is it takes time. It takes time to build the best team in today. We have the best team in consumer cybersafety. It takes time to integrate the processes that now have center of expertise, all renewals across all brands are from one team that has all the expertise, same with cross-sell, et cetera. And it takes -- it just takes time. And now we have, at least after Q1, a full quarter operating as an integrated company. And so the confidence to redirect is improving. The second aspect would be for me is we have the ambition to trend -- to change the current trend.

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We had to flush through the post-COVID effect, we're almost at the end of that and you've seen it in the reduction of the customer count gap and it's getting there if you trend it. And we've seen early signs of success from our early investment and/or cross revenue synergies that we feel confident we now can guide the business in the longer term.

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

Absolutely. Vincent, if I could fit 1 more in, just on that point around sort of flushing through some of the post-COVID hangover, if you will, I think some of your comments on the call talked about maybe a positive trend sort of exiting the year. I know we don't guide to net adds, but how do you sort of think about that, right? Do we get back -- do we get to breakeven by the end of this year? Do we get back to something more positive. Any finer point or any color you want to provide just on how that trend looks throughout this year?

Vincent Pilette - *Gen Digital Inc. - CEO & Director*

Yes. Well, I would say, negative is negative, breakeven is breakeven and positive is positive. So I would expect that we breakeven through the year and finish the year, as I said, on a positive note, which means on the positive direct customer count growth. And I'll stop short of quantify because we have multiple levers, we'll have priorities as we go, and we'll see trends. It's not linear, day in, day out, week in, week out, everything comes into move, but we have so many levers to go and drive the over long-term value that we feel confident enough that the trend you've seen in direct customer count over the last 5 quarters, are you reducing that gap almost, I could call this quarter breakeven. We still call it minus 29,000 is going to breakeven and then return to growth.

Operator

Our last question is from the line of Angie Song with Morgan Stanley.

Eunji Song - *Morgan Stanley, Research Division - Research Associate*

So I think over the last several quarters, it seemed like cost of acquisition had generally trended up. Could you just touch on some of the trends that you've been seeing as it relates to CAC this quarter? And maybe just explain how this dynamic may translate to top line growth as you look to realize cost synergies and drive down overall expenses?

Vincent Pilette - *Gen Digital Inc. - CEO & Director*

We'll partner with Natalie. But I'll take the first crack at it. We can take offline on how you think that CAC is increasing depending on what is in the marketing line. But our cost of direct customer acquisition has been within a small range, pretty stable for the last few quarters. Now we continue to invest in that. We now have a system that we feel is working. We have, for our entire marketing spend by cohort and by investment, the CLV, the return on investment and the long-term value. And based on our very structured and data-driven framework, we continue to invest more in marketing as we see the growth.

So as long as you see positive trend going, you'll see us continue to invest in that. And we have not seen marketing rate change over the last short term, I would say, last few months. Natalie, I don't know if you want to add anything to that? Okay.

Okay. If there is no more question, then let me quickly go to some closing comments. I want to mention that on Monday, we published our 2023 social impact report. As the new company, Gen, we took the opportunity to reimagine what impact you want to make and reshape our global social impact strategy with our family of trusted consumer brands. Our dual head cores and more importantly, our mission in mind. So today, we're well positioned as a clear leader in consumer cybersafety, and we're building a company that drives a real impact around the world. I'm very proud of the team and what we have accomplished so far. This is a reflection of our team so intensively mission-driven, focused on executing and creating

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value for all of our stakeholders. And while we have already achieved a lot since becoming solely dedicated to consumer cybersafety, the truth is that we feel that we're really just getting started. So thank you for joining the call today, and I look forward to talking to you soon.

Operator

Thank you. That concludes today's call. Thank you for your participation. You may now close your lines.

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