Gen™



Investor Letter

Q2 FISCAL YEAR 2024

November 7, 2023

Gen

Dear Investors,

Our second quarter of FY24 marks the first anniversary of Gen following the acquisition of Avast. We saw the opportunity to lead the transformation of consumer Cyber Safety and we purposefully and strategically built up Gen's assets and capabilities to win in the market. Our consistent execution and resilience enabled us to deliver our 17th consecutive quarter of growth, with Q2 FY24 Cyber Safety bookings up 4% YoY, adjusted for Avast historical. We delivered record revenue of $948 million, up 3%, and non-GAAP EPS of $0.47, up 4% in USD and 9% constant currency, and supported by another quarter of margin improvement. Importantly, we drove our large direct customer base back to growth, up 380,000 sequentially.

This quarter's results are another indicator that our strategy is working. When NortonLifeLock and Avast came together a year ago, we embarked on a significant journey as Gen, with a combined ambition to protect and empower everyone's digital life. Together we set out to provide our customers personalized, always-on Cyber Safety that protects and empowers all of the ways we live our lives online. It is our privilege to serve hundreds of millions of users globally, including approximately 65 million paid customers, of which 38.5 million are direct customers. Coming out of the post-COVID environment, our new customer acquisition grew high single digits YoY across several countries and channels, despite ongoing macro-level headwinds. The broad-based growth speaks to the strength of Gen's global reach, relevance and marketing capabilities serving all our brands. Our customer base continued to show healthy signs with an improved unit retention rate of 77%, up two points since the merger, representing solid progress in our long-term goal of 80% retention for the combined portfolio. Norton and LifeLock retention remained stable at industry-leading rates, and Avast retention continued to make steady improvement, up three points since the close of the acquisition.

We are leveraging expertise across our consumer brands to keep customers protected and in control of their digital lives. Scaled cross-sell and up-sell capabilities are additional benefits of our combination, and we've already seen measurable impacts applied to a larger user base. As a result, Average Revenue Per Unit (ARPU) increased to $7.28, up 30 cents since the merger, including partial offsets from customer mix – new and international – and negative foreign exchange rates. Finally, as we progress towards the full integration of our portfolio, our innovation engine continues to deliver. In Q2, we launched Norton Genie, Norton Small Business, Norton Secure Browser, Norton Driver Updater, and AVG Secure Identity. These new product introductions, many of which were part of our revenue synergy plans, are examples of how we continue to build upon our comprehensive consumer Cyber Safety portfolio – delivering a more tailored experience and greater value for our customers.

The integration of Avast is nearly complete, and we've already achieved over 90% of our increased cost synergy target of over $300 million – ahead of schedule. We continue to make progress on our product integration, which will enhance our ability to meet the needs of our customers today and tomorrow.

As a result of our scalable business model and our consistent operating discipline, we delivered Q2 non-GAAP operating margin of 57.9%, up 30 basis points sequentially and 600 basis points year-on-year.

In line with our balanced capital allocation strategy, we continue to de-lever and return cash to shareholders. In October, we reduced our debt by another $200 million, on top of the $575 million we paid down in the last 12 months, on our path to de-lever below 3x EBITDA/net debt. In addition to debt repayment, we've also returned $1 billion of capital to shareholders since the merger, with over $500 million in share buybacks and the rest in the form of our regular quarterly dividends.

Looking forward, we expect Q3 revenue to range between $950 million and $960 million and non-GAAP EPS between $0.49 and $0.51. We are confirming and tightening the range of our FY24 annual guidance with revenue between $3,810 million and $3,835 million and non-GAAP EPS between $1.95 and $2.00. Our updated guidance absorbs approximately $15 million in foreign exchange headwinds, resulting from the stronger U.S. dollar compared to our prior guidance assumptions in August.

To sum things up, we are well-positioned to drive the next generation of Cyber Safety and power Digital Freedom for everyone. We are proud of what we have accomplished since the close of the Avast acquisition. The combination unlocks opportunities for us to build the Next Gen of Cyber Safety solutions for consumers and build adjacent trust-based solutions. The combination of our customer focus and operational rigor will drive our growth and help us capture our significant market opportunity. While we have already achieved a lot in this first year as Gen, we truly feel we are just getting started.

We look forward to our discussion with many of you later today at the Investor Update meeting and Q&A session where we will review why we're so excited about Gen's opportunity to win in the Cyber Safety market and share our plans for the future.

Sincerely,

Vincent, Ondrej, Natalie, and the Gen Team

Forward-Looking Statements

This letter contains statements which may be considered forward-looking within the meaning of the U.S. federal securities laws. In some cases, you can identify these forward-looking statements by the use of terms such as "expect," "will," "continue," or similar expressions, and variations or negatives of these words, but the absence of these words does not mean that a statement is not forward-looking. All statements other than statements of historical fact are statements that could be deemed forward-looking statements, including, but not limited to statements related to growth strategies, de-levering and returning cash to shareholders, Q3 and full year FY24 Revenue and non-GAAP EPS guidance, and any other statements of expectation or belief; and any statements of assumptions underlying any of the foregoing. These statements are subject to known and unknown risks, uncertainties and other factors that may cause our actual results, levels of activity, performance, or achievements to differ materially from results expressed or implied in this press release. Such risk factors include, but are not limited to, those related to: the consummation of or anticipated impacts of acquisitions (including our ability to achieve synergies and associated cost savings from the merger with Avast); divestitures, restructurings, stock repurchases, financings, debt repayments and investment activities; difficulties in executing the operating model for the consumer Cyber Safety business; lower than anticipated returns from our investments in direct customer acquisition; difficulties in retaining our existing customers and converting existing non-paying customers to paying customers; difficulties and delays in reducing run rate expenses and monetizing underutilized assets; the successful development of new products and upgrades and the degree to which these new products and upgrades gain market acceptance; our ability to maintain our customer and partner relationships; the anticipated growth of certain market segments; fluctuations and volatility in our stock price; our ability to successfully execute strategic plans; the vulnerability of our solutions, systems, websites and data to intentional disruption by third parties; changes to existing accounting pronouncements or taxation rules or practices; and general business and macroeconomic changes in the U.S. and worldwide, including economic recessions, the impact of inflation, fluctuations in foreign currency exchange rates, changes in interest rates or tax rates, and conflicts including Russia's invasion of Ukraine. Additional information concerning these, and other risk factors is contained in the Risk Factors sections of our most recent reports on Form 10-K and Form 10-Q. We encourage you to read those sections carefully. There may also be other factors that have not been anticipated or are not described in our periodic filings, generally because we did not believe them to be significant at the time, which could cause actual results to differ materially from our projections and expectations. All forward-looking statements should be evaluated with the understanding of their inherent uncertainty. We assume no obligation, and do not intend, to update these forward-looking statements as a result of future events or developments.

Use of Non-GAAP Financial Information

We use non-GAAP measures of operating margin, operating income, 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, and constant currency revenues. 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 Gen'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 condensed 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.GenDigital.com. No reconciliation of the forecasted range for non-GAAP revenues and 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.

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Reconciliation of Selected GAAP Measures to Non-GAAP Measures [1] [2]

(Unaudited, in millions, except per share amounts)

	Three Months Ended	
	September 29, 2023	**September 30, 2022**
Operating income (loss)	$25	$241
Stock-based compensation	35	29
Amortization of intangible assets	119	45
Restructuring and other costs	17	9
Acquisition and integration costs	6	58
Litigation costs	347	7
Other	—	(1)
Operating income (loss) (Non-GAAP)	$549	$388
Operating margin	2.6 %	32.2%
Operating margin (Non-GAAP)	57.9%	51.9%
Net income (loss)	$149	$69
Adjustments to net income (loss):		
Stock-based compensation	35	29
Amortization of intangible assets	119	45
Restructuring and other costs	17	9
Acquisition and integration costs	6	58
Litigation costs	347	7
Other	(1)	(10)
Non-cash interest expense	6	3
Loss (gain) on extinguishment of debt	—	9
Total adjustments to GAAP income (loss) before income taxes	529	150
Adjustment to GAAP provision for income taxes	(375)	50
Total adjustment to income (loss), net of taxes	154	200
Net income (loss) (Non-GAAP)	$303	$269
Diluted net income (loss) per share	$0.23	$0.12
Adjustments to diluted net income (loss) per share:		
Stock-based compensation	0.05	0.05
Amortization of intangible assets	0.18	0.08
Restructuring and other costs	0.03	0.02
Acquisition and integration costs	0.01	0.10
Litigation costs	0.54	0.01
Other	(0.00)	(0.02)
Non-cash interest expense	0.01	0.01
Loss (gain) on extinguishment of debt	—	0.02
Total adjustments to GAAP income (loss) before income taxes	0.82	0.25

Adjustment to GAAP provision for income taxes	(0.58)	0.08
Total adjustment to income (loss), net of taxes	0.24	0.34
Diluted net income (loss) per share (Non-GAAP)	$0.47	$0.45
Diluted weighted-average shares outstanding	644	595
Diluted weighted-average shares outstanding (Non-GAAP)	644	595

(1) This presentation includes non-GAAP measures. Non-GAAP financial measures are supplemental and should not be considered a substitute for financial information presented in accordance with GAAP. For a detailed explanation of these non-GAAP measures, see Appendix A.

(2) Amounts may not add due to rounding.

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Constant Currency Adjusted Revenues and Cyber Safety Metrics

(Unaudited, in millions, except per user data)

Constant Currency Adjusted Revenues (Non-GAAP)

	Three Months Ended		
	September 29, 2023	September 30, 2022	Variance in %
Revenues	$948	$748	27 %
Exclude foreign exchange impact [1]	7		
Constant currency adjusted revenues (Non-GAAP)	$955	$748	28%

Cyber Safety Metrics

	Three Months Ended [2]	
	September 29, 2023 [3]	September 30, 2022 [3]
Direct customer revenues	$837	$660
Partner revenues	$95	$74
Total Cyber Safety revenues	$932	$734
Legacy revenues	$16	$14
Direct customer count (at quarter end)	38.5	38.6
Direct average revenue per user (ARPU)	$7.28	$6.98

(1) Calculated using year ago foreign exchange rates.

(2) From time to time, changes in our product hierarchy cause changes to the revenue channels above. When changes occur, we recast historical amounts to match the current revenue channels. Direct revenues currently includes Mobile App Store customers, and legacy revenues includes revenues from products or solutions that are no longer in operations in exited markets, have been discontinued or identified to be discontinued, or remain in maintenance mode as a result of integration and product portfolio decisions. As such, the changes to historical revenue amounts and the other performance metrics, including direct customer count and ARPU, are reflected for all periods presented above.

(3) The performance metrics for the three months ended September 29, 2023 and September 30, 2022 include the revenues earned and customers acquired through our acquisition with Avast. ARPU is based on average customer count and assumes full quarter of revenue for both companies.