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PRESENTATION

Hamza Fodderwala - *Morgan Stanley, Research Division - Equity Analyst*

Well, good morning, everybody. Thanks for being here. My name is Hamza Fodderwala. (inaudible) at Morgan Stanley. And with me, I have the pleasure of having the team from Gen Digital. We have CEO of Gen Digital, Vincent Pilette; as well as CFO, Natalie Derse. Vince and Natalie, thank you so much for coming today.

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

Absolutely.

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

Thanks.

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

Yes, thanks to you for coming and listening (inaudible).

Hamza Fodderwala - *Morgan Stanley, Research Division - Equity Analyst*

(inaudible)

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

Yes, maybe not so loud.

Hamza Fodderwala - *Morgan Stanley, Research Division - Equity Analyst*

That's going to be hard, I think. Before I begin, just for important disclosures, please see the Morgan Stanley research disclosure website at www.morganstanley.com/researchdisclosures.

With that, I'll kick it off. Okay. There we go.

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

There we go.

Hamza Fodderwala - *Morgan Stanley, Research Division - Equity Analyst*

All right. So I guess I was talking to myself.

QUESTIONS AND ANSWERS

Hamza Fodderwala - *Morgan Stanley, Research Division - Equity Analyst*

Maybe we'll just start off with the first question for Vincent. Just to level-set folks who maybe newer to the Gen Digital story or haven't been following us closely, can you give us a sense of the flat few years, the transformation to Gen Digital and how you view the consumer cyber safety market today?

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

Yes, let me do that, also I'm sure most of you know. So we came from Symantec Company, 2019. Symantec was made of enterprise, cybersecurity and consumer cybersecurity, about 2 same-size divisions. We decided to sell the Enterprise Security division to focus entirely on the individual. And that is also to recognize that the cyber risk that an individual is facing in our digital world, digital economy is changing rapidly from being mainly focused on security problems on your device to becoming a full exposure of your digital life, digital data, digital persona in this very distributed world, combined with the evolution of hacking activities moving from simple malware on new device with funny face showing up and saying your device is blocked to a full malicious phishing, scam activities that could impact an individual without that individual even knowing it and the dark web becoming the market, if you want, for hackers to monetize their platform.

So moving from hacking as a hobby to hacking as a profession and exposing everyone individually, which had different dynamic than the enterprise security side of the house. So we had focus entirely on the consumer. We became NortonLifeLock, not a very creative name. We took the Norton brand and the LifeLock brand and put it together and say NortonLifeLock. And we launched our company that way.

At the same time, we launched the first full integrated Cyber Safety platform that, for a membership fee, you can subscribe to and be fully protected for all of your cyber risk. And that was Norton 360. We launched the various shape of membership. We moved, over the last 3 years, on the NortonLifeLock installed base from about 0% adoption to 60% adoption-plus about a year ago.

We then decided to continue to expand our channels and expand our scale to fully finish the buildup of that stand-alone company dedicated to consumer cyber safety. And we closed the acquisition of Avast, #3 in the space, also a company fully dedicated to consumer cyber safety, more focused on Europe and emerging countries and coming up with a different background, which is really a premium model, which in the consumer space is important in many respects, and then upgrading consumers to free to a pit to a full-fledged cyber safety platform.

So we closed that acquisition in September of last year. With the acquisition, we decided to rename the company Gen Digital. And really to recognize that generation is not just a matter of age that, today, all generations are impacted by that digital life. And our mission or vision is to make sure we can empower every individual to fully benefit from that digital world without any worry for safety or being fully in control of your own digital data and persona on the digital. So that's a quick background.

Hamza Fodderwala - *Morgan Stanley, Research Division - Equity Analyst*

Great. Thank you for that. So let's start off maybe kind of digging into the model. So NortonLifeLock has this $3 earnings target exiting fiscal '25. And if we look at the stock today, certainly, that screams very favorable from a valuation perspective. There's sort of 3 components when we think about that $3 target. There is a top line. I think you talked about steady-state growth in sort of the mid-single digits, once you lap the last transaction, and then there's a cost side of the equation and then the capital allocation. I want to start with the top line. So when you think about your top line growth going forward, how much of that do you think is going to come from growth in customer count versus ASPs versus leveraging other channels beyond the traditional?

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

Yes. And the $3 EPS commitment we have is to show the earnings power of the model we've built. As you mentioned, there are multiple components to that, and I'll let my partner, Natalie, talk about all the components. I am singly focused on that top line and less about the way you brought it up, but more first at the high level in terms of penetration.

Today, if you take people that consciously pay for a full cybersafety protection of the digital life, you can maybe some up to less than 5% of the Internet connections being fully protected. Now many people are asking me, "Okay, but why is that such a low penetration? You don't see a lot of growth?" It's a little bit like an insurance view. Once you're being hacked and you're victim of something, then you [need to pay] and you're going to be loyal customers for life. Until then, you're aware of the risk. Are you willing to take the risk? And I think as we see the evolution of hacking activities, risk on the digital life and the desire of the new generations to more and more, maybe less protect, but more take control of that digital life and the need for it, we see an evolution of our portfolio that will continue to help penetrate more of that market.

So number one is getting more people consciously protecting themselves online through our solutions, which is the best in the market or to support solutions if they want to.

The second one is really to move from a need of basic security, which I think everybody somewhat understand to addressing the full need of managing your digital liability and over time, your reputation. How many young people, like my daughter who is just turning 18, has a full digital footprint out there through the various hub and many different pictures and data. And she is soon going to hit the job market and does not realize that recruiters going to look at who she is online without even talking to her. And so that's control from a consumer standpoint of your digital life, is the next expansion in the overview. So moving the customer from a basic security, all the way to a full adoption of that cybersafety is an important one.

And then the third one is the market is more developed in Western countries. Could it be because those countries are more digitized than others? Or they have more purchasing power? Maybe not. Because when you travel everywhere, you have everybody driving the digital life, whether it's in India, it's in Africa, it's in Russia, it's in Northern Europe and it's in the U.S., and it's in Japan and it's in Germany. And so I think there is a different solution for different behavior in those markets and the portfolio still have to evolve. So continuously evolving the channels, whether geographical channel or vertical channels is the third element that we're pushing through.

So when you step back and you say, okay, when you guide your top line, where is it coming from? New customers, value growing or maybe more retention, all 3 drivers have expressed, will balance that growth over time.

Hamza Fodderwala - *Morgan Stanley, Research Division - Equity Analyst*

Got it. Maybe just like, currently, I think you talked about the top of the funnel being a bit weaker just given the macro. What are you seeing there? Do you expect that to stabilize at some point? I mean, none of us are macroeconomists, but what were some of the things that maybe might be in your control versus things that are not?

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

So in various shape of form, that question comes in every meeting, whether it's a Board meeting, a management meeting, or an investor meeting, of course, which is, hey, if they currently get worse, what does that do to our model? Or is the economy getting worse? The reality is the need for cybersecurity will always exist. And hacking as an activity could even peak at time of recession versus not. And people paying for -- or trying to get more money and paying on weaker environment, actually, we've seen that through our history. Of course, there is the consumer sentiment that when you are in a tougher economy, I cannot say we're in recession, but in a more recessionist environment, you're going to manage all of your budget and want to make sure that you don't waste your money. So it's upon us to continue to demonstrate the value we bring through the subscriptions.

Today, yes, we see global traffic being different than it was a year ago. In Northern Europe, in various part of the business, we see that view. I think we expressed it enough on our earnings call. We'll continue to be very disciplined in our marketing spend, which is really the building up the top of the funnel. We don't want to be managed by a single one driver or metrics such as like customer accounts. We know we have a big installed base. We know that, that installed base is still 2/3 mainly security focus and can be educated for the needs of the risks of not having a full digital identity protection. And we also know that we have weaknesses in terms of how we manage the retention and retention rates in our combined business.

So I see today the trends. We mentioned it in our last earnings, being stable over the last 6 months, [less grade] than a year ago, but somewhat in the same trends over the last 6 months. And yes, mildly impacted by the macro level environment.

Hamza Fodderwala - *Morgan Stanley, Research Division - Equity Analyst*

Got it. Maybe some of the stuff that is in your control on the unit side of the equation, right? So you talked about improving the Avast retention rate. You're closing the gap versus the core NortonLifeLock.

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

Yes.

Hamza Fodderwala - *Morgan Stanley, Research Division - Equity Analyst*

Can you explain how you go by doing that? Because they have [no other] vendors who have been able to execute on that, but just curious what the strategy for Gen is?

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

So just to reset the frame for those not fully aware of the numbers, Norton and LifeLock had retention rates in units of about 85%, slightly lower on security, slightly higher on identity, but on average, 85%. We had bought a smaller freemium business, [Vera], that also reached 80% plus in retention. And Avast is at 67% retention.

We split that delta in 2 buckets. One is a set of operational measures that we believe can improve retention rates, and another one is a set of structural activities that may or may not be improved. The structure could be a different geographic mix. We know retention rate in Brazil will always be different than in the U.S., as an example, by nature of the market, or another structure could be a freemium to paid customers is a different behavior, that one that immediately started at the premium model. We're still going to work on some improvement there, but we're not putting them in our model.

In terms of the operational activities, we say it will take about 2 years. We've seen a sequential improvement in this first quarter, post close, and we should see a continuous strength of sequential improvement, bridging that gap of about 10 points. I'll stay away from any operational process or more proprietary activities that we do. But I would say, in general, as customers move more towards the identity side of the offering and start to really understand the full cybersafety protection and start to understand the risk on new PII data and putting the PII data into our alert systems, we see a higher retention. And so migrating the customer from where it is today in that core Avast to that full value of the portfolio is one of the many contributors we expect to have.

Hamza Fodderwala - *Morgan Stanley, Research Division - Equity Analyst*

Great. Now maybe to shift to the cost side of the equation. I think you talked about $300 million in annual savings or synergies with the Avast transaction. Can you just briefly explain like what the building blocks around that are? And how are you progressing on those synergy targets?

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

Yes, sure. Just for context, I think when we first announced the deal, we said $250 million. We've raised that to $300 million. Don't forget the plus. We see a ton of opportunity as we come together as Avast, talk about focus on what you can control under Vincent's leadership, and the entire leadership team is totally onboard with really just a relentless desire to run the company as lean and as efficient as possible. That includes running G&A 3% of revenue. That includes really running and making sure that when we take a look at the workforce that we've got across the combined company, that it's rightsized. That was about 50% of the synergies that we articulated.

The other 50% were things like when you bring 2 mature companies together, 2 big mature companies together, you're bound to see contractual fees, rates, synergistic opportunities. When you bring the back ends together, whether you think about your GL or you think of some of the other signature or other types of systems, when you bring those together, you obviously reap that cost out of there as well.

So just a ton of opportunity, and I think we're doing really well. I would say we're ahead of cycle or ahead of plan, especially on the workforce reductions. Quite frankly, we just want to -- we want to rightsize the teams and get the teams connected, very, very clear on what the roles and responsibilities are. So as we move forward on these milestones that are not easy, when you think about revenue synergies, when you think about a low to mid-single-digit rate of growth in this macro environment right now, those things are easy. So the best thing we can do is focus on what we can control, get the workforce plans implemented, get the teams really, really connecting and get the balls rolling in terms of our growth initiatives. And so that's -- we're doing really, really well on that ahead of schedule.

On the other stuff, it takes some of them have been low-hanging fruit, and we've reaped those benefits into the margin improvements that you've seen now quarter-over-quarter. And some of the other ones take a little bit more time in terms of when you think about the back-end engine type of simplification or you think about more of the larger contractual negotiations that we've still got to do. But what we said at the end of Q3 was annualized, we're about 1/3 of the way there. We said we'd be at full bore annualized by the end of fiscal year '24. And so you'll see us improve from now until then.

Hamza Fodderwala - *Morgan Stanley, Research Division - Equity Analyst*

Got it. Super helpful.

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

If I can add, one of the benefit of us coming together with Avast is the scale, right? We now address about 40 million of paid customers, (inaudible) of free users. And for every innovation, we only need to innovate it once. For every lab engine we have, we only need to do it once. We had 3 times before. And so every one of our innovation capacity, if you want, can be rationalized, and we said that some of those savings would be reused to reinvest to build the next generation of cybersafety. And so that's what we're really focused on.

Hamza Fodderwala - *Morgan Stanley, Research Division - Equity Analyst*

Okay. Got it. Yes. I mean over 40 million paying subscribers, when we think about billions of users out there, certainly not penetrated a lot. I think one of the questions that we get a lot is just around the competition from Microsoft Defender. As cybersecurity starts to, let's say, impact the consumer consciousness more and more, are you seeing any change in consumer behavior around purposefully buying -- intentionally buying a cybersafety solution?

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

Yes, the awareness of cybersafety, which is different than your device security, is growing, for sure. Between awareness and making it a purchase decision, that still has a gap to bridge. In terms of Microsoft Defender, we've seen them improving their Defender. If it's about just the core security of (inaudible) device, which, frankly, almost nobody is only worried about today, that might be good enough. But at the same time, we see an expansion. And Microsoft itself is realizing it. As you know, in Windows 11, they've expanded their Defender to take more cybersecurity. They call it cybersecurity, we call it Cyber Safety. And also be a part of now Microsoft 365 for paid version, which not everything comes for free. So it gives us the ability to compete on an innovation point of view and addressing the better the needs of the customers.

Hamza Fodderwala - *Morgan Stanley, Research Division - Equity Analyst*

Got it. Now just on the capital structure. So in terms of Norton today, so you've got, I think, about $1.5 billion in run rate free cash flow unlevered. And then you're about a little over 4x net levered. Over 70% of the debt is tied to variable rates, and then there's some managing of the dilution as well post the deal. So when you think about capital allocation priorities between paying down debt, doing the share buyback as well as continuing to pay that dividend, what's sort of the priority level to reach that FY '25 target?

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

Yes, I think just if we back up the long-term capital allocation priorities haven't changed. They won't change. I would say just to clear the obvious one, we've committed to the dividend, and we'll continue to stay committed to that in the current landscape.

And then when you think about the balanced approach between accelerated debt paydown and opportunistic share buyback, there are real challenges of each other. I think nobody that works at Gen is satisfied with the stock price today. We believe we are going to generate more and more and more value. And we're going to look to see that in the stock price. I think right now, personal opinion, we're massively undervalued. And so how do you not really, really seriously take a look at opportunistic share buyback?

With that said, look, the cost of debt is no surprise in terms of it's nothing special for us versus any of our -- anybody else out there in the debt market. So for cures of skyrocketed in the last year, we didn't see this coming for sure. At the time that we did the deal, we had really industry best financing, and we are really, really proud of that.

Now a year later, we're inching up to $700 million on an annualized cost-to-debt perspective. It's definitely rocked the business model in terms of just when we -- as we thought that was going to ladder up versus where we're at today. I don't want to cause any panic. We are very proactive in terms of how we manage all these different levers. And that's what I would want you, guys, to walk away from is, first of all, we're a very, very high executing operational team. When we put out a number, (inaudible) ratio since we've stood up NortonLifeLock has been extremely, extremely high. We've been at or above the high end of our guidance every quarter that we've operated. And so when we say a number, when we commit to a number, when we tell you, guys, how we're going to perform, you should really, in my opinion, have high confidence in that. And then beyond that, within the business model, whether you look at it the business model of itself or how we run the business every day, we just have so many levers. So yes, the cost of debt right now is very, very tough to swallow.

You can't ignore it, we will proactively make that balance across our producers to share buyback and accelerated debt pay down, but it's not the only thing that we can go after. We've got multiple levers to go after for growth. We are very, very clear on how efficient we want to run the company. You guys, have seen that margin accretion quarter after quarter, we'll continue to do that. And that balanced approach between as we create more and more dry powder in our margin efficiency, how much are we getting to really try and drive that growth in revenue, which obviously drops down a bit the bottom line or the EPS line dollar for dollar.

So it's -- yes, the conditions in the business are tougher than we expected a year ago, but we've got the team aligned on where we're trying to go, and we're in it for the long haul. And it's going to be exactly what we're going after, and how we prioritize is exactly how we guide to you guys, long term, mid-single-digit rate of growth. We're going to run as lean as possible. We'll have a [greeting] margin. We said 60% margin plus in the core business. We're going to get after those cost synergies. We're driving the revenue synergies, and we'll manage the cost of debt as that so for curve changes.

Hamza Fodderwala - *Morgan Stanley, Research Division - Equity Analyst*

Got it. Just to put a finer point on it. Let's -- I mean, if we assume sort of a consistent environment, obviously, it's hard to assume that over the next 12 months, are we think -- we're committed to a dividend. It sounds like debt pay down, just given the cost of debt. And then opportunistic share buyback, would it kind of be at that order of priority?

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

So I don't know, in terms of look where our stock price is today, right? I mean I think we're going to see a mix of opportunistic share buyback and accelerated debt paydown somewhere in the range, super high level, 1/3 and 2/3 is where I think -- if you would fairly model that, I think that would be appropriate.

Hamza Fodderwala - *Morgan Stanley, Research Division - Equity Analyst*

1/3 and 2/3...

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

1/3, accelerated debt paydown; 2/3 is opportunistic share buyback.

Hamza Fodderwala - *Morgan Stanley, Research Division - Equity Analyst*

Okay. Okay. I just want to leave it open to anyone in the audience, if you have any questions. Anyone? Okay. I can continue. Maybe you go back to the top line. Revenue synergies, Vincent. So I think you talked about $200 million with Avast and Norton. Half of that, I want to say, was the retention improvement that you mentioned earlier. Can you comment on the other half and sort of what the early progress is there?

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

Yes. The second biggest one opportunity is really to move and that, I mentioned it briefly, too, to move from an Avast installed base, about 16 million of [our] subscribers to have basically core security, but nothing around the digital identity protection offering, which is the new frontier of your cybersafety protection. And so we just launched, actually, Identity Test Protection for Avast customer, 24/7 monitoring, alert, restoration agents to service your needs in terms of protecting that digital identity.

Cross-selling and moving up that full Cyber Safety portfolio across the installed base, taking the Avast benefit from BreachGuard and others into a combined privacy offering, understanding the overlapping between identity and privacy, combining in full identity and privacy to complete the Cyber Safety is really the next big one. Takes a little bit of time because once you've launched the product, the back-end architecture, the in-app messaging, the moment of truth identification requires an integration of our portfolio. And that's why we put more revenue synergies on the longer tail, if you want on the second part of the period versus the cost savings, because we want to drive it through that in-app experience versus just marketing activities through e-mails or contacts.

Hamza Fodderwala - *Morgan Stanley, Research Division - Equity Analyst*

One of the natural levers in the model as well is around, when you do see the subs base to the top of the funnel slow, there's a natural uplift in ARPU, right, because more of the growth is coming from your existing renewal base? I think we would have seen that more apparently had it not been for some of the FX headwinds. But can you describe to us what happens when a customer does renew versus new -- how -- what's the sort of ASP differential around that?

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

The dynamic, yes. So depending on the countries and offering, it may change. But basically, what you're referring to is that in our industry, an enterprise or a first year membership price is different than a renewal price. And so you have an uplift. On the NortonLifeLock side, it was, on average, a discount of about $50 for an ARPU that was $9 a month or $110 a year. Now again, if you take that and try to model across, it will change because there is a mix of region products and different products have different approaches, but it roughly give you an idea, which is then what you say is then leading to an uplift in your ARPU in the second year.

Now that has to be offset with the fact that you still have at the NortonLifeLock, we had 15% attrition, and you compensate those too. But if I can step back, so top of the funnel and new customer counts, one lever, and we continue to expand, puts marketing on the free-to-bid conversion on Avast and expand into new channels as I've discussed.

The ARPU growth is from first year to renewal, but also from cross-selling products. And even if you come in the first year or in the second year in a core product, you're going to identify the moment of risk you're going to have, whether we find you identity data on the dark web or if we can identify a risk that you are exposed to unsecured WiFi or other views, but then will lead you to be more aware and then willing to protect yourself against that bigger risk. And we expect to grow an ARPU today on aggregated portfolio as come down to about $7 a month from $9 before the merger of the 2 companies. And we believe we can return to $9 as we cross-sell and upsell. And as we continue to drive innovations, maybe cross that line. So retention Avast and ARPU are the 2 primary factor of growth in a more challenging macro environment.

Hamza Fodderwala - *Morgan Stanley, Research Division - Equity Analyst*

Got it. Got it. Maybe just last question -- sorry, go ahead. Were you going to? Last question. So 10% to 15% of the sales today are coming from partner channels. Just a rough breakdown of what that looks like? And then any channels that you're particularly excited about?

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

Yes. So the history is Symantec was really OEM focused, so that's PC device moving to direct-to-consumer approach about 90% and then exploring new partnerships level, telcos or financial services, online retail and anything else like an employee benefit than where we believe a combination of our offering Cyber Safety with the core product would benefit the consumers is what we are exploring.

We have a few proof points that it's working. Recently, we've signed up a telco that was core security moving into the identity space, which is a new offering in identity protection through a telco. And we keep pushing those boundaries. That partner channel, about 10% of our revenue has been growing at double digit, and we expect that to continue to grow in excess of that core [DCC] channel.

Hamza Fodderwala - *Morgan Stanley, Research Division - Equity Analyst*

Okay. Great.

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

Cool.

Hamza Fodderwala - *Morgan Stanley, Research Division - Equity Analyst*

Well, Natalie, Vincent, thank you so much for your time. Appreciate it. Thank you very much.

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

Thank you for having us.
