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EDITED TRANSCRIPT

GEN.OQ - Q4 2023 Gen Digital Inc Earnings Call

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OVERVIEW:

Co. reported 4Q23 non-GAAP revenue of $948m, net income of $296m and non-GAAP diluted EPS of $0.46. Expects 1Q24 non-GAAP revenue to be $940-950m and non-GAAP EPS to be $0.45-0.47.

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

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PRESENTATION

Operator

Good afternoon, everyone. Thank you for standing by. My name is Lauren, and I will be your conference operator today. I would like to welcome everyone to Gen's Fourth Quarter and Full Year 2023 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. Ms. Lai, you may begin.

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

Thank you, Lauren, and good afternoon, everyone. Welcome to Gen's Fourth Quarter Fiscal 2023 Earnings Call. Joining me today to review our Q4 and full year 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 the IR website.

Today's call contains statements regarding our business, financial performance and operations, including the impact of our business 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 current 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 in the SEC and, in particular, our most recent reports on Form 10-K and 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. As I reflect on the year, I'm proud of all that we have accomplished, and I'm excited about the tremendous long-term opportunity in front of us.

Three years ago, we strategically set out, singularly focused on and redefine cyber safety for the billions of individuals connected to the digital world. We believe then, as we do now, that the complexity of our digital lives call out for someone to help protect people from the myriads of threats with innovative and easy-to-use technology that could seamlessly stitch together solutions across security, identity and privacy and then reaching to adjacent trust-based solutions.

Well, that someone is us, Gen. We are confident that our reach, innovation capability and disciplined execution can deliver on that strategy and will sustainably deliver long-term profitable growth and increasing shareholder value.

Let me quickly recap our year. For fiscal year '23, we delivered another year of organic growth, our fourth consecutive year of growth in consumer cyber safety. We delivered mid-single-digit growth in cyber safety bookings and revenue and exited the year on a $3.7 billion revenue run rate, up from $2.4 billion 3 years ago. During that period, we considerably expanded our scope across our cyber safety pillars, security identity and privacy and became truly global with 60% of our customers now from outside the U.S.

We also expanded our reach with our vast capabilities in premium and free user base in the hundreds of millions. Gen, with its trusted brands, omnichannel expertise and rigorous execution, is well positioned to expand the adoption of cyber safety across the globe.

We have over 38 million direct paid customers as we exit fiscal year '23, up from 20 million 3 years ago. Despite the pressure on our direct customer count in a post-COVID environment, which saw a sequential decline of 180,000 in Q4, our direct business actually grew low single digit in Q4 and fiscal year '23. Our direct customer retention rate ended the year at 76%, and our annual ARPU was nearly $87 as we exited fiscal year '23.

In 2 quarters since the close of the Avast acquisition, we have increased our overall annual ARPU by $3 and our overall retention rate by 1 point, a testament of the increased value we are providing our customers with our expanded product portfolio offerings, the membership adoption and the increased loyalty. Both metrics, ARPU and retention rates, improved sequentially in this last quarter and our confirmation of the value creation thesis at the core of our merger with Avast.

In addition to 38 million direct paid customers, we also protect over 26 million indirect customers with solutions sold through partners. In fiscal year '23, indirect customers grew over 1.5 million with about 400,000 sequentially added in Q4. Our partner revenue delivered its third consecutive year of double-digit growth for fiscal year '23, and we continue to see tremendous opportunities to reach more consumers via diversified channels in our partner business.

Our employee benefits channel again grew double digits, accelerating in growth as employers recognize the growing demand from the employees. Identity protection is becoming a stable offering in benefits packages, just like health care and life insurance.

We also continue to scale our telco relationships in key international markets, working closely with our partners to expand their offerings and provide comprehensive cyber safety protection to millions of customers. Our strategy to diversify the distribution channels and grow the value of the offering with these partners is actually working.

On the innovation front, we maintained a strong pace throughout fiscal year '23. We introduced more than 10 new products and features, including international privacy monitoring assistance, Norton AntiTrack, Norton Identity Advisor, Avast email Advisor, Avast Identity Solution with Avast Secure Identity and Avast One Platinum, Norton Executive Benefit Program for the C-suite with reputation management features, utility account alerts for U.S. LifeLock and Norton 360 numbers. Each of these is a step forward in our strategic efforts to rapidly expand capabilities, protection and geographic reach in privacy and identity.

We have accomplished a lot in the business this year, but I would be remiss to not mention the tremendous job the team has done in bringing together Avast and NortonLifeLock. Within 6 months of growth, our sales, G&A and overall infrastructure processes have been fully integrated. Our single ERP integrated, code cash processes, unified go-to-market structure and functional organizational structures are all in place.

We've already realized 2/3 of the cost synergies as we exited fiscal year '23. This was no small feat given the size, scale and complexity of the 2 businesses. Overall, we have accelerated the integration process, and we are on track to achieve the $300 million plus annual cost savings exiting fiscal year '24.

Our integration efforts helped us deliver another point of sequential operating margin improvement in Q4, reaching 57%. In fiscal year '23, we scaled operating profit to $1.8 billion, up 24% year-over-year and more than doubled compared to 3 years ago. This profit margin and the resulting unlevered free cash flow gives us great confidence that we can navigate to the short-term volatility and uncertainties of the global economy.

Product integration, broadly defined, is what remains in front of us and is well underway. We see it as an opportunity to accelerate our march towards our vision of cyber safety that is digital life-centered, tailored to your needs and easy to use. This requires a unified and simplified product architecture. Progress on this front will allow us to extend our reach to more people, giving them exactly what they need while better enabling us to educate them on additional protection and value that we can offer. This is a key enabler of our revenue synergies in fiscal year '24 and '25.

We still have work to do here. But with our comprehensive set of products, we believe these changes unlock not only those midterm opportunities, but also position us perfectly for the long term in cyber safety and in trust-based adjacencies.

You've heard me talk time and time again about all of our opportunities, but let me sum it up briefly. (technical difficulty) cyber safety much more accessible, engaging and easy to use for everyone. That will undoubtedly continue to grow our customer appeal and loyalty. To start, and in particular within the Avast business, we can improve the customer experience and fully integrate our customer journey. Avast retention improved 2 points in the last 6 months, and we believe the potential is at least 10 points improvement as we incorporate user-focused changes.

Secondly, customers always focus on value, and we have a tremendous opportunity to show them the value of our cyber safety offering and to continually add to it as the needs evolve and the threats increase.

The move towards protection of identity, privacy and the protection of your full digital footprint will continue. We have increased monthly ARPU $0.26 or 4% in the last 6 months. And our long-term objective is to move above $8, where we were with NortonLifeLock adjusted for a new geographical mix.

Finally, we know that customer count is a critical metric for our long-term success. In addition to continued growth in indirect customers, where a portion of the market is moving to, we know that in the long term, we will grow our customer materially. And we believe that our initiatives in mobile, emerging markets and optimizing marketing spend amongst a few will help us stabilize the trend in direct customer count and ultimately return it to growth.

And with that, let me pass the floor to Natalie, who will talk about our detailed performance.

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 full year fiscal 2023 performance followed by our Q4 results and wrap up with our outlook for Q1 fiscal year '24. I will focus on non-GAAP financials and year-over-year growth rates unless otherwise stated.

Fiscal year 2023 was another year of progress towards achieving our long-term $3 EPS target and was our fourth straight year of organic growth as a pure-play consumer cyber safety company.

As we successfully closed our merger with Avast and integrated as one Gen company, we finished fiscal year 2023 with over $3.3 billion in total revenue, growth of 19% in USD and 23% growth in constant currency. When including Avast's historical financials, cyber safety revenue grew 4% year-over-year in constant currency amidst the dynamic macro environment.

We challenged ourselves to accelerate the execution of our committed cost synergies and remain disciplined in our investments, which enabled us to expand full year operating margin to 55%, up 220 basis points year-over-year. This growth and discipline led us to deliver $1.81 in EPS, up 4% from the prior year and up 10% in constant currency after incurring a significantly higher amount of debt cost than anticipated at the time of the deal announcement.

Our customer base is resilient with over 38 million direct cyber safety customers. Across our Gen business, we have a strong and increasing customer retention rate of 76% and a growing direct monthly average revenue per user, or ARPU, of $7.24 as we scale our cross-selling and upselling efforts, providing increased value to our direct customer base with new security, identity and privacy offerings.

Our business with partners continues to grow, and we've expanded together to a total paid customer base of approximately $65 million.

We are enabling growth with the continued evolution of our product portfolio and introduced over 10 new products and features this year to provide best-in-class protection and unlock new capabilities for our customers.

Turning to Q4 performance. Q4 was our 15th consecutive quarter of growth, and our results reflect another quarter of consistent execution. We exceeded our revenue guidance and came in at the high end of our EPS guide.

We also crossed $1 billion in bookings for the first time, with Q4 bookings up 29% in USD and up 32% in constant currency. When including Avast's historical financials, cyber safety bookings grew 2% year-over-year in constant currency.

Q4 non-GAAP revenue was $948 million, up 32% in USD and up 35% in constant currency. This also includes an unfavorable FX headwind of $21 million year-over-year or 3 points of growth. When including Avast's historical results, cyber safety revenue grew 3% year-over-year in constant currency.

Direct revenue was $831 million, up 32% in USD and up 3% when including Avast historicals.

We continue to drive higher value and loyalty with our existing customers as both ARPU and retention improve. As I referenced above, monthly direct ARPU is USD 7.24, an expansion of $0.15 quarter-over-quarter driven by our cross-sell and upsell efforts and as our identity and privacy offerings grew double digits in the quarter. Ending direct customer count was 38.2 million, a decline of 183,000 customers quarter-over-quarter, a trend we are working hard to reverse.

Lower web traffic demand continues to impact the customer acquisition funnel despite improvements in conversion.

We continue to invest in a diverse mix of marketing spend to reach new audiences, drive more traffic to our sites while dynamically optimizing the channel and geographic mix to drive the highest returns.

It is imperative that we continue to focus on improving retention in our existing customer base. Our aggregate direct retention rate improved 1 point quarter-over-quarter to 76%, which is a strong indication that our efforts to increase customer engagement are working. Offering the best customer experience remains at the core of our values, and we are pleased with the progress made this quarter.

Before I move off the direct business, I want to give a quick update on revenue synergies. As I shared 6 months ago, we expect traction with revenue synergies to be measured directly through ARPU and retention improvements over the coming quarters to support our bookings and top line growth expectations. Two quarters later, we have expanded monthly ARPU by over $0.25, translating to $3 of increased annual ARPU.

We have improved Avast retention making progress to narrow the prior 20-point retention differential between NLock and Avast observed at the time of close. You will continue to see us expand our ARPU and retention rate over the coming quarters.

Moving on to partners. Partner revenue was $100 million in Q4, delivering 35% growth year-over-year as reported in USD and 9% growth when including Avast historical results. This was our third consecutive year of double-digit revenue growth in our partner business as we continue to scale our identity offerings through key channels like employee benefits, telcos and breach protection.

With our broad reach and omnichannel strategy, we will continue growing our pipeline, scale and nurture existing partnerships and build further growth momentum.

Rounding out our revenue, our legacy business lines contributed $17 million this quarter and now make up less than 2% of our revenue. We expect legacy to continue its decline at a similar pace as Q4.

Turning to profitability. Q4 operating income was $541 million, up 38% year-over-year. We expanded operating margin to 57% as we continue to make strong inroads to the 60-plus margin framework we've outlined in our long-term model.

In Q4, we reduced our overall operating expense profile from 31% to 29% of revenue sequentially while maintaining gross margins above 86%.

Since the close of the merger, we've rightsized our organization structure to under 3,700 from approximately 4,500. Our hybrid workforce strategy has also enabled us to further rationalize our real estate and data center footprint, driving structural reductions in our operating model.

Exiting Q4, we achieved approximately 2/3 of the annual cost synergy target from a run rate perspective, with the remaining integration efforts focused on product and engineering.

We remain well on track to achieve cost synergies of over $300 million as we exit fiscal year 2024. Ultimately, our accelerated pace and track record of strong execution will unlock more operating leverage, enabling us to selectively reinvest back into growth and innovation in fiscal year '24 and beyond.

Q4 net income was $296 million, up 9% year-over-year. Diluted EPS was $0.46 for the quarter, stable year-over-year and up 4% in constant currency, including $0.02 of currency headwind. Interest expense related to our debt was approximately $160 million in Q4, and EPS impact of $0.19 and a $0.16 headwind compared to last year.

Our non-GAAP tax rate remains at 23%. And our ending share count was 644 million, down $7 million quarter-over-quarter, reflecting the weighted impact of last quarter's share repurchases.

Turning to our cash flow and balance sheet. Q4 operating cash flow was $324 million. And free cash flow was $323 million, which includes approximately $177 million of cash interest payment this quarter. This brings our total fiscal year 2023 free cash flow to over $750 million, which includes $381 million of interest paid -- interest expense paid, approximately [$110 million] (corrected by company after the call) of costs related to the Avast merger and $43 million of cash restructuring expenses. Our ending cash balance is $750 million.

Turning to capital allocation. We remain intentional and balanced with our capital deployment. In fiscal year 2023, we returned over $1.2 billion of capital to shareholders, with approximately $900 million share buybacks and the rest in the form of our regular quarterly dividends.

In Q4, we paid $80 million to shareholders in the form of our regular quarterly dividend of $0.125 per common share. For the next quarter Q1 fiscal '24, the Board of Directors approved a regular quarterly cash dividend of $0.125 per common share to be paid on June 14, 2023, for all shareholders of record as of the close of business on May 22, 2023.

In addition, since we closed the Avast merger, we have deployed approximately $460 million towards debt paydown when you include the April voluntary payment.

We continue to be supported by strong total liquidity of over $2.2 billion, and we have no near-term maturities due in the next 2 years. With our strong cash flow generation and disciplined capital deployment, we will continue to utilize our capital to deliver EPS expansion, with expected net leverage of approximately 3.9x within 12 months post Avast deal close and remain committed to the target of approximately 3x over the long term. We will maintain a balanced approach, commit to our regular dividends, pay down debt and deploy opportunistic share buyback.

Now turning to our fiscal Q1 '24 outlook. For Q1, we expect non-GAAP revenue in the range of $940 million to $950 million, translating to low single-digit growth in cyber safety expressed in constant currency.

We expect Q1 non-GAAP EPS to be in the range of $0.45 to $0.47 per share as cost synergies are partially offset by near-term increased interest expense based on current SOFR forward curves.

For the full fiscal year 2024, we expect bookings growth in low to mid-single digits, scaling through the year as we make progress on our key metrics. We remain focused on driving our long-term objectives and are still targeting to exit fiscal year '25 on a $3 annualized EPS with the following underlying key assumptions: cyber safety business to grow mid-single digits, post-synergy structure of 60-plus percent operating margin, free cash flow deployed towards debt paydown and share buyback. SOFR for curve trends indicate rates below 3% exiting fiscal year 2025. Diluted share count expected to be around pre-Avast merger levels.

In summary, we were closing out this fiscal year with a strong sense of accomplishment. We have successfully introduced Gen to the world and are excited to scale as the leader in global cyber safety protection. Our financial model remains resilient, powered by our best-in-class products and technologies and a loyal customer base.

As we look forward to fiscal year 2024 and an evolving macroeconomic environment, we will remain very disciplined in how we operate, focusing on executing our plan and will be strategic and intentional in where we invest to maximize long-term shareholder value.

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 comes from Saket Kalia from Barclays.

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

Okay. Great. Vincent, maybe first for you. Great to see the improvement in retention. I think you said it was 1 point for the company overall quarter-over-quarter. Great to see that. Can you just maybe talk us through what's driving that in your view? And maybe as part of that, just touch on what's happening within the Avast base from a retention perspective.

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

Absolutely. And as you know, we don't like to share our operational know-how with everyone in the world and like to nurture that is our own process IP, if you want. But let me give everyone here a few examples of what we've been doing. So as you mentioned, overall company retention improvement, 76% plus 1 point. It's driven by 2 things. One is continued stable retention in Norton and LifeLock brands and then an improvement of 2 points of the Avast retention.

I do mention the stabilization of our retention in the brands of NortonLifeLock, which as you know, are industry-leading retention rates because it's no small feat. This does not happen by itself, we're really working and developing all of our values for the customers there.

So on the Avast side, just as a reminder, I know you know, but for those on the call, Avast retention rate was about 20 points lower than the Norton and LifeLock business, around 65%, which is 85% for NortonLifeLock. And we had already acquired -- before the acquisition of Avast experienced in retention with freemium business model such as Avira, which was also driven slightly above 80%.

And so we had a plan to identify the operational opportunities. We identified about half of the gap to be operationally driven about 10 points. And the other half and the other 10 points to be driven by more structural changes, such as the geographical mix, the business models, the value of the products, et cetera. And so we decided to first tackle the first bucket of 10 points. We made a bunch of operational changes. I'll give you a few.

We combined our renewal team for all of the brands as one team. We separated the renewal activities with the customer journey activities, with customer journey focused on education and understanding the communication and touch points value-adds to the customers versus the more transactional renewal activities, centralized marketing operations for renewal only across all of the brands, worked with our e-commerce third-party partner to share our own e-commerce experience.

As you know, NortonLifeLock has an in-house engine, Avast was outsourced. And so we're starting to share best practices and making sure we can apply the quick wins we had identified. Those are the operational work, if you want, in progress. It will take a few quarters as we continue to evolve. Overall, once the operational buckets, if you want, is being tackled and fully digested, consciously increasing the value to the customer, moving them to high value, full portfolio of cyber safety, moving them to the platform view, using the customer journey team to drive the usage and engagement of the functionalities to make sure they understand the full potential of the protection that the customer has bought. All of those are activities that create value. And we are cautiously optimistic that, that improvement will continue over the next few quarters.

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

Got it. Got it. That's super helpful. Natalie, maybe for my follow-up for you. I thought it was great to see the delevering in the quarter. I think it was about $300 million. You correct me there if I'm wrong. But can you just maybe talk through how you're thinking about debt paydown this year? And maybe related to that, how you're thinking about interest expense, even just broad brush?

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

Yes, sure. Just for a reminder for everybody else on the phone, so we did -- since the funding of the deal, we did $460 million of debt repay down -- repayment. $400 million of that, including the April voluntary payment, $400 million was voluntary.

Yes, with $7 billion of debt at an increasing in volatile SOFR, with Q4 SOFR up to 5%, it's a meaningful challenge for us to overcome. If you just extrapolate the Q4 interest expense, that's $600 million to $700 million on an annualized basis of interest expense. That's $0.75 to $0.80 of EPS. So yes, it's a huge headwind/challenge to overcome.

And if you looked at that in isolation, combine that with our stated targets on leverage over the long term, the cost, the expense and the level of debt that we've got, that would point you to deploy as much capital as you possibly could to get that paid down. But we know we have multiple levers in our business. We know that we have expressed a balanced capital allocation. And if you look at the $17 stock price that we've got and you look at our strategy and vision on where we're going over the long term, I personally believe that we're massively undervalued. And so that makes the share buyback, capital deployment very, very important.

And so when we talk to you guys about a balanced approach on our capital allocation, it's exactly that. Both of them are challengers of each other, but both of them are incredibly viable and critical to drive our business and to achieve our long-term objectives. So what you'll see us do on a go-forward basis, whether you specifically call it Q1, 2024 or over the long term, is strike that right balance, looking at all of the dynamics that we've got in our business.

Operator

(Operator Instructions) Our next question comes from Angie Song from Morgan Stanley.

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

I'm speaking on behalf of Hamza Fodderwala from Morgan Stanley. So just had a quick question on net adds. The last quarter, you mentioned that for Norton and LifeLock lines a little bit more under pressure compared to a vast net add. So could you just talk a little bit more about the dynamic of net adds for NortonLifeLock versus Avast for this quarter? And how should we think about this dynamic as we model out fiscal year '24?

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

Yes, thanks for your question. So as you mentioned, right, so Q4 sequential decline in the direct customers is about 180,000, the lowest of the year. So we see the trend stabilizing. And we're working very actively our plan to, as we said, first stabilizing and then returning customer -- direct customer counts to growth. We continue to grow or we grew -- continue to grow our indirect customer counts.

On the direct piece, last quarter, it was a little more pressure on the NortonLifeLock side on a ratio basis, if you want, then Avast. And I think it was 2/3, 1/3 of the decline. The quarter before, it was the reverse. So we also said quarter-on-quarter, just be careful not to drive trends within the brands. We see the overall tensions to be about the same across the globe, but being more focused on the security side versus the identity side, so slightly more focused on security. And then I would say, Avast because we improved retention 2 points, of course, continue to reduce the gap, if you want. And we're very confident that we'll return them to growth once we fully bridge the 10-point retention of Avast versus Norton. So that should give you some color of the dynamic.

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

Great. And just one more, if I may. So on the long-term target, I know that the Avast acquisition definitely brought some complexity into the equation. And given the recent macro backdrop, that caused even more uncertainty. Could you just remind us what your confidence level is now as we have a little bit more visibility into fiscal year '24 in achieving your $3 EPS target exiting fiscal year '25?

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

Yes, absolutely. And I'll pass it to Natalie on the confidence, so you'll hear directly from the CFO. But what I can tell you is that talk about Avast bringing complexity, in one sense, it's right. It's merging multibillion companies together. But it's a similar business model with very complementary strengths, so we're very focused every day on the opportunities that Avast is bringing. And we talked about the complementary of the product portfolio. They're bringing more strength on the privacy side. Combined with our identity, that now allow us to offer across 65 million paid customers and hundreds of millions of free user full cyber safety, and we gave you some proof points of us being on track to that. We said we can -- going to bolster our technology with Avast, and you'll hear more about our pace of innovation now for the combined R&D. We said that now being more global, cyber safety has no borders, as you know. And threat are across the globe, and people are moving virtually in the world. Being truly global is a real asset for us.

We also said that we have some revenue synergies, and the Avast retention rates is the beginning of that. You'll see more of that in '24 and '25 as we return to growth using those revenue synergies. And then the cost synergies, where we delivered only 2/3 of the $300 million plus promises. Now where is the complexity coming from that you may have mentioned? Yes, we did not anticipate the cost of the debt. Frankly, when the time we signed the deal, it was a SOFR being 0, and today is 5%. Natalie mentioned that, but we will deliver quickly with our cash flow. And if I follow you guys, investors community predicting software at 3% by exiting fiscal year '25, by then, you will see the full realization of those synergies. So our focus is really on the opportunities that this acquisition is bringing to us. And I'll pass it to Natalie for the confidence in the bridge and the different levers.

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

Yes. I think you heard about the majority. I would just summarize it into -- from a growth perspective, we really look at it from a value reach and loyalty perspective. Value is where the innovation is coming from or coming into play where we will constantly innovate, bring great products and services to market in a very competitive way. Reach is our intent and our priority to expand our reach globally, really focusing on international and bringing different products and services, different vectors to new global markets. And then loyalty is about looking at how we can best service our customers, focus on NPS, but also increase the engagement of our existing user base through cross-sell/upsell and really focusing on our retention metrics.

Combine that with the expressed discipline that we've got in our cost structure, driving the company to a 60%-plus margin structure, that is going to be incredibly a strong feeder into the $3 EPS.

We also said, don't forget, back when we came out with our Analyst Day, we said M&A could be also considered as an accelerator as we continue to generate very, very strong cash flow and as we look at other products and services, other -- as cyber safety protection continues to expand and evolve.

And so all of that in, really what you have to believe, we just laid out some of the assumptions that we've got with the $3 EPS. When you ladder all that up from a whiteboard perspective or just the back of the envelope, it's not hard to see how you get to the $3 EPS target over the time frame we've provided.

Operator

(Operator Instructions) Our final question is a follow-up question from Saket Kalia from Barclays.

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

Okay. Great. Me again. Sorry, I just had a couple more follow-ups. Natalie, maybe for you. I know it was great to see the ARPU expansion quarter-over-quarter. Maybe a question for you. Where do you think that can go over time? And sort of how do you think about that?

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

Yes, I think we're just getting started, honestly. I think with the expanded portfolio that we now have as Gen and with the express desire and strategy and commitment to invest in more and more innovation, I'm confident that we're going to continue to bring great products and services to market that, honestly, I think will be easy sell to our customer base. And so where specifically ARPU will go, I'm not sure. It's going to be a balanced or a dynamic approach, depending on markets, customer cohorts, the source of those customers, et cetera.

But if you even look at the progress we've made already with the equivalent of a $3 ARPU expansion, just start applying that to more and more and more of our customer base, in my opinion, we're just getting started. We have a ton of space to increase our ARPU as we expand and really bring to market that innovation but then also expand our reach across our existing 38 million. And as we bring in new customers as well, just be able to expand there as well.

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

Got it. Got it. Maybe for my follow-up for you, Vincent. Listen, I mean we're clearly trying to control what we can with margins and operational improvements in retention. Of course, the other part of the net add equation is new customer acquisition. And so maybe the question is for you, Vincent. What can you do on the new customer side to sort of continue the stabilization of net adds that we've seen, but then maybe turn that corner and reverse the trend?

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

Yes. And if you allow me to think slightly differently, where you compare margin and what we control versus customer acquisition, I would say you can take a stable stake that the operational commitment of running lean and really redirecting every dollars to either innovation or sales is what we do. This is what is in our DNA and in our culture, and we'll continue to do that very, very well. The value we drive and the price we're able to charge representing that value, coupled with operational discipline, is what drives the margin. As you know, it's a very high-margin business.

When it comes to the growth and how we grow our business, we really, for us, have the 3 buckets. Natalie mentioned the ARPU and supported with innovation, how much more do we add to the value of the portfolio. And Natalie is right that in some way, it's not like a daily focus. I told you the first proof point we can go to is where we were with NortonLifeLock, above $8 adjusted for the mix between the geographies and the portfolio. And over the next 8 quarters to this time frame we gave you, we believe we'll cross $8 at the same cohort. So that's number one.

Can we later on get to $10 per month or more? Absolutely, but it will come from added value, new adjacent services, the ability for you to manage your digital reputations that are services above and beyond to what your core cyber safety membership brings.

The second one, of course, is the retention, right, as the second bucket for the growth. The more retain, the more we satisfy you as the customers, the more value we'll be able to drive for the business. And there, you've seen some of the progress. I talked about the operational view. Our whole focus here is around customer journey, giving them peace of mind in this hacking world that continue to evolve and is actually pretty scary.

And then the third one is about bringing new people to cyber safety, which is the acquisition side, and it will be a real trade-off between those 3 activities depending if you get faster progress on 1 of those 3 buckets, you may have pressure on the other metric. But overall, the value towards our long-term mission will continue to progress.

On the net path, right? The first one is you retain more and then you try to acquire new customers. We now have a full set of capabilities from [freemium] to product sales, to membership sales, to all the countries we can go after. But we know that we're not perfect in every one of them, and we still have more opportunities.

We're doubling down into mobile. Everything we do needs to be mobile. It's where the digital life is first touch points today. Even though you still use your desktop and all of that, you may want to act and interact through mobile. Mobile is a big channel for us in terms of growth.

We know that some customers would want their cyber safety to be part of other solutions, financial solutions or employee benefit that they get. And so partnering with others to continue to get more customers touch to cyber safety is an important one. Once we have them, the cross between indirect customer and direct customers, which we're trying to do here, which really should be viewed as more direct interaction with our customers, is another set of activities that we're driving.

With Avast, a strong footprint in emerging markets and now bring a full cyber safety to emerging markets would be another one where we can add new customers and, back to my comment, would have a little bit more pressure on ARPU because the price per month in emerging market is lower than in the western world, but it's a healthy balance that we're trying to achieve.

And then another one I can mention, and we have a lot of activities, is the balance of our marketing spend activities across all channels, including accelerating the freemium in stores, the freemium to the paid conversion and value demonstration. All of that is in full swing.

I'd rather not give you a precise quarter of customer count. We're confident we'll return that metric to growth. We're working -- you've seen the reduction of the gap. I would say, in Q1, you plan with similarly -- similar trends that you've seen in the last 2 quarters, but we continue to improve. And by the end of fiscal year '25, when we give you that model, we're assuming that we will be returning in a balanced way on growth on all 3 of the buckets I've just mentioned.

Operator

Thank you. At this time, as there are no more questions, I will turn the call back to Vincent Pilette, CEO, for closing remarks.

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

Excellent. Thanks, Lauren. And I want to thank each Gen employee for their hard work and for embracing and directly managing through so much change. Our entire team is driven to protect and advocate for our customers, and we do not take for granted the millions of people around the world who trust us to help them safely navigate the complex digital world.

We have a strong culture of innovation and execution. We have a winning strategy, and we will continue to execute to drive profitable growth and create long-term value for all our stakeholders. So thank you for joining our call today, and I look forward to talking to you soon.

Operator

This concludes the conference call. Thank you.
