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# Gen Digital Inc. (GEN)

Barclays Global Technology, Media and Telecommunications Conference

## CORPORATE PARTICIPANTS

**Natalie M. Derse**  
*Chief Financial Officer, Gen Digital Inc.*

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## OTHER PARTICIPANTS

**Saket Kalia**  
*Analyst, Barclays Capital, Inc.*

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## MANAGEMENT DISCUSSION SECTION

**Saket Kalia**  
*Analyst, Barclays Capital, Inc.*

Well, hey. Good morning, everyone. Welcome to Day 2 of the Barclays TMT Conference. My name is Saket Kalia. I cover Small Mid Cap Software here at Barclays. Very happy to have with us the team from Gen, of course, we've got Natalie Derse, Chief Financial Officer; also got Mary Lai, Head of Investor Relations, there in the audience. We've got about 30 minutes together.

Let's maybe take the first 20 minutes or 25 minutes to do some fireside chat with Natalie, which I know is going to be fun. And then let's make this interactive. Anyone in the audience who's got the question, just pop up your hand. In the webcast, you've got a question, just shoot me an email and we'll try to get to as many as we can. So, maybe with all of that as a framework, Natalie, thanks so much for being with us here.

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**Natalie M. Derse**  
*Chief Financial Officer, Gen Digital Inc.*

Yeah, thank you. This is my first conference in person since COVID, so I'm super, super excited to see all of you. Thanks for joining. Glad to be here.

## QUESTION AND ANSWER SECTION

**Saket Kalia**

*Analyst, Barclays Capital, Inc.*

Q

Yeah. For sure. Well, hopefully, the first of many Barclays conferences, Natalie. You know, Natalie, just to maybe level set for the folks in the room and on the webcast, who are maybe less familiar with the story, can you just give us a sense of how you sort of define the market that Gen competes in and which of the major brands, the biggest brands kind of fall under the umbrella? There're a lot of brands but some of the ones that are maybe the most recognizable that fall under the Gen umbrella now?

**Natalie M. Derse**

*Chief Financial Officer, Gen Digital Inc.*

A

Yeah, sure. So, I would start with, if we can just rewind the clock a few years. So, when the company was still with Symantec, we saw some secular changes in the market where we really, really saw I would say – even as consumers, you can probably relate to what I'm about to say, where we just saw more and more and more people spending more time online. And it wasn't just banking and working. It's now socializing, it's shopping, it's everything.

And with that, I think, came really a significant increase in the Cyber Safety issues that we all face today in terms of the more time you spend online, the more ways you're engaging with the online community. I think we're no stranger to the safety and security issues that come with that. And then I think the third thing we really, really recognized is it wasn't just the hacking and the security issues from the past. The hackers have really, really become much, much more mature and very, I would say, advanced in terms of what they were trying to do.

And so it just really allowed us the space to really step back and evaluate the current environment and really let us do what we now call our Cyber Safety mission, where we aren't necessarily just trying to protect your device-centric security, but we fully, fully recognize the overall Cyber Safety umbrella and everything that comes along with that. It's not just security. It's also identity, it's privacy, it's protecting not only your device, yes, but yourself as a human, your family, if you have children or loved ones that are engaging as well is the overarching full end-to-end breadth of Cyber Safety is what we're really, really trying to build to.

And so fast forward a few years, we've been putting significant marketing behind that as we stood up the company as a stand-alone direct-to-consumer business and really have been focused on not only addressing the different economic and the trends, the secular shifts that we've seen in the market really been building and putting a lot of investment capacity behind that Cyber Safety umbrella.

The one thing that I'd call out, I would say, in 2019, I think it was the year, we launched the first Cyber Safety platform where you were able to really build upon memberships. It wasn't a specific service or a specific product; it was an end-to-end membership that really allowed you to fully appreciate and take advantage of that umbrella of security. So that's the market that we're playing in, in terms of it's not just the security market; it's the overarching Cyber Safety market.

And with that, as we join with Avast and become Gen and move forward with Gen, to Saket's point, we now have just such a strong portfolio of brands. Of course, on the NLOK side – hopefully, you're familiar with NortonLifeLock. We acquired Avira a couple years ago. And then, combine that with Avast, AVG, CCleaner. And so, all of these whole – more, I guess, the breadth of the brand portfolio that we have really, really strengthened

our mission and vision to go after the Cyber Safety market through, not only security, but also identity and also privacy.

**Saket Kalia**

*Analyst, Barclays Capital, Inc.*

Yeah, absolutely. Real broadening of the geographic footprint as well.

**Natalie M. Derse**

*Chief Financial Officer, Gen Digital Inc.*

Absolutely, yes. Yeah. Yeah. The deal is very, very, very complementary in all the aspects of our gross revenue.

**Saket Kalia**

*Analyst, Barclays Capital, Inc.*

Yeah, absolutely. I definitely want to hit on some of that. Very helpful overview, Natalie. Maybe we could just get into a little deeper just into how the model works, again just to level set for everyone.

**Natalie M. Derse**

*Chief Financial Officer, Gen Digital Inc.*

Sure.

**Saket Kalia**

*Analyst, Barclays Capital, Inc.*

I think we've got around 65 million or so users paying a monthly subscription, multiple product bundles as well. You correct me there if I'm wrong on any of the stats. But maybe you could just help us understand some of the different levers for growth in this model, as well as any color that you can give us on things like renewal rates?

**Natalie M. Derse**

*Chief Financial Officer, Gen Digital Inc.*

Sure. Yeah. So we have 65 million paid users. That's a mix of direct-to-consumer, but also from partners. So about, let's just call it, 90% of those users are direct paid customers. And we really just – we attract those through some of the marketing channels that we've got, and we really bring them into our own properties, so either norton.com, lifelock.com, et cetera.

And so, the other side of that is from partners. So that's where we really get the diversification of reach. We've got probably 15 different types of partner channels where we're able to go where the consumers are, and that's the real differentiator. The business model is very, very similar, no matter which channel you come to us through. But the real differentiator is we want to be and we want to – we want to be where the consumers are shopping. So if you prefer a direct-to-consumer model, we're there for you. But if you prefer more the bundling, such as telcos or employee benefits or some of the other partner channels, we're able to interact with consumers that way.

From a business model perspective, largely speaking, we are either on monthly or annual subscriptions, which makes our revenue incredibly ratable, very, very predictable. The components of growth are going to be focusing on – of course, we just want more and more and more and more and more. That's why we talk a lot about the top of the funnel. We want that to be as healthy and as robust as possible just in terms of acquiring new and bringing new people through that purchase funnel, again, channel agnostic.

And then, once you are a customer of ours, we really, really focus on a few things: first of all, making sure that the products and services that you engage and you purchase from us are the right ones for you. We have a ton of telemetry data. We look at your behavior. We look at your risk factors. And we, as proactively as possible and as direct as possible, try and proactively reach out to you as a consumer to either offer you stand-alone products to your existing membership or scale you up in the membership levels that you're on. Huge opportunity for us that you're going to see that through our ARPU metric.

We obviously focus on retention. Retention rate is a very, very strong KPI for us. We're currently, on the NLOK side, industry-leading at 85%. Now, combined as Gen, we're at 75% with Avast. And so, we will focus on all the retention initiatives that we can to make sure that the consumers that we do and the customers that we do have in our installed base are happy and retained at the highest rate possible.

And then, last would be the customer service. So we feel very, very proud across the Gen company of around how we treat our customers. We will focus on building and scaling NPS as high as we can, and we'll do that through our customer service channels.

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**Saket Kalia**

*Analyst, Barclays Capital, Inc.*

Q

Yeah, absolutely. Really meeting the customer on their journey of where they are, right? I'd love to dig into Avast a little bit and just kind of level set. Again, I think we closed the deal back in September. Natalie, can you just maybe outline some of the key reasons or some of the strategic reasons for doing the deal and maybe how the Avast and NortonLifeLock brands maybe overlap or complement each other?

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**Natalie M. Derse**

*Chief Financial Officer, Gen Digital Inc.*

A

Yeah, sure. So, from a deal perspective, if you zoom way out, I would say, look, both the companies were incredibly healthy. They're operating at scale. They're operating at north of 50% operating margins. And so, two very established businesses coming together, very much a consolidation deal. But they were very, very complementary in nature. I think Saket had mentioned the geographical – how complementary we were there.

From a NortonLifeLock side, we were very, very dominant in the US and Canada and we had started to expand the reach internationally. About 30% of our business was international. Avast was a 1 minus. So they were very heavy and very present in the international markets and really had a desire to branch out and get much more established and penetrated in the United States and so geographically very complementary.

When you think about the specific pillars or the different pillars in the overall Cyber Safety offering with security, identity, privacy, of course we're both strong in security. Again, I touched on earlier we, from a NortonLifeLock perspective, very strong in identity, especially with the LifeLock brand. And then Avast is much more further ahead in the privacy pillar so, again, from a product services, technology perspective, very complementary.

And then, I would just say from a – where we – even how we operate, I would say, is we're very complementary. So Andre has been at Avast since the start of his career. He is incredibly, incredibly has strengthened the technology and just how to run a very, I would say, advanced product and technology team is very, very apparent. And we're more, on the NortonLifeLock side, across Vincent and I and the leadership team, we're just, I think, have a strong reputation of execution. So you bring those two together and you have two incredibly profitable companies. I would say just we're super, super excited about bringing that together.

And that's why we so confidently committed to and we even increased the level of the cost synergies in the last communication that we did externally and shrunk the timeline or pulled the timeline in to achieve those \$300 million plus cost synergies. It's because of that. The overlap there and the deal with two established companies, I don't think you – it's not too hard to understand or see from space how we'll reap cost synergies out of that overlap. But it's also the combined – we're going to continue to invest in product, in technology, bring the best to the market and, at the same time, be very, very, very strong executors against the goals or objectives that we laid out.

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**Saket Kalia***Analyst, Barclays Capital, Inc.*

Q

Yeah, absolutely. So a great segue into what I think was one of the biggest takeaways from last call was really the \$300 million of expense synergies. To your point, I think that went up to [ph] \$280 million (00:11:46) earlier. Now, what's interesting is that both Avast and NortonLifeLock were pretty profitable before the deal...

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**Natalie M. Derse***Chief Financial Officer, Gen Digital Inc.*

A

Yes.

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**Saket Kalia***Analyst, Barclays Capital, Inc.*

Q

...I think both around 50% EBIT margins and I think we're talking about potentially reaching 60% margins with synergies, of course, over time. And so, maybe the question for you, Natalie, is where do we see the opportunities to achieve these expense synergies between both companies? When do you expect to get there?

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**Natalie M. Derse***Chief Financial Officer, Gen Digital Inc.*

A

Yeah. Sure. It's an incredible opportunity to tell this portion of the story because, I think, let's rewind the clock 18 months ago and you heard Vincent and I commit to and lay out a path to achieving a \$3 EPS over the long term, which, from a number of years perspective, I would say we said three to five years. Fast forward 18 months, we've now completed and closed the deal. Now we're integrated with Avast.

And so, we took the opportunity to take another look at that path and the timeline related to that and just super, super proud. I really think it's a privilege for me to be able to share the EPS story with everybody because there's just been so much change. I would say not even over the last 18 months. I would say even over the last nine months. When we first locked in our financing for the almost \$8 billion of debt we took on for Avast, we felt really, really good. And that wasn't that long ago. That was January.

Fast forward to now and we're facing into \$0.55, \$0.60 of EPS impact somewhere between not only the increased cost of debt, but now all the other macroeconomic headwinds that we're facing into with currencies, with geopolitical, et cetera. And so, we have a pretty big just out of the gate current state, bring the companies together, just a significant EPS headwind that we've got to overcome. Combine that with not only the cost of debt being, \$0.45, \$0.50, when you think about the dilution that we are facing into just closing the deal with Avast, we had to issue 94 million shares in that deal, not surprised. It's just part of the construct but that is about the same as the cost of debt hurdle.

And so just a lot of things that we've got to overcome. But you also have to think through, okay, when we bring the Avast company in, we're going to see – we see accretion in the business model. We're going to use the capital

allocation to navigate through the hurdles of the cost of debt, the hurdles of the Avast share dilution. And so what it really, really comes down to is how we're going to grow the business and how we're going to continue to be strong operating cash flow generators and continue to see growth at the very, very top. And so that's where we're spending most of our time.

Everything on that EPS whiteboard slide that hopefully all of you have seen in our earnings materials, most of the components are known, and it really just allows us to completely focus on, yes, we've got to execute the cost synergies. But I'm here to tell you, I'm super confident about that. We laid out a path around \$200 million of revenue synergies over the next 24 months. And in addition to that, keep the company moving and growing is where, I would say, the lion's share of our energy and attention is within the company.

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**Saket Kalia***Analyst, Barclays Capital, Inc.*

Q

Yeah. Yeah, absolutely. By the way, that whiteboard slide is awesome. It's really helpful just to kind of think about it. And given the headwinds that you're mentioning now with just on cost of debt, really impressive that we're still able to stick to that \$3 target.

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**Natalie M. Derse***Chief Financial Officer, Gen Digital Inc.*

A

Absolutely, yeah.

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**Saket Kalia***Analyst, Barclays Capital, Inc.*

Q

Right? So definitely want to call that out. But I mean, since we started with expense synergies and you mentioned the revenue synergies, I think that's really another interesting part that came out of the last call. Maybe we could just talk about how you think about the levers and reaching that \$200 million revenue synergy number. Clearly, the expense synergies, those are understandable, but those have been...

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**Natalie M. Derse***Chief Financial Officer, Gen Digital Inc.*

A

Yeah. [indiscernible] (00:15:46) infrastructure.

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**Saket Kalia***Analyst, Barclays Capital, Inc.*

Q

But those happen in deals.

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**Saket Kalia***Analyst, Barclays Capital, Inc.*

Q

...yeah, absolutely.

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**Natalie M. Derse***Chief Financial Officer, Gen Digital Inc.*

A

Revenues, yeah.

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**Saket Kalia***Analyst, Barclays Capital, Inc.*

Q

Revenue synergies have been harder in the past...

**Natalie M. Derse**

*Chief Financial Officer, Gen Digital Inc.*

Yeah. Yeah.

A

**Saket Kalia**

*Analyst, Barclays Capital, Inc.*

...for deals that we've seen. But you guys feel pretty confident. And so, tell us why.

Q

**Natalie M. Derse**

*Chief Financial Officer, Gen Digital Inc.*

I do feel confident, but I also don't want to make it seem that it's low-hanging fruit.

A

**Saket Kalia**

*Analyst, Barclays Capital, Inc.*

Yeah.

Q

**Natalie M. Derse**

*Chief Financial Officer, Gen Digital Inc.*

I think, of course, we will find and harvest some low-hanging fruit as we bring the two companies together, but I would say that probably if anybody – any company bringing the two companies this size together. We said \$200 million of revenue synergies exiting over the next 24 months. We have a variety of ideas. What I would point you most confidently to is, if you look at the NLOK business stand-alone, we were at 85% retention rate. We said 18 months ago at Analyst Day, we weren't even satisfied with the 85% and we were focusing on ways to increase the retention rate north of 85%.

A

Take the Avast business. They're around 65% retention rate. Yes, they have a slightly different business model, especially when you think about the free and the freemium component of their business. But largely speaking, you would think why? What significant differences in the business model would account for a 20 point differential in retention rate? And so, what we've challenged the teams to do is, okay, even if you assume 10 points of closing that gap, close the gap by 50%, it's more than half the revenue synergies that we're committing to.

So, again, I think – and then imagine just the list of things that we're going after when you think about cross-branding, when you think about when we just, right out of the gate, us moving from approximately 50 million users, not customers, but users. And now, we've got access to – at almost 0.5 million users. It just allows us so much more scale, so much opportunity to bring our collective portfolio to market and really use that cross-branding, use that combination of strong product and technology. We're going to innovate.

We're going to take the execution and operational excellence on the NLOK side, bring those two things together, and then again there's that underlying layer of strong customer service. So we feel pretty confident about the path to the revenue synergies. I think what you'll hear from us is that the retention rate's probably going to be the major horse to ride. But again, we have a long list of other opportunities that we're going after.

**Saket Kalia**

*Analyst, Barclays Capital, Inc.*

Q



Yeah, absolutely. And around that retention, I mean, I think that's where a lot of that operational rigor that NLOK kind of brings here and that really big user base that Avast brings, that's where I bet that gets fun. But maybe another, I would argue, lever in the revenue synergies is, I think, NLOK has done a great job with some pricing and packaging, particularly when selling broader Cyber Safety offerings like Norton 360, of which I'm a happy subscriber, by the way. But I guess maybe the question for you, Natalie, is how do you think about that opportunity for Avast subscribers or just, even generally, the opportunity to cross-sell things like identity monitoring?

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**Natalie M. Derse***Chief Financial Officer, Gen Digital Inc.*

A

Yeah. It's huge. First of all, I think when we think about, like we just said, almost 0.5 million users to go after. And I would say the Avast user, we're going to learn, I don't want to pretend that we all know all of the answers, but I do feel confident in the brands that we've got in the portfolio. I do believe even when you think about NortonLifeLock, but surely now moving forward with Gen. We have just a humongous opportunity to figure out the identity offering from a global basis. And I don't mean that – no matter which side the legacy companies that you come from, we just have a lot of innovation to go after.

The competition is fierce in all three of the pillars. Obviously, we talk mostly about security competition, right? When you think about just the security that Apple provides in and of themselves, but then Microsoft Defender being just something that we obviously need to understand. The competition in the identity pillar or the identity vertical is incredibly fierce as well because you don't necessarily just have LifeLock in the US.

You have competition popping up everywhere at all shapes and sizes. We've got start-ups. We've got insurance companies. We now have Airbnb offering a pre-vetted identity solution and service. And so, that competition is incredibly fierce. So it's going to be not just the go-to-market opportunity for us. It's an opportunity for us to really innovate and understand that much, much more wider, I would say, user cohorts that we now have access to as we move forward with Gen and really figure out what is the highest in demand and necessarily identity solution for that much larger set of consumers. I would say the same thing on privacy.

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**Saket Kalia***Analyst, Barclays Capital, Inc.*

Q

Sure. Sure. So a lot of talk about Avast...

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**Natalie M. Derse***Chief Financial Officer, Gen Digital Inc.*

A

Yes.

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**Saket Kalia***Analyst, Barclays Capital, Inc.*

Q

...and that's really what I'm very excited about. But I also want to maybe take a minute and just talk about Gen, sort of organic, right?

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**Natalie M. Derse***Chief Financial Officer, Gen Digital Inc.*

A

Sure.

**Saket Kalia***Analyst, Barclays Capital, Inc.*

Q

And one of the questions that I get and clearly macro is just the word of the conference, right, for all my sessions, but as we think about things like PC shipments, as we think about like things with the strength of the consumer, how do you sort of think about – I don't know if there's a way to do this, but how do you sort of think about user/subscriber count for organic NLOK in the context of some of those macro trends?

**Natalie M. Derse***Chief Financial Officer, Gen Digital Inc.*

A

Well, never a day in my life do I like a red number, but we are in the state of still declined quarter-over-quarter. And we're just trying to be very, very candid about that and face into it. I do think nobody in this room is a stranger to the macroeconomic headwinds. So I probably won't spend a ton of time talking about that.

**Saket Kalia***Analyst, Barclays Capital, Inc.*

Q

Of course.

**Natalie M. Derse***Chief Financial Officer, Gen Digital Inc.*

A

We try our very, very best to understand consumer behavior, and we try to be very proactive in being where the consumer demand is. And so we've seen significant shifts post-COVID, when folks are moving back to either take – their kids are back in school and no longer educating at home. They're back in the work office. We've seen that demand decline, and it is what it is. The PC shipments, I would still say, are, if you just rewind the clock a couple of years, the absolute shipments are still all-time highs. We're just looking at year-over-year comps.

**Saket Kalia***Analyst, Barclays Capital, Inc.*

Q

Sure.

**Natalie M. Derse***Chief Financial Officer, Gen Digital Inc.*

A

Now, with that said, we don't ignore it, but we aren't necessarily that tied to a PC shipment. I don't have any of these significant or material OEM deals. And so, we don't really have that volume per shipment business model that McAfee does. And so I look at the PC shipment market trends, but it's not a super clear or very, very connected indicator to our business.

And like we said at the very beginning, we're trying to move away from being device-centric and we're much, much more focused on the umbrella of Cyber Safety for the human, for the family, for the individual or what have you. And so we don't spend a ton of time looking at the PC shipment market trend because we just believe that we have created the capacity with such strong margin rates, with the ability to invest in marketing. We focus our energy on optimizing that, scaling that, creating even more dry powder to invest behind that. We try to make sure that our channel allocations are the right ones so that we, again, are reaping the benefits of the demand that's out there at the right time, in the right channels, and focusing on the value creation that we can bring in at the top of the funnel.

And then we focus on our installed base, and we make sure that we are trying our very best to be very efficient in all of the CSM or retention communications that we've got, that our pricing and our value is at the right balance competitively priced, and that the service that you get as any type of customer that is in our cohorts that you're feeling like you have the best customer service that we can provide.

**Saket Kalia**

*Analyst, Barclays Capital, Inc.*

Q

Yeah, absolutely. Well, I mean, to your point, just on a red number, whilst maybe subscribers have been red, bookings growth has not been red, right?

**Natalie M. Derse**

*Chief Financial Officer, Gen Digital Inc.*

A

Right.

**Saket Kalia**

*Analyst, Barclays Capital, Inc.*

Q

Exactly. And so, maybe as part of that and I think you touched on a couple of these, but maybe if you could just talk to us a little bit about how you think about ARPU as part of kind of the  $p \times v$  equation, if you will?

**Natalie M. Derse**

*Chief Financial Officer, Gen Digital Inc.*

A

Yeah, just, generally, and then we'll get into specific numbers.

**Saket Kalia**

*Analyst, Barclays Capital, Inc.*

Q

Sure.

**Natalie M. Derse**

*Chief Financial Officer, Gen Digital Inc.*

A

But from an ARPU perspective, we're largely, like we said, a subscription business. So, of course, our ARPU, as we bring more and more and more people and consumers at the top of the funnel at that introductory price point in year one, we get the step-up in year two. That's a huge component of our business.

The second thing that has been a major, major contributor to our continuously growing ARPU. Again, you got to look at our ARPU if you strip out the currency impact. We've been growing ARPU ever since I joined the company. And so, it's been almost three years in terms of consistent ARPU growth. And it's really again focusing on the cohorts, the retention rates, but the cross-sell/upsell. We launched an on-purpose effort, on-purpose plan to really identify in addition to the membership platform services that we offer, stand-alone services, so that when we have moments of truth – we call them moments of truth.

Whether you're a security customer and you're in a high-risk scenario or a physical location and you need additional services, we've got telemetry data that can prompt you right there in the moment of truth where – and you can upgrade or take our service that way. We've got – privacy monitoring is a big, big cross-sell/upsell, no matter which way you look at it.

And so, in addition to our membership services, we're able to offer you stand-alone products to really figure out the right privacy monitoring solution for you. And that doesn't even really touch on the collection of products and services that we now have available for cross-sell/upsell with Avast. And so, that's been, honestly, a significant see from space contributor to our ARPU growth already, and we're just super excited to just branch that out and scale that now with a much, much larger user base.

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**Natalie M. Derse***Chief Financial Officer, Gen Digital Inc.*

A

Yeah. Yeah. Absolutely. We've just got a few minutes left here, but before I move on to my last couple of questions, any questions here from the audience? Maybe, Natalie, then staying on this topic, right, I actually think one of the things that I feel like I've been hearing a little bit more about has been this growing investment and focus on the partner channel.

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**Natalie M. Derse***Chief Financial Officer, Gen Digital Inc.*

A

Okay.

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**Natalie M. Derse***Chief Financial Officer, Gen Digital Inc.*

A

Right, which has been growing a lot faster than the direct business, for what it's worth. Can you just maybe talk about the developments that we've made in that channel? And kind of what's the company's long-term ambition here in the partner channel, if you will?

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**Natalie M. Derse***Chief Financial Officer, Gen Digital Inc.*

A

Yeah. Sure. We love the partner channel. It expands our reach exponentially. Just some numbers to start off with, even when we stood up NortonLifeLock, the partner channel was about 10% of our share of our revenue. It's now 13%. So that just points to, it is outpacing in terms of growth, our direct channel. We have enormous opportunity. We have very – it offers a much more diversified go-to-market opportunity reach.

A couple that we would call out – that we consistently call out, I love the employee benefits channel. We get LifeLock, very high ARPU, highly retaining LifeLock customers through the employee benefits channel. And you can imagine that is – those are going – that channel is going to mostly reach mostly corporate America employees or corporate employees in general. Hopefully, we scale beyond the US eventually through that channel, but largely, it's US and Canada and it's offered in your annual enrollment benefits that your employee provides, either you – or usually the employees paying it for you or you're paying a reduced fee. And so you can imagine that we have incredibly high retention rates with that channel and obviously just a huge, huge reach.

And then, from a telco perspective, that's another way a lot of our customers choose to shop and choose to engage with us, is the bundled with your mobile phone. And so, when you think about those portfolio memberships, so to speak, when you take out a new mobile device or you renew your phone, we are able to reach the consumers that way as well. Those are just two of the key ones that I would call out.

The third one that I think is going to become even more dominant for us, as we combine with Avast and move forward with Gen, is our retail channels. And so, when you think about the European consumer model being a good mix of online and brick-and-mortar and us having a very large sales force in those regions to really lock in some of those key critical deals and some of those big box retailer stores, brick-and-mortar stores, it's just going

to allow us not only reach and scale, but just incredible opportunity for us to have the consumers understand the products and services that we are offering and the membership services...

**Saket Kalia**

*Analyst, Barclays Capital, Inc.*

Brand recognition there, yeah.

Q

**Natalie M. Derse**

*Chief Financial Officer, Gen Digital Inc.*

...and again that brand umbrella.

A

**Saket Kalia**

*Analyst, Barclays Capital, Inc.*

Totally, totally.

Q

**Natalie M. Derse**

*Chief Financial Officer, Gen Digital Inc.*

Yeah.

A

**Saket Kalia**

*Analyst, Barclays Capital, Inc.*

So many more questions here for Natalie, but maybe the one area I want to wrap up with here is capital return, which I think is such an important part of the story here. When we talked about the \$8 billion in debt that we raised, we talked about some of the shares that we used to finance the Avast deal.

Q

And so, I think one of the key things that the folks that I've talked to have been wondering a little bit is how you sort of plan on managing the dilution from both of these, right? So maybe the question for you is, how do we think about sort of balancing share buybacks, de-levering? And, of course, you've got a nice dividend as well, as sort of the three levers for capital return in this model.

**Natalie M. Derse**

*Chief Financial Officer, Gen Digital Inc.*

Yeah, sure. It's a significant component of our financial structure, for sure. I mean – and it's just been, I would say, one of probably the biggest change that we've seen. We've moved from 75% fixed to 75% floating and at a pretty high cost of debt. I mean, it's around \$600 million of additional cost for us in our business model on an annualized basis.

A

So it's definitely something we've got to face into, but like I talked to you about from an EPS perspective, there are about 50/50, either the incremental cost of debt or the vast dilution that I got from issuing the shares at the close of the deal. They're about the same impact.

And so it is truly, truly trying to strike the right balance in our capital allocation. We, for now, have said we're going to stick with the dividend. So we've reconfirmed our dividend. And so the other components of the capital allocation will be to strike that right balance across opportunistic share buyback and accelerated debt pay-down. We do have a component of mandatory debt pay-down, but we absolutely are not ignoring that cost of debt.

What that balance is at the right time, look, I think it's, my personal opinion, I think we're still significantly undervalued. I also, at the time of the deal, our net debt was slightly under 4 times. I don't get uncomfortable at that level. We've, of course, looked at our business model in the very, very bear case scenario to make sure that, either from a covenant perspective or if we were to in the bear case scenario to see significant deceleration or decline in our growth rates, what it would mean.

And so we're super clear-eyed. We're super proactive, understanding all of those different components. It's a very active conversation. I talk to the Treasury team literally every single day about this, and at the end of the day, the net takeaway is going to be it's going to be a balance. It's going to be a balance across both because they're critically important and the size and magnitude are about the same.

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**Saket Kalia***Analyst, Barclays Capital, Inc.*

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It's a win-win really, right?

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**Saket Kalia***Analyst, Barclays Capital, Inc.*

Well, unfortunately, that's about all the time that we've got. Natalie, Mary, thank you so much for the time.

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**Natalie M. Derse***Chief Financial Officer, Gen Digital Inc.*

Yeah. Thank you.

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**Saket Kalia***Analyst, Barclays Capital, Inc.*

Lot to talk about. Yeah.

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**Natalie M. Derse***Chief Financial Officer, Gen Digital Inc.*

Thank you for joining. Yeah.

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