

## SYMANTEC CORPORATION 2Q13 RESULTS – PREPARED REMARKS

### **Introduction – Helyn Corcos, Vice President Investor Relations**

Good afternoon and thank you for joining our call to discuss our second quarter results for fiscal 2013. With me today are Steve Bennett, Symantec's Chairman, President and CEO and James Beer, Symantec's Executive Vice President and CFO.

In a moment, I will turn the call over to Steve. He will make a few opening remarks then James will provide quarterly highlights and review our financial results as well as discuss our guidance and assumptions. This will be followed by a question and answer session.

Today's call is being recorded and will be available for replay on Symantec's investor relations website. A copy of today's press release and supplemental financial information are posted on our website. Today's prepared remarks will be posted on the IR site after the call is completed.

Before we begin, I'd like to remind you that we provide year over year constant currency growth rates in our prepared remarks unless otherwise stated. Earnings per share growth rates are provided on an as reported basis. We use our foreign currency "rules of thumb" in our guidance section for all constant currency year over year growth rates. For the September 2012 quarter, the actual weighted average exchange rate was \$1.25 per Euro, and the end of period rate was \$1.29 per Euro compared to our guided rate of \$1.23 per Euro. These compare to the September 2011 quarter where the actual weighted average rate was \$1.41 per Euro, and the end of period rate was \$1.34 per Euro. We've included a summary actual and currency adjusted growth rates in our press release tables and in our supplemental information which are available on the IR website.

Some of the information discussed on this call, including our projections regarding revenue, operating results, deferred revenue, amortization of acquisition related intangibles and stock-based compensation, for the coming quarter contain forward looking statements. These statements involve risks and uncertainties that may cause actual results to differ materially from those set forth in the statements. Additional information concerning these risks and uncertainties can be found in the company's most recent periodic reports filed with the U.S. Securities and Exchange Commission. Symantec assumes no obligation to update any forward-looking statements.

In addition to reporting financial results in accordance with generally accepted accounting principles, or GAAP, Symantec reports non-GAAP financial results. Investors are encouraged to review the reconciliation of these non-GAAP financial measures to the most directly comparable GAAP results, which can be found in the press release and on the IR website.

And now, I'll turn it over to our CEO, Mr. Steve Bennett.

### **Steve Bennett, Chairman, President and CEO**

Thank you Helyn and good afternoon everyone.

When a company announces an unplanned CEO change you never know what to expect because of all the uncertainty that's created. Thanks to the focus and dedication of all Symantec employees, I'm pleased to report that the team stepped up during the transition. While working on our plan to change and improve the company for our customers, employees, partners and shareholders, we executed well in the second quarter delivering better than expected financial results.

While the team focused on delivering in the current quarter, we are also working on creating value over a longer time horizon. Starting with a clean sheet of paper, the team is hard at work developing a strategy and operational plan that will help us deliver more value for our customers and partners so we win in the market and improve our financial performance.

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Our goal is to deliver a strategy and plan that will consistently deliver greater than 5% organic growth and 30% operating margins within the next 2-3 years. At this point, we believe we will reach sustained greater than 30% operating margins faster than 5% sustained organic growth. This plan will be one that both the leadership team and the Board believe we can deliver against in the short and long term. In the meantime, we also continue to evaluate all of our strategic alternatives to create shareholder value and believe we are on track to share our new strategic direction and operational plan in late January of 2013.

We are moving to change quickly so we can continue to improve our performance on a global basis. With more than 50% of our revenue coming from outside the US, we can no longer operate like a US-based company with global distribution. And as you can see from recent history our growth rates are higher outside the US.

Our head of worldwide sales will be leaving the company. To better position us to win globally, we've decided to elevate the GEO leadership roles and have them report directly to me. This move expands the scope of our regional leaders, making them ambassadors and general managers of their geographies. While a primary focus will be on sales in their geographies, they will also play an expanded Symantec leadership role. We believe this will allow us to accelerate our pace of change and make better and faster decisions so we perform at a higher level on both a global and local basis.

I'd like to spend a moment on our guidance for the December quarter. We're pleased that revenue and deferred revenue continue to grow year over year and sequentially especially in this uncertain global economic environment. However, operating margin is lower in the December quarter than either the September or year ago December quarters. This may seem counter to what I told you in September that we would self fund investments without reducing operating margin. And, that's still my commitment.

After our January announcement, we will self fund this and future investments without reducing operating margin. But we need to make these investments now and not wait until after the January announcement to set the foundation for longer term organic growth. The investments will be allocated to areas like technical support so we better serve our customers and partners. This is the right thing to do to create long term shareholder value no matter where we come out on our strategy and operational plan announcement in late January.

Over the past 90 days, I've met with front line employees, customers and partners, industry experts and shareholders all around the world. Our customers are saying what you probably already know: they want us and need us to become better and to win, but think that we're getting in our own way. We must become more customer and partner solutions focused, rather than product specific. We must move faster to solve their future vs. past problems. And we must become easier to do business with and less fragmented as a company to become a better and stronger partner.

I've been positively surprised by the amount of unmet and underserved needs customers have in this challenging and fast moving security and information management market. And while I still have a lot to learn, I can say with confidence that there are plenty of big opportunities for Symantec. To take advantage of these opportunities we need to think and act differently both strategically and operationally in ways that leverage all of our significant assets to better solve our customer's most important problems. And that's what the January announcement will be all about.

And with that, I'll turn the call over to James for a detailed review of our quarterly results.

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### James Beer, EVP & CFO

Thank you Steve and good afternoon.

We posted better than expected second quarter results with record September revenue and deferred revenue, as well as strong operating margins and EPS. These results drove our organic, constant currency revenue growth to 3% for the September quarter year over year.

GAAP revenue grew 5% to \$1.7 billion driven by strength in our security and information management businesses. Our hosted archiving acquisition of LiveOffice contributed \$10 million in revenue, which was better than expected.

Our subscription business continues to grow. In constant currency, content, maintenance and subscription revenue grew 7% while license revenue declined 9%. Subscription revenue, which includes our consumer, authentication, MSS and SaaS offerings, grew 10% and accounted for 45% of total revenue as compared to 42% of revenue in the year ago period. Enterprise subscriptions, which exclude our consumer offerings, grew 24% and accounted for 14% of total revenue as compared to 12% of revenue in the year ago period.

We recorded a strong quarter in our consumer business despite the challenges we've seen across the PC industry. The Consumer business grew 3% year over year to \$528 million and generated its 16th consecutive quarter of growth. These results were driven by up-selling customers to our premium suites at improved pricing, and growing our emerging backup, NortonLive services and mobile businesses. Our Consumer business is ready for the release of Windows 8. In third party testing, Windows 8 ran 50% faster and 20% safer when paired with our new Norton solutions, versus machines running the Windows Defender alternative. PCs with pre-installed Norton trialware will begin shipping with the Windows 8 launch on October 26th.

Moving on to the enterprise:

The Storage and Server Management segment which consists of our information management and storage and availability management businesses grew 2% and generated revenue of \$595 million.

Revenue from the information management business increased 2% year over year driven by NetBackup and appliances, but offset by weakness in our Backup Exec product. Sales of our backup appliances continued their momentum as we expanded our footprint across more geographies. Customers continue to be attracted to our integrated backup and deduplication offering, which is proving to be an easier to deploy solution with a lower total cost of ownership. We are also seeing good traction building for our Backup Exec appliance which was just launched last quarter.

We continue to work through our Backup Exec software challenges. We are focusing on restoring some of the functions and performance characteristics that were available with the older versions of the product. We are making progress, but there is more work to do.

Revenue in our storage and availability management business increased 1% year over year as we see customers continuing to deploy more mission critical applications on Linux and virtualized infrastructures. Headwinds from the decline in our customers' usage of the Solaris platform are being offset by increased penetration in both the Linux and Windows platforms. This business continues to be highly profitable, generating strong cash flow for the company.

The Security and Compliance segment grew 9% year over year and generated revenue of \$512 million driven by double digit growth in all of our emerging security businesses and our continued

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leadership in endpoint protection. In particular, SEP 12 continued its success in the large enterprise segment. This was particularly true in the EMEA region where we won several competitive tenders with large governments and corporations.

Data loss prevention was one of our security businesses that recorded double digit growth. EMEA and APJ, both geographies that have traditionally been slower to adopt DLP, are now seeing an uptick in demand for our solution, as demonstrated by several large financial services wins.

Our trust services business continues to perform well, in part, because SSL authentication is now being used to protect all interactions with many corporate websites, not just those web pages involving monetary transactions.

Our Services business grew 7% year over year to \$64 million in revenue.

Turning now to total company margins. Consistent with the growth we are experiencing in our subscription and appliance businesses, non-GAAP gross margin declined 80 basis points to 84.6%. Given the higher cost of goods sold associated with these businesses, we expect this gross margin trend to continue going forward.

Non-GAAP operating margin grew 250 basis points year over year to 27.5 %. Operating margins were better than expected due to higher revenue and lower spending across the company.

Net income of \$322 million resulted in fully diluted non-GAAP earnings per share of 45¢. Improved operating leverage from better than projected revenue positively impacted EPS by approximately 4¢. Lower than forecasted PC OEM fees accounted for 1 penny per share of improvement. And, tighter spending across the company accounted for approximately 2¢ of benefit to EPS.

Continued growth in our subscriptions and maintenance businesses drove deferred revenue growth of 5% year over year to total \$3.62 billion.

We exited the September quarter with \$4 billion in cash, cash equivalents and short-term investments driven in part by the proceeds we received from our \$1 billion senior note offering on June 14th. As we exited the September quarter, approximately 42% of our cash balance resided in the U.S., which includes the \$1 billion in net proceeds from the June debt offering that will be used to retire our \$1 billion convertible notes maturing in June of 2013. Excluding this \$1 billion, approximately 23% of our cash balance resides in the U.S.

We continued repurchasing our shares during the quarter, spending \$200 million of our domestic cash to repurchase 12.1 million shares at an average price of \$16.48. Symantec has \$483 million remaining in the current board authorized stock repurchase plan.

Cash flow from operating activities was lower year over year driven by higher tax and severance payments, as well as lower previous quarter billings which in turn impacted September quarter cash collections. Foreign currency movements also negatively impacted operating cash flow by \$18 million year over year. Cash flow from operating activities for the September quarter totaled \$178 million.

### GUIDANCE:

Now, I'd like to spend a few minutes discussing our guidance for the December 2012 quarter.

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We expect GAAP revenue for the December 2012 quarter to be in the range of \$1.72 to \$1.75 billion, flat to up 2% on an as reported basis, and up 1% to 3% in constant currency. Approximately 73% or \$1.27 billion of our December quarter revenue is estimated to come from the balance sheet.

GAAP earnings per share are estimated to be between 17¢ and 19¢ as compared to 32¢ in the year ago period. Non-GAAP earnings per share are estimated to be between 36¢ and 38¢ as compared to 42¢ in the year ago period. EPS is projected to be lower due to our decision to spend more in the coming quarter in areas that will better serve our customers' needs. In addition, on a year-over-year basis, our interest expense is higher by approximately 1¢ due to our recent debt offering, and we're expecting another 2¢ impact driven by a higher tax rate, foreign exchange movements, and the liquidation of certain accounting entities as we work to further simplify our operating structure.

GAAP deferred revenue is estimated to be between \$3.765 and \$3.825 billion, up 3% to 4% on both an as reported and constant currency basis.

Our guidance assumes an exchange rate of \$1.30 per Euro versus the weighted average rate of \$1.35 and the end of period rate of \$1.30 per Euro in the December 2011 quarter. Our \$1.30 per Euro assumption reflects a decrease of 4% from our weighted average rate in the year ago period. Our guidance assumes an effective tax rate of 28.5% and a common stock equivalents total for the quarter of approximately 700 million shares.

And now, I'll turn it over to Helyn so that we can start taking some of your questions.

### **Helyn Corcos, Vice President Investor Relations**

Thanks. Operator will you please begin polling for questions.

While the operator is polling for questions, I'd like to update you on our upcoming conference events. We will be presenting at the NASDAQ Investor Program on December 5th in London. Lastly, we will be reporting our fiscal second quarter results on January 23rd 2013. For a complete list of all of our investor related events, please visit the events section of the IR website.

Operator, we are ready for the first question