

## **Symantec 3Q FY2009 Earnings Call Prepared Remarks**

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

Good afternoon, and thank you for joining our fiscal third quarter 2009 earnings conference call. With me today are John Thompson, Chairman of the Board and Chief Executive Officer of Symantec, Enrique Salem, Chief Operating Officer and James Beer, Executive Vice President and Chief Financial Officer.

In a moment, I will turn the call over to John. He will provide high level comments on the company, James will review the financials and our guidance as outlined in the press release, and Enrique will wrap it up with quarterly highlights. 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 home page at [www.symantec.com/invest](http://www.symantec.com/invest). A copy of today's press release and supplemental financial information are available on our website and a copy of today's prepared comments will be available on the investor relations website shortly after the call is completed.

Before we begin, I would like to remind everyone that some of the information discussed on this call, including our projections regarding revenue, operating results, deferred revenue, cash flow from operations, 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 our web site.

And now, I would like to introduce our CEO, Mr. John Thompson.

### **John W. Thompson – Chairman and Chief Executive Officer**

Thank you Helyn and good afternoon everyone.

I am pleased to report stronger than expected December quarter results against the backdrop of a challenging global economy. More importantly, I am quite pleased that our financials are reflecting our team's commitment to improving our execution. Solid sales activity, coupled with our on-going focus on managing our cost structure, drove the over-performance for the quarter.

We were able to deliver revenue above our forecast despite our customers' continued scrutiny of their IT budgets. Customers tell us that they will allocate funds in the areas of storage optimization, data loss prevention, and enterprise security. Furthermore, their attention has turned to initiatives that will drive immediate cost saving rather than longer term investment programs. I'm pleased that our sales force has been able to successfully illustrate the positive impact our solutions can have on our customers' operating cost.

Our enterprise business benefits from a large recurring revenue base, particularly in the storage segment where more than half of our revenue comes from maintenance contracts.

In our consumer segment, we were able to leverage our strong existing customer base to continue the migration to Norton 360. In addition, our recent acquisitions of PC Tools and SwapDrive are important elements of our strategy to expand into emerging geographic markets and the online backup segment.

Our higher than expected non-GAAP earnings this quarter are a result of our very effective cost management programs. The combination of top line growth, our cost and expense management programs, and our on-going share repurchases has enabled us to achieve seven consecutive quarters of double digit earnings growth.

Looking forward to our March quarter, the final quarter of our fiscal year, we expect the market environment to remain challenging. However, we are confident in the competitiveness of our products and services and the determination of our team. We will maintain our focus on execution, striking the right balance between achieving efficiency and sustaining strong business performance, without compromising our ability to serve the needs of our customers.

In an environment where revenue growth may be the greatest uncertainty, our goal is to grow our earnings and to emerge from this economic downturn a stronger company positioned for even greater success during the next economic growth cycle.

With that, I'll turn the call over to James to provide the financial details for the quarter.

### **James Beer – Chief Financial Officer**

Thank you John and good afternoon everyone.

I'm pleased that our company-wide focus on execution drove over performance in each of our key financial metrics during the December quarter. In particular, our ongoing focus on managing costs has resulted in significant operating margin expansion and earnings growth.

I'll start by reviewing the financial details of the December 2008 quarter.

GAAP revenue was \$1.51 billion. Non-GAAP revenue grew 1% over the December 2007 period to \$1.54 billion driven by growth in our consumer, storage, data loss prevention and services businesses.

Foreign currency movements negatively impacted non-GAAP revenue by approximately 4 percentage points year over year. Had the quarter's exchange rate equaled our guided value of \$1.25 per Euro rather than the actual weighted average rate of \$1.32 per Euro, our non-GAAP revenue would have totaled \$1.505 billion, still above the top end of our guided range.

The December quarter's fully diluted GAAP loss per share, is due to a non-cash goodwill impairment charge of approximately \$7 billion. During the December quarter, given the current economic environment and the resulting decline in our market capitalization, we concluded that there were sufficient indicators to require us to perform an interim goodwill impairment analysis. We have not completed this analysis but have concluded that an impairment loss can be reasonably estimated. We expect to finalize our goodwill impairment analysis during the fourth quarter of fiscal 2009 and may make an adjustment to this charge when the goodwill impairment test is completed.

Non-GAAP fully diluted earnings per share for the quarter were 42¢, up 27% year over year. Compared to the high end of our guidance we over-performed by nine cents. Two of the nine cents were driven by one-time tax and hedging gains while a further half cent improvement was as a result of a lower share count than previously expected. The majority of the remaining 6.5 cent over-performance was driven by expense management.

The US region grew non-GAAP revenue by 7% to total \$767 million, equivalent to 50% of total non-GAAP revenue. International non-GAAP revenue of \$771 million declined by 5% versus the year ago period. Foreign currency movements negatively impacted international non-GAAP revenue by approximately 7 percentage points year over year.

Moving on to our non-GAAP revenue by segment. The consumer business generated revenue of \$448 million, equivalent to 29% of total revenue, and grew 2% year over year.

In the enterprise arena, the Storage and Server Management segment generated revenue of \$569 million, up 1% year over year, and represented 37% of total revenue.

Our Security and Compliance segment generated revenue of \$396 million, down 5% versus the year ago period. This segment accounted for 26% of total revenue.

Our Services segment generated revenue of \$125 million, up 20% year over year, representing 8% of total revenue. Our continued focus on improving the cost efficiency of our services operations continues to result in significant contribution margin improvements year over year.

Non-GAAP gross margin increased 40 basis points to 86.6% for the December 2008 quarter as compared to 86.2% for the year ago period.

Our continued focus on cost management as well as our over-performance on the top line increased non-GAAP operating margins during the December 2008 quarter to 32%, up 480 basis

points year over year. This is the fifth consecutive quarter in which operating margins have increased versus the prior year.

The GAAP net loss for the December 2008 quarter was \$6.8 billion due to the non-cash goodwill impairment charge. Non-GAAP net income was \$350 million, up 20% year over year.

We exited December with a cash and short-term investments balance of \$1.5 billion.

During the December quarter, we repurchased \$200 million or 16.1 million shares at an average price of \$12.45. \$400 million remains in the board authorized share repurchase plan. We also spent \$239 million on the purchase of PC Tools and \$619 million on the MessageLabs acquisition during the quarter – for a total of \$858 million.

Our net accounts receivable balance at the end of the December 2008 quarter was \$927 million. Days-sales-outstanding, or DSO, was 55 days, in line with normal seasonal trends.

Cash flow from operating activities for the December quarter totaled \$402 million as compared to \$462 million in the December 2007 quarter.

GAAP deferred revenue at the end of the December 2008 quarter was \$2.92 billion. Non-GAAP deferred revenue grew 2% year over year to \$2.96 billion. Foreign currency movements negatively impacted non-GAAP deferred revenue by 2 percentage points year over year. Had the end of period exchange rate equaled our \$1.25 per Euro guided rate versus the actual rate of \$1.39 per Euro, deferred revenue would have totaled \$2.86 billion - again, above the top end of our guided range.

Now, I'd like to spend a few minutes discussing our expectations for the March quarter.

We are assuming an exchange rate of \$1.32 per Euro for the March 2009 quarter versus the \$1.50 per Euro we experienced during the March 2008 quarter. Given the rapidly moving exchange rate environment, I'd like to remind everyone to continue to apply the "rules of thumb" that we provided last quarter as a guide to the impact of currency movements on our financial metrics. Our guidance also assumes a common stock equivalents total for the quarter of approximately 830 million shares.

For the March 2009 quarter, we expect GAAP revenue to be in the range of \$1.475 to \$1.525 billion. Non-GAAP revenue is estimated to be in the range of \$1.49 to \$1.54 billion. In constant currency terms, the midpoint of this range would equate to \$1.60 billion as compared to the \$1.548 billion we generated in the March 2008 quarter.

GAAP earnings per share are forecasted to be in the range of between 12¢ and 14¢. Non-GAAP earnings per share are estimated to be in the range of between 33¢ and 35¢. In constant currency terms, the midpoint of this range would equate to 35¢ as compared to the 36¢ result in the year ago period. The March quarter guidance includes a full quarter's impact of MessageLabs for the first time and is consistent with the comments we made in October regarding the dilutive impact of this transaction for the remainder of this fiscal year.

At the end of the March quarter, we expect GAAP deferred revenue to be between \$2.972 and \$3.072 billion. We expect non-GAAP deferred revenue to be between \$3.0 and \$3.1 billion. The exchange rate at the end of the March 2008 quarter was \$1.58 per Euro. In constant currency terms, the midpoint of this range would equate to \$3.23 billion as compared to \$3.09 billion at the end of March 2008.

We expect about 61% or approximately \$930 million of our March quarter revenue to come from the balance sheet. This percentage once again illustrates the degree of predictability that we have built into our income statement during the last few years.

Lastly, I would like to remind everyone, that the upcoming June 2009 quarter will be comprised of 13 weeks versus the June 2008 quarter which included an extra 14<sup>th</sup> week. Let me briefly review the impact of the extra week on our financials this past year. Our June 2008 quarter revenue included approximately \$75 million, and earnings per share included approximately 3¢, of one-time benefit generated from the extra week. Deferred revenue was negatively impacted by approximately \$5 million as a result of the extra week. The June 2008 quarter also benefited from significant currency tailwinds. We expect normal seasonality for the June 2009 quarter which typically includes sequential declines in revenue, earnings per share and deferred revenue from the March quarter. We encourage analysts to consider these factors when modeling the upcoming June quarter.

In closing, I believe we are well positioned to deal with the current macroeconomic environment. We will stay focused on our costs and earnings, but will also capitalize on opportunities to boost our long term competitiveness and top line growth rate.

And now, I'll turn the call over to Enrique, who will provide more detail on the December quarter highlights.

### **Enrique Salem – Chief Operating Officer**

Thanks James, and good afternoon everyone.

I am pleased with the execution of both our sales and our product teams during the quarter. While the environment continues to be challenging, we believe the mission-critical nature of our products combined with the compelling ROIs delivered by many of our solutions position us well in this environment. We are continuing to drive many new license sales and our customers are renewing at a high rate across both our storage and security businesses.

Now I'd like to highlight a few key items of our fiscal third quarter.

Starting with our data center business, a key factor driving our Storage and Server Management results over the past four quarters has been our ability to enable clients to quickly reduce IT

spending, particularly storage spending. In this economic climate, customers are looking for solutions that can deliver cost savings within an operating budget cycle. As such, we initiated a new selling campaign built around the theme of “Stop Buying Storage.” Customers using our solutions can reduce storage costs by better utilizing existing storage and by buying lower cost storage.

Our data center backup and de-duplication products posted strong year-over-year revenue growth. The transition of NetBackup to a platform based architecture has enabled our customers to take advantage of best-of-the-breed features such as disk based backup, virtualization, continuous data protection and de-duplication.

In the small-medium business segment, our strategic partnership with Dell in the backup area is off to a good start. The Dell based disk-arrays that are pre-installed with Backup Exec 12.5 is out-selling a similar appliance shipping with our competitor’s technology by 3 to 1.

Next, Vontu just celebrated its one year anniversary at Symantec. I am pleased with how well this integration has gone. The DLP team has been very successful in leveraging the broader Symantec direct sales force and channel presence, and has expanded the business globally. The team also made significant progress in integrating the DLP product with the broader Symantec portfolio. DLP 9.0 is now fully integrated with our endpoint management solution leveraging Symantec’s Open Collaborative Architecture.

The revenue from our DLP business continues to show strong growth. We signed deals with some of the largest global enterprises spanning many different industry verticals. For example, our complete Symantec Data Loss Prevention suite was licensed by Continental Airlines to protect credit card numbers, personally identifiable information, and other sensitive content. The airline chose to implement our DLP solution to ensure compliance with various state data privacy laws and to help maintain PCI compliance. The customer selected our DLP solution for its best-in-class features and for its mature reporting and workflow capabilities. In addition, Continental also decided to standardize on Symantec Endpoint Protection and Symantec Endpoint Encryption for mobile devices.

Symantec Endpoint Protection garnered several competitive wins in the large enterprise segment. The performance improvements made in the recent maintenance releases have been well received by both our customers and partners.

Now, I’d like to take a few minutes to talk about our market leading consumer business which clearly generates the most profits in the consumer security market.

Our stellar 2009 products and associated accolades are allowing us to replace the competition and increase our presence in both retail and electronic channels. We continue to aggressively pursue OEM relationships for customers who benefit from the ever increasing value of our premium security software. Symantec signed, extended or renewed more than 20 new consumer agreements in the December quarter.

The netbook market is an exciting new opportunity for us. We are working with a number of providers in this fast growing market, including Asus, the #1 vendor in ultra-low cost PCs. We recently signed a multi-year deal to ship a 60-day trial of NIS on Asus laptops and desktops

worldwide. In addition, we signed new contracts with United Online and Fujitsu. We also won a deal with a leading PC OEM to ship NIS on their gaming platform. And, we are pursuing other new OEM opportunities particularly with our online backup offering.

In the emerging markets, we are expanding our portfolio to derive growth from new markets by leveraging our recently acquired PC Tools brand and its online go-to-market channel. PC Tools just completed its first full quarter as part of our Company and we are pleased with their ability to reach new customers. PC Tools allows us to seed emerging markets and new consumer segments with less expensive point products while protecting our premium Norton brand.

We are also now shipping Norton Internet Security for the Mac. Even Mac owners are susceptible to online threats, and when it comes to phishing, it doesn't matter what platform you're using. NIS for Mac helps safeguard users from phishing threats, malware and hackers, without compromising system performance.

As we look ahead, we are excited about the upcoming product cycles in both our enterprise and consumer segments. In the enterprise segment, we are shipping new versions of Enterprise Vault and Control Compliance Suite. Later this quarter, we expect to ship the next version of our Altiris management products.

In consumer, we have several exciting new product launches which will benefit our existing user base as well as attract new customers. The new release of our industry-leading all-in-one security suite, Norton 360, will include all the performance and security enhancements of the award-winning 2009 products.

We will also be introducing the web-based Norton Online Backup in February. Driven by our acquisition of SwapDrive last June, we are providing online backup to consumers. We have 6.5 times more customers than our nearest competitor. Today we host 26 petabytes of data, and with 2.5 million backups per day we are the clear leader in the online backup market. Our online backup offering is particularly valuable for netbook users who want to access their data from multiple devices and who tend to have limited local storage for high volumes of photos, music and videos.

Going forward, I have established 3 key product focus areas for our team. First is enterprise security, given the importance our customers place in protecting their critical information. Second, we will solidify our leadership in the transition to Next Generation Data Protection, including disk based backup, virtualization support, continuous data protection and de-duplication. And finally, we will scale our software-as-a-service business to include archiving, DLP, backup, and many other services.

In closing, we have a broad set of products and services that customers continue to value and we are very excited about our new product pipeline. We will continue to focus on execution, invest in growth opportunities, and drive earnings growth in order to emerge from this economic downturn as a stronger company.

And with that, I'll turn the call back to Helyn so that we can take some of your questions.