

FINAL TRANSCRIPT

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SYMC - Symantec at UBS Global Technology & Services Conference

Event Date/Time: Nov. 19. 2008 / 8:30AM ET

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Heather Bellini
UBS - Analyst

PRESENTATION

Heather Bellini - *UBS - Analyst*

Good morning, everybody. We are ready to get started. Thank you for attending Day 2 of the UBS Technology Conference. We are very pleased to have Symantec kick off today's session and also very pleased to introduce for the first time Enrique Salem, who is currently COO but soon to be CEO of Symantec. So Enrique, congratulations. We are all very happy to have you.

Enrique Salem - *Symantec - COO*

Thank you, Heather. We were just chatting up here about the things we are going to do to fix the economy. I think we've got it figured out.

Heather Bellini - *UBS - Analyst*

Yes, exactly. So I guess the first thing -- just given that it's probably on a lot of people's minds. There was an announcement last night from Microsoft about getting rid of OneCare and offering a free service. Can you give us your prospective on that announcement?

Enrique Salem - *Symantec - COO*

Sure. Just so everybody is clear on the announcement, what Microsoft announced is that in about six months time, in the June time frame, they will release a version of OneCare online, and they are going to withdraw from the retailing space. So they have been shipping the product in the retail space, and they have decided to pull out. Quite frankly, that's an indication of the lack of success that they've had.

When you look at what consumers are looking for is, you got to have a security solution that is going to protect you. And while there have been some free solutions out there for a number of years, they haven't gotten a significant amount of traction because consumers are looking for complete protection. They're going to give you a reduced version that has some of the protection but not all of the protection that you're going to want to have when you go online.

The second point is, one of the biggest things that consumers have been telling us for a very long time has been it's got to be performing. Many of you run security products on your PCs, and it probably slows them down. One of the biggest things that we've done in the new release is make it the fastest security product on the market. And OneCare has notoriously been a bit slow.

So consumers aren't going to be interested in not having complete protection and not having a performing product. So we feel very comparable with where we are right now in the marketplace. While this will cause some noise, as typically does, I don't think this will have any kind of impact on the overall growth rate in the consumer business.

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Heather Bellini - UBS - Analyst

So to follow that, just thinking about netbooks, ultra-mobile -- however you want to describe the form factor -- low-priced products. Security software -- if you could say -- if you are spending \$70 a year, in three years you've spent almost the cost of the form factor. Have you thought about what type of SKU the purchaser of a netbook might buy in the market? And is this something where maybe Microsoft is going after that flavor?

Enrique Salem - Symantec - COO

I think what you end up seeing is, there's been a -- for a long time now, the price of the underlying PC has been coming down. Right? That's what we've been seeing. But quite frankly, the price of security has not. Right? So if you look at when we first launched Norton Internet Security, it was launched at a \$69 price point. It's still roughly at that same range. And then we introduced a higher price point SKU in Norton 360 that's selling at \$79.

And while the price of the form factor has come down, you are buying something to protect your data. You are buying something to protect you when you go online. And so the value of that is much higher than potentially the underlying value of the form factor, because if you get your identity stolen, that's a bad day. If you get your data stolen or it's destroyed, that's also bad.

If you just think about us, I've got two kids. I have not taken a single non-digital picture of those two kids. Where do those pictures live? They live on a hard drive. And so if you think about it, if that gets wiped out, we're not going to be able to recreate it. So the value is not in the tool you use to connect to the Internet. It is actually in what you have on that computer or what you are doing online. So that's why I'm not as concerned about the price of the underlying form factor.

Now, the other thing that's interesting is, what we're thinking about is, what are the new things that consumers are going to want to do on those form factors? They are going to browse the Internet. Parents are going to buy them for their kids. And so what we are doing is we are looking at new technologies that parents can put on there to monitor what their kids are doing online. And if you think about it, what are kids going to do? They are going to go to Facebook. They're going to go to MySpace. They're going to do all kinds of things that their parents are going to want to have a little bit of control on.

So what we are always looking at is, what's the net new functionality we need to deliver as you potentially bring in more kids to use the Internet or other types of users? And so it's not just about what we have done, it's about some of the new things that we will be offering.

Heather Bellini - UBS - Analyst

Is there an opportunity as this form factor takes off for online backup to be a bigger piece?

Enrique Salem - Symantec - COO

When we look at online backup, there's clearly a number of things that we've seen there. One, most importantly, is as you have data, you want to get it backed up. We are seeing now that pretty clearly, folks are buying more storage. So it used to be you'd get a base amount of storage, and now they've used that free component up, and they are buying more.

With a netbook what you will find is there will be information -- because there's potentially limited local storage -- that people will want to back up and protect. So we do think there will be an opportunity there. But most importantly, I think it's more of the new functionality around parental controls and parental monitoring.

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Heather Bellini - UBS - Analyst

So let's switch gears to the macro for a minute since that's the other topic that's been more on people's minds than Microsoft's announcement, obviously. Can you share with us what your thoughts are? Even -- you had Intel, which three weeks after they reported, came out and did their mid-quarter update early. You've had bad news out of Best Buy. You've had bad news out of most companies. HP -- one of the shining stars. But can you walk us through what your assumptions were behind your December quarter guidance? And to the extent you can share with us, what has changed since then?

Enrique Salem - Symantec - COO

I would tell you that from our perspective as we look at it, we haven't seen a lot of changes over the last six weeks in our business. Quite frankly, at the end of the September quarter we saw a number of deals that were deferred, that pushed out into the new quarter. And what we're continuing to see is those deals -- many of those deals have actually closed. And so we don't see a big change from when we did our September quarter guidance to today. We haven't seen that.

Now, when we look at, Heather, the situation that we looked at when we did our guidance is we looked at -- what did the pipeline look like? We didn't make radical, big changes in close rates. We also looked at what currency, we thought, would do. But that is a big variable, as you know. We've modeled the euro at \$1.25. And as that moves around, that has an impact on revenue and deferred.

So I think we looked at the assumptions around what we thought we could book on a reasonable close rate for this environment, knowing that some decisions at the end of December are going to get deferred. We expect that close rates will probably be similar to September or potentially even a little bit lower. We have a currency rate of \$1.25. And so we are feeling pretty good about where we are today.

Now obviously, in an enterprise business where 71% of our business is enterprise, there is a lot of business to close in the last month of the quarter. But we haven't seen any further deterioration in the macroeconomic environment that would impact our customers, because security -- when you think about storage management and you think about security -- are two areas that will continue to be necessary even in this environment.

Heather Bellini - UBS - Analyst

So when you're talking to customers about calendar 2009, and they are talking to you about what their budgets might look like, what are you hearing from them in terms of their appetite for spending?

Enrique Salem - Symantec - COO

If you think about it, right now I think people are going to be a little bit cautious in 2009. Our expectations are that we will see a bit softer IT spending environment. That is just an expectation.

Heather Bellini - UBS - Analyst

Softer than right now?

Enrique Salem - Symantec - COO

Softer than we saw in this year. Softer than we saw in this calendar year as folks think about how they basically protect their business and spend a little bit less. So we do expect IT spending to be lower in 2009 than in 2008.

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Heather Bellini - UBS - Analyst

When you think about -- typically, companies have a budget flush in the December quarter. Even if it does not occur, should we expect the normal seasonality in March, overall? Or I guess the question would be, is could it potentially even be worse than normal because people might hoard their budgets towards the end of 2009 this year, rather than spending them more linearly?

Enrique Salem - Symantec - COO

I think when you look at it, you definitely have a situation where we don't expect a big change from the seasonality perspective. A lot of projects are targeted to close by the calendar year end, and you expect that those projects will continue. Companies start their -- companies that have a calendar and fiscal year that are the same start their planning process, they start driving projects throughout the year, and they drive them to close at the end.

I don't actually think that this notion of a budget flush has any kind of impact, any kind of significant impact on our business. Yes. Do we get a bluebird deal here and there? Sure. Does that really make a difference to our business? Probably not.

Heather Bellini - UBS - Analyst

And seasonality -- if you think of for March versus December, does it become more pronounced or (multiple speakers) --?

Enrique Salem - Symantec - COO

Well, one of the nice -- yes. I mean, Heather, one of the things that happens is March is the end of our fiscal year, so we have a lot of business that typically is driven to close in that time frame. I don't expect -- again, I think it's -- one of the things that we all know is this environment is definitely something that we all got to watch pretty closely. But so far, I think the environment hasn't changed dramatically from what we saw in September.

Heather Bellini - UBS - Analyst

So Symantec announced -- was it 4.5%, I believe, cost reductions? Where are you in implementing those reductions?

Enrique Salem - Symantec - COO

When you look at our business, we are always looking at how do we drive improved cost efficiencies. You've seen that in our margin expansion over the last six quarters, where we are continuously trying to drive improvements in margin, unlike some of our competitors, who aren't able to do that. That's not a dig at anybody.

But when you think about it, when you think about what we are doing is we are pretty far along in managing some of the cost items. So we looked at travel. We looked at equipment purchases. So those are all things that we've said, if it's not customer-facing travel, if it's not equipment purchases that are critical to running the business, we're going to defer those.

And then if you think about the 4.5% salary reduction, we've started that process. But one of the things that happens in many of the countries that we do business is it takes at least 60, if not 90 days, for us to be able to complete those actions. And so you won't get the full effect of the changes that we are making until the first quarter of our next fiscal year, or the June quarter of fiscal year '10.

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Heather Bellini - UBS - Analyst

So I guess the other question would be, there has been a lot of talk about your performance versus McAfee's performance. What do you think the street is getting wrong? What would you -- you've got all these investors in the room. There's potentially a lot of misperceptions. What would you say to that?

Enrique Salem - Symantec - COO

Well, I think there's a couple of things. If you look at our businesses, they are diverging more and more. While we have some overlap in end-point security, they've done a few things in network security that we are not, quite frankly, in. That's one point I would highlight. Plus we've got other businesses that are performing very well, such as our storage and data protection businesses.

I also think that we are, I think, a little more focused on margin expansion, and we are continuing to see that in our results. And so you are seeing that in our net income and in our earnings per share.

Heather Bellini - UBS - Analyst

And you touched on margin expansion. When we talk to a lot of CFOs, they will say, look, in a tough environment we don't want to give up too much in terms of our R&D initiatives. You don't want to let go of, obviously, your top salespeople. So a lot would say that they actually manage or try to manage to a flat margin environment in a tough macro.

I guess I'm wondering how should we think about it for Symantec? Can you still do everything you want to do to come out of this stronger than when you came into it and still grow margins 100 basis points? Or is that potentially -- jeopardize some of the opportunity you have down the road?

Enrique Salem - Symantec - COO

Yes. I think, rest assured, we won't be getting rid of our top salespeople.

Heather Bellini - UBS - Analyst

Good thing.

Enrique Salem - Symantec - COO

I don't think you have to worry about that.

Heather Bellini - UBS - Analyst

But when we think about margins, how should we think about your ability to make sure you manage it?

Enrique Salem - Symantec - COO

Sure. No. I think if you look at it, when you look at the cost structure of our Company, what are we doing all the time? We are trying to find where are the biggest opportunities for investment? Where are the highest growth areas? And so we are going

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to move funds around all the time, and we just accelerate that work. And that's why you saw us -- even on a little lower top line, we still were able to get margin expansion in the September quarter. You should expect us to continue to do that in December.

And I think there's plenty of room in our P&L and in our cost structure to continue to do that. We are going to spend \$900 million in R&D next year though. And we think that that is the right level of investment, about 14-ish, 14%, 15% of revenue on R&D. And we will continue to do that.

We are a tech Company, and there's two things we do. We build products and we sell products. And so we're going to invest in those two areas. We'll look at other areas for cost savings, and we do think that there are opportunities in our P&L, not just in some of the items I've mentioned earlier, but to continue to improve our go-to-market activities and other areas where we will be able to continue to deliver on our goals around margin expansion.

Heather Bellini - UBS - Analyst

Are there any questions from the field? Okay. I'll come back to people if they are interested in asking questions.

Can you talk a little bit from a geographic standpoint where you think Symantec still has the most work to be done, and where you have seen the biggest improvement over the last 12 months in terms of execution?

Enrique Salem - Symantec - COO

Yes. If you look at our business, we consistently have worked on a number of rapidly growing markets. We've looked at, obviously, China. We've looked at India. We've looked in Eastern Europe, and we have done while there. There have been some geographies that historically hadn't performed as well for us, specifically central Europe or Germany. But last quarter we did see strong performance in central. We have more work to do in Japan, where we continue to see, still, a little bit of less growth than I would like to see there. That's a big market. And so we will continue to work on that performance.

But ultimately, I think that we have made a lot of progress around the world. I think we've got a stable environment in all three geographies where we have had the current leaders who've been in those jobs, all over 12 months [now].

Heather Bellini - UBS - Analyst

The Veritas business, the storage business, I think outperformed everyone's expectations last quarter. Veritas was a Company that, if they were independent or if you go back to the early 2000's, people would have said they would have been a prime candidate to actually disappoint in an environment like we've had in September.

What has changed in that business since you acquired them that didn't make them susceptible to what they were always susceptible to in the past?

Enrique Salem - Symantec - COO

When you look at what has happened in that environment is the data volumes are just skyrocketing. If you think about it, for most businesses data volumes continue to grow at 60% per year, doubling every two years. So what that's creating is a need for better storage management.

It's also creating more data that needs to be backed up, and some of the existing technologies such as backing up to tape are no longer as useful. So you're seeing a move to more disk-based technologies. So it's a move from -- current technologies to new technologies is important, and the data volumes. And so as that has happened, you've got more complexity in the data

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center, and that is favoring us because we need to provide a consistent storage management layer that helps our customers reduce their costs in their environments.

And I'll give you one of the things that's significant is when I go in and talk to a CIO or a VP of Operations, and we talk about how we can help them more efficiently utilize their storage. Because if you look at Gartner's data, about 37% of storage is currently utilized. So we go in with some of our technologies and say, you can get better utilization so you don't have to purchase as much hardware. And that absolutely is a good story with a clear ROI. And in some cases, you see ROI's that are not 12 months but six months, and that's very appealing.

Heather Bellini - UBS - Analyst

So storage virtualization is a trend that Symantec is well-positioned for?

Enrique Salem - Symantec - COO

Absolutely. And the nice thing about Symantec's position in the storage virtualization space is that, because we have always been very cross-platform -- I mean, Veritas's heritage was about not being tied to any one platform. And so when you talk about getting efficient utilization of storage, the best thing is to share that storage independent of what operating systems and what vendors' hardware you are using. And so that's an advantage for us.

Heather Bellini - UBS - Analyst

Any questions from here before I go on to a couple more?

On the M&A front, Symantec has been somewhat acquisitive, more acquisitive in the past than you have been of late, doing more small tuck-in deals. What is the strategy for that going forward? And how should we think about your appetite for it in this current environment?

Enrique Salem - Symantec - COO

You always go back to what are our customers doing. And right now, when you look at what they are saying is there's three big things that they are taking about. One is virtualization, both in the data center storage and at the end point. And then they are also thinking a lot about information risk management and software as a service. Those are three areas that are top of mind for our customers. And so what we do with M&A is we look at what are the opportunities to go deeper into things that matter to our customers.

Now, in this environment, cash is king. We are absolutely thinking about how do we make sure that we don't get too out in front of ourselves on M&A. So we will, obviously, be looking at what are the opportunities to bring in new technologies, new customers, or expanding to new segments. But ultimately, right now, I will tell you there's a lot of people looking for homes, and so we're going to be patient. There isn't anything that we have to do right away. But that doesn't mean that tomorrow we may not decide that there's a new capability we want to add. And it will be, again, probably one of those smaller tuck-in deals.

But we are going to be patient in this environment. You should expect us, though, to continue to do M&A, because that's a competitive advantage that we have where we can bring in technologies that potentially somebody else can't add to their portfolios as effectively as we can.

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Heather Bellini - UBS - Analyst

Can you walk us through Symantec Endpoint Protection? It's been something that has been talked a lot about over the last 12 months. What are the stats or the metrics that you look at to determine how successful you feel the Company might be performing?

Enrique Salem - Symantec - COO

When we look at Symantec Endpoint Protection, it is a terrific product that has done very well in the large enterprise. I just was talking to a high-tech firm that has deployed over 100,000 seats. So we are starting to get the very large deployments into production. And the capabilities are pretty clear. You don't want to have 10 different agents on your end point. So what we have done is we've integrated it into one end-point technology with one management system. And so we feel that that product is doing well for us in large enterprise.

We did see a little bit of softness in the mid market. We have made some changes to the product in the September quarter, and the feedback I've gotten from partners, Heather, is very positive. They feel encouraged by the performance characteristics. And that product is doing better than it has done in the past in the mid market.

Heather Bellini - UBS - Analyst

Is the mid-market weakness -- and you guys are not the only ones talking about this; SAP is, as well. How much of this do you think is related to lack of vendor financing or even financing that's available for your channel partners and your distributors?

Enrique Salem - Symantec - COO

I think it's less of an issue for our partners and our distributors. I think we've got a good base there. As far as what is happening in the customer base, I think they are also being conservative in their spending, but I don't believe that it's a financing issue. It's more -- just more a decision -- it's more people trying to make sure that they want to make that purchase right now in the current environment.

Heather Bellini - UBS - Analyst

I think we've got a question right here.

Unidentified Audience Member

(Inaudible question - microphone inaccessible)

Enrique Salem - Symantec - COO

Yes. When we look at the business, we're on a course right now that's very clear. Our customers want us to help them secure and manager their information. That is what matters. When I started in this business 20-some years ago, it was all about protecting the hardware, the infrastructure. Now it's about the information. So we'll be very focused on securing and managing the information.

When you look at what I'm going to work with our team on is continued improvement around execution. I think we are in the right businesses. We've got a storage business. We've got a security business and a systems management business. And I think, short-term, it is all about execution.

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I think longer term, though, there is probably a set of capabilities that we need to bring in that help our customers better deal with both structured and unstructured data. But short term, the focus is on execution, because I think we've got the right set of products in our portfolio.

Unidentified Audience Member

(Inaudible question - microphone inaccessible) from a margin perspective, there's an opportunity for multiple years to drive margins higher?

Enrique Salem - Symantec - COO

Yes. We definitely -- if you look at our cost structure, I think there is an opportunity both from a portfolio perspective and from an overall cost structure to continue to drive improvements in margin. That's not something that I plan to change any time soon.

Now, there are going to be some opportunities for investment. And so, in the short term, I think we can definitely continue to improve margins.

Heather Bellini - UBS - Analyst

There was a question, I think, in the back right there.

There is a breakout session after this in the Broadway Room downstairs, so this will be the last question, and then we'll take it downstairs.

Unidentified Audience Member

When I look at Symantec's top-line growth, it has been slower than a lot of your peers, at least my perception. And I'd like to understand what companies in each of your major sectors do you benchmark your top-line growth to? And is your goal to grow faster than those benchmark companies? The same? Or is it fine growing slower, as long as you deliver greater operating margins?

Enrique Salem - Symantec - COO

So this business is all about growth. I think the best way to get margin expansion is to drive the top line. And so in this macro environment, what you can expect is we will gain market share. So back to the previous question, execution will actually drive improvements in the cost structure and market share gains.

And so when I think about what Symantec needs to do, we're the market leader in security, we are the market leader in data protection, and we will grow market share. So I expect to see our growth rates be at or better than our comparable companies that are in security and in data protection. Working on it right now.

Unidentified Audience Member

(Inaudible question - microphone inaccessible)

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Enrique Salem - Symantec - COO

I think, if you look at our data protection business, we are growing a lot faster. Our DLP business, our data loss prevention -- we acquired a company called Vontu. It's a market growing at 60%. We are growing ahead of that.

So the markets that matter to our customers -- while DLP is a smaller market, we are growing faster than the market. Our data protection business, backup -- we are gaining market share, and so we are growing faster there. Our core security business, which is the end point, is an area where we have got to continue to drive improvements.

Heather Bellini - UBS - Analyst

Okay. Why don't we take it downstairs to the Broadway Room. Enrique, thank you for your time. Thanks, everybody, for joining us.

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