

# FINAL TRANSCRIPT

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## **SYMC - Symantec at Pacific Crest Securities Technology Leadership Forum**

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## CORPORATE PARTICIPANTS

### **Francis deSouza**

*Symantec - Senior VP of Information Management*

## CONFERENCE CALL PARTICIPANTS

### **Rob Owens**

*Pacific Crest Securities - Analyst*

## PRESENTATION

**Rob Owens** - *Pacific Crest Securities - Analyst*

Our next presenting company is Symantec. With us from the Company in the front row Helyn Crocos, who is the Vice President of Investor Relations, and to my right is Francis deSouza, who is the Senior Vice President of Information Risk Management. Francis?

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**Francis deSouza** - *Symantec - Senior VP of Information Management*

Well, thank you, Rob. What I want to do is start out and give sort of a quick overview off sort of where we are at Symantec and then just sort of open this up to be a dialogue. I know we have some questions we want to talk through and take questions from you in the audience. So overall with a double-digit growth across the geos and across all our major product lines it's actually a really good time for Symantec right now and I wanted to touch on sort of why we believe that is and what the journey we're on is about.

To me I think there are sort of three big things that are coming into play right now. The first one is I feel that we've been able to articulate now a clear growth strategy for the Company and as we talk to our customers we talk to our customers about our mission at Symantec is really about securing and managing the world's information and that's starting to resonate. As customers are starting to get over the-- "Well, what's the security story; what's the storage story?" They're getting that what we're about at Symantec is actually managing and protecting your information, so securing and managing it.

That's playing out on the consumer side as well as the enterprise side where on the consumer side Norton 360 is now up to 25% of our total consumer revenues and one of the successful features in Norton 360 has been the ability to back up your information on line and we're starting to see even more traction around the upsell we have around additional storage to complement your antivirus that you're buying from us.

On the enterprise side what that's translated to is that we're seeing more and more of our transactions be bigger transactions, so if you compare where we are in the last quarter to a year ago, we did almost twice as many transactions that were north of \$1 million and 80% of them actually had multiple products as part of the sale. So we're seeing customers actually buy across our portfolio products that help protect their information. So the first thing I think that we're really starting to see the effects of is that we were able to articulate sort of the strategy we have for growth.

The second thing is just our day-to-day execution has continued to get refined, so if you look at all the key metrics that we track from a financial perspective, they all show very favorable compares from a year ago. We saw double-digit growth in all the geos last quarter, double-digit growth across all our major product lines, across the consumer and enterprise and while it's early, I think that our focus for the sales force on new license revenue will continue to sort of pay off for us as we go into this year.

The third thing I think that's really started to kick in is our focus on innovation and emerging growth areas. I know I saw some of you at the Analyst Day we held earlier this year and we talked about the fact that as a Company we're seeing a number of areas really drive growth for us in sort of emerging areas. One of them was around the whole area of sort of messaging

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management, email archiving and there our Enterprise Vault product is our flagship product. Gartner actually released a study a few weeks ago that said that that product has now reached 37% market share and had more market share than the next 5 competitors combined, almost more than the next 10 combined.

Our DLC asset continues to show a lot of growth. That came from our acquisition of Vontu. That's a market that, though early, is projected to grow at better than 90% year-on-year through 2011. And the third sort of emerging area for us is around the whole area of compliance and IT governance and there we're continuing to see strong growth.

So we feel like there are three things that are really coming into play for us that have resulted in the numbers that we've been showing over the last few quarters. One is articulating a clear growth strategy. Two is the focus on the day-to-day operations and three is our strong position in some of these emerging growth areas.

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**Rob Owens** - Pacific Crest Securities - Analyst

And as SVP of Information and Risk Management, can you give us some clarity in terms of what falls under your umbrella, exactly what you're responsible for?

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**Francis deSouza** - Symantec - Senior VP of Information Management

So what I am responsible for at Symantec are our products around messaging security, email archiving, so messaging security are our mail gateways where we look at sort of email entering and leaving your enterprise. We look at instant messages entering and leaving your enterprise and we protect you from the bad stuff trying to come into your company so viruses, spam, phishing attacks, as well as protect you from good stuff leaving your company. So the first area is around our messaging security. The second area is our messaging archiving business around Enterprise Vault, so help you keep the information you need for as long as you need and not a day longer. And the third big area far as in my group is the compliance and IT governance area and our flagship product there is the Control Compliance Suite. And what we do there is we have a solution that helps our customers automate the process of compliance so as they have more and more regulations they want to comply with we offer a single spot where they can go to define policies, assess how they're doing, create their reports and then remediate any deficiencies.

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**Rob Owens** - Pacific Crest Securities - Analyst

Great and then prior to Symantec you spent some time with Microsoft and one of the knocks in a decade of covering the space that I've heard a few times is when is Microsoft coming in? Microsoft's ability to really steal share from the Symantec's and McAfee what the long-term business model looks like. Having been at Microsoft, now being at Symantec, maybe you can share some perspective on just how defensible companies like Symantec are longer-term.

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**Francis deSouza** - Symantec - Senior VP of Information Management

It feels like every quarter for the last few years [to me] there's been the Microsoft threat and the questions we'd get asked, Rob, all right so is this going to decimate your consumer business, right, and what is it going to do on the enterprise side? And frankly, that hasn't played out. I mean if you look at our results even in the last quarter we had double-digit growth on both the enterprise security side and on the consumer security side.

And so that hasn't come true and, frankly, having been at Microsoft and been at Symantec I feel like there are a couple of challenges for Microsoft coming into this space. They're either a strong competitor that we're going to watch closely but one is there's a credibility factor as you talk to customers if you are the provider of the operating system and the applications that have vulnerabilities there's a credibility factor at risk where you come and say, "Okay now we're going to help you address those

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vulnerabilities and protect yourselves" and that's playing out as we talk to our customers. They're saying look if you couldn't find the vulnerability in the first place how do we trust that it's going to be fixed in the second.

So that's one and then too there's a focus question. I mean day in, day out everybody in our Company thinks about securing and managing information. Having been at executive meetings at Microsoft, there are lots of things on the agenda. It could be the Xbox. It could be Office, Windows and so the mind share and focused on security isn't there at the executive level and so I think those are sort of some of the big challenges.

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**Rob Owens** - Pacific Crest Securities - Analyst

Okay and how old is your group from an information risk management standpoint? How well have you been able to leverage the Veritas acquisition? Aside from Vault, which has been a great product for you, has there been a lot of other cross-pollination--cross integration I guess between products and is there more that you think you can do from a technical standpoint?

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**Francis deSouza** - Symantec - Senior VP of Information Management

So in my group it's really hard to even tell at this point who came from Veritas and who came from Symantec because, so for example, the Enterprise Vault product we technically got it from Veritas because of their acquisition of KVS but if you look at the technologies that are in there the instant messaging sort of management components came from an acquisition that Symantec did. If you look at the classification engine it actually leverages the DLP assets, which are a security play.

So you can look product by product and you'll see that the technologies came from a lot of heritages, so Enterprise Vault again, it brings together the DLP assets from Vontu. It brings together the instant messaging technologies from IMlogic, which is a security Symantec's acquisition.

Similarly on the messaging security side, right, so the email gateways have a number of technologies built in. The classification technologies and the mail gateways are consistent with the classification technology in the archives, so that's a blended Symantec Veritas background. The compliance products, so the Control Compliance Suite, one of the key things that it does is it allows you to set your company up to be compliant with regulations. Well, setting your company up involves setting up your storage infrastructure appropriately, your data centers appropriately as well as your security assets appropriately, and so the Control Compliance Suite ends up touching security products, management products as well as storage products.

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**Rob Owens** - Pacific Crest Securities - Analyst

And that being said, if I looked at the quarter and the growth in the Security Division, it seemed like the compliance side was a little light this quarter relative to what the growth has been historically. Are you amidst a product cycle there or product transition? What's coming in the back half there?

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**Francis deSouza** - Symantec - Senior VP of Information Management

So actually the security and compliance group did grow double-digit right? And that's the granularity we break it down to and that includes our Endpoint security product as a number of our security products right, so we actually had a strong quarter on the compliance side. Having said that, we do have a CCS 90 release, so a very big release happening, that we announced at Vision a few weeks ago that's coming out in the second half of this year.

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**Rob Owens** - Pacific Crest Securities - Analyst

Were there any deferrals in part of that?

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**Francis deSouza** - Symantec - Senior VP of Information Management

We're not seeing that a whole lot and the reason I think is that customers that have bought-- that buy ESM today or that bought ESM, can actually just load CCS on top of it, so you don't take out your ESM implementation so not yet.

**Rob Owens** - Pacific Crest Securities - Analyst

Why don't you give us your view on the US enterprise market, where we are currently, where we're heading, what you're seeing from customers, sales cycles.

**Francis deSouza** - Symantec - Senior VP of Information Management

So I am not going to make some broad comments and sort of economic forecasting but clearly when I talk to customers and in my role end up doing a lot of customer visits, I do hear that our customers are concerned about the economy, about the economic conditions around them and that's resulted in a few things. One of the things we've been seeing is that although there are concerns about the economy customers aren't pushing out their security and compliance purchases so we are hearing from our customers that these are not viewed as purchases that can be easily deferred so security is a must have product, as are the compliance products. So we are continuing to watch that but as of yet we have not seen customers push their purchases out because of concern of the economy and the results in Q1 certainly bore that out. The revenue growth really sort of underlines that.

The second thing that we're hearing is that because of the concern about the economic conditions our customers are talking to us about vendor consolidation so one of the ways they want to drive efficiencies in their enterprise is by buying more products from fewer vendors and that's playing well to Symantec. We are one of the big players that are actually benefiting from the trend in vendor consolidation so overall we continue to sort of watch the macro economic trends but we feel there are a couple of things that actually play in our favor.

**Rob Owens** - Pacific Crest Securities - Analyst

How has pricing been in this environment?

**Francis deSouza** - Symantec - Senior VP of Information Management

So the tradeoff there is as part of the vendor consolidation customers are willing to take bigger deals with us and in return for that they wanted to get a better offer from us and so again, if I look at sort of where we were a year ago we did almost twice as many deals, as I said, over \$1 million than we did a year ago. We had 80% of our overall deals had multiple products and so that's cushioning the effect of pricing pressure on any one product.

**Rob Owens** - Pacific Crest Securities - Analyst

Any questions from the floor at this point, as I turn off my Blackberry, excuse me.

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## QUESTIONS AND ANSWERS

**Unidentified Audience Member** -- *Analyst*

I saw some news recently that Symantec was trying to push more of their customers to buy direct and I was wondering what the impact will be on the reseller channel.

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**Francis deSouza** - *Symantec - Senior VP of Information Management*

There's certainly a lot of news on that so let me talk about some of the things that haven't changed. We have over 60,000 partners that we go to market with. They are an important part of our eco system. We're going to continue to work with them. One of the things that we did highlight was that the largest companies have always had the choice of buying direct or going indirect and so I think that was one of the points we made in the last few weeks.

And then at the highest, for the largest customers, we're looking to go one tier rather than two tier, right, so saying look we need to be close to those customers. We need to have faster turnaround times, as we've discussed, and this is the deal with those customers. But those customers, again, have always had that choice of going direct versus going indirect, so I think in the end we have the 60,000 partners and they are a very important set of partners for us. We're going to continue to invest in them and they will be a core part of our go to market.

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**Unidentified Audience Member** -- *Analyst*

So with all the visibility around the issue what's been the response from the channel?

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**Francis deSouza** - *Symantec - Senior VP of Information Management*

So a lot of it has just been can you explain what's going on right, because they're seeing a lot in the press and so a lot of it for us has been let me explain what hasn't changed and what we were highlighting and so we even embarked on just a "let's clear up what you've heard" and then what's changed and what hasn't changed. And, frankly, our partners know better than to look into the press. They come directly to us for what the clarification is.

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**Unidentified Audience Member** -- *Analyst*

There's been a lot of conversation at the conference over an increase in government spending for the next few years. Where do you see yourself situated for that and what do you think you can offer?

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**Francis deSouza** - *Symantec - Senior VP of Information Management*

So there's been a lot of talk about that and we're certainly seeing a lot of that activity and so we feel very good about where we are positioned there, right, because a lot of the spending plans for the next few years in the government sector are around enhancing the security infrastructure and actually driving the efficiencies in their storage and management infrastructure as well, so I think you will continue to see us participating maybe disproportionately in those increases in spending but that is an important thing for us.

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**Unidentified Audience Member** -- *Analyst*

And your group specifically, how does it impact?

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**Francis deSouza** - Symantec - Senior VP of Information Management

So across our products each of them have a strong government exposure, right, so the Control Compliance Suite actually does offer auditing off desktops and work stations to talk about how they are configured and how they match up to government standards and how they should be set up. Enterprise Vault, we've had a number of very public case studies on how Enterprise Vault is used in the government sector, both for retention of emails and documents but again also just to drive efficiencies in the storage infrastructure and then with our mail gateway products, the big driver in the government sector has been their data loss prevention capabilities where they're increasing the regulations around how you need to manage sensitive information that is stored in government agencies and so those are the big drivers for the products in my group.

**Unidentified Audience Member** - - Analyst

And although it's not specifically in your group, can you talk about DLP where the market is, how Symantec is playing with the Vontu acquisition?

**Francis deSouza** - Symantec - Senior VP of Information Management

So data loss prevention is a very exciting market right now for most of you. You know that there are several parts to the data loss prevention market. The first part of it is just helping companies identify what sensitive information they have and where that exists in their company so with our product you can go in and look across your network to understand where source code is, where financial documents are, where customer data is.

The second part of DLP is then looking to see what information is entering and leaving your company, whether it's over emails or web mails or being stored on USB drives or sent to a printer and making sure that the right things are happening, that only the information you want to be leaving is leaving and that it's leaving in an appropriate way. So if it's leaving on email should it be encrypted? If it's being stored on USB drives, should the drives be encrypted?

That's a market that I think Gartner is projecting was about \$100 million last year, is projected to grow at 98% year-on-year through 2011 to be north of \$1 billion through 2011 and at that point being north of \$1 billion. Vontu is the market share leader there. I think Gartner is estimating it has 57, 58% of that market. We certainly had a really strong quarter, their best quarter on record in that last quarter that closed.

Our strategy there is to continue to sell Vontu standalone as well as embed their technology across our portfolio, so if you buy a mail security product from us it will look at what emails are leaving your company. If you buy our email archiving products we will classify your archive and tell you do you have sensitive information in there? Do you have attorney client privileged information in there so, therefore, when you are doing an ediscovery search as part of the litigation we will only bring back what needs to be brought back. So it's a two-pronged strategy at Vontu, one offered as a standalone product and two, build it into our portfolio because we believe this is one of those platform technologies.

**Rob Owens** - Pacific Crest Securities - Analyst

Other questions?

**Unidentified Audience Member** - - Analyst

With the adoption of SASS penetrating the enterprise quite a bit, how do you see Symantec playing with that, playing in that space and particularly to protect data as it starts moving outside the enterprise?

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**Francis deSouza** - *Symantec - Senior VP of Information Management*

So we have a-- so we believe obviously that that's going to be a big sort of market opportunity going forward, we already offer our Symantec Protection Network that allows you to do on line backup and you can expect to see us delivering more and more functionality on SPN. In addition, we offer hosted mail security so you can do sort of anti-spam in the cloud before your email traffic reaches your enterprise.

But so from a vision perspective I think you should expect to layer more and more of our security technology in the clouds and what we are hearing from our customers is that it's not an either or for them. What they want is a combined approach that says something needs to happen in the clouds and something should happen on our premises so I will give you an example.

If you look at our email archiving technology the customers are saying look email, it's unlikely we'll do all our email archiving in the clouds. However, from an ediscovery perspective there are things we want to do in the clouds so if we have litigation, for example, we want to do a search against our email archives and then put that in the clouds for external attorneys as well as opposing counsel to look at. And so they are saying look they want a hybrid approach.

Similarly with anti-spam what they are telling us is we want the anti-spam in the clouds to be the fourth tier of defense, if you like, and then we want to do our own cleansing after that. Same with DLP, they're saying we want to do DLP on premise. So I think we are uniquely positioned to offer that hybrid approach, to say there are some things that make sense to do on your site and we're going to augment that with something that just make sense to do in the clouds.

**Unidentified Audience Member** - *Analyst*

(Inaudible Question-Microphone Inaccessible) It seems like to be a two horse race in relationship to you and McAfee, specifically in the enterprise. Could you comment just generally on their bookings growth rates yours, number one? And more importantly, on the consumer side with their rollouts with ACE or Lenovo and HP, how does that affect your model?

**Francis deSouza** - *Symantec - Senior VP of Information Management*

So certainly vendor consolidation is going to play to the bigger players in the space, you're right and both of us are in sort of the bigger end of that spectrum and there are a lot of very small playing players. It is a little bit I would argue of apples to oranges given our scale and McAfee's scale, so if you look at our business our consumer business alone is sort of twice the size of McAfee right, so we have 60% of that market. They have 12% of that market.

Similarly on the enterprise side again, the scales are a little bit different I would argue and so it's a little bit of apples to oranges comparison. On the-- so across the board that's sort of true.

In addition, I think they are viewed as purely playing the security part of the infrastructure market and obviously we offer sort of the broader portfolio and we believe that's important to customers, so archiving is a core part of the security story and so on.

In terms of the OEMs, OEMs form one part of the go to market for as both in the consumer side and the enterprise side and we can be very aggressively for the OEM business. What we have done is we-- because of again, the experience we've had in that space we looked at the various OEM opportunities out there and really done an analysis around where the conversion is best right, so say not all the OEMs converge equally.

So one example would be-- and Lenovo is a great example that you brought up. Lenovo offered the opportunity to compete for both their commercial lines as well as their consumer line and what we have found is that if you win the consumer business

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you convert customers a lot because consumers don't typically go out and then re-image the disk and so the conversion there is very high and so we competed very aggressively to that business, the Lenovo consumer business.

On the commercial side we found a different story. Big enterprises that buy those desktops typically re-image those desktops with their own image and so we found the conversion there was very low and so when we did the analysis we figured well, that's not a business worth over paying for. You're better off winning the enterprise business and so we've done a segmentation of the OEM opportunities out there and looked at where the conversion sort of makes sense and those are the businesses we've gone very aggressively after.

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**Rob Owens** - *Pacific Crest Securities - Analyst*

Along those lines, what's your view on the implications longer-term then for the consumer market with having to re-up every two, three, four years with an OEM because they're obviously not going to cut price as we move forward, so the consumer dynamic is changing it seems with almost every OEM except for Dell out there so longer-term applications in terms of profitability, has it become a game where you have to continue to take price up and what you guys are doing with Norton 360 or how do you think the market dynamics shake out longer term?

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**Francis deSouza** - *Symantec - Senior VP of Information Management*

So I mean there's a lot of change happening in the consumer space. I think one of the biggest changes at a very top level is that we are seeing sort of 80% of that business now is going through sort of on line electronic ordering, right, so it's a combination of OEM but it's also just buying on line. So one big macro trend is we're seeing the retail channel be a lot less important so that's one thing that we're seeing.

Then the other trend that we're seeing is that the range of offerings that consumers are asking for is actually broadening so we've seen very good uptake on our on line backup offerings, for example. So customers are saying, "Look it's not just about antivirus for my PC; give me more." And we believe that creates an opportunity to have a higher price point, right, and deliver more value to our customers.

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**Rob Owens** - *Pacific Crest Securities - Analyst*

Okay that's all we have time for. Thank you.

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**Francis deSouza** - *Symantec - Senior VP of Information Management*

Great. Well, thank you, Rob. Thank you all for the time.

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