

# FINAL TRANSCRIPT

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**SYMC - Symantec at Credit Suisse Annual Technology Conference**

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## CORPORATE PARTICIPANTS

**James Beer**  
*Symantec - EVP and CFO*

## CONFERENCE CALL PARTICIPANTS

**Phil Winslow**  
*Credit Suisse - Analyst*

## PRESENTATION

**Phil Winslow** - *Credit Suisse - Analyst*

Good morning. Thanks for coming to this session. My name is Phil Winslow. I am the Credit Suisse software analyst, and very happy to have Symantec here today. Representing Symantec -- Chief Financial Officer, James Beer.

I think the way we're going to handle the session is we're going to spend five, 10 minutes or so -- James has a few prepared remarks. And then we are going to open up for some Q&A. So James, I'll turn the podium over to you.

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**James Beer** - *Symantec - EVP and CFO*

Thank you very much, Phil. Good morning, everyone. I'd like to assure you they are not prepared. So really probably no need for the podium, per se.

But just to give you something of a summary as to where we are at Symantec, clearly, these are challenging macroeconomic times for everyone. We are certainly cognizant of that reality. But that said, we feel very good about the internal momentum that we have across our business. I think as each quarter goes by, we're demonstrably more capable and competitive as a Company. Obviously, that's the way we continue to plan to be.

So, when you think of our business, first of all, in three different product areas -- the core products, the fast-growing products, and then the emerging products. Let me take just a moment or two to talk about each of those three categories.

So in the core, certainly the consumer side of our business is a very important aspect there. We are very pleased on a number of fronts around the consumer business. First of all, the latest releases of Norton Internet Security/Norton Antivirus are exceptionally strong. We very much think we have the market-leading products now, not only extending our tradition of a very strong security technology but combining that with very lightweight and responsive software. So we feel very good about that, and we are looking forward to the next refresh of Norton 360, which is on a February cycle, as opposed to Norton Internet Security and Norton Antivirus on a September cycle.

So products are very strong on the consumer side of our business, and we're also continuing our strategy of offering more value opportunities to our customer. That, of course, will help our renewal rates extend our average life of the customer. And that will very much drive profitability and cash flow out of that business as we do so.

So in that additional category, if you will, I put things like our online backup solutions, very much assisted further by our acquisition of SwapDrive recently. The services that we are offering to consumers to help them with their various technology problems also will be coming out in 2009 with a very new approach to parental controls and the issues that parents have of figuring out what their children are doing, IMing, using the web, and so forth.

So all of that, we believe, will create a value proposition with our customers that will absolutely see our loyalty rates rising. So we feel very good about that direction. We're also benefiting from our recent acquisition of PC Tools that gives us a second

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brand, so another way in which to play importantly in the marketplace, some important new point products, and also some strong new entrees into other geographies where the Norton brand has not been as strong, particularly in the Asia-Pacific region.

So that's a little bit about where the consumer business is and this going.

Moving on to the enterprise side of the core, the backup business continues to develop very nicely. We've brought together our two primary products -- Backup Exec, oriented at the small/medium-sized businesses; and NetBackup, oriented to the larger data centers under a single management roof. That has accelerated the rate of technology sharing. That has accelerated the pace of the improvement in the functionality of our various products, so we feel very good about our position vis-a-vis virtualization around backup versus the clear movement from tape to disk. With that comes deduplication capability and an opportunity to offer real cost-saving value to our customers. So nice momentum in the backup part of our business.

Elsewhere around the data center, Storage Foundation and Server Foundation still going along very nicely there. Part of the success there of late has been oriented around our ability to go in and prove to customers that we can save them a lot of money around their investments in storage and server infrastructure. Obviously, in these harder macroeconomic times, those cost-saving proposals are being recognized and acted upon more readily than in easier times, if you will.

Continuing on through the core, endpoint security business -- we now have a fully competitive, very strong product oriented towards the largest customers and so forth. And we're working hard on having the same outcome for our small/medium-size business customers. So looking for some nice upside there in the coming year or so.

Moving to the second category for a moment, the fast-growing product areas, we are very strong in the archiving area with Enterprise Vault. We have a new version of that product coming out shortly that will boost significantly our E-Discovery capabilities in addition to the traditional strength in archiving. The big loss-prevention product that we bought from Vontu has been going along very nicely, and there will be another new version of the coming out shortly.

And on the compliance side, another high-growth market, we have just rolled out recently the new Compliance Suite that very much brings together our previously separate agent-based and agentless capabilities, such that we are confident that we have absolutely the most comprehensive compliance offering out there in the marketplace. So there it just represents how we continue to invest in new versions of these high-growth market opportunities.

And then there's a third category, the emerging growth. Two of the most important themes there -- software as a service and Endpoint Virtualization. You've seen us purchase MessageLabs. That will absolutely vault us further into the software-as-a-service world, a lot of opportunities there.

And then in Endpoint Virtualization, we've made a couple of smaller acquisitions that very much illustrate our focus in that area. Very much our perspective is that we're extremely strong at the end point, and that we will be very much a strong player around Endpoint Virtualization to further bolster our Endpoint Security and Endpoint Management businesses.

So that's a very quick tour around the three categories of our product line and some of the opportunities that we see. Add to that the fact that we are aggressively addressing our cost structure and will continue to do that going forward. All of that means that we have a strong financial position. We have a lot of financial flexibility. We have recurring cash flows, as you know, through a variety of our product offerings.

And so we feel good about being able to thrive in a tougher macroeconomic environment. And in fact, obviously, we are looking for opportunities to further strengthen our relative competitive positioning as we go through this more difficult operating period for all companies.

So let me wrap it up there and get in some questions.

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**Phil Winslow** - *Credit Suisse - Analyst*

Perfect. Maybe just to touch on that last point, just on the managing the cost base, on the last conference call you mentioned that you were going to focus on several new initiatives to take cost out of the model. I wonder if you could give us just an update on that.

And then, as you've managed through this uncertain environment, what sort of operating margin level are you comfortable with Symantec being able to maintain?

**James Beer** - *Symantec - EVP and CFO*

Well, I would say we are very much on track vis-a-vis the various cost initiatives that we talked about on the conference call. We are in the process of reducing our employee costs by 4.5% in dollar terms. And that, of course, takes a little time to actually come through into the P&L itself. I think you will see that really becoming more of a factor in the March quarter, see a very small benefit in the December quarter, just given the practicalities of working through that sort of a process.

And we are really addressing every line of the cost structure, whether it's travel or hardware spending, laptops, PDAs, what have you. We've also very recently entered into outsourcing arrangements with EDS on the IT side and with Emphasis and Genpact, the GE back-office spin-off, on the financial side of the business. So there's a lot going on. We think that there is more opportunity besides, and we will pursue that as the coming quarters play out.

As to operating margins, obviously, we've seen very significant operating margin expansion, particularly in recent quarters, but consistent year-over-year expansion since the December quarter of last year. And clearly, mathematically, it's easier to expand by 390 basis points, as we did in the last quarter, when the top line is moving along faster, although I'll point out that, of course, in the September quarter our top-line growth was mid single digits, whereas in the previous quarters it had been up in certainly double digits, mid teens in some of the quarters.

So we have talked about a 1 point margin improvement goal over the long run, and we've also said that in more robust revenue times we would expect to be able to potentially beat that. And so in less robust revenue times, yes, it's clearly more of a challenge. I think we will just stick to our public logic around 1 point per year being the goal over the long run. And I think it's important to note that that's a long-run target. That isn't necessarily an annual target. Clearly, thus far this year, we are comfortably ahead of 1 point.

But it also speaks to the notion that I was alluding to at the end of my initial remarks in that as we are in tougher economic times, we need to be thoughtful about investments we can make now that perhaps would not have been available to us in easier times for the industry. And so if we see an opportunity, we want to make sure that we take that opportunity so that we can come through this economic period and come out of it more competitive still. Obviously, that accrues to the owners of the organization down stream.

**Phil Winslow** - *Credit Suisse - Analyst*

And so now Symantec is unique in the fact that you have the large enterprise component but also the consumer. So I'm wondering if we could focus on the consumer just for a moment here. What trends are you seeing there? A lot of people talk about just a dramatic slowdown in September. A, how is that affecting just your new sales and your thoughts about new sales? But also the renewal rates -- any sort of change on that high-margin renewal stream?

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**James Beer** - Symantec - EVP and CFO

Well, as it pertains to the September quarter, our revenue result was only 2% growth versus significantly stronger growth in recent prior quarters to that. But remember that our consumer business is fully ratable, and so it is a lagging indicator, if you will. And that 2% revenue growth was relatively low because of what we saw going on in the retail side of our business. And that has been a consistent story over the last few years, that declining as a total proportion of the business.

So we are cognizant of the fact that in the September quarter, we actually had a relatively robust bookings [period]. Obviously, we don't see that in the revenue, per se. And I wouldn't say that we have seen any demonstrable trends around renewal rates and so forth. Clearly, it's a tougher economic climate than we were experiencing in recent quarters.

But today, the value proposition for our product is a strong one in that the [digital] assets of the consumer are now their music, their pictures, and increasingly, the video. And so if people aren't prepared to take risks, necessarily, losing that material, then becoming more and more cognizant of the risks around their bank account being unloaded online. And so we are not seeing, necessarily, a significant dynamic of people cutting back in our product areas. Of course, at the same time, we are pursuing more and more service offerings so that in essence we take a greater share of the consumer's wallet and we extend the life of our relationship with that consumer.

So -- and so far, so good.

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**Phil Winslow** - Credit Suisse - Analyst

Now, switching gears to the enterprise front, obviously, similarly on the security front have very large maintenance streams there, driven by your AntiVirus. Any change in that market in just sort of the stickiness of the security that we used to think about sort of in the last downturn? You know, you don't stop spending on your security?

And then after that, just on the competitive standpoint, any meaningful changes? A lot of noise has been made from my -- one of your long-time competitors in McAfee, so just demand environment? And also competition?

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**James Beer** - Symantec - EVP and CFO

Well, I don't think that we're seeing any shift in enterprises in terms of their baseline thinking around security. I think they all realize that they face very significant risks and they need to be secured. I think the challenges we have had in the Enterprise Security have been more around where we have been in our product cycle. Clearly, it was important for us to be able to roll out SEP around a year or so ago now. And that was a significant upgrade to what had previously been our Enterprise Security product offerings.

So with SEP we were able to bring together a variety of technologies that were previously housed in disparate agents at the end point, so a lighter weight, fully integrated product managed off a single console. So that was a big step forward for us. But it is clear that as we rolled SEP about, it was optimized more for the largest corporations.

And so we have work to do to have an equivalent product optimized for the small/medium-sized businesses. So I think this has given our competitors some opportunities, and we are very focused on working our products so that we close off those opportunities.

As to what we are seeing elsewhere in the demand equation, clearly, security is now thought of by enterprises as a multi-layered view. It is not just good enough to have one single layer, if you will.

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And so I think there is certainly the possibility that enterprises delay that X-plus-1 layer, if you will. And so we'll have to see how this quarter plays out. Obviously, the last week, 10 days of it is an important one for the enterprise side of our business. And it was tough to predict how the last week of the last September quarter went, and obviously it's equally tough to predict where this quarter will go.

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**Phil Winslow** - *Credit Suisse - Analyst*

I have several more questions, but I figure I'd just pause for a moment to see if there are any from the audience.

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## QUESTIONS AND ANSWERS

**Phil Winslow** - *Credit Suisse - Analyst*

Kevin?

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**Unidentified Audience Member**

Wondering if there were any quantitative metrics you could offer us on how the renewal rate is evolving on the consumer business -- where it has been, where you are, where you are hoping to get, any variations lately that would explain some of the weakness?

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**James Beer** - *Symantec - EVP and CFO*

Well, we don't get into the quantitative, I'm afraid, around the specific renewal rates. It's fair to say that we have now, in essence, fully lapped the implementation of auto renewal, and that was the most significant improvement opportunity for us. There have been other things that we've worked on in the last year, and I would say that, while the primary goal on the R&D side in this last year was speed and lightweight software -- and they absolutely hit those goals -- what we will focus on in the coming year is ease of use. And I think that will further, again, translate into helping us with renewal rates and so forth.

So I wouldn't point to a particular trend in renewal rates. Even in the September quarter our online revenue was continuing to grow quite nicely. That's how, obviously, we offset the more than 20% decline in the retail side of the business that we spoke about. When you think of retails -- about 20% of the total business. So that gives you a feel for how online was continuing to develop along.

So that's a continuation of the story of renewal rates improving, our up-sell capability being strong, and the other key determinant of the online performance is really the take rate that we get off the various OEM contracts out there. And again, I think there's more opportunity there. But we've been pleased by how that has improved in the last year or so.

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**Unidentified Audience Member**

(Inaudible question - microphone inaccessible) recently? Are you guys comfortable with the coverage you've got out there? If not, are you planning to make any changes to (multiple speakers)

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**James Beer** - Symantec - EVP and CFO

Yes. So the question is around the fact that McAfee has been relatively aggressive, taking some OEM agreements in the last couple of quarters or so. Are we comfortable with where we are?

And the short answer is yes. We are still very much represented on seven out of the top 10 of the OEM suppliers. A couple of quarters ago we had almost all of the OEM relationships. And I don't think that was a sustainable position, probably, from McAfee's perspective, particularly when McAfee haven't traditionally been very strong on the retail side of the business, and those are really the two ways in which you generate fee-paying customers.

So I'm certainly not surprised to see them becoming more aggressive. And I think that you will continue to see there being a cycling effect of them on one box, us on another box, and so forth. But net/net, we are comfortable that we know where the economics of a good deal are. Obviously, we all continue to pursue those.

But we are also cognizant of where we think we cross that line to bad business. I'll reflect on our lack of interest in a lot of the ISP deals a couple of years ago that our same competitor put a lot of effort and energy into. And our view was that those weren't going to make sense, and it seems as though they agree with this now. So they are getting more focused on the OEM side of it.

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**Phil Winslow** - Credit Suisse - Analyst

And maybe just as a follow-up to that, HP has been a strong partner of yours historically on a consumer front. I wonder if you could tell us or maybe just to give us an update on that relationship and how long that agreement that's in place right now lasts through.

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**James Beer** - Symantec - EVP and CFO

Well, we never really disclose the length of the deal. But I think I said it's multi-year.

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**Phil Winslow** - Credit Suisse - Analyst

Multi-year, yes. And getting into the multi (multiple speakers)

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**James Beer** - Symantec - EVP and CFO

We've had it almost for two years now, and it's still multi-year. So we've got a good long way to go yet in that relationship. And I have been pleased by how we have boosted our take rate. I think I've in the past made it clear that we needed to do that for the economics of the deal to really make sense for us. Of course, if we can, as we are working to extend the average life of the customer that we generate from HP, then it will do even better than we were originally expecting. So again, that's why we are doing a lot of work around other services so that we can encourage that HP source to customize to stay with us over a longer period of time.

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**Phil Winslow** - Credit Suisse - Analyst

Also, just to switch gears for a moment onto the storage business. I think we have time for one more question before we go to the breakout. But storage -- can you give us some sense (technical difficulty) especially as you put Backup Exec and NetBackup back together. So, one, just on the trends on the demand-side, and then, two, just from a cost perspective how is that helping to the efficiency of that segment?

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**James Beer** - Symantec - EVP and CFO

Yes. It is helping on the cost side, but I wouldn't say that that is the material driver. I think it's more important in terms of our ability to effectively share technology so we can get better technology to market more quickly. An example would be how the latest version of Backup Exec, which just came out a little while back, was very much capable for the virtualized world. NetBackup had been in a very strong position vis-a-vis virtualization for a couple of years. So that's been a clear benefit that we've seen as we've shared technology across the now single group.

And the other thing I would just say quickly about the backup business -- I'm pleased we have a much crisper marketing strategy now. And so we are very focused on not letting a competitor, in essence, shoot a perceived gap in the minds of customers between these two products. So we will focus on a crisp marketing approach and bolstering the technological capability of both of these products, which I think are in strong relative positions.

**Phil Winslow** - Credit Suisse - Analyst

Perfect. All right. I think our time is up in the main session. So we are going to be heading just next-door for the breakout. So thank you, James. Appreciate the time.

**James Beer** - Symantec - EVP and CFO

Thank you.

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