

05-May-2022

NortonLifeLock, Inc. (NLOK)

Q4 2022 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Operator: Good afternoon, everyone. Thank you for standing by. My name is Jeff, and I'll be your conference operator today. I would like to welcome everyone to the NortonLifeLock Fiscal 2022 Fourth Quarter Earnings Call. Today's call is being recorded and all lines have been placed on mute to prevent any background noise. After the speakers' remarks, there will be a question-and-answer session.

At this time, for opening remarks, I would like to pass the call over to Ms. Mary Lai, Head of Investor Relations. Miss, you may begin.

Mary Lai

Vice President-Investor Relations, NortonLifeLock, Inc.

Thank you, Jeff, and good afternoon, everyone. Welcome to the NortonLifeLock's Fiscal 2022 fourth quarter earnings call. Joining me today to review our Q4 and full year results are Vincent Pilette, CEO; and Natalie Derse, CFO. As a reminder, there will be a replay of this call posted on the Investor Relations website along with our slides and press release.

I'd like to remind everyone that during this call all references to the final metrics are non-GAAP and all growth rates are year-over-year unless otherwise stated. A recon of non-GAAP to GAAP measures is included in our press release, also available on our IR website at Investor.NortonLifeLock.com.

Today's call contains statements regarding our business, financial performance and operations, including the impact of the ongoing COVID-19 pandemic on our business and industry, which may be considered forward-looking statements, and such statements involve risks and uncertainties that may cause actual results to differ materially from our current expectations. Those statements are based on current beliefs, assumptions and expectations, and speak only as of the current date. For more information, please refer to the cautionary

statement in our press release and the risk factors in our filings with the SEC, and in particular, Annual Report on Form 10-K for the fiscal year ended April 2, 2021.

And now, I will turn the call over to our CEO. Vincent?

Vincent Pilette

Chief Executive Officer & Director, NortonLifeLock, Inc.

Thank you, Mary, and welcome, everyone. Before I start, I want to acknowledge the current geopolitical uncertainties the world is facing. Our hearts and support go out to those impacted including friends, families and customers, and of course, we hope for a quick and peaceful resolution.

As we come together for this call, I also want to take a moment to thank each and every NortonLifeLock employee for doing their part to deliver the success we've had today. NortonLifeLock's third year of growth is the result of an ambitious team working to build a great business together. Cyber safety is more needed than ever. Our vision and strategy are clear, and our culture of authenticity in action that we're building upon every day gets me very excited about our future.

Q4 is our 10th straight quarter of top line growth with revenue and bookings up 8% and 6%, respectively, in constant currency. The quarter's performance was particularly important as it lapped a strong COVID-led double-digit growth quarter a year ago and the anniversary of our Avira acquisition. Although slightly more pronounced in identity and privacy, our growth in Q4 was once again broad-based across products and regions as our customer needs are truly global.

Our customer base is now 50% international as we continue to focus on developing our product offering to be available in over 150 countries. To reach new customers, we have continued our strategic investments in both direct and indirect channels. Total direct customers are now over 23.5 million, with nearly 600,000 net new customers added year-over-year and over 120,000 customers added sequentially.

Our indirect or partner business delivered double-digit revenue growth for the sixth straight quarter, up 20% in Q4, and we added almost 100,000 customers sequentially in the employee benefits and mobile channels alone. We delivered these results while we expanded our Q4 operating margin ahead of the Avast merger and grew EPS 15%. Natalie will go more into the Q4 financial details later on the call.

With \$2.8 billion in revenue, up over 10% year-on-year, fiscal 2022 was the third consecutive year of bookings growth and customer expansion. It was made possible by our ongoing investments in product innovation and go-to-market activities, shaping up the portfolio and expanding into new ways to reach customers. Fiscal 2022 was also an important year for us as it delivered great progress towards our three- to five-year long-term objectives, one of which is delivering \$3 in EPS.

Less than three years ago, we launched the first integrated consumer cyber safety platform, Norton 360, and now we have over 14 million members trusting us to protect them more comprehensively. Our Norton 360 has unparalleled scale and reach in over 50 countries to date and growing. Our customers recognize the value we provide, which is also supported by our strong retention rate of over 85% and annual ARPU of \$107 as we exited fiscal year 2022.

We still have plenty of work and room to educate more of our customer cohorts on the need for more comprehensive cyber protection, which is an integral part of our growth strategy moving forward. So, let me

provide some more details on our organic strategic areas that supported fiscal year 2022 results and will continue to be key to our strategy moving forward into next year.

First, with product, we maintained our accelerated pace of product innovation and introduced more than 10 new products and features this year, broadening our product line to incremental privacy and identity solutions. Just to name a few, Norton AntiTrack, MyPrivacy Assistant, Social Media Monitoring, and the expansion of Social and Dark Web Monitoring to 16 additional countries in the fiscal year.

In the areas of identity and privacy, we continue to step up our international efforts, expanding our product portfolio into new countries. In Q4, we launched Norton Identity Advisor Plus in the UK to help consumers resolve their identity theft issues. It is a robust identity monitoring solution that also provides access to a dedicated identity restoration specialist to victim of identity theft.

In Germany, we launched Avira Identity Assistant, which includes both Dark Web Monitoring and localized support from identity restoration specialists. Moving forward, we still have a big opportunity to expand our product portfolio internationally, especially in the areas beyond core security.

The second area of investment is our go-to-market. In the last 12 months, our initiatives evolved rapidly as we adapted to changing environments and customers' behaviors and expectations. In our direct-to-consumer business, we balance social and traditional long and short form of marketing activities.

During the year, we continued to increase our investment in top-of-the-funnel and performance marketing. While we faced higher advertising costs, we continue to believe we have plenty of room to increase our effectiveness and return some of our investments as we operate well within our target range for customer acquisition costs. That is particularly true as we continue to increase the value and retention along the customer journey towards total cyber safety.

Our partner business continues to outperform expectations with a record 23% revenue growth in fiscal 2022. This is the result of growing indirect customers and signing up new accounts in our telco, mobile and employee benefit channels, providing us with solid momentum into fiscal year 2023.

Our partnership with TELUS in Canada, which was our first offering of identity theft protection and restoration service outside the United States, has begun to bear fruit. We've also gained meaningful market share in Japan with our Dark Web Monitoring mobile attach product. Our mobile and employee benefit channels were both up double-digits for the sixth consecutive quarter with about 300,000 net new customers added for the year in these two channels.

Going into fiscal year 2023, we will continue to focus on building a multichannel environment, including direct acquisition, marketing partnerships, employee benefits, retail and e-tail, OEMs, service providers, and new pathways established earlier this year such as the freemium channel. To that effect, Travis Witteveen will join us as CEO of Avira, has taken the leadership of a newly formed commercial organization, focused on all customer acquisition activities.

Building on last year's momentum, we are working to strengthen our business with more intentional go-to-market efforts, focused on market segmentations, targeted geographies, and increased sales motions to drive higher adoption of a comprehensive cyber safety offering across the globe.

So, we've talked about product innovation and go-to-market as two of our key growth drivers. A third one is our branding initiatives. In fiscal 2022, we focused on driving higher engagement with our customers by diversifying our marketing investments. Our marketing dollars went towards a combination of digital and traditional media in driving brand awareness and consideration, increasing brand trust and brand loyalty.

One memorable marketing campaign that comes to mind is our award-winning [indiscernible] (00:10:14) Norton 360 campaign launched last year. The creative storytelling for this campaign made our Norton brand more relatable, relevant and localized to many countries across the globe. It was activated in both DTC and partner channels via traditional TV, OTT, digital video, radio, and social media.

For this specific campaign, our performance metrics showed great improvements in response rate and digital video click-throughs. Moving forward, we will continue to balance these investments to different channels and across impactful storytelling to make cyber safety more relatable to consumers' day-to-day activities.

Finally, customer engagement and satisfaction is another critical component of our strategy as we built the integrated cyber safety offering. We have improved the overall customer satisfaction in the last 12 months and increased our Net Promoter Score to over 45. We put our customers first in everything we do, we ensure the voice of the customer is heard, and we generally embrace an end-to-end customer experience. We know that in this area, it is a never-ending journey that we have embarked upon with plenty of opportunities to improve and delight our customers.

So, product innovation, diversified go-to-market channels, a multi-brand strategy, and customer insight and satisfaction are key priorities and critical components of our strategy to maximize our growth moving forward and scale up the best cyber safety platform for people everywhere. Cyberattacks have only elevated and evolved to become an unfortunate part of everyday reality. Consumers need more than just device security. There will be more touch points into identity, privacy, and other trust-based adjacencies.

Our mission is to build easy-to-use technologies and solutions that help safeguard consumers. So, looking ahead, we are well positioned to drive the transformation of consumer cyber safety and pursue our long-term objectives. While we recognize that geopolitical events or macro-level headwinds can create bumps along our journey, we know that consumers will continue to need comprehensive protection of their digital lives.

As we pursue our vision, we have multiple growth levers, strong profitability, proven financial resiliency, and we are backed with our robust balance sheet and cash flow generation. Of course, we also know we have a lot of work ahead. As we enter a new fiscal year, you should continue to expect from us innovation and portfolio expansion and the pursuit of new opportunities in customer acquisition, cross-selling, and retention activities.

So, finally, a brief update on our proposed merger with Avast. Our anticipated closing of the merger remains at mid- to late-calendar 2022. We're actively engaged in the Phase 2 review process with the UK market authorities and continue to strongly believe that this transaction can only benefit consumers across the globe in a very competitive and dynamic market. In the meantime, we will continue to move our business forward. We're still very eager to coming together with Avast to accelerate the transformation of consumer cyber safety and power digital freedom for everyone.

And now, let me turn the call over to Natalie to cover the results in more detail.

Natalie M. Derse

Chief Financial Officer, NortonLifeLock, Inc.

Thank you, Vincent, and hello, everyone. For today's discussion, I will focus on non-GAAP financials, starting with our full year fiscal 2022 results, followed by our Q4 performance details, and then provide our outlook for Q1 fiscal year 2023.

Fiscal year 2022 was a strong year for our business. We met our growth expectations through consistent execution of our plans, and in turn, completed a successful first year towards our long-term objective. We finished fiscal 2022 with over \$2.8 billion in revenue, a growth of 10.4% in constant currency, slightly above our guidance. Our bookings for the year grew 8% in constant currency, our second consecutive year of high-single-digit growth after years of flat to low-single-digit growth.

We achieved an annual operating margin of 52.7%, up 300 basis points year-over-year. On the bottom line, we delivered \$1.75 in EPS, over 20% growth year-over-year and at the high end of our original guidance of \$1.65 to \$1.75. We have scaled to over 23.5 million direct customers while maintaining our industry-leading customer retention of 85% and monthly ARPU of \$8.90. As we prepare for the merger with Avast, we ended the year with approximately \$1 billion in free cash flow, up 38% year-over-year.

Shifting to our Q4 results, we delivered another excellent quarter amidst rising macro headwinds, demonstrating our operating discipline and the overall resiliency of our business. Our Q4 revenue was \$717 million, up 8% in constant currency and up 6% in USD, including a 2-point currency headwind, translating to an in-quarter impact of \$15 million.

Since the start of the calendar year and even more pronounced in March and April, we have seen both the euro and yen depreciate against the dollar. It is the second quarter in a row in which currency has been several points of headwind to our top line growth and we anticipate these headwinds to increase as the spot rates have continued to trend unfavorably.

Q4 bookings grew 6% in constant currency on top of a record 13% constant currency bookings growth in Q4 last year. This was our 10th consecutive quarter of sequential net new customer adds. We added 576,000 net new customers year-over-year and 123,000 quarter-over-quarter. Q4 growth was broad-based with the higher mix in identity, as expected, given the timing of the US tax filings.

Looking at our performance in Q4 across other key operating metrics, overall customer unit retention was slightly above 85% and our monthly average revenue per user, or ARPU, expanded sequentially again to \$8.90. Retention is a major focus for us and it remains strong, including newer cohorts that have renewed since last year. We drew up retention improvement this year, even as our customer base mix shifts more towards first year and newer customers. As a result, our direct business grew 4% in Q4 and 8% for the year.

Our partner business continued its strong growth momentum in Q4, up 20% year-over-year, and marking the sixth consecutive quarter of double-digit growth. Our international business continued to climb as we gained more traction in broadening the distribution and adoption of our identity offerings.

Our indirect business now represents nearly 13% of our total business compared to two years ago when it was 10% of our business. Our indirect business has a longer sales cycle and takes time to scale. We continue to dedicate more resources in this area as we focus on broadening our go-to-market reach, diversifying our customer acquisition channels, and driving this as a key tenant of our long-term growth strategy.

Turning to profitability, Q4 gross margin sustained at 87% and our operating margin for the quarter was up 54.5%, up 400 basis points year-over-year, driven by both our revenue growth and our cost discipline. In anticipation of

the Avast merger, our G&A functions continued to run lean, now at less than 4% of revenue. This does not mean we are not investing. We've continued and repeatedly funded our business by optimizing our cost structure and being intentional in how we allocate marketing dollars to help the ROI.

With regards to R&D, we make investments in new product developments to drive our innovation efforts. We invest for growth and we will continue to operate with a disciplined approach in driving our growth initiative, while remaining nimble and ready to execute on the cost synergies we committed for the merger.

Q4 net income was \$271 million, up 16% compared to last year. Diluted EPS was \$0.46 for the quarter, up 15% and at the high end of our guidance range. We remain committed to driving EPS expansion and achieving our long-term EPS objective of \$3.

Turning to our cash flow and balance sheet, Q4 operating cash flow was \$326 million and free cash flow was \$324 million. Our net debt leverage lowered to approximately 1.2 times net in the quarter, but please note this does not include any of our expected acquisition financings as it does not become funded until deal close. As a reminder, we previously announced that we successfully raised all the required financings we had planned for the Avast merger.

In Q4, we have returned approximately \$73 million to shareholders in the form of a regular quarterly dividend of \$0.125 per common share. In addition, we settled a partial repurchase of \$100 million from our 2% senior convertible note due in August of this year. This was completed in March and the repurchased shares represented 16% of our total outstanding note. For Q4, the board of directors has approved a regular quarterly cash dividend of \$0.125 per common share to be paid on June 22, 2022 for all shareholders of record as of the close of business on June 8, 2022, as described in the press release.

As of the end of Q4, we have approximately \$1.8 billion remaining in the current share buyback program as we have not deployed any buybacks due to the pending Avast merger. However, in light of the longer timeline to close Avast, we have taken certain steps to resume share buybacks in a limited capacity with the consent of both Avast and the UK Takeover Panel.

Now, turning to our outlook for Q1. With the ongoing macro environment and the significant strengthening of the dollar in recent weeks, we anticipate increasing currency headwinds. But I want to emphasize that the underlying health of our business remains strong. We expect Q1 non-GAAP revenue in the range of \$705 million to \$715 million, which translates to 5% to 7% growth year-over-year in constant currency and reflects an FX headwind of 3 points of growth.

We have assumed April average currency rate considering the material US dollar depreciation (sic) [appreciation] we have seen in March and April. We expect Q1 non-GAAP EPS to be in the range of \$0.42 to \$0.44 per share, which reflects \$0.03 of currency headwind year-over-year and approximately \$0.02 of incremental dilution from the new accounting guidance and convertible debt with a cash conversion feature. As a reminder, we have \$525 million in convertible notes which will mature in August.

For the full fiscal year 2023, we expect bookings growth to be in similar ranges of mid-single-digits in constant currency. Considering the ongoing CMA discussion and timing of the Avast merger, we will not be providing an annual P&L guidance at this time. We hope to provide more details when we close this merger.

In summary, we had a momentous year and I want to thank our team for executing and delivering our fiscal 2022 results. I am proud of what our team has accomplished so far and look forward to continuing down our path to

achieving our long-term objectives. I believe we have the ingredients to scale and the right playbook to grow our company. We have multiple growth levers that we will continue to pull, including new product innovation, driving more cross-sell and upsell, improving customer experience, expanding customer reach, and more M&A.

We will remain disciplined in how we operate. But keep in mind, we are still in the early days of our transformation and our growth may not be a straight upwards trend line. There will be ebbs and flows. However, we will proceed forward with our strategy and drive fiscal year 2023 to be another deposit in achieving our triple double: double the number of customers, double our earnings per share, with double-digit rates of growth.

As always, thank you for your time today, and I will now turn the call back to the operator to take your questions. Operator?

QUESTION AND ANSWER SECTION

Operator: [Operator Instructions] First question from the line of Hamza Fodderwala of Morgan Stanley. Your line is now open.

Hamza Fodderwala
Equity Analyst, Morgan Stanley & Co. LLC

Q

Hi. Good evening and...

Vincent Pilette
Chief Executive Officer & Director, NortonLifeLock, Inc.

A

Hi, Hamza.

Hamza Fodderwala
Equity Analyst, Morgan Stanley & Co. LLC

Q

...thank you for taking my question. So, Natalie, I just had a clarifying question for you first. I think you said FY 2023 bookings growth would be in the mid-single-digit range. Did I hear that right?

Natalie M. Derse
Chief Financial Officer, NortonLifeLock, Inc.

A

Yes.

Hamza Fodderwala
Equity Analyst, Morgan Stanley & Co. LLC

Q

And I think from what I can tell on an organic basis that generally tends to trend in line with revenue growth, like on a trailing 12-month basis. So, I'm curious if there is any disconnect in that relationship at all.

Natalie M. Derse
Chief Financial Officer, NortonLifeLock, Inc.

A

Well, there's no disconnect. I would say yes. Just in concept, yeah, bookings one year will indicate where our revenue is trending prior the next year with the exception, of course, of any of our revenue streams that don't get counted in bookings. So, yeah, you're on the right track there.

Hamza Fodderwala

Equity Analyst, Morgan Stanley & Co. LLC

Q

Got it.

Vincent Pilette

Chief Executive Officer & Director, NortonLifeLock, Inc.

A

But in short, Hamza, we do not know anything special outside of Natalie's mentioned delayed 12 months. There's no anything special that we know about, and so, yes, bookings and revenues should trend.

Hamza Fodderwala

Equity Analyst, Morgan Stanley & Co. LLC

Q

Okay. And then, just on the macro, I think you alluded to some macro and some currency headwinds in particular, but the underlying demand environment still remains strong. I'm just curious, incrementally, if you guys are seeing anything around just in terms of looking at online traffic, in terms of looking at customer interest, if there has been any indication of a more material slowdown. Obviously, the macro situation is less certain. So, I'm just curious if you're seeing that at all in some of your leading indicators of demand.

Vincent Pilette

Chief Executive Officer & Director, NortonLifeLock, Inc.

A

Yeah. And we're not immune to the macro-level headwind. While we're definitely aware of inflationary pressures, you've seen the PC shipment decline here in first calendar quarter, we definitely see marketing expense rates increasing, which is also a sign of tighter environment and everybody pushing. And so, we navigate through that as we mentioned. We're not immune to that, but we do have a lot of different levers as we look at our business to drive growth. On one side, it's all about educating consumers on our comprehensive cyber safety portfolio as we expand identity and privacy outside of the US, it's something we believe we have a big opportunity.

As we continue to drive initiatives on retention increasing, first year retention has been a priority for 12 months and we've made progress in that and we'll continue to make progress. And then, the third one is really about the ARPU as we expand the higher offering, especially in international. We mentioned that about half of our customers are located outside of the US, where the ARPU is about half of that of the US, on average, wherever you see it's not the same per country and per offering, but we do feel we have a big opportunity on all three levers to navigate through the macro level headwind. Definitely, Q1 calendar had a lot of uncertainties and volatilities as, of course, you've seen and as reported by many other companies.

Hamza Fodderwala

Equity Analyst, Morgan Stanley & Co. LLC

Q

Got it. Makes a ton of sense. Maybe if I could sneak in one last one. Just around the launch of the identity protection solution in UK and Germany, I'm curious what the reception of that has been from customers, and how would you assess the maturity level of those markets as it relates to those products relative to the US today?

Vincent Pilette

Chief Executive Officer & Director, NortonLifeLock, Inc.

A

Yeah, definitely. So, digital identity for me is kind of the next element of your digital life you want to protect, right. If it all started about protecting your device, then all the time you evolve and wanted to protect your devices, then all of your data and transactions moving to the cloud, and now suddenly the sum of your actions became like a digital identity. Every digital user, if you want, has multiple identities, even a lot more on average if somebody has

five to seven devices and identities – digital identities is 10 to 50 digital identities. And so, protecting those may mean different things per country, in the US, very social security number centric, very credit centric; other countries, different elements. And then, each countries, internationally continue to mature more into this digital world. As you may know, the European Union is launching now the second version of the digital wallet and all of that creates opportunity for hackers unfortunately and then for us to provide protection.

I think it takes time to build momentum internationally. Over a year ago, we launched LifeLock in Canada in partnership with TELUS, and here in this last quarter, we've seen momentum picking up. We know it's a multiyear effort. Similarly in Japan, we launched in a different way, different format than Canada, and we've got great traction there being the leader in this space. Just this quarter, we launched in the UK, we know that's the market that's more mature to adopt a similar and very service-oriented, like in the US, then Germany. Other countries are still maturing, and I think we are here for the long-term and we know it is long-term initiatives to build that total comprehensive digital protection for consumers outside of the US.

Hamza Fodderwala

Equity Analyst, Morgan Stanley & Co. LLC

Q

Okay. Thank you, [indiscernible] (00:30:11).

Operator: [Operator Instructions] Our next question from the line of Saket Kalia of Barclays. Your line is open.

Saket Kalia

Analyst, Barclays Capital, Inc.

Q

Okay, great. Hey, guys. Thanks for taking my questions here.

Vincent Pilette

Chief Executive Officer & Director, NortonLifeLock, Inc.

A

Hi, Saket.

Saket Kalia

Analyst, Barclays Capital, Inc.

Q

Hey, Vincent. Hey, Natalie. Natalie, I just want to clarify something from just the last line of questioning. So, I think we talked about sort of a mid-single-digit bookings growth implied in the Q1 guide and maybe just the disconnect with revenue growth. My understanding was that, the disconnect was FX. Is that the wrong way to look at it or did I just maybe misunderstand, just any thoughts on that. Is it FX that's primarily the difference between bookings growth and revenue in the as-reported sort of revenue guide?

Natalie M. Derse

Chief Financial Officer, NortonLifeLock, Inc.

A

Yeah. I mean the difference between bookings and revenue is, bookings is what we recognize in period, and then revenue, of course, as we roll it off the balance sheet, we've got not only the in-period combined with partner and then we've got the deferred revenue balance rolling off the balance sheet. The FX comes into play as the deferred balance rolls off. And so, we obviously need to deal with that, the FX impact, as it rolls off the balance sheet. But I don't see – we talked about in the range of mid-single-digits for bookings, just to reiterate for Q1 guide, just constant currency of 5% to 7%. I'm not sure what disconnect you're talking about.

[indiscernible] (00:31:57)

Vincent Pilette

Chief Executive Officer & Director, NortonLifeLock, Inc.

A

Saket, it's Vincent. Just to add on that, a mid-single-digit bookings growth rate is somewhat in line to – you can assume that full year revenue. Unless you have a significant shift in trends in bookings, then that will take 12 months to catch up. And then, you have, as Natalie mentioned, the currency that gets always reevaluated, the deferred revenue balance gets reevaluated at today's spot rate, and so that can create a slight disconnect as well.

Saket Kalia

Analyst, Barclays Capital, Inc.

Q

Okay, understood. Sorry. Just wanted to make sure I understood, because it was just – I totally get it. Maybe just on to some more fun stuff. Natalie, for you – or actually maybe Vincent, for you, can you just talk about the economics of subscribers that come through the employee benefit plans? I mean, clearly, those are lower ARPU, but I mean we're talking about sort of higher customer acquisition costs, anything that you can just – on the direct side that is. Anything you can just comment on the margin impact or the renewal economics of just subscribers that comes from those – through those employee benefit plans?

Vincent Pilette

Chief Executive Officer & Director, NortonLifeLock, Inc.

A

Yeah. So, first of all, coming back on currency, and no need to apologize, outside of currency would be ahead of our plan. Currency is the major headwind we have faced and we're trying to navigate through it. We know it's temporary and we managed through the implication. That was also why we report our numbers in constant currency, so investors can really assess the true operational momentum we have, and we've also isolated the impact of that currency on EPS. At the end of the day, it is what it is, but it's important for investors to have full transparency on that, so no issue here.

When it comes to EB now, the employee benefits channel, very exciting channel, the reason it's exciting is, it's majorly the LifeLock offering, so it's in the identity space. And many of the accounts we sign up are being sponsored by the employer, sometimes the employees are being asked to pay a portion of it, sometimes it's fully subsidized, and it's a big important channel in which we can continue to grow up the offering. The ARPU is slightly in line to our overall portfolio ARPU. And in identity, I would say, it's a channel that's about 20% lower in terms of the channel cost [indiscernible] (00:34:25) lower ARPU in that identity. But a cost structure, as you know for us, is more a step function cost structure. It's not a variable cost structure. And so, the direct contribution of any incremental customers that would benefit from our LifeLock offering in the EB channel is – that's a great drop through. So, economically, we feel really good about that channel that we continue to invest in.

Saket Kalia

Analyst, Barclays Capital, Inc.

Q

Got it. That's helpful. Natalie, maybe just last one for you, if I could squeeze in. You mentioned just the share buyback authorization that we haven't been able to use for a while. Can you just walk through the mechanics of, is there a maximum that you're allowed to buy back just kind of given the – while we're in waiting mode for Avast? Just any sort of mechanics that you can lay out on kind of how the buyback could work potentially between now and potential deal close.

Natalie M. Derse

Chief Financial Officer, NortonLifeLock, Inc.

A

Yeah. Thanks, Saket. Share buyback, as we said on the call and as you guys know, we haven't been able to do any in fiscal year 2022. So, we are looking forward to in 2023 to be able to use that. We've talked about it as a

key tenant of our capital allocation strategy, but we've just been restricted. So, we're really looking at, as we go forward, really trying to figure out, is there any opportunity in order to get back in and do opportunistic share buybacks.

It's really – it's very, very specific in terms of not only when we can do it, we've got to, obviously, work across the aisle with Avast and UK Takeover Channel. So, the mechanics are very, very specific and there's very, very limited opportunity for us to do it. We have worked with them and gained some very limited ability to do it as we looked forward into 2023, but we still have to work out the mechanics on the execution.

Saket Kalia

Analyst, Barclays Capital, Inc.

Q

Got it. That's very helpful. Thanks, guys.

Vincent Pilette

Chief Executive Officer & Director, NortonLifeLock, Inc.

A

Thank you.

Operator: At this time, there are no more questions. I will turn the call back to Vincent Pilette, CEO, for closing remarks.

Vincent Pilette

Chief Executive Officer & Director, NortonLifeLock, Inc.

Thank you, Jeff. As I reflect on our transformation plan from a year ago, I'm incredibly proud of our strong results and the team's execution. Certainly, there are some ups and downs and growing pains, but we are intensely focused on consistent execution, investing and driving for growth to scale the business on a global level. I'm incredibly optimistic about our future. So, thanks for joining, thanks for your continued support of NortonLifeLock, and we look forward to connecting with you very soon. Stay safe and stay well.

Operator: And this concludes today's conference call. Thank you, everyone.

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NORTONLIFELOCK PROFIT FORECAST

This document contains the following statements regarding NortonLifeLock's anticipated earnings per share ("EPS"):

"We expect Q1 non-GAAP EPS to be in the range of \$0.42 to \$0.44 per share, which reflects \$0.03 of currency headwind year-over-year and approximately \$0.02 of incremental dilution from the new accounting guidance and convertible debt with a cash conversion feature."

The above statement (the "**NortonLifeLock Profit Forecast**") constitutes an ordinary course profit forecast for the purposes of Rule 28.1(a) and Note 2(b) on Rule 28.1 of the UK's City Code on Takeovers and Mergers (the "**Code**").

Notes

References to "GAAP" in the NortonLifeLock Profit Forecast are to U.S. GAAP, being the accounting policies applied in the preparation of NortonLifeLock's annual results for the year ended April 1, 2022. The press release published by NortonLifeLock on May 5, 2022, being the same date as the earnings call of which this document constitutes a transcript, contains the following explanation regarding non-GAAP financial measures:

"We use non-GAAP measures of operating margin, net income and earnings per share, which are adjusted from results based on GAAP and exclude certain expenses, gains and losses. We also provide the non-GAAP metrics of revenues, constant currency revenues, and free cash flow, which is defined as cash flows from operating activities, less purchases of property and equipment. These non-GAAP financial measures are provided to enhance the user's understanding of our past financial performance and our prospects for the future. Our management team uses these non-GAAP financial measures in assessing NortonLifeLock's performance, as well as in planning and forecasting future periods. These non-GAAP financial measures are not computed according to GAAP and the methods we use to compute them may differ from the methods used by other companies. Non-GAAP financial measures are supplemental, should not be considered a substitute for financial information presented in accordance with GAAP and should be read only in conjunction with our consolidated financial statements prepared in accordance with GAAP. Readers are encouraged to review the reconciliation of our non-GAAP financial measures to the comparable GAAP results, which is attached to our quarterly earnings release, and which can be found, along with other financial information including the Earnings Presentation, on the investor relations page of our website at Investor.NortonLifeLock.com. No reconciliation of the forecasted range for non-GAAP EPS guidance is included in this release because most non-GAAP adjustments pertain to events that have not yet occurred. It would be unreasonably burdensome to forecast, therefore we are unable to provide an accurate estimate."

Basis of preparation

The NortonLifeLock Profit Forecast has been prepared on a basis consistent with NortonLifeLock's accounting policies, as summarized in the paragraph entitled "Use of Non-GAAP Financial Information" above. The NortonLifeLock Profit Forecast excludes any transaction costs attributable to the Merger or any other associated accounting impacts as a direct result of the Merger.

Assumptions

The NortonLifeLock Profit Forecast is based on the assumptions listed below.

Factors outside the influence or control of the NortonLifeLock Directors:

- There will be no material changes to existing prevailing macroeconomic or political conditions in the markets and regions in which NortonLifeLock operates.
- There will be no material changes to the conditions of the markets and regions in which NortonLifeLock operates or in relation to customer demand or the behavior of competitors in those markets and regions.

- The interest, inflation and tax rates in the markets and regions in which NortonLifeLock operates will remain materially unchanged from the prevailing rates.
- There will be no material adverse events that will have a significant impact on NortonLifeLock's financial performance.
- There will be no material adverse events that will have a significant impact on the timing and market acceptance of new product releases and upgrades by NortonLifeLock.
- There will be no business disruptions that materially affect NortonLifeLock or its key customers, including natural disasters, acts of terrorism, cyber-attack and/or technological issues or supply chain disruptions.
- There will be no material changes to foreign exchange rates that will have a significant impact on NortonLifeLock's revenue or cost base.
- There will be no material changes in legislation or regulatory requirements impacting on NortonLifeLock's operations or its accounting policies.
- There will be no new material litigation and no unfavorable resolutions of existing material litigation in relation to any of NortonLifeLock's operations.
- The announcement of the Merger will not have any material impact on NortonLifeLock's ability to negotiate new business.

Factors within the influence and control of the NortonLifeLock Directors:

- There will be no material change to the present executive management of NortonLifeLock.
- There will be no material change in the operational strategy of NortonLifeLock.
- There will be no material adverse change in NortonLifeLock's ability to maintain customer and partner relationships.
- There will be no material acquisitions or disposals.
- There will be no material strategic investments over and above those currently planned.
- There will be no material change in the dividend or capital policies of NortonLifeLock.
- There will be no unexpected technical or network issues with products or processes.

NortonLifeLock Directors' confirmation

With the consent of Avast, the Panel on Takeovers and Mergers has granted a dispensation from the UK Takeover Code requirement for NortonLifeLock's reporting accountants and financial advisers to prepare reports in respect of the NortonLifeLock Profit Forecast.

The NortonLifeLock Directors have considered the NortonLifeLock Profit Forecast and confirm that it has been properly compiled on the basis of the assumptions set out in this document and that the basis of the accounting used is consistent with NortonLifeLock's accounting policies.