Symantec Corp.
SYMC

Analyst: Kyle Ritchie
Sector: Information Technology

BUY on SYMC

Price Target: $24.29

Key Statistics as of 11/8/15

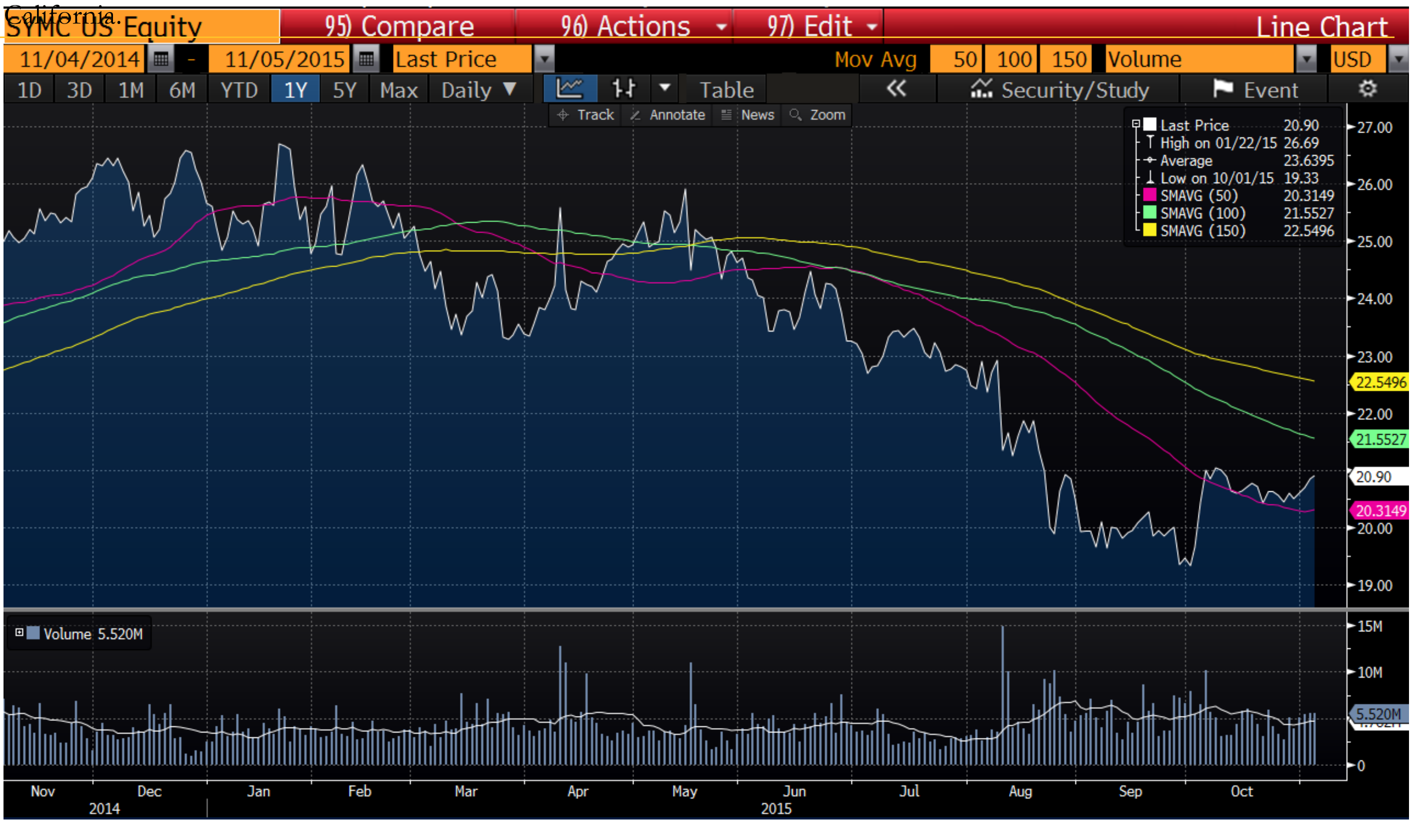
Market Price:	$20.57
Industry:	Information Technology
Market Cap:	$13.9 B
52-Week Range:	$19.07 - $27.32
5 Year Beta:	1.05

Thesis Points:

- Increasing Cyber-Awareness Trend demonstrates positive industry outlook
- Sale of Veritas Technologies for $8 billion creates certain shareholder value
- Consistent value creation and improving margins

Company Description:

Symantec Corporation provides security, backup, and availability solutions to help businesses and consumers protect their information worldwide. The company's products and services protect people from the mobile device and enterprise data center and also to cloud-based systems. Symantec operates through three primary segments: Consumer Security, Enterprise Security, and Information Management. It markets and sells its products and related services through a variety of channels which include their direct sales force, system builders, Internet service providers, wireless carriers, retailers, original equipment manufacturers, and retail and online stores. Symantec is a Fortune 500 company and a member of the S&P 500 stock index. The company was founded in 1982 by Gary Hendrix and is headquartered In Mountain View, California.

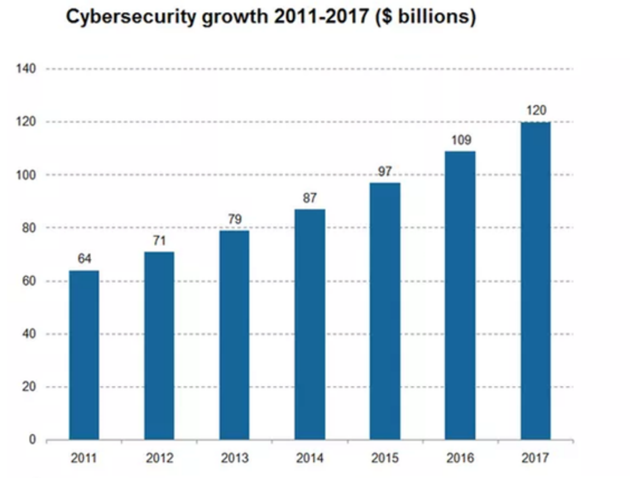


Thesis

Symantec Corp is a leading provider of cyber-security software and has proven to be a profitable company for many years. The increasing cyber-awareness trend along with the ongoing demand for technological advancements in security software proves substantial room for growth. Earlier this year on August 11 Symantec announced its sale of Veritas Technologies for $8 B in cash, an information management company previously acquired in 2005. This sale is expected to close on January 1, 2016 and will provide Symantec with $6.3 billion in net cash proceeds demonstrating certain value creation for its shareholders. Funds from the sale of Veritas will also allow Symantec to realign their focus on capital expenditures and potential acquisitions in the ever-growing cybersecurity market. Symantec's years of experience in this industry along with their notable market share pose an opportune time for investors to buy. This report includes an analysis and forecast of the SYMC cyber-security stock price after the separation.

Industry Outlook

The cyber-security industry has been in a continuous growing demand over the past few years and there are no indications of this trend slowing down. This industry is driven by the growing number of cybercrimes along with the realization of how important it is for corporations to protect themselves. The increasing awareness is fueled by the infamous cyberattacks that have occurred over the years. Corporations that have endured substantial losses both internally and externally include: Visa and MasterCard in 2012, Target in 2013, Home Depot in 2014 and JP Morgan & Chase announced a data breach also in 2014. The result of these major attacks on notable corporations being publicized increases awareness across the globe. The ultimate outcome is increasing spending on cyber-security. According to the research firm Gartner, a credible information technology research and advisory company, cybersecurity spending has grown 11.5% since 2014 and is expected to grow another 12.4% in 2016. The following chart demonstrates the forecasted spending in billions for cybersecurity software.



Cyber-security spending is estimated to be $97 billion in 2016 due to the increasing awareness of security threats.

Porter's Five Forces

Barriers to entry in the cybersecurity software industry is relatively low. History shows, and as evidenced by the substantial number of players that are currently competing in this industry, there are always potential new entrants. The barrier for this industry itself revolves around the strategic implementation and the development of an idea that competes and challenges current security protection methods. Threat of substitutes is low. There are high costs involved with switching from one software security to another. Customers in this industry require special customization which makes it difficult to switch providers. The bargaining power of suppliers is low. Volume is critical to security firms' suppliers and there are very little costs to switching suppliers. Bargaining power of customers is medium-low. As previously mentioned, customers pick their security software that best accommodates their needs. Usually, once a customer has invested in a software security they are not going to switch. The intensity of existing rivalry is high. The cybersecurity industry is a large industry with a number of well-established companies who are constantly seeking a competitive edge. While security companies continue to improve their technology, cyberattacks are also becoming more sophisticated.

Positive Outcome from Veritas Sale

Veritas Technologies specializes in storage management and information backup/recovery software. Symantec acquired Veritas eleven years ago in order to unify cyber-security software and information management into one division. The business strategy behind this acquisition was part of a larger consolidation trend in corporate software that many of Symantec's competitors were also adapting to. This trend was driven by a critical need for businesses to have a "one-stop provider" of tools for data storage, security and management. Symantec also benefitted from the acquisition from major cost cutting and being able to now offer a bundle of products. At the time, Symantec had 40% of the $2.7 billion annual market for anti-virus software and the economic environment called for a change to sustain its position. On Dec 17, 2004, Symantec announced its plan to purchase Veritas, yet investors did not react the way the company had anticipated. Investors' concerns revolved around the complicated merging process, meaning the consolidation of product pipelines and corporate strategies would be difficult. During that same week, Microsoft announced its acquisition of Giant Software. The impact of Microsoft's announcement along with concerned investors resulted in an 8% decline in Symantec's shares. On October 9, 2014, Symantec announced that it would be separating into publicly traded companies and later announced on June 28, 2015, that the new entity would be traded under the name "Veritas Technologies." While in 2004 it was strategic to consolidate software products, the new era of the increasing need for data storage and cyber-security threats called for this separation. Also, Symantec was not the first billion-dollar tech competitor to announce a split. EBay Inc. and Hewlett-Packard Company both recently divested their corporation due to this change in the technological environment. The positive outcome of this separation is that Symantec will now have $6.3 billion in net cash proceeds from the sale to realign its efforts on cyber-security and return substantial value to its shareholders. In August earlier this year, the Board of Directors for Symantec authorized an increase in its stock buyback program to $2.6 billion demonstrating value creation.

Continued Commitment to a Balanced Capital Allocation

Capital Allocation Strategy

- Received board authorization to accelerate the return of $2 billion to shareholders, beginning with a $500 million accelerated share repurchase
- In August, Board authorized increase of stock buyback program to $2.6B
- Retaining $0.60 / share dividend per year, significantly increasing Symantec's dividend payout ratio post separation
- Expect to return ~120% of after-tax domestic cash sale proceeds through dividends and stock buybacks over the 18 months post closing
- Committed to strong balance sheet and investment grade rating
- Continue to evaluate alternatives for cash usage ranging from M&A to returning additional cash to shareholders

The points mentioned above in Symantec's capital allocation plan illustrates their continued focus on returning value to its shareholders. The company currently has a substantial cash balance and their capital allocation focuses on retaining $0.60/share dividend per year after the separation from Symantec which is significantly greater than the historical payout.

Consistent Value Creation

The divestiture from Veritas itself is an example of inorganic growth but now leaves Symantec with over $3.7 billion from the sale to invest in internal improvements such as product development. When analyzing the company's adjusted historical ROIC/WACC ratio proves consistent value creation to its shareholders. The company's 5-year average is 1.17.

ROIC	10%	11%	10%	10%	10%	
WACC	7%	9%	10%	9%	9%	5-Year Average
ROIC/WACC	1.56	1.13	0.98	1.11	1.08	1.17

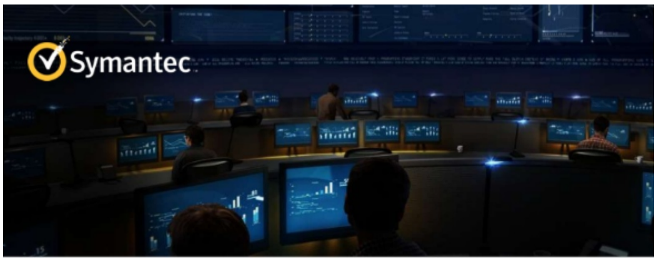
Symantec's EBITDA and Profit Margin have been consistently improving year after year demonstrating continuous improvement in the company's operations. In 2011, the company's EBITDA margin and Profit Margin was 11.3% and 27.2% respectively while this year Symantec has been able to maintain respective margins of 29% and 16%.

Valuation

The valuation of Symantec Corp. is based on a valuation computed by a pro forma used a discounted cash flow method. Attached is an overview of the discounted cash flows year over year along with the underlying assumptions. When valuing Symantec a conservative approach has been used due to the transition from its recent separation. The growth rate in revenue with the exclusion of its recently spun off business segment is -5.12%. This is primarily due to the impact on exchange rates but also incurring separation costs. Analysts have forecasted their growth in revenue for the following years to increase year over year by about 60 basis points. The ability to maintain a strong customer base along with realigning its focus to organic growth illustrates steady growth. The financial metrics of the firm were made to converge with its competitors in the industry based on a five year basis to reach the later continuing period. The pro forma calculated the inclusion of the proceeds from the Veritas sale computing an enterprise value of $16.6 billion. Using this value the share price is estimated to be $24.29 which amounts to a potential 18% return from its current price.

Conclusion

The analysis of Symantec's recent separation and historical performance leads me to believe this company is currently undervalued. Symantec has been a leading competitor in the cybersecurity sector for decades. The positive outlook for this industry along with the company realigning its focus on strengthening its software proves a positive future for the corporation. On November 5 the company announced earnings of $0.44 per fully diluted share which beat it's expected by $0.02 per share. The proceeds from the Veritas sale along with the substantial cash balance available for future investments demonstrates enormous room for growth. Analyzing the valuation of this company using the discounted cash flow method states this is an opportune time to BUY for investors.



Symantec Valuation

	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Revenue Growth Rate			2.52%	-2.67%	-5.12%	-0.50%	0.10%	1.20%	1.60%	2.30%	2.50%
Consumer Security		2975	2109	2063	1887						
Enterprise Security		1197	2168	2100	2063						
Total Revenue		4172	4277	4163	3950	3930	3934	3981	4045	4138	
Cost of Revenue (%)			18%	18%	18%	18%	18%	18%	18%	18%	
Cost of Revenue			769.86	749.34	711	707	708	717	728	745	
Operating Costs:											
Selling and Marketing	48.70%	48.30%	46.4%	43.1%	41.0%						
R&D	14%	14.40%	14.7%	15.5%	18.5%						
Amortization	4.40%	4.30%	4.1%	2.3%	1.2%						
Restructuring and Separation	-	-	1.0%	4.0%	4.0%	-	-	-	-	-	
Total Op. Costs (%)	67.1%	67.0%	66.2%	64.9%	64.7%	64%	64%	64%	64%	64%	
Total Op. Costs			2831	2702	2556	2515	2518	2548	2589	2648	
EBIT (Operating Income)			676	712	683	707	708	717	728	745	
Operating Margin			16%	17%	17%	18%	18%	18%	18%	18%	
Tax Rate		20.0%	25.0%	22.0%	20.0%	21.0%	21.0%	21.0%	21.0%	21.0%	
NOPAT			507	555	547	559	559	566	575	588	
Change in NWC	296	306	47	-283	-146	44.00	44.00	44.00	44.00	44.00	
5-year average			44								
% of Sales		7.3%	1.1%	-6.8%	-3.7%						
CAPEX	-1760	-318	-319	-583	-1,154	-293.1	-293.4	-297.0	-301.7	-308.6	
5-year average			-826.8								
% of Sales		-7.6%	-7.5%	-14.0%	-29.2%						
D&A	270	289	286	156	108						
% of Sales		6.9%	6.7%	3.7%	2.7%	197.5	197.6	200.0	203.2	207.9	
			5.0%								
FCFF						507.2	507.7	513.2	520.7	531.7	
PV of FCFF						466.0	507.7	513.2	520.7	531.7	
Terminal Value										8,596.0	
PV of Terminal Value						5,628.0					
Value of the Firm						8,167.31					
Plus Cash					+	10,191.00					
Minus Debt					-	$ 1,740.00					
Value of the Equity						**16,618.31**					
# of Shares Outstanding						684.20					
Price per Share						**$ 24.29**					
Current Price						**$ 20.57**					
% of Potential Return						18%					

Assumptions:

Years to Convergene	5
Terminal Growth Rate	2.50%
Discount Rate (WACC)	8.84%
Unlevered Beta	1.05
D/E	0.3
Revenue Growth Rate	Analysts