

Symantec

NASDAQGS:SYMC

Analyst: Hugo Perrin
Sector: Information Technology

BUY

Price Target: \$28.36

Key Statistics as of 3/11/2015

Market Price:	\$23.46
Industry:	Integrated Telecommunications
Market Cap:	\$16.26 B
52-Week Range:	\$17.95 – 27.32
Beta:	1.26

Thesis Points:

- Storage spinoff that could accelerate revenue growth
- Improving EBITDA margin
- Product innovation and diversification
- Global need for more performing cyber security systems

Company Description:

Symantec Corporation, together with its subsidiaries, provides security, backup, and availability solutions worldwide. Its products and services protect people and information in any environment from mobile devices and enterprise data centers to cloud-based systems. The company operates in three segments: User Productivity & Protection; Information Security; and Information Management. The User Productivity & Protection segment provides Norton solutions, endpoint security and management, encryption, and mobile offerings. The Information Security segment offers secure socket layer certificates, authentication, mail and Web security, data center security, data loss prevention, and information security services offerings that help its customers ensure their confidential information is secure wherever it resides in the network path, from the user's device to the data's resting place. The Information Management segment focuses on backup and recovery, archiving and eDiscovery, storage, and high availability solutions helping to ensure that its customers' IT infrastructure and mission-critical applications are protected, managed, and available. The company markets and sells its products and related services through its direct sales force and e-commerce platform, as well as through distributors, direct marketers, Internet-based resellers, system builders, Internet service providers, wireless carriers, retailers, original equipment manufacturers, national solution providers, regional solution providers, national account resellers, global/federal system integrators, managed service providers, and retail and online stores. Symantec Corporation was founded in 1982 and is headquartered in Mountain View, California.



Thesis

Symantec will do a spinoff that should end by December 2015. This will allow the firm to improve its resource allocations and therefore, continue to improve the firm's EBITA margin and create value. Ahead of the spinoff, Symantec is currently launching multiple different products aiming at enhancing both individuals and companies' experience with most appropriate products. Corporations are in need for such innovative ideas as the costs due to cyberattacks are constantly increasing during the last ten years.

Storage Spinoff

Following the unanimous decision by Symantec's Board of Directors on October 9th 2014, the company will split its business into two distinct publicly traded companies. This split should end by the end of December 2015. The first one, Symantec, will not change its name and will focus on the security segment and will retain consumer and enterprise endpoint security, endpoint management, encryption, mobile, mail, web and datacenter security services. The other company focusing on the Information Management segment will be called Veritas Technologies. Its business will consist of backup and recovery archiving, eDiscovery, storage management and information availability services. This news came few weeks after Ebay Inc, and Hewlett-Packard Co. announced their intention to separate businesses in order to drive growth.

This plan will also lead to a 10% reduction of the company's workforce, currently at 20,800. The firm had previously announced suppression of the COO position to create a leaner operating structure.

Michael Brown, the firm's current CEO argues that "Symantec's security and Information Management businesses each face unique market opportunities and challenges". For those reasons, "winning in both security and Information Management requires distinct strategies, focused investments and go-to market innovation."

It is to be noted that the new data management business will be distributed tax-free to existing Symantec shareholders. However, there is no precision on the

stock distribution ratio; this will be confirmed later, as reported by the company. In FY 2014, Symantec's security business contributed by \$4.2 billion in revenue, or two-third of the overall revenue. The management business providing data backup generated \$2.5 billion out of the total \$6.7 billion. Operating costs for that specific segment were 77% in FY 2014, while being respectively 63% and 85% for the other two segments.

Another reason for such move is that since Symantec acquired Veritas Software in 2005 for \$13.5 billion, the merge of the two entities did not work as much as it could have. As maintenance revenue accounted for a big portion of the firm's total sales, the new license revenue only represented 11% of total sales in 2014 and 13% in 2013. With two distinct companies, both entities will focus on their main business and try to drive up their top line growth.

Company's segmentation

As stated before, Symantec is focusing on three segments, User Productivity & Protection, Information Security and Information Management.

User Productivity & Protection:

This segment focuses on making it simple for customers to be productive and protected at home and at work. Such products include the Norton solutions, endpoint security and management, encryption, and mobile offerings. Norton is currently two different products which cost between \$49.99 and \$89.99 a year.

Norton focuses on protecting its users against complex threats and addresses the need for identity protection.

This channel is highly competitive as many companies do not hesitate to offer their software products for free. Such competitors include McAfee, Inc., owned by Intel Corp., Microsoft Corp. and Trend Micro. Despite this rough competition, Symantec is the market leader and currently controls 8% of the global market share against 3.5% for McAfee. On other hand, the firm is also facing competition from freeware providers such as Carbonite Inc, Mozy Inc and AVG that owns 9% of the market share. On the storage/backup segment, Symantec is facing competition from IBM, Netapp and CommVault Systems

making the management of information simpler and less expensive for customers.

Symantec's key statistics

Information Security:

This segment protects organizations to securely conduct business while leveraging new platforms and data. Those products include Secure Socket Layer (SSL) Certificates, authentication, mail and web security, data loss prevention and information security services offerings. Such products help customers ensure their confidential information is secure wherever it resides in the network path, from the user's device to the data's resting place. It prevents malicious spams, phishing attacks, malware, hackers and cyber criminals from entering the customer's network. Even if many companies do offer SSL Certificates, Symantec has a competitive advantage as it supports the world's largest and most critical certificate deployments. Currently, 97 of the world's largest financial institutions and 75% of the 500 biggest e-commerce sites in North America use SSL Certificates from Symantec. This shows positive opportunities for Symantec in foreign countries as this will be explained later.

Information Management:

This segment, which will soon become an independent entity under the name of Veritas Technologies focuses on backup and recovery, archiving, store and high availability solutions. The firm's products enable customers to reduce cost and complexity as Symantec is constantly improving the way information is managed through the growing cloud technologies and virtualized environments.

The firm current operations under the Information Management segment soon to be called Veritas Technologies has a significant top line growing opportunity. Studies show the need for information management solutions continues to accelerate and the growth in unstructured data is projected to increase at 42% per year, proving once more the need for Symantec to split its two main divisions to conduct a distinct strategy out of the security business.

Currently, the company's backup services continue to outpace the market. Symantec's NetBackup software, which is designed for enterprise, helps them at recovering capabilities. In this segment, revenue grew at 15% year over year. On other hand, NetBackup appliances sales grew at 22% on the same period. This significant growth was mainly driven by the October launch of the NetBackup 5330 appliance, which delivers twice the performance and capacity of prior models,

Symantec faced a negative revenue growth of 3.3% in FY 2014 and is currently having a negative growth of 2.7%. Projections set that revenue growth should decline in the next two years before recovering in the low 5%. As stated before, this sluggish growth is mainly due to the decrease in revenue coming from the security segment and the failure for Norton's product to gain new markets and customers. Consequently, the company has simplified its Norton offerings to only two simple products. Norton revenue was down 7% to \$461 million. However, as the company has eliminated unprofitable revenue and lower operating expenses, this has resulted in 10.55% of year-over-year operating margin expansion. This also brings a 15% growth year-over-year in operating income. Symantec believes that simplifying its product will mitigate the negative growth. Also, the firm is improving online customer acquisitions, transitioning Norton customers to a subscription service and providing a virus-removal guarantee to customers who opt-in to auto-renewal. Symantec has already acknowledged Norton's revenue to decline for the next four quarters of year-over-year rate of 7%. However, operating margin will be maintained above 50% for that segment. Consequently, even if the revenue is set to marginally decline up to 2016, the EBITDA margin is set to increase from currently 29% to 33% next year, and 35.3% the year after.

As for the Enterprise Security segment, Symantec is the market leader at the enterprise endpoint. Symantec Endpoint Protection revenue grew 5% year over year. On the side of cybersecurity services, the market opportunity represents \$10 billion by 2018, growing at a CAGR of 30%. Symantec is currently the market leader with services including the firm market-leading security monitoring services. It does not seem inappropriate to anticipate that Symantec will take part on this growing business with their current place of market leader.

Despite the negative forecasted revenue growth for Symantec which is mainly driven by the Norton product, the company is currently restructuring its firm in order to deliver better EBITDA margin. By doing so, the firm is currently showing better margins than its peers.

With the coming products innovation that will be discussed below, the firm's free cash flow decline by \$100 million, or 12%, but remains high at \$900 million.

The FCF over operating cash flow is currently at 72%, which is meaningfully high. As for the firm's direct competitors, Microsoft as a ratio of 81% and 50% Intel has a 50% ratio.

Name	Sales 1 Yr Growth	Gross Margin	Gross Margin 3 Yr	Operating Margin	Operating Margin 3 Yr	EBITDA Margin	EBITDA Margin 3 Yr	EPS Before TD 1 Yr	Return on Equity 3 Yr	Return on Capital 3 Yr
Average	13.71%	81.06%	81.79%	14.88%	18.71%	20.71%	24.71%	-39.74%	16.71%	15.59%
III SYMANTEC CORP	-3.33%	82.79%	83.23%	17.72%	16.59%	26.47%	25.37%	19.44%	18.19%	13.38%

The chart above shows that Symantec is most of the time more profitable than the average industry, which is good sign for investors. The only category where the firm is underperforming its peer is on the operating margin side during the last 3 years, at 16.59% against 18.71%. However, as stated before, the firm is currently significantly improving its operating margin and should soon outperform the industry average.

Additionally, Symantec is enjoying a relative high position of cash of \$2 billion, plus \$12 billion in STI, both representing 15% of the firm's total assets, setting opportunities for Symantec to finance projects.

Currently, Symantec has 15% of its liabilities allocated to long-term debt, currently at \$2 billion. The firm entered into a credit facility with a borrowing capacity of \$1 billion. Historically, Symantec has always relied on cash flow from operations, borrowings under a credit facility and issuance of debt for its liquidity needs. The company also issued in Q1 2013 \$600 million in principal amount of 2.75% of junior note due September 2015 and a senior note of \$400 million in principal amount of 3.95% due June 2022. The firm keeps such amount of cash to meet its working capital and capital expenditure requirements. It also allows them to fund cash dividend and stock repurchases for the foreseeable future. In the company's policy, they want to return approximately 50% of FCF to its shareholders through the combination of dividends and share repurchase.

In FY2014, the firm returned a combination of \$500 million worth of share repurchases and distributed \$418 million in dividend, for a total close to \$1 billion, with a NOPAT of \$1.4 billion.

Product Innovation

Symantec is currently the largest security company monitoring 4.3 trillion threats in real time with more than 500 full-time researchers. The firm is constantly experiencing new and more complex threats. The firm has recently hired 65 engineers and data scientists from Narus, a Boeing subsidiary recognized as a leader in cybersecurity, allowing the firm to develop new products.

Concerning the Norton product, Symantec is currently focusing on converting most of its Norton consumers to a subscription service. Such new policy will take few quarters to be fully implemented. Consequently, this business will become more sustainable and avoid current issues related to auto renewal policy changes. It is for those reasons that revenue growth will be negative for the upcoming year. As slightly approached earlier, the firm launched in Q4 2014 NetBackup 5330 appliance. The firm believes this product will attract new customers as it is currently only sold in the North America. As for FY 2014, sales in North America represented 48% of total revenue. Such percentage did not move during the last 3 years. This represents a significant opportunity of growing revenue abroad for Symantec.

Concerning the future Veritas Technologies, Symantec released key products in Archiving, including the possibility to access selected content on mobile devices, a new market where Symantec is already gaining market share. This follows the acquisition in FY2013 of a privately-held provider of mobile application management. This transaction was worth \$28 million in cash. When Veritas Technologies will be implemented, it will continue to heavily enhance its industry-leading backup and recovery, storage management and other key products with released planned over the upcoming year. Consequently, Veritas will bring next-generation solutions to markets designed for the hybrid cloud throughout the year.

Such new products include the Information Map and the IT resiliency Platform. The first is a cloud-based service providing a global view of all the information across an organization in a simple and correlate suspicious traffic with endpoint and email activity monitored by other Symantec products. This will allow a better integration of those different products where they will be able to work

hand in hand to deliver better results. Such product will ship at the beginning of Q3 2015.

Symantec will also deliver in Q3 2015 Advanced Threat Protection (ATP) Email, enhancing the firm’s ability to target attacks coming through email. Also, ATP Endpoint, which will ship in Q3 2015, will compare customer-specific data with the firm Insight reputation global data to reduce false positives and increase the confidence of detections.

The company will bring two new cloud solutions on the Information Protection segment. Symantec already has twice the market share compared to its main competitor. When Symantec will detect a potential attack, a system will automatically protect the critical proprietary information. Instead of only trying to neutralize the attack, a defense system will also protect the most important information of an organization. This will bring a second shield to the key information. An interesting idea is that such products can be bought individually, allowing more flexibility on the customer’s side.

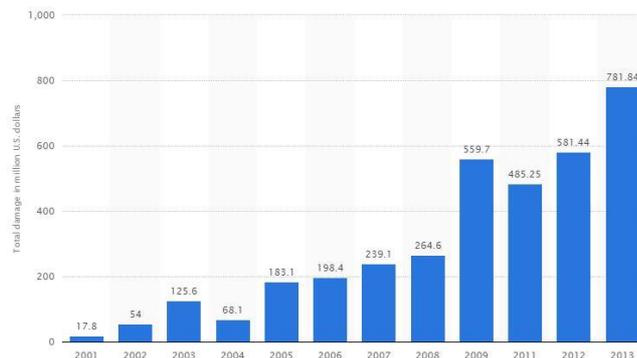
The combination of such coming products represents an investment of roughly \$100 million.

It seems clear that even though Symantec is the market leader in most of its segments, the company continues to heavily innovate in a competitive environment in order to gain even more market share and by making its customers loyal. While looking at the company free cash flow, such investments do not have a dramatic impact on the company financial statements. As shown above, the company’s investments decisions and cash distribution are tightly controlled thanks to the new CFO and CEO who came respectively in March and September 2014.

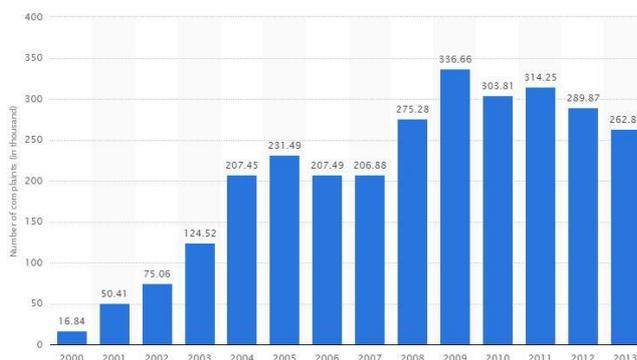
Forecasts

A study shows that despite the U.S. government is constantly cutting its defense budget since the year 2010; the federal government is expanding its cyber warfare capabilities. As Symantec is already a client for several school in the U.S., the city of Miami Beach and the state of Michigan, such public entities have incentives to adopt new and more efficient products to face daily threats. Recently, Obama signed an executive order on sharing cyber security threat information with the federal government arguing it is the “nation’s most pressing national security, economic and safety issues”.

Amount of monetary damage caused by reported cyber crime to the IC3 from 2001 to 2013 (in million U.S. dollars)

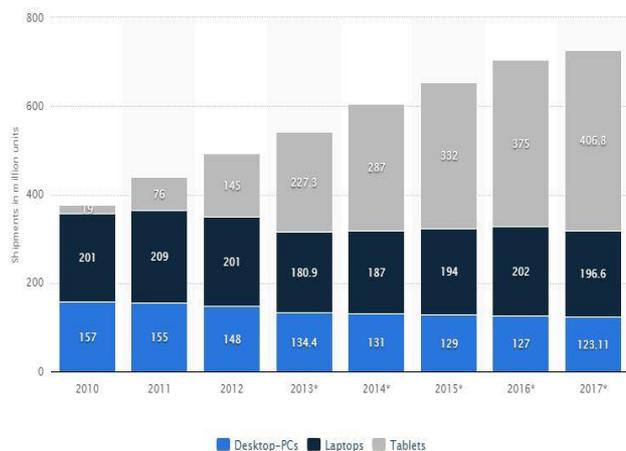


Incoming complaints about internet crime on the IC3 website from 2000 to 2013 (in 1,000)



The two graphs above, provided by the FBI, compile two complementary data. The first chart depicts the monetary damages caused by reported cybercrime from 2001 to 2013. It is to be noted that only crimes that caused more than \$100,000 in monetary damages are reported. The second chart represents that the number of complaints has decreased from 2011 to 2013. This trend could be reassuring but when it is compared with the first chart, this means that they are fewer complaints but the monetary damages are increasing. This means that in proportion, the crimes do cost for victims more than prior years ago. For instance in 2009, the average cost of an attack was \$1,662; compared to \$2,974 in 2013. This represents an 80% increase in terms of monetary damages. This emphasizes the idea that corporations and individuals need and will continue to need software that will protect their most important and vital data. As Symantec is the market leader and as they constantly innovate, the firm appears to be one of the most important actors in this industry.

Forecast for global shipments of tablets, laptops and desktop PCs from 2010 to 2017
(in million units)



Additional Information
Worldwide; IDC

Source:
IDC
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As shown below, the chart provided by IDC (International Data Corporation), the PC sales, in dark blue, declined since 2011, mainly explaining the decline in revenue for Norton. However, the PC business is set to slightly grow in the two coming years. By adding the new products that the firm is going to deliver in the coming months, this should stimulate the demand for Norton products. Accordingly, Symantec predicts its revenue to increase for FY2016.

As for the storage and backup business with a recent revenue growth of 5%, the top line growth should not significantly budge in the coming years.

The current strong dollar could hurt the firm's sales in other countries as 52% of the last three years revenue was executed abroad. However, as all Symantec's competitors are American companies, they will all be subject by this effect. Consequently, the currency risk should not be taken too much into consideration.

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Symantec Corporation		Analyst	Current Price	Intrinsic Value	Target Value	Dividend Yield	Target Return	NEUTRAL	
SYM		Hugo Perrin	\$24.48	\$24.41	\$28.36	2%	18.41%		
General Info		Peers		Market Cap.		Management			
Sector	Information Technology	Citrix Systems, Inc.	\$9,774.96	Professional	Title	Comp. FY2012	Comp. FY2013	Comp. FY2014	
Industry	Software			Brown, Michael	Chief Executive Officer, Presiden	\$ 295,000.00	\$ 300,000.00	\$ 376,364.00	
Last Guidance	Feb-05-2015			Seifert, Thomas	Chief Financial Officer and Execu	\$ -	\$ -	\$ 1,844,702.00	
Next earnings date	5/6/2015			Taylor, Scott	Executive Vice President, Genera	\$ -	\$ 1,607,554.00	\$ 2,584,871.00	
Market Data				Rath, Donald	Acting Chief Financial Officer, In	\$ -	\$ -	\$ 657,841.00	
Enterprise value	\$14,844.71	CA, Inc.	\$14,041.35	Garfield, Mark	Chief Accounting Officer and Ser	\$ -	\$ -	\$ -	
Market Capitalization	\$16,489.71	Check Point Software Technologies Ltd.	\$15,069.94	Mital, Amit	Chief Technology Officer and Ser	\$ -	\$ -	\$ -	
Daily volume	2.89	Palo Alto Networks, Inc.	\$11,578.28	Historical Performance					
Shares outstanding	682.38					SYM	Peers	Industry	All U.S. firms
Diluted shares outstanding	697.25			Growth	12.1%	7.3%	11.8%	6.0%	
% shares held by institutions	93.44%			Retention Ratio	38.7%	55.7%	80.2%	61.6%	
% shares held by insiders	0.19%			ROIC		9.1%	17.1%	11.8%	
Short interest	1.17%			EBITDA Margin	23.9%	32.5%	15.6%	13.7%	
Days to cover short interest	2.19			Revenues/Invested capital	34.4%	67.7%	137.2%	202.3%	
52 week high	\$27.32			Excess Cash/Revenue	14.5%	23.2%	38.4%	18.5%	
52-week low	\$17.95			Unlevered Beta	0.79	1.16	1.01	0.95	
5y Beta	0.92			TEV/REV	2.3x	4.2x	4.4x	2.4x	
6-month volatility	23.82%			TEV/EBITDA	8.5x	13.9x	15.6x	11.3x	
				TEV/EBITDA	10.1x	15.1x	18.7x	15.4x	
				TEV/UFCF	49.6x	32.2x	24.0x	26.8x	
				Non GAAP Adjustments					
				Operating Leases Capitalization	100%	Straightline		10 years	
				R&D Exp. Capitalization	100%	Straightline		10 years	
				Expl./Drilling Exp. Capitalization	0%	N/A		N/A	
				SG&A Capitalization	70%	Straightline		10 years	
				Forecasted Profitability					
						Revenue	NOPLAT	Invested capital	UFCF
				Operating Cash/Cash	0.0%	\$6,615.00	\$1,257.95	\$17,980.65	\$4,080.73
				Unlevered Beta	1.16	\$6,536.95	\$1,268.09	\$21,945.73	\$798.67
				Rev/Invested Capital	70.0%	\$6,591.14	\$1,335.14	\$22,229.11	\$1,051.76
				Continuing Period Revenue Growth	3.0%	\$6,885.47	\$1,450.88	\$22,481.73	\$1,198.26
				Long Term ROIC	12.2%	\$7,289.23	\$1,584.18	\$22,801.30	\$1,264.61
				Invested Capital Growth	Equals to Maintenance	\$7,670.15	\$1,692.70	\$23,365.05	\$1,128.95
				Justified TEV/REV	3.0x	\$7,994.40	\$1,776.60	\$23,905.04	\$1,236.61
				Justified TEV/EBITDA	10.0x	\$8,252.55	\$1,834.81	\$24,447.18	\$1,292.68
				Justified TEV/EBITDA	15.0x	\$8,500.12	\$1,886.75	\$25,023.61	\$1,310.32
				Justified TEV/UFCF	24.0x	\$8,755.13	\$1,936.28	\$25,726.07	\$1,233.82
				Valuation					
				ROIC	WACC	EVA	Enterprise Value	Total Debt	Other claims
				Period	Rev. Growth	Adj. Op. Cost/Rev	Revenue	NOPLAT	Equity
				LTM	-2%	35%	\$6,615.00	\$1,257.95	\$17,980.65
				LTM+1Y	-1%	39%	\$6,536.95	\$1,268.09	\$21,945.73
				LTM+2Y	1%	39%	\$6,591.14	\$1,335.14	\$22,229.11
				LTM+3Y	4%	39%	\$6,885.47	\$1,450.88	\$22,481.73
				LTM+4Y	6%	39%	\$7,289.23	\$1,584.18	\$22,801.30
				LTM+5Y	5%	39%	\$7,670.15	\$1,692.70	\$23,365.05
				LTM+6Y	4%	39%	\$7,994.40	\$1,776.60	\$23,905.04
				LTM+7Y	3%	39%	\$8,252.55	\$1,834.81	\$24,447.18
				LTM+8Y	3%	39%	\$8,500.12	\$1,886.75	\$25,023.61
				LTM+9Y	3%	39%	\$8,755.13	\$1,936.28	\$25,726.07
				Monte Carlo Simulation Assumptions					
				Base	Stdev	Min	Max	Distribution	Monte Carlo Simulation Results
				Revenue Variation	0	10%	N/A	N/A	Intrinsic Value
				Op. Costs Variation	0	10%	N/A	N/A	ly-Target
				Market Risk Premium	6%	N/A	5%	7%	Mean est.
				Long term Growth	3%	N/A	3%	12%	σ(e)
				Terminal Value	0	0.1	N/A	N/A	3 σ(e) adjusted price
									Current Price
									Analysts' median est.