Symantec Corporation

Nasdaq: SYMC | Jeff Galak & Mark Branden | Stern - IAG

The Industry

- Computer Software & Services
  - Security Software & Services
- Provide security solutions for both consumer and corporate needs
- The Security Services industry is expected to grow from a $3.6 Billion industry in 2000 to a $11.2 Billion industry in 2005
  - That’s 262% in 5 years or 29.4% annually

Source: IDC
What does the industry do?

• Consumer products for personal computer security
  – Antivirus software
  – Personal Firewalls
• Enterprise Security
  – Large scale virus protection and filtering
  – Corporate Firewalls/VPNs
  – Vulnerability management

Source: Symantec

Threat Evolution

Source: Symantec
## Key Competitors

<table>
<thead>
<tr>
<th></th>
<th>Network Associates</th>
<th>RSA Security</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Pros</strong></td>
<td>• By focusing on a small number of products, quality increases</td>
<td>• HUGE assortment of products to supply customers with</td>
</tr>
<tr>
<td><strong>Cons</strong></td>
<td>• Consist of only 3 products – McAfee – Sniffer – Magic</td>
<td>• Size does not always win – Lack of personalized service – Low customer retention rate</td>
</tr>
</tbody>
</table>

## Goldilocks

- Like with the three bears, sometimes you just have to get the right fit.

  …this security solution is too big

  …this security solution is too small

  …this security solution is just right
Symantec’s History

- Founded in July 1982
- Public on August 19, 1990
- Peter Norton Computing, Inc. in June 1994
- Binary Research Limited (Ghost) in September 1996
- Intel’s anti-virus business and systems management technology in September 1998
- Quarterdeck Corporation in November 1998
- URLabs in July 1999
- ACT! and Visual Cafe in December 1999
- L-3 Network Security in May 2000
- AXENT Technologies in December 2000
- Foster-Melliar in July 2001
- Lindner & Pelc in October 2001
- L&F in July 2002
- L3 Network Security in December 2002
- Quarterdeck Corporation in Sept 1998
- Intel’s anti-virus business and systems management technology in Sept 1998
- IBM’s anti-virus business and immune system technology in May 1998
- Delrina (WinFax) in June 1994
- Central Point Software in August 1990
- Peter Norton Computing, Inc. in June 1994
- Public in June 1994
- Founded in January 1982
- Source: Symantec


- Symantec provides best-of-breed security solutions for all tiers of a network
  - gateways between the network and the outside world
  - servers that act as the network’s vital organs
  - end-user devices including desktop PCs, laptops and handhelds.

- Symantec Security Response delivers knowledgeable proactive security protection through product security policies and best practice guidelines that can be updated and distributed through automated processes, like LiveUpdate.
- Symantec has response centers strategically located around the world
  - Santa Monica, Calif.
  - San Antonio, Texas
  - American Fork, Utah
  - Sydney, Australia
  - Tokyo, Japan
  - Leiden, The Netherlands


- Symantec Security Services provides information security solutions that incorporate security expertise and global resources to help enable e-business success.
  - Consulting Services provides professional security assessments and planning to help organizations protect business-critical assets.
  - Implementation Services delivers effective deployments of advanced security technologies.
  - Managed Security Services provides outsourced solutions for the management and monitoring of security systems.
  - Education Services offers the knowledge to develop internal security skills and resources.
Consumer Products

Enterprise Security Solutions ’02

Gateway Security Solutions
- Symantec NetProwler
- Symantec Enterprise Firewall
- Symantec Firewall/VPN
- Symantec Web/SMTP Security
- Symantec NetRecon
- Symantec Gateway Security (New)
- “Network IDS Sensor” (New)

Server Security Solutions
- Symantec ESM
- Symantec Intruder Alert
- Symantec AntiVirus CE
- Symantec AntiVirus/Filtering for Exchange and Domino
- “Integrated IDS” (New)

Client Security Solutions
- Symantec AntiVirus CE
- Symantec Client Firewall
- Symantec Client Security

Security Management Solutions
- Symantec Security Management System

Source: Symantec
Net Revenue By Sector

- Consumer Products: 35.00%
- Enterprise Security: 37.36%
- Enterprise Administration: 24.43%
- Services: 0.99%
- Other: 2.23%

Fiscal Year 2001

Forecasted Revenue Growth

Revenue By Mix (Growth)
- Consumer Products: +20%
- Enterprise Administration: +20%
- Enterprise Security: +44%
- Services: +21%

Rest of World: +31%
EMEA: +21%
North America: +25%

Revenue By Region (Growth)

December Quarter 2002
Partners and Alliances

Competitive Advantage

• One-Stop-Shop
  – Virus Protection and Filtering
  – Vulnerability Management
  – Intrusion Detection
  – Firewalls/VPNs
    • Software and Hardware
  – Enterprise Administration

• Name recognition
  – Antivirus…oh you mean Norton?

• Partnerships
Risks

- Interest rate sensitivity
- Exchange rate sensitivity
  - ~ 40% of business is international
- Integration of acquisitions could adversely affect operations
- Intentional disruption of software and website (hackers)
- New OSs could reduce profit margin
- R&D risk
- Consolidation in software industry could impede ability to compete effectively
- High turnover rate in IT sector

Financials

<table>
<thead>
<tr>
<th>Income Statement</th>
<th>Mar 01</th>
<th>Mar 00</th>
<th>Mar 99</th>
<th>Mar 98</th>
<th>Mar 97</th>
</tr>
</thead>
<tbody>
<tr>
<td>Revenue</td>
<td>853.6</td>
<td>745.7</td>
<td>633.9</td>
<td>578.4</td>
<td>472.2</td>
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<tr>
<td>Cost of Goods Sold</td>
<td>75.8</td>
<td>86.3</td>
<td>66.8</td>
<td>60.7</td>
<td>60.3</td>
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<tr>
<td>Gross Profit</td>
<td>777.8</td>
<td>656.4</td>
<td>567.1</td>
<td>517.7</td>
<td>411.9</td>
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<tr>
<td>Gross Profit Margin</td>
<td>91.1%</td>
<td>88.0%</td>
<td>89.5%</td>
<td>89.5%</td>
<td>87.2%</td>
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<tr>
<td>SG&amp;A Expense</td>
<td>521.4</td>
<td>457.3</td>
<td>423.4</td>
<td>390.6</td>
<td>343.7</td>
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<tr>
<td>Depreciation &amp; Amortization</td>
<td>120.8</td>
<td>50.6</td>
<td>36.2</td>
<td>26.7</td>
<td>33.2</td>
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<tr>
<td>Operating Income</td>
<td>135.6</td>
<td>148.5</td>
<td>107.5</td>
<td>100.4</td>
<td>35.0</td>
</tr>
<tr>
<td>Operating Margin</td>
<td>15.9%</td>
<td>19.9%</td>
<td>17.0%</td>
<td>17.4%</td>
<td>7.4%</td>
</tr>
<tr>
<td>Nonoperating Income</td>
<td>31.2</td>
<td>122.1</td>
<td>16.1</td>
<td>13.0</td>
<td>5.5</td>
</tr>
<tr>
<td>Nonoperating Expenses</td>
<td>0.0</td>
<td>0.0</td>
<td>1.8</td>
<td>1.2</td>
<td>1.4</td>
</tr>
<tr>
<td>Income Before Taxes</td>
<td>146.8</td>
<td>257.3</td>
<td>83.4</td>
<td>112.2</td>
<td>30.5</td>
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<tr>
<td>Income Taxes</td>
<td>76.8</td>
<td>87.1</td>
<td>33.0</td>
<td>27.0</td>
<td>4.3</td>
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<tr>
<td>Total Net Income</td>
<td>63.9</td>
<td>170.1</td>
<td>50.2</td>
<td>85.1</td>
<td>26.0</td>
</tr>
<tr>
<td>Net Profit Margin</td>
<td>7.5%</td>
<td>22.8%</td>
<td>7.9%</td>
<td>14.7%</td>
<td>5.5%</td>
</tr>
</tbody>
</table>
### Financials

#### Balance Sheet

<table>
<thead>
<tr>
<th></th>
<th>Mar 97</th>
<th>Mar 98</th>
<th>Mar 99</th>
<th>Mar 00</th>
<th>Mar 01</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash</td>
<td>557.0</td>
<td>431.6</td>
<td>153.9</td>
<td>139.0</td>
<td>95.8</td>
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<tr>
<td>Net Receivables</td>
<td>116.7</td>
<td>57.3</td>
<td>75.4</td>
<td>63.2</td>
<td>47.7</td>
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<tr>
<td>Inventories</td>
<td>5.9</td>
<td>5.7</td>
<td>6.4</td>
<td>3.2</td>
<td>4.5</td>
</tr>
<tr>
<td>Other Current Assets</td>
<td>102.3</td>
<td>116.7</td>
<td>196.3</td>
<td>138.5</td>
<td>329.8</td>
</tr>
<tr>
<td>Total Current Assets</td>
<td>107.2</td>
<td>116.7</td>
<td>212.8</td>
<td>142.5</td>
<td>329.8</td>
</tr>
<tr>
<td>Net Fixed Assets</td>
<td>93.2</td>
<td>51.9</td>
<td>52.9</td>
<td>50.0</td>
<td>51.8</td>
</tr>
<tr>
<td>Other Noncurrent Assets</td>
<td>916.5</td>
<td>248.5</td>
<td>194.1</td>
<td>97.9</td>
<td>51.9</td>
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<tr>
<td>Total Assets</td>
<td>1791.6</td>
<td>846.0</td>
<td>563.5</td>
<td>476.5</td>
<td>341.7</td>
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<tr>
<td>Accounts Payable</td>
<td>66.1</td>
<td>43.0</td>
<td>45.9</td>
<td>34.2</td>
<td>30.3</td>
</tr>
<tr>
<td>Short-Term Debt</td>
<td>0.0</td>
<td>0.0</td>
<td>0.0</td>
<td>8.3</td>
<td>0.0</td>
</tr>
<tr>
<td>Other Current Liabilities</td>
<td>346.6</td>
<td>183.5</td>
<td>171.6</td>
<td>119.5</td>
<td>76.3</td>
</tr>
<tr>
<td>Total Current Liabilities</td>
<td>412.7</td>
<td>226.5</td>
<td>219.5</td>
<td>153.1</td>
<td>108.6</td>
</tr>
<tr>
<td>Long-Term Debt</td>
<td>24.2</td>
<td>1.6</td>
<td>1.9</td>
<td>6.0</td>
<td>16.1</td>
</tr>
<tr>
<td>Other Noncurrent Liabilities</td>
<td>0.0</td>
<td>0.0</td>
<td>0.0</td>
<td>0.0</td>
<td>0.0</td>
</tr>
<tr>
<td>Total Liabilities</td>
<td>436.9</td>
<td>228.1</td>
<td>221.4</td>
<td>159.1</td>
<td>124.7</td>
</tr>
<tr>
<td>Preferred Stock Equity</td>
<td>368.2</td>
<td>319.0</td>
<td>99.6</td>
<td>175.5</td>
<td>129.6</td>
</tr>
<tr>
<td>Common Stock Equity</td>
<td>50.2</td>
<td>219.9</td>
<td>(75.9)</td>
<td>45.9</td>
<td>0.0</td>
</tr>
<tr>
<td>Total Equity</td>
<td>436.9</td>
<td>338.9</td>
<td>124.7</td>
<td>129.6</td>
<td>129.6</td>
</tr>
<tr>
<td>Shares Outstanding (mil.)</td>
<td>144.0</td>
<td>120.5</td>
<td>113.7</td>
<td>114.2</td>
<td>110.9</td>
</tr>
</tbody>
</table>

#### Cash Flow Statement

<table>
<thead>
<tr>
<th></th>
<th>Mar 97</th>
<th>Mar 98</th>
<th>Mar 99</th>
<th>Mar 00</th>
<th>Mar 01</th>
</tr>
</thead>
<tbody>
<tr>
<td>Net Operating Cash Flow</td>
<td>324.5</td>
<td>224.2</td>
<td>123.5</td>
<td>130.9</td>
<td>94.4</td>
</tr>
<tr>
<td>Net Investing Cash Flow</td>
<td>0.0</td>
<td>0.0</td>
<td>0.0</td>
<td>0.0</td>
<td>0.0</td>
</tr>
<tr>
<td>Net Financing Cash Flow</td>
<td>(198.3)</td>
<td>51.5</td>
<td>(62.0)</td>
<td>11.8</td>
<td>11.7</td>
</tr>
<tr>
<td>Net Change in Cash</td>
<td>126.2</td>
<td>175.7</td>
<td>51.5</td>
<td>119.1</td>
<td>86.7</td>
</tr>
<tr>
<td>Depreciation &amp; Amortization</td>
<td>120.9</td>
<td>50.6</td>
<td>36.2</td>
<td>26.7</td>
<td>33.2</td>
</tr>
<tr>
<td>Capital Expenditures</td>
<td>(23.8)</td>
<td>(70.6)</td>
<td>(105.4)</td>
<td>(27.3)</td>
<td>(27.9)</td>
</tr>
<tr>
<td>Cash Dividends Paid</td>
<td>0.0</td>
<td>0.0</td>
<td>0.0</td>
<td>0.0</td>
<td>0.0</td>
</tr>
</tbody>
</table>
Financial Model

- FCFE 3-Stage Growth Model
- Why?
  - Predicted sales increase through 2005
  - Market saturation to follow
  - Stable to forever

FCFE
- Net Income: 63.9
- Depreciation/Amortization: 120.9
- Capital Spending: 23.8
- Change in Net Working Capital: 50.2

\[ \text{FCFE} = 63.9 + 120.9 - 23.8 - 50.2 = 110.8 \]

Risk Free: 5.40%
Market Premium: 4.00%
SYMC Beta: 1.25
Cost of Equity: 10.40%
Cost of Equity @ Stable Phase: 9.40%

Stable Growth Rate: 5%
High-Growth Rate (5 years): 20%
Transition Growth (3 Years): 15%

PV of years 1-10: 1563.934
Terminal Value: 13233.41
PV of terminal Value: 4925.851
Shares Outstanding: 142
Intrinsic Value of Equity: 6489.785
Intrinsic Value per share: 45.7027
Current Value per share: 41.76
Sensitivity Analysis

<table>
<thead>
<tr>
<th></th>
<th>9%</th>
<th>10%</th>
<th>11%</th>
<th>12%</th>
<th>13%</th>
<th>14%</th>
<th>15%</th>
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</thead>
<tbody>
<tr>
<td>18%</td>
<td>$33.86</td>
<td>$35.09</td>
<td>$36.42</td>
<td>$37.77</td>
<td>$29.19</td>
<td>$40.65</td>
<td>$42.16</td>
</tr>
<tr>
<td>19%</td>
<td>$35.21</td>
<td>$36.53</td>
<td>$37.91</td>
<td>$39.33</td>
<td>$40.80</td>
<td>$42.33</td>
<td>$43.90</td>
</tr>
<tr>
<td>20%</td>
<td>$36.63</td>
<td>$38.01</td>
<td>$39.45</td>
<td>$40.96</td>
<td>$42.47</td>
<td>$44.06</td>
<td>$45.70</td>
</tr>
<tr>
<td>21%</td>
<td>$38.11</td>
<td>$39.55</td>
<td>$41.05</td>
<td>$42.59</td>
<td>$44.19</td>
<td>$45.85</td>
<td>$47.66</td>
</tr>
<tr>
<td>22%</td>
<td>$39.63</td>
<td>$41.17</td>
<td>$42.69</td>
<td>$44.30</td>
<td>$45.97</td>
<td>$47.69</td>
<td>$49.48</td>
</tr>
<tr>
<td>23%</td>
<td>$41.20</td>
<td>$42.77</td>
<td>$44.30</td>
<td>$46.07</td>
<td>$47.80</td>
<td>$49.60</td>
<td>$51.46</td>
</tr>
<tr>
<td>24%</td>
<td>$42.83</td>
<td>$44.45</td>
<td>$46.14</td>
<td>$47.89</td>
<td>$49.70</td>
<td>$51.57</td>
<td>$53.51</td>
</tr>
<tr>
<td>25%</td>
<td>$45.40</td>
<td>$46.20</td>
<td>$47.95</td>
<td>$49.77</td>
<td>$51.66</td>
<td>$53.60</td>
<td>$55.62</td>
</tr>
</tbody>
</table>

High Growth

Questions Anyone?