



Rating
Hold

North America
United States

TMT
Software

Company
Symantec

Reuters
SYMC.OQ

Bloomberg
SYMC US

Exchange
NSM

Ticker
SYMC

Date
31 July 2018

Company Update

Price at 31 Jul 2018 (USD)	20.22
Price target	22.00
52-week range	34.07 - 19.52

Thoughts into the Print

Intriguing Set-Up Given Weak Sentiment

Investor interest/sentiment appears to be weak ahead of Symantec's 1QF19 call on Thursday, influenced no doubt by the ongoing audit investigation. With the multiple at 13.8x FY19 FCF, the near-term stock set-up is interesting given very cautious investor sentiment about Symantec shares and the current growth-to-value rotation. The bull case seems rooted in a view that the legacy Enterprise business remains sticky and the stock could get a CHKP-like bounce if the results imply stability and if the company reaffirms its recently-lowered FY19 guide and signals that the accounting issue is minor and won't result in a material restatement. The bear case is rooted in a view that even if the accounting issues are minor, Symantec's fundamentals aren't improving and the likelihood of a FY19 or FY20 guide-down is high.

Fundamental Checks

Our recent fundamental checks (focused on Symantec's Enterprise segment) have not been bullish. On the Blue Coat business, checks are still not flagging any material refresh activity and have said that Symantec is not seeing material traction with its cloud product. Relative to rival Zscaler, we still hear of share losses despite Blue Coat's lower price (checks flagged Blue Coat's smaller data center footprint, higher latency and weaker SSL inspection features). In the endpoint business, the next-gen vendors continue to flag Symantec/McAfee replacements, although one large SI partner told us they're not seeing material "rip-and-replacement" activity. Across both enterprise segments, we continue to hear anecdotes about Symantec dropping price points to accelerate contract renewals. Symantec needs Enterprise segment growth to accelerate materially (the guide is for -6.5% organic growth in 1QF19, ramping to "mid-high single digit" growth in 4QF19) and while Enterprise growth should benefit as the big DR uptick in 2HF18 rolls into reported Enterprise revs, this ramp still appears aggressive. In the more stable Consumer segment, we'd note two recent departures, including the head/EVP Fran Rosch (to become the CEO of security firm ForgeRock) and the SVP Finance Scott Hill (to become the CFO of MobileIron). The Consumer segment (47% of the total revs mix in FY18 but 68% of EBIT) has been the driver of reported revs growth in each of the last few quarters and any leadership-related disruption would be cause for concern.

Valuation & Risks

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Key changes

EPS (USD)	1.46 to 1.44	↓	-1.1%
Revenue (USDm)	4,777.5 to 4,730.0	↓	-1.0%

Source: Deutsche Bank



The Audit Investigation

We don't have any incremental color on the nature of the accounting issue, outside of Symantec's last statement that the issue relates to "its reporting of certain non-GAAP measures, including those that could impact executive compensation programs" and that "the Company does not anticipate a material adverse impact on its historical financial statements" as well as media reports from mid-May suggesting that the issue related to the add-back of DR to calculate the revenue-based portion of executive bonuses. However, we would argue that if the issue "merely" related to the math used to calculate executive bonuses, it seems unlikely to us that the audit probe would be entering its 3rd month and/or that in late-June Symantec would have issued an 8-K approving the FY19 executive bonus plan.

Our Estimates and the Stock

A key factor determining whether one lands on the bullish or bearish end of the spectrum on Symantec shares is one's conviction level on whether the growth/margin pressure in the Enterprise segment is simply the result of a mix shift to ratably-recognized revs or if it's due to fundamental (pricing, market share) pressure. In our view there is enough evidence of the latter that we prefer to remain on the sidelines. In terms of our estimates, we're trimming our FY19 revs and billings estimates slightly (we're already at the low end of the guidance range for most metrics) to reflect FX shifts since Symantec last gave guidance. We reaffirm our HOLD rating and \$22 PT, based on a FY20 FCF multiple of 14x, a fair discount to other mature security and network peers. Upside risks include a quick/painless resolution of the internal probe and downside risks include greater-than-expected margin and cash flow pressure from the model transition.



Appendix 1

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*Other information available upon request

Disclosure checklist			
Company	Ticker	Recent price*	Disclosure
Symantec	SYMC.OQ	20.22 (USD) 31 Jul 2018	2

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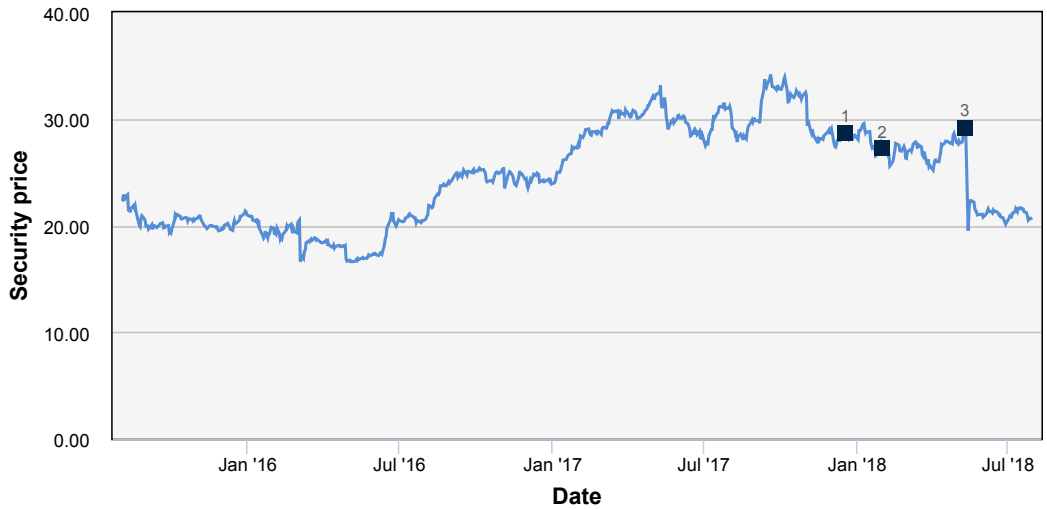
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Historical recommendations and target price. Symantec (SYMC.OQ)

(as of 07/30/2018)



Current Recommendations

- Buy
- Hold
- Sell
- Not Rated
- Suspended Rating

** Analyst is no longer at Deutsche Bank

- | | | | |
|---------------|--|---------------|--|
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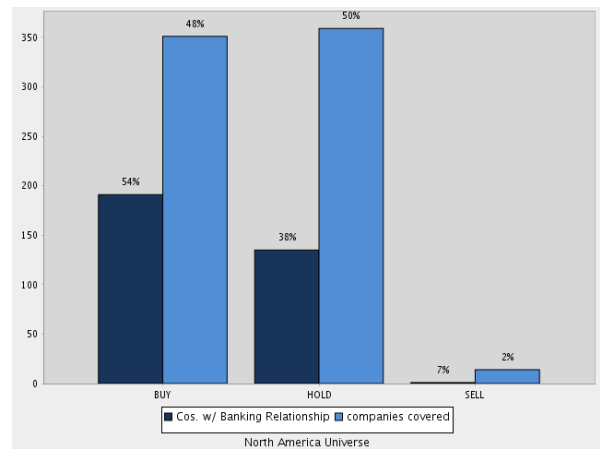
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