



Rating
Hold

North America
United States

TMT
Software

Company
Symantec

Reuters
SYMC.OQ

Bloomberg
SYMC US

Exchange
NSM

Ticker
SYMC

Date
9 August 2018

Company Update

Price at 9 Aug 2018 (USD)	19.23
Price target	18.00
52-week range	34.07 - 19.25

New Fundamental Checks

Black Hat Conference Checks

This week we attended the Black Hat security conference in Las Vegas, now the second-largest security IT event outside of RSA and hence a good venue to speak with partners and customers to sharpen our view of fundamental trends. While our broader report (see “Key Takes from Black Hat Security Conference” by Gray Powell) covers data points on firewalls, identity and other security subsectors, in this note we summarize our takes on Symantec and its Enterprise (SEP 14 endpoint and Blue Coat SWG) suite. We maintain our HOLD rating.

Key Insights

We’d flag: 1. The most consistent piece of feedback was that the pace and size of endpoint modernization projects has picked up lately, and the trend is clearly towards not just layering-on next-gen endpoint/EDR solutions, but to rip and replace existing Symantec/McAfee deployments. This is not a widespread phenomenon yet but we don’t recall hearing as many displacement anecdotes at prior security events. Some checks note efficiency gains from consolidating endpoint vendors (one check said many large enterprises have 3 different endpoint solutions) and reducing support staffs, while others cited high false positive rates from the legacy vendors. 2. This has been a frequent theme of late, but more checks cited a move away from appliance/box sales to virtual/subscription-based products. This trend could be weighing on the Blue Coat SWG appliance business and one check cited push-back against the different user interfaces on the appliance and cloud versions of Blue Coat. Another check flagged early success that Palo Alto Networks is seeing for its rival Global Protect Cloud offering. 3. One check cited “internal challenges” at Blue Coat, making us wonder whether a portion of Symantec’s 1QF19 enterprise DR shortfall may have been sales/execution related. 4. Although we didn’t get added color at Black Hat, we also believe that the negative press from the audit probe contributed to the Enterprise billings miss (rivals were likely capitalizing on this) and that Symantec used price concessions to pull forward some large deal renewals into 2HF18 from FY19.

Our View on the Stock

On our recently lowered FY19 estimates, Symantec shares trade at 14x FCF and 13x non-GAAP EPS, low enough that the downside risk could be limited from here. The bear case may be rooted in a conclusion that the stock and estimates are not yet de-risked (audit probe fall-out, 1-2 more quarters of weak Enterprise billings quarters could cause a FY20 guide-down) while the bull case may be rooted in a view that sentiment is now washed-out and that some

Valuation & Risks

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broader organizational shifts could act as a catalyst for the stock. For now we prefer to remain on the sidelines and reaffirm our PT of \$18, based on a FY20 FCF multiple of 12x, a fair discount to other mature security and network peers given the lowered financial outlook and slower growth vs security peers. Upside risks include a quick/painless resolution of the internal probe and downside risks include a FY20 guide-down.



Appendix 1

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Disclosure checklist			
Company	Ticker	Recent price*	Disclosure
Symantec	SYMC.OQ	19.44 (USD) 8 Aug 2018	2

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

(as of 08/08/2018)



Current Recommendations

Buy
Hold
Sell
Not Rated
Suspended Rating

** Analyst is no longer at Deutsche Bank

1.	12/19/2017	Hold, Target Price Change USD 30.00 Karl Keirstead	3.	05/11/2018	Hold, Target Price Change USD 22.00 Karl Keirstead
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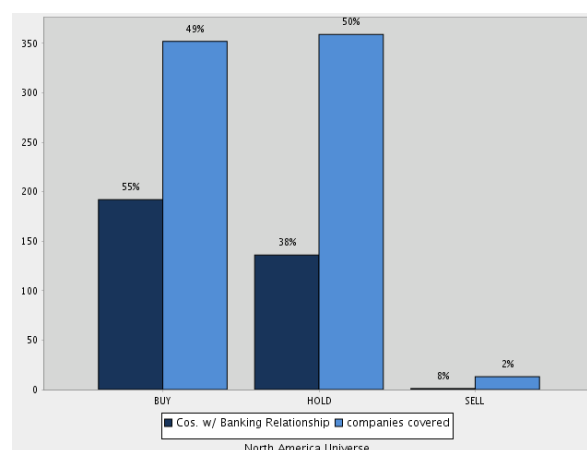
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