



Rating
Hold

North America
United States

TMT
Software

Company
Symantec

Reuters
SYMC.OQ

Bloomberg
SYMC US

Exchange
NSM

Ticker
SYMC

Date
1 November 2018

Forecast Change

Price at 1 Nov 2018 (USD)	18.29
Price target	22.00
52-week range	29.80 - 17.68

Still Cautious on Enterprise

Better-Than-Fear 2QF19 Print

Against a backdrop of cautious investor sentiment, Symantec posted a 2QF19 beat and reaffirmed the full year guide, enough in our view to further limit the near-term downside risk in the stock. However, we felt that the tone about a 2HF19 recovery in the Enterprise segment was muted (the CEO indicated that he was still cautious, that extended sales cycles could continue) and we prefer to remain neutral on the stock pending more evidence of an Enterprise turn. We reaffirm our HOLD rating and are raising our PT from \$20 to \$22.

Key Takes

We'd flag: 1. Organic Enterprise billings (-3% after being -20% in 1QF19) remain soft, as the company warned. The management tone about a 2HF19 US pipeline conversion and sales cycles was more cautious than we expected, making the prospect of a FY20 recovery in Enterprise revs growth to "high single/low double" digits from -3% in FY19 appear to be a best-case scenario and unlikely. 2. The Enterprise revs beat came from a larger appliance/license mix than expected (versus software/subscriptions). 3. The projected Consumer segment slowdown to 1% growth in 3QF19 (post the Equifax breach lift) and the flat/down trajectory in the customer count is disappointing, implying to us that the LifeLock synergies are not as great as hoped for. 4. While P&L restructuring charges dropped to just \$56m, Symantec said that cash restructuring changes should still be similar in FY19 as last year, but down in FY20. We're raising our FY20 OCF estimate to \$1.6b from \$1.44b. 5. The likelihood of a Board decision to raise the buyback seems to be rising, with any decision coming after Symantec files its 10-Q's. 6. On a positive note, we do believe (as Starboard must) that there is material room for OM improvement, especially in the Enterprise segment (just 15% OMs in 2QF19). For instance, it's not obvious to us why Symantec needs to incur \$750-\$800m in annual R&D when industry leader PANW spends \$290-\$300m annually. 7. With just 1% organic total revs growth in a robust cyber-security spending market, we don't see any convincing evidence that Symantec's scale and breadth are growth drivers and continue to believe that product innovation (being best of breed) matters more.

Valuation & Risks

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Key changes

TP	20.00 to 22.00	↑	10.0%
EPS (USD)	1.48 to 1.54	↑	3.8%
Revenue (USDm)	4,704.0 to 4,725.8	↑	0.5%

Source: Deutsche Bank

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[Our View on the Stock](#)

For FY20 (ended March 2020), our revs, margin and EPS numbers are relatively unchanged, although our FY20 OCF estimate is now higher and there is an upward bias to EPS estimates if buyback activity ramps. On our revised FY20 numbers, Symantec shares trade at 11x FCF and 11.5x non-GAAP EPS, low enough that the downside risk could be limited from here but in our view not yet compelling given the low growth profile. Given this print and the resolution of the accounting investigation, we're raising our PT from \$20 to \$22, based on a FY21 FCF multiple of 11x, 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 strong 2HF19 Enterprise pipeline conversion and a larger buy-back, while downside risks include greater-than-expected margin and cash flow pressure from the model transition.

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Appendix 1

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*Other information available upon request

Disclosure checklist			
Company	Ticker	Recent price*	Disclosure
Symantec	SYMC.OQ	18.15 (USD) 31 Oct 2018	2

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

(as of 11/01/2018)



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	4.	08/03/2018	Hold, Target Price Change USD 18.00 Karl Keirstead
2.	02/01/2018	Hold, Target Price Change USD 27.00 Karl Keirstead	5.	08/16/2018	Hold, Target Price Change USD 20.00 Karl Keirstead
3.	05/11/2018	Hold, Target Price Change USD 22.00 Karl Keirstead			

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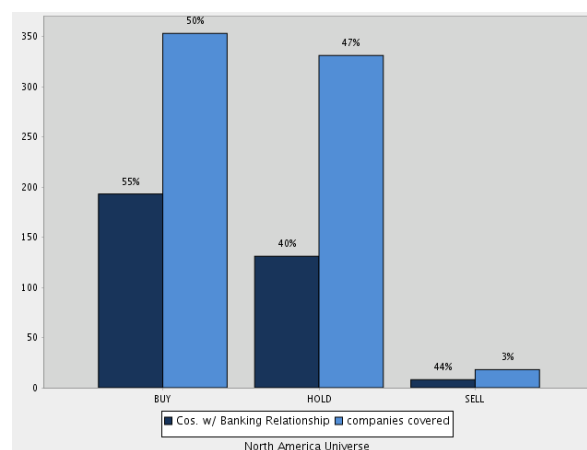
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Equity rating dispersion and banking relationships



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