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McAfee Corp to Discuss Sale of Enterprise Business to the
Symphony Technology Group LLC - M&A Call

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PRESENTATION

Operator

Ladies and gentlemen, thank you for standing by, and welcome to the McAfee conference call to discuss the sale of the Enterprise business. (Operator Instructions) Please be advised that today's call is being recorded. (Operator Instructions)

I would now like to turn the call over to Eduardo Fleites, IR. Please go ahead.

Eduardo Fleites

Thank you, operator. Good morning, and thank you for joining us today. McAfee is hosting this call to discuss the sale of McAfee's Enterprise business. Participating on today's call are Peter Leav, President and CEO; Venkat Bhamidipati, Chief Financial Officer; and Ashish Agarwal, Senior Vice President of Strategy and Corporate Development.

This morning, McAfee issued a press release announcing it had entered into a definitive agreement to sell its Enterprise business to Symphony Technology Group. While this call will reflect items discussed within those documents, for complete information about our business and financial performance, we encourage you to read our annual report on Form 10-K, which we filed with the Securities and Exchange Commission on March 1, 2021.

Before we begin, I want to remind you that matters discussed on today's call may include forward-looking statements related to our operating performance, financial goals and business outlook, which are based on management's current beliefs and assumptions. Please note that these forward-looking statements reflect our opinions as of the date of this call, and we undertake no obligation to revise this information as a result of new developments that may occur.

Forward-looking statements are subject to various risks, uncertainties and other factors that could cause our actual results to differ materially from those expected and described today. For a more detailed description of our risk factors, please review our Form 10-K filed with the Securities and Exchange Commission, where you will see a discussion of factors that could cause the company's actual results to differ materially from these statements.

A replay of this conference call will be available on our website under the Investor Relations section.

I would also like to remind you that during the call, we will discuss some non-GAAP measures in talking about McAfee's performance. You can find a reconciliation of those measures to the nearest comparable GAAP measures in our earnings release for the fiscal year and quarter end December 26, 2020.

I will now turn the call over to Peter Leav, McAfee's President and CEO. Peter?

Peter A. Leav *McAfee Corp. - President, CEO & Director*

Thank you, Eduardo, and thank you for joining us.

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Today, we are announcing the sale of our Enterprise business to the STG group for \$4 billion in an all-cash transaction. We believe this transaction is compelling on several fronts as it will unleash our consumer business as our singular focus going forward, while unlocking the value of our Enterprise business at a very attractive valuation. We expect that the proceeds from the sale will be used to reduce debt by approximately \$1 billion and to issue a \$4.50 special dividend per share upon close of the transaction.

Following the close of the transaction, we will be focused exclusively on the large and growing consumer cybersecurity market and continuing to grow in this expanding TAM with our market-leading consumer subscription business, resulting in sustained double-digit revenue growth, profitability at scale and strong cash flows.

We are pleased to have entered into this transaction with the STG group and firmly believe that with their stellar track record and deep experience in cybersecurity, they will be the right partner to continue strengthening our Enterprise business going forward and ensure continued success for the business, its employees and customers.

As we have stated repeatedly, our 2 businesses work well together, but they do not depend on one another. Our focus has been to continue to drive double-digit growth, while in parallel, improving profitability from McAfee's holistic consumer cybersecurity platform with a differentiated omnichannel go-to-market strategy. Meanwhile, in our Enterprise business, the main focus has been to drive continued EBITDA growth with a focus on our core customers and our device-to-cloud portfolio.

The results in consumer have been impressive with consumer annual net revenue growing by 20% and annual adjusted EBITDA increasing by 24% year-over-year in FY '20. This resulted in strong cash flows, all while adding a record 2.8 million net new core direct-to-consumer subscribers. And this continues to be a highly profitable business.

We have done a solid job of unlocking value through improvements to our business model as demonstrated by the recent increase in EBITDA margin and believe that we can add further value through the separation of the 2 business segments. That is why we have announced the sale of our Enterprise business to the STG group for \$4 billion in an all-cash transaction.

As already mentioned, the cash proceeds will enable us to return \$4.50 per share through a special dividend to our Class A common shareholders, but more importantly, it will allow McAfee to transform into a pure-play consumer cybersecurity business with net revenue of \$1.6 billion and adjusted EBITDA of \$722 million in FY '20. We are excited about the pure-play consumer business that addresses a market that is expected to hit \$19 billion by 2024. The market growth is being driven by a major transformation in consumer behavior, explosive growth and the proliferation of devices, increased Internet connectivity and online transactions, as well as significant increases in cyber threats, resulting in increased consumer demand for McAfee's cybersecurity services. We look forward to continuing to competitively address these trends with our portfolio of consumer cybersecurity products, strong top line, bottom line growth and profitability.

In summary, we are proud of the value we have created through our combined Consumer and Enterprise business model, but also believe additional value can be created through this separation.

Now Venkat will provide some specifics around the transaction. Venkat?

Venkat Bhamidipati McAfee Corp. - Executive VP & CFO

All right. Thanks, Peter. At this point, let me summarize the details of what we've announced and provide color on some of the transaction and its effects moving forward.

As Peter noted at the top of the call, we expect to receive \$4 billion in gross cash proceeds on consummation of the transaction. We will use approximately \$1 billion of such proceeds to pay down existing debt. We also expect to use a portion of the proceeds to pay \$175 million in customary transaction expenses and other onetime charges.

Given our Up-C structure, the \$2.75 billion of remaining proceeds will be distributed by Foundation Technology Worldwide, our controlled subsidiary, on a pro rata basis to all holders, including McAfee Corporation. McAfee Corp. will use its pro rata portion of such

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proceeds to pay approximately \$300 million in required corporate taxes and related payments in connection with the transaction and will use all remaining proceeds to pay a onetime special dividend of \$4.50 per share to holders of our Class A common stock. This represents a onetime special dividend rate of approximately 21% of the closing sale price of our Class A common stock on Friday, March 5, prior to our entry into this transaction.

We also expect to incur approximately \$300 million in additional onetime separation and stranded cost optimization expenses. Additionally, stranded costs of approximately \$150 million annualized are expected to provide a headwind as we expect to be back to normalized margins by the end of FY 2022.

As a reminder, our consumer business closed FY '20 with net revenue of \$1.6 billion, a growth of 20%, with adjusted EBITDA of \$722 million, a growth of 24% as compared to FY '19.

Looking forward, we believe that our pure-play consumer cybersecurity business can continue to grow revenue in double digits with consistent margin improvements. Our focus will be to manage margin expansion and top line growth. And we expect that in the long term, we will be able to reach 50% in adjusted EBITDA margins.

We believe the McAfee consumer business continues to have an attractive business model that can provide a strong dividend yield and contribute strong free cash flow over time.

Thank you. Operator, you can open it up for questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Our first question comes from Hamza Fodderwala with Morgan Stanley.

Hamza Fodderwala *Morgan Stanley, Research Division - Equity Analyst*

Congrats on the transaction. Definitely earlier than expected. So great to see.

Just a couple of quick ones from me. Just around the stranded cost, I wanted to make sure I got that. So it was \$150 million annually. Any sense of when that goes away and when you get to that normalized 50% EBITDA margin? Will it be later this year, into 2022? Just any color you can give us there.

Venkat Bhamidipati *McAfee Corp. - Executive VP & CFO*

Yes, Hamza. This is Venkat. So what we're projecting currently that the -- we will eliminate the stranded costs by the end of FY 2022. And in terms of just the optimization expenses, clearly, we will have to spend -- incur some costs with respect to separating the businesses and other onetime costs. But we're expecting to eliminate the stranded costs by the end of FY 2022.

Hamza Fodderwala *Morgan Stanley, Research Division - Equity Analyst*

Got it. Got it. And just around the \$4 billion transaction price, I think that's certainly a good price given that the Enterprise business, to our knowledge, is generating about \$350 million in EBITDA. Is that sort of the right way to think about it in terms of estimating the multiple?

I think you did \$335 million last year. But on our numbers, it was somewhere around \$350 million in the next couple of years. Is that kind of what the multiple was based on?

Ashish Agarwal *McAfee Corp. - SVP of Strategy & Corporate Development*

Yes. Hamza, why don't I -- this is Ashish Agarwal. So look, we feel very good about this process that we conducted and believe that STG is going to be a great partner for our business, since we feel very happy with where we ended up with the outcome of the process.

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Hamza Fodderwala *Morgan Stanley, Research Division - Equity Analyst*

Okay. No color on sort of like what the multiple was for it though?

Ashish Agarwal *McAfee Corp. - SVP of Strategy & Corporate Development*

You've got generally a sense of where the EBITDA was and our purchase price was -- is \$4 billion on an all-cash basis. So you're generally in the ballpark.

Operator

Our next question comes from Gregg Moskowitz with Mizuho.

Gregg Steven Moskowitz *Mizuho Securities USA LLC, Research Division - MD of Americas Research*

Congratulations everyone on the transaction. I guess just first question, I believe you had roughly 6,900 employees. Are you able to walk through what the headcount will look like following the closure of this transaction?

Venkat Bhamidipati *McAfee Corp. - Executive VP & CFO*

Yes. This is Venkat. So roughly 2/3 of our employees are focused on the Enterprise business, and roughly about 1/3 are focused on the consumer business. So we expect that roughly those would be the employees that would be focused on and transitioning as part of this transaction going forward.

Gregg Steven Moskowitz *Mizuho Securities USA LLC, Research Division - MD of Americas Research*

Okay. That's helpful. And then just secondly, from a financial perspective, so you structured this transaction to essentially be net neutral. At the same time, as you pointed out -- as Peter pointed out, this is going to naturally increase your focus on your remaining consumer business. Are there any additional investments that you plan to undertake in the consumer business as a result of this as you sort of look forward to 2022 and beyond?

Peter A. Leav *McAfee Corp. - President, CEO & Director*

Gregg, it's Peter. So I think, ultimately, what you'll see is we are going to make sure this is a great process with STG. We've got deal closure before the end of the year when all lines up. And in the interim, we're going to do what we do strategically.

We're going to continue to make investments in the business. We're going to continue to assess organically where we can bring differentiated value from user experience to partnering, which I think we've done a good job of. And over the course of time, we'll look at other opportunities as well, as you would expect. We obviously feel very good about the cash production of the business, which gives us a degree of optionality. But as we discussed right now, we're certainly looking at the 2 elements that we have already talked about even before this announcement of debt paydown and dividends. So we're going to look at what makes sense to continue to drive a growth business that continues to be quite profitable in the consumer space.

Operator

Our next question comes from Fatima Boolani with UBS.

Fatima Aslam Boolani *UBS Investment Bank, Research Division - Associate Director and Equity Research Associate Technology-Software*

Peter, just to your point about the cash flow generative profile of the Consumer business. I'm wondering if both you and Venkat could put some finer points and quantify the impact to the cash flow profile going forward, outside of some of the stranded costs removal that you will be on the path on. So any specificity around how we should think about the cash flow trajectory from here?

Peter A. Leav *McAfee Corp. - President, CEO & Director*

Well, at a high level, again, we'll run the business, as you would expect, as we have until close. And it's obviously, we were close to \$1 billion in free cash flow in 2020 so we expect to be on a good trajectory with strong cash production as we continue.

As a separate business, which is consumer, it's obviously very strong cash-producing business in and of itself. We also like the terms, as

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Venkat has talked about, usually about 3 days from an AR perspective.

So we're not giving any forward projection on any elements, including cash flow at this point post deal. But obviously, we feel very, very good about the cash generation of the consumer business.

Fatima Aslam Boolani *UBS Investment Bank, Research Division - Associate Director and Equity Research Associate* *Technology-Software*

And then just another quick one. Any implications or consideration around the tax rate profile of the entire business? If you can help us understand the domestic versus international splits of each one of the segments so we can anticipate any potential changes to your earnings trajectory as it relates to tax rates, that would be very helpful.

Venkat Bhamidipati *McAfee Corp. - Executive VP & CFO*

Yes. Fatima, this is Venkat. We expect our normalized tax rate to be in line with the 22% we've talked about in the past.

With respect to the transaction itself, given our Up-C structure, our operations are in a partnership entity that McAfee controls, which is approximately 64% will be -- 36% that -- for PubCo and 64% for the continuing owners.

So as a result of that, there will be some pro rata portion of the taxes and related payments. But going forward, on a normalized basis, you can expect the entity to be in the normalized 22% tax range.

Operator

There are no further questions. I'd like to turn the call back over to management for closing remarks.

Peter A. Leav *McAfee Corp. - President, CEO & Director*

Great. Thank you all for, on short notice, taking the time with us this morning.

As you probably can sense, we are excited about the decision to divest the Enterprise business. It is a terrific business. We're also excited about STG as a partner, excited for our employees. And we're also excited about the consumer business and the future that we have. So we will continue to keep you all posted. And thank you again for taking the time with us this morning. Take care.

Operator

Ladies and gentlemen, this does conclude the program. You may now disconnect. Everyone, have a great day.

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