

REFINITIV STREETEVENTS

EDITED TRANSCRIPT

Q3 2020 McAfee Corp Earnings Call

EVENT DATE/TIME: NOVEMBER 19, 2020 / 10:00PM GMT

CORPORATE PARTICIPANTS

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

Christopher Mammone

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

Venkat Bhamidipati McAfee Corp. - Executive VP & CFO

CONFERENCE CALL PARTICIPANTS

Brian Lee Essex Goldman Sachs Group, Inc., Research Division - Equity Analyst

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

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

Hamza Fodderwala Morgan Stanley, Research Division - Research Associate

Matthew George Hedberg RBC Capital Markets, Research Division - Analyst

Patrick Edwin Ronald Colville Deutsche Bank AG, Research Division - Research Analyst

Tal Liani BofA Merrill Lynch, Research Division - MD and Head of Technology Supersector

Walter Herbert Pritchard Citigroup Inc. Exchange Research - Research Analyst

PRESENTATION

Operator

Ladies and gentlemen, thank you for standing by, and welcome to the McAfee Third Quarter Earnings Results Conference Call. (Operator Instructions) Please be advised that today's conference is being recorded. (Operator Instructions)

I would now like to hand the conference over to your first speaker today to Mr. Chris Mammone, Investor Relations. Thank you. Please go ahead.

Christopher Mammone

Good afternoon and thank you for joining us today. McAfee is hosting this call to discuss its third quarter earnings results for the period ending September 2020. 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.

Earlier this afternoon, McAfee issued a press release announcing its financial results. While this call will reflect items discussed within those documents, for complete information about our financial performance, we also encourage you to read our third quarter 2020 quarterly report on Form 10-Q.

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 final initial public offering prospectus dated October 21, 2020, and 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 the reconciliation of those measures to the nearest comparable GAAP measures in our earnings release.

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

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

Thank you, Chris, and good afternoon. We are excited to report earnings for the first time since McAfee's return to the public markets. I would like to extend a special thank you to McAfee employees, our customers around the world, our partners and to our shareholders for your confidence in our team and our company. We look forward to building increased shareholder value in the years ahead.

Before diving into our strong third quarter results, I'd like to start by framing McAfee's key strategic focus areas. This will better contextualize the quarter and how our results underscore execution against our strategic objectives.

McAfee is a trusted global brand and provider of cybersecurity solutions in large, growing and important markets. We have market-leading consumer subscription business with sustained multiyear double-digit revenue growth. We offer a holistic consumer cybersecurity platform with a differentiated omnichannel go-to-market strategy. In our enterprise business, we are driving continued EBITDA growth with a focus on our core customers and our device to cloud portfolio, and McAfee has a highly attractive financial profile with consistent growth and profitability of scale as well as very strong cash flow generation.

With that as the main backdrop, let's turn to our Q3 financial highlights. It was a strong quarter, continuing the overall momentum we have seen in the business. We generated robust top line performance with total net revenue of \$728 million, representing growth of 10% year-over-year. We also delivered improved profitability with total adjusted EBITDA of \$265 million, representing a 36% margin and growth of 26% versus last year. We have once again turned in very strong double-digit revenue and direct-to-consumer subscriber growth in our Consumer business. Our 23% revenue growth rate was driven by our omni-channel go to market and diversified partnerships. I am very pleased to say this marks 12 consecutive quarters of sequential and year-over-year subscriber growth. Our Enterprise business with our long-tenured customer base delivered continued EBITDA growth and was a strong contributor to our overall profitability improvement in the quarter. Venkat will go into more detail regarding our Q3 results during his remarks.

Looking at each of our 2 main segments in more depth, we'll start with Consumer. McAfee has a sustained double-digit growing Consumer franchise that protects more than 600 million consumer devices and over 17 million core direct-to-consumer subscribers as of the third quarter, up 16% year-on-year. This includes an industry-leading 669,000 net new core direct-to-consumer subscribers added to the platform in the past quarter alone. McAfee's Consumer business is a robust growth engine for the company, with revenue growing double digits for several years now along with improving profitability. We have a holistic solution built by committing to our customers' needs to deliver the right protections at the right time through an engaging experience. These solutions are supported by the scale of our omni-channel distribution, best-in-class holistic protection and a trusted consumer brand. We leverage advanced AI/ML and behavioral analytics with industry-leading threat intelligence expertise to deliver always-on protection for our subscribers.

As we live more of our lives online, we recognize the need to provide security that is now, more than ever, easy to use. To this end, we recently launched an enhanced user experience. This new user experience makes it easy for consumers to ensure all devices, including those for additional family members, are covered and that all protections are easy to understand and use. Our commitment is to relentlessly protect our subscribers. Recent channel partnership highlights in Consumer include: an expanded relationship with one of the top 3 mobile service providers in North America, offering our holistic protection to their tens of millions of customers; and agreement with a leading telecommunications provider to broadly make available our secure home platform to its millions of broadband customers; and McAfee has also expanded our relationship with Amazon with an exclusive offer now available for Business Prime members, McAfee and Amazon Business Prime partner, to solve cybersecurity and IT resource challenges for small businesses.

As consumer experience has become increasingly digitized, we expect the demand for continual connectivity and online services to provide a lasting tailwind in our Consumer business. We have grown a subscriber base that is strong and loyal, and we expect our consistently improving omni-channel acquisition and retention model to drive further success as we expand our consumer relationships. That expansion potential remains very much in front of us.

Switching to our Enterprise business. We have 3 key strategic imperatives: first, we will continue to focus on our core, long-tenured Enterprise customer base and leverage our expertise in serving complex, hybrid, multi-cloud environments; next, we will continue to drive innovation in device to cloud security to help protect users, applications and data across the enterprise; finally, we'll be focused on

improving EBITDA through our targeted market and product orientation. We have a well-established presence in important areas of the enterprise security market and are pleased that the investments we have made in our device to cloud portfolio have received strong recognition. In particular, McAfee was recently named a leader in the 2020 Gartner Magic Quadrant for Cloud Access Security Broker, or CASB, the fourth consecutive year of placement in the leader quadrant.

With more than 30 years of leadership and innovation in cybersecurity, our customers have relied on McAfee to protect them from a growing array of cyber threats. Whether we are securing the digital experience of a consumer whose online footprint is increasing daily or defending many of the world's largest organizations from sophisticated attacks and nation-state threats, McAfee is committed to protecting our customers against risks with leading-edge cybersecurity products. What we do for our customers is more important today than ever before. As the world rapidly evolves to a mobile, digital and work-from-home reality, cyber criminals see opportunity in this structural shift, which has only served to intensify the overall threat landscape. For some perspective, McAfee now records an average of 8,600 incidents per minute and found that external attacks on cloud services grew nearly 500% from January to April.

The need for a platform that provides effective and frictionless security in our personal lives and at work is escalating. What follows is a massive and growing \$42 billion combined addressable market over the next 5 years. Of this, \$19 billion is the consumer-related TAM, while \$23 billion comprises the Enterprise TAM expected through 2024. We have a long runway of opportunities in front of us.

Our approach to providing effective and frictionless security for consumers and enterprises is resonating across a user base operating in increasingly complex, high-end and mission-critical digital environments. To solve these security challenges, McAfee offers the technology to uniquely accommodate these rapidly escalating market requirements.

Thank you once again to our McAfee team members for your hard work and dedication, which has allowed us to serve our customers, execute on our strategy and deliver solid third quarter financial results. We look forward to a strong close to the year and to speaking with many of you over the coming months. I will now turn the call over to Venkat to discuss our Q3 financial results in further detail.

Venkat Bhamidipati McAfee Corp. - Executive VP & CFO

Thanks, Peter, and good afternoon, everyone. I, too, am very pleased and honored to be speaking to you today during our first earnings release as a public company. I'm excited to be here at McAfee. In the first 2 months since joining, I've been impressed with the passion and excitement of the employees, our products and our customers.

As I talk about the income statement, my comments will refer to non-GAAP results, unless otherwise noted. A reconciliation to the related GAAP numbers is attached to the earnings press release we issued this afternoon.

I'll now provide a brief overview of our business and outline our financial principles. Then I'll go through our fiscal third quarter results in detail. I'll finish by providing our guidance for the fourth quarter.

McAfee is a trusted global cybersecurity brand serving a large base of millions of consumers and leading global enterprises and governments. We have a leading Consumer franchise with consistent double-digit revenue growth, increasing market share and highly profitable with 46% adjusted EBITDA margins in the most recent quarter. In addition, our Enterprise franchise has a loyal customer base, stable revenues and improving adjusted EBITDA.

McAfee approaches its financial model with the same discipline and focus on providing value for our customers. We're incredibly committed to driving shareholder value with the following principles: first, we're committed to organic revenue growth at scale focused on our Consumer business; second, we drive disciplined resource allocation by deliberate investments in our highest-priority areas that will yield strong returns; third, we display strong operational and financial management with cost and margin discipline.

Executing across these principles yields a business with healthy levels of EBITDA and cash flow. Based on our disciplined strategy for capital allocation to drive shareholder returns, we plan to distribute a dividend of \$150 million on an annualized basis to be paid starting the first quarter of 2021. We used some of the IPO proceeds to pay down our second lien debt of \$525 million. And our long-term target leverage is expected to be below 3x on a net debt over or adjusted EBITDA basis.

Turning to third quarter results. Total net revenue for the quarter was \$728 million, up 10% over last year. Total adjusted EBITDA for the quarter was \$265 million, reflecting 26% year-over-year growth. Our adjusted EBITDA margins expanded 470 basis points to 36% from the prior year. Year-to-date, we have generated unlevered free cash flow of \$639 million, up significantly with an increase of 41% versus the same period last year. This reflects the operating leverage in the model as EBITDA and free cash flow grow greater than revenue.

Our team delivered solid results. Top line strength is attributable to growth across our major Consumer channels, including our new and renewal motions and mobile. As Peter mentioned, this marks 12 consecutive quarters of sequential and year-over-year direct-to-consumer subscriber growth. This validates the strategic advantage of our holistic personal protection offerings and omni-channel go to market as well as strong execution on acquisition, conversion and retention. We also saw very strong adjusted EBITDA improvement from both segments driven by executing on our device to cloud product portfolio and our focus on core customers.

Now turning to operating expenses. We remain focused on improving profitability in our business while balancing our investments in growth. With this dynamic in mind, our goal is to grow revenue at a faster rate than our total operating expenses, which will result in improved operating margins. Evidence of that focus came in Q3 where our total adjusted operating income improved by 30% compared to the prior year quarter. We've also seen higher-than-expected partner product demand across our various channels. While this drove increased marketing spend during the quarter, it also bodes well for our future revenue growth.

Our Consumer segment continued its momentum across all dimensions during the third quarter. For the period, Consumer revenue was \$395 million, reflecting 23% growth versus the prior year quarter. Clearly, we're happy with continued momentum of our Consumer business and the underlying demand that is driving this growth.

The robust growth rate is attributable to solid business fundamentals across our direct and partner-led activities. Overall revenue growth was led by continued strong performance in our retention, the 16% year-over-year increase in core direct-to-consumer subscribers, along with mobile and service provider channel business. We ended Q3 with 17.3 million core direct-to-consumer subscribers, an increase of over 2.4 million subscribers compared to the end of third quarter 2019 and an increase of 669,000 subscribers compared to the second quarter of 2020. It's important to understand that as this large cohort of new subscribers derive value from our offerings and renew their subscriptions next year, this provides a higher lifetime value to McAfee as well as a tailwind to growth in the Consumer segment over the coming years.

ARPC, or monthly average revenue per customer, finished the quarter at \$5.98 compared to \$6.04 in the same period last year. This change reflects the accelerated growth and mix of new subscribers, which are initially dilutive to ARPC. Once again, these new subscribers feed our large installed base and our powerful growing renewal engine. Also, in the Consumer business, trailing 12-month dollar retention, or TTM, was 100% for the third quarter versus 96% in the comparable period last year. This reflects an excellent execution on retaining and upselling value to our customers. Adjusted EBITDA for Consumer was \$181 million, reflecting 26% year-over-year adjusted EBITDA growth.

Segueing now to the third quarter highlights of our Enterprise business. Enterprise revenue for the quarter was \$333 million. We continue to see our customers adopt our newer Endpoint plus EDR and unified cloud edge solutions. The percentage of revenue in the third quarter from core enterprise customers, defined as core so long as they generate at least \$100,000 in annual contract value for McAfee, remained over 80% of total enterprise revenue.

We continued to drive meaningful Enterprise EBITDA expansion year-over-year during the period. Q3 adjusted EBITDA was \$84 million versus \$66 million for the third quarter of last year, reflecting 27% year-over-year growth. Enterprise segment adjusted EBITDA margin also saw significant year-over-year improvement, coming in at 25% compared to 19% in the comparable period.

Now turning back to total company results and the balance sheet. We ended the third quarter with \$348 million in cash and cash equivalents and short-term investments. We raised approximately \$586 million in our initial public offering in October or about \$553 million net of commissions. Cash flow from operations increased in the first 9 months of 2020 to \$464 million compared to \$285 million in the prior year. The improvement is attributable to increased profitability and well-managed working capital.

Turning to guidance. We will provide next quarter guidance ranges for total net revenue and adjusted EBITDA. In the fourth quarter, we expect consolidated net revenue to be between \$732 million and \$742 million. Embedded within this guidance is our expectation that Consumer will grow net revenue between 15% and 17% year-over-year. We expect total adjusted EBITDA of \$254 million to \$264 million. To further help with your understanding the model, we anticipate cash net interest expense for the fourth quarter to be between \$62 million and \$66 million. The normalized non-GAAP tax rate is expected to be 22% post-IPO.

Finally, you should assume a fully diluted share count of approximately 468 million shares. Although we will not be guiding to unlevered free cash flow, I should note that due to our IPO, we incurred several onetime payments related to the transaction that are disclosed in our 10-Q, which we'll file today as well. This will impact our unlevered free cash flow in the fourth quarter. These items won't be a factor starting next year.

Overall, we're very pleased with our momentum in Q3. We continue to execute on all facets of our strategy. In our Consumer segment, we've historically grown double digits, and our product, user experience and omni-channel strategy have positioned us well for the future. In our Enterprise segment, we delivered strong adjusted EBITDA growth by optimizing our device to cloud offerings and focusing on core customers. McAfee's sophisticated product platform and loyal long-term relationships constitute sustainable competitive advantages. We are committed to the success of our customers and positioning McAfee for long-term growth and profitability.

We look forward to reporting our continued progress to you in these forums over time. With that, I'll turn the call back to the operator to begin Q&A.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Our first question comes from the line of Hamza Fodderwala from Morgan Stanley.

Hamza Fodderwala *Morgan Stanley, Research Division - Research Associate*

Just a couple of quick ones from my end. So it seems like you guys had a really strong year in the Consumer business. I'm wondering as you think about 2021, right, how do you see that really strong growth within the Consumer segment sustaining into next year? Is it sort of newer partnerships that you're forming here, additional SKUs that will likely benefit 2021 that didn't occur this year? I'm wondering how do you guys think about the durability of growth there? And then I have a follow-up.

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

Hamza, thanks for the question. This is Peter, and Ashish may add some color as well. So related to the consistency of the strategy, it really starts with the fact that the market is continuing to expand. And because of that, we've been able to expand the partnerships that we've had for many, many years across the omnichannel. That includes OEM. That includes McAfee direct. That includes e-tail and retail around the world. And that includes a very growthy channel, which is our mobile channel as well. So when we look at it with that lens, we see the opportunity to continue to grow new subscribers. And obviously we've been on a consistent path of having done so, as we just mentioned, 12 consecutive quarters, 669,000 new subs added in Q3 alone.

Now when we think about the continuation of that, we also think about strategically ensuring that we make it a great experience and then we work on conversion to renewal. And economically, that serves us very well because those customers become part of our renewal aperture and they become part of the renewal base, which is getting bigger and bigger, and we think about dollar-based retention and ensuring that they have a great experience. So as we do that, we continue through the same cycle. We grow new subscribers. We ensure that the relationship is fantastic. We expand the sale because we're really selling more of a holistic solution than ever before, and the TAM continues to grow.

So we see this as a consistent theme. We've been growing at a nice double-digit clip for years. We've been growing, obviously, new subscribers for quite a while as well, and we absolutely see the opportunity to continue to do that. Ashish, any color that you want to add is great.

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

Sure. And Hamza, my mental model for this is that it starts with the pipeline that we are creating for new customers and new subscribers today. And that really forms the renewal base, as Peter talked about, for next year and the year after and so on. And as we show value and upsell to this subscriber base at the time of renewal, really sell them more capable products and sell them more capable bundles, larger, more device protection through that holistic protection platform, which goes across ecosystems, across operating systems, that really creates some the base for our growth.

On top of that, we also see -- one of the fast-growing businesses for us, channel for us, has been the mobile channel where we have really taken this concept of holistic family protection to a much broader audience through the mobile partnerships that we have where our partners are upselling our protection capabilities to their subscribers.

Hamza Fodderwala Morgan Stanley, Research Division - Research Associate

Okay. Got it. I think we broke up a little bit there on my end, but I think I got the picture. Just one quick follow-up question around the partnership with Amazon. Could you give us a little bit more details on sort of the economics there? What part of the businesses does that benefit and kind of how you see that going forward? And that's it for me.

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

Yes. Happy to do so, Hamza, and that was a partnership that we just announced recently. That partnership is really geared towards the mobile and retail part of the market where we found that the needs of that market are very similar to the needs of the consumers, where they want something which is holistic, all-encompassing and goes across ecosystems. And it provides ease of use but it is very effective at the same time. So that's really the partnership. It's a comprehensive solution similar to our Consumer business. But what we are also offering through this partnership is an opportunity for much larger device bundles beyond our consumer, what we see our consumers and their families take up.

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

Yes. And just to close that out, it's very early days on that front, but it's another additive, new opportunity for us as we continue to drive growth. But again, Hamza, thanks for the question.

Operator

Our next question comes from the line of Brian Essex from Goldman Sachs.

Brian Lee Essex Goldman Sachs Group, Inc., Research Division - Equity Analyst

I guess either Peter or Venkat, whoever wants to field this one on the Enterprise side, I understand you're going to have kind of flat-to-down revenue growth on that side of the business but really nice adjusted EBITDA growth. How durable is that growth? In other words, how profitable are the core customers? And can you quantify the cost takeouts that you've identified in that business and give investors maybe a little bit more comfort that even though the top line may be flat, we can get some comfort in the growth of the EBITDA and profitability that, that segment drives?

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

You bet, Brian. It's Peter, and Venkat will double-click on this as well. So I think you summarized it quite well. The business has been a solid trajectory of improving EBITDA and improving EBITDA margins, and we see an opportunity to continue to do that. The solid core base that's very sticky, that's been with us for many years, that buys multitude of our products as a solution, that's very, very consistent and, frankly, that's the more lucrative part of the aperture. So when we think about it strategically, that's serving us really well. Now there are operational elements that Venkat will get into that provide us the opportunity to improve EBITDA even more. And some of those aren't directly correlated to enterprise in and of itself. There are G&A components. Real estate would be a good example, where we will likely spend less money. And from an allocation standpoint, that will help the business as well.

But with that, Venkat, if I didn't steal too much thunder, feel free to double-click a bit.

Venkat Bhamidipati McAfee Corp. - Executive VP & CFO

All right. Thanks, Brian. So our strategy in Enterprise, as you said, is to drive EBITDA growth. And the key component of that strategy is to make sure that we have greater mix for a business coming from end point and cloud security. And as part of that, we're also focusing, as you know, on the top 1,500 customers, as Peter mentioned, that drive greater than 80% of the revenue. With those 2 sort of focus areas, it sort of allows us to focus both the R&D and sales and marketing costs around the strategic priorities, right? In addition to direct costs that we're able to optimize in both R&D and go to market, as Peter articulated, there's significant other costs we're taking a look at with respect to G&A. So we do have expensive real estate all across the globe, and we're rationalizing and saying how much we need for the future. That certainly will contribute as an indirect allocated cost.

Another big area we're taking a deep look at is we have multiple data centers and IT and fragmented systems. As we modernize and simplify our core infrastructure, there are significant operational efficiencies that also translate into economic benefits as we continue to optimize our cost structure. So a combination of strategic focus on the business and streamlining our cost structure makes us pretty comfortable about the EBITDA expansion opportunity we have in front of us.

Brian Lee Essex Goldman Sachs Group, Inc., Research Division - Equity Analyst

Okay. That's helpful. And maybe to follow up, it sounds like some of those opportunities may not be the most liquid opportunities. Is there a framework that we can look at as we go forward over the next few years where you can maybe commit to margin expansion -- incremental margin expansion each quarter or on a year-over-year basis? Or how volatile is that is that line item, I guess do you plan to have that be?

Venkat Bhamidipati McAfee Corp. - Executive VP & CFO

I'll start. So look, I mean we want to make sure we're on a consistent overall operating improvement plan. So we think about this in terms of -- we've been around for 30-some years. We want to make sure we're around for the customers and the solutions we're providing them. Therefore, we think about that on a multiyear improvement plan with, clearly, quarterly and annual operating improvement efficiencies. So all the activities I mentioned, whether it's refocusing our R&D or sales and marketing or G&A, we do have quarterly plans, certainly, to think about EBITDA improvement, but we want to make sure we have sustained improvement. We're not going to do anything that obviously impacts our customers, but we will have a sustained improvement over a long period of time.

Operator

Our next question comes from the line of Gregg Moskowitz from Mizuho.

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

If I could start with Consumer because the growth this quarter was very impressive, but one question that often comes up from investors around this business is sustainability. And I don't think anyone has delusions that 20% growth is the new normal, but I think it would be helpful if you could tell us why Consumer can or should be a double-digit grower on a multiyear basis going forward?

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

You bet, Gregg. It's Peter. I would say we start with the fact that the market is very substantive. And that, to us, is really important because we are looking at this over a fairly lengthy continuum, and it's been consistent. We've been growing at a very solid clip and growing new subscribers at a very durable solid clip for quite a while. And that was true in 2017, 2018, 2019. Clearly, year-to-date in 2020, we have been growing. We've been growing more of late. So this is not a completely new phenomenon for us to see a double-digit growth story for the business. And we've really expanded the omni-channel approach in recent years in a few ways, one of which is we have a multitude of entities with long-term exclusive, very important relationships that we've built. And they're not just commercial relationships. We go to market together. We think in terms of the user experience together, performance marketing, ensuring that we are there at the point of emanation and throughout the customer's digital journey.

And the additive element that Ashish just touched on is mobile. Now with our mobile providers or the telecom entities, we don't count those as new subscribers. So in that 669,000 number, that's noninclusive of the mobile carrier growth because, technically, the billing relationship is with the mobile provider. So we see opportunities to continue with this large TAM through this channel to continue to grow new subs.

Now upon doing so, what we've also been fixated on is ensuring that we are stronger and stronger and stronger related to what we measure in dollar-based retention. And the dollar-based retention rate has continued to go up, so we're adding more subscribers and retaining more and renewing more. We've invested in performance marketing, as I said, improved conversion, retention. And we've also seen -- as the aperture has gotten bigger, as we added more and more subscribers, they've also provided us with an opportunity to improve our customer sat and NPS scores, and we take that very seriously. So they become part of a renewal engine, which becomes the bulk of the revenue and the bulk of the business. And so as we continue to grow net new consumers and continue to transition those consumers into the renewal base, it provides a very healthy long tail. Hopefully, that gives you some context.

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

Very much so, Peter, that's helpful. And on the Enterprise side, so it looks like the revenues declined just slightly this quarter, about 2%. But on a year-to-date basis, Enterprise billings have declined, I believe, by 8% to 9%. Can you walk through why the billings declines have accelerated in 2020 versus 2019 as well as what your expectations are around Enterprise performance going forward?

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

Yes. I'll touch on it and Venkat may double-click. And I would just make the sort of blanket comment about billings. Billings are lumpy. So when we think in terms of the core base and EBITDA expansion, that's been very, very solid. And frankly, the core base became even a percentage point higher this quarter as a percentage of revenue. So for us, it's really a question of looking at this with a balanced lens between profitable and what has been less profitable. And that gets back to that question about EBITDA expansion. But we're going to be very deliberate. We hold very steady in that core base, and that's really producing the bulk. But Venkat, anything I may have missed, feel free to chime in for Gregg.

Venkat Bhamidipati McAfee Corp. - Executive VP & CFO

Sure. So Gregg, as I mentioned, our strategy is to drive EBITDA growth. And clearly, we're going to be focusing -- some of the biggest franchises we have, whether it's end point or cloud security, they tend to be more subscription in nature. As we're transitioning our customers from hardware and licenses into software and subscription, we actually view this as a positive mix shift in revenue and totally in line with our strategy. When you combine that with our focus in the Enterprise of serving the large core customers, as Peter mentioned, that constitute greater than 80% of the revenue, that gives us a very sticky base. And frankly, we've been serving these complex customer environment for a long period of time.

So you have a revenue and core customer base which is pretty stable. Then you look at -- you combine that with some of the focus I talked about, whether it's R&D, go to market or G&A, when you combine both of those, we feel pretty good about the continued EBITDA expansion opportunities as we take our customers more into the device to cloud strategy. So combined, we feel pretty good about how much we've been able to grow in terms of profitability and the continued growth we see in terms of EBITDA profitability for the future.

Operator

Our next question comes from the line of Matt Hedberg from RBC Capital Markets.

Matthew George Hedberg RBC Capital Markets, Research Division - Analyst

Congrats on the IPO. I'm curious -- and Peter, maybe it's for you. I know you guys have been working on a strategy on the Enterprise side to consolidate agents. I'm wondering if you can give us an update there because, to me, it seems like a real opportunity to drive even more synergies on the Enterprise side, especially with the building cloud portfolio.

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

Sure. Maybe, Matt, what I'll do is just sort of give a broad overview of where we are from a portfolio standpoint because it's really differentiated. And we just got some very, very positive feedback from Gartner, which I'll touch on as well. And the way we're looking at it is very much related to what that core base needs. We're in 86% of the Fortune 100, nearly 80% of the Fortune 500, 20-year-plus relationships with governments. And it's a complex series of needs, and these are hybrid environments. So when we think device to cloud, that has to do with device protection from end point protection, which we've completely revamped and gotten phenomenal feedback from customers. That's the highest growth in customer sat and NPS scores we've gotten in the business.

And we also, admittedly, were late to EDR, but the EDR solution set is growing at a really terrific clip with something called Insights. And Insights is something that, frankly, we brought to market that others simply do not have. That gives us the opportunity to provide our customers not with simply detection but also a preemptive, preventative gauge on cyber criminal behavior because we have telemetry around over 1 billion end points. And we can help customers understand what may be impacting their industry and their business. So on that side of the house, it's become a really important transition for us, a lot of really terrific work done by the team.

Then on the unified cloud edge side, we are really the only ones who bring together CASB, which we are upper right in Gartner's Magic Quadrant. We've been there for 4 years, but we're exclusively upper right this year with sticky DLP, with secure web gateway, and that served us really, really well. And again, it's a converged solution for SASE, as Gartner calls it, our unified cloud edge. And that's been a really important part of helping the customers who have a multitude of needs from data to infrastructure. And it all comes together with ePO, with policy orchestration, which is a big differentiator for us. So very sticky in that base, and hopefully that gives you some context.

Matthew George Hedberg *RBC Capital Markets, Research Division - Analyst*

Well, that's great. And I think it's really a segue into my second question, which you sort of nicely led into. And it may be hard for you guys to answer, but when you think of some of the faster-growing segments of your market, I know there's been a lot of success in your base, how do you think about how well penetrated the base is beyond EPP on some of these newer products, the cloud side, CloudSim, EDR, et cetera?

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

Well, we believe, first of all, the market, call it a 4- or 5-year CAGR in the mid-20s, call it 24 billion, 25 billion, is going to continue to be strong and growing in key areas because customers will spend money on security. And in our case, we're very deliberate about how we think through that. But importantly, we've also seen that some of this is not necessarily binary at this point, meaning customers are looking for more and more of a solution to help themselves from all those different vantage points, particularly large enterprises, particularly government entities, where it's not simply about protecting one component. And that's why bringing together our unified cloud edge has become really important.

And there's more penetration even within the confines of our base to cross-sell and upsell, and we're doing that. And that's going to be a continued focus for us as we think about what we brought to market. And again, really strong accolades for our solution set. Again, CASB is top of mind because Gartner just came out with the MQ. But that's going to be a truism for us across the product lines, and we feel very good about the solution set that we're bringing as opposed to point products.

Operator

Our next question comes from the line of Patrick Colville from Deutsche Bank.

Patrick Edwin Ronald Colville *Deutsche Bank AG, Research Division - Research Analyst*

It's really great to be on this inaugural earnings call. So then I'll ask about question about Consumer and then Enterprise. I guess I mean the Consumer side -- pardon me, the Enterprise side, when I look at the numbers, you guys have done a pretty credible job balancing growth and profitability in Enterprise. But when I look at many of your competitors, the CrowdStrike, Zscaler and others, they don't really care that much about profitability. They're just spending very aggressively for growth. I mean how do you compete against that mentality?

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

Right. Well, I appreciate the comments on the work the team is doing. And that will continue. This team is just a skilled set of operators, and we are going to be very focused on the segments where we will grow profitably. And the investment thesis is really one of deliberate imbalance. And again, there's nothing to comment about on how things will run in prior years. But one of the things that really we've been able to do over the last couple of years is be very, very focused on areas where we see accretive value, and those are device to cloud. Now remember, we've got other solutions that, frankly, will not be growthy that we've been in for years. But we think we can invest less

there, have that sticky accretive element for core customers, and enable us to continue to improve EBITDA. We don't want to get into head-to-head matchups versus others on spend in a certain segment. We want to be very, very focused on the areas that customers tell us matter the most. And I think we've done a good job of listening to our customers in that sense.

Patrick Edwin Ronald Colville *Deutsche Bank AG, Research Division - Research Analyst*

Got it. That's very clear. And then in an earlier question, you commented on the relationships you have in the Consumer segment and, in particular, PC OEMs. I mean can you just help me understand, just remind me kind of how the contracts work around those. Are they typically kind of 1-year contracts, multiyear deals? Just help me understand those relationships because they seem to be like a real key driver of the performance in Consumer, which has been great.

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

Yes, a couple of comments, and then Ashish will certainly -- he'll add some color. So one of those is PC shipments, up or down, we've been growing. For example in 2019, PC shipments were down, we grew at a very solid clip. So we're not tied and tethered exclusively to PC or PC shipments. It's another feeding mechanism for the growth of the business. And we cover roughly 85% of the brand name PC OEMs. These are long-term relationships. These are very exclusive relationships, and we've had partnerships for many, many, many years with these folks. But I'll let Ashish double-click a bit more.

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

Yes. Thanks, Peter. So Patrick, the relationships are, as Peter pointed out, across the ecosystem, across all partners, whether that be PC OEM, mobile providers or, as we announced, with Amazon recently. On your specific question, look, these agreements are multiyear. They have been -- we've had these agreements on an exclusive basis for a very long time, and we continue to renew them. There's nothing coming up for renewal in 2021. And we invest a lot of time and energy in these relationships to build really a user experience for a buyer of our partners' products, so that the out-of-the-box experience is terrific for them. It's a customized experience. So there's a lot of value that gets derived, both for us as well as for our partner, in that user experience. So there's a lot of time, energy and partnership that goes on and really value engineering, that piece of it. And these are exclusive relationships as it is with the mobile providers.

Operator

Our next question comes from the line of Walter Pritchard from Citi.

Walter Herbert Pritchard *Citigroup Inc. Exchange Research - Research Analyst*

Just following up on the last question, maybe just sort of broadening it out and just thinking about the new subscribers coming in. Any rough split as to how many are coming in through the PC channel versus other channels and how that differed from past years? And then I have a follow-up.

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

Yes. Walter, it's Peter. I'll jump in, and again, Ashish may add some color. Broadly speaking, all of the channels are growing, and all of the channels are adding to new subs except for mobile, which is growing at a really healthy clip, but we don't count those new subscribers. So McAfee direct is growthy. The PC OEM channel is growthy. And adding in e-tail and retail, they're all contributing to both new subscriber growth as well as the continued growth of the business. And again, the mobile piece, because we technically don't own the relationship, we don't count as new subscribers, but that's quite growthy as well. So Ashish, any other color I may have missed.

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

So both of our channels are all equally weighted in the sense they're all growing. They all benefit us in the same way. And that at McAfee, there's a group of subscribers that comes in and that forms part of our direct-to-consumer subscriber. And then we renew them at McAfee directly through our relationship with them, which is where the bulk of the subscribers are. And as Peter pointed out, the mobile base has been phenomenal where our partners really take us to market, and they are upselling to their subscriber base, which is a captive subscriber base.

Walter Herbert Pritchard Citigroup Inc. Exchange Research - Research Analyst

Great. And then I guess the other question is just on the expense side. A lot of companies have seen, I think, COVID reduce their travel and other expenses by quite a bit. Any way you can give us a sense as to how much, in kind of a normalized world, you might see the expenses, especially on the sales and marketing side or maybe in other areas as well, higher than you reported?

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

Venkat will jump in.

Venkat Bhamidipati McAfee Corp. - Executive VP & CFO

Yes. Walter, like every other company, I think we have seen some degree of expense savings as a result of COVID, right? But at the same time, we've been fortunate to be able to invest in real-time collaboration and communication tools where our employees are able to work remotely, work quite productively. So going forward, certainly, depending on what happens in a post-COVID world, we do expect some degree of pickup. But we do think some of the expenses that we're looking at are structurally going to be not the same, which is we mentioned we're taking a deep look at, for instance, how much real estate we would need. So we're going to take a look where we can -- our employees can safely and productively work. That will be a permanent structural shift. Certainly, when the time is right, we will invest amounts in the go to market and sales, but at this point, I don't have a forecast to offer. But we're pretty thrilled with the levels of investments we made in our back-end infrastructure, so everyone is able to be working super productively.

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

Thanks, Walter.

Operator

Our next question comes from the line of Tal Liani from Bank of America.

Tal Liani BofA Merrill Lynch, Research Division - MD and Head of Technology Supersector

Most of my questions were asked already. I want just one clarification, just big picture. Would you mind to discuss other income and expense? I see that on a non-GAAP basis, it jumped quite substantially this quarter. What are the components? And what should we -- how should we look at it for the future quarters? And my other question is more about the mobile side. And what I'm wondering is where are we with the awareness factor of consumers on mobile? Meaning, I'm sure that some of your customers are buying it as part of a package that they buy for the home or for personal use, and then they also apply to mobile and then you have also channels. Where are we with penetration? What drives more awareness to similar solutions that we have on PCs and laptops to mobile? And on a stand-alone basis, could it be a big market that drives up revenues?

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

Tal, I'll leave the OI&E question for Venkat for a minute and quickly touch on mobile. So it starts once again with understanding this market has changed. I mean there was a 71% increase in mobile malware attempted attacks just this year alone. It is a realization on the part of cyber criminals that it's not simply about getting protection for your device or your phone, it's pertinent data that matters. And most of us use our phones as the remote control to our world. And that is really important because cyber criminals know that it's your banking information. It's health care information. It's things that, frankly, have value to a criminal. And that is becoming more and more pervasive, in addition to the fact it's no longer this one dimensional element where IoT from home and all of the home components, VPN included, become part of a broader aperture, as Ashish discussed.

So this market is growing. We feel very good about our channel. We feel good about the fact that we have expanded that channel even recently. And I would say just to summarize it, we believe we're in relatively early innings in that sense. And that's like all of our channels, a good, profitable growth channel that we see continuing for quite some time. And we're in pretty early days in that sense and in the investment and the series of investments we're very happy we're making. So with that, I'll turn it to Venkat for OI&E. And if Ashish has additional comments on mobile or happy to double-click, I'm just cognizant of the time.

Venkat Bhamidipati McAfee Corp. - Executive VP & CFO

Sure. The biggest impact in OI&E for us was the FX impact this quarter, especially on the income statement, it was fairly insignificant. But especially as the euro strengthened, we have seen some balance sheet unrealized remeasurement that we've taken that. But overall, FX on the income statement has been fairly insignificant. But the biggest impact we've seen that is the balance sheet remeasurement, which is largely unrealized FX loss.

Operator

Our last question comes from the line of Fatima Boolani from UBS.

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

Peter, I want to start out with you with respect to the Amazon opportunity that you referenced in your prepared remarks. I wanted to drill into that a little bit. How should we think about the broader contours of this distribution arrangement? And if you can shed light on the type of economics you expect to see from this partnership. And the last piece of that, is the assertion correct that this sort of lands you into the SOHOs, or call it small office, home office type segment, of the market? And sort of how do you see that impacting your direct-to-consumer installed base going forward?

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

You bet, and let me preface it by saying it's very early days. We are looking at this with a similar lens to what we would provide for a consumer but a bit more. We are not moving up into even the, I'd say, small side of the enterprise-type markets. So I do want to make sure we caveat that related to segmentation. But this is a small business offer for environments that, frankly, need help, and it's a holistic solution as we discussed, so for PCs and Macs and iOS and Android devices, and we're providing just very loosely flexible licensing options. These small businesses can add up to 25 devices. They get things like 24/7 virus removal and AV or antivirus support, VPN. So it's really packaged with them through Amazon as a partner for that segment of small and, I'd say, relatively small businesses that are not protected today. And again, we're not factoring this in, for example, the Q4 guidance or anything along those lines. It's an expansion for us, but we're sort of dipping our toes, if you will.

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

Fair enough. And Venkat, one for you just with respect to the Enterprise business. I know billings is not necessarily a metric that you run the business against, but I'm wondering if you can kind of talk us through some of the considerations within the Enterprise billings profile of the business and maybe some of the puts and takes that you're navigating within Enterprise as you look at vectors like large deals and product mix and then contract structures. I would really appreciate color on that front.

Venkat Bhamidipati McAfee Corp. - Executive VP & CFO

Yes. No, absolutely. Just a couple of points to note with respect to Enterprise, as as I pointed out, I think we tend to serve some of the largest enterprise customers and governments across the globe. And these tend to be large, complex, hybrid environments. And we sell them a broad portfolio of products with varying terms where it could be 1 year, it could be 5 years, and no 2 deals are alike. So this variability in transaction makeup, from quarter to quarter, produces some degree of lumpiness in our entitlement expirations, which then translates to lumpiness in our billings. And therefore, it makes it hard to draw conclusions from a single quarter's billings growth. The more interesting metric to look that kind of normalizes all the billings lumpiness for us is net revenue as you look at -- over multiple quarters.

And then the second thing I would also note is, as I mentioned, we're increasingly moving towards subscription-type software and subscription-type products, whether it's in our end point or cloud security products. There is a positive mix shift in revenue in line with our strategy. So combine both those two, we don't view billings as a good measure especially. And one of the things for you to consider is the revenue from these core customers, which is over 80%. It actually inched up a point this quarter. So that's a good way to look at our enterprise revenue going forward.

Operator

Thank you. That concludes our Q&A session. At this time, I would like to turn the call back over to Mr. Peter Leav, CEO, for closing comments.

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

Great. Thank you all and thanks for joining today's call. We hope everyone stays healthy and safe, and we look forward to updating you again next quarter. Thanks a lot.

Operator

Thank you. Ladies and gentlemen, this concludes today's conference call. Thank you for participating. You may now disconnect. Good day.

DISCLAIMER

Refinitiv reserves the right to make changes to documents, content, or other information on this web site without obligation to notify any person of such changes.

In the conference calls upon which Event Briefs are based, companies may make projections or other forward-looking statements regarding a variety of items. Such forward-looking statements are based upon current expectations and involve risks and uncertainties. Actual results may differ materially from those stated in any forward-looking statement based on a number of important factors and risks, which are more specifically identified in the companies' most recent SEC filings. Although the companies may indicate and believe that the assumptions underlying the forward-looking statements are reasonable, any of the assumptions could prove inaccurate or incorrect and, therefore, there can be no assurance that the results contemplated in the forward-looking statements will be realized.

THE INFORMATION CONTAINED IN EVENT BRIEFS REFLECTS REFINITIV'S SUBJECTIVE CONDENSED PARAPHRASE OF THE APPLICABLE COMPANY'S CONFERENCE CALL AND THERE MAY BE MATERIAL ERRORS, OMISSIONS, OR INACCURACIES IN THE REPORTING OF THE SUBSTANCE OF THE CONFERENCE CALLS. IN NO WAY DOES REFINITIV OR THE APPLICABLE COMPANY ASSUME ANY RESPONSIBILITY FOR ANY INVESTMENT OR OTHER DECISIONS MADE BASED UPON THE INFORMATION PROVIDED ON THIS WEB SITE OR IN ANY EVENT BRIEF. USERS ARE ADVISED TO REVIEW THE APPLICABLE COMPANY'S CONFERENCE CALL ITSELF AND THE APPLICABLE COMPANY'S SEC FILINGS BEFORE MAKING ANY INVESTMENT OR OTHER DECISIONS.

©2020 Refinitiv. All Rights Reserved.