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Q4 2020 McAfee Corp Earnings Call

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CORPORATE PARTICIPANTS

Eduardo Fleites

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 - Equity Analyst

Matthew George Hedberg RBC Capital Markets, Research Division - Analyst

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

Robbie David Owens Piper Sandler & Co., Research Division - MD & Senior Research Analyst

PRESENTATION

Operator

Ladies and gentlemen, thank you for standing by, and welcome to the McAfee Fourth Quarter 2020 Earnings 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 speaker, Mr. Eduardo Fleites, Vice President, Investor Relations. Please go ahead, sir.

Eduardo Fleites

Thank you, operator. Good afternoon, and thank you for joining us today. McAfee is hosting this call to discuss its fourth quarter and full year earnings results for the period ended December 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 encourage you to read our 2020 annual report on Form 10-K, which we expect to file with the SEC by early March.

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 for those expected and described today. For a more detailed description of our risk factors, please review our most recent quarterly report on Form 10-Q and our upcoming 10-K to be 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.

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, Eduardo, and good afternoon. Q4 was a very strong quarter for McAfee as we significantly increased revenue, profitability and free cash flow. We delivered robust top line results with total revenue of \$777 million, growing 14% year-over-year. We also improved profitability with total adjusted EBITDA of \$285 million, a 37% margin and growth of 32% versus last year.

Similar to last quarter, our Consumer team delivered another exceptional set of results, with Consumer revenue growing 23% year-over-year. In Q4, we added another industry-leading 668,000 net new core direct-to-consumer subscribers to the platform, a number that was similar to our robust direct-to-consumer net adds in Q3. Our strong fourth quarter performance caps another terrific year of revenue growth and marks our 13th consecutive quarter of sequential and year-over-year core direct-to-consumer subscriber adds. For the full year, Consumer revenue grew 20%, and we added 2.8 million net new subscribers during the last 12 months.

Our Enterprise business with our long-tenured core customer base delivered solid Q4 revenue growth of 5% year-over-year and strong EBITDA growth. Enterprise was a major contributor to our overall profit expansion in the quarter. Venkat will go into more detail regarding our Q4 results during his remarks.

Our full year 2020 financial highlights clearly demonstrate our team's focus on execution and the strength of our product offerings. Total net revenue increased by more than 10% to \$2.9 billion, driven by highly recurring organic growth in our Consumer business. McAfee generated over \$1 billion in adjusted EBITDA, representing a 36% margin and growth of approximately 32% versus last year. We generated \$982 million in unlevered free cash flow, representing a margin of 34% and growth of more than 37% versus last year.

Looking at each of our segments in more depth. Our Consumer franchise has sustained a double-digit growth trajectory for several years while improving profitability. In FY '20, we have reached an impressive 18 million core direct-to-consumer subscribers, up more than 18% year-on-year. McAfee's Consumer business continues to be a robust growth engine for the company.

In 2020, our growth accelerated across all customer acquisition channels, resulting in strong double-digit revenue growth in North America, EMEA, Japan and Latin America. Our DTC subscriber growth was also in the double digits for all geographies, underscoring the strategic advantages of our omnichannel approach and our holistic product suite. Consumers have become increasingly digitized, and consumer awareness about the need for security continues to increase. These trends will continue to fuel the growth of an already large addressable market and we believe will power our Consumer business in 2021 and beyond.

McAfee commissioned an external company, MSI-ACI, to survey 11,000 internet-connected adults around the world. Based on the survey, users expressed high levels of concern around cyber risks, online crime with respondents surveyed showing an average concern of 65%. During the same study, the key trends that emerged as drivers for consumer security software purchases were proliferation of devices within the household, increased internet connectivity, the explosive growth in online transactions, the use of personal information in those transactions and more work-from-home policies. The study also showed a broad increase in the usage of online banking, online financial planning, online doctor visits and personal shopping with the expectations that post-pandemic these activities will remain at high levels.

Meanwhile, another recent survey showed that the top criteria for consumer purchases of security software are multidevice and web protection, the need to understand pricing and a trustworthy brand. McAfee's differentiated personal protection offerings are tightly aligned with the most pressing consumer needs for security software that covers device, privacy and identity protection.

In addition to our results, Q4 was also highlighted with our Consumer team's most recent channel partnership signings, including McAfee signing a 5-year extended global agreement to provide consumer security on ASUS PC products, and McAfee signed a renewal to continue to offer security products on costco.com, whereby all PCs purchased through costco.com will include a 1-year paid subscription to McAfee.

In our Consumer segment, we are achieving results at scale while simultaneously investing to capture the tremendous opportunity we see in front of us. We feel confident about continuing our double-digit long-term growth rate driven by the positive and sustainable trends in the market, increased public awareness of the importance of privacy and security as well as our significant investments in product, channel and subscriber acquisition and retention. Looking at 2021 and thinking about the flywheel effect of the Consumer business, we also expect to benefit from a greater renewal base associated with our strong 2020 cohort of 2.8 million net new DTC subscribers, which we expect to provide an uplift to revenue. The expansion potential of this market remains very much in front of us.

Switching to our Enterprise business. We finished the year with strong execution against our key strategic imperatives. Our focus is on

serving the complex, hybrid, multi-cloud environments of our long-tenured core enterprise customer base. We are driving innovation in device to cloud security to help protect users, applications, infrastructure and data across the enterprise. We know this strategy is resonating with our customers, given strong underlying double-digit year-on-year growth in our EDR and cloud security offerings. Our focus on improving profitability through our targeted market and product orientation drove significant expansion in adjusted EBITDA margin by 10 full percentage points to 28%, a growth of 64% for the quarter.

To provide additional context around how McAfee's cloud security offering is successfully competing in the marketplace, McAfee's MVISION Unified Cloud Edge was chosen by a national health care provider to support their next generation of cloud and remote worker security needs. This was a full platform cloud security win for McAfee delivering web security, data protection, shadow IT and SaaS protection. Both data and threat protection were equally important as this customer advanced in their adoption of cloud services and the need to support and secure cloud access for work-from-anywhere users. Our customer performed a rigorous evaluation process and considered a variety of cloud security and cloud gateway solutions. They chose McAfee's unified offering for its superior functionality and seamlessly converged solution. Moreover, our UCE product delivers superior threat and data protection, underscoring McAfee's position as Gartner's Market and Magic Quadrant Leader for cloud security.

Recent high-profile customer wins in the EDR space came down to McAfee's unique ability to combine EPP with EDR to deliver better functionality coupled with the advantages of MVISION Insights AI-guided investigations and an ability to easily extend preventative controls. McAfee's integrated platform meets the requirements of large organizations today, but also can accompany them on their journey whether it entails security on premises, in the cloud or in a hybrid format. This is an important distinction for our offering. McAfee is committed to protecting our customers against risks with leading-edge cybersecurity products, defending many of the world's largest organizations and government entities from sophisticated attacks and nation-state threats. The importance of these capabilities certainly has been thrust into the spotlight recently in the wake of the SolarWinds and SUNBURST cybersecurity attacks. More than anything, these events are stark reminders of the unprecedented increase in scale and sophistication of cyber-criminal activity.

Cyberattacks in recent years such as WannaCry were indiscriminate in nature compared to what we are seeing now with SolarWinds SUNBURST, a far more precision-guided attack which will necessitate that enterprises and government entities prepare and preempt for deliberate and coordinated campaigns. In many ways, this breach is a seminal event for the enterprise landscape. We expect that in response, one of the big areas of focus from customers during the coming year will be spending on advanced security and detecting threats specific to an organization or executed by a human operator. And we would expect to see more investments from many organizations who may recognize that they have insufficient safeguards in place as the cyber threat landscape is changing quickly.

Our business is performing well. We understand the mission-critical role we play in securing the digital transformation wave that is sweeping the world. The acceleration in digitization that has taken place over the past 12 months has only served to compound that urgency. McAfee's expertise in bringing differentiated security solutions to consumers, enterprises and governments has never been more timely. New conveniences in the realm of work, learn, shop, bank, exercise, stream and telemedicine have gone from nice to haves to must haves. These digitally enabled experiences have become permanently woven into consumers' daily lives, and they expect every interaction to be secure. McAfee is there to provide that peace of mind.

Thank you once again to our McAfee team members for your hard work and dedication, which has allowed us to focus on customer and partner success, execute on our strategy and deliver very strong Q4 and full year 2020 results.

I will now turn the call over to Venkat to discuss our financial results in further detail.

Venkat Bhamidipati McAfee Corp. - Executive VP & CFO

Thanks, Peter, and good afternoon, everyone. We finished the year on a very strong note with revenue, profitability and cash flow all increasing significantly. Across the business, results exceeded expectations driven by strong execution and increased demand for our security offerings, resulting in double-digit top and bottom line growth.

For the fourth quarter, net revenue was \$777 million, a growth of 14% over last year. Adjusted EBITDA was \$285 million, up 32% year-over-year, representing a margin of 37% and an expansion of 500 basis points. This resulted in an adjusted EPS of \$0.38.

Our Consumer segment delivered double-digit subscriber growth because of robust demand in large, critical and growing personal protection markets. In our Enterprise segment, we grew revenue by 5% and significantly increased profitability.

Moving to fiscal year 2020 results. Net revenue was \$2.9 billion, representing 10% year-over-year growth. Full year Consumer net revenue grew 20%, contributing \$1.6 billion to the total. And Enterprise net revenue was \$1.3 billion, an increase of 1% for the full year. Year-over-year total company adjusted operating expenses declined 2%, even as we invested to drive growth in key consumer channels. Therefore, McAfee's adjusted EBITDA grew 32%, topping \$1 billion for the year. Adjusted EBITDA margin was 36% versus 30% in FY '19.

We continue to increase our operating leverage, resulting in a more efficient business model. For the full year, we generated unlevered free cash flow of \$982 million, up 37% versus 2019 and representing an unlevered free cash flow margin of 34%.

Our team delivered a solid performance to close out the year. Our Consumer business continued its momentum with increasing consumer demand for our security products as more aspects of our lives are digitized across the work, learn and transact scenarios. As Peter mentioned, this marks 13 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 omnichannel go-to-market as well as strong execution on acquisition, conversion and retention. We expect this momentum to continue going forward.

We also saw very strong adjusted EBITDA improvement from our Enterprise segment. These results were driven by our focus on core enterprise and government customers, the prioritization of our R&D efforts towards market-leading device to cloud products and continued optimization of our go-to-market strategy.

Now turning to operating expenses. We remain focused on improving profitability in our business while balancing our investments in growth. Evidence of this focus came in Q4, where our total adjusted operating income improved by 39% 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 the future revenue growth.

During Q4, our GAAP net loss was \$320 million and included recognizing \$288 million of noncash equity-based compensation charges in the fourth quarter, primarily due to the noncash cumulative catch-up we discussed in our 10-Q for the third quarter and also in the S-1; restructuring activities of \$16 million recognized in connection with reorientation of our Enterprise business and realignment of staffing in other departments, primarily consisting of severance and benefits.

Now turning to segment results and key metrics. In the Consumer segment, we saw strong momentum across all dimensions during the fourth quarter. For the period, Consumer net revenue was \$426 million, reflecting a 23% growth versus the prior year quarter. We continued to grow our core direct-to-consumer subscriber base. In Q4, we grew the base by 18% year-over-year or 668,000 DTC subscribers. We ended Q4 with robust 18 million core DTC subscribers, an increase of 2.8 million net new subscribers on a trailing 12-month basis.

We also saw strong demand for our mobile and service provider channel business. ARPC, or monthly average revenue per customer, finished the quarter at \$5.97 compared to \$6.01 in the same period last year. This change reflects the accelerated growth and mix of new subscribers, which are initially dilutive to ARPC. Given the flywheel effect of the Consumer business, a greater 2020 renewal base of 2.8 million net new DTC subscribers bodes well for continued strong uplift in revenue. On a full year basis, ARPC came in at \$6.01 compared to \$5.96 for the prior year.

Also in the Consumer business, trailing 12-month dollar retention was 100% for the fourth quarter versus 97% in the comparable period last year. This reflects strong execution and improvements on our unit retention, driving customer value not only in renewals but also through upselling existing customer subscriptions to higher-value packages.

Adjusted EBITDA for Consumer was \$188 million, reflecting 20% year-over-year growth. We continue to invest in Consumer to drive growth and solidify our leadership position. As the 2.8 million new DTC subscribers added in 2020 derive value from our offerings and

renew their subscriptions, they provide significant lifetime value to McAfee.

Moving to our fourth quarter Enterprise business results. Net revenue was \$351 million, up 5%. We continue to see our customers adopt our newer endpoint plus EDR and Unified Cloud Edge solutions, all of which generated solid double-digit year-on-year growth. The percentage of net revenue in the fourth quarter from core enterprise customers remained over 80% of the total Enterprise net revenue. We continued to drive meaningful Enterprise adjusted EBITDA expansion year-over-year during the period. Q4 adjusted EBITDA was \$97 million, reflecting 64% year-over-year growth. Enterprise segment adjusted EBITDA margin also saw significant year-over-year improvement, coming in at 28% compared to 18% last year.

Now turning back to total company results and the balance sheet. We ended fourth quarter with \$231 million in cash and cash equivalents and short-term investments. As a reminder, we raised approximately \$586 million in our initial public offering last October or about \$553 million net of fees. We used these IPO proceeds to pay down our second-lien debt of \$525 million. In addition, based on solid cash generation of the business in the fourth quarter, we used excess cash to prepay \$300 million of our first-lien U.S. debt.

Based on our disciplined capital allocation strategy to drive shareholder returns, we are raising the dividend and now expect to pay \$200 million annually, representing an increase of \$50 million annually from what we previously communicated. Our first dividend was declared in December 2020 and was paid to our shareholders in early January of this year.

For the full year, cash flow from operations increased 53% to \$760 million compared to \$496 million in the prior year. The improvement is attributable to increased profitability and well-managed working capital, including better performance around receivables, of which approximately \$25 million is timing related and came in a little earlier than we had expected. For the full year 2020, unlevered free cash flow was \$982 million, which included fees to terminate management contracts in conjunction with the IPO.

Turning to guidance. We are providing current quarter guidance ranges for total company net revenue and adjusted EBITDA. In the first quarter, we expect consolidated net revenue to be between \$725 million and \$735 million. Embedded within this guidance is our expectation that Consumer will grow net revenue between 16% and 18% year-over-year. We expect total adjusted EBITDA of \$275 million to \$285 million. Furthermore, we anticipate cash net interest expense for the first quarter to be between \$50 million and \$55 million. The normalized non-GAAP tax rate is expected to be 22%. Finally, you should assume a fully diluted share count of approximately 468 million shares.

As we continue to prioritize our Enterprise R&D investments, optimize our Enterprise go-to-market and drive operational excellence across all functions, we have completed a workforce reduction and other restructuring activities in Q1. Our GAAP results in Q4 include a charge of \$16 million for restructuring costs, and we expect to take the remainder of the restructuring charge in Q1 of approximately \$30 million to \$35 million related to these actions. As a result of these cost-saving initiatives, we expect to achieve net savings of approximately \$50 million after reinvestment over the next 12 months.

Overall, we're very pleased with our momentum to close out 2020. We continue to execute on all facets of our strategy. 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 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 Hamza Fodderwala with Morgan Stanley.

Hamza Fodderwala Morgan Stanley, Research Division - Equity Analyst

I just wanted to ask a question about sort of the outlook for the full year, right? I know you didn't give sort of explicit guidance, but any sort of guideposts you can give us in the sense that it seems like consumer from a revenue growth standpoint, given the ARPU uplift that you're about to see, given that it's still pretty favorable PC demand environment, that should probably be somewhere in the double-digits range, right? I think that's pretty reasonable. And then for the Enterprise business that grew this quarter, maybe that's sort of flattish or slightly down. So is there any reason why, on a total revenue basis, we shouldn't see revenue growth at least sort of in that mid-single-digit range?

Venkat Bhamidipati McAfee Corp. - Executive VP & CFO

Hamza, thank you so much for the question. Just a couple of framing things from my side, and Peter might have additional thoughts as well. So if you think about our Enterprise revenue for Q4, overall we grew 5%, right? But if I was to kind of break it down for you, there were kind of 3 key drivers in there. First, you kind of have to take out the purchase price accounting. So if you take that out, essentially the apples-to-apples growth would be 3%. Now within that, we've certainly benefited in Q4 from high revenue yield on some noncore products, which involved both licensing and hardware. So while we're pleased with overall growth in our cloud products as we mentioned, there is some onetime element to the Enterprise revenue. So if you adjust for that, I think Enterprise revenue, we're projecting that for the rest of the year will come back to sort of normalized levels.

Now with respect to Consumer, I think as we talked about, we're very, very pleased with the strong DTC adds that we've had. We've grown for 13 quarters in a row and 2.8 million that we added in the last 12 months. Obviously, those constitute a pretty strong tailwind for us, especially as we continue to -- as these customers come up for renewal. That's where we see the biggest leverage where we continue to upsell and cross-sell that base. And given the strong dollar retention rate that we have been experiencing, we expect strong tailwinds. So that's kind of the dynamics of the business. We're not -- certainly, we're not guiding for the full year. And we feel pretty good about the 16% to 18% consumer growth that we're guiding to in Q1.

Hamza Fodderwala Morgan Stanley, Research Division - Equity Analyst

Got it. Maybe just one quick follow-up around the Consumer business. So you mentioned some ARPU tailwinds. But I wanted to just drill on the subscriber adds, right? So you added 2.8 million net new subscribers this year, right? I think historically, your net new adds here are a little over 1 million. I know that you've had double-digit growth in this business prior to COVID. But as we look out into 2021, you're facing tougher comps from a subscribers standpoint, right, and it's still a pretty favorable PC demand environment. Do you think that there will be sort of a reversion to the mean as it relates to your net adds? Or do you think that we'll likely continue to see above historical trend in terms of net subscriber adds?

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

Hamza, it's Peter. I appreciate the question. So I think, yes, your math is right, and the 2.8 million that we added over the past 12 months is a record. We added 668,000 new DTC subscribers in Q4. We added 669,000 in Q3. But I would say things are changing in a sense. And certainly, you know the flywheel of this business. But I think from a new subscriber add over time, there is firm belief on our part, and this will be paced and sequenced over time, that the market is bigger than some understood. And I think we've seen an acceleration of digital transformation. We've seen more people moving into the digital world, banking online, health care online. And the attack surface is continuing to expand. And it's not just the PC piece, right? We've talked quite a bit about what we're seeing in mobile channels as an example. So there's a degree of a broadening, if you will, that we're seeing.

Now we've been growing, as you know, year after year after year after year. And that's been a solid double-digit growth story. 2019 was an interesting year because PC shipments were down. It was sort of a trough year for PC shipments, but McAfee still grew at a very nice clip. And I think one of the things that's changed for us is we have a much more expansive and broader channel with retail, with eetail, with McAfee Direct and obviously the mobile channel that's growing well. So the flywheel is a component but also it's a changing market. So that's not to overstate how much will come to fruition. There's also a seasonal aspect to the business where Q4 and Q1, from a consumer standpoint, are the most voluminous. Q2 is typically the lightest and actually will be tougher from a compares standpoint. But I think you summarized it well, but the market is changing. We see that as a good story for many years to come, frankly.

Operator

Our next question will come from Brian Essex with Goldman Sachs.

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

Peter, just had a question on some of the competitive dynamics on the Enterprise side. I mean I know you noted some pretty strong growth in EDR and cloud and EPP with EDR driving traction. I would love to know, I guess competitively, where is share in that market coming from? Are there legacy kind of endpoint vendors donating share that you're benefiting from? How are you going head to head? And how is the customer growth? Like was this from your core customers, net new customers? And maybe a little bit of sense of how net customer adds were in the quarter?

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

Sure, Brian. I'll try to touch on each. So in a similar vein, and we've talked about this a bit, the market on the Enterprise side is absolutely changing as well. And we see that as something that is going to be really related to increase in spend and a broadening of need. And the cyber threat landscape is forever changed as well and SolarWinds and SUNBURST are an example of that. We talked a bit about it in the remarks earlier where indiscriminate attacks that would occur and entities would be impacted if they hadn't done things like fundamental patching. That's an indiscriminate bomb that goes off. A precision-guided attack, like this was, from nation states is more of a campaign. And customers across the Enterprise and governments are realizing they need a different level of protection. And we anticipate that, that is not going to change. That is going to continue to be the case. I preface all of that by saying the market is also, in many ways, changing and the need to protect not just against efficiencies but against campaigns is playing very, very well for McAfee. So we have invested, as you know in EDR with Insights with the capabilities we have because we have access to over 1 billion endpoints, and we have telemetry around those endpoints, and we can anonymize that data and help large enterprises and governments and now mid-sized companies through and with partners preempt and predict and think about the world in a preventative way. And we're moving into XDR with data integration in a way that, frankly, no one else can either because we have so many different control points.

So the wins that we're seeing are coming in many ways because there is an expansive opportunity within our core base. As you know, that's been a very steady base, roughly 1,500 customers, the names that you know, government entities. We average 17.5 years. We average 7 products in our top 250. But there's more and more opportunity because there's so much cloud transition. And of the 3.8 trillion that will be spent globally in IT this year, a large percentage of the growth -- global IT is expected to spend, a large percentage will come in the arenas that we're focused on. And those are the cloud components with Unified Cloud edge and market-leading CASB with secure web gateway and DLP with our EPO and with what we're doing with EDR with Insights, and those have been very good growth stories for us.

Now we're absolutely winning against competition, but we're also expanding in our base, and both things are coming to fruition. We also have, as you know, other product lines that we will not grow. So we're going to balance both while we see an opportunity to continue to expand margins. So hopefully I hit most of your questions in that.

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

Yes, I appreciate it. Maybe just a quick follow-up. So as you migrate along that path and those other products are declining, I mean might we get a sense of what recurring revenue is on the platform versus nonrecurring? And how you might anticipate that will kind of play out, maybe the rate of that would shift towards more -- a greater percentage of recurring revenue over the next kind of year or so?

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

Absolutely say that we are moving towards more and more ratable and recurring revenue as the cloud business in total grows at a very nice clip. And that will continue to be the case, we expect, for certainly '21 and beyond. And that gives us also some good headlights into the business. So that's exactly the route that's put in process, and that's what we expect to continue.

Operator

Our next question will come from Patrick Colville with Deutsche Bank.

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

Congrats on a great end of the year. Question, are you guys reporting Enterprise billings? Because that was a metric that you provided last quarter, but I can't seem to find it.

Venkat Bhamidipati McAfee Corp. - Executive VP & CFO

Patrick, this is Venkat. I think one of the points that we made last time is, for Enterprise, the billings tend to be lumpy and episodic. And given that, I think the 2 key metrics that we have been focused on is we're giving a view on the core customers and the revenue we derive from the core customers and revenue as it flows through. In the 10-K itself, we're going to have annual billing both for Consumer and Enterprise. So yes, we are going to provide that on an annual basis.

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

Okay. That's appreciated. And could I ask a follow-up on the Consumer segment. I mean the -- that business has been firing on all cylinders. In terms of the PC OEM contracts up for renewal in calendar '21, are there any that you should call out to us that we should be aware of?

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

Patrick, it's Peter. The short answer is there's nothing up for renewal in '21.

Operator

Our next question will come from Rob Owens with Piper Sandler.

Robbie David Owens Piper Sandler & Co., Research Division - MD & Senior Research Analyst

Great. I wanted to drill down a little bit into the rift you talked about here in Q1. You did articulate some of the cost savings. But could you maybe go a little deeper relative to how you forecasted the Enterprise business and whether or not that's discounted or could create some pressure this quarter?

Venkat Bhamidipati McAfee Corp. - Executive VP & CFO

Yes. Rob, this so with respect to the restructuring activity I mentioned, most of the expenses will actually hit in Q1 from a restructuring perspective. And it's primarily Enterprise, but there's other aspects of McAfee that we're rationalizing, whether it's IT or facilities or other infrastructure-related activity. Just to put this in perspective, annualized savings, we're expecting in the -- a little over \$100 million. What we are doing is redeploying about half of that into -- strategically into areas that we've previously articulated. Within Enterprise, certainly as we reimagine the go to market, we are reinvesting in additional selling capacity, for instance, or within R&D, we are continuing to invest in some of the strategic priority areas, whether it's endpoint plus EDR or cloud workloads. So the total rationalization is going to yield, like I said, over \$100 million. But we're being smart about making sure that we reinvest where we see areas for growth and strength.

Robbie David Owens Piper Sandler & Co., Research Division - MD & Senior Research Analyst

Great. I appreciate the color. And the second one is around Mac malware. We saw the news recently how it's targeting the M1 processor. I know it's not a big portion of the business, but is that a growing business for you? Are people still running Macs naked?

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

Yes. It's Peter. I'll jump in. I missed part of it. I think you're asking about Macs, but it was a little fuzzy for us. I'm sorry to ask, Matt, but can you -- I'm sorry to ask, Rob, but can you just ask that again?

Robbie David Owens Piper Sandler & Co., Research Division - MD & Senior Research Analyst

Absolutely. Sorry about that. With regard to the new Mac malware that we've seen and relative to I guess your mix of business, how much of it is Mac-centric? Has this been much of a growing area for you? Or are most consumers still running their Macs naked?

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

I got you. Thanks. So as you know, we cover the gamut including Mac iOS and the entirety of what a consumer may have. This is something that we've continued to see growing because of the volume of Macs, but not a massive departure in a sense. But again, the mobile channel is also seeing a bit of an uptick. So we've seen this as something that has been a strong suit for us as we cover the gamut. But it's just been a volume component related to volume, not a massive departure.

Operator

Our next question will come from Gregg Moskowitz with Mizuho.

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

Okay. So first question I guess just on the trailing 12-months dollar-based consumer retention rate. So it's now reached 100%. And in addition to greater online usage and a greater need for security, can you walk through how you've been able to show so much improvement here over the past couple of years? And then also, as you mentioned earlier, you have a larger tranche of renewals coming up in 2021. And so I'm wondering if you think McAfee can sustain this level of dollar-based retention.

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

Gregg, it's Peter. So let me start with how and what the team has done because it really has not happened by chance. And you'll recall in FY '17, our DRR was 87%. And every year, it's improved. And now we have gotten into the realm of triple digits, which is really a testament to a number of things. We have invested in performance marketing, in digital marketing, in improved conversion. We've been very, very deliberate about what we see as an opportunity to make it a better and better experience for our customers and for consumers. And part of what we've been really pleased with is the customer sat and NPS scores have continued to go up as well. So we've added more and more new subscribers. And by the way, this was pre-COVID we were adding more and more new subscribers. We were retaining a higher component of that base, which becomes part of the renewal engine, as you've outlined. So this has been a focus. There are things that we've done in the last year or so that we did not do 2 or 3 years ago. An example would be what we call OOB, out-of-box experience. We work with our partners and make it easier and easier for a new subscriber. Fewer clicks, easier to pay, just making it a better user experience. So the team has been fixated on that. We still have a lot of work to do, but that's really helped from a DRR perspective. So that's a bit about the how.

As far as the expectation of adding 2.8 million new subscribers and ensuring that we continue on this front to have a very solid DRR, that's absolutely what the team is expecting, and that's what we expect of them, and they know that. With and through our partners, we're obviously going to have to see and make sure we hold to that. But one of the things again we're really pleased with is that customer sat and NPS scores have gone up with this higher percentage. But we're going to work diligently to be in that range and continue on the triple-digit front, if that helps.

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

It helps very much. very clear, thorough answer. A quick follow-up for Venkat. Can you say roughly how much of a tailwind operating margins had in 2020 from lower T&E expenses? And I know you haven't guided, of course, for 2021. But even just from a high level, if you could talk to your assumptions around sort of a return to normalization, if you will, as it relates to OpEx in 2021?

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

Venkat may be muted, sorry. We've got...

Venkat Bhamidipati McAfee Corp. - Executive VP & CFO

Yes, sorry I was muted. So a couple of things to consider. Certainly, 2020 was a year where we certainly benefited from almost no travel or little travel. I would call -- I'll call that in the \$25 million to \$30 million range is how much we benefited. But one of the things we have been doing is clearly investing for McAfee for the future, which is we have invested in cloud-based tools, collaboration, communication tools. So when the world sort of returns to normal, we do expect -- we don't expect that full level of travel coming back, but certainly where it is required, we'll be very selective. If it's with sales or marketing that is required travel, certainly we'll invest. But the -- for

noncustomer-facing roles, I think some of the investments we've made in technology are going to give us some lasting tailwind for the future as well. And like everyone else, we've actually learned to run the company on a virtual basis. So that's -- there's new processes and new lessons learnt as a result of being virtual. So again, if it's customer-facing and if it's required, we'll certainly make that investment.

Operator

Our next question will come from Fatima Boolani with UBS.

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

Peter, I'll start with you, and I'll follow up with Venkat. Peter, I wanted to talk about the Amazon opportunity. Any early trends you can speak to with respect to adoption? Any impacts to the business? And frankly, what has engagement been looking like from that relatively net new channel for you on the Consumer side?

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

Fatima, so on the Amazon piece, it's still early days, but what we're seeing is alignment to what we had anticipated. So as you'll recall, this was a bundle for Business Prime members. And again, there's kind of an opportunity to dip our toe into a little bit beyond the scope of kind of the classic consumer or family. And we also are providing protection, back to the earlier question, for PCs and Macs and iOS and Android devices. But it's for that sort of licensing option for owners of businesses with about 25 devices. And employees can stay protected, access to 24/7 virus removal services, some additional IT resolution that we've built in to ensure additional protection, obviously AV, McAfee support services and there are agents standing by as well to help, and we've also included our VPN solution as part of the offering, and then password manager and comprehensive overview from a tech support standpoint.

So it's still early days. We anticipated that it would take a bit of time to start ramping. That's about in line with expectations. We're not looking at it as a big needle-mover short term. That's not, for example, built into Venkat's projection for Q1 forecasts. But it's something that is going to enable us to just broaden the TAM a bit, and we'll look to see continued progress over the course of time.

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

I appreciate that color. Venkat, for you just on the Enterprise side, so if I've done my math right, the implied growth rate in the Enterprise business based on your first quarter guide implies sort of a mid-single-digit decay and decline. And so I'm wondering if you can sort of help us with some of the puts and takes that underwrite that expectation, especially relative to some of the more positive commentary around Enterprise spending trends on the back of Sunburst and the SolarWinds incident. So I just wanted to better understand how to reconcile some of the tailwinds from that dynamic relative to a pretty precipitous erosion on the Enterprise business in your guide. That's it for me.

Venkat Bhamidipati McAfee Corp. - Executive VP & CFO

All right. Thanks, Fatima, for the question. So the way to think about it is as I talked about the Q4, I sort of unpacked the Q4 revenue results, which is a combination of 3 things. The first thing is we did -- of the 5% growth, I mentioned 2% of that is purchase price accounting. Of the remaining 3%, we did see some end of the quarter increase in revenue yield with respect to increased licensing and hardware, which are largely noncore. I'd call it about 2/3 of that goodness came from that. We don't expect that to continue. The remaining 1/3 of the goodness actually came from some of the favorable trends we're seeing both in terms of our cloud products, EDR and continued strong growth of ECE -- UCE. Those are goodness that we continue to see going into the year.

Now -- so the last point I'll make on the sequential decline, clearly Q4 is a strong -- a seasonally strong quarter for us and Q1 tends to be not as strong seasonally. So the billing trends that we saw earlier will continue. So that's why we're guiding to a slight decline in revenue.

Operator

Our next question will come from Matt Hedberg with RBC Capital Markets.

Matthew George Hedberg RBC Capital Markets, Research Division - Analyst

Obviously, Consumer did exceptionally well this quarter. And I think at the midpoint, you're guiding for 17% growth in Q1. Looking at that on a sequential basis, I don't -- based on our data, I don't know that the Consumer has ever been down sequentially. I just wonder, is that just conservatism on your part? Was there anything with -- anything unique about Q4? Just trying to get a better understanding for sort of the sequential Consumer -- obviously, strong year-on-year growth but -- in Q1 forecasted. But just that sequential trend is a little different than what we've seen historically.

Venkat Bhamidipati McAfee Corp. - Executive VP & CFO

Got it. This is Venkat. So a couple of things to consider, Matt. One is, certainly, we're very, very pleased with Q4, right, in terms of total revenue growth of 23%, subscriber growth of 18%, and the momentum has been there quite significantly over the last 13 quarters in subscriber adds. So very, very pleased with that. Going from -- it's a tough compare from 23% going to a midpoint of 17%. We feel pretty comfortable with the 16% to 18% range. But remember, there's some degree of seasonality between Q4 and Q1. Just going back in time, even though last year we didn't see that level of decline, but Q1 '19 relative to Q4 of '18 was actually a sequential decline. So obviously we're very pleased with the momentum across all channels and all geographies in terms of subscriber growth, but there's a slight element of seasonality between Q4 and Q1 that we built into the guidance as well.

Matthew George Hedberg RBC Capital Markets, Research Division - Analyst

Okay. And then maybe just a follow-up. Obviously, you noted that ARPC was down, strong net adds. It was still up on a year-on-year basis, though, for the total fiscal year, and it has been for the last several years. I guess you're not guiding to the full year, but should we think about -- I guess the question is, how should we think about ARPC over the course of the year, sort of, balancing strong renewals and net adds? I mean is that -- should we continue to expect that to trend higher over time? Just trying to get a little bit better sense on that.

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

Matt, it's Peter. I'll jump in quickly on that. So I think you summarized it very well. And from a full year perspective when we look at 2020, you're right, full year ARPC did grow. When we look at it broadly, it's really a business decision, and it's sort of one of those classic trade-off decisions, which we'll continue to make. This is a decision that we're happy to make. And when we're adding that volume of new subscribers, it is going to be somewhat dilutive to ARPC over a shorter period of time. That could be a quarter, a few quarters. Over the course of time, and this is just the economics, ARPC is going to improve. But we like the fact that we're improving ARPC through a level of growth over time rather than having an ARPC target that we hit with such haste that it's at the cessation of growth. So I just want to make sure we make that clear. We have every intention to improve ARPC over time, but we don't want to do it in such a hasty fashion that we get there prior to any opportunity to continue on the terrific trajectory of 13 quarters that we've been on to add substantive numbers of new subscribers.

Operator

And speakers, I am showing no further questions in the queue at this time. I'll turn the call back over to you for any further remarks.

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

Sorry, I know we're closing. I want to make sure we answered Matt's question in its entirety, though. Matt, you may have dropped. But did we get it? Or was there more? I want to make sure we didn't leave that without a complete answer.

Operator

(Operator Instructions) Okay, go ahead, Matt.

Matthew George Hedberg RBC Capital Markets, Research Division - Analyst

Sorry about that, guys. It sounds like I was on mute again. No, Peter, that makes a ton of sense. I mean I think that's the right trade-off on the new sub adds. And I think considering the renewal expectations, that makes a ton of sense. That answered the question, and it just was a really strong quarter. Congrats on that, guys.

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

Matt, thanks a lot. We appreciate it. With that, I do want to thank you all for joining today. I'd also like to say thank you again to the McAfee team around the world for an incredible 2020. A lot has happened this year, including, as you all know, our entrée back into the public markets. I'd like to thank our team for their continued focus on our customers and our partners. I would like to welcome Eduardo. Happy to have him join the IR team. He is the IR team at McAfee, by the way. And we look forward to updating all of you on our next call. Thanks very much.

Operator

Ladies and gentlemen, this concludes today's conference call. Thank you for your participation. You may now disconnect.

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