Eduardo Fleites  

Good day. Thank you for standing by. Welcome to the McAfee First Quarter 2021 Earnings Conference Call. (Operator Instructions)  

I would like to hand the conference over to your speaker today, Eduardo Fleites, Vice President of Investor Relations. Please go ahead.  

Thank you, operator. Good afternoon, and thank you for joining us today to discuss McAfee's first quarter earnings results for the period ended March 27, 2021. Participating on today's call are Peter Leav, President and CEO; Venkat Bhamidipati, Executive Vice President and 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 for the fiscal year ended December 26, 2020, and our quarterly report on Form 10-Q for the fiscal quarter ended March 27, 2021, which we plan to file this week with the Securities and Exchange Commission.  

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. 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 most recent annual report on Form 10-K and our quarterly report on Form 10-Q to be filed this week with the Securities and Exchange Commission.  

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 these measures to the nearest comparable GAAP measures in our earnings release.  

Before I pass the call over to Peter, I would like to remind everyone that due to the announced sale of certain assets, together with certain liabilities of our enterprise business on March 8, 2021, the related assets, liabilities and financial results of the Enterprise business were classified as discontinued operations in our condensed consolidated financial statements and are thus excluded from continuing operations for all periods presented. As such, we will focus on continuing operations on our Consumer business on this and future calls.  

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. Q1 was a very strong quarter for McAfee as we significantly increased revenue, profitability and free cash flow. We delivered robust top line consolidated results, which include both continuing operations and discontinued operations, with total company revenue of $773 million, growing 13% year-over-year. We also improved profitability with total company adjusted EBITDA of $316 million, a 41% margin and growth of 29% versus last year. Clearly, a solid quarter for both segments. We had a strong start to the year with double-digit year-over-year growth for both revenue and adjusted EBITDA. Moving to continuing operations or our Consumer business, our team executed well with our Q1 net revenue, profitability and free cash flow beating expectations. We delivered net revenue of $442 million, an increase of 25% year-over-year. Adjusted EBITDA closed the quarter at $199 million, up 25% versus the same period last year, with EBITDA margins of 45% in the quarter. The adjusted EBITDA for the period included stranded and dis-synergy costs of $22 million. We continue to drive double-digit growth along with improved profitability through our differentiated omnichannel go-to-market strategy.

In Q1, we added another industry-leading 885,000 net new core direct-to-consumer subscribers or DTC to the platform, closing the quarter at a cumulative 18.9 million versus 15.7 million core DTC subscribers in the same period last year. A strong start to fiscal 2021, marking another terrific quarter of revenue growth, and this marks our 14th consecutive quarter of sequential and year-over-year core direct-to-consumer subscriber adds.

In addition to these strong operating results, Q1 highlights included the following: a multiyear extended agreement with Fujitsu Client Computing to deliver best-in-class consumer security solutions to Fujitsu device users; a renewal agreement with the U.K. electrical retailer, Dixons Carphone; and an extension and expansion agreement with the consumer division of Lumen, a U.S.-based service provider. Our unique omnichannel go-to-market strategy allows McAfee to outpace the competition, attracting subscribers at the emanation point and throughout their digital journey.

Furthermore, from a product perspective, on April 15, McAfee’s Total Protection was again awarded the highest possible ranking of 3 stars Advanced Plus by the Austrian-based anti-malware test lab AV-Comparatives. Our plan is to balance the need to execute and deliver results while simultaneously investing to capture the tremendous market opportunity in front of us. We continue to invest in our product portfolio, go-to-market engine and subscriber acquisition and retention motions to maintain a double-digit long-term revenue growth rate. We remain confident in the sustainability of this trajectory driven by the positive market forces tied to digital transformation, the proliferation of personal devices, educational and professional use adoption and the increased public awareness of the importance of privacy and security.

As we look out over the rest of 2021, we are confident that the flywheel effect of our business will continue to benefit from a larger renewal base associated with the trailing 12-month cohort increasing to 3.2 million from 2.8 million net new DTC subscribers in Q1. 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 year has only served to compound that urgency. McAfee’s expertise in bringing differentiated security solutions to consumers 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 as 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 dedication and hard work, which has allowed us to focus on customer and partner success, execute on our strategy and deliver very strong Q1 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. For today’s discussion, I’ll be focusing on non-GAAP continuing operations unless specifically stated otherwise. Also, you’ll find a historical view of our continuing operations within the supplemental financials on the IR section of our website.
We continued our strong momentum in Q1, with double-digit growth in revenue, profitability and cash flow year-over-year. Overall, results exceeded expectations driven by strong execution and increased demand for our holistic personal security offerings. For the first quarter, revenue for total company was $773 million, a growth of 13% over last year. Adjusted EBITDA was $316 million, up 29% year-over-year, representing a margin of 41% and adjusted EPS of $0.44. Revenue for continuing operations was $442 million, a growth of 25% over last year. Adjusted EBITDA was $199 million, up 25% year-over-year, representing a margin of 45% and adjusted EPS of $0.25. Excluding $22 million of stranded costs, adjusted EBITDA would be $221 million, representing a 50% margin.

Moving to expenses. Our cost of sales were in line with revenue, with gross margin at 80%. As a percentage of revenue, operating expenses decreased in the quarter by approximately 30 basis points year-over-year, even while continuing to invest in customer acquisition investments in the quarter. Our pure-play consumer business continues to show solid gains as we invest to address the increasing demand for a holistic portfolio of security services. We saw strong demand and subscriber growth across all geos and channels. Our team continues to execute well, focusing on customer acquisition, conversion and retention.

In Q1, we ended with an industry-leading 3.2 million net new subscribers on a trailing 12-month basis, including 885,000 added in the most recent quarter. This reflects the ongoing permanent shift towards digital transformation of consumers across their online activities, which reinforces the need for online protection. We also continue to see strong demand for our mobile and indirect channel business. Average revenue per customer in Q1 was $5.95, down $0.02 from Q4, which reflected the growth and mix of new subscribers, which are initially dilutive to ARPC. Across all geographies, there was a stronger mix of new versus renewal revenue.

From a retention perspective, our dollar retention rate or DRR remained at 100%. Our team's excellent execution through a deliberate focus on user experience, value of our offerings, ease of renewal and upselling higher value-added packages continues to contribute to our DRR improvement. Now turning to balance sheet and cash flows, which include results from continuing and discontinued operations. We ended the first quarter with $346 million in total company cash and cash equivalents. We declared our second dividend post-IPO in the amount of $0.115 per Class A common share in March and paid that dividend in early April. From a cash flow perspective, we generated $259 million in total company cash flow from operations compared to $171 million in the prior year, an increase of 51%. The improvement is attributable to increased profitability and well-managed working capital. Finally, total company unlevered free cash flow was $298 million in the period, which grew 35% year-over-year. This is inclusive of approximately $54 million in onetime costs.

Turning to guidance, we are providing current quarter and annual guidance ranges for revenue and adjusted EBITDA for our continuing operations, pure-play consumer business. In the second quarter ending June 26, 2021, we expect revenue and adjusted EBITDA to be in the range of $430 million and $434 million, and $161 million and $165 million, respectively. Our second quarter guidance includes estimated stranded costs in the range of $40 million to $45 million. Furthermore, we anticipate cash net interest expense for the second quarter to be in the range of $50 million to $55 million, and you should assume a fully diluted share count of approximately 470 million shares.

For the full year ending December 25, 2021, we expect revenue and adjusted EBITDA to be in the range of $1.77 billion and $1.79 billion, and $693 million and $703 million, respectively. For fiscal ’21, we estimate annualized stranded costs of $150 million and cash net interest expense to be in the range of $190 million and $200 million. For fully diluted share count, you should assume approximately 470 million shares.

For second quarter and FY ’21, the normalized non-GAAP tax rate for continuing operations is expected to be 22%. As a pure-play consumer-focused company, we have a highly attractive consumer subscription business with industry-leading scale, double-digit growth and high profitability in a growing personal security market. 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.

Before closing, I’d like to state that the plan to sell Enterprise business remains on track to close as scheduled before the end of FY ’21.

With that, I’ll turn the call back to the operator to begin Q&A.
QUESTIONS AND ANSWERS

Hamza Fodderwala Morgan Stanley, Research Division - Equity Analyst

I wanted to touch on the mobile and ISP side of things. I see that you announced a partnership with Lumen this quarter. Can you give us any update on sort of how that business has been doing? Obviously, it grew quite fast in 2020. How did that sort of sustain in Q1, particularly given some of these recent partnerships that you've been forming?

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

Hamza, I appreciate the question. It's Peter. And overall, the mobile business continues to be a really strong performer for us as we've expanded with partners that we've had. And we've also added some new partners. Lumen is formerly known as CenturyLink. So we've had a relationship for a number of years. It's been very successful. And if you think about the U.S. market, particularly, which is the bulk of what Lumen does or CenturyLink, that's a market that's seeing expansion in a number of ways. One of those is related to consumer behavior. And in the U.S. this year, the expectation is that the number of connected home devices will increase in the neighborhood of 60%.

So when we think about things like home router security and how expansive that market is, and how many devices folks have at home and how many broadband subscribers an entity like Lumen has, it really turns into a very, very positive story for us, not only now but long term. And this was -- like all of the deals we talked about, this was an extension in its multiyear. So it's been a very good relationship, and it continues to be, and we're very happy to have signed that for a multiyear continuation.

Hamza Fodderwala Morgan Stanley, Research Division - Equity Analyst

Got it. And just maybe one follow-up on perhaps the PC OEM side. So it seems like there's still a good deal of pent-up demand on the OEM channel coming into 2021. I'm wondering how you see demand within that channel specifically trending through the rest of the year, especially given some of the supply chain issues? Any impact that we should be considering there?

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

Well, you know all too well, we are not exclusively tied in other to PC or PC shipments, but the expectation, this is an IDC statement is that PC shipments and PC demand are expected to continue to be strong for 2021. So we're seeing, obviously, PC shipments are strong. Again, it's not a direct correlation for our business. We grow when PC shipments are down as we did in 2019 at a very, very solid clip. But right now, we're continuing to see that to be the case, and that's certainly what the projections are.

And I think it's more than just kind of traditional PC we're seeing usage change, whether it's gaming, the broadening of utilization that we're seeing with new applications. And that also expands into areas that you just asked about like mobile. So yes, it's been strong, and it's seemingly continuing to be.

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

Peter, I'll start with you. As I think about the model and the renewal flywheel as you characterized it, I want to better understand, with that positive force in play in the model, why have the expectation that the revenue profile would decay quarter-on-quarter? So sequential decay as implied in the revenue guide. Is there some change in your expectations of direct-to-consumer cadence? Is it a change in renewal assumptions? I'd love to drill in on that disparity a little bit more. And then a follow-up for Venkat, please.
Peter A. Leav McAfee Corp. - President, CEO & Director

You bet. And Venkat may have opinions on this one as well. So thanks for the question, Fatima. So first and foremost, the answer is no. The market continues to be expansive. We think it's only growing at a really healthy clip that we continue to see. Consumer behavior also is a key element to help inform us, and we absolutely continue to see that, and we think we're in very early innings on that front.

As far as the flywheel itself, as you know, it can be a bit dilutive. We added 669,000 new DTC subscribers in Q3, 668,000 in Q4 and 885,000 this past quarter. So that is very, very solid. And frankly, it's record-breaking for us, noninclusive of the mobile channel, as we've discussed. But of course, the economics and the betterment of those economics come in year 2, year 3, et cetera. And that's a key focus for us related to performance marketing and making the consumer experience great, and that DRR number, that dollar-based retention number, holding at 100% as we look at that cohort that's coming in, we're tracking as expected, very nicely with more and more of that base now moving towards renewal. But it will be dilutive initially. And that's something that, frankly, we like, and we like the long-term projection.

As far as the guide, which we hadn't guided for the year before. We opted to do that. Venkat can certainly talk about that a bit. But we feel very good about the market, very good about the flywheel, as you described. And remember, 85% of this business really is a renewal business. So it's very, very solid in that sense, and we feel very good about that upcoming. But I'll leave Venkat to answer the other question, and he may have some color on that one as well.

Venkat Bhamidipati McAfee Corp. - Executive VP & CFO

Yes. Thanks, Peter. Fatima, just a couple of additional comments. Obviously, we're very pleased with the results in Q1. It's been an incredible growth in the number of subscribers. And certainly, we're very pleased with the start of the fiscal year, growing 20%, both in Q4 and Q1. So overall, we like the momentum.

Now just a couple of things to remind you in terms of guidance itself. One, as Peter mentioned, we did sort of provide a full year guidance at midpoint, it's 14% growth, overall. So we feel very positive about the full year growth potential. Specific to Q2, just a couple of things for you to consider. One is it's a tough grower from last year; and the second is Q2 tends to be seasonally our weakest. So we're being thoughtful in how we guide for Q2. And Q2, Q3 tend to be sequentially our weakest and Q4 and Q1 traditionally are the strongest.

So we feel very good about the full year at 14% growth. And I think we're being pragmatic with respect to Q2.

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

Understood. I appreciate that. And just a point of clarification, Venkat, for you. The cash flow performance in the quarter, that was on a consolidated basis, if I understood and heard you correctly. But any sense you can give us in terms of the continuing operations related cash flow, i.e., the Consumer business and Consumer segment tied cash flow? And as well as any stranded cost impact that you could directionally point us to for the consumers specific free cash flow generation in the quarter? And that's it for me.

Venkat Bhamidipati McAfee Corp. - Executive VP & CFO

Yes, sure. So a couple of things to consider from a Q2 perspective, from our continuing operations or consumer business. Clearly, the pre-stranded margin, we achieved 50% margins. Include -- if we -- in the quarter for our continuing operations, we had identified about $22 million worth of stranded costs, which brings the overall post-stranded down. But it was a very solid quarter. And for the full year, we are projecting, from a guidance perspective, almost 47% of full year EBITDA margins and with the $150 million of stranded costs we're projecting for the full year.

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

And Fatima, just one more thing. I think Venkat hit it beautifully. The other piece, and again, we're working through all components, but it is a very, very strong cash conversion business related to the Consumer business. So we can go further on that front in upcoming quarters, but it's a very strong cash conversion business related to EBITDA conversion. Okay. Thanks. Operator, I think we'll take the next.
Operator
And your next question will come from the line of Rob Owens from Piper Sandler.

Robbie David Owens Piper Sandler & Co., Research Division - MD & Senior Research Analyst
Sorry about that. I guess the mute button is on. I'm hoping you could unpack a little bit the net dollar retention rate and the components there. Just where churn is in this environment versus upsell and what you've seen, I guess, throughout the pandemic with increased awareness around security and the importance of it?

Peter A. Leav McAfee Corp. - President, CEO & Director
You bet. Rob, we have all been in the mute button mode. So we've all been through that multiple times through COVID, every one of us. So related to the...

Robbie David Owens Piper Sandler & Co., Research Division - MD & Senior Research Analyst
My question was less more articulate the first time. So if it was a better question the first time, so sorry. So sorry, you got through two.

Peter A. Leav McAfee Corp. - President, CEO & Director
You did great around two, too. So related to DRR and retention generally, so what we've continued to do in addition to some of the more recent aspects is we've continued to invest. We've invested in digital marketing. We've invested in performance marketing. We've invested in improving conversion, frankly, and we've seen subscriber retention improve. We've also, with this broader and broader and larger and larger base that we continue to grow, we've seen customer sat and NPS scores go up. We're making it easier. We still have work to do, whether that's payment processing or realization that you're getting the benefit of McAfee LiveSafe as an example. So all of those things have helped us, as we've talked about in the past, go from FY '17 of 87% to today, 100% DRR. And that's been really, really important.

Importantly as well, what we're seeing with this cohort, this massive amount of new subs that we've been adding, is that we're on track with what we had anticipated where the retention is in line with that triple-digit number with a higher volume. And I think part of that has to do with more protection for more people as opposed to it's not just about me, it's now about my family. And when we see more users and more users become part of the portfolio, we typically see retention continue to go up. We're seeing more devices. As we talked about earlier, the PC story is very positive, but that's not an exclusivity of what we're seeing. It's mobile devices, it's home and connected home devices, VPN, et cetera. And we're seeing a broader proliferation where folks more often than they were in years past are buying a broader portfolio. And in short, that all leads to stickiness. So hopefully, that helps.

Robbie David Owens Piper Sandler & Co., Research Division - MD & Senior Research Analyst
That does help. And I guess just on the PC versus Mac front, given the big spike in Mac shipments that we've been seeing. Are you seeing better conversion or more of the net new customers on the Mac front than we have historically? Or are ratios holding roughly the same?

Peter A. Leav McAfee Corp. - President, CEO & Director
It's largely in line from a ratio perspective, but volume-wise, it's increasing on all fronts, as you would anticipate. And again, because of the consumer behavior transitions and because of those important applications that are now digitized, we continue to see that, and we continue to see that globally.

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
Maybe, Peter, I have a question for you, just some investors have kind of put it into context. If we look at net new business on the platform, both from direct-to-consumer as well as channel-led and mobile, what percentage of that is PC focused versus alternative channels outside PC? Just to get a kind of gauge sensitivity there.
Peter A. Leav McAfee Corp. - President, CEO & Director
Well, the thing is when we look back, historically, it was a much higher percentage than it is today. And that's changed for McAfee. One of the areas, and maybe we should talk about it more, that we've invested in significantly is McAfee Direct. And that's been a very, very strong growth channel for us. So we are very much in the direct business, McAfee.com. And that business is growing at a very, very healthy clip in addition to the fact that, as you know, we have a strong e-tail and retail business and the mobile business continues to perform really well.

So we haven't broken it out in a delineated fashion, but as we've expanded and we've expanded the channels and grown with opportunities in mobile like Lumen and others, it's become a much more balanced business in that sense. And again, the direct piece has also been really performing well.

Brian Lee Essex Goldman Sachs Group, Inc., Research Division - Equity Analyst
Got it. That's helpful. And maybe just a follow-up, I'm going to take a wild shot in the dark here on the off chance that we might get the information. But any chance you'd disclose total consumer billings and the percentage or the breakout between DTC, channel, mobile and search?

Peter A. Leav McAfee Corp. - President, CEO & Director
We haven't broken all of that out at this point. But certainly, we're going to continue to assess. We're still in the mode of making sure that we have each component in line with everything we've projected, which I think we've done a good job thus far of outlining exactly what we would be broadcasting and making sure we're hitting all those numbers and in many cases, beating them.

Operator
Our next question will come from the line of Gregg Moskowitz from Mizuho.

Gregg Steven Moskowitz Mizuho Securities USA LLC, Research Division - MD of Americas Research
Okay. So for my first question, I just wanted to follow up on Fatima's question about the guidance for Q2. And I completely appreciate the point about the tough year-over-year revenue comp. Having said that, a forecasted revenue decline for a ratable model on a sequential basis, is obviously quite uncommon. And so I just wanted to be clear that you haven't been seeing any increase in churn over the past few weeks or so.

Peter A. Leav McAfee Corp. - President, CEO & Director
Gregg, I'll touch on it first, and Venkat may have some. We are not seeing an increase in churn. No.

Gregg Steven Moskowitz Mizuho Securities USA LLC, Research Division - MD of Americas Research
Okay. Very clear. And then just as a follow-up, so just in light of the enterprise divestiture, how are you thinking about M&A? Is that part of the strategy going forward?

Peter A. Leav McAfee Corp. - President, CEO & Director
Well, I think we're going to continue to be very responsible. And when you look at the use of capital, I think we've done a very effective job thus far. But absolutely, we're going to look at things that make sense. The markets are arguably a bit frothy, but we will, over time, continue to look at those opportunities. We've done that in the past. As we talked earlier about VPN, that was an acquisition that served us really well. And we'll continue to look at things that potentially broaden and also create an opportunity for us to bring more differentiation to the market. So it's definitely not off the table, but we'll continue to be very responsible.

Operator
Our next question will come from the line of Matt Hedberg from RBC Capital Markets.

Matthew George Hedberg RBC Capital Markets, Research Division - Analyst
I apologize. I want to ask one more churn question. It sounds like Peter, you were really definitive in your last answer, you're not seeing any increase in churn. I guess though, Venkat, when you think about the full year guide, as people go back to work and as students go...
Venkat Bhamidipati McAfee Corp. - Executive VP & CFO

So a couple of things to unpack there. One, I think earlier, Peter talked about some of the permanent shifts that it actually brought about. Starting with the increased usage of devices for banking, schooling, shopping and health care. And as TAMs have been increasing exponentially, there has been a need for (technical difficulty). So thus far, we have been retaining well. In fact, our churn is very much in line with our expectations, both from a (technical difficulty).

Matthew George Hedberg RBC Capital Markets, Research Division - Analyst

This is Matt. I don't know if we lost Venkat.

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

Venkat, I'm not sure if your phone is in and out, I just want to make sure we can hear you okay.

Venkat Bhamidipati McAfee Corp. - Executive VP & CFO

Can you hear me okay, Matt?

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

I think that's better.

Matthew George Hedberg RBC Capital Markets, Research Division - Analyst

Yes, much better.

Venkat Bhamidipati McAfee Corp. - Executive VP & CFO

Yes. Okay. Sorry. So a couple of things. One, we had structurally -- we see increased usage across all device fronts, all devices. I mean for banking, schooling, shopping, health care. So we do see long-term tailwinds as a result of that. So we do see incremental consumers and therefore, an increase in TAM. And the TAMs, underlying TAMs been sort of growing nicely for consumer security.

The second aspect, I think -- and Peter touched on it, which is as shipments increase for the consumer market, obviously, the demand for security software has been increasing, especially as the refresh cycles continue.

The third angle is the growth in mobile phones and IoT across all device types. So we see an expanding and voluminous TAM. And in our own results, we do see that our subscription churn and subscriber churn is pretty much in line with our internal expectations and actually tracking slightly better. So for the rest of the year, we do see an expanding TAM, our ability to execute because we happen to be at the point of emanation across all these different channels. And that sort of obviously bodes well. And you saw that, especially in the Q1 results, with 25% growth and over 885,000 net new subscribers added.

So we're very pleased with the momentum we have in Q1. And as the market evolves, and we continue to execute, we see that momentum continue.

Matthew George Hedberg RBC Capital Markets, Research Division - Analyst

Got it. That's helpful. And then, Peter, obviously, strong results, you seem to be firing on all cylinders. When you think for the balance of this year and obviously strong profitability as well, how do you think about allocating additional dollars in sales and marketing or R&D? Is it -- do you tilt it more towards one thing or another at geo, maybe mobile. Just sort of curious on how you think about that incremental investment from here? Is it to sort of maybe drive even better results?

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

Right. And you're absolutely right, Matt. I think as we go through it as a team, we think about it with a very balanced view because each element matters a great deal. So I think you're going to see us continue to provide that level of balance internally as we think about what areas we can continue to invest in with differentiation. Obviously, from a go-to-market standpoint, these are long-term sustained
relationships, but we invest together with our partners, and it's really beyond commercial in that sense. And from an R&D perspective, the team is working on a number of things to really assess not only what the market is looking like today, but over time, as we see so much expansion and as this market continues to broaden, the needs that different consumers and frankly, a different demographic of consumers will have over time as well. So investment decisions being made on both fronts as we continue to operate well and reenergize the business. And we'll continue to pace and sequence as we go.

Operator

(Operator Instructions) Our next question will come from the line of Patrick Colville from Deutsche Bank.

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

Sorry, I don't want to flog a dead horse on the guidance for 2Q, but I just want to make sure I've got this correct. So as Gregg mentioned, it implies a sequential decline in revenue. You mentioned that churn is not an issue. So what factors should we consider as to why there might be a sequential decline in revenue?

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

Well, I think Venkat talked about it. He can jump in again. It's seasonally a light quarter, and it is a tough compare. And look, we've guided in such a way that I think we've been very thoughtful about making sure that we've been pragmatic in the guidance as we've gone over the last few quarters. But we absolutely are not seeing a cessation of -- the market transition that continues to grow, nor as I said, hopefully, it was very clear, are we seeing a churn increase. And also, we want to get a gauge on how this COVID cohort continues to do. But thus far, it's performed as expected, which we're really pleased with. So hopefully, that gives you a bit of a sense. But absolutely no concern at this point on that or the churn is increasing. That's not the case.

Venkat Bhamidipati McAfee Corp. - Executive VP & CFO

And just to add to that, Patrick, I mean from an annual, we feel very positive. We did give the annual guidance grown at the midpoint, a little over 14%. And even the Q2 guidance at midpoint is right around 13%. So -- and this compared to the tough grower from last year, that's a 20% growth last year Q2. And seasonally, Q2 tends to be one of the weaker quarters for us and -- which is being thoughtful. But from a full year perspective, clearly, we're very positive with a 14% revenue growth.

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

Okay. And can I just ask around the kind of non-DTC revenues, the kind of channel-led, search, MS, MISP, or that revenue base? I mean if I've done the calculations correctly, I mean, that seems to continue to tick up pretty nicely. And if I'm not mistaken, it's roughly around $113 million in the quarter. So what's going on there because that business has been humming and performing really well?

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

They're all performing well. Venkat can jump in. It's -- we won't enumerate on each piece at this point other than to say each of those areas is performing very well. And we're also growing geographically very well. Every geo grew double digits as well. So it's across channels, and it's across geographies. But Venkat, jump in, please.

Venkat Bhamidipati McAfee Corp. - Executive VP & CFO

Yes. Peter said it exactly right. I think the momentum in Q1 has been across channels, across the geographies. We're particularly pleased with the growth in our mobile business, which is where we've been investing not only in new partnerships across providers but also investing across different geographies, across multiple different mobile providers. The big opportunity we do see in the mobile space is going deeper in -- with each of the mobile providers with attracting new users. So overall, we're very pleased certainly with the direct-to-consumer. But clearly, the results show that the indirect and partner-led has been growing nicely as well.

Operator

Thank you. I'm not showing any further questions in the queue. I'd like to turn the call back over to the speakers for any closing remarks.

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

Thank you, and thank you all for joining. We look forward to updating you on our next call. And I hope everyone stays healthy and safe. Thanks very much. Bye-bye.
Operator

This concludes today's conference call. Thank you for participating. You may now disconnect.