NortonLifeLock, Inc. (NLOK) CEO Richard Hill on Q2 2020 Results - Earnings Call Transcript

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FQ2: 11-07-19 Earnings Summary

Press Release SEC *10-Q*

EPS of $0.46 beats by $0.04 | Revenue of $1.19B (0.25% Y/Y) beats by $5.15M

Earning Call Audio

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NortonLifeLock, Inc. (NASDAQ:NLOK) Q2 2020 Earnings Conference Call November 7, 2019 5:00 PM ET

Company Participants

Cynthia Hiponia - VP, IR

Vincent Pilette - EVP & CFO

Richard Hill - Interim President, CEO & Director

Samir Kapuria - EVP & GM, Consumer Business Unit & Cyber Security Services

Conference Call Participants

Saket Kalia - Barclays Bank

Fatima Boolani - UBS Investment Bank

Melissa Franchi - Morgan Stanley

Karl Keirstead - Deutsche Bank

Gregg Moskowitz - Mizuho Securities

Brad Zelnick - Crédit Suisse

Kenneth Talanian - Evercore ISI

Walter Pritchard - Citigroup

Patrick Colville - Arete Research Services

Operator

Ladies and gentlemen, thank you for standing by, and welcome to Norton LifeLock's Second Quarter Fiscal 2020 Earnings Conference Call. [Operator Instructions]. Thank you. I would now like to hand the conference over to your speaker today, Ms. Cynthia Hiponia, Norton LifeLock Vice President of Investor Relations. Ma'am, you may begin.

Cynthia Hiponia

Great. Thank you, Ian. I'm pleased to welcome you to our call to discuss our second quarter fiscal year 2020 earnings results. We've posted the earnings materials and slides to our Investor Relations events web page. Speakers on today's call are Rick Hill, Norton LifeLock's Interim President and CEO; Vincent Pilette, Executive Vice President and CFO; and Samir Kapuria, EVP and General Manager of Cyber -- Consumer Cyber Safety. This call will be available for replay via webcast on our website.

As a reminder, in connection with the sale of certain assets of our Enterprise Security business to Broadcom on November 4, 2019, we changed our corporate name from Symantec to Norton LifeLock. The results of our Enterprise Security business were classified as discontinued operations and are consolidated -- condensed consolidated statements of operations and thus excluded from both continuing operations and segment results for all periods presented.

Starting in the second quarter of fiscal 2020, we operate in one reportable segment. Revenues and associated costs of our ID Analytics solutions, which were formerly included in the Enterprise Security segment, are now included in our remaining reportable segment. The assets acquired and liabilities sold to Broadcom were classified as discontinued operations in our condensed consolidated balance sheet.

I'd like to remind everyone that all references to financial metrics are non-GAAP, unless otherwise stated. Please refer to the supplemental materials posted on the Investor Relations website for further definitions of our non-GAAP metrics.

Please note, non-GAAP financial measures referenced during this call are reconciled to their comparable GAAP financial measures in the press release and supplemental materials posted on our website. We believe our presentation of non-GAAP financial measures, when taken together with corresponding GAAP financial measures, provides meaningful supplemental information regarding our operating performance for reasons discussed below. Our management team uses these non-GAAP financial measures in assessing our operating results as well as when planning and forecasting future periods. We believe our non-GAAP financial measures also facilitate comparisons of our performance to prior periods and that investors benefit from understanding our non-GAAP financial measures. Non-GAAP financial measures are supplemental and should not be considered as a substitute for financial information presented in accordance with GAAP.

Today's call contains forward-looking statements based on conditions we currently see. Those statements are based on current beliefs, assumptions and expectations, speak only as of the current date, and as such, involve risks and uncertainties that may cause actual results to differ materially from our current expectations.

In particular, our statements regarding our sale of our Enterprise Security assets to Broadcom, any anticipated benefits from such sale and the cost reductions associated with this transaction are subject to a variety of risks. Please refer to the cautionary statement in our press release for more information.

You will also find a detailed discussion about our risk factors in our filings with the SEC and, in particular, in our annual report on Form 10-K for the fiscal ended March 29, 2019, and recently filed quarterly reports on Form 10-Q.

Let me now turn the call over to Rick.

Richard Hill

Thank you, Cynthia, and thank all of you for joining us this afternoon. It's been another exciting inning, and we have quite a bit of good news to discuss today. Earlier this week, we closed the sale of our Enterprise Security assets to Broadcom for $10.7 billion. With the close of this transaction, we have changed our company name and are now Norton LifeLock, a global leader in Consumer Cyber Safety, and we are now trading under the new ticker of NLOK. So it's been quite a busy quarter to say the least.

The entire Board is proud of what this team has accomplished in 2 quarters. The management and the Board has delivered on our commitment to drive to unlock value in Enterprise Security and Consumer Cyber Safety. In addition, we met our revenue guidance in Q2, and we're over the high end of guidance in Q2 for EPS. But what I'm most proud of to announce for the company is the new management team that the Board and I believe can deliver both the elimination of stranded costs and growth in the Norton LifeLock business. The Board has approved the promotion of Vincent Pilette to CEO and promotion of Samir Kapuria to the position of President. These 2 seasoned leaders, coupled with our industry renowned CTO, Dr. Hugh Thompson, give Norton LifeLock a world-class leadership team who are well-respected and provide continuity in the Norton LifeLock business. They will not miss a heartbeat.

Vincent brings a history of deep operational discipline, financial fluency and natural leadership skills. Samir provides in-depth understanding of the operational capabilities and needs of the consumer business, while Dr. Hugh Thompson brings the vision and understanding of today's consumer customer threats as well as a vision of what threats the consumers doesn't even know about yet. In addition, we have asked Matt Brown to pinch hit as the CFO of Norton LifeLock as we search for a new CFO for Norton LifeLock, and that CFO will be located in Tempe, Arizona. But before I return to Hawaii and downward-facing dog, let me summarize the key highlights that put this business on the right track as Vincent and Samir step in to their new roles. First, we identified and recruited an individual who I feel has tremendous skills and I believe will be one of my greatest CEO recommendations. Vincent is a natural leader. He has an unrelenting drive for results and has consumer business and operating jobs. He has honed as a CFO at Logitech. He has both high tech and consumer experience. He has gained the respect of both the transition team and consumer team as he architected and executed the Enterprise sale to Broadcom, the identification of line of sight on elimination of stranded costs and a strategy for the consumer business going forward.

In addition, Dan Schulman has worked with Board to restructure itself to a more appropriate size for our $2.5 billion consumer business. As announced today, Dan Schulman, Rick Hill, Anita Sands, Suzanne Vautrinot, David Mahoney and Dale Fuller will step down at the December 19, 2019, Annual Meeting. I'd like to thank all the members of the Board who selflessly stepped down to help accelerate elimination of stranded costs.

Remaining on the Board will be Ken Hao, David Humphrey, Peter Feld, Frank Dangeard, Paul Unruh and Susan Barsamian. At the Annual Meeting, we will add 2 additional members, Vincent Pilette and Nora Denzel, and the new Board will select their Chairman at the Annual Meeting. Personally, I would like to thank the Board, management team, employees and you, our investors, for the support you have shown me for my 3 innings on the mound. On Monday, we closed the transaction on the sale of the Enterprise Security assets to Broadcom for $10.7 billion. And over the last 60 days, Vincent has identified line of sight to deliver better results than we spoke about at our August conference call. Our estimated annualized stranded costs are now $1.3 billion, down from $1.5 billion through the negotiating prowess of Vincent and his team. And the cash cost to remove these stranded costs are also lower, down from $1 billion to $900 million.

We had also stated that we would self-fund the majority of these cash costs with the sale of our underutilized assets. In early October, we received proceeds from the sale of our DigiCert equity investment of approximately $378 million. And we now believe that, combined with the sale of our underutilized real estate and total proceeds from monetized assets, we can fund over $1.1 billion. This deal is a home run from the perspective of this relief pitcher. When we announced this transaction on our last earnings call, we have made a commitment to return 100% of the after-tax proceeds or $8.2 billion to shareholders in the form of a $12 special dividend. We maintain and reiterate that commitment and expect the dividend to be declared and distributed in the fiscal Q4 once all the funds are repatriated.

Reiterating to focus you on our commitment to doing what we say, for quarter 2, we delivered results in line with guidance for total company revenue, with in-line results for both Enterprise Security and Consumer Cyber Safety revenue. Both our total company operating margin and our fully diluted EPS were above our guidance ranges, and we grew year-over-year. This is a big accomplishment given the amount of resources and time required in completing the divestiture of Enterprise Security and the restructuring actions we began in order to transition to a stand-alone cyber safety company with an optimized cost structure. I want to thank the employees for their dedication and focus over the last several months. I cannot be more proud of this team, and I have full confidence in Vincent, Samir, Hugh and Matt as they step into their new leadership roles.

Now as I leave the mound for the locker room and then on to Hawaii for some serious downward-facing dog, let me turn the call over to Vincent, who will review our results in more details and discuss our go-forward plans. Vincent?

Vincent Pilette

Thank you, Rick. I would like to thank Rick for his leadership and partnership. There are many good things that Rick brought to this company. The most important, he made us believe that through great execution and teamwork, we can tackle seemingly and surmountable challenges. Closing an asset deal of this magnitude within one quarter while running the company is the perfect example of the leadership he provided. On behalf of everyone, thank you, Rick.

Richard Hill

Thank you.

Vincent Pilette

Although Rick already shared some key highlights, it is worth repeating them. The sales of our Enterprise business for $10.7 billion closed on Monday. The annualized stranded costs are now estimated to be $1.3 billion, down from $1.5 billion. The stranded costs are planned to be eliminated over 12 months at an estimated cash cost of $900 million. The estimated cash cost of $900 million is expected to be more than funded by the sales of real estate and other assets, primarily comprised of multiple campuses that are now for sale and are expected to be sold by mid of next year.

We proudly launched our new company name, Norton LifeLock and designated Tempe, Arizona as our new headquarters. We start already to rightsize our cost structure as reflected in our 8% sequential decrease in headcount. We delivered on our commitment for Q2 revenue. And even better, we delivered better-than-expected operating margin.

We have a lot of work in front of us to build a vibrant consumer company, and as demonstrated by our Q2 achievements, there is no better team to deliver on that promise. Today, I've accepted the role of CEO as we transform into a consumer pure-play. Samir Kapuria has been promoted to President, and we have named Matt Brown, our current and talented Chief Accounting Officer, as Interim CFO. We have also launched a search for a new permanent CFO to be in Tempe. I look forward to partnering closely with Samir, Matt and Hugh and everyone at the company.

As this quarter was under my CFO responsibilities, I will review the Q2 financials. In Q2, we moved the majority of our Enterprise Security business into discontinued operations. While we had to change our reporting structure, it's important for me to give you a view of our results as compared to the non-GAAP guidance we provided on August 8, which would have included both continuing and discontinued operations.

Total company Q2 revenue was $1.187 billion, flat year-over-year and in line with our guidance. Consumer revenue was $595 million. And Enterprise revenue, $592 million. Operating margin was 33.9%, up 220 basis points year-over-year, exceeding guidance of 31% to 33%, with Consumer segment margin of 50.1% and Enterprise segment margin of 17.6%. Fully diluted EPS was $0.46, exceeding guidance of $0.40 to $0.44 and up 10% year-over-year. As mentioned, the majority of our Enterprise Security segment moved under discontinued operations. So under our new reporting structure, in the second quarter, revenue from our continuing operations was $608 million, flat year-over-year in constant currency. Continuing operations now includes revenue and costs from our ID Analytics business, which was formerly included in the Enterprise Security segment and which contributed $13 million to Q2 revenue.

While our Q2 reported cost structure is complex and burdened with stranded costs, our core business remains on track. Under continuing operations, we reported $92 million in cost of goods sold and $338 million in operating expenses, which equals to $430 million in total spend. Spend related to stranded costs in that continued operations P&L was approximately $130 million in Q2. Therefore, the remaining spend, approximately $300 million, was related to our Consumer Cyber Safety business and equates to approximately 50% operating margin, in line with our target consumer model. Due to accounting reporting requirements, for the next 12 months, our stranded costs will be located in multiple places in our P&L. Some will be in continued operations, some will be in discontinued operations, and some will be in restructuring. We will give you as much visibility as possible as we eliminate these stranded costs. I've learned through my career that it is better to overcommunicate it during times of changes. I want you to leave this call with confidence that we have full visibility to our cost structure, and that detailed transition plans are in place. I will be directly accountable to remove these stranded costs as soon as possible within the next 12 months.

In Q2, our cash flow from operations was $181 million with free cash flow of $154 million. We ended the second quarter with cash and shorter investment of $1.83 billion. On Monday, we announced a successful refinancing of our debt to extend upcoming maturities with our total debt level unchanged at $4.5 billion, as previously communicated.

Before I pass it over to Samir for more details on the Consumer business, I want to highlight the fact that we have a renewed vigor as we focus on the Consumer business with a sole objective to solidify our growth plan to return the business to mid-single-digit revenue growth in the long term. In Q2, we increased our marketing investment, primarily targeted at direct acquisition marketing programs focused on our Norton 360 membership offerings. Although it will take some time to flow the revenue line due to -- to flow to the revenue line due to subscription nature of the business, the reported billings growth of 4%, equivalent to bookings growth in consumer, is an early encouraging sign of the growth potential of that business.

And now let me turn the call over to Samir, who will do a deeper dive on Q2 consumer results.

Samir Kapuria

Thank you, Vincent. In April, we launched our Norton 360 membership plans in the U.S., Canada, U.K. and Germany. The memberships offer different levels of coverage of device protection, online privacy enablement, dark web monitoring and identity protection. In the second quarter, we further expanded our Norton 360 memberships in EMEA and APJ, including Spain, 6 Scandinavian countries and Japan. In the third quarter, we are targeting additional countries in EMEA and Asia Pacific and Latin America. This membership strategy allows us to increase value by offering a broader set of cyber safety products to consumers.

In the second quarter, we saw stabilization in the declines of our ending direct customer count of 20.1 million, which were flat sequentially and down 3% year-over-year. Over the last 2 quarters, we've increased our spending in direct customer acquisition marketing program in order to capture our longer-term growth opportunities. Average revenue per user, or ARPU, increased to $8.88 per month, up 1% sequentially and 2% year-over-year. We also protect millions of indirect users through our partnership relationships. In the second quarter, our partner revenue was up 2% year-over-year.

The foundation of our Consumer Cyber Safety strategy is to offer solutions that will protect all areas of consumers' online lives. Our offerings cover devices, identity, privacy and home and family. We created the Consumer Cyber Safety category with the acquisition of LifeLock in 2017. And going forward, as Norton LifeLock, with a singular focus, we will continue to be an industry leader through operational excellence and innovation.

Cyber risk is an expanding concern for everyone globally, and our team is constantly identifying new ways to provide cyber safety. I'm looking forward to partnering with Vincent, and together, expanding cyber safety to an ever-increasing market.

Vincent Pilette

Thanks, Samir. Let me now turn to our Q3 outlook and also discuss our capital allocation plan. In the third quarter, we expect revenue in the range of $602 million to $612 million or down 2% to flat year-over-year. We will continue to drive the business for growth, which is expected to continue to yield low single-digit bookings growth in Q3, ultimately delivering expected revenue growth in other quarters.

The timing and scope of the transition service agreements we have with Broadcom for the next few months and the complicated accounting treatment of the stranded and restructuring costs, as well as the elimination plans, can make the quarterly breakdown of our forecast spend more dynamic. Based on our plan today, we expect Q3 non-GAAP EPS for our continuing operations to be in the range of $0.05 to $0.10 per share based on a share count assumption of approximately flat sequentially, with our core business operating at about 50% profit margin and the rest of the spend made of stranded costs.

We are not providing Q3 GAAP EPS guidance due to extraordinary charges, more significantly the gain resulting from the sales of our Enterprise Security assets, which could yield $3 to $4 in GAAP EPS in Q3. While we provide guidance for the next quarter and we have our eyes on today's business activities, we actually manage the business towards our 12-month objectives. So let me reiterate that within the next 12 months, we will eliminate all stranded costs. Upon elimination of the stranded costs, the completion of the transition services to support Broadcom and a full year benefit from a share buyback program, we expect the operating margin of the company to reach 50% and annualized EPS to come to approximately $1.50. While I continue to give you quarterly forecast, it is progress against that annual goal, $1.50, by which we will determine our success.

As we announced last quarter, the Board and this management team are committed to returning to shareholders 100% of the after-tax proceeds of approximately $8.2 billion in the form of $12 special dividend, as Rick mentioned in his comments. The special dividend should be declared by our Board and paid in fourth fiscal quarter after all the funds are repatriated. Today, we also announced that we raised the regular quarterly dividend by 67% to $0.125 per share in the current quarter. At today's share price, this would equate to over 2% annual yield. Excluding the special dividend from the share price, this would equate to over 4% annual yield.

Finally, as a reminder, we have an existing $1.6 billion share repurchase authorization, which we expect to execute through the transition period. Let me finish with a few comments on why I've accepted this leadership role. This is a major transformation. On one side, we must rightsize our business operations following the Enterprise divestiture. On the other side, we have to continue to expand Norton LifeLock to make the cyber world a safer place for everyone.

On rightsizing the business, we have $1.3 billion of cost to eliminate. We need to monetize and dispose of unused assets. We will use the proceeds for those assets to fund cash costs related to winding down the stranded operations. On the other side, the focus on execution and optimization of our cost structure will enable us to fund many growth initiatives, such as the adoption of our new Norton 360 memberships, the conversion of partner subscribers to direct subscribers, the expansion outside the U.S. and the development of new products and functionalities.

Going forward, operational excellence, discipline and vision will continue to drive Consumer Cyber Safety to new levels. It is a privilege for me to partner with Samir, this executive team and all of our employees to emerge as a successful consumer company in cyber safety.

And with those comments, Rick, Samir and I are now happy to take any questions. Ian, I'll turn it back to you.

Question-and-Answer Session

Operator

[Operator Instructions]. Our first question is from the line of Saket Kalia from Barclays.

Saket Kalia

Rick, Vincent, Samir, congrats on your respective transitions.

Vincent Pilette

Thank you.

Samir Kapuria

Thank you.

Saket Kalia

First, maybe for you, Vincent and Samir, just on the core business. Can we just talk a little bit about direct customer account? Samir, you talked about how it's stabilizing. Can you just give us a sense for how the respective betas of both Norton and LifeLock subscribers are maybe trending? And how you think about that direct customer count sort of going forward?

Vincent Pilette

Yes. So I can give the first question. First of all, as we said in last quarter, we started to use some of the savings to pull back into marketing investments, and those were primarily targeted at acquiring new customers to the direct marketing programs. For this quarter, we achieved about 20.1 million subscribers and are in the process of stabilizing that. I couldn't find such a stable quarter-over-quarter view, if you want, for the last few years, if you exclude the Equifax event in 2018. And so I think this is viewed as a very positive momentum.

We don't break out, as you know, Norton versus LifeLock, and we're trying to move now towards that membership program, where you get into the form of a membership view and add different functionalities. But I would say that privacy or identity protection are the primary marketing messages, if you want, and for what consumer are subscribing. Many of them, of course, get the security package with their membership. So that's the trend we've seen. Samir, do you want to add anything?

Samir Kapuria

I think Vincent covered it pretty well. I think the other indicator that we mentioned in our opening remarks is year-over-year, you're seeing a 2% increase in our ARPU, and that's reflected in our conversion of users into the cyber safety membership programs.

Saket Kalia

Got it. That's very helpful. Maybe for my follow-up for you, Vincent, just on the $1.3 billion in stranded costs. Thanks, by the way, for breaking it out and just partially in discontinued ops. I guess the question is, can you just go on a little deeper into the profile of those costs? And I know that you've talked about those going away over the next 12 months, but should we be thinking about those going away steadily over the next 12 months? Or could we see some big quarters or big reductions versus others? Anything on the cadence of those stranded costs and how they sort of get removed from the system would be helpful.

Vincent Pilette

No, absolutely. Now I want to tell you, we have a very good detailed plan on the operational activities and how to get rid of the activity, and therefore, the cost. The geography on the P&L, whether it's counted operation, discounted operation or restructuring, is really driven by the GAAP accounting rules. I have nothing to do with that. But we're providing all the visibility.

As you know, we will try to eliminate them as soon as possible in our projection, and it's including in our Q3 guidance, we have a big spike in stranded costs next quarter as we write off unused assets. This -- the bucket is really made of 3 areas. One is people cost, if you want, and the position needs to be kept for up to 6 months as we service Broadcom, or at least some of them. After which, the position will be eliminated. The second bucket is facilities, and we are exiting buildings as positions are being eliminated. That will be over the next 9 months. And the last one is contracts and other assets that we are either renegotiated or writing off.

So it will be a little bit choppy. I expect Q3 this coming quarter to probably be the biggest quarter, and then it will move down from there. I think the last piece I would mention for investors, we will provide a good view of the cash versus noncash item of those stranded costs. I think that's what matter in the value of the deal.

Operator

And our next questions are from the line of Fatima Boolani from UBS.

Fatima Boolani

Congratulations to you all in the new roles. I wanted to dig into the ID Analytics business. Just for the benefit of all of us, if you can just give us an overview of what this business exactly is, how it is distinct from the rest of the consumer portfolio. And what sort of revenue model are we looking at here? And then I have a follow-up for Samir.

Vincent Pilette

So the ID business is about a $50 million business today, and it provides some alert services and fraud alert services. The $50 million, obviously it's an annual number. I broke for last quarter, $13 million. Samir, I don't know if you want to add anything.

Samir Kapuria

Yes. Predominantly, IDA is focused on 2 areas, credit monitoring and fraud monitoring. And both is our very rich data sources, and the business model is to enable those data sources for multiple enterprise customers.

Fatima Boolani

Fair enough. I appreciate that. And Samir, on your discussion about international growth opportunities, there's been a ton of progress made in expanding your presence in ex U.S. geographies. I'm wondering if you can translate that into ARPU impact. I think, typically, we're used to seeing some ARPU degradation in international markets. So can you speak to sort of any divergence or any signs of price elasticity in non-U.S. regions from an ARPU perspective as you advance? That would be super helpful.

Samir Kapuria

Yes, given where -- that's a great question. Thanks for that. Given our -- being a premium brand with premium products, our initial focus in international expansion has been on the countries I mentioned, and we're targeting similar countries that have the ability to take the full offering of cyber safety at our existing ARPU levels.

Operator

And our next question is from the line of Melissa Franchi from Morgan Stanley.

Melissa Franchi

Great. I'm dialing in for Keith Weiss. Congrats, everyone, on the new roles as well. I wanted to dig in to the sequential ARPU growth and get a little bit more detail on that. Samir, I know that you mentioned a greater adoption of the kind of the premium subscription in the cyber safety membership. But just wondering if there was any sort of onetime factors that drove the sequential increase in ARPU. And then looking forward, do you feel like those trends are sustainable and we should continue to see sequential growth?

Samir Kapuria

Yes. As we roll out our cyber safety programs, both through existing customer base as well as new customers, that ARPU that we're recognizing the 2% year-over-year is reflective of that rollout of the new program. I'd anticipate that as we penetrate more markets and continue to acquire new customers, we're going to see that reflect in our ARPU as well.

Melissa Franchi

Okay. That's helpful. And then I just wanted to follow up on distribution. You mentioned increased spend in direct customer acquisition. Is there any updated view on any other form of, I guess, partnerships or distribution, specifically, if we're going to revisit OEM relationships or partnerships? And how we should think about that moving forward?

Vincent Pilette

Hey, Melissa, this is Vincent. So yes, we've started weekly operational review with our Consumer business. And we kind of designed a matrix of opportunities, if you want. Our membership and our products on one axis, and on the other, the various form of distributions. And when we look at that matrix, we feel we have a lot of great opportunities. We did want first to increase our marketing in the direct customer acquisition program because that had been underfunded in the past, and now it's about doing both investing in distribution and, frankly, into new products to access some of those channels.

Operator

And our next question is from the line of Karl Keirstead from Deutsche Bank.

Karl Keirstead

I just got questions about the path to $1.50 in EPS and $900 million in free cash flow. Maybe I'll ask both questions at the same time. So I think 3 months ago, you were expressing that we should feel good about the $1.50 because the Consumer business was essentially running at an annualized EPS of $1.40. So it really wasn't much of a leap to get to $1.50. Maybe I missed it in the presentations, but I wanted to ask what the annualized EPS for just the Consumer was in this most recent quarter so we can see how close it is to that $1.50.

And then secondly, on the free cash flow side, I don't think you're disclosing "consumer free cash flow," only the $154 million of combined free cash flow. But perhaps you can talk about consumer free cash flow, at least qualitatively, so we can feel a little bit better about the line of sight to that $900 million number.

Vincent Pilette

No, absolutely. I will -- now we will report all continued operations, as you know, combined of both the current consumer business plus all stranded costs. And moving forward, we will not have a segment reporting view. So there are things we can break as additional information and other that we cannot per the SEC or GAAP rules. And of course, we follow those.

If you look today the consumer business, it's still delivering a 50% operating profit margin, which was both our guidance and assumption in the last quarter. I had said at the time that if you use the current cost of capital, share count and the tax rate, you would be at around $1.40. And today, you're not different than that. We operate the consumer business at 50%. We have not started yet the share buyback program. So share count is relatively flat, and so we are very close to that number. Eliminating the stranded cost as part of that continued operations and reducing the share count will lead us to that $1.50 by the end of the 12-month transition period.

On the free cash flow side, because we operate the consumer business at 50% operating profit margin, which is almost the best proxy for your cash generation, we are roughly, this year, at that $900 million level, as I mentioned in August. No change there.

Operator

And our next question is from the line of Gregg Moskowitz from Mizuho.

Gregg Moskowitz

Congratulations to all as well. I guess my first question, Vincent, I realize your billings in consumer grew 4% year-over-year this quarter. But historically, this business hasn't grown quite at that level. And I was wondering if you could elaborate on what would catalyze additional growth such that you could achieve mid-single digits growth on a sustainable basis. And as part of that, what gives you the confidence that the incremental marketing investments that you alluded to will drive a good ROI for the company?

Vincent Pilette

Yes. So today, if you look at the billing growth, it's 4% as we reported. There's a few moving pieces there. I would say low single-digit booking growth is the first quarter we have growth. In the last 3 quarters, it was flat to negative, as you mentioned and as we reported. The business was really run to maximize the profit. And since August, we've not only reinvested some of the incremental savings into marketing activities, but we started deep, weekly operational reviews with Samir, and we focused solely on developing growth opportunities, not just on maximizing profit.

And again, as I mentioned to that metric, like, our 5 membership, our top 10 opportunity to sell and 10 distribution, you have 100-cell matrix, and only a few of those today are fully addressed in terms of full opportunity. And so we see a lot of opportunity to continue to improve our operational efficiencies and redirect those savings into those. Some will be a little bit short term, like the direct customer acquisition. Some will be longer term. And the longer, longer term is to invest and build into huge vision of the Consumer Cyber Safety blanket, if you want. So that's where we are.

Bookings growth at low single digit will take -- because it's a subscription business, will take about four quarters to roll through the P&L. Today, the P&L suffered from the last four quarters of weak bookings, if you want. And so it will just take time to solve that. So that's our current position.

Gregg Moskowitz

Okay. That's very helpful. And then we've also been getting some questions on what the pro forma balance sheet may look like, and I think the special dividend, the stranded costs and the sale of real estate are very clear, but it might be helpful if you could also just please briefly address other primary sources and uses of cash over the next 6 to 12 months, inclusive of whether there might be any changes to the debt level as well as linearity of share purchases and then perhaps linearity of any incremental investments.

Vincent Pilette

Yes. I can give you a few views here on sources and uses of cash. First of all, I just want to remind you that compared to our assumption in August, our current stranded costs are coming lower. The cash portion of that is lower $900 million versus $1 billion assumed, and the tax proceeds received from sales of underutilized assets keep going up as we are conservative in our projections and only want to make sure we forecast why we have line of sight, too.

In the first quarter, we'll pay the $12 dividend. So that's for one timing. We have an assumption at this point in time that we'll use the $1.6 billion share buyback through the transition period. We want to have it both systemic and opportunistic. So depending on where we see it, we may act differently through that here.

For the sales of the real estate assets and others, for the lack of better knowledge, we kind of, in our forecast model, put them in the middle of the year. That's why I say mid of next year.

Operator

And our next question is from the line of Brad Zelnick from Crédit Suisse.

Brad Zelnick

Congrats to all. I just wanted to follow up on Fatima's question and hoping you can confirm that and just clarify. The quarter benefited from $13 million in revenue being reallocated from Enterprise to Consumer for ID Analytics. And just want to understand how much of that was factored into your guidance and what's the margin profile of the ID Analytics business. And I've got a follow-up for Samir.

Vincent Pilette

Yes. So in the quarter, we have about $13 million of revenue. We are meeting our guidance for consumer. As you know, we guided into the old structure, which is a Consumer segment and an Enterprise segment. And the low end of our guidance for consumer, we guided $590 million. We delivered $595 million. In terms of the margin profile, that's really a business that sell to the Enterprise. They don't have the consumer margin, but the double-digit profit margin.

Brad Zelnick

And just, Samir, I think you spoke to this a bit when Fatima asked. But just operationally and strategically, what, if anything, changes in bringing ID Analytics back home and recombining with LifeLock?

Vincent Pilette

Hey, I want to make sure that we understand that. ID Analytics coming back into consumer is more the result of Broadcom buying the Enterprise business and not taking it, and so that's what we were grouping in that.

Samir Kapuria

Yes. And I think that's the summary right there. It is a separate line that's focused on the Enterprise side of the market that is not part of the Consumer go-to-market play.

Operator

And our next question is from the line of Ken Talanian from Evercore ISI.

Kenneth Talanian

I was wondering if you could give us a sense for where your retention rates might trend going forward. You've seen good improvement in there over the years. And any programs in place that might help to improve them?

Vincent Pilette

So a couple of things, and I'll pass it to Samir. We reported last quarter a retention rate of 84.9% retention rates. They were flat and stable. The company did not disclose that on a quarterly basis. We're still reviewing now which operational metrics will be the most useful for investors as we continue to deep dive into growth opportunities. Definitely, through the adoption of the membership, the engagement with the user base, the increase of value added to the consumer, so more identity protection, more privacy protection, we do expect that we have opportunities for improving those retention rates. But we're obviously not giving you any either forecast or any number for the future.

Samir Kapuria

Yes. Our focus with our customer base is centered around activating and upgrading the relationship to that complete cyber safety platform across privacy, identity, security, home and family. And as we engage on all of those levels and have a greater relationship with our customers, we become stickier with them. And that's, in essence, the strategy we have.

Kenneth Talanian

Great. And I guess maybe as a follow-up. Could you give us a sense of what percentage of your existing base have both Norton and LifeLock or otherwise on a bundle?

Samir Kapuria

Yes. We launched our Consumer Cyber Safety platform model with the acquisition of LifeLock in 2017. And since then, we have not provided a breakout of subscribers by each cohort. But as we look into the opportunity we have ahead, we still have a lot of existing customers that we can upgrade and upsell into that Cyber Safety platform.

Operator

And our next question is from the line of Jacek Rycko from Citi.

Walter Pritchard

It's Walter Pritchard here with Jacek. Two questions. First, just on the real estate side. Could you help us, Vincent, understand how much risk and how broad the ranges you see to the outcomes there with the proceeds that will come from the real estate?

Vincent Pilette

So you wanted the range, you mentioned? So we put already 4 or 5 campuses that we had for sales. At this point in time, it's the majority of the $1 billion we estimated. And we'll try to get the best price possible. If we have an update, we'll give it to you.

Walter Pritchard

And then as you're thinking about the modest investments that you're putting back into the business and sort of aiming for this full cybersecurity suite, how are you thinking about acquisitions either larger opportunities or tuck-in tight deals that would help along that strategy?

Vincent Pilette

Yes. So we're not ruling out any opportunities for growth as we have a unique position. I would say today, we're really focusing on executing on our plans, eliminating the stranded costs, building the operational muscles in the Consumer business to shift from maximizing profit to really focusing on growth. We felt that the first investment to return to organic growth was to increase our direct marketing investment programs. That was the most urgent thing to do with the more immediate returns. The next view is really driving -- or going to drive the operational efficiencies, and we're redirecting some of those savings more into the R&D, and overall, building the products. And then at the right time, when we have the right operational cadence, we can always have tuck-in acquisitions, either as a function we add on as a trade-off of our R&D budget or because we want to add more subscribers into our overall offerings.

Operator

And our next question is from the line of Patrick Colville from Arete Research.

Patrick Colville

Vince, congratulations on the appointment. Can I ask a quick question on the cost savings? So you mentioned in the slides a $400 million benefit from divestiture of equity investments. What's that?

Vincent Pilette

So we had a minority stake into a business, DigiCert, that was sold in October.

Patrick Colville

Okay. Understood. And your guidance for next quarter implies 1% decline on the top line at the midpoint, which given the flat sequential custom count this quarter and then rising ASPs, just to kind of understand how you got to that number. Because the trends this quarter look very positive and look like things are kind of picking up, but then the guidance for next quarter suggests a downward inflection. So any color you could provide there would be great.

Vincent Pilette

Yes, absolutely. So this is a subscription business, right, a 12-month subscription business, where a lot of the revenue in the quarter is coming off the balance sheet from those revenues rolling off and a minority of the revenue coming from bookings in period revenue. If you look at the bookings for the last 4 quarters, excluding the extra week last quarter, they had a decline, a negative growth. And currently, the revenue coming from those prior quarters' negative booking growth is impacting the revenue. As you mentioned, the more positive forward-looking metric is bookings growth, which was low single digit in this quarter, and we forecast the same for the following quarter. And secondly, the stabilization of the customer count, which will continue as we continue to invest in direct marketing. It will take a few quarters to flush through that balance sheet adjustment, if you want. And as I mentioned that after the transition period, we should be able to be in a business, that 50% operating margin, delivering $1.50 and growing low single digits.

Operator

And at this time, I'm showing that we have no other questions. I'd like to turn it back to Vincent for closing remarks.

Vincent Pilette

Thank you very much. I appreciate you attending the call. We'll do our best to continue to update you on our progress. And with that, I would like to close the call. Thank you.

Operator

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