

McAfee Inc. (MFE)

Rating	NEUTRAL*
Price (29 Jul 10, US\$)	30.50
Target price (US\$)	(from 37.50) 35.00 [†]
52-week price range	45.54 - 30.14
Market cap. (US\$ m)	4,758.55

*Stock ratings are relative to the relevant country benchmark.

[†]Target price is for 12 months.

Research Analysts
Philip Winslow, CFA

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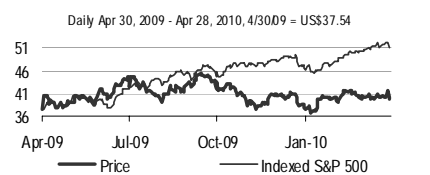
Sitikantha Panigrahi

DECREASE TARGET PRICE

Some Good; Some Bad

- Results.** McAfee reported results for Q2 of \$0.63 in EPS on \$495.3 million in revenue (excluding impact of DAT file update on revenue and expenses), compared with consensus estimates of \$0.60 on \$507.3 million. Including the DAT file update impact in expenses (as per guidance) would reduce EPS by \$0.01 versus the company's guidance of a \$0.01-0.02 impact. Bookings equaled \$522 million versus consensus of \$517 million.
- Analysis.** On an apples-to-apples basis, McAfee missed revenue but topped EPS expectations by \$0.02. The shortfall in reported revenue stemmed from a greater than expected impact from DAT file update remediation actions, a greater-than-anticipated currency headwind, as well as a higher-than-normal deferral rate. Although management's revenue guidance range was below consensus expectations for the second consecutive quarter (albeit taking into account currency headwinds), management stated that the DAT file issue is behind the company and that pipelines remain strong. We continue to forecast a deceleration in McAfee's revenue growth rate in 2010, due to the higher rates of unemployment and limited growth in the enterprise PC installed base (which we believe will result in a later-cycle recovery in endpoint security), difficult year-over-year rate of change comparisons because of the acquisition of Secure Computing, and foreign currency headwinds. We were encouraged, however, by McAfee's refocus on expenses, with operating margin of 25.8% versus both our and consensus estimates of 24.9%.
- Estimates.** We are adjusting our 2010 revenue estimate from \$2.062 billion to \$2.043 billion, and our EPS estimate from \$2.50 to \$2.53.
- Outlook.** McAfee's valuation is relatively attractive and management's guidance for Q3 could prove conservative, but we will continue to monitor McAfee's corporate and SMB business trends before turning positive again on McAfee's stock. We maintain our Neutral rating and lower our target price of \$37.50 to \$35.

Share price performance



On 04/28/10 the S&P 500 index closed at 1191.36

Quarterly EPS	Q1	Q2	Q3	Q4
2009A	0.54	0.60	0.62	0.64
2010E	0.60	0.63	0.63	0.67
2011E	0.67	0.73	0.72	0.76

Financial and valuation metrics

Year	12/09A	12/10E	12/11E	12/12E
EPS - (Excl. ESO) (US\$)	2.39	2.53	2.88	3.20
EPS (CS adj.) (US\$)	2.39	2.53	2.88	3.20
Prev. EPS (CS adj.) (US\$)	—	2.50	2.74	2.98
P/E (CS adj., x)	12.7	12.1	10.6	9.5
P/E rel. (CS adj., %)	81.0	94.4	94.9	96.8
Revenue (US\$ m)	1,927.3	2,043.2	2,205.4	2,381.3
EBITDA (US\$ m)	670.6	690.1	756.1	829.2
Net debt (US\$ m)	-950	-834	-1,158	-1,504
OCFPS (US\$)	3.19	3.62	3.95	4.27
P/OCF (x)	12.7	8.4	7.7	7.2
Number of shares (m)	156.02	Price/sales(x)		2.33
BV/share (current, US\$)	11.6	P/BVPS (x)		2.6
Net debt (current, US\$ m)	-801.5	Dividend (12/09A, US\$)		—
Dividend yield (%)	—			

Source: Company data, Credit Suisse estimates.

DISCLOSURE APPENDIX CONTAINS IMPORTANT DISCLOSURES, ANALYST CERTIFICATIONS, INFORMATION ON TRADE ALERTS, ANALYST MODEL PORTFOLIOS AND THE STATUS OF NON-U.S. ANALYSTS. U.S. Disclosure: Credit Suisse does and seeks to do business with companies covered in its research reports. As a result, investors should be aware that the Firm may have a conflict of interest that could affect the objectivity of this report. Investors should consider this report as only a single factor in making their investment decision.

The Download...

The Good:

- Bookings equaled \$522 million versus consensus of \$517 million.
- Deferred revenue equaled \$1.366 billion, compared to our estimate of \$1.343 billion.
- Cash flow from operations of \$133 million, compared to consensus estimates of \$102 million.

The Bad:

- McAfee reported non-GAAP revenue results for Q2 of \$495.3 million (excluding impact of DAT file update), compared with consensus estimates of \$507.3 million.
- Corporate revenue was \$305 million versus consensus estimates of \$314 million.
- Consumer revenue was \$191 million versus consensus estimates of \$192 million.
- Management issued guidance for the September quarter of revenue of \$505-520 and non-GAAP EPS of \$0.62-0.66, compared to consensus estimates of revenue of \$522.8 million and EPS of \$0.65 and our estimates of \$515.7 million and EPS of \$0.64.

What's Our Take?

- We continue to forecast a deceleration in McAfee's revenue growth rate in 2010, due to the higher rates of unemployment and limited growth in the enterprise PC installed base (which we believe will result in a later-cycle recovery in endpoint security), difficult year-over-year rate of change comparisons because of the acquisition of Secure Computing, and foreign currency headwinds.

What's The Stock Thesis?

- We continue to forecast a deceleration in McAfee's revenue growth rate in 2010, due to the higher rates of unemployment and limited growth in the enterprise PC installed base (which we believe will result in a later-cycle recovery in endpoint security), difficult year-over-year rate of change comparisons because of the acquisition of Secure Computing, and foreign currency headwinds.
- McAfee's valuation is relatively attractive and management's guidance for Q3 could prove conservative, but we will continue to monitor McAfee's corporate and SMB business trends before turning positive again on McAfee's stock.

What's The Impact To The Model?

- We are adjusting our 2010 revenue estimate from \$2.062 billion to \$2.043 billion, and our EPS estimate from \$2.50 to \$2.53.

What's The Next Catalyst/Data Point?

- Software NPD data for the month of July is released on August 12, 2010.

What's Valuation?

- McAfee currently trades at a 26.5% discount to the software industry on a NTM enterprise value to unlevered free cash flow basis. McAfee's relative discount to software equalled 9.0% on average over the past 5 years.
 - Our target price of \$35 implies a NTM unlevered EV/FCF multiple of 8.9x and a NTM P/E multiple of 12.9x.
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Quarterly Analysis

Quarterly Highlights

Exhibit 1: Quarter at a Glance

US\$ in millions, unless otherwise stated

Quarterly Variance Analysis								
	Actual Jun-10	CS Est Jun-10E	\$ Δ	% Δ	Actual Jun-10	Consensus Jun-10	\$ Δ	% Δ
Corporate Revenue	304.6	321.8	(17.3)	-5.4%	304.6	313.8	NM	NM
Consumer Revenue	190.8	181.2	9.6	5.3%	190.8	191.5	NM	NM
Revenue	\$ 495.3	\$ 503.0	\$ (7.7)	-1.5%	\$ 495.3	\$ 507.4	\$ (12.1)	-2.4%
Cost of goods sold	108.0	110.0	(2.0)	-1.8%	108.0	111.1	(3.2)	-2.8%
Gross profit	387.4	393.0	(5.7)	-1.4%	387.4	396.3	(8.9)	-2.2%
Gross margin	78.2%	78.1%			78.2%	78.1%		
Operating expenses	257.9	267.6	(9.7)	-3.6%	257.9	269.9	(12.0)	-4.4%
Operating income	129.4	125.4	4.0	3.2%	129.4	126.4	3.0	2.4%
Operating margin	26.1%	24.9%			26.1%	24.9%		
Interest and other, net	(0.3)	0.1	(0.4)	-376.2%	(0.3)	0.5	(0.8)	-155.0%
Pro forma pretax income	129.2	125.5	3.6	2.9%	129.2	126.9	2.3	1.8%
Effective tax rate	24.0%	24.0%			24.0%	24.2%		
Net income	98.2	95.4	2.8	2.9%	98.2	96.2	2.0	2.0%
EPS	\$0.63	\$0.60	\$0.03	5.2%	\$0.63	\$0.60	\$0.03	5.1%
FD shares outstanding	156	160	(3)	-2.2%	156	161	(5)	-2.9%
OCFPS	\$0.86	\$0.25	\$0.61	243.0%	\$0.86	\$0.50	\$0.37	74.6%
Deferred revenue	1,366.5	1,342.8	23.7	1.8%	1,366.5	1,370.0	(3.5)	-0.3%
Capital spending	18.8	17.5	1.3	7.6%	18.8	18.5	0.4	1.9%

Growth Analysis	Sequential Comparison				Y/Y Comparison			
	Actual Jun-10	Mar-10	\$ Δ	% Δ	Actual Jun-10	Jun-09	\$ Δ	% Δ
Revenue	\$ 495.3	\$ 502.7	\$ (7.4)	-1.5%	\$ 495.3	\$ 468.7	\$ 26.7	5.7%
Cost of goods sold	108.0	110.2	(2.2)	-2.0%	108.0	95.1	12.8	13.5%
Gross profit	387.4	392.5	(5.2)	-1.3%	387.4	373.5	13.8	3.7%
Operating expenses	257.9	265.8	(7.9)	-3.0%	257.9	248.2	9.7	3.9%
Operating income	129.4	126.8	2.7	2.1%	129.4	125.4	4.1	3.3%
Pro forma pretax income	129.2	126.9	2.3	1.8%	129.2	124.6	4.6	3.7%
Net income	98.2	96.4	1.8	1.8%	98.2	94.7	3.5	3.7%
EPS	\$0.63	\$0.60	\$0.03	4.7%	\$0.63	\$0.60	\$0.03	5.1%
Gross margin	78.2%	78.1%			78.2%	79.7%		
Operating margin	26.1%	25.2%			26.1%	26.7%		
Net margin	19.8%	19.2%			19.8%	20.2%		

Source: Company data, Credit Suisse estimates.

Revenue Breakdown

- Sales of McAfee Enterprise Security, including Secure Computing, declined 2.5% sequentially, accounting for approximately 61.5% of revenue for the quarter.
- Consumer Security revenue increased 0.3% sequentially, constituting 38.5% of revenue during the quarter.

Other Key Takeaways

- Cash on the balance sheet declined approximately \$97.2 million to approximately \$804.3 million in the quarter.
- The company closed 474 deals over \$100,000, 78 deals over \$500,000, and 30 deals over \$1 million, compared with 376 deals over \$100,000, 56 deals over \$500,000, and 19 deals over \$1 million in the prior quarter.
- On the balance sheet, deferred revenue declined by approximately \$12 million during the quarter to approximately \$1.37 billion.

Estimates & Guidance

We are adjusting our 2010 revenue estimate from \$2.062 billion to \$2.043 billion, and our EPS estimate from \$2.50 to \$2.53. Management issued guidance for the September quarter of revenue of \$505-520 and non GAAP EPS of \$0.62-0.66, compared to consensus estimates of revenue of \$522.8 million and EPS of \$0.65.

Exhibit 2: Quarterly Estimate Changes vs. Company Guidance

US\$ in millions, unless otherwise stated

Quarterly Estimates & Guidance Variance Analysis				
	Guidance Sep-10E	Consensus Sep-10E	Prev CS Est Sep-10E	New CS Est Sep-10E
Corporate Revenue		NA	327.8	310.7
Consumer Revenue		NA	188.0	199.5
Revenue	\$ 505.0-520.0	\$ 522.8	\$ 515.7	\$ 510.1
Cost of goods sold		113.5	113.9	114.5
Gross profit		409.2	401.8	395.6
Gross margin		78.3%	77.9%	77.6%
Operating expenses		273.5	268.2	267.9
Operating income		135.8	133.6	127.8
Operating margin	24.0-26.0%	26.0%	25.9%	25.0%
Interest and other, net		0.8	0.1	1.0
Pro forma pretax income		136.5	133.7	128.8
Effective tax rate	24.0%	24.1%	24.0%	24.0%
Net income		103.6	101.6	97.9
EPS	\$0.62-\$0.66	\$0.65	\$0.64	\$0.63
FD shares outstanding	154-156	161	160	155
OCFPS		\$0.89	\$1.09	\$0.88
Deferred revenue		NA	1,381.7	1,405.2
Capital spending		19.1	17.9	19.4

Source: Company data, Credit Suisse estimates.

Exhibit 3: Annual Estimate Changes Variance Analysis

US\$ in millions, unless otherwise stated

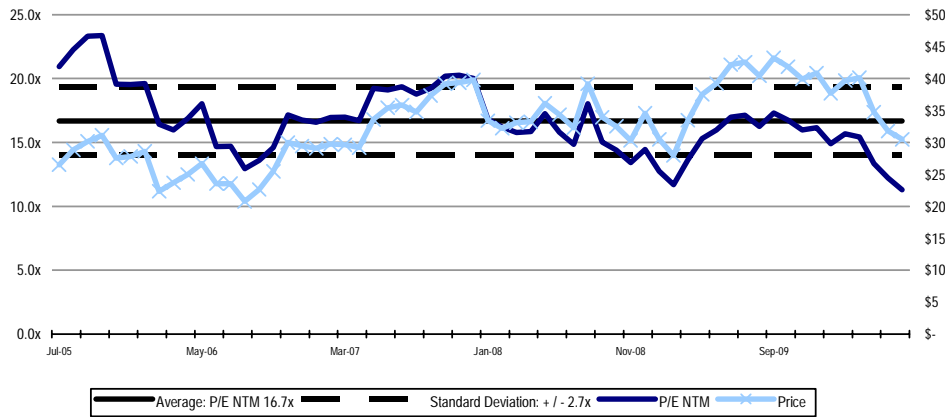
Annual Estimates Variance Analysis								
	New CS 2010E	Prev CS 2010E	\$ Δ	% Δ	New CS 2010E	Consensus 2010E	\$ Δ	% Δ
Corporate Revenue	1,252.9	1,306.1	(53.2)	-4.1%	1,252.9	NA	NM	NM
Consumer Revenue	790.3	756.0	34.3	4.5%	790.3	NA	NM	NM
Revenue	\$ 2,043.2	\$ 2,062.1	\$ (18.9)	-0.9%	\$ 2,043.2	\$ 2,096.4	\$ (53.2)	-2.5%
Cost of goods sold	453.8	453.9	(0.1)	0.0%	453.8	457.8	(4.0)	-0.9%
Gross profit	1,589.4	1,608.2	(18.8)	-1.2%	1,589.4	1,638.6	(49.2)	-3.0%
Gross margin	77.8%	78.0%			77.8%	78.2%		
Operating expenses	1,071.2	1,081.5	(10.3)	-1.0%	1,071.2	1,102.7	(31.5)	-2.9%
Operating income	518.3	526.7	(8.4)	-1.6%	518.3	535.9	(17.6)	-3.3%
Operating margin	25.4%	25.5%			25.4%	25.6%		
Interest and other, net	1.8	0.4	1.4	337.1%	1.8	4.6	(2.8)	-60.7%
Pro forma pretax income	520.1	527.1	(7.0)	-1.3%	520.1	540.5	(20.4)	-3.8%
Effective tax rate	24.0%	24.0%			24.0%	24.2%		
Net income	395.3	400.6	(5.4)	-1.3%	395.3	409.8	(14.5)	-3.5%
EPS	\$2.53	\$2.50	\$0.02	1.0%	\$2.53	\$2.55	(\$0.02)	-0.9%
FD shares outstanding	156	160	(4)	-2.3%	156	161	(4)	-2.6%
OCFPS	\$3.62	\$3.16	\$0.46	14.5%	\$3.62	\$3.35	\$0.27	8.0%
Deferred revenue	1,487.8	1,457.1	30.7	2.1%	1,487.8	NA	NM	NM
Capital spending	76.1	71.7	4.3	6.0%	76.1	70.2	5.9	8.4%

Source: Company data, Credit Suisse estimates.

Valuation

McAfee currently trades at a NTM price to earnings multiple of 11.3, a discount to the company's 5-year average multiple of 16.7. (See Exhibit 4.)

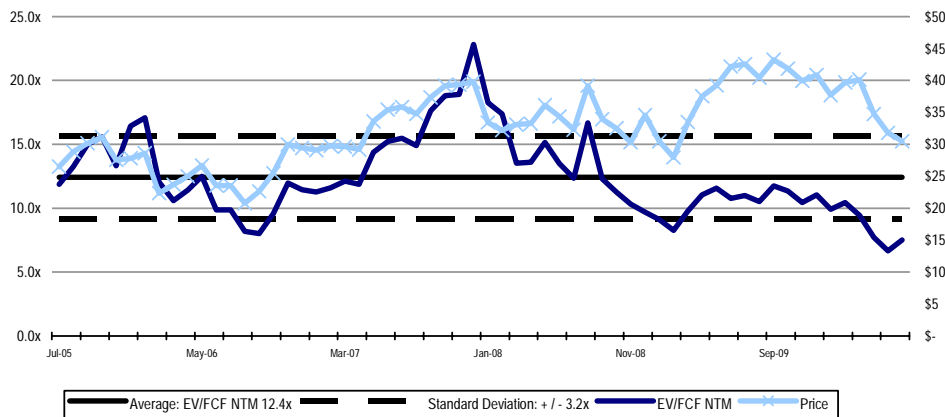
Exhibit 4: NTM P/E Multiple, 5-Year Trend
 US\$, unless otherwise stated



Source: FactSet, Credit Suisse.

McAfee also currently trades at a NTM enterprise value to unlevered free cash flow multiple of 7.5, which represents a discount to the company's 5-year average multiple of 12.4. (See Exhibit 5.)

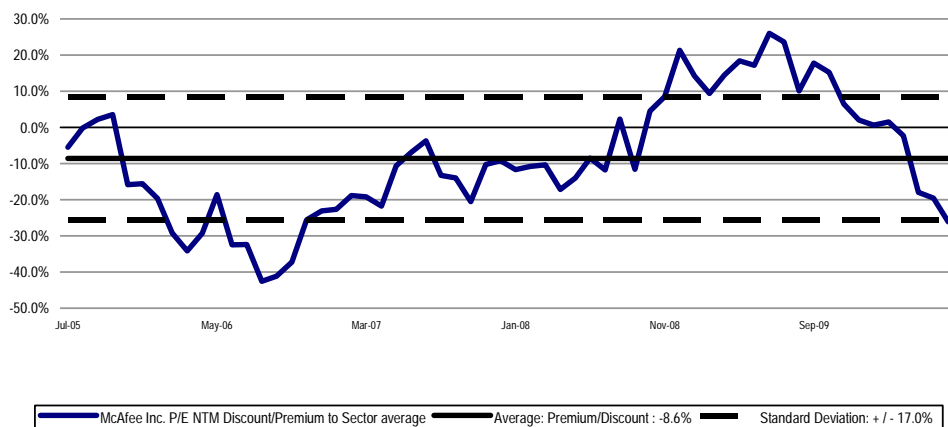
Exhibit 5: NTM EV/UFCF Multiple, 5-Year Trend
 US\$, unless otherwise stated



Source: FactSet, Credit Suisse.

In addition, McAfee currently trades at a 26.1% discount to the software industry on a NTM price to earnings multiple basis. McAfee's relative discount to software equalled 8.3% on average over the past 5 years. (See Exhibit 6.)

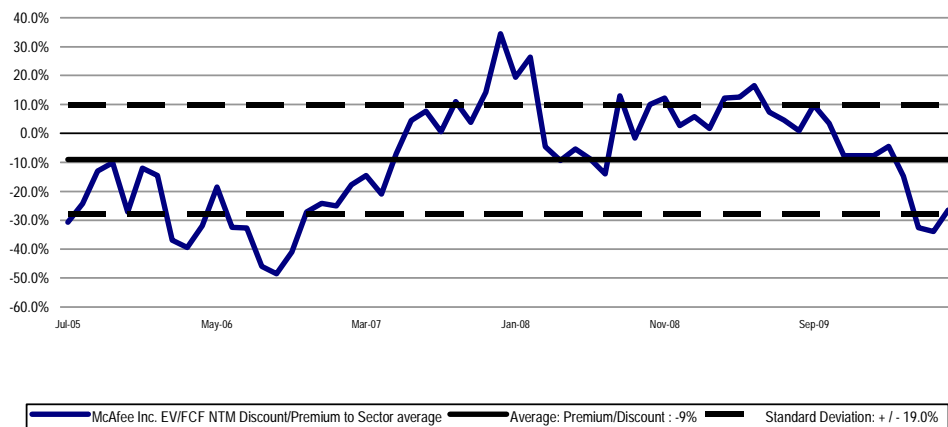
Exhibit 6: NTM P/E Multiple Discount/Premium to Software, 5-Year Trend



Source: FactSet, Credit Suisse.

McAfee currently trades at a 26.5% discount to the software industry on a NTM enterprise value to unlevered free cash flow basis. McAfee's relative discount to software equalled 9.0% on average over the past 5 years. (See Exhibit 7.)

Exhibit 7: NTM EV/UFCF Multiple Discount/Premium to Software, 5-Year Trend



Source: FactSet, Credit Suisse.

Our target price of \$35 implies a NTM unlevered EV/FCF multiple of 8.9x and a NTM P/E multiple of 12.9x. (See Exhibit 8.)

Exhibit 8: Valuation Matrix*US\$ in millions, unless otherwise stated*

		2009	2010E	2011E	NTM
Estimates	Revenue	\$1,927.3	\$2,043.2	\$2,205.4	\$2,120.4
	EPS (Pro Forma)	\$2.39	\$2.53	\$2.88	\$2.70
	Maintenance	\$892.7	\$908.0	\$959.9	\$929.0
	CFO	\$506.6	\$565.5	\$608.0	\$610.2
	FCF	\$446.1	\$489.5	\$524.2	\$529.6
	UFCF	\$444.6	\$488.1	\$520.4	\$526.4
Current	EV/R	2.1x	1.9x	1.8x	1.9x
	EV/Maintenance	4.4x	4.4x	4.1x	4.3x
	P/E (Pro Forma)	12.7x	12.1x	10.6x	11.3x
	EV/CFO	7.8x	7.0x	6.5x	6.5x
	EV/FCF	8.9x	8.1x	7.6x	7.5x
	EV/UFCF	8.9x	8.1x	7.6x	7.5x
Target	EV/R	2.4x	2.3x	2.1x	2.2x
	EV/Maintenance	5.2x	5.1x	4.9x	5.0x
	P/E (Pro Forma)	14.6x	13.8x	12.2x	12.9x
	EV/CFO	9.2x	8.2x	7.7x	7.6x
	EV/FCF	10.4x	9.5x	8.9x	8.8x
	EV/UFCF	10.5x	9.5x	9.0x	8.9x

Source: Company data, Credit Suisse estimates.

Estimates

Exhibit 9: Historical and Projected Income Statement

US\$ in millions, unless otherwise stated

	Fiscal 2009 by Quarter				Fiscal 2010 by Quarter				Fiscal Year Ends December			
	Mar-09	Jun-09	Sep-09	Dec-09	Mar-10	Jun-10	Sep-10E	Dec-10E	2008	2009	2010E	2011E
Total revenue	\$ 447.7	\$ 468.7	\$ 485.3	\$ 525.7	\$ 502.7	\$ 495.3	\$ 510.1	\$ 535.0	\$ 1,600.1	\$ 1,927.3	\$ 2,043.2	\$ 2,205.4
Cost of good sold	92.5	95.1	103.1	108.9	110.2	108.0	114.5	121.1	323.0	399.7	453.8	496.0
Gross profit	355.2	373.5	382.2	416.7	392.5	387.4	395.6	413.9	1,277.0	1,527.7	1,589.4	1,709.4
<i>Gross margin</i>	79.3%	79.7%	78.8%	79.3%	78.1%	78.2%	77.6%	77.4%	79.8%	79.3%	77.8%	77.5%
Operating expenses:												
Sales and marketing	138.9	141.0	144.9	166.4	153.9	143.4	154.6	164.8	492.7	591.1	616.6	654.5
<i>% of revenue</i>	31.0%	30.1%	29.9%	31.7%	30.6%	28.9%	30.3%	30.8%	30.8%	30.7%	30.2%	29.7%
Research and development	71.3	72.1	75.5	76.9	76.1	75.4	76.1	76.9	230.4	295.9	304.5	324.2
<i>% of revenue</i>	15.9%	15.4%	15.6%	14.6%	15.1%	15.2%	14.9%	14.4%	14.4%	15.4%	14.9%	14.7%
General and administrative	37.4	35.1	33.1	36.7	35.8	39.2	37.2	37.9	171.9	142.3	150.1	152.6
<i>% of revenue</i>	8.3%	7.5%	6.8%	7.0%	7.1%	7.9%	7.3%	7.1%	10.7%	7.4%	7.3%	6.9%
Total operating expenses	247.6	248.2	253.5	280.0	265.8	257.9	267.9	279.6	895.1	1,029.3	1,071.2	1,131.4
Operating income	107.6	125.4	128.7	136.7	126.8	129.4	127.8	134.3	382.0	498.4	518.3	578.0
<i>Operating margin</i>	24.0%	26.7%	26.5%	26.0%	25.2%	26.1%	25.0%	25.1%	23.9%	25.9%	25.4%	26.2%
Stock options compensation expense	24.0	31.1	26.6	27.4	29.3	26.6	28.0	27.9	76.9	109.1	111.7	120.6
<i>% of revenue</i>	5.4%	6.6%	5.5%	5.2%	5.8%	5.4%	5.5%	5.2%	4.8%	5.7%	5.5%	5.5%
Interest and other, net	3.0	(0.8)	1.1	(1.3)	0.1	(0.3)	1.0	1.0	51.2	2.0	1.8	4.9
Pretax income	110.6	124.6	129.7	135.4	126.9	129.2	128.8	135.3	433.2	500.3	520.1	583.0
Pro forma taxes	26.5	29.9	31.1	32.5	30.4	31.0	30.9	32.5	117.0	120.1	124.8	139.9
<i>Effective tax rate</i>	24.0%	24.0%	24.0%	24.0%	24.0%	24.0%	24.0%	24.0%	27.0%	24.0%	24.0%	24.0%
Pro forma net income	\$ 84.1	\$ 94.7	\$ 98.6	\$ 102.9	\$ 96.4	\$ 98.2	\$ 97.9	\$ 102.8	\$ 316.2	\$ 380.3	\$ 395.3	\$ 443.1
<i>Pro forma net margin</i>	18.8%	20.2%	20.3%	19.6%	19.2%	19.8%	19.2%	19.2%	19.8%	19.7%	19.3%	20.1%
Pro forma EPS (fully-diluted)	\$0.54	\$0.60	\$0.62	\$0.64	\$0.60	\$0.63	\$0.63	\$0.67	\$1.99	\$2.39	\$2.53	\$2.88
FD shares outstanding	156.2	158.3	159.9	161.0	160.6	156.2	155.0	153.7	159.2	158.9	156.4	154.0

Source: Company data, Credit Suisse estimates.

Exhibit 10: Historical and Projected Income Statement Growth Analysis

	Fiscal 2009 by Quarter				Fiscal 2010 by Quarter				Fiscal Year Ends December			
	Mar-09	Jun-09	Sep-09	Dec-09	Mar-10	Jun-10	Sep-10E	Dec-10E	2008	2009	2010E	2011E
Sequential growth												
Revenue	5.6%	4.7%	3.5%	8.3%	-4.4%	-1.5%	3.0%	4.9%	22.3%	20.5%	6.0%	7.9%
Gross profit	5.7%	5.2%	2.3%	9.0%	-5.8%	-1.3%	2.1%	4.6%	22.7%	19.6%	4.0%	7.5%
Sales and marketing	5.5%	1.5%	2.7%	14.9%	-7.5%	-6.9%	7.8%	6.6%	34.7%	20.0%	4.3%	6.1%
Research and development	16.6%	1.0%	4.8%	1.8%	-1.0%	-1.0%	1.0%	1.0%	15.8%	28.4%	2.9%	6.5%
General and administrative	-8.6%	-6.1%	-5.7%	10.8%	-2.6%	9.6%	-5.1%	2.0%	13.5%	-17.2%	5.4%	1.7%
Total operating expenses	6.0%	0.2%	2.1%	10.5%	-5.1%	-3.0%	3.9%	4.4%	25.0%	15.0%	4.1%	5.6%
Operating income	5.2%	16.5%	2.6%	6.2%	-7.3%	2.1%	-1.3%	5.1%	17.6%	30.5%	4.0%	11.5%
Pro forma pretax income	2.3%	12.6%	4.1%	4.4%	-6.3%	1.8%	-0.3%	5.0%	9.9%	15.5%	3.9%	12.1%
Pro forma net income	6.6%	12.6%	4.1%	4.4%	-6.3%	1.8%	-0.3%	5.0%	9.8%	20.3%	3.9%	12.1%
Pro forma EPS (fully-diluted)	6.0%	11.1%	3.1%	3.7%	-6.1%	4.7%	0.4%	5.9%	13.2%	20.5%	5.6%	13.8%
Year-over-year growth												
Revenue	21.1%	18.1%	18.5%	24.0%	12.3%	5.7%	5.1%	1.8%				
Gross profit	20.9%	16.2%	17.3%	24.0%	10.5%	3.7%	3.5%	-0.7%				
Sales and marketing	21.5%	17.9%	13.9%	26.4%	10.8%	1.7%	6.7%	-1.0%				
Research and development	30.4%	25.5%	32.2%	25.8%	6.7%	4.6%	0.8%	-0.1%				
General and administrative	-12.3%	-17.5%	-27.8%	-10.2%	-4.4%	11.6%	12.3%	3.4%				
Total operating expenses	17.0%	13.0%	10.2%	19.8%	7.4%	3.9%	5.7%	-0.2%				
Operating income	31.2%	23.1%	34.4%	33.6%	17.8%	3.3%	-0.7%	-1.8%				
Pro forma pretax income	13.4%	8.4%	15.1%	25.3%	14.7%	3.7%	-0.7%	-0.1%				
Pro forma net income	18.0%	12.9%	19.9%	30.5%	14.7%	3.7%	-0.7%	-0.1%				
Pro forma EPS (fully-diluted)	24.6%	15.2%	16.2%	25.9%	11.5%	5.1%	2.4%	4.6%				

Source: Company data, Credit Suisse estimates.

Exhibit 11: Historical and Projected Revenue Breakdown

US\$ in millions, unless otherwise stated

	Fiscal 2009 by Quarter				Fiscal 2010 by Quarter				Fiscal Year Ends December			
	Mar-09	Jun-09	Sep-09	Dec-09	Mar-10	Jun-10	Sep-10E	Dec-10E	2008	2009	2010E	2011E
Total revenue	\$447.7	\$468.7	\$485.3	\$525.7	\$502.7	\$495.3	\$510.1	\$535.0	\$1,600.1	\$1,927.3	\$2,043.2	\$2,205.4
% growth in revenue y-o-y	21.1%	18.1%	18.5%	24.0%	12.3%	5.7%	5.1%	1.8%	22.3%	20.5%	6.0%	7.9%
% growth in revenue seq	5.6%	4.7%	3.5%	8.3%	-4.4%	-1.5%	3.0%	4.9%				
Gross profit	\$355.2	\$373.5	\$382.2	\$416.7	\$392.5	\$387.4	\$395.6	\$413.9	\$1,277.0	\$1,527.7	\$1,589.4	\$1,709.4
Gross margin	79.3%	79.7%	78.8%	79.3%	78.1%	78.2%	77.6%	77.4%	79.8%	79.3%	77.8%	77.5%
Product	37.4	43.6	50.3	57.0	49.9	44.6	51.0	62.0	133.0	188.3	207.5	231.4
% revenue	8.3%	9.3%	10.4%	10.8%	9.9%	9.0%	10.0%	11.6%	8.3%	9.8%	10.2%	10.5%
% growth in revenue y-o-y	82.7%	33.0%	47.2%	25.0%	33.5%	2.3%	1.4%	8.7%	62.6%	41.6%	10.2%	11.5%
% growth in revenue seq	-18.1%	16.6%	15.4%	13.4%	-12.5%	-10.6%	14.4%	21.6%				
Cost of product	20.6	20.7	28.3	29.1	23.9	21.0	24.5	29.5	71.5	98.7	98.9	109.7
Gross profit	16.8	22.9	22.0	27.9	26.0	23.5	26.5	32.6	61.5	89.5	108.6	121.6
Gross margin	44.9%	52.5%	43.8%	48.9%	52.0%	52.8%	52.0%	52.5%	46.2%	47.6%	52.3%	52.6%
Subscription, Service and Support	410.3	425.1	435.0	468.6	452.9	450.8	459.1	473.0	1,467.1	1,739.1	1,835.8	1,974.0
% revenue	91.7%	90.7%	89.6%	89.2%	90.1%	91.0%	90.0%	88.4%	91.7%	90.2%	89.8%	89.5%
% growth in revenue y-o-y	17.5%	16.8%	15.8%	23.9%	10.4%	6.0%	5.5%	0.9%	19.6%	18.5%	5.6%	7.5%
% growth in revenue seq	8.4%	3.6%	2.3%	7.7%	-3.4%	-0.5%	1.9%	3.0%				
Cost of service and support	71.9	74.4	77.5	79.8	88.2	86.9	90.0	91.7	251.5	303.7	356.8	386.3
Gross profit	338.4	350.7	357.4	388.9	364.7	363.8	369.1	381.3	1,097.7	1,435.4	1,479.0	1,587.8
Gross margin	82.5%	82.5%	82.2%	83.0%	80.5%	80.7%	80.4%	80.6%	74.8%	82.5%	80.6%	80.4%

Source: Company data, Credit Suisse estimates.

Exhibit 12: Historical and Projected Balance Sheet

US\$ in millions, unless otherwise stated

	Fiscal 2009 by Quarter				Fiscal 2010 by Quarter				Fiscal Year Ends December			
	Mar-09	Jun-09	Sep-09	Dec-09	Mar-10	Jun-10	Sep-10E	Dec-10E	2008	2009	2010E	2011E
Current assets												
Cash and cash equivalents	801.5	886.1	905.9	950.2	901.5	804.3	770.8	834.1	593.7	950.2	834.1	1,158.3
Accounts receivable, net of allowance	240.4	266.0	231.8	294.3	230.7	244.3	260.7	315.1	323.0	294.3	315.1	347.4
Prepaid expenses, income taxes and other current ass	294.0	294.9	362.1	339.0	272.7	276.3	284.6	298.5	255.1	339.0	298.5	346.2
Deferred taxes	606.9	611.6	604.4	604.7	602.2	606.9	613.3	635.3	614.8	604.7	635.3	638.0
Assets held for sale	-	-	-	-	-	-	-	-	-	-	-	-
Total current assets	1,942.8	2,058.5	2,104.1	2,188.2	2,007.1	1,931.9	1,929.4	2,082.9	1,786.6	2,188.2	2,082.9	2,489.9
Long-term investments												
Property and equipment, net of depreciation	112.4	121.2	128.3	133.0	129.3	129.8	134.7	139.3	114.4	133.0	139.3	156.5
Goodwill	1,518.1	1,531.2	1,676.2	1,642.0	1,672.1	1,676.7	1,648.9	1,621.0	1,551.7	1,642.0	1,621.0	1,509.7
Restricted cash	-	-	-	-	-	-	-	-	-	-	-	-
Total assets	3,573.3	3,710.9	3,908.5	3,963.2	3,808.4	3,738.4	3,713.1	3,843.3	3,452.8	3,963.2	3,843.3	4,156.1
Current liabilities												
Accounts payable	53.0	68.5	46.3	55.1	48.3	44.1	45.3	47.4	41.5	55.1	47.4	50.6
Accrued liabilities	273.0	234.2	343.4	312.3	289.2	329.7	334.5	345.4	292.9	312.3	345.4	350.7
Deferred revenue	1,269.4	1,307.6	1,333.8	1,407.5	1,378.5	1,366.5	1,405.2	1,487.8	1,293.1	1,407.5	1,487.8	1,620.9
Convertible debt, current portion	-	-	-	-	-	-	-	-	-	-	-	-
Liabilities related to assets held for sale	-	-	-	-	-	-	-	-	-	-	-	-
Deposits from distributors	-	-	-	-	-	-	-	-	-	-	-	-
Notes payable	100.0	100.0	100.0	-	-	-	-	-	-	-	-	-
Total current liabilities	1,695.3	1,710.3	1,823.5	1,774.9	1,716.1	1,740.3	1,784.9	1,880.6	1,627.6	1,774.9	1,880.6	2,022.3
Long term liabilities												
Convertible debt, less current portion	-	-	-	-	-	-	-	-	-	-	-	-
Other long-term liabilities	59.2	62.4	66.4	70.8	75.0	64.3	64.3	64.3	72.8	70.8	64.3	64.3
Total liabilities	1,754.5	1,772.7	1,889.9	1,845.6	1,791.1	1,804.6	1,849.2	1,944.8	1,700.3	1,845.6	1,944.8	2,086.5
Total shareholders' equity	1,818.7	1,938.2	2,018.7	2,117.5	2,017.3	1,933.8	1,863.8	1,898.5	1,752.5	2,117.5	1,898.5	2,069.6
Total liabilities and shareholders' equity	3,573.3	3,710.9	3,908.5	3,963.2	3,808.4	3,738.4	3,713.1	3,843.3	3,452.8	3,963.2	3,843.3	4,156.1

Source: Company data, Credit Suisse estimates.

Exhibit 13: Historical and Projected Cash Flow Statement

US\$ in millions, unless otherwise stated

	Fiscal 2009 by Quarter				Fiscal 2010 by Quarter				Fiscal Year Ends December			
	Mar-09	Jun-09	Sep-09	Dec-09	Mar-10	Jun-10	Sep-10E	Dec-10E	2008	2009	2010E	2011E
CASH FLOWS FROM OPERATING ACTIVITIES:												
Net income (loss)	53.5	28.7	36.8	54.5	37.6	39.4	52.1	56.8	162.2	173.4	185.8	250.5
Depreciation and amortization	41.9	41.2	43.3	45.9	43.0	42.9	42.3	43.6	123.9	172.3	171.8	178.1
Cumulative effect of change in accounting principle	-	-	-	-	-	-	-	-	-	-	-	-
Stock options compensation expense	24.0	25.0	26.6	27.4	29.3	26.6	28.0	27.9	76.7	103.0	111.7	120.6
Amortization of purchased technology to cost of revenue	-	-	-	-	-	-	-	-	-	-	-	-
Non-cash restructuring charge	3.9	(2.3)	(0.7)	1.0	13.6	5.5	-	-	(7.5)	1.9	19.1	-
Acquired in-process research and development	-	-	-	-	-	-	-	-	19.5	-	-	-
Premium amortization of marketable securities	-	-	-	-	-	-	-	-	18.5	-	-	-
Provision for (recovery of) doubtful accounts	-	-	-	-	-	-	-	-	-	-	-	-
Non-cash interest and other expense on convertible notes	-	-	-	-	-	-	-	-	-	-	-	-
Stock-based compensation	-	-	-	-	-	-	-	-	(5.5)	-	-	-
Deferred taxes	4.1	7.5	1.4	(1.1)	3.0	6.7	(6.4)	(22.0)	(10.7)	11.9	(18.7)	(2.7)
Gain on sale of investments	-	-	-	-	-	-	-	-	-	-	-	-
Impairment of strategic and other investments	0.7	-	-	-	-	-	-	-	-	0.7	-	-
Minority interest and other	-	-	-	-	-	-	-	-	(3.7)	-	-	-
debtenture	-	-	-	-	-	-	-	-	-	-	-	-
Loss (gain) on the sale of assets and businesses	-	-	-	-	-	-	-	-	-	-	-	-
Change in fair value of interest rate swap, net of change in debt	0.4	(0.4)	-	-	-	-	-	-	-	-	-	-
Impairment of goodwill	-	-	-	-	-	-	-	-	-	-	-	-
Provision for sales returns and allowances, net	-	-	-	-	-	-	-	-	-	-	-	-
Changes to assets and liabilities	21.7	(42.0)	44.7	19.0	34.7	13.7	20.0	27.4	(57.4)	43.4	95.8	61.6
Net cash provided by operating activities	150.2	57.6	152.0	146.7	161.1	134.9	135.9	133.6	316.0	506.6	565.5	608.0
CASH FLOWS FROM INVESTING ACTIVITIES:												
Purchase of property and equipment and leasehold improvement	(11.0)	(12.5)	(20.9)	(16.1)	(17.5)	(18.8)	(19.4)	(20.3)	(48.7)	(60.5)	(76.1)	(83.9)
Purchase of marketable securities	(133.9)	(52.8)	(121.1)	(140.3)	(110.4)	(70.0)	-	-	(252.0)	(448.1)	(180.5)	-
Proceeds from sale and maturity of marketable securities	27.4	32.2	96.5	133.9	114.0	215.5	-	-	1,053.7	289.9	329.5	-
(Increase) decrease in restricted cash	-	-	-	-	-	-	-	-	(2.0)	-	-	-
Purchase of minority interest in McAfee.com	-	-	-	-	-	-	-	-	-	-	-	-
Purchases of acquired technology	-	-	-	-	-	-	-	-	-	-	-	-
Acquisitions, net of cash acquired	(2.5)	(31.2)	(137.9)	-	-	(32.5)	-	-	(550.6)	(171.6)	(32.5)	-
Sale of Secure Computing shares and collar	-	-	-	-	-	-	-	-	-	-	-	-
Sale of assets and technology	-	-	-	-	-	-	-	-	-	-	-	-
Proceeds from sale of shares of Network Associates Japan	-	-	-	-	-	-	-	-	-	-	-	-
Purchase of shares of Networks Associates Japan	-	-	-	-	-	-	-	-	-	-	-	-
Other	-	0.2	(0.0)	2.3	1.5	(0.0)	-	-	-	2.5	1.5	-
Net cash used in investing activities	(120.0)	(64.1)	(183.4)	(20.3)	(12.4)	94.2	(19.4)	(20.3)	200.2	(387.8)	42.0	(83.9)
Net Free Cash Flow	139.2	45.2	131.1	130.6	143.6	116.1	116.5	113.3	267.3	446.1	489.5	524.2
CASH FLOWS FROM FINANCING ACTIVITIES:												
Repayment of notes payable	-	-	-	-	-	-	-	-	-	-	-	-
Bank overdraft	-	-	-	-	-	-	-	-	-	-	-	-
Repayment for bank overdraft	-	-	-	(100.0)	-	-	-	-	-	(100.0)	-	-
Proceeds from short-term financing	100.0	-	-	-	-	-	-	-	-	100.0	-	-
Repayment of short-term financing	-	-	-	-	-	-	-	-	-	-	-	-
Tax benefit from exercise of nonqualified stock options	-	-	-	-	-	-	-	-	-	-	-	-
Proceeds from issuance of common stock	7.8	46.5	16.246	19.6	9.4	16.0	-	-	130.0	90.1	25.4	-
Repurchase of common stock	(16.5)	(3.2)	(2.0)	(3.5)	(169.8)	(152.2)	(150.0)	(50.0)	(516.6)	(25.3)	(522.0)	(200.0)
Repurchase of convertible debentures	-	-	-	-	-	-	-	-	-	-	-	-
Issuance of convertible debentures, net of issuance costs	-	-	-	-	-	-	-	-	-	-	-	-
Change in minority interest and other	-	-	(4.9)	-	(9.5)	(13.2)	-	-	(3.1)	(4.9)	(22.7)	-
Proceeds from sale of put options	-	-	-	-	-	-	-	-	-	-	-	-
Proceeds of McAfee.com initial public offering, net	-	-	-	-	-	-	-	-	-	-	-	-
Exercise of warrants	-	-	-	-	-	-	-	-	-	-	-	-
Net cash provided by financing activities	91.3	43.3	9.3	(84.0)	(169.8)	(149.5)	(150.0)	(50.0)	(389.7)	59.9	(519.3)	(200.0)
Effect of exchange rate changes	(19.0)	24.1	14.8	(4.7)	(24.7)	(31.4)	-	-	(47.4)	15.2	(56.1)	-
Net change in cash and cash equivalents	102.5	60.9	(7.3)	37.8	(45.8)	48.2	(33.5)	63.3	79.1	193.8	32.2	324.2
Beginning balance cash and cash equivalents	473.3	575.8	636.7	629.4	667.1	621.3	669.5	636.0	394.2	473.3	667.1	699.3
Ending balance cash and cash equivalents	575.8	636.7	629.4	667.1	621.3	669.5	636.0	699.3	473.3	667.1	699.3	1,023.5
Cash paid during the year for interest	-	-	-	-	-	-	-	-	-	-	-	-
Cash paid during the year for income taxes	-	-	-	-	-	-	-	-	27.3	-	-	-

Source: Company data, Credit Suisse estimates.

Companies Mentioned (Price as of 29 Jul 10)
 McAfee Inc. (MFE, \$30.50, NEUTRAL, TP \$35)
 Symantec Corporation (SYMC, \$14.67, OUTPERFORM, TP \$16.50)

Disclosure Appendix

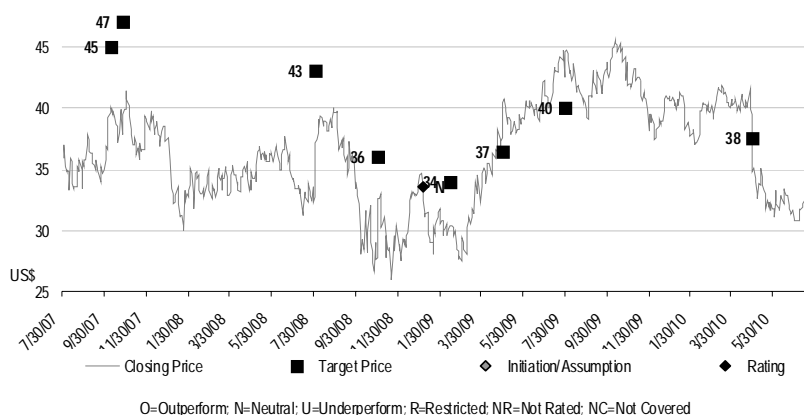
Important Global Disclosures

I, Philip Winslow, CFA, certify that (1) the views expressed in this report accurately reflect my personal views about all of the subject companies and securities and (2) no part of my compensation was, is or will be directly or indirectly related to the specific recommendations or views expressed in this report.

See the *Companies Mentioned* section for full company names.

3-Year Price, Target Price and Rating Change History Chart for MFE

MFE	Closing Price (US\$)	Target Price (US\$)	Initiation/ Rating Assumption
10/9/07	40.07	45	
10/26/07	39.54	47	
8/1/08	37.13	43	
10/31/08	32.55	36	
1/5/09	33.6		N
2/13/09	30.32	34	
5/1/09	40.46	36.5	
7/31/09	44.58	40	
4/30/10	34.75	37.5	



O=Outperform; N=Neutral; U=Underperform; R=Restricted; NR=Not Rated; NC=Not Covered

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Analysts' stock ratings are defined as follows:

Outperform (O): The stock's total return is expected to outperform the relevant benchmark* by at least 10-15% (or more, depending on perceived risk) over the next 12 months.

Neutral (N): The stock's total return is expected to be in line with the relevant benchmark* (range of $\pm 10-15\%$) over the next 12 months.

Underperform (U): The stock's total return is expected to underperform the relevant benchmark* by 10-15% or more over the next 12 months.

*Relevant benchmark by region: As of 29th May 2009, Australia, New Zealand, U.S. and Canadian ratings are based on (1) a stock's absolute total return potential to its current share price and (2) the relative attractiveness of a stock's total return potential within an analyst's coverage universe**, with Outperforms representing the most attractive, Neutrals the less attractive, and Underperforms the least attractive investment opportunities. Some U.S. and Canadian ratings may fall outside the absolute total return ranges defined above, depending on market conditions and industry factors. For Latin American, Japanese, and non-Japan Asia stocks, ratings are based on a stock's total return relative to the average total return of the relevant country or regional benchmark; for European stocks, ratings are based on a stock's total return relative to the analyst's coverage universe**. For Australian and New Zealand stocks a 22% and a 12% threshold replace the 10-15% level in the Outperform and Underperform stock rating definitions, respectively, subject to analysts' perceived risk. The 22% and 12% thresholds replace the +10-15% and -10-15% levels in the Neutral stock rating definition, respectively, subject to analysts' perceived risk.

**An analyst's coverage universe consists of all companies covered by the analyst within the relevant sector.

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Volatility Indicator [V]: A stock is defined as volatile if the stock price has moved up or down by 20% or more in a month in at least 8 of the past 24 months or the analyst expects significant volatility going forward.

Analysts' coverage universe weightings are distinct from analysts' stock ratings and are based on the expected performance of an analyst's coverage universe* versus the relevant broad market benchmark**:

Overweight: Industry expected to outperform the relevant broad market benchmark over the next 12 months.

Market Weight: Industry expected to perform in-line with the relevant broad market benchmark over the next 12 months.

Underweight: Industry expected to underperform the relevant broad market benchmark over the next 12 months.

*An analyst's coverage universe consists of all companies covered by the analyst within the relevant sector.

***The broad market benchmark is based on the expected return of the local market index (e.g., the S&P 500 in the U.S.) over the next 12 months.*

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	Global Ratings Distribution	
Outperform/Buy*	47%	(63% banking clients)
Neutral/Hold*	40%	(59% banking clients)
Underperform/Sell*	12%	(53% banking clients)
Restricted	2%	

**For purposes of the NYSE and NASD ratings distribution disclosure requirements, our stock ratings of Outperform, Neutral, and Underperform most closely correspond to Buy, Hold, and Sell, respectively; however, the meanings are not the same, as our stock ratings are determined on a relative basis. (Please refer to definitions above.) An investor's decision to buy or sell a security should be based on investment objectives, current holdings, and other individual factors.*

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Price Target: (12 months) for (MFE)

Method: Our target price of \$35 for MFE is based on comparable ratio analysis and discounted cash flow valuation (13% discount rate, 4% perpetuity growth rate) supported by 8.9 times enterprise value to next twelve months unlevered free cash flow multiple, based on our next twelve months unlevered free cash flow estimate of \$526 million, a discount to the peer group multiple of 10.2 times.

Risks: If market conditions deteriorate or if the competitive pricing environment in the security market increases, the assumptions for the Target Price may be affected. If MFE has difficulty maintaining its channel and ISP relationships, such as its AOL relationship, the Target Price of \$35 may also be affected.

Please refer to the firm's disclosure website at www.credit-suisse.com/researchdisclosures for the definitions of abbreviations typically used in the target price method and risk sections.

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