



# ED GILLIS

Executive Vice President, Chief Financial Officer  
VERITAS Software Corporation

# Agenda

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- Q1 Recap & Business Fundamentals
- Market Opportunities & Growth Drivers
- Business Model Dynamics

# **Q1 Recap & Business Fundamentals**

# Accelerating Growth

YOY	Q2'03	Q3'03	Q4'03	Q1'04	LTM
Revenue	\$413	\$451	\$513	\$487	\$1864
Growth	+13%	+23%	+26%	+24%	+22%
EPS Growth	+36%	+50%	+39%	+35%	+40%
					\$.88

- 4 Record Revenue Quarters
- \$2B run rate for 2004
- Drives margin expansion & EPS growth

# Q1'04 Highlights

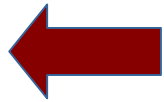
	Q1'03	Q1'04	Year-to-Year
Revenue	\$394M	\$487M	<b>Revenue +24%</b>
Op Margin*	26%	30%	Minimum 25-28%
EPS*	\$0.17	\$0.23	<b>Net income +49%</b>
Cash	\$2,394M	\$2,684M	+\$202m cash from operations

- Continued momentum from '03
- Record Q1
  - FX 4 points; acquisitions 5 points
- Strong fundamentals

\* non-GAAP

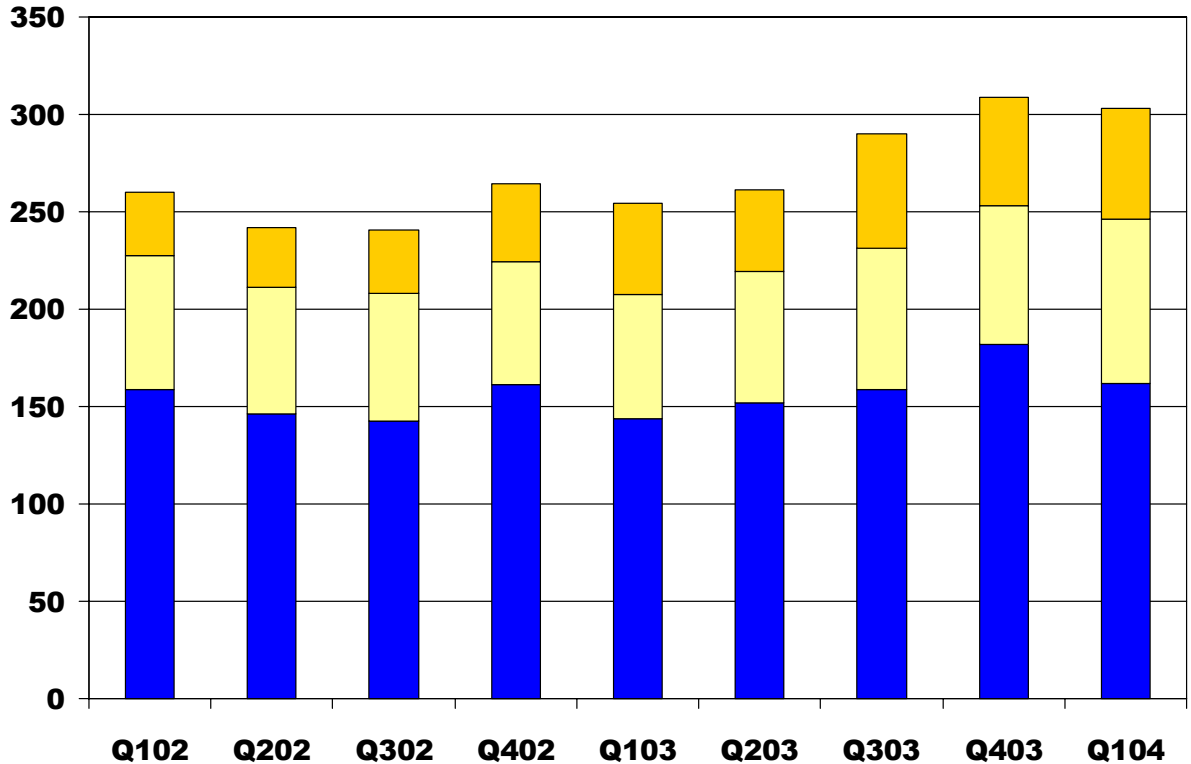
# Line of Business

Line of Business	Q1'03	Q1'04	YOY %
License	\$255	\$303	+19%
Services	\$139	\$184	+32%
Total	\$394	\$487	+24%



- Revenue mix: 62% License; 38% Service
- Service revenue driven by growing installed base and continued investment in professional services

# License Revenue by Segment



## Y/Y Growth Rates

LTM: +16% total license

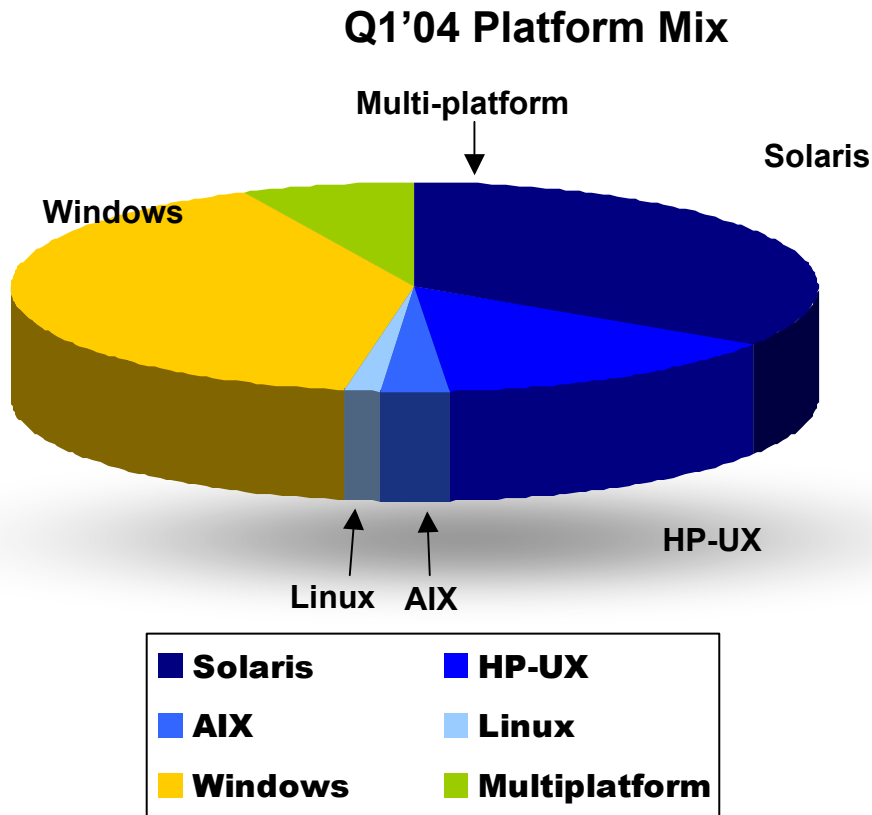
- Data Protection: +10%
- Storage Management: +14%
- UC Infrastructure: +42%

## Q1 2004:

- Data Protection: +13%
- Storage Management: +31%
- UC Infrastructure: +21%

■ Data Protection
 ■ Storage Management
 ■ Utility Computing Infrastructure

# Platform Expansion

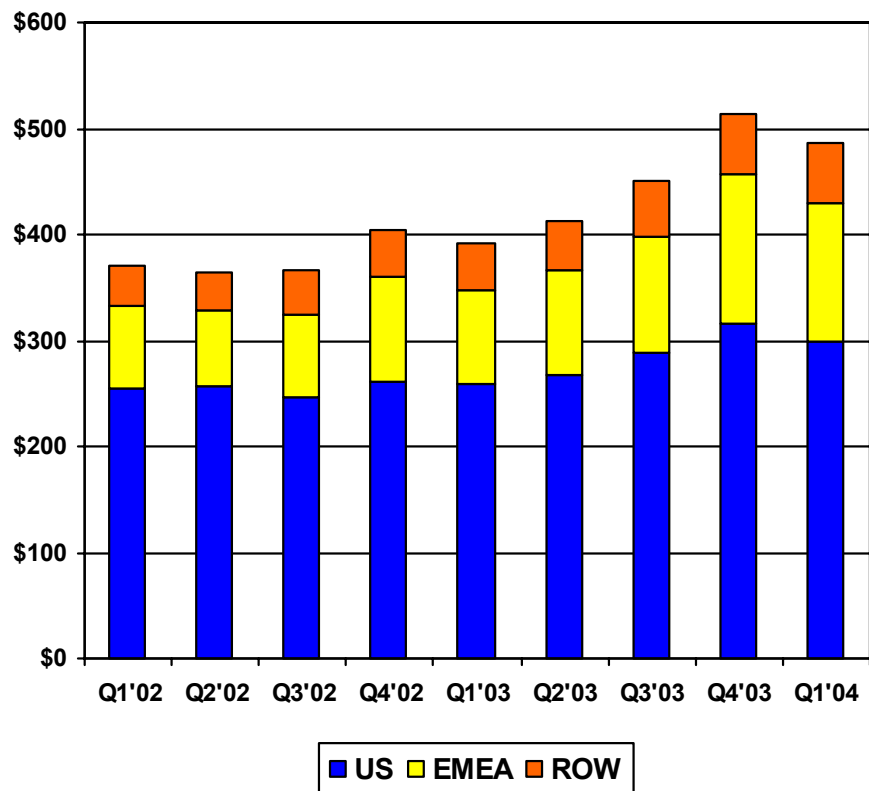


- Unix 53%
  - Includes Solaris, HP-UX, AIX and Linux
- Windows 40%
- Multi-platform 7%
- Q1'04—continued to see good traction in new platforms



# International Expansion

Geographic Mix\*



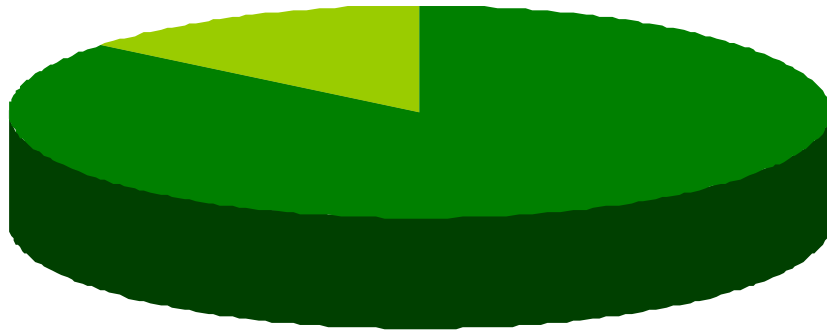
ROW includes Japan, APAC, Canada and Latin America

- Growth Rates
  - US 14%
  - EMEA 49% (35% FX adj)
  - ROW 32% (27% FX adj)
- Continued investment
- Long term goal is to have international represent at least half of mix
  - International 40% for Q1'04 vs. 35% for Q1'03

# Services— A Growth Driver

## Q1'04 Service Revenue Mix

Training &  
Consulting 14%



Maintenance &  
Technical Support 86%

- Total services: +32% y/y in Q1'04
- Driven by high renewal rates for maintenance & technical support
- Expanding professional services – a key building block for utility computing

# Broad Distribution Provides Visibility

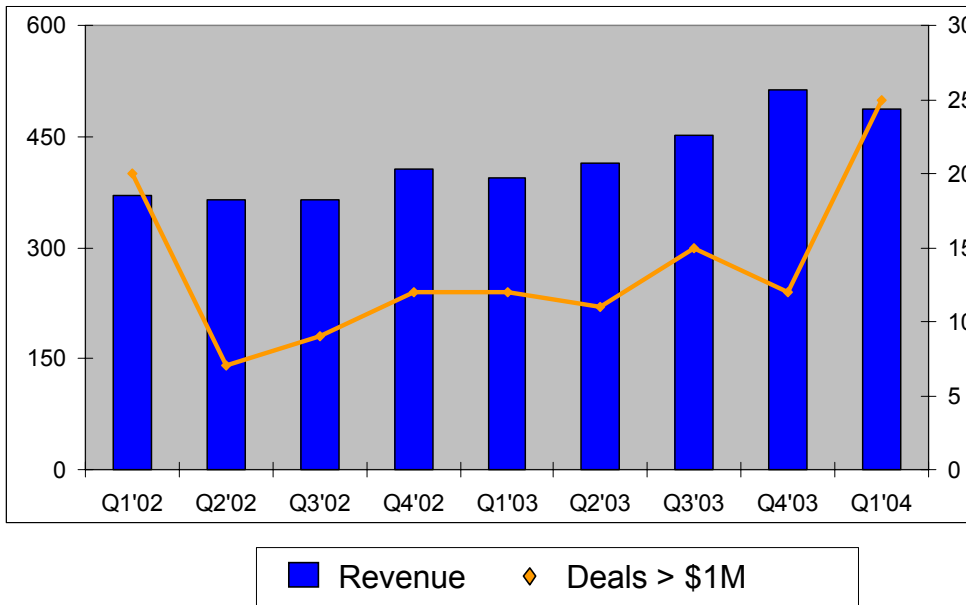
Source	% Revenue	Month 1	Month 2	Month 3
Direct / EVAR	59%	20%	30%	50%
OEM	10%	10%	80%	10%
Distribution	31%	33%	33%	33%

# Broad Distribution Provides Visibility

Source	% Revenue	Month 1	Month 2	Month 3
Direct / EVAR	59%	13%	16%	30%
OEM	10%	1%	8%	1%
Distribution	31%	10%	10%	11%
Total		24%	34%	42%

# Changing Sales Environment

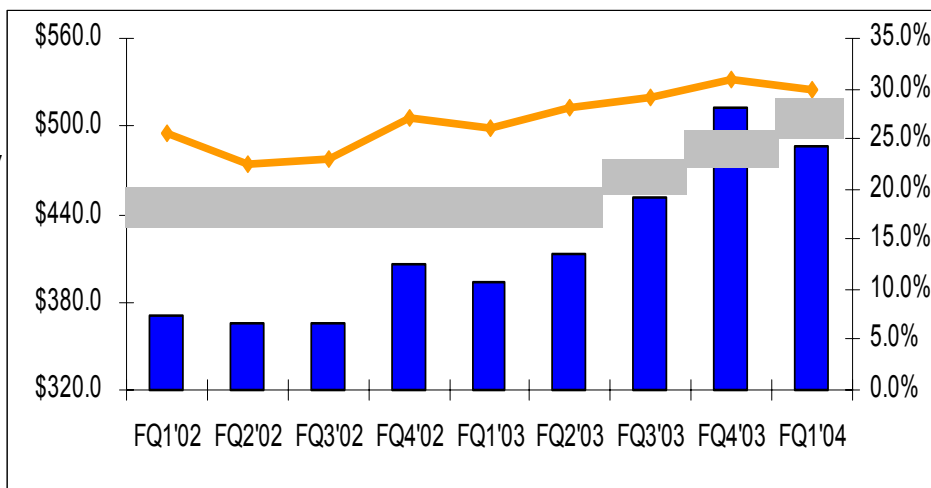
## Large Deal Trends



- Benefit of channel diversification
  - Not reliant on large deals
  - Smaller transactions mitigate pricing pressure and volatility
- Beginning to see increasing Enterprise level activity
  - Gradual increase in larger deal size
  - Generally larger component of utility computing
  - Larger deals a leading indicator???

# Operating Model-Today

## Operating Margins



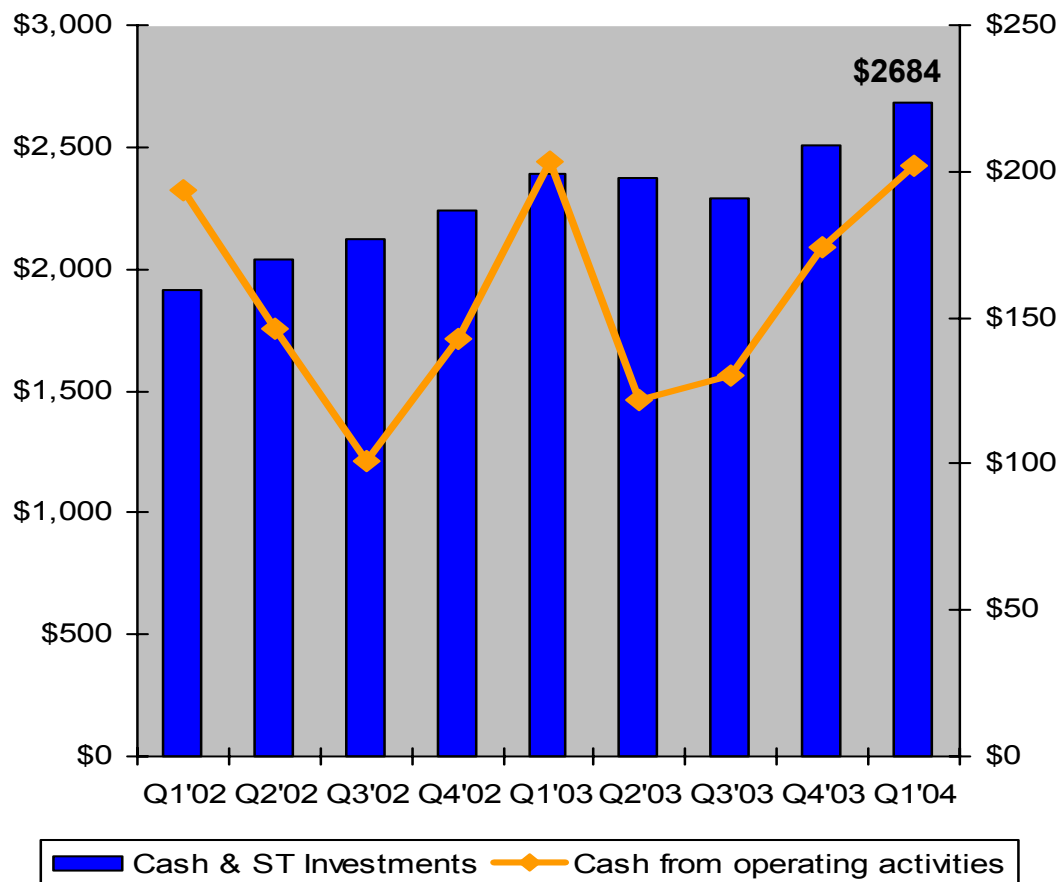
\* non-GAAP

■ Revenue    ◆ Operating Margins

- Business objective— minimum operating margin targets:
  - 28-30%\*
- 2004 investments:
  - Sales capacity & productivity... international market opportunities
  - R&D expansion
  - Customer support
- Well-positioned to capitalize on growth opportunities
- Leverage revenue upside

# Balance Sheet Strength

Cash and Short Term Investments



- Record cash position
- \$202m cash from operations
- Low and sustainable industry leading DSO
  - 28 days Q1'04
  - 39 days Q4'03
- Deferred revenue
  - \$421M @ Q1'04
  - \$399M @ Q4'03
- Refinanced convertible Q3
  - \$25M interest savings
- Capitalized \$380M synthetics Q3

# Outlook

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- Q2 Revenues \$490 - \$505M and Non-GAAP EPS \$.22 - \$.24
- Measured improvement in IT spending
- FY'04 revenue growth planning models at 13%
  - Maintain operating margins in line with '03
  - Reflects investment in growth
  - Revenue upside could drive further margin expansion
- Get financials on file in Q2



# **Market Opportunities & Growth Drivers**

# Growth Drivers

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- Organic Growth
- International
- Maturing product breadth
  - NBU Launch
- Platform breadth
- Maintenance Business
- Professional services
- Acquisitions
- Margin expansion

***These opportunities drive value!***

# Expanding Our Addressable Market

**Application**

VERITAS®

**\$600 M**

Precise!

**\$1,500 M**

Precise!

**VRTS' Addressable Market: \$5,400 M in 2003**

**12% Composite CAGR 2003-2006**

Source: IDC and Gartner (2003), VRTS View adjusted for Mainframe segment and other segments VRTS does not compete in (e.g. Media Management in SRM space).

**Server**

VERITAS®

**\$2,800 M**

VERITA

**\$400 M**

RITAS®

**\$100 M**

**Storage**

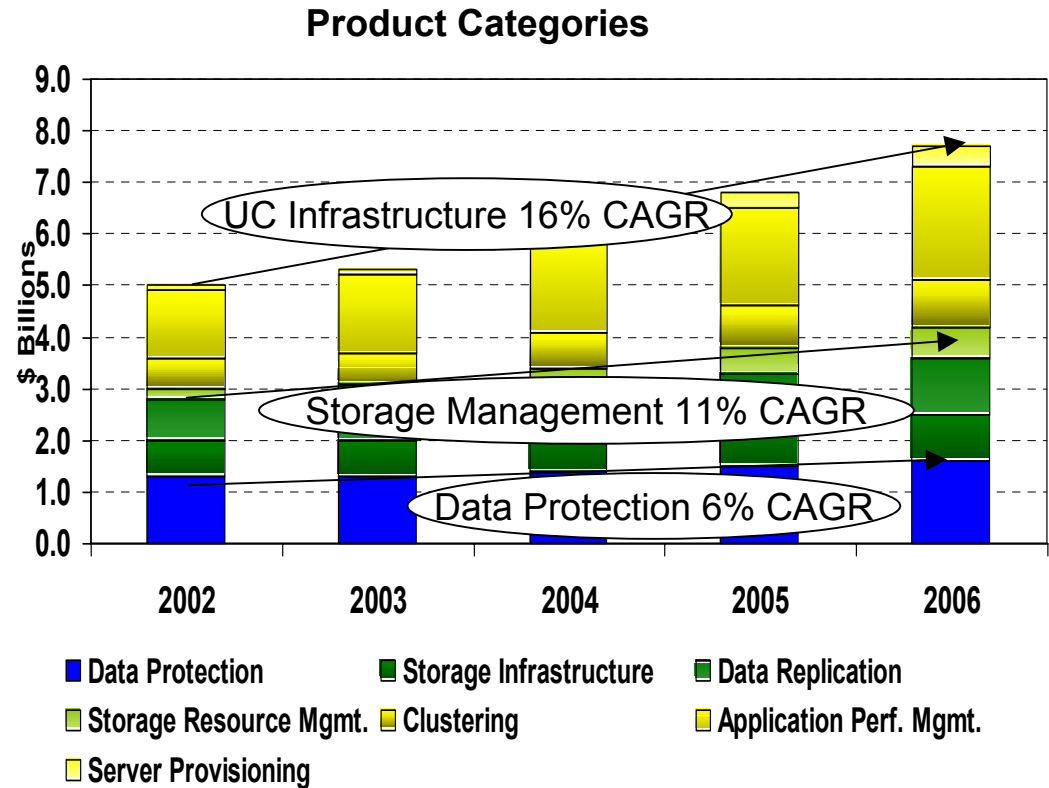
**Availability**

**Performance**

**Automation**

# Growth Drivers - Products

- Addressable markets are large and growing
- Improved IT spending
- Market share gains
- Product integration
- Utility computing as a unifying theme

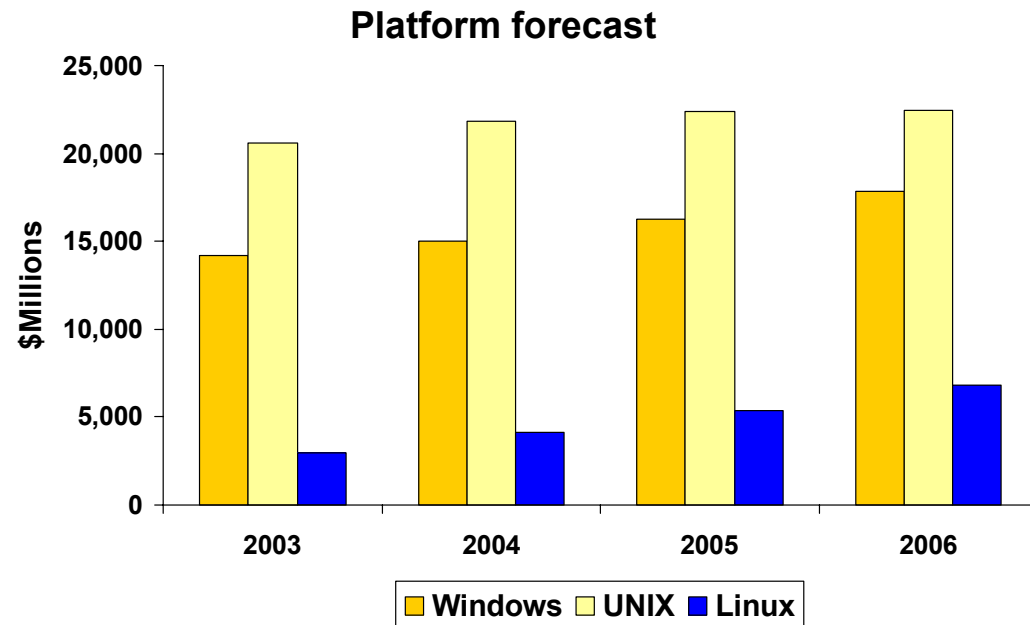


**\$1.77B – '03 revenue**

**21% market share**

# Growth Drivers – Platform Diversification

- Heterogeneity prevails
- Linux as industrial strength
- UNIX, although limited growth, continues to dominate
- Microsoft expands in the enterprise
- New storage platforms – networking switches

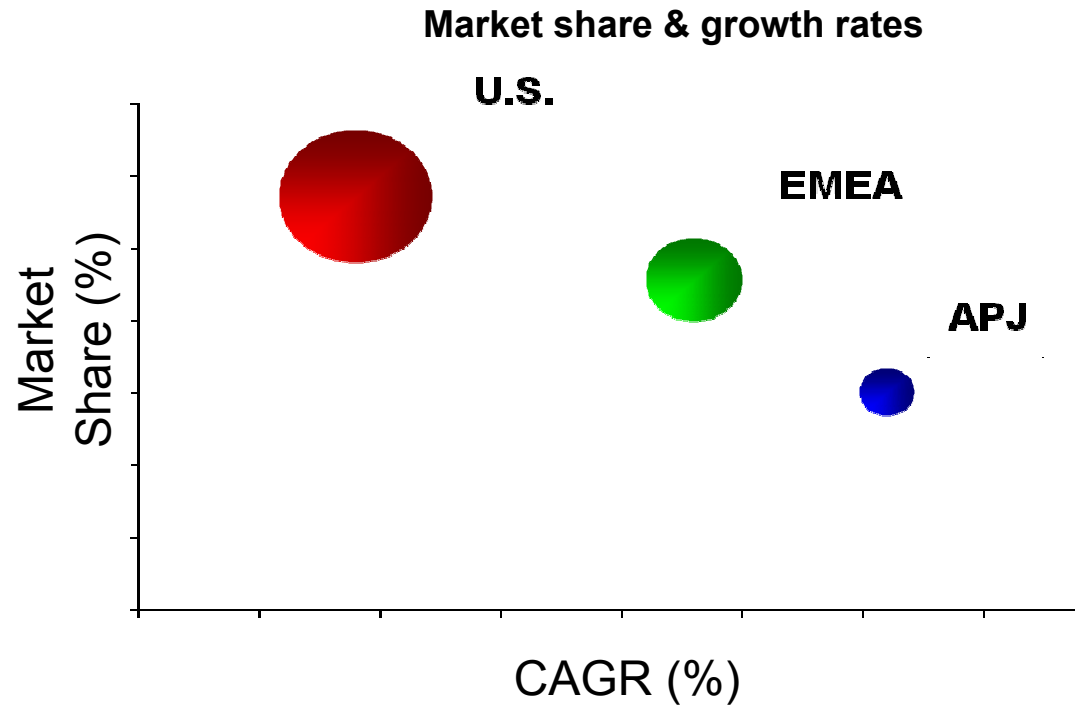


**\$1.77B – '03 revenue**

**21% market share**

# Market Opportunities – Geographic Expansion

- Maturity of the international markets – scale & scope
- Emerging market opportunities – China, Eastern Europe
- Expanding services and partner relationships
- Long-term goal – 50% of business from international

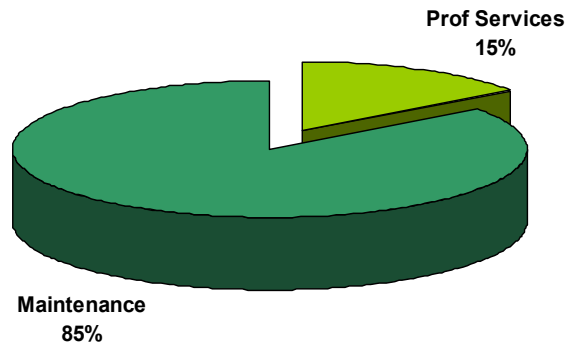


**\$1.77B – '03 revenue**

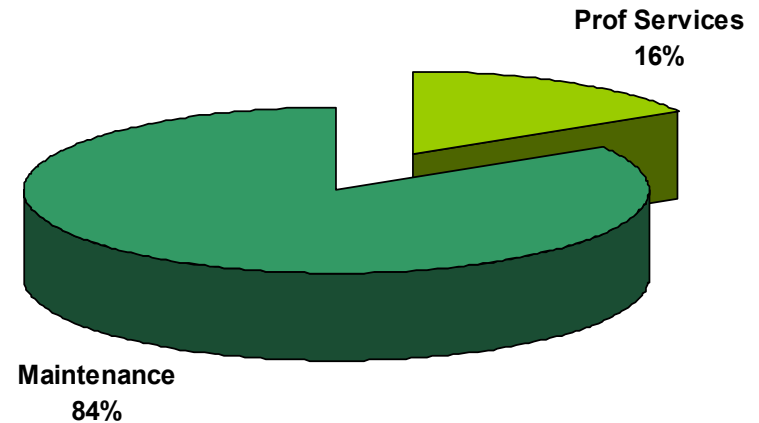
**21% market share**

# Growth Drivers – Services Acceleration

2003 = \$656M



**CAGR >  
License  
Growth**



- Cumulative license growth drives technical support and upgrade revenues
  - Initial attach rates
  - Renewals rates
  - Value added services and tiering to sustain price
- Professional services increasingly strategic
  - Account penetration
  - Expansion of talent

**\$1.77B – '03 revenue**

**21% market share**

# **Business Model Dynamics**



# Long Term Business Model

*Expand Margins Through Revenue Leverage & Operating Initiatives*

	<b>FY'03</b>	<b>Target</b>
<b>Revenue Mix</b>	<b>Percent of Revenue</b>	
License	63%	60%
Service	37%	40%
Cost of Sales	15%	16%
<b>Operating Expenses</b>		
S&M	31%	28-30%
R&D	17%	17%
G&A	9%	7%
Operating expenses	57%	52-53%
<b>Operating Margin</b>	<b>29%</b>	<b>30-32%</b>
Tax Rate	33%	30%
OI/E*...shares	1%	1%

\* Other Income/Expense...share count

# Our Assets

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- We're big... scale & scope
  - We've grown through the down-turn & remained invested
- Good business model... no hardware agenda
- Commanding market share position
- Excellent customer satisfaction
- Cash and appetite for acquisition
- Committed to growth
- Strong management team
- Clear vision for the future
- Executing on growth opportunities
  - Products, Platforms, Geographies

# QUESTIONS & ANSWERS