



Adobe Systems Incorporated Mid-Year Update Conference Call

April 30, 2002
San Jose, CA





Agenda

- **Opening remarks**
- **Intra-quarter update**
- **Business segment review**
 - 1st half progress
 - Addressable market updates
- **Closing remarks**
- **Q&A**



Financial Disclaimer

Some of the information discussed today contains forward looking statements that involve risk and uncertainty. Actual results may differ materially from those set forth in such statements.

For a discussion of the risks and uncertainties, you should review Adobe's SEC filings, including the annual report on Form 10-K for fiscal year 2001 and the quarterly reports on Form 10-Q in 2002.



Mid-Year Update

- **Delivered Q1 results**
- **Q2 on track at this point in the quarter**
 - Strong Photoshop 7 release
- **Positioning Adobe for future growth**
 - Executing against Network Publishing vision
 - Market opportunity remains large



Q2 FY2002 Intra-quarter Update

April 30, 2002

- **Reaffirm Q2 revenue and earnings targets**
 - Revenue of \$305 to \$325 million
 - Pro forma EPS of \$0.24 to \$0.27

- **Geographic trends**
 - US and Europe – remain stable
 - Japan – stable, with typical seasonally strong corporate year-end spending in March



Accelio Integration Update

- **On track with comprehensive integration plan**
 - Headcount reduction of approximately 200
 - Ottawa becomes Adobe development and support center
 - Consolidation of field offices
- **Accelio revenue target approximately \$30 to \$35 million in FY02**
- **Acquisition costs of \$12 to \$15 million**
- **Restructuring charge of \$1 to \$2 million**
- **Expect EPS dilution of approximately \$.02 in FY02; accretive in FY03**



Business Segment Review

- **Graphics, Cross-media, ePaper**
 - Trends and opportunities
 - 1st half progress
 - Addressable market updates





Graphics Trends & Opportunities

- Migration of photography from analog to digital
- PCs and digital video cameras enable digital video adoption
- DVD as new rich-media platform
- Web and wireless drive demand for dynamic imaging



Graphics – Digital Imaging Update

- **Photoshop 7.0 shipped**
 - ★★★★★ — PC Magazine
 - “The most powerful, most amazing, and most useful version of Photoshop ever.”
— Photoshop User Magazine, Feb. 2002
- **Strong correlation between Photoshop Elements revenue and digital camera sales**
- **Entered dynamic media server market with shipment of AlterCast**
- **Acquired Fotiva to leverage digital imaging franchise and enter adjacent image management market**



Graphics – Digital Video Update

- **Shipped After Effects 5.5**
 - “Still the champ”
— Macaddict, “Freaking Awesome” review
- **Developing professional DVD authoring application**
- **Announced and demonstrated support for high-definition MS Windows Media (“Corona”)**
- **Introduced Adobe Premiere LE in Japan retail market**



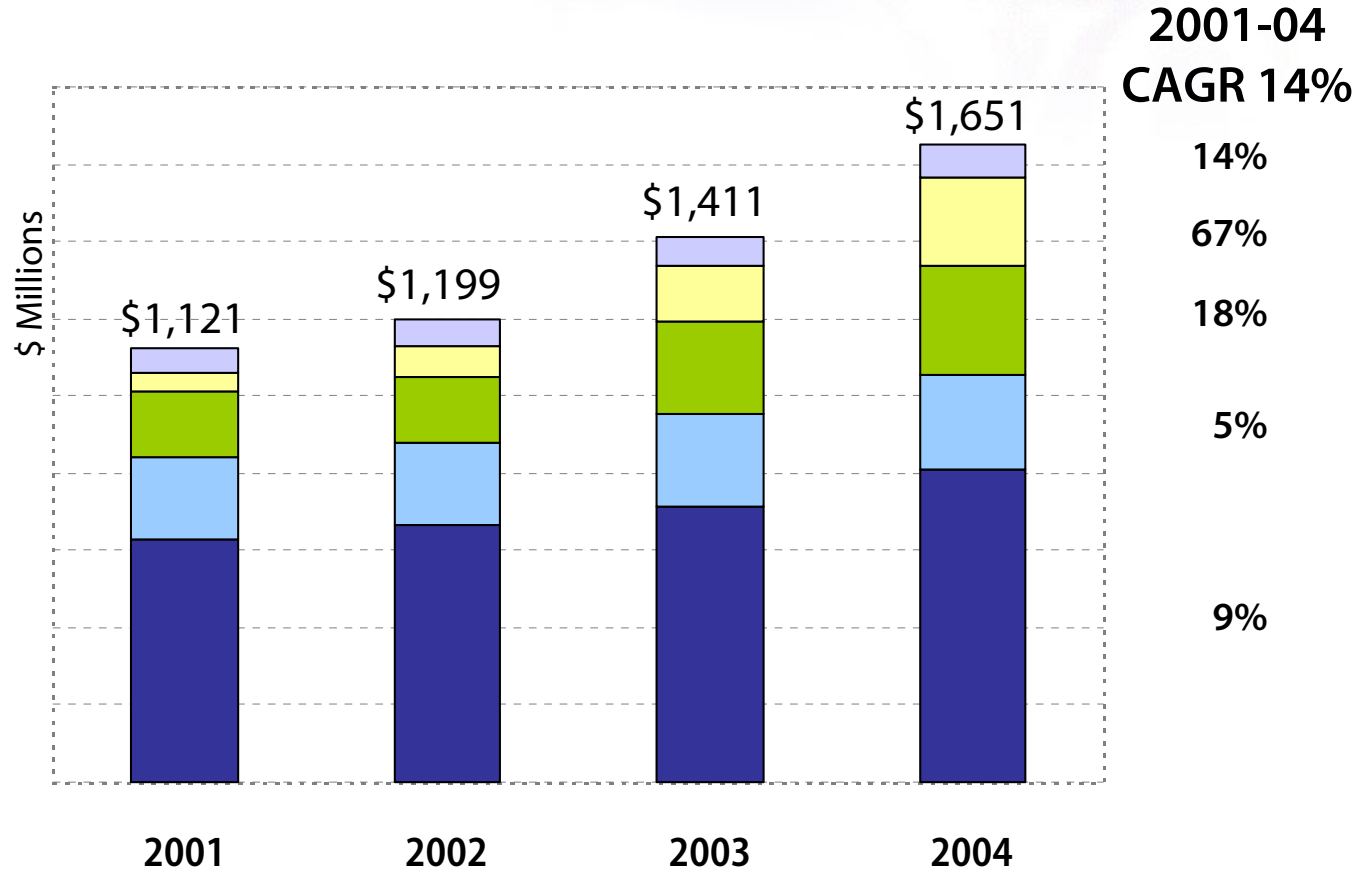
Graphics

Total Addressable Market – 2001-2004

April 2002 Estimate

Sources: Adobe Market Research, IDC, M2 Research, Frost and Sullivan, Forrester, Jupiter, NPD Intellect, Gartner, Trendwatch, Gistics, ActiveMedia, Lyra Research, Infotrends, and other sources.

- 2D Animation & Interactive Apps
- Dynamic Media Serving
- Digital Video
- Draw & Illustration
- Digital Imaging



Adobe FY2001 Graphics revenue: \$543 million



Cross-Media Publishing Update

- **Trends and opportunities**
 - Structured content emerging as business critical
 - Growing need for multi-platform authoring and delivery
 - Demand for workgroup productivity and collaboration
- **1st half progress**
 - InDesign 2, GoLive 6, FrameMaker 7
 - XML support added to layout products
 - Broad XMP support in applications for increased interoperability
 - Workgroup server integrated in GoLive 6
 - PDF Transit adoption for Web printing



Cross-Media – InDesign Update

- **Shipped InDesign 2.0**
 - “Move over Quark. InDesign has you beat.”
—Susan Glinert, C|Net.com
- **Production environment implementations**
 - Magazines and newspapers
- **Continued investment in infrastructure**
 - Trainers, systems integrators, service bureaus, plug-in developers

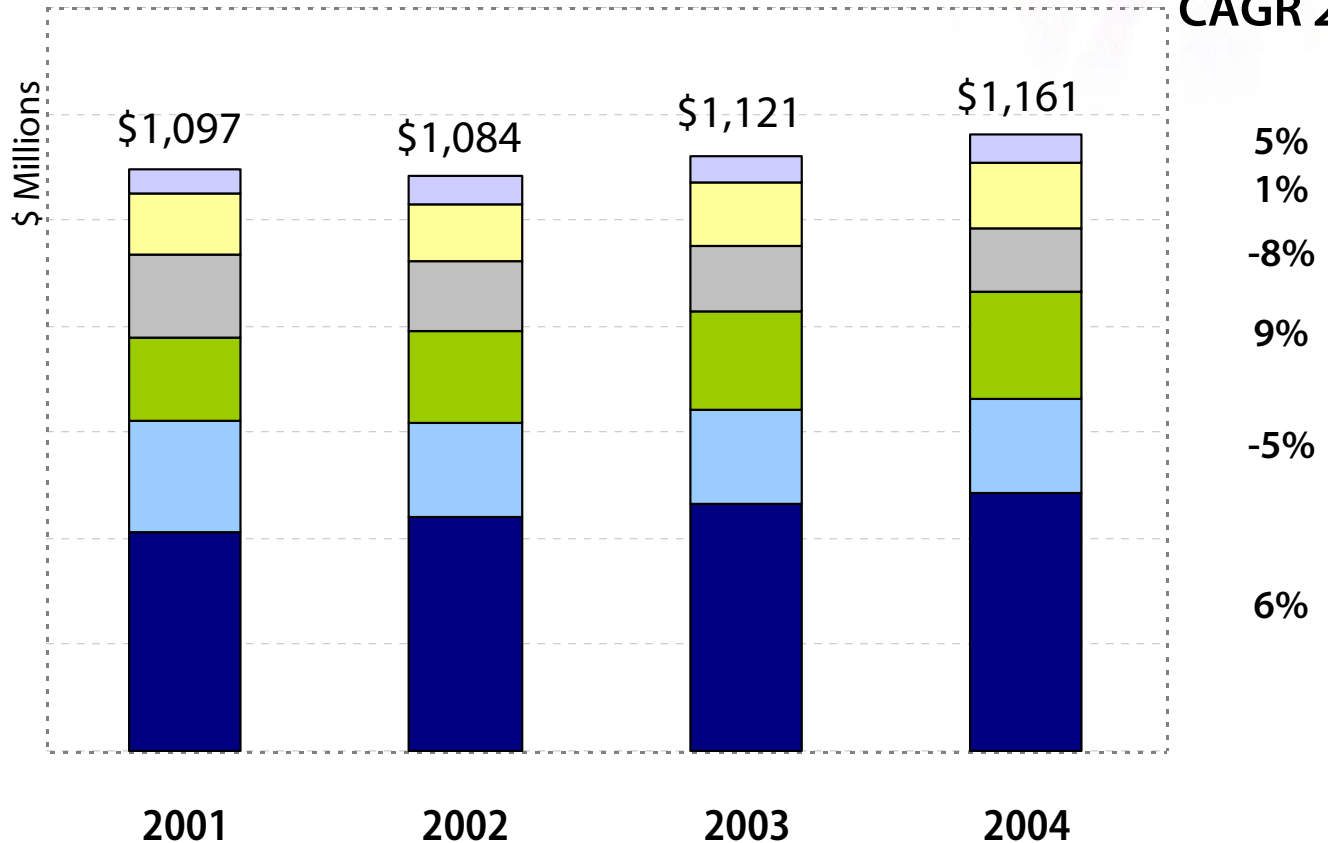


Cross-Media Publishing

Total Addressable Market – 2001-2004

2001-04
CAGR 2%

April 2002 Estimate
Sources: Adobe
Market Research, IDC,
Dataquest, Frost and
Sullivan, Forrester,
Jupiter, NPD Intellect,
Gartner, Trendwatch,
Gistics, CAP V, and
other sources.



- XML & Technical Authoring
- Type
- OEM PostScript & Other
- Pro Web Authoring
- Business Page Layout
- Pro Page Layout

Adobe FY2001 Cross-Media and OEM PostScript revenue: \$394 million



ePaper Solutions

Understanding the ePaper Market Opportunity

- **eDocuments** – Online sharing and collaboration of rich, reliable PDF documents
 - \$1.8 billion market in 2001 growing to \$3 billion in 2004
 - Target with Acrobat and expanded Acrobat product line
- **eForms** – Electronic forms authoring, processing and data capture solutions for automating enterprise workflows and replacing paper-based processes
 - \$489 million market in 2001 growing to \$888 million in 2004
 - Accelio enables complete Adobe end-to-end eForms solution
- **ePresentment** – Solutions for dynamically generating and presenting personalized content and documents
 - \$282 million market in 2001, growing to \$477 million in 2004
 - Target with Accelio and Adobe PDF server technologies



ePaper Trends and Opportunities

- Business process automation through eForms
- Extension of enterprise workflows “beyond the firewall”
- Worldwide eGovernment initiatives
- Enterprise investment in XML enables PDF opportunity
- Proliferation of alternative, non-PC platforms



ePaper 1st Half Progress

- **eDocuments**
 - Adoption in key vertical markets
 - Continued growth of PDF standardization
 - Segmenting product line to expand PDF creation user base
 - Palm, PocketPC, and Symbian Acrobat Readers

- **eForms and ePresentation**
 - Accelio provides complete solutions today
 - Introducing new Acrobat-based technologies and business models
 - Developing XML to PDF server product to address dynamic generation of Adobe PDF documents

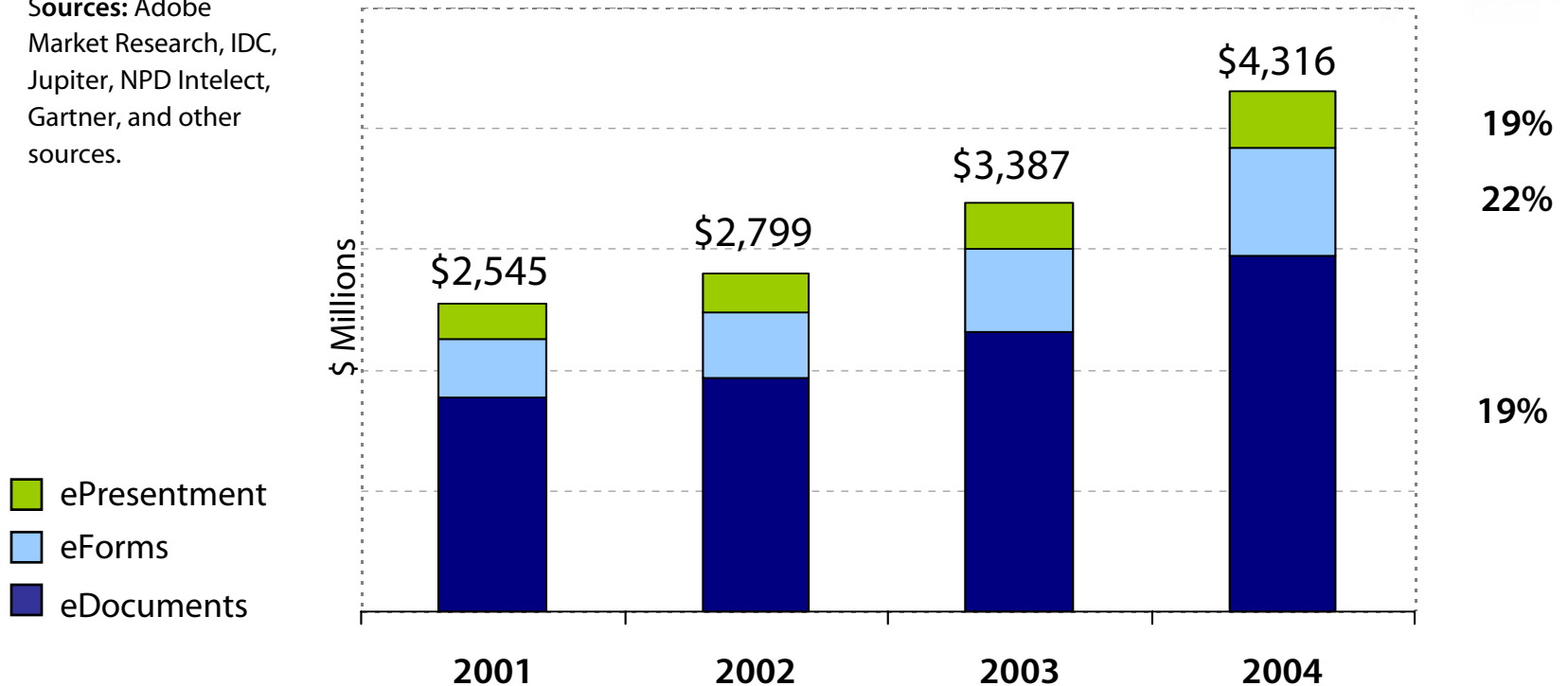


ePaper Solutions

Total Addressable Market – 2001-2004

April 2002 Estimate
Sources: Adobe
Market Research, IDC,
Jupiter, NPD Intellect,
Gartner, and other
sources.

2001-04
CAGR 19%



Adobe FY2001 ePaper revenue: \$292 million



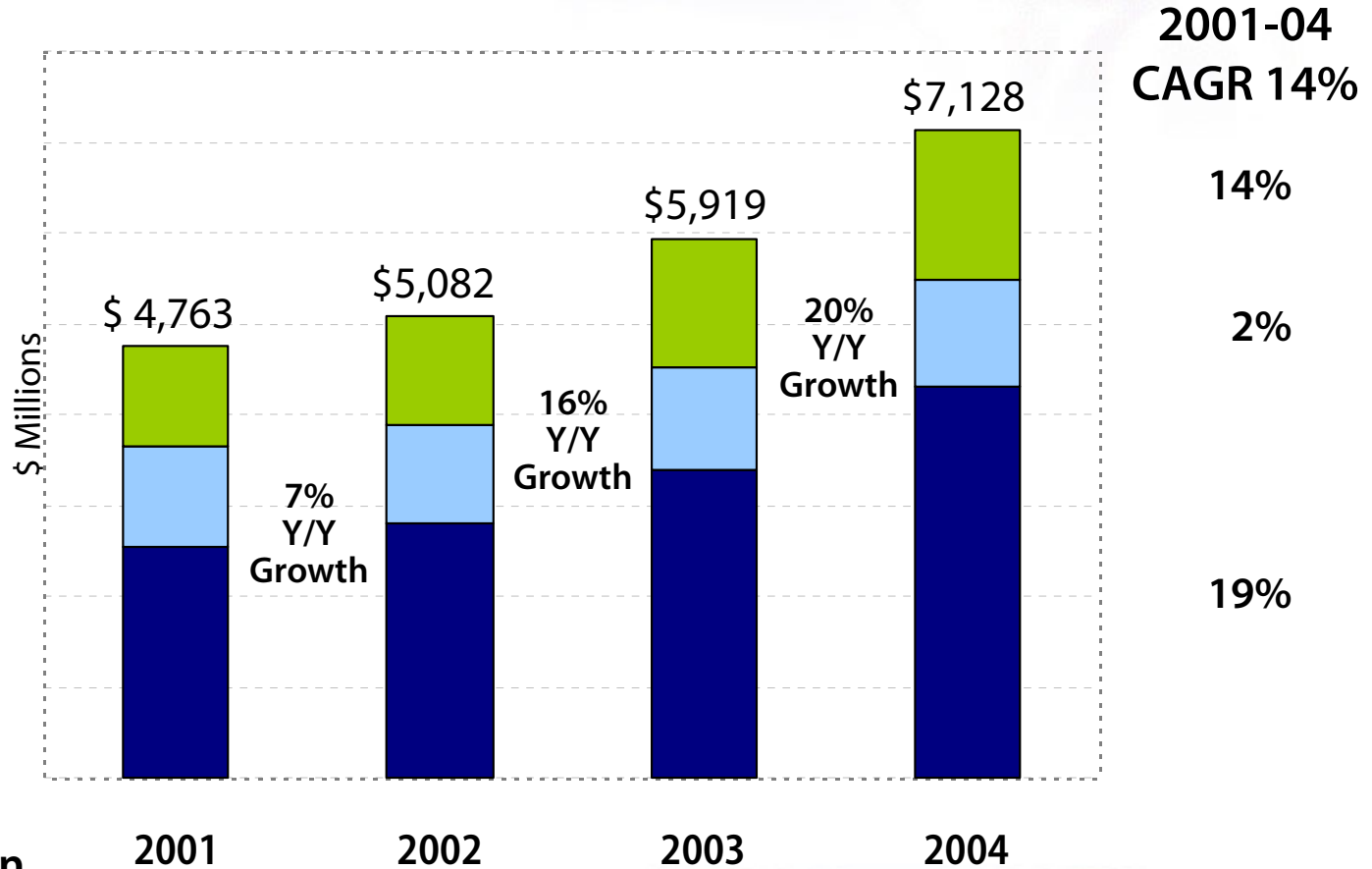
Adobe Summary

Total Addressable Markets – 2001-2004

April 2002 Estimate

Sources: Adobe Market Research, IDC, Dataquest, M2 Research, Frost and Sullivan, Forrester, Jupiter, NPD Intellect, Gartner, Trendwatch, Gistics, CAP V, ActiveMedia, Lyra Research, Infotrends and other sources.

- Graphics
- Cross-Media
- ePaper



Adobe FY2001 revenue: \$1.23 billion



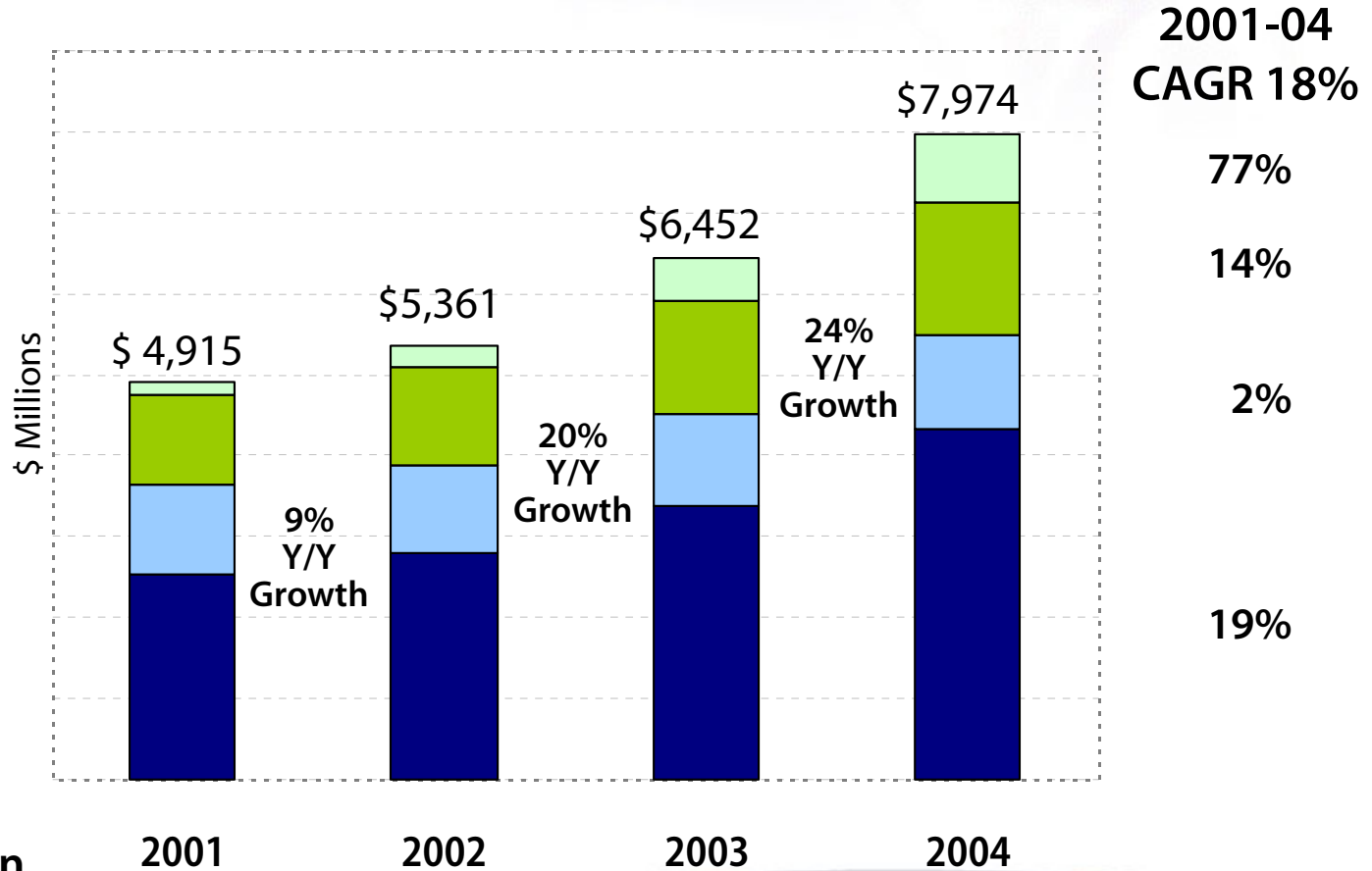
Adobe Summary

Total Addressable and Emerging Markets – 2001-2004

April 2002 Estimate

Sources: Adobe Market Research, IDC, Dataquest, M2 Research, Frost and Sullivan, Forrester, Jupiter, NPD Intellect, Gartner, Trendwatch, Gistics, CAP V, ActiveMedia, Lyra Research, Infotrends and other sources.

- New & Emerging
- Graphics
- Cross-Media
- ePaper



Adobe FY2001 revenue: \$1.23 billion



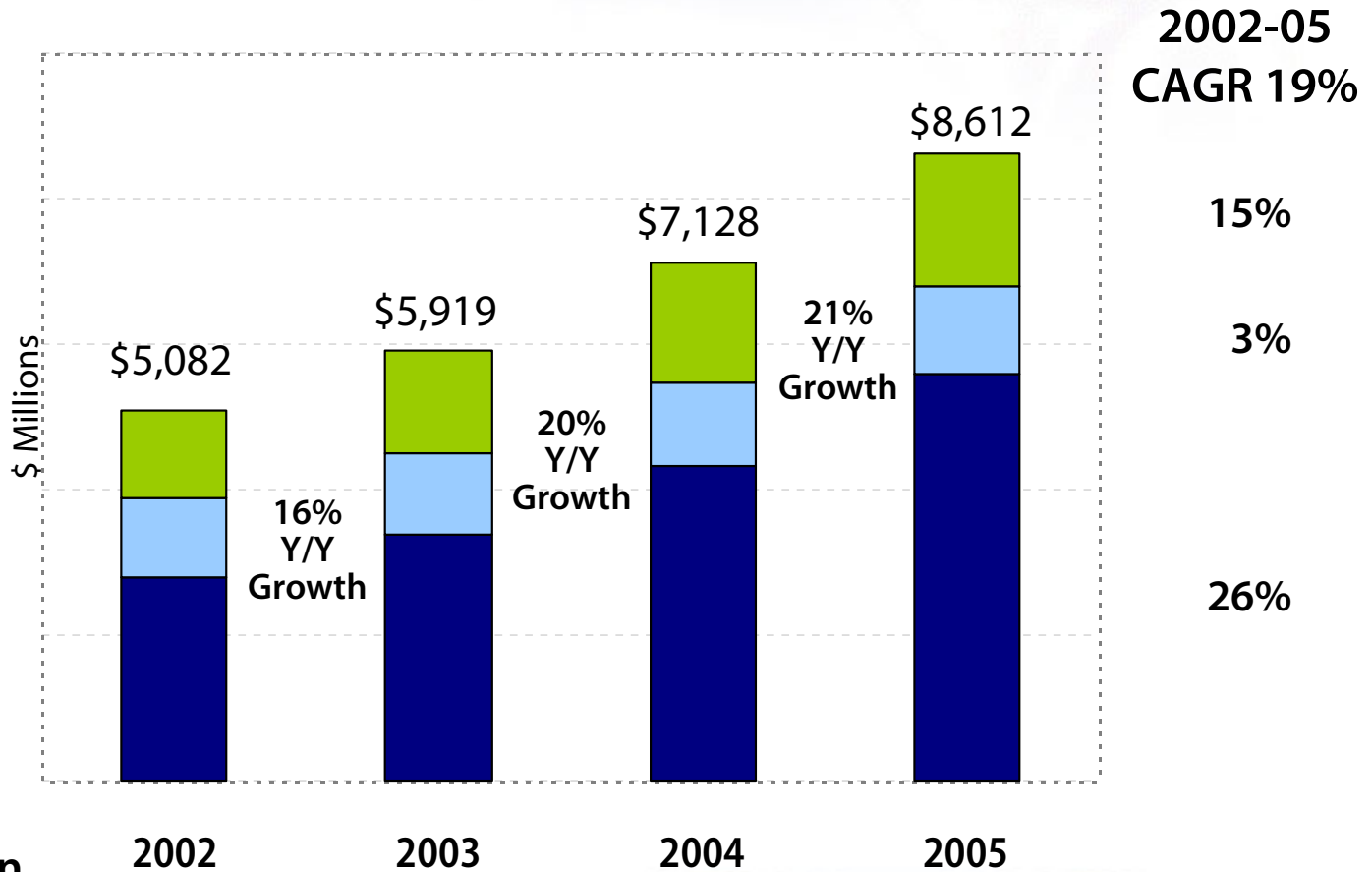
Adobe Summary

Total Addressable Markets – 2002-2005

April 2002 Estimate

Sources: Adobe Market Research, IDC, Dataquest, M2 Research, Frost and Sullivan, Forrester, Jupiter, NPD Intellect, Gartner, Trendwatch, Gistics, CAP V, ActiveMedia, Lyra Research, Infotrends and other sources.

- Graphics
- Cross-Media
- ePaper



Adobe FY2001 revenue: \$1.23 billion



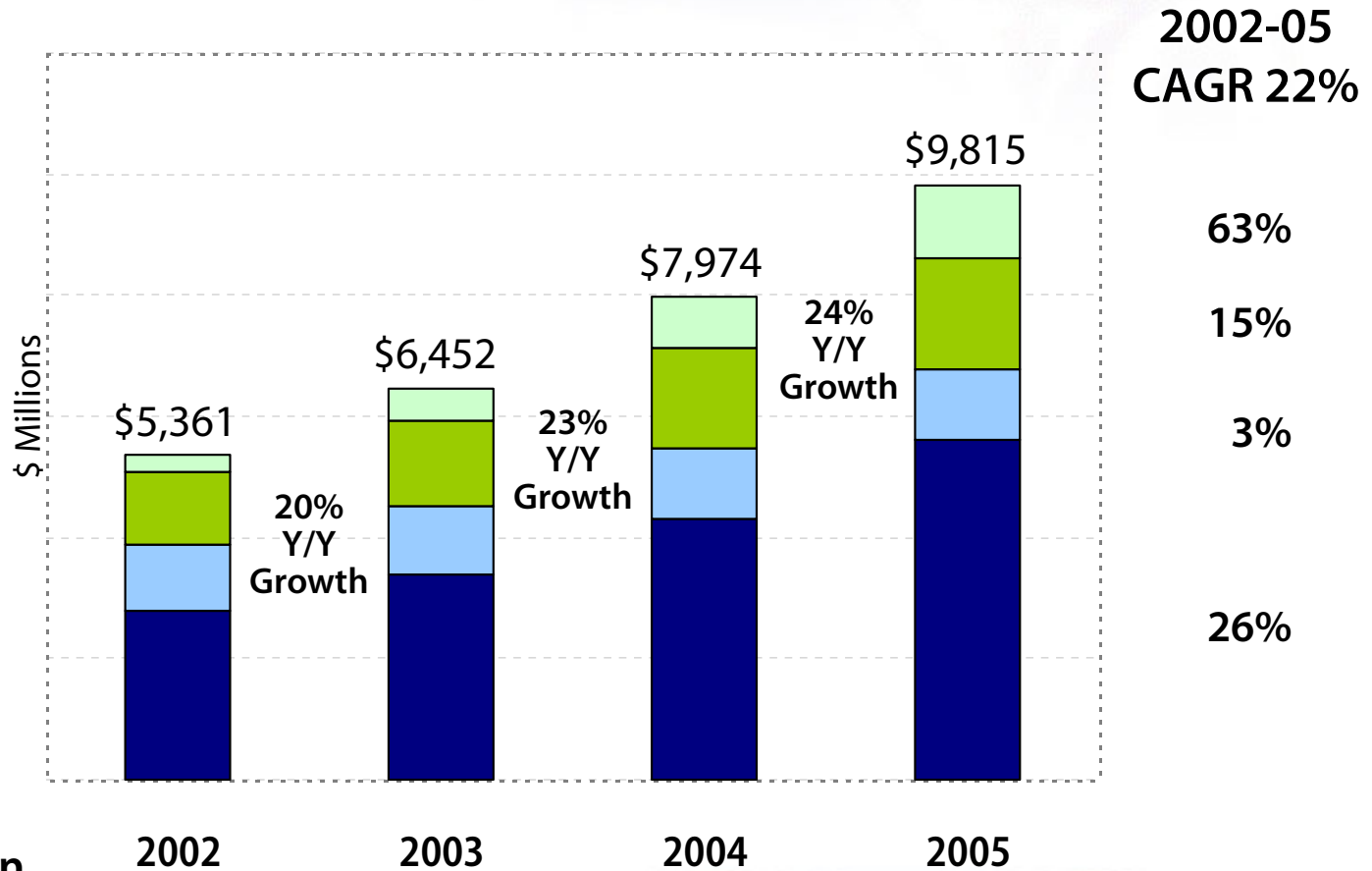
Adobe Summary

Total Addressable and Emerging Markets – 2002-2005

April 2002 Estimate

Sources: Adobe Market Research, IDC, Dataquest, M2 Research, Frost and Sullivan, Forrester, Jupiter, NPD Intellect, Gartner, Trendwatch, Gistics, CAP V, ActiveMedia, Lyra Research, Infotrends and other sources.

- New & Emerging
- Graphics
- Cross-Media
- ePaper



Adobe FY2001
revenue: \$1.23 billion



Transformation of Field Organization

- Increased focus on enterprise and government accounts
- Technical resources for solution selling and enterprise-level support
- Dedicated team for solution channel growth
- Upgrading sales methodologies, operations, infrastructure and programs



Enterprise Successes Year to Date

- **Growth in deal size**
- **Engagement with system integrators**
- **Worldwide Adobe eGovernment initiatives**
 - Acrobat Approval and digital certificate pilot for Postal Service in a major European market
 - Document scanning and archival application for a large US Federal government agency
 - Commercial registration system for a large Japanese government agency
- **InDesign wins at leading publications**
 - The New York Times, Boston Globe, Australian Consolidated Press, Marie Claire, Burda
- **Key solution partners**



Closing Remarks





Q&A





DISCLAIMER
Factors that may affect future results of operations

We believe that in the future our results of operations could be affected by various factors, including:

- adverse changes in general economic conditions in any of the countries in which we do business, including the recent slow-down affecting the U.S., Europe, Japan, and potentially other geographic areas
- continuing adverse economic impact of the recent national tragedy on September 11, 2001
- delays in shipment of our new products and major new versions of existing products
- corporate reductions in marketing expenditures which may result in lower demand for professional content creation and layout products
- lack of market acceptance of new products and upgrades
- delays or problems associated with the integration of acquisitions
- intellectual property infringement claims (by or against us)
- introduction of new products by major competitors
- weakness in demand for application software and printers
- lack of growth in worldwide personal computer and printer sales and downward sales price adjustments
- renegotiation of royalty arrangements
- consolidation in the OEM printer business
- ongoing weakness in our printing business due to product transitions
- industry transitions to new business and information delivery models
- market risks associated with our equity investments (as discussed later under “Quantitative and Qualitative Disclosures about Market Risk”)

On March 14, 2002, we stated that we are targeting our revenue for the second quarter of fiscal 2002 to be in the range of \$305 to \$325 million. On that day, we also stated the following operating model targets for the second quarter of fiscal 2002: gross margin of 92%, pro forma operating profit margin of 28-29%, research and development expenses of 19-20% of revenue, sales and marketing expenses of 34-35% of revenue, and general and administrative expenses of 9-10% of revenue. We further stated on March 14, 2002, that we expect our share count to be between 247 to 249 million shares, which includes additional shares issued as part of the expected Accelio Corporation acquisition. These targets collectively results in a pro forma earnings per share target range of \$0.24 to \$0.27 in the second quarter of fiscal 2002. These second quarter fiscal 2002 targets, which were reaffirmed on April 30, 2002, are based on the assumption that there will be no change in global market conditions affecting our customers.

On December 13, 2001, we reiterated our annual revenue target of \$1.3 billion, gross margin target of 93%, and our pre-tax pro forma operating profit margin target of 28% for fiscal year 2002 and a pro forma earnings per share target of approximately \$1.03. Additionally, we have stated the following operating model targets for fiscal 2002: research and development expenses of 20-21% of revenue, sales and marketing expenses of 34-35% of revenue, and general and administrative expenses of 9-10% of revenue. We have stated based on the projected use of cash to buy back shares under existing contracts, that we are targeting an effective tax rate in fiscal 2002 of 32%. We have also stated that we are targeting other income to be approximately \$4.0 million. However, due to the current interest rate environment, we expect interest and other income to be approximately \$3.5 million per quarter in fiscal 2002.

On February 1, 2002, we announced a proposed agreement to acquire Accelio Corporation. With the acquisition of Accelio, we have lowered our pro forma operating margin target from 28% to 27%. Furthermore, we indicated that the acquisition would be dilutive to pro forma earnings per share of \$0.02 per share in fiscal year 2002.

We use these targets to assist us in making decisions about our allocation of resources and investments, not as predictions of future results. The targets reflect a number of assumptions, including assumptions about:

- product pricing and demand
- manufacturing costs and volumes
- the mix of application products and licensing revenue, full and upgrade products, distribution channels, and geographic distribution
- headcount increases

These and many other factors described in this report affect our financial performance and may cause our future results, including results for the current quarter, to vary materially from these targets. In particular, the recent slow-down in some geographic areas, primarily in the U.S., Europe, and Japan, has affected all of our product segments and may adversely affect our ability to achieve our revenue targets. We attribute this slow-down, which is affecting all of our product segments, to weakening economic conditions. These adverse economic conditions in the U.S., Europe, Japan, and potentially other geographic markets may continue in the short term, and they may continue to adversely affect our revenue and earnings. Although there were also adverse conditions in other countries, the countries affected represent a much smaller portion of our revenue and thus have less impact on our operational results. Furthermore, if the economic slow-down worsens or spreads to other geographic areas where we do business, it would likely cause our future results, including results for the first quarter of fiscal 2002, to vary materially from our targets.

We plan to recruit key talent for our future growth. These plans to continue to invest in certain areas will require us to continue to hire additional employees. Competition for high-quality personnel, especially highly skilled engineers, is extremely intense. Our ability to effectively manage this growth will require us to continue to improve our operational and financial controls and information management systems, and to attract, retain, motivate, and manage employees effectively; otherwise our business could be seriously harmed.

Our ability to develop and market products, including upgrades of current products that successfully adapt to changing customer needs, may also have an impact on our results of operations. Our ability to extend our core technologies into new applications and to anticipate or respond to technological

changes could affect our ability to develop these products. A portion of our future revenue will come from these new applications. Delays in product or upgrade introductions could cause a decline in our revenue, earnings, or stock price. We cannot determine the ultimate effect that these new products or upgrades will have on our revenue or results of operations.

We hold equity investments that have recently experienced significant declines in market value. We also have investments, and may continue to make future investments, in several privately held companies, many of which can still be considered in the start-up or development stages. These investments are inherently risky, as the market for the technologies or products they have under development is typically in the early stages and may never materialize. Our investment activities can impact our net income. For fiscal 2001, we recorded pre-tax losses from marketable securities and other investments in privately held companies of \$93.4 million, compared to pre-tax gains in fiscal 2000 of \$14.3 million. These amounts reflect realized gains or losses from the sale of marketable equity investments, other-than-temporary declines in the value of marketable equity securities, and equity method gains and losses of Adobe Ventures. In fiscal 2001, decreases in the market prices of these securities resulted in a significant reduction in our pre-tax income, and future price fluctuations in these securities and any significant long-term declines in value could reduce our net income in future periods. We are uncertain of future investment gains and losses, as they are primarily dependent upon the operations of the underlying investee companies.

The market for our graphics and ePaper applications is intensely and increasingly competitive and is significantly affected by product introductions and market activities of industry competitors. Additionally, Microsoft has increased its presence in the low-end consumer digital imaging/graphics market and the electronic document sharing markets. We believe that, due to Microsoft's market dominance, any new Microsoft products in these markets will be highly competitive with our products. If competing new products achieve widespread acceptance, our operating results would suffer.

In addition, we continue to expand into third-party distribution channels, including VARs and systems integrators, in our effort to further broaden our customer base. As a result, the financial health of these third parties and our continuing relationships with them are becoming more important to our success. Some of these companies are thinly capitalized and may be unable to withstand changes in business conditions. Our business could be seriously harmed if the financial condition of some of these third parties substantially weakens or if our relationships with them deteriorate. Also, as we seek to further broaden our customer base in the enterprise, corporate business and consumer markets, we may not successfully adapt our application software distribution channels, which could cause our operating results to suffer. As we currently have limited experience in these markets, we believe we will need to recruit, train, and retain personnel with experience in these markets, and our failure to do so may harm our ability to penetrate these markets. We could experience decreases in average selling prices and some transitions in our distribution channels that could seriously harm our business.

In some markets and for some products, we have adopted a strategy aiming to increase our market share and therefore may receive significantly less revenue from certain licensing arrangements than we otherwise would receive for licensing these products. Therefore, increased market penetration may in fact lead to lower revenue growth in these areas. While we believe that this potential market share increase will ultimately benefit us, this strategy could instead harm our business through reduced revenue growth.

We generally offer our application-based products on Macintosh, Windows, and UNIX platforms, and we generally offer our server-based products on the Linux platform as well as these three platforms. To the extent that there is a slow-down of customer purchases of personal computers on either the Windows or Macintosh platform or in general, our business could be harmed.

We distribute our application products primarily through distributors, resellers, and retailers (collectively referred to as "distributors"). A significant amount of our revenue for application products is from two distributors. One of these distributors recently restructured its operations, reducing the number of facilities it operates, including those handling Adobe products, which may harm our operating results. In addition, we have revised our channel program to reduce the overall number of our distributors worldwide and focus our channel efforts on larger distributors. This revision of the channel program has resulted in an increase in our dependence on a smaller number of distributors selling through a larger amount of our products. Additionally, one of our goals is to increase our direct distribution of our products to end users through our online store located on our Web site at www.adobe.com. Any such increase in our direct revenue efforts will place us in increased competition with our channel distributors and with newer types of distribution of our products by online, Internet-based resellers of our products. While we anticipate that the restructuring and streamlining of our product distribution channels and the increase in the scope of our direct sales efforts will eventually improve our business by decreasing discounts or rebate programs provided to distributors, decreasing product returns, and shortening inventory cycles, these changes could instead seriously harm our business.

We currently rely on five turnkey assemblers of our products, located in each major region we serve. If any turnkey assembler terminates its relationship with us, or if our supply from any turnkey is interrupted or terminated for any other reason, we may not have enough time or be able to replace the supply of products manufactured by that turnkey assembler to avoid serious harm to our business.

Revenue from our OEM PostScript and Other segment experienced a 20% decline in fiscal 2001 compared to fiscal 2000, primarily as a result of a decline in the print business. We expect this segment to continue to decline in fiscal 2002 relative to fiscal 2001, which may harm our business if the magnitude of the decline significantly exceeds our expectations. The continuing weakness in the economy is contributing to the decrease in revenue for the monochrome laser printers market in addition to the decline in average selling prices of monochrome laser printers and the increasing use of inkjet printers. In addition, customer transition from paper-based processes to electronic workflows, renegotiated pricing with certain OEM customers, and the outsourcing of certain OEM accounts to a third party solution provider contributed to the decline in revenue in this segment. If another major customer also decided to incorporate a clone version instead of Adobe PostScript technology, it could seriously harm our business. Further, OEM partners on occasion seek to renegotiate their royalty arrangements. We evaluate these requests on a case-by-case basis. If an agreement is not reached, a customer may decide to pursue other options, which could result in lower licensing revenue for us.

The Internet market is rapidly evolving and is characterized by an increasing number of market entrants that have introduced or developed products addressing authoring and communication over the Internet. As is typical in the case of a new and evolving industry, demand and market acceptance for

recently introduced products and services are subject to a high level of uncertainty. The software industry addressing authoring and communications over the Internet is still developing. Standards defining Web graphics have not yet been finally adopted. In addition, new models for licensing software will be needed to accommodate new information delivery practices. Moreover, critical issues concerning the commercial use of the Internet (including security, reliability, ease of use and access, cost, and quality of service) remain unresolved and may affect the growth of Internet use, together with the software standards and electronic media employed in such markets.

We intend to increase our investment in e-business and enhanced marketing activities in an effort to achieve revenue growth, but we can provide no assurance that increased investment in this new market will result in increased revenue.

We derive a significant portion of our revenue and operating income from our customers located in Europe, Japan, Asia Pacific, and Latin America. We generally experience lower revenue from our European operations in the third quarter because many customers reduce their purchasing activities in the summer months. Additionally, we are uncertain whether the recent weakness experienced in Europe, Asia Pacific and Latin America markets will continue in the foreseeable future due to possible currency devaluation and liquidity problems in these regions. While most of the revenue of our European subsidiaries had in the past been denominated in U.S. dollars, we now denominate revenue in euros in certain European countries. In addition, the majority of our revenue derived from Japan is denominated in yen, and the majority of all our subsidiaries' operating expenses are denominated in their local currencies. As a result, our operating results are subject to fluctuations in foreign currency exchange rates. To date, the financial impact of such fluctuations has not been significant. Our hedging policy attempts to mitigate some of these risks, based on our best judgment of the appropriate trade-offs among risk, opportunity, and expense. We have established a hedging program to hedge our exposure to foreign currency exchange rate fluctuations, primarily of the Japanese yen and the euro. We regularly review our hedging program and will make adjustments based on our best judgment. Our hedging activities may not offset more than a portion of the adverse financial impact resulting from unfavorable movement in foreign currency exchange rates.

In connection with the enforcement of our own intellectual property rights or in connection with disputes relating to the validity or alleged infringement of third-party rights, we have been, are currently, and may in the future be subject to complex, protracted litigation as part of our policy to vigorously defend our intellectual property rights. Intellectual property litigation is typically very costly and can be disruptive to our business operations by diverting the attention and energies of management and key technical personnel. Although we have successfully defended or resolved past litigation, we may not prevail in any ongoing or future litigation. Adverse decisions in such litigation could have negative results, including subjecting us to significant liabilities, requiring us to seek licenses from others, preventing us from manufacturing or licensing certain of our products, or causing severe disruptions to our operations or the markets in which we compete, any one of which could seriously harm our business.

We prepare our financial statements in conformity with accounting principles generally accepted in the United States of America. These principles are subject to interpretation by the American Institute of Certified Public Accountants (the "AICPA"), the Securities and Exchange Commission (the "SEC"), and various bodies formed to interpret and create appropriate accounting policies. A change in these policies can have a significant effect on our reported results and may even affect the reporting of transactions completed before a change is announced. Our accounting policies that may be affected by changes in the accounting rules are as follows:

- rules relating to software revenue recognition
- accounting for business combinations
- the valuation of in-process research and development
- employee stock purchase plans
- stock option grants
- goodwill and other intangible assets accounting

Changes to these rules or the questioning of current practices may have a significant adverse effect on our reported financial results or in the way in which we conduct our business. See the discussion under "Critical Accounting Policies" below for additional information about our critical accounting policies and some risks associated with these policies.

New FASB guidelines relating to accounting for goodwill could make our acquisition-related charges less predictable in any given reporting period. On July 2001, the FASB issued Statement of Financial Accounting Standards No. 142, "Goodwill and Other Intangible Assets" ("SFAS 142") that establishes a new standard for accounting for goodwill acquired in a business combination. This Statement requires that goodwill and other intangibles with an indefinite useful life not be amortized, but be tested for impairment at least annually. It would continue to require recognition of goodwill as an asset but would not permit amortization of goodwill as previously required by APB Opinion No. 17, "Intangible Assets." Under SFAS 142, goodwill will be separately tested for impairment using a fair-value-based approach. Any required goodwill impairment charges will be presented as a separate line item within the operating section of the income statement. The shift from an amortization approach to an impairment approach would apply to previously recorded goodwill as well as goodwill arising from acquisitions completed after June 30, 2001. We are currently evaluating the impact of this Statement on our financial position and are planning to adopt this standard beginning in fiscal year 2003, as required. It is possible that in the future, we may incur less frequent, but larger, impairment charges related to the goodwill already recorded, as well as goodwill arising out of potential future acquisitions.

Due to the factors noted above, our future earnings and stock price may be subject to significant volatility, particularly on a quarterly basis. Any shortfall in revenue or earnings, or any delay in the release of any product or upgrade, compared to analysts' or investors' expectations could cause, and has caused in the past, an immediate and significant decline in the trading price of our common stock. Additionally, we may not learn of such shortfalls or delays until late in the fiscal quarter, which could result in an even more immediate and greater decline in the trading price of our common stock. Finally, we participate in a highly dynamic industry. In addition to factors specific to us, changes in analysts' earnings estimates for us or our industry and factors affecting the corporate environment, our industry, or the securities markets in general will often result in significant volatility of our common stock price.