Good afternoon and thank you for joining us today. Joining me on the call are Adobe's President and CEO, Shantanu Narayen; and John Murphy, Executive Vice President and CFO.

In our call today, we will discuss Adobe's fourth quarter and fiscal year 2018 financial results. By now, you should have a copy of our earnings press release which crossed the wire approximately one hour ago. We've also posted PDFs of our earnings call prepared remarks and slides, and an updated investor datasheet on Adobe.com. If you would like a copy of these documents, you can go to Adobe's Investor Relations page and find them listed under Quick Links.
Before we get started, we want to emphasize that some of the information discussed in this call, particularly our revenue and operating model targets, and our forward-looking product plans, is based on information as of today, December 13th, 2018, and 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 these risks and uncertainties, you should review the Forward-Looking Statements Disclosure in our press release issued today, and Adobe’s SEC filings, including our annual report on Form 10-K for fiscal 2017, and our quarterly reports filed on Form 10-Q in fiscal 2018.

During this presentation, we will discuss non-GAAP financial measures. The GAAP financial measures that correspond to non-GAAP financial measures, as well as the reconciliation between the two, are available on our Website.

Call participants are advised that the audio of this conference call is being webcast live in Adobe Connect, and is also being recorded for playback purposes. An archive of the webcast will be made available on Adobe's Investor Relations website for approximately 45 days, and is the property of Adobe. The call audio and the webcast archive may not be re-recorded, or otherwise reproduced or distributed without prior written permission from Adobe.

I will now turn the call over to Shantanu.
Thanks, Mike and good afternoon.

Fiscal 2018 was an outstanding year for Adobe and I’m thrilled with what we’ve accomplished. Our vision to Empower People to Create and Transform How Businesses Compete has never been more relevant and we welcomed millions of new customers to Adobe. From students, to creative professionals, to government agencies and the world’s most successful brands – customers everywhere are turning to Adobe to tell their story, drive their digital businesses, and change the world. This year we delivered significant innovation across Creative Cloud, Document Cloud and Experience Cloud. We made strategic acquisitions which have expanded our offerings and addressable markets, and we forged key partnerships that bring us increased scale. These actions have resulted in record revenue and impressive growth across all our businesses. As we enter 2019 Adobe is well-positioned to build on this momentum, delight our customers and continue to deliver impressive long-term top and bottom-line growth.
Total Adobe revenue was $9.03 billion in FY18, which represents 24% annual growth. GAAP earnings per share in FY18 was $5.20, and non-GAAP earnings per share was $6.76. Total Digital Media Annualized Recurring Revenue or “ARR” exiting the year grew to $6.83 billion. FY18 Creative revenue was $5.34 billion, which represents 28% year-over-year growth. We achieved annual revenue of $982 million for Document Cloud. And in our Digital Experience business, Experience Cloud revenue for the full year was $2.44 billion, representing 20% year-over-year growth.

We closed the year with another record quarter, delivering Q4 revenue of $2.46 billion, representing 23% year-over-year growth. GAAP earnings per share for the quarter was $1.37, and non-GAAP earnings per share was $1.83. These results include the acquisition of Marketo and associated financial impacts that come with a large transaction. Excluding Marketo, we met or exceeded all of our Q4 and annual targets.

Adobe believes everyone has a story to tell. Tens of millions of people around the world tell their story with Creative Cloud – whether it's in a high school magazine, a mobile app, a documentary at Sundance or an enterprise website. We achieved record Creative revenue of $1.45 billion in Q4, with 26% year-over-year growth.
In Q4, our Creative business was fueled by strong performance across all segments, particularly among consumers. Black Friday and Cyber Monday were two of the largest single selling days in company history.

We focused on expanding the value of Creative Cloud for existing customers, while extending its capabilities to meet the needs of broad new segments of users. In October, we held our annual MAX Creativity Conference. MAX has become a movement, with reach and impact well beyond the physical event. This year, hundreds of thousands of creative customers tuned in online to watch MAX and millions more continue to view MAX content. Product announcements at MAX included:

• Major updates to our flagship Creative tools, including Photoshop, Lightroom, Illustrator, InDesign and Premiere Pro;

• The introduction of Premiere Rush, the first all-in-one, easy-to-use video editing app for social media creators, simplifying video creation and sharing on leading platforms such as YouTube and Instagram. Online video is one of the fastest growing creative segments, and Rush is a cornerstone of our strategy to unlock this opportunity for millions of new customers;

• Exciting new innovations, powered by Adobe Sensei, inside of Adobe XD, include new technology for prototyping experiences and applications for voice-enabled devices, such as Amazon Echo; and

• New apps including Photoshop on the iPad, which will bring the power and precision of Photoshop to a touch device; and Project Gemini, a new drawing & painting application that brings unprecedented watercolor and oil painting capabilities to the digital canvas.
In our Document Cloud business, we’re revolutionizing how people scan, edit, collaborate, sign and share Adobe PDFs – whether they’re consumers, small businesses or large enterprises. Document Cloud revenue in Q4 was $259 million and we grew Document Cloud ARR to more than $800 million.

We continue to accelerate our pace of innovation with Document Cloud, investing to modernize the PDF experience on every device and surface, and building on the document intelligence available from the billions of PDFs in market to power AI-driven experiences.

We recently shipped an all-new Acrobat DC with connected mobile apps like Adobe Scan and Acrobat Reader Mobile to create, share and collaborate with PDFs across smartphones and tablets. Adobe Sign – our e-signature solution – continues to gain momentum across businesses through new integrations and partnerships, including Dropbox, Microsoft Dynamics, and ServiceNow.

Digital transformation continues to be the mandate for CEOs across the globe. To compete and win today, both B2C and B2B businesses must provide a world-class, end-to-end customer experience across every touchpoint.
With Experience Cloud, Adobe is reimagining customer experience management and delivering the industry’s only end-to-end solution for marketing, advertising, analytics and commerce – purpose-built for the modern enterprise. In our Digital Experience business, we achieved Experience Cloud revenue of $690 million for the quarter, which represents 25% year-over-year growth.

Key Experience Cloud customer wins in the quarter include Unilever, The Home Depot, Telegraph Media Group, Geico, Heathrow Airport and the U.S. Department of Veterans Affairs.

Delivering exceptional customer experiences demands deep customer insights and a platform built for action. We continue to invest in building the industry’s first open platform for customer experience management, the Adobe Experience Platform. The Adobe Experience Platform will deliver a true, unified view of the customer for both CMOs and CIOs.

In partnership with Microsoft and SAP, the recently announced Open Data Initiative is aimed at eliminating the data silos that exist across enterprises. It will enable enterprises to harness and take action on massive volumes of customer data to deliver personalized, real-time customer experiences. We’re excited to have early support for ODI from leading brands – including Coca-Cola and Walmart.

Adobe’s retail reports – powered by Adobe Analytics data – have become the industry bellwether for holiday shopping forecasts and other digital media, commerce and cultural trends. Adobe analyzed over 1 trillion visits and 55 million product SKUs across U.S. retail sites this holiday season. Data showed that online sales reached $7.9 billion on Cyber Monday, making it the largest online shopping day of all time in the U.S.

In October, we completed our acquisition of Marketo, the leader in B2B marketing engagement, and we’re off to a great start. Marketo strengthens our offering to customers – combining Experience Cloud’s analytics, personalization, commerce and content capabilities with Marketo's B2B marketing engagement platform – helping customers automate and orchestrate mission critical marketing campaigns and activities from lead management and customer engagement to account-based marketing and revenue attribution.
The addition of Marketo – along with our recently integrated commerce capabilities via our acquisition of Magento – widens Adobe’s lead in customer experience management across both B2B and B2C in all industries. We’re well-positioned to continue capitalizing on this growing opportunity that we estimate to have a total addressable market of more than $71 billion by 2021. Adding Marketo to our Digital Experience business immediately accelerates overall revenue growth for Adobe, and other financial benefits will ramp during FY19 as the accounting impact from the transaction dissipates.

Adobe is the clear leader in the markets we serve: creativity, digital documents and customer experience management. Our solutions have become indispensable to millions of customers – whether they’re in the Design department or the IT department; the classroom or the boardroom.
At Adobe, it is our 20,000 global employees that form the heart and soul of our business. In October, we achieved global gender pay parity, a critical milestone in Adobe's commitment to providing employees with a workplace that is diverse and inclusive. Last week, we were named one of Fortune's 'Top 100 Best Workplaces for Diversity'. Adobe was once again ranked on the Dow Jones Sustainability Index – a key barometer tracking sustainability-driven companies.

In 2018 we made significant investments across our product portfolio, entered new markets, and made strategic acquisitions which we believe will fuel continued top and bottom-line performance. We expect 2019 to be another year of strong product innovation and financial results.

John.
Thanks, Shantanu. We're pleased with our Q4 and full year FY18 results. We're excited about our acquisition of Marketo which closed on October 31st, and as part of my prepared remarks, I will review our consolidated Q4 and FY18 results, and outline Marketo's impact in comparison to our targets previously provided which excluded Marketo.

In FY18, Adobe achieved record annual revenue of $9.03 billion, which represents 24% year-over-year growth. GAAP EPS for the year was $5.20, and non-GAAP EPS was $6.76.

Noteworthy achievements during the year include:

- Creative revenue of $5.34 billion, which represents 28% year-over-year growth;
- Adobe Document Cloud revenue of $982 million, which represents 17% year-over-year growth;
- Adding a record $1.45 billion of net new Digital Media ARR during the year, and exiting FY18 with $6.83 billion of Digital Media ARR;
- Adobe Experience Cloud revenue of $2.44 billion, which represents 20% year-over-year growth;
Generating more than $4 billion in operating cash flow during the year;

Returning $2 billion in cash to stockholders through our stock repurchase program; and

Growing deferred revenue to approximately $3 billion, and increasing our unbilled backlog to approximately $5 billion exiting the year; together, this represents approximately $8 billion of contracted revenue.

Total annual revenue growth excluding Magento and Marketo was approximately 22% – well ahead of the revenue target we provided entering the year.

In the fourth quarter of FY18, Adobe achieved record revenue of $2.46 billion, which represents 23% year-over-year growth. GAAP diluted earnings per share in Q4 was $1.37 and non-GAAP diluted earnings per share was $1.83.

Excluding the impact of the Marketo acquisition in Q4, we estimate GAAP EPS would have been $1.48 and non-GAAP diluted EPS would have been $1.90 – both of which would have exceeded the earnings targets we provided in September.
Business and financial highlights in Q4 included:

- Digital Media revenue of $1.71 billion, including Creative revenue of $1.45 billion and Adobe Document Cloud revenue of $259 million;
- Record net new Digital Media ARR of $430 million;
- Digital Experience revenue of $690 million, which represents 25% year-over-year growth;

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<th>Q4 FY2018 Results</th>
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<td>Total revenue</td>
<td>$2.42 billion</td>
<td>$2.44 billion</td>
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<td>GAAP EPS</td>
<td>$0.42</td>
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<td>Non-GAAP EPS</td>
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<td>Digital Media segment revenue</td>
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<td>Net new Digital Media ARR</td>
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<td>23% y/y growth</td>
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- Deferred revenue growth of 22% year-over-year;
- Record cash flow from operations of $1.1 billion;
- Repurchased 5.6 million shares, returning $397 million of cash to stockholders;
- Approximately 90% of revenue was from recurring sources.

In Digital Media, we grew segment revenue by 23% year-over-year. The addition of $430 million net new Digital Media ARR during the quarter grew the total to $6.83 billion exiting Q4.
Within Digital Media, we achieved another strong quarter with our Creative business. Creative revenue grew 26% year-over-year in Q4 and we increased Creative ARR by a record $373 million. Key growth drivers included:

- Strong net new subscriptions across user segments and geographies, driven by robust traffic and customer acquisition on Adobe.com, and helped by typical year-end benefits including enterprise seasonality, post-MAX traffic and holiday campaigns which drove strong consumer adoption;
- Education market success, driven by our year-long effort to increase our focus on Creative Cloud use by students and schools;
- Continued momentum with Creative Cloud in emerging markets;
- Services adoption, including continued strength with Adobe Stock revenue which grew by more than 25% during the year; and
- Pricing optimizations in North America.

As we outlined at our financial analyst meeting in October, we’re focused on numerous initiatives to continue to fuel Creative Cloud growth in the coming years.

We achieved record Document Cloud revenue of $259 million in Q4, which represents 10% year-over-year growth, and we added $57 million of net new Document Cloud ARR during the quarter. As we discussed previously, in Q4 FY17 we achieved a significant amount of perpetual Acrobat revenue through the channel, which impacts year-over-year comparisons.
Acrobat unit growth across Creative Cloud and Document Cloud was greater than 30% during the year, and Adobe Sign revenue grew by more than 25% during FY18. With strong Acrobat subscription and Document Cloud services adoption, we exited FY18 with more than $800 million of Document Cloud ARR and solid momentum.

In our Digital Experience segment, we achieved record quarterly Experience Cloud revenue of $690 million. Magento exceeded the $30 million target we shared previously for Q4, and Marketo added $21 million during the quarter.

Digital Experience year-over-year segment growth was 25% in Q4 inclusive of Marketo, and 22% excluding Marketo – ahead of our Q4 target of approximately 20%.

For the year, Digital Experience year-over-year segment growth was 20% inclusive of Magento and Marketo.

We finished the year with strong subscription bookings in line with our target. In Q4, Experience Cloud subscription revenue grew 30% year-over-year – and for the year, we achieved 26% year-over-year Experience Cloud subscription revenue growth - both including Magento and Marketo.

Experience Cloud performance in Q4 was driven by success across our offerings – with particular strength in Analytics, AEM Assets and Magento Commerce. Our go-to-market relationship with Microsoft resulted in strong bookings in Q4 and during the year.
From a quarter-over-quarter currency perspective, FX decreased revenue by $9.5 million. We had $30.5 million in hedge gains in Q4 FY18, versus $16.8 million in hedge gains in Q3 FY18; thus the net sequential currency increase to revenue considering hedging gains was $4.2 million.

From a year-over-year currency perspective, FX increased revenue by $7.9 million. We had $30.5 million in hedge gains in Q4 FY18, versus $1.0 million in hedge gains in Q4 FY17; thus the net year-over-year currency increase to revenue considering hedging gains was $37.4 million.

In Q4, Adobe’s effective tax rate was 3% on both a GAAP and a non-GAAP basis. Both rates were lower than targeted due to a more favorable-than-expected geographic mix of earnings, as well as the favorable resolutions of certain income tax matters.

Our trade DSO was 49 days, which compares to 55 days in the year-ago quarter, and 41 days last quarter.

Deferred revenue grew to a record $3.05 billion, up 22% year-over-year.

Our ending cash and short-term investment position exiting Q4 was $3.23 billion, and cash flow from operations was $1.10 billion in the quarter. The quarter-over-quarter decline in our cash position was due to funding of the Marketo acquisition.
In Q4, we repurchased approximately 1.6 million shares at a cost of $397 million. During FY18, we repurchased 8.7 million shares at a cost of $2 billion. We currently have $7.85 billion remaining of our new $8 billion repurchase authority granted in May which goes through 2021.

Now I will discuss our financial targets for the coming year.

Entering FY19, we are excited about our business momentum, our market leadership position, and the large addressable markets we presented at our recent financial analyst meeting in October. The strategic acquisitions we made in FY18 increase FY19 revenue growth targets with some added complexity in describing our financial outlook. I'll explain some of the details as I walk you through our targets.

As we've stated previously we will report our FY19 results based on the new ASC 606 accounting standards beginning in March with our Q1 results. The targets we are providing today are based on ASC 605 as we are still in the process of integrating Marketo into our financial systems to report results utilizing 606. We continue to believe that moving to 606 in FY19 reporting will not materially impact our revenue. However, we now expect there will be a slight improvement to earnings through the year as we benefit from capitalization of sales commissions.

We measure ARR in constant currency during a fiscal year, and if necessary we revalue ARR at year-end for current currency rates. Adverse FX rate changes between December of last year and this year have resulted in a $123 million adjustment, and lowers our beginning FY19 Digital Media ARR balance to $6.71 billion. This expected revision is reflected in our updated investor data sheet, and our FY19 net new growth target and our quarterly results will be measured against this revalued amount during FY19.
In FY19 we are targeting:

- Total Adobe revenue of approximately 11 billion 150 million dollars;
- Digital Media segment revenue growth of approximately 20%;
- Net new Digital Media ARR of approximately $1.45 billion, an increase above our preliminary target provided in October;
- Digital Experience segment revenue growth of approximately 34%;
- Digital Experience subscription bookings growth of approximately 25%;
- A GAAP tax rate of approximately 10% and a non-GAAP tax rate of approximately 11%;
- GAAP earnings per share of approximately $5.54; and
- Non-GAAP earnings per share of approximately $7.75.

Certain factors are reflected in our FY19 annual targets, specifically:

- Approximately $35 million of adverse revenue impact due to current FX rates which have moved against us since we provided preliminary FY19 targets that were based on September spot rates;
- Approximately $75 million reduction in revenue from the write-down of deferred revenue for Magento and Marketo due to purchase accounting; and
- The increase in tax rates between FY18 and FY19.
In Q1 FY19 we are targeting:

- Revenue of approximately 2 billion 540 million dollars;
- Digital Media segment year-over-year revenue growth of approximately 20%;
- Net new Digital Media ARR of approximately $330 million;
- Digital Experience segment year-over-year revenue growth of approximately 31%;
- Other Expense of approximately $39 million;
- Tax rate of approximately 3% on a GAAP basis, and 11% on a non-GAAP basis;
- Share count of approximately 495 million shares;
- GAAP earnings per share of approximately $1.14; and
- Non-GAAP earnings per share of approximately $1.60.

For modeling purposes, after Q1 we expect total revenue in each quarter to grow by approximately the same year-over-year growth percentage implied in our targeted revenue growth rate for the year.

In addition, after Q1 we expect net new Digital Media ARR in each quarter to be sequentially similar as that achieved in past fiscal years from quarter to quarter – with typical summer seasonality which can lead to sequentially lower net new ARR in Q3, as well as normal year-end sequential strength in Q4 net new ARR.
As the impact of lost deferred revenue due to purchase accounting tapers off during FY19 and as we grow our business, we expect quarterly operating margins to increase sequentially. We also expect quarterly year-over-year earnings growth rates to increase during the year.

In summary, FY18 was another record year for Adobe as demonstrated by our strong revenue and earnings growth and exceptional cash flow from operations. More importantly, during the year we've invested in the business to continue our momentum over the long-term. Our growth targets for the coming year reflect our confidence in our ability to execute, and we expect to exit FY19 with a business that continues to exhibit strong top-line growth, expanding profit margins and earnings growth rates that equal or exceed top-line growth rates.

I'll now turn the call back over to Mike.
Thanks, John.

Adobe Summit returns to Las Vegas in March. Day One of our Digital Experience conference is Tuesday March 26th. Invitations with registration information to Summit will be sent out in January. More details about Summit are available at summit.adobe.com.

If you wish to listen to a playback of today’s conference call, a web-based archive of the call will be available on our IR site later today. Alternatively, you can listen to a phone replay by calling 855-859-2056; use conference ID #8459218. International callers should dial 404-537-3406. The phone playback service will be available beginning at 5pm Pacific Time today, and ending at 9pm Pacific Time on December 19th, 2018.

We would now be happy to take your questions, and we ask that you limit your questions to one per person. Operator.