MIKE SAVIAGE

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 first quarter fiscal year 2019 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, March 14th, 2019, 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 2018, and our quarterly reports filed on Form 10-Q in fiscal 2019.

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.

On our Q4 FY18 call in December, we provided targets for fiscal year 2019 and for Q1 FY19 based on revenue accounting standard ASC 605. As required, we have adopted ASC 606 for FY19, and today are reporting our results based on ASC 606. Where applicable, we will call out differences in our results between ASC 605 and ASC 606 for comparison purposes against our prior ASC 605-based targets.

On this call we will discuss GAAP and non-GAAP financial measures. A reconciliation between the two is available in our earnings release and on Adobe's Investor Relations website.

Call participants are advised that the audio of this conference call is being webcast live, 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 2019 is off to a strong start for Adobe as we delivered another record quarter in Q1. We achieved $2.60 billion in revenue, representing 25% year-over-year growth. GAAP earnings per share for the quarter was $1.36, and non-GAAP earnings per share was $1.71.

Adobe empowers people to create and transforms how businesses compete, a highly differentiated strategy that we continued to execute well on in Q1. Across all industries and geographies, we are helping customers large and small transform themselves and their businesses with Adobe Creative Cloud, Document Cloud and Experience Cloud.
In our Digital Media business, we achieved strong revenue in both Creative Cloud and Document Cloud in Q1. Net new Digital Media Annualized Recurring Revenue or "ARR" was $357 million, and total Digital Media ARR exiting Q1 grew to $7.07 billion. Q1 Creative revenue was $1.49 billion, which represents 22% year-over-year growth.

Adobe Creative Cloud is democratizing creativity by delivering innovative new ways for everyone – from businesses, to students, to creative professionals, to hobbyists – to tell their story.

Our flagship digital imaging and video solutions – including Photoshop, Premiere Pro and After Effects – have long been the go-to tools for indie and feature filmmakers and editors. At this year’s Academy Awards, both Adobe Photoshop and After Effects received Scientific and Engineering awards for their contributions to the filmmaking industry. It’s a tremendous honor for Adobe, and we’re very proud of the product and engineering teams who contribute to the development and ongoing innovation in these iconic products. Most recently, Photoshop was used in the making of Spider-Man: Into the Spider-Verse – which won this year’s Oscar for Best Animated Film.

Our photography business including mobile usage continues to show strong momentum. The number of Lightroom CC mobile subscribers has increased by more than 400% over the past year. Beyond film and photography, Adobe is pushing the boundaries of creativity onto new canvases and broadening the appeal of Creative Cloud to entirely new segments of users.

New media types, including 3D, video and augmented reality, continue to emerge, which will enable more immersive and engaging digital experiences. In January, we acquired Allegorithmic, the industry standard in tools for 3D material and texture creation for gaming and entertainment.
The addition of Allegorithmic further expands Creative Cloud into interactive content design and allows us to better equip video game creators, Visual FX artists working in film and television, designers and marketers, to deliver the next generation of immersive experiences.

Premiere Rush CC, our popular video editing app for social media creators, is expanding its footprint to Android, and was recently showcased at Samsung's Galaxy S10 event. We continue to innovate with Adobe XD, our solution for designing and prototyping websites and apps, adding expanded collaboration, prototyping and voice capabilities – all supported by a growing ecosystem of plug-ins and integrations with companies like Microsoft, Slack and Atlassian.

We feel passionately that creative skills are a critical component for success across K-12 and higher education classrooms. We recently announced a partnership with the Royal Shakespeare Company in England. Together, we'll make new creative teaching resources and tools – including Creative Cloud and Adobe Spark – available to teachers, and to millions of students learning the works of Shakespeare in schools throughout the UK. This quarter we partnered with the California State University System to give students and staff at 21 campuses access to our full suite of Creative Cloud tools. Since Adobe launched Spark for Education in April 2018, over 7 million licenses have been provided to students and teachers worldwide.

With Adobe Document Cloud, we’re reinventing how people create, scan, edit, collaborate, sign and share documents, and leading the paper-to-digital revolution. Document Cloud revenue in Q1 was a record $282 million and we grew Document Cloud ARR to $856 million.
Overall momentum for Acrobat is fueled by strong demand for Adobe PDF among individuals and businesses worldwide. Our mobile footprint continues to grow. Adobe Reader and Adobe Scan downloads have now surpassed 600 million, and our partnership with Samsung contributed significantly to downloads of Adobe Scan in Q1.

In addition, Adobe Reader is now available in the “Made for Samsung” section of the Galaxy App Store, increasing our potential reach to millions of Samsung smartphone users.

We recently launched the “PDF Like a Boss” global advertising campaign to drive further awareness for new Document Cloud, Acrobat and Adobe PDF capabilities. Last month we announced a partnership with the PGA TOUR, which will feature our new campaign in TV coverage for 10 tournaments this year.

Adobe Sign has strong momentum and has become the e-signature solution of choice for organizations across all industries. We continue to enable resellers such as Nintex to sell Adobe Sign to thousands of partners, public, private, and government organizations on their platforms.

In our Digital Experience business, we achieved Experience Cloud revenue of $743 million for the quarter, which represents 34% year-over-year growth. The success of our Digital Experience business is bolstered by several industry tailwinds: the mandate for enterprises and organizations to digitally transform their businesses, and the need to deliver the world-class, end-to-end customer experiences consumers have come to expect. More and more businesses are choosing Adobe Experience Cloud – the industry's only end-to-end solution for marketing, advertising, analytics and commerce – serving both B2C and B2B customers.
Key Experience Cloud customer wins in the quarter include HSBC, NBC Universal, Bass Pro Shops and WebMD.

Delivering exceptional experiences requires a lot more than tapping into a customer database to deliver a personalized email. Businesses need a full range of capabilities from creation through commerce, and acquisition through renewal. For today's digital businesses, it's not enough to have data – you need the right data – behavioral, transactional and operational – to understand your customer, and the intelligence to act on it in context.

With our Adobe Experience Platform and breadth of Adobe Experience Cloud solutions, Adobe is enabling enterprises to achieve a unified, real-time view of their customers, and harness these insights to deliver engaging digital experiences.

Last year we made several significant investments to further expand the range of capabilities we offer to Experience Cloud customers with the acquisitions of Magento, with its best-in-class ecommerce capabilities, and Marketo, the leader in B2B marketing engagement. We're off to a strong start with both Magento and Marketo, and we're successfully integrating them into Adobe Experience Cloud. This is creating an unmatched value proposition for customers, and growing Adobe's addressable opportunity in the Customer Experience Management category.

We are focused on product integration while driving acceleration of the Magento and Marketo businesses, leveraging Adobe's brand, enterprise sales and go-to-market organization, while maintaining a strong global footprint in the mid-market. With Magento, we are driving momentum by cross-selling our commerce offering to existing Adobe Experience Manager customers. With Marketo, we delivered our first integrated deployment of Adobe Experience Platform Launch, our tag management system. We are seeing strong interest from strategic Adobe accounts, many of which are B2C, who have significant B2B operations as part of a broader digital transformation strategy.

Industry analysts continue to recognize Adobe Experience Cloud as the market leader. This quarter, Adobe Experience Cloud was named a leader in the Gartner Magic Quadrant for Digital Experience Platforms and once again achieved the strongest position in the quadrant out of 17 vendors for “Completeness of Vision”.
Our upcoming Summit in Las Vegas will be our largest to date, and we will welcome the Marketo Marketing Nation community to the event. We are excited to share our Customer Experience Management vision, strategy and technology roadmap with our customers and partners.

At Adobe, our employees are our greatest asset and we are proud to have a brand that continues to be recognized for its innovation, progressive workplace practices, and commitment to the communities in which we do business. For the third consecutive year, we were named one of Fast Company’s Most Innovative Companies. Forbes recently recognized Adobe as one of its Best Employers for Diversity. And Fortune included Adobe on its annual Most Admired Companies in Software list again this year. Adobe is the clear leader in empowering people to create, and helping businesses transform to deliver the customer experiences needed to compete and win in today’s competitive climate. These two tremendous market opportunities are fueling our business. With the world’s best employees, customers and partners, we are well positioned for further growth and continued success in 2019.

John.
JOHN MURPHY

Thanks, Shantanu.

Our strong results in Q1 reflect a solid start to fiscal year 2019.

As we discussed on our Q4 FY18 call in December, we provided targets for Q1 FY19 based on ASC 605. We are reporting results today based on our adoption of ASC 606 as required. Where applicable, we will call out differences in our results between 605 and 606 for comparison purposes against our prior 605-based targets.

<table>
<thead>
<tr>
<th>Q1 FY2019 Results</th>
<th>ASC 606</th>
<th>ASC 605</th>
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<tbody>
<tr>
<td>Total revenue</td>
<td>$2.60 billion</td>
<td>$2.58 billion</td>
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<tr>
<td>GAAP EPS</td>
<td>$1.36</td>
<td>$1.31</td>
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<tr>
<td>Non-GAAP EPS</td>
<td>$1.71</td>
<td>$1.65</td>
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<tr>
<td>Digital Media segment revenue</td>
<td>$1.78 billion</td>
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<tr>
<td>Digital Experience segment revenue</td>
<td>$743 million</td>
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<tr>
<td>Net new Digital Media ARR</td>
<td>$357 million</td>
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In Q1 FY19, Adobe achieved record revenue of $2.60 billion under 606, which represents 25% year-over-year growth when compared to $2.08 billion reported in Q1 FY18 under 605. Q1 FY19 revenue would have been $2.58 billion under 605, which represents 24% growth. Based on 606, GAAP diluted earnings per share in Q1 was $1.36 and non-GAAP diluted earnings per share was $1.71. Based on 605, GAAP diluted EPS in Q1 would have been $1.31 and non-GAAP EPS would have been $1.65. This compares to our EPS targets based on 605 of $1.14 on a GAAP-basis and $1.60 on a non-GAAP basis.
Business and financial highlights in Q1 included:

- Digital Media revenue of $1.78 billion, including Creative revenue of $1.49 billion and Adobe Document Cloud revenue of $282 million;
- Net new Digital Media ARR of $357 million;
- Digital Experience revenue of $743 million;
- Exiting the quarter with deferred revenue of $3.22 billion;
- Cash flow from operations of $1.01 billion;
- Repurchasing 2.1 million shares of our stock through stock buyback;
- And approximately 91% of our revenue in Q1 was from recurring sources.

In Digital Media, we grew segment revenue by 22% year-over-year under both ASC 606 and ASC 605. The addition of $357 million net new Digital Media ARR during the quarter grew the total to $7.07 billion. Exiting Q1 ARR included an approximately $20 million cumulative adjustment from adoption of ASC 606.

Within Digital Media, we achieved another strong quarter with our Creative business. Creative revenue grew 22% year-over-year in Q1 and we increased Creative ARR by $292 million.

Notable growth drivers in Q1 included:

- New customer acquisition across all offerings and geographies;
- Subscription momentum and strength with Creative Cloud enterprise deployments;
• Continued growth in emerging markets;
• ARPU increases, particularly in markets where price optimizations were introduced last year; and
• Services adoption including continued momentum with Adobe Stock, which again achieved greater than 20% year-over-year revenue growth.

We achieved record Document Cloud revenue of $282 million in Q1, which represents 22% year-over-year growth, and we added $65 million of net new Document Cloud ARR during the quarter. In addition to delivering another strong quarter with Acrobat and Document Cloud, some of the revenue strength in Q1 is attributed to a benefit from the move to ASC 606 revenue recognition.

Notable drivers of Document Cloud growth include continued strength with Acrobat subscription adoption, helped by a steady on-ramp and conversion of free mobile app usage to paid subscriptions, strength with enterprise adoption of Acrobat and Document Cloud services, and strong performance with Adobe Sign.
In our Digital Experience segment, we achieved record quarterly Experience Cloud revenue of $743 million, which represents 34% year-over-year growth. There were minor benefits from adoption of ASC 606, and year-over-year growth would have been 32% under ASC 605. Experience Cloud subscription revenue was a record $612 million.

In addition to new revenue from our recent Magento and Marketo acquisitions, Experience Cloud performance in Q1 was driven by success across many offerings – with strength in Adobe Campaign and Adobe Experience Manager. Cross-sell of Magento within existing Experience Cloud accounts was notable, and Marketo delivered solid results in their first full quarter as part of Adobe.

Our Publishing segment, which includes OEM contracts, saw a sizable benefit from the move to ASC 606, and benefited from a large renewal deal in the quarter.

From a quarter-over-quarter currency perspective, FX decreased revenue by $6.6 million. We had $8.5 million in hedge gains in Q1 FY19, versus $30.5 million in hedge gains in Q4 FY18; thus the net sequential currency decrease to revenue considering hedging gains was $28.6 million.
From a year-over-year currency perspective, FX decreased revenue by $14.7 million. The $8.5 million in hedge gains in Q1 FY19 versus $1 million in hedge gains in Q1 FY18 resulted in a net year-over-year currency decrease to revenue considering hedging gains of $7.2 million.

In Q1, Adobe’s effective tax rate was 4% on GAAP-basis and 11% on a non-GAAP basis.

Our trade DSO was 46 days, which compares to 47 days in the year-ago quarter, and 49 days last quarter.

Deferred revenue grew to a record $3.22 billion, up 25% year-over-year.

Remaining Performance Obligations ("RPO"), a financial measure required with reporting under ASC 606, was approximately $8.13 billion exiting Q1. RPO includes approximately $600 million of non-cancelable and non-refundable committed funds related to some of our enterprise customer agreements. These funds do provide our customers options to either renew monthly on-premise term-based licenses, or use some or all funds to purchase other Adobe products or services.

Our ending cash and short-term investment position exiting Q1 was $3.23 billion, and cash flow from operations was $1.01 billion in the quarter.

In Q1 we repurchased approximately 2.1 million shares at a cost of $491 million. We currently have $7.35 billion remaining of our $8 billion repurchase authority granted in May 2018 which goes through 2021.
Now I will discuss our financial targets. We are providing ASC 606-based annual fiscal 2019 targets that reflect our Q1 results. 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 $1.5 billion;
- 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 $5.59; and
- Non-GAAP earnings per share of approximately $7.80.

We anticipate Q3 and Q4 year-over-year revenue growth rates to be similar to the growth rate implied in our Q2 revenue target. As in prior years, we expect summer seasonality which can lead to sequentially lower net new Digital Media ARR in Q3, followed by normal year-end strength in Q4.

As the impact of lost deferred revenue due to purchase accounting from our acquisitions of Magento and Marketo tapers off during FY19, and as we grow our business, we expect quarterly operating margins to increase in the second half of the year.
In Q2 FY19, we are targeting:

- Q2 revenue of approximately 2 billion 700 million dollars;
- Digital Media segment year-over-year revenue growth of approximately 20%;
- Net new Digital Media ARR of approximately $370 million;
- Digital Experience segment year-over-year revenue growth of approximately 32%;
- Other Expense of approximately $36 million;
- Tax rate of approximately 12% on a GAAP basis, and 11% on a non-GAAP basis;
- Share count of approximately 495 million shares;
- GAAP earnings per share of approximately $1.20; and
- Non-GAAP earnings per share of approximately $1.77.

As a reminder, Q2 continues to be impacted by lost deferred revenue and acquisition-related costs.

In summary, Q1 was a great start to what we expect will be another record year for Adobe. We look forward to seeing many of you at Summit. I'll now turn the call back over to Mike.
MIKE SAVIAGE

Thanks, John.

Adobe Summit is just around the corner. Day one of The Digital Experience Conference in Las Vegas at the Venetian-Palazzo is Tuesday March 26th. In addition to the day one general session, we will host a Q&A session with financial analysts and investors in attendance at 2pm Pacific Time. Invitations to the conference with registration information to Summit were sent out in January. More details about Summit and the agenda are available at summit.adobe.com.

We would also like to extend an invitation to the Adobe EMEA Summit in London on May 15th. If any Europe-based investors or analysts wish to attend, please email us at ir@adobe.com and we will send you registration information.

If you wish to listen to a playback of today’s conference call, a webcast 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 #4657707. 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 March 20th, 2019.

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