

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 third 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.

Financial Disclaimer

Some of the information discussed in this presentation, particularly our revenue and operating model targets, and our forward-looking product plans, is based on information as of today, September 17, 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](#).

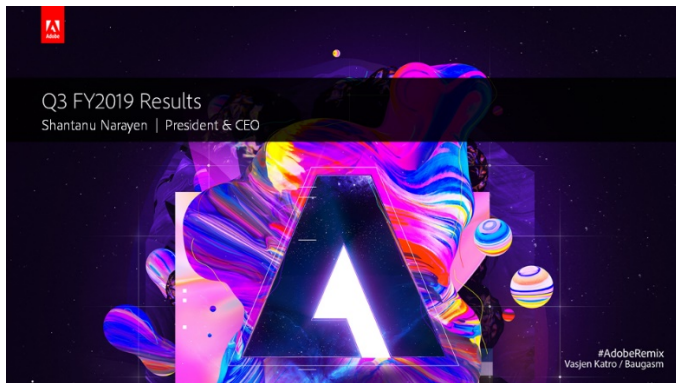


Before we get started, we want to emphasize that some of the information discussed in this call, particularly our revenue and operating model targets, and our forward-looking product plans, is based on information as of today, September 17th, 2019, and contains forward-looking statements that involve 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 the earnings press release we issued today, as well as Adobe's SEC filings.

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.

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I will now turn the call over to Shantanu.



SHANTANU NARAYEN

Thanks, Mike and good afternoon.

Q3 was a record quarter for Adobe, with strong revenue and continued growth across our entire business. We delivered \$2.83 billion in revenue in Q3, representing 24% year-over-year growth. GAAP earnings per share for the quarter was \$1.61, and non-GAAP earnings per share was \$2.05.



Adobe's strategy to empower people to create and transform how businesses compete is fueling our continued success. The ability to deliver a personalized relationship with every customer using digital technology is a mandate for every business. Internal efficiency, including a paper-to-digital revolution, is critical to achieving that imperative. In addition, design and creativity has never been more relevant. Everyone has a story to tell – from professional photographers, to immersive content and experience designers, to students and small business owners – and they need to tell it on an ever-increasing number of canvases. Adobe is innovating to expand these market opportunities, and customers around the globe continue to count on Adobe Creative Cloud, Document Cloud and Experience Cloud to run their businesses, transform how they work, and bring their creative ideas to life.

Adobe Creative Cloud



- Creative revenue grew 22% year-over-year
- Mobile continues to be an on-ramp for Creative Cloud
- New Adobe Fresco app coming to the iPad this fall
- Creative Cloud being introduced in colleges to next-generation creators
- Significant new Creative Cloud innovations to be unveiled at Adobe MAX in November

In our Digital Media business, we drove strong revenue growth in both Creative Cloud and Document Cloud in Q3. Net new Digital Media Annualized Recurring Revenue or “ARR” was \$386 million, and total Digital Media ARR exiting Q3 grew to \$7.86 billion. Q3 Creative revenue was \$1.65 billion, which represents 22% year-over-year growth.

Creative Cloud is the creativity platform for all. Through a relentless focus on innovation – across different media types, devices, and segments – Creative Cloud has become the one-stop shop for creative applications and services as well as the leading source for creative inspiration, learning, training and community. Our goal is to ensure that Creative Cloud applications and services make every creative possibility a reality for every one of our customers.


Adobe’s vision is that mobile devices and tablets should be used for creation in addition to consumption. Adobe Lightroom, our complete system for photo editing, achieved significant growth on mobile devices with Q3 monthly active users growing 130% year-over-year. In Q3, new Adobe IDs created from Adobe mobile apps rose more than 40% year-over-year, showing that mobile continues to be a healthy on-ramp for subscriptions.

In Q3 we announced Adobe Fresco, a groundbreaking drawing and painting app, which will be available first on iPad later this fall. Fresco digitally reimagines the process that artists have traditionally used – whether it’s chalk, pastels, oil, or watercolor paint. Like Photoshop transformed and democratized photography, we believe Fresco will change how artists use digital to draw and illustrate. Apple will feature Fresco in hundreds of its retail stores as part of its iPad Pro ‘Big Draw’ campaign.


At Adobe we believe that creative skills should be a core part of school curricula and that STEAM, not just STEM, should be a focus in education. We've expanded our Adobe Ambassador Network to target more than 100 colleges across the country, where students evangelize creativity and lead on-campus workshops to help fellow students learn to use Adobe creative products. Last week, we launched a new program with Reddit to encourage young creators to contribute their personal designs to a giant, global canvas on the Reddit frontpage. This was the biggest community event on Reddit based on total contributions and participation. These types of partnerships give us an opportunity to introduce Creative Cloud to millions of next-generation creators.

Adobe MAX is the world's largest creativity conference. In November, we'll welcome our global creative community and partners – more than 15,000 live attendees and nearly one million virtual attendees – and unveil significant new Adobe Creative Cloud innovation.

Adobe Document Cloud



- Record Document Cloud revenue and net new ARR
- Continued strength with Acrobat subscriptions and uptake of Document Cloud mobile apps
- New web-based services are enabling developers to build document support into their applications
- Marketing campaigns driving Document Cloud awareness and targeting new users
- Adobe Sign for Small Business introduced




With Document Cloud, we are accelerating the transformation of paper-to-digital processes and reinventing how people scan, edit, collaborate, sign and share digital documents. Q3 Document Cloud revenue and net new ARR were records for a quarter, and we grew total Document Cloud ARR to \$993 million. Key Document Cloud customer wins in Q3 included Deutsche Bank, Saudi Aramco, Dell and the U.S. Department of Veteran Affairs.

As with our creative products, our Document Cloud customers increasingly expect business processes to be seamless across desktop and mobile devices. In Q3 more than 2.5 billion PDFs were opened in Adobe Reader on mobile devices. Adobe Scan, which has become the top document scanning app for both iOS and Android, has close to 35 million installs, with downloads increasing more than 30% year-over-year in Q3.

Strong uptake of our Document Cloud mobile applications, as well as continued strength in Acrobat subscription adoption, is driving momentum in the business. In addition, we launched new web-based services that offer instant access to Adobe PDF creation and compression capabilities from any browser. We believe these services are not only relevant to individuals looking to quickly get work done, but also developers who need to build best-in-class PDF document support into their web applications. We are investing in creative marketing campaigns to drive awareness of these capabilities and target new users.

Adobe Sign, our leading cloud-based electronic signature solution, continues to gain traction among businesses and organizations. This quarter we introduced Adobe Sign for Small Business – providing small and mid-market businesses enterprise-level e-signature capabilities.

Adobe Experience Cloud



- Adobe Experience Cloud revenue grew 34% year-over-year
- Leader in seven new industry analyst reports
- Adobe extending its leadership in high-growth categories
 - Content and commerce
 - Customer journey management and orchestration
 - Customer data and insights
- Adobe Experience Platform is the industry's first real-time platform for Customer Experience Management

In our Digital Experience business, we achieved Experience Cloud revenue of \$821 million for the quarter, which represents 34% year-over-year growth.

Our vision is to help every business become an “Experience Business.” This means enabling them to deliver engaging experiences that anticipate and meet the needs of their customers at every stage of their journey – from acquisition to purchase and renewal. We believe Customer Experience Management is a significant growth opportunity for Adobe.

Experience Cloud is the industry's most comprehensive offering – providing content and commerce, customer journey management, and customer data and insights to power experience-driven businesses across all industries. In Q3, Experience Cloud was named a Leader in seven Gartner Magic Quadrant and Forrester Wave reports. Key Experience Cloud wins in Q3 included Delta Airlines, T-Mobile, Capital One, and Best Western.

We are the undisputed leader in this large and growing market, and we continue to expand the opportunity in front of us – extending our footprint from B2C to B2B, from enterprise to mid-market, and from the CMO to the CIO, CTO, and CEO.

Content and commerce are the foundation for every digital business. We continue to drive strong performance with Adobe Experience Manager for multi-channel experience delivery. Through integration with Magento Commerce, we are making every experience shoppable. This has led to strong performance of our integrated content and commerce offering, and Magento Commerce bookings growth of more than 40% year-over-year in Q3.

Multi-channel campaign management is another differentiated pillar of the Adobe Experience Cloud. The integration of Marketo with Adobe Campaign gives Adobe the industry's strongest offering in the customer journey management and orchestration space across both B2B and B2C.

Earlier this year we introduced Adobe Experience Platform, the industry's first real-time platform for Customer Experience Management. Adobe Experience Platform will solve a critical challenge every enterprise is facing – how to harness massive amounts of valuable customer data that is siloed and not easily accessible or actionable. Adobe Experience Platform stitches together data from across the enterprise creating real-time unified customer profiles, enabling the activation and delivery of hyper-personalized experiences.

By combining Adobe Experience Platform with Adobe Analytics, Adobe Audience Manager and our new real-time Customer Data Platform, or CDP, we are creating a new, comprehensive customer data and insights offering for the digital enterprise that is unmatched. Adobe Experience Platform has been several years in the making and we've seen tremendous enthusiasm from customers for this solution with multiple pilot deployments already in market.

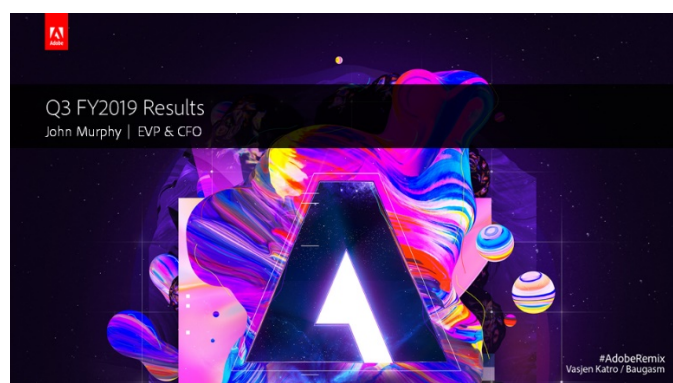
We continue to be the leader in Customer Experience Management, which has a TAM of more than \$70 billion by 2021. While we experienced some bookings delays in Q3, our robust product roadmap and customer pipeline positions us for multiple years of strong growth.



At Adobe, we continue to invest in our employees, who are the heart and soul of our company. Last week at our annual “Adobe For All Summit,” we reaffirmed global gender pay parity for our workforce, and shared new details and data on our ‘opportunity parity’ initiative – which examines fairness in promotion rates and access to new opportunities for our employees.

Adobe is the leader in several large and growing categories – creativity, digital documents and customer experience management. We remain excited about the opportunities in front of us and confident in our ability to drive strong top-line and bottom-line growth.

John.



JOHN MURPHY

Thanks, Shantanu.

Q3 FY2019 Results

Total revenue	\$2.83 billion
GAAP EPS	\$1.61
Non-GAAP EPS	\$2.05
Digital Media segment revenue	\$1.96 billion
Digital Experience segment revenue	\$821 million
Net new Digital Media ARR	\$386 million

- Remaining Performance Obligation ("RPO") grew to \$8.77 billion
- Cash flow from operations of \$922 million
- Repurchased 2.6 million shares
- Approximately 92% of revenue from recurring sources



In Q3 FY19, Adobe achieved record revenue of \$2.83 billion, which represents 24% year-over-year growth. GAAP diluted earnings per share in Q3 was \$1.61 and non-GAAP diluted earnings per share was \$2.05.

Business and financial highlights in Q3 included:

- Record Digital Media revenue of \$1.96 billion, including record Creative revenue of \$1.65 billion and record Adobe Document Cloud revenue of \$307 million;
- Strong net new Digital Media ARR of \$386 million;
- Record Digital Experience revenue of \$821 million;
- Remaining Performance Obligation, or RPO, grew to \$8.77 billion;
- Cash flow from operations of \$922 million;

- Repurchasing 2.6 million shares of our stock;
- And approximately 92% of our revenue in Q3 was from recurring sources.



In our Digital Media segment, we achieved record revenue with 22% year-over-year growth. The addition of \$386 million net new Digital Media ARR during the quarter grew the total to \$7.86 billion.

Within Digital Media, we achieved another strong quarter with our Creative business. Creative revenue grew 22% year-over-year in Q3, and we increased Creative ARR by \$314 million.

Strong acquisition, upsell and retention of Creative Cloud subscriptions continued during Q3, and were driven by:

- New user growth, helped by many global initiatives to generate demand, including targeted campaigns and promotions, a large funnel of users coming from desktop and mobile; and leveraging Adobe's brand and new products to expand into adjacent creative categories;
- Increasing adoption of single app offerings, including Adobe Premiere Pro for video and Adobe Illustrator for artwork;
- Continued growth in international markets, including greater than 40% year-over-year unit growth in key emerging markets;
- Ongoing success in the enterprise, including new logos, seat expansion and services adoption which drives higher contract value; and
- Adoption of creative services including Adobe Stock, where revenue grew greater than 30% year-over-year.

Adobe Document Cloud



- Record Document Cloud quarter
- Strong subscription demand across key routes to market
- Migration of perpetual Acrobat customers to subscriptions
- Enterprise services adoption
- Monetization of mobile app users
- Adobe Sign grew greater than 25% year-over-year

Our momentum with Document Cloud accelerated in Q3. We achieved Document Cloud revenue of \$307 million, which represents 24% year-over-year growth, and we added a record \$72 million of net new Document Cloud ARR during the quarter.

Strong Document Cloud performance during Q3 was driven by subscription demand across key routes to market with individuals, small and mid-market businesses, and large enterprises; the continued migration of Acrobat perpetual customers to subscriptions, enterprise services adoption and the conversion of free mobile Reader users to paid subscriptions. Adobe Sign revenue grew greater than 25% year-over-year.

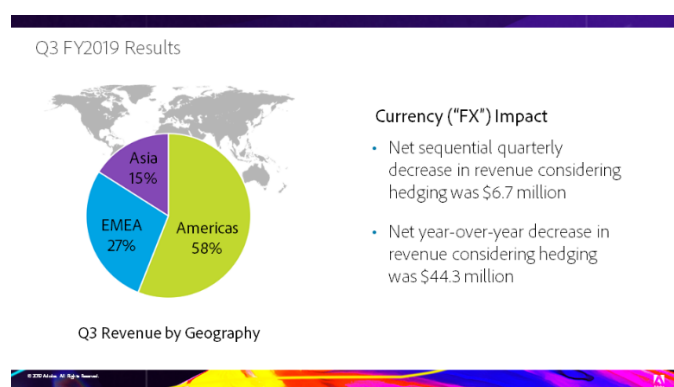
Adobe Experience Cloud



- Record Digital Experience revenue
 - 34% year-over-year revenue growth
 - 37% year-over-year subscription revenue growth
- Strong interest in ongoing global roll out of Adobe Experience Platform, which brings enhanced innovation to Analytics Cloud and a new Real-Time CDP product

In our Digital Experience segment, we achieved quarterly Experience Cloud revenue of \$821 million, which represents 34% year-over-year growth. Experience Cloud subscription revenue was a record \$679 million, growing 37% year-over-year.

While we had strong overall revenue in Q3, our subscription bookings growth for Marketo in the mid-market did not meet our expectations – which is being addressed by increasing our focus and investment on demand generation and inside sales. In addition, there were Analytics Cloud subscription bookings delays with related shortfalls in consulting services bookings and revenue associated with the launch of our new Adobe Experience Platform. We are confident the enhanced innovation in Analytics Cloud, the introduction of our Real-Time CDP product, and the ongoing global roll-out of the Adobe Experience Platform will convert strong customer demand and the current pipeline into bookings starting in Q4. We now expect to grow our total Digital Experience subscription bookings in fiscal 2019 by greater than 20 percent year-over-year.



From a quarter-over-quarter currency perspective, FX decreased revenue by \$8.5 million. We had \$10.8 million in hedge gains in Q3 FY19, versus \$9 million in hedge gains in Q2 FY19; thus, the net sequential currency decrease to revenue considering hedging gains was \$6.7 million.

From a year-over-year currency perspective, FX decreased revenue by \$38.3 million. The \$10.8 million in hedge gains in Q3 FY19 versus \$16.8 million in hedge gains in Q3 FY18 resulted in a net year-over-year currency decrease to revenue considering hedging gains of \$44.3 million.

In Q3, Adobe's effective tax rate was 5% on a GAAP basis and 11% on a non-GAAP basis.



Our trade DSO was 44 days, which compares to 41 days in the year-ago quarter, and 42 days last quarter.

Remaining Performance Obligation or “RPO” was approximately \$8.77 billion exiting Q3, which compares to \$8.37 billion exiting Q2.

Deferred revenue exiting Q3 was \$3.26 billion.

Our ending cash and short-term investment position exiting Q3 was \$3.65 billion, and cash flow from operations was \$922 million in the quarter.

In Q3 we repurchased approximately 2.6 million shares at a cost of \$750 million. We currently have \$5.85 billion remaining of our \$8 billion repurchase authority granted in May 2018 which goes through 2021.

Q4 FY2019 Financial Targets

September 17, 2019

Total revenue	~\$2.97 billion	
Digital Media segment revenue	~20% year-over-year growth	
Digital Experience segment revenue	~23% year-over-year growth	
Net new Digital Media ARR	~\$450 million	
Net non-operating expense	~\$20 million	
Tax rate	GAAP: ~11%	Non-GAAP: ~11%
Earnings per share	GAAP: ~\$1.68	Non-GAAP: ~\$2.25

- Expect annual FY2019 Digital Experience subscription bookings growth of greater than 20%
- Financial Analyst Meeting at Adobe MAX on Nov. 4, 2019

The information discussed on this slide contains forward-looking statements that involve risk and uncertainty. Actual results may differ materially. For a discussion of these risks and uncertainties, you should review Adobe's SEC filings. Please see our [website](#) for a discussion of these targets and a detailed reconciliation between GAAP and non-GAAP targets.

Turning to our targets, considering second half Digital Experience bookings and consulting revenue, in Q4 FY19 we are targeting:

- Revenue of approximately 2 billion 970 million dollars;
- Digital Media segment year-over-year revenue growth of approximately 20%;
- Net new Digital Media ARR of approximately \$450 million;
- Digital Experience segment year-over-year revenue growth of approximately 23%;
- Net non-operating expense of approximately \$20 million;
- Tax rate of approximately 11% on a GAAP and non-GAAP basis;
- Share count of approximately 490 million shares;
- GAAP earnings per share of approximately \$1.68; and
- Non-GAAP earnings per share of approximately \$2.25.

We look forward to a strong finish for the year, and sharing insights with you about our strategy and opportunities at our financial analyst meeting at MAX.


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

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through 5:00pm PT on Sept. 24, 2019



Adobe MAX—The Creativity Conference
Los Angeles, CA
Nov. 4–6

MIKE SAVIAGE

Thanks, John.

Adobe MAX is less than two months away. On day one at our user conference in Los Angeles on Monday, November 4th, we will host a financial analyst meeting in the afternoon. Invitations, including discounted MAX registration information, were sent to our analyst and investor email list over the summer. Please contact Adobe Investor Relations via email at ir@adobe.com if you have not registered and wish to attend. More information about the event can be found online at max.adobe.com.

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 888-203-1112; use conference ID #7673180. International callers should dial 719-457-0820. The phone playback service will be available beginning at 5pm Pacific Time today and ending at 5pm Pacific Time on September 24th, 2019.

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