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 second 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, June 18th, 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, June 18th, 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.

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. Q2 was another strong quarter for Adobe, with record revenue and continued growth across Adobe Creative Cloud, Adobe Document Cloud, and Adobe Experience Cloud. We delivered $2.74 billion in revenue in Q2, representing 25% year-over-year growth. GAAP earnings per share for the quarter was $1.29, and non-GAAP earnings per share was $1.83.

Adobe's solutions have become the standard for creating and managing the world's digital experiences. Millions of consumers depend on brands like Photoshop and PDF for their personal and professional pursuits. Thousands of enterprises the world over are turning to Adobe every day to help them transform their businesses.

The power of our brand, the continuous innovation in our products and services, the deep investment we're making in our technology platforms and a robust ecosystem of partners are enabling us to serve millions of customers around the globe. We are creating large, addressable markets in the creativity, document and customer experience management categories. Our opportunity has never been greater.
In our Digital Media business, we drove strong revenue growth in both Creative Cloud and Document Cloud in Q2. Net new Digital Media Annualized Recurring Revenue or "ARR" was $406 million, and total Digital Media ARR exiting Q2 grew to $7.47 billion. Q2 Creative revenue was $1.59 billion, which represents 22% year-over-year growth. Mobile is a tailwind in our Digital Media business and we're driving significant increases in mobile traffic and member sign-ups for our offerings.

This is the golden age of creativity and our vision for Creative Cloud is to be the creativity platform for all. Whether you're a student, an experience designer, a YouTuber, or a marketer, storytelling is central to the way you communicate and connect.

A key part of our Creative Cloud growth strategy is appealing to new segments of users. Adobe Spark, our offering for easily turning ideas into compelling stories, graphics and webpages, is rapidly gaining popularity among creators from the classroom to the boardroom. Spark traffic on web and mobile has more than doubled year-over-year. In Q2 we expanded Spark's global footprint with support for five new languages: Brazilian-Portuguese, French, German, Italian and Spanish.

We've expanded our vision of platforms to include social media channels like Facebook, Instagram and YouTube. Premiere Rush is rapidly becoming the solution of choice for YouTubers and social video creators. Premiere Rush is now available on Android in addition to iOS, Mac and Windows.

Experience design is one of the most explosive creative categories and we continue to innovate in this space with Adobe XD, our design system for UX and UI. We released a major update to Adobe XD in May, enabling teams to create and share designs to enhance both productivity and collaboration.
In Q2, we drove strong subscription growth across our flagship photography and digital video offerings. At NAB in Las Vegas, we unveiled new innovations across Premiere Pro, Audition, Character Animator, and After Effects. One exciting announcement was the availability of the Content-Aware Fill feature in After Effects, powered by Adobe Sensei, which magically enables editors to seamlessly remove unwanted objects from video, saving hours of tedious manual work. It won five awards at the show, including the NAB Show Product of the Year Award.

We continue to expand Creative Cloud with value-added services. Adobe Stock, our fast-growing service for stock images, videos, and millions of additional creative assets, grew greater than 25 percent year-over-year.

We're proud of the role our solutions play in inspiring the global creative community and shaping popular culture. This quarter, we launched a creative campaign with 17-year-old music sensation Billie Eilish, which inspired significant participation among our important student segment.

With Adobe Document Cloud, we're reinventing how people scan, edit, collaborate, sign and share documents in the cloud and mobile era. Document Cloud revenue in Q2 was a record $296 million and we grew Document Cloud ARR to $921 million – driven by continued strength in Acrobat subscription adoption.

Mobile is the next frontier for digital documents and our flagship apps – Adobe Reader for mobile and Adobe Scan – continue to gain traction. Adobe Scan, which allows you to capture everything from documents to forms, whiteboard sketches or business cards, and turn them into picture-perfect, high-quality PDFs – is now the leading scanning app on iOS and Android.
We're driving adoption for Adobe Sign, our cloud-based electronic signature solution, with customers including Merck, Hitachi, and Iowa State University. They’re using Adobe Sign to provide a better customer experience, close contracts, and win business.

In our Digital Experience business, we achieved record Experience Cloud revenue of $784 million for the quarter, which represents 34% year-over-year growth.

To win in today’s competitive landscape, businesses must become more customer-centric and data-driven. Our vision for Adobe Experience Cloud is to enable businesses to reimagine the entire customer journey—using data to understand and drive their business from discovery through trial, purchase, use and renewal. At the core of Adobe's own transformation has been our use of Adobe Experience Cloud.

B2B and B2C companies across every country and industry are choosing Adobe Experience Cloud – the only end-to-end solution for marketing, advertising, analytics and commerce – to master the art and science of Customer Experience Management. Key Experience Cloud customer wins in Q2 include Amazon, Rite Aid, Vodaphone and Wyndham Hotels.

The acquisitions of Magento and Marketo have significantly increased our value to existing customers, helped us attract new logos, and expanded Adobe’s addressable opportunity.

Magento adds to our Experience Cloud vision by allowing us to make every moment personal, and every experience shoppable in addition to attracting a large and vibrant developer community to Adobe. This quarter we announced the availability of Adobe Commerce Cloud, built on the Magento Commerce platform, with deep integrations across Adobe Analytics Cloud, Marketing Cloud and Advertising Cloud.
We announced a new partnership with Amazon, creating Magento Commerce branded stores for Amazon sellers, which will give merchants a more seamless way to manage their business across both Amazon.com and their own storefront.

With the addition of Marketo, Adobe provides the leading marketing engagement platform for both B2B and B2C customers. We’ve deepened the integration between Adobe Marketing Cloud and Marketo Engage. We are leveraging Adobe Sensei so companies can deliver the right experiences to the right people at the right time. This quarter we announced our partnership with LinkedIn, empowering B2B marketers and sellers to easily identify, understand and engage B2B customer buying teams.

At Summit, we announced the global availability of Adobe Experience Platform, the industry’s first real-time platform for Customer Experience Management. Adobe Experience Platform provides real-time CDP and DMP capabilities, and stitches together data from across the enterprise – creating real-time customer profiles and enabling the activation and delivery of hyper-personalized experiences. Some of the world’s leading brands are already using Adobe Experience Platform in beta, including Best Buy, Sony Interactive Entertainment, The Home Depot and Verizon Wireless.

We’ve built a strong ecosystem of global partners. Recently we announced new partnerships with ServiceNow and Software AG. We will deliver integration between Adobe Experience Platform and the ServiceNow Platform as well as with Software AG’s webMethods platform.

Adobe and Marketo were both positioned as Leaders by Gartner in the Magic Quadrant for Multichannel Marketing Hubs. Among the 21 companies evaluated, Adobe achieved the strongest position for ‘Completeness of Vision’. Adobe Experience Cloud was recently named a leader in the Gartner Magic Quadrant for Digital Experience Platforms. Adobe Marketing Cloud, Advertising Cloud and Analytics Cloud were reviewed and successfully validated by TrustArc, making Adobe the first company in the digital experience space to receive ‘TRUSTe GDPR Privacy Practices Compliance Validation.’
Our mission to change the world through digital experiences gives purpose to the work we do. We're proud Adobe was honored with a Hope Award from the National Center for Missing and Exploited Children. For more than a decade, Adobe has been partnering with NCMEC – through software contributions and technical expertise – in service of its important mission: to find missing children and prevent child exploitation and victimization.

At Adobe, our employees are our greatest asset and we continue to invest in our future talent. This summer we're pleased to welcome more than a thousand interns and new grads to Adobe – from more than 150 schools around the world.

Our strategy of empowering people to create and transforming how businesses compete offers a unique value-proposition in the market, and large addressable opportunities to grow our business.

FY19 is expected to be another record year. We expect the first half momentum to continue in the second half. Our revenue growth, cash flow, and operating profit differentiates us among SaaS companies at scale.

John.
Thanks, Shantanu.

As with last quarter, we are reporting results based on our adoption of ASC 606 this fiscal year. As a reminder, our results in the year ago fiscal period were reported based on ASC 605. We have not adjusted our prior fiscal year reported numbers for comparison purposes under ASC 606.

In Q2 FY19, Adobe achieved record revenue of $2.74 billion, which represents 25% year-over-year growth. GAAP diluted earnings per share in Q2 was $1.29 and non-GAAP diluted earnings per share was $1.83.

Business and financial highlights in Q2 included:

- Record Digital Media revenue of $1.89 billion, including Creative revenue of $1.59 billion and Adobe Document Cloud revenue of $296 million;
- Strong net new Digital Media ARR of $406 million;
- Record Digital Experience revenue of $784 million;
• Remaining Performance Obligation, or RPO, grew to $8.37 billion;

• Cash flow from operations of $1.11 billion;

• Repurchasing 2.5 million shares of our stock through stock buyback;

• And approximately 91% of our revenue in Q2 was from recurring sources.

In our Digital Media segment, we achieved record revenue with 22% year-over-year growth. The addition of $406 million net new Digital Media ARR during the quarter grew the total to $7.47 billion.

Within Digital Media, we achieved another strong quarter with our Creative business. Creative revenue grew 22% year-over-year in Q2 and we increased Creative ARR by $341 million.

Notable growth drivers in Q2 across conversion, upsell and retention included:

• New user growth driven by numerous global initiatives to generate demand, including targeted campaigns and promotions, leveraging the funnel of users coming to Creative Cloud through mobile apps and online engagement; and continued focus on new categories including immersive media and new segments such as social media creators;

• Creative Cloud Photography plan subscriptions;

• Adobe Premiere Pro single app subscriptions in the video category;

• Creative Cloud enterprise, including customer acquisition, seat expansion and services adoption; and

• Adoption of Adobe Stock, where revenue and subscription growth rates remain strong.
We achieved record Document Cloud revenue of $296 million in Q2, which represents 22% year-over-year growth, and we added $65 million of net new Document Cloud ARR during the quarter.

The growth in the Document Cloud business was driven by strong demand on Adobe.com, the continued migration of Acrobat perpetual customers to subscriptions, enterprise services adoption, and monetization of mobile app use. In addition, Adobe Sign achieved another strong quarter of growth.

In our Digital Experience segment, we achieved record quarterly Experience Cloud revenue of $784 million, which represents 34% year-over-year growth. Experience Cloud subscription revenue was a record $654 million.

Business performance in Digital Experience during the quarter was driven by strength in:

- Adobe Marketing Cloud, including Adobe Experience Manager, Adobe Target and Adobe Campaign;
- Multi-solution digital transformation engagements; and
- Traction with cross-selling Magento and Marketo in the enterprise.
During Q2 we continued to focus on driving Magento and Marketo synergies, including organizational, product and go-to-market alignment. Both Magento and Marketo were prominently featured at Summit events in the US and Europe, and we also held Magento Imagine and Marketo Marketing Nation events during Q2.

The depth and breadth of our enterprise partner ecosystem remains a competitive advantage contributing to pipeline generation, customer success as well as financial performance. We had another successful quarter of selling alongside Microsoft, where our combined value proposition is resonating with enterprise customers.

Our overall financial results were negatively affected by currency rate movements. Total Adobe Q2 year-over-year revenue growth would have been 27% if measured in constant currency; and year-to-date, total first half FY19 year-over-year revenue growth would have been 26% if measured in constant currency.

More specifically in Q2:

- From a quarter-over-quarter currency perspective, FX decreased revenue by $4.9 million. We had $9 million in hedge gains in Q2 FY19, versus $8.5 million in hedge gains in Q1 FY19; thus, the net sequential currency decrease to revenue considering hedging gains was $4.4 million.

- From a year-over-year currency perspective, FX decreased revenue by $45.3 million. The $9 million in hedge gains in Q2 FY19 versus $0.3 million in hedge gains in Q2 FY18 resulted in a net year-over-year currency decrease to revenue considering hedging gains of $36.6 million.

In Q2, Adobe’s effective tax rate was 11% on a GAAP and non-GAAP basis.
Our trade DSO was 42 days, which compares to 44 days in the year-ago quarter, and 46 days last quarter.

Remaining Performance Obligation or "RPO" was approximately $8.37 billion exiting Q2, which compares to $8.13 billion exiting Q1.

Deferred revenue exiting Q2 was $3.13 billion. The sequential decline in deferred revenue was a result of timing rather than business performance due to fewer billing cycles in our second quarter. The impact was more than offset by an increase in unbilled backlog.

Our ending cash and short-term investment position exiting Q2 was $3.48 billion, and cash flow from operations was $1.11 billion in the quarter.

In Q2 we repurchased approximately 2.5 million shares at a cost of $659 million. We currently have $6.6 billion remaining of our $8 billion repurchase authority granted in May 2018 which goes through 2021.
Now I will discuss our financial targets. As a reminder, our Q3 includes the summer months of June, July and August and we expect normal seasonality to influence our results during the quarter.

In Q3 FY19, we are targeting:

- Revenue of approximately 2 billion 800 million dollars;
- Digital Media segment year-over-year revenue growth of approximately 20%;
- Net new Digital Media ARR of approximately $360 million;
- Digital Experience segment year-over-year revenue growth of approximately 34%;
- Other Expense of approximately $22 million;
- Tax rate of approximately 11% on a GAAP and non-GAAP basis;
- Share count of approximately 491 million shares;
- GAAP earnings per share of approximately $1.40; and
- Non-GAAP earnings per share of approximately $1.95.

As usual, we are not updating annual targets at this time of the year. We are pleased with our first half performance and we expect our first half momentum to continue in the second half, with typical seasonality in Q3 and strength in Q4. We continue to expect sequential operating margin growth as we move through the second half of the year.

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

Thanks, John.

Adobe MAX, our user conference focused on our Digital Media solutions, will occur during the first week of November this year in Los Angeles. On day one at MAX on Monday, November 4th, we plan to host a financial analyst meeting. Invitations, including discounted registration information, will be sent to our analyst and investor email list later this summer. 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 #2843011. 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 June 25th, 2019.

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