Adobe Investor Presentation
October, 2017
Financial Disclaimer

Some of the information discussed in this presentation 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 2016 and the quarterly reports on Form 10-Q filed by the company in 2017. In our presentation, we may discuss non-GAAP financial measures. The GAAP financial measures that correspond to such non-GAAP measures, as well as the reconciliation between the two, are available on our website at http://www.adobe.com/ADBE.

Adobe does not undertake an obligation to update forward-looking statements.
Adobe's Strategy

EMPOWERING PEOPLE TO CREATE

TRANSFORMING HOW BUSINESSES COMPETE

Key Market Trends

Beyond Mobility
Cloud Native
Intelligence Everywhere
Open Ecosystem
Adobe's Strategy

Adobe Sensei
Powering experiences with intelligence

Massive volume of content and data assets at its core
Unified artificial intelligence/machine learning framework
Deep domain expertise in creative, documents and marketing

Adobe's Cloud Platform

Creative Cloud
Document Cloud
Experience Cloud

ADOBE SENSEI
Artificial Intelligence/Machine Learning Framework and Intelligent Services

CONTENT       DATA
Digital Media

Adobe Creative Cloud
Adobe Document Cloud

Digital Media Customers
Creative Professionals
Students
Photo Enthusiasts
Knowledge Workers
CMOs & CIOs
Digital Media Market Trends

Creativity unleashed

Every story, every surface

Harness the collective IQ

Digital Media Products

Adobe Creative Cloud

Adobe Document Cloud
Digital Media Product Momentum
Product News in 2017

Adobe Creative Cloud
- New products including Adobe XD, Adobe Dimension and Adobe Lightroom Photography service plus hundreds of new features & enhancements
- Video advancements including HDR/4K/VR, animation, motion graphics capabilities
- New Adobe Stock editorial content and Adobe Sensei-powered search
- New Adobe Spark paid premium mobile offering

Adobe Document Cloud
- New Adobe Acrobat Pro desktop release
- New Adobe Scan mobile app ("PDF for mobile")
- Year-round Adobe Sign product updates, plus 15 new partner integrations and global expansion
- Adobe Sign partnership signed with Microsoft
- Launched digital signature open standards consortium with top digital identity providers

Creative Cloud

- Desktop apps, mobile apps and cloud-based services
- Subscription service with monthly pricing expands market opportunity
  - Lower entry price point
  - New customer acquisition
  - Combats piracy
  - ARPU growth potential through services such as Adobe Stock
- Subscribers get frequent delivery of new features and capabilities
Creative Cloud Business Momentum
Annualized Recurring Revenue ("ARR") and Revenue

Source: Adobe
* Based on Q4 FY2017 financial targets; ARR based on December 2016 FX rates held constant through the year
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Creative Cloud Business Momentum
Revenue Mix

Source: Adobe
* Based on Q4 FY2017 financial targets
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Creative Cloud Business Momentum

Metrics

- >40% New to Creative Cloud franchise
- ~66% Creative Cloud Enterprise seats licensed with services
- >10M Behance members
- 2X Y/Y growth in Adobe Stock ARR
- >1M Adobe XD beta downloads

Source: Adobe, as of Q3 FY2017
1 Cumulative new subscriptions, excludes Enterprise and Acrobat Single App subscriptions
2 Compared Adobe Stock ARR exiting Q3 FY2017 and Q3 FY2016

Creative Cloud
2020 Total Addressable Market

$24.2B Total Addressable Market

$11.4B Core
Current Creative Cloud installed base and ARR, Creative Suite and Acrobat migration, new Creative user growth, education and enterprise user growth, new media authoring (3D/AR/VR), upsell and price optimization

$5.7B Market Expansion
Photo hobbyist growth, Adobe Lightroom and Photoshop Elements migration, new paid mobile users, premium photo service, new creative offerings for consumers and creatives at work, online video creators

$7.1B Value Expansion
Adobe Stock, training content and services, collaboration services, Creative Cloud enterprise services

Source: Adobe, October 2017
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Adobe Document Cloud

• Desktop apps, mobile apps and cloud services deliver streamlined workflows and compelling document experiences that accelerate business transformation
• Leverages ubiquitous PDF format and ~1 billion Adobe Reader installed base on desktops and mobile devices
• Using Creative Cloud playbook and cloud strategy to reinvigorate growth
  • Lower entry price point with subscriptions
  • New customer acquisition
  • Combats piracy
  • GTM synergies
• Gradual transition to more recurring revenue

Adobe Document Cloud Business Momentum
Annualized Recurring Revenue ("ARR") and Revenue

Source: Adobe
* Based on Q4 FY2017 financial targets; ARR based on December 2016 FX rates held constant through the year
Adobe Document Cloud Business Momentum

**Revenue Mix**

**FY2014 Revenue Mix**
- Perpetual and OEM: ~$0.6B
- Subscription: ~$0.2B
- Service & Support: ~$0.04B
- Total: ~$0.8B

**FY2017E Revenue Mix**
- Perpetual and OEM: ~$0.3B
- Subscription: ~$0.5B
- Service & Support: ~$0.8B
- Total: ~$0.8B

Source: Adobe
* Based on Q4 FY2017 financial targets
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Adobe Document Cloud Business Momentum

**Metrics**

- ~19% Y/Y Acrobat unit growth in Q3 FY17 *
- ~33% Of subscribers new to Acrobat franchise
- ~200B PDFs opened per year in Acrobat & Acrobat Reader
- >500M Document Cloud mobile apps installs
- ~30% Y/Y growth of documents signed on mobile devices with Adobe Sign

Source: Adobe, as of Q3 FY2017
* Acrobat perpetual and subscription units licensed as SingleApp
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Adobe Document Cloud
2020 Total Addressable Market

$5.3B
Total Addressable Market

$1.4B
Core
Current Acrobat subscription installed base and ARR, Acrobat migration to subscriptions, PDF creation market, electronic documents market

$3.9B
Value Expansion
Electronic signatures, document protection, form fill and sign, review and approve markets

Source: Adobe, October 2017
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Digital Media
Growth Drivers in 2018

CORE
- Creative Suite & Acrobat migration to subscriptions
- New user growth & enterprise seat expansion
- New media authoring categories
- Upsell and price optimization

MARKET EXPANSION
- Photography
  - Photo hobbyist growth
  - New mobile paid offerings
  - Premium Cloud service
- Next generation apps
  - Adobe Spark
  - Adobe Scan
  - Adobe XD

VALUE EXPANSION
- Adobe Stock
- Adobe Sign
- Training, marketplace & collaboration services
- Creative Cloud enterprise services
- Document Cloud business automation

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Digital Media
Summary

• Content explosion and mobility trends continue to be a tailwind
• Broader strategy creating larger TAM opportunity
• Multiple drivers continue to fuel ARR growth moving forward
  • New user acquisition
  • Creative Suite and Acrobat migration
  • Value expansion via services
  • Upsell and pricing optimization

2020 MARKET OPPORTUNITY

<p>| | |</p>
<table>
<thead>
<tr>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Core</td>
<td>$12.8B</td>
</tr>
<tr>
<td>Market Expansion</td>
<td>$5.7B</td>
</tr>
<tr>
<td>Value Expansion</td>
<td>$11.0B</td>
</tr>
<tr>
<td>~$30B</td>
<td>Addressable Market</td>
</tr>
</tbody>
</table>

Source: Adobe
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Adobe Experience Cloud

A complete set of integrated, cloud-based solutions that enable marketers to gain deep customer insight, build personalized campaigns, and manage/deliver their content

• Data-driven marketing – organize and analyze large amounts of data to gain actionable marketing insight
• Mobile marketing – effectively make, manage, measure and monetize mobile apps
• Customer experiences – deliver personalized and relevant digital experiences across screens and devices
• Cross-channel marketing – deliver and measure campaigns that are consistent across all marketing channels
• Programmatic advertising – automate ad buying based on data

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Adobe Experience Cloud Products

Adobe Marketing Cloud

Integrated marketing solutions
Differentiate brand story; connect with customers on personal level; engage them in moments that matter
- Experience personalization & optimization
- Campaign orchestration & journey management
- Experience management & delivery
- Monetization of video experiences

Adobe Analytics Cloud

Intelligence engine for the enterprise
Combine digital and offline data to help brands move from insights to action, smarter and faster
- Customer journey context
- Meaningful measurement
- Automated audience creation
- Insights into action

Adobe Advertising Cloud

Industry’s first end-to-end platform
Manage advertising spanning traditional TV and all digital formats
- Automated media execution – plan, buy, measure, optimize ad buys
- Cross-channel
- Real-time bidding, private marketplace and curated inventory
- Dynamic creative optimization

Adobe Experience Cloud Business Momentum

Revenue and Subscription Revenue

Source: Adobe
* Based on Q4 FY2017 financial targets
** Includes revenue from SaaS, managed service and term offerings for Adobe Analytics Cloud and Adobe Marketing Cloud, as well as total revenue for Adobe Advertising Cloud
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Adobe Experience Cloud Business Momentum

Revenue Mix

**FY2014 Revenue Mix**
- Perpetual and OEM: ~$0.2B
- Subscription**: ~$0.7B
- Service & Support: ~$0.3B
- Total Revenue: ~$1.2B

**FY2017E** Revenue Mix
- Perpetual and OEM: ~$0.1B
- Service & Support: ~$0.4B
- Subscription**: ~$1.5B
- Total Revenue: ~$2.0B

*Based on Q4 FY2017 financial targets
**Includes revenue from SaaS, managed service and term offerings for Adobe Analytics Cloud and Adobe Marketing Cloud, as well as total revenue for Adobe Advertising Cloud

Source: Adobe

Adobe Experience Cloud Business Momentum

Metrics

155 Trillion
Annual customer data transactions

57%
Of analytics transactions from mobile devices

$4.9M
Average ARR of top 100 customers

~70%
Of top 500 customers have 3+ solutions

Source: Adobe

*Based on trailing 4 quarters as of Q3 FY2017
**Based on Q3 FY2017 top 100 estimated ARR customers
*Based on Q3 FY2017 top 50 estimated ARR customers

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Adobe Experience Cloud
2020 Total Addressable Market

$53.1B
Total Addressable Market

$13.6B
Adobe Analytics Cloud
Adobe Analytics, Adobe Audience Manager

$31.5B
Adobe Marketing Cloud
Adobe Experience Manager, Adobe Target, Adobe Campaign, Adobe Primetime, Adobe Social

$8.0B
Adobe Advertising Cloud
Adobe Media Optimizer

Source: Adobe, October 2017
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Architecting for the Experience Business

Unified Experiences

Adobe Cloud Platform

Real-time Unified Profile

Front Office
POS
Merchandising
Commerce
CRM

Back Office
Inventory Mgmt.
Store Operations
ERP
Business Intelligence
Scaling for the Experience Business

Direct Sales

Partner Sales
Agencies, ISVs, Regional Partners, SIs

Adobe Experience Cloud
Growth Drivers in 2018

**CUSTOMER ENGAGEMENT**
- Demand for omnichannel customer engagement & analytics
- Shift in ad spend to digital
- Account penetration (upsell, cross-sell)
- Geographic & vertical market expansion

**PARTNER LEVERAGE**
- Partner ecosystem for digital transformation implementation
- Microsoft partnership to broaden go-to-market reach and enterprise value proposition

**PRODUCT DIFFERENTIATION**
- Data & content platform as foundation for delivering customer experiences
- Adobe Sensei to provide new capabilities and increase competitive advantage
Adobe Experience Cloud

Summary

- Large and growing "Experience Business" opportunity
- Market leader with most integrated offering for customers
- Content and data platform provides differentiation and competitive advantage
- Investments in innovation, go-to-market and partners fueling long-term growth potential

2020 MARKET OPPORTUNITY

<table>
<thead>
<tr>
<th>Service</th>
<th>Market Opportunity</th>
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<tr>
<td>Marketing Cloud</td>
<td>~$31.5B</td>
</tr>
<tr>
<td>Analytics Cloud</td>
<td>~$13.6B</td>
</tr>
<tr>
<td>Advertising Cloud</td>
<td>~$8.0B</td>
</tr>
</tbody>
</table>

~$53B Addressable Market

Source: Adobe

FY2018 Preliminary Targets

October 18, 2017

<table>
<thead>
<tr>
<th>Metric</th>
<th>Target</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total Adobe revenue(^1)</td>
<td>~$8.7B (~20% Y/Y)</td>
</tr>
<tr>
<td>Digital Media segment revenue</td>
<td>~23% Y/Y</td>
</tr>
<tr>
<td>Experience Cloud subscription revenue(^2)</td>
<td>~20% Y/Y</td>
</tr>
<tr>
<td>Experience Cloud total revenue</td>
<td>~15% Y/Y</td>
</tr>
<tr>
<td>GAAP EPS</td>
<td>~$4.40</td>
</tr>
<tr>
<td>Non-GAAP EPS</td>
<td>~$5.50</td>
</tr>
<tr>
<td>Digital Media ARR</td>
<td>~$1B of net new ARR</td>
</tr>
<tr>
<td>Experience Cloud bookings(^3)</td>
<td>~20% Y/Y</td>
</tr>
</tbody>
</table>

\(^1\) All revenue and EPS targets were set based on September 2017 foreign exchange (“FX”) rates forward adjusted to mid-2018, which for current planning purposes are assumed to be constant during fiscal year 2018.

\(^2\) Includes revenue from SaaS, managed service and term offerings for Adobe Analytics Cloud and Adobe Marketing Cloud, as well as total revenue for Adobe Advertising Cloud.

\(^3\) Includes annualized subscription value of SaaS, managed service and term offerings under contract for Adobe Analytics Cloud and Adobe Marketing Cloud.

The information presented 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 investor relations website for a reconciliation between GAAP and non-GAAP targets.

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Business Momentum
Deferred Revenue and Unbilled Backlog

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Source: Adobe
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Business Momentum
Operating Cash Flow

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Source: Adobe
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ASC 606 Implementation Update
October 18, 2017

Context
- Effective for Adobe beginning in FY2019 (starting December 1, 2018)
- Implementation on track
- In process of assessing comprehensive adoption impacts

Expected Impact
- Negligible impact expected for Creative Cloud and Document Cloud services-enabled offerings
- Negligible impact expected for fully-hosted products (e.g., Adobe Analytics, Adobe Target, Adobe Sign and managed services offerings of Adobe Experience Manager and Adobe Campaign)
- Some impact expected with enterprises utilizing non-services enabled Creative Cloud and Document Cloud deployments and on-premise term licenses which are currently recognized as subscription revenue (e.g., some Adobe Experience Manager and Adobe Campaign, some Print & Publishing products)

Financial Implications
- Some contract types will change from ratable to upfront revenue recognition (e.g., non-services-enabled Creative Cloud and Document Cloud contracts, on-premise term licenses)
- One-time reduction expected for deferred revenue and unbilled backlog
- Annual revenue expected to remain largely unchanged
- Certain costs related to contract acquisition currently expensed (e.g., sales commissions) may be capitalized

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Capital Structure

- Strong liquidity position
  - $5.4B of cash and short-term investments
  - $1.0B unutilized credit facility, remains available until 2020
- Conservative leverage approach
  - $1.9B of public debt outstanding
  - Rated A by S&P
  - Rated A3 by Moody’s
- Excess domestic cash returned to stockholders through stock repurchase

Source: Adobe, earning Q3 FY2017
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Growth and Margin at Scale

- Large, expanding opportunity
- ~$83B TAM in 2020
- Strong business momentum and market leadership
- Significant top-line and bottom-line growth
FOR IMMEDIATE RELEASE

Adobe Outlines Growth Strategy at Adobe MAX
Company Provides Preliminary Financial Targets for Fiscal Year 2018 at Financial Analyst Briefing


At today's meeting in Las Vegas, Adobe's CEO and CFO will outline the company's momentum, opportunities and strategies across each of its major businesses. As part of their presentations, Adobe will review market research information which indicates the company's total addressable market has expanded to approximately $83 billion by 2020. The Company is also providing preliminary financial targets for fiscal year 2018, and is reaffirming its current Q4 fiscal year 2017 revenue and earnings per share targets.

"Adobe's vision has never been more clear or more relevant – to empower people and businesses to design and deliver amazing digital experiences," said Shantanu Narayen, president and CEO, Adobe. "The FY2018 targets we are providing today include revenue growth of 20 percent and earnings growth of 30 percent, and reflect our continued momentum and leadership."

Adobe Provides Preliminary FY2018 Financial Targets

At today's financial analyst meeting, Adobe is providing preliminary financial targets for its fiscal year 2018, which are summarized in the table below.

<table>
<thead>
<tr>
<th>Total Adobe revenue(^1)</th>
<th>Approximately $8.7 billion (~20 percent year-over-year growth)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Digital Media segment revenue</td>
<td>Approximately 23 percent year-over-year growth</td>
</tr>
<tr>
<td>Adobe Experience Cloud subscription revenue(^2)</td>
<td>Approximately 20 percent year-over-year growth</td>
</tr>
<tr>
<td>Adobe Experience Cloud total revenue</td>
<td>Approximately 15 percent year-over-year growth</td>
</tr>
<tr>
<td>GAAP earnings per share</td>
<td>Approximately $4.40</td>
</tr>
<tr>
<td>Non-GAAP earnings per share</td>
<td>Approximately $5.50</td>
</tr>
<tr>
<td>Digital Media Annualized Recurring Revenue (&quot;ARR&quot;)</td>
<td>Approximately $1 billion of net new ARR</td>
</tr>
<tr>
<td>Adobe Experience Cloud bookings(^3)</td>
<td>Approximately 20 percent year-over-year growth</td>
</tr>
</tbody>
</table>

\(^1\) Revenue and earnings per share targets were set based on September 2017 foreign exchange ("FX") rates forward adjusted to mid-2018, which for current planning purposes are assumed to be constant during fiscal year 2018

\(^2\) Includes revenue from SaaS, managed service and term offerings for Adobe Analytics Cloud and Adobe Marketing Cloud, as well as total revenue for Adobe Advertising Cloud

\(^3\) Includes annualized subscription value of SaaS, managed service and term offerings under contract for Adobe Analytics Cloud and Adobe Marketing Cloud

A reconciliation between FY2018 GAAP and non-GAAP earnings per share targets is provided later in this press release.
Adobe Reaffirms Q4 Revenue and Earnings Targets

Adobe stated it is on track to achieve Q4 FY2017 revenue of $1.95 billion. The Company also stated it is on track to achieve its Q4 earnings per share targets of $0.86 on a GAAP-basis, and $1.15 on a non-GAAP basis.

A reconciliation between GAAP and non-GAAP earnings per share targets is provided later in this press release.

Adobe to Webcast Financial Analyst Meeting

Adobe will webcast its meeting with financial analysts and investors in attendance at Adobe MAX beginning at 5 p.m. Eastern Time today. People can access the webcast and slides from this event from the Adobe Investor Relations webpage at http://www.adobe.com/ADBE. The live video webcast will last approximately two hours and will be archived on Adobe’s website for approximately 30 days. There will be no phone dial-in capability.

Forward-Looking Statements Disclosure

This press release contains forward-looking statements, including those related to business momentum and strategy, market expansion, revenue, earnings, annualized recurring revenue, bookings, operating cash flow, non-operating other expense, GAAP and non-GAAP tax rate, GAAP and non-GAAP earnings per share and share count, all of which involve risks and uncertainties that could cause actual results to differ materially. Factors that might cause or contribute to such differences include, but are not limited to: failure to develop, market and offer products and services that meet customer requirements, introduction of new products, services and business models by competitors, fluctuations in subscription renewal rates, our ability to predict such renewals and risks related to the timing of revenue recognition from our subscription offerings and enterprise term license agreements, complex and unpredictable sales cycles for some enterprise offerings, failure to successfully manage transitions to new business models and markets, uncertainty in economic conditions and the financial markets, risks associated with cyber-attacks and information security, potential interruptions or delays in hosted services provided by us or third parties, changes in accounting principles, and failure to realize the anticipated benefits of past or future acquisitions.

For a discussion of these and other risks and uncertainties, please refer to Adobe's Annual Report on Form 10-K for our fiscal year 2016 ended Dec. 2, 2016, and Adobe's Quarterly Reports on Form 10-Q issued in fiscal year 2017.

Adobe assumes no obligation to, and does not currently intend to, update these forward-looking statements.

About Adobe Systems Incorporated

Adobe is changing the world through digital experiences. For more information, visit www.adobe.com.

###

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Reconciliation of GAAP to Non-GAAP Financial Targets

The following table shows Adobe's preliminary fiscal year 2018 GAAP earnings per share financial target reconciled to the non-GAAP target included in this document.

<table>
<thead>
<tr>
<th>Diluted earnings per share:</th>
<th>Fiscal Year 2018</th>
</tr>
</thead>
<tbody>
<tr>
<td>GAAP diluted earnings per share</td>
<td>$ 4.40</td>
</tr>
<tr>
<td>Stock-based and deferred compensation expense</td>
<td>1.18</td>
</tr>
<tr>
<td>Amortization of purchased intangibles</td>
<td>0.28</td>
</tr>
<tr>
<td>Income tax adjustments</td>
<td>(0.36)</td>
</tr>
<tr>
<td>Non-GAAP diluted earnings per share</td>
<td>$ 5.50</td>
</tr>
</tbody>
</table>

| Shares used to compute diluted earnings per share (in millions)  | 500.0           |

The following table shows Adobe's fourth quarter fiscal year 2017 GAAP earnings per share target reconciled to the non-GAAP financial target included in this document.

<table>
<thead>
<tr>
<th>Diluted net income per share:</th>
<th>Fourth Quarter Fiscal 2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>GAAP diluted net income per share</td>
<td>$ 0.86</td>
</tr>
<tr>
<td>Stock-based and deferred compensation expense</td>
<td>0.25</td>
</tr>
<tr>
<td>Amortization of purchased intangibles</td>
<td>0.07</td>
</tr>
<tr>
<td>Income tax adjustments</td>
<td>(0.03)</td>
</tr>
<tr>
<td>Non-GAAP diluted net income per share</td>
<td>$ 1.15</td>
</tr>
</tbody>
</table>

| Shares used to compute diluted net income per share (in millions)| 500.0                     |

Use of Non-GAAP Financial Information

Adobe continues to provide all information required in accordance with GAAP, but believes evaluating its ongoing operating results may not be as useful if an investor is limited to reviewing only GAAP financial measures. Adobe uses non-GAAP financial information to evaluate its ongoing operations and for internal planning and forecasting purposes. Adobe's management does not itself, nor does it suggest that investors should, consider such non-GAAP financial measures in isolation from, or as a substitute for, financial information prepared in accordance with GAAP. Adobe presents such non-GAAP financial measures in reporting its financial results to provide investors with an additional tool to evaluate Adobe's operating results. Adobe believes these non-GAAP financial measures are useful because they allow for greater transparency with respect to key metrics used by management in its financial and operational decision-making. This allows institutional investors, the analyst community and others to better understand and evaluate our operating results and future prospects in the same manner as management.

Adobe’s management believes it is useful for itself and investors to review, as applicable, both GAAP information that may include items such as stock-based and deferred compensation expenses, restructuring and other charges, amortization of purchased intangibles and certain activity in connection with technology license arrangements, investment gains and losses and the related tax impact of all of these items, income tax adjustments, the income tax effect of the non-GAAP pre-tax adjustments from the provision for income taxes, and the non-GAAP measures that exclude such information in order to assess the performance of Adobe's business and for planning and forecasting in subsequent periods. Whenever Adobe uses such a non-GAAP financial measure, it provides a reconciliation of the non-GAAP financial measure to the most closely applicable GAAP financial measure. Investors are encouraged to review the related GAAP financial measures and the reconciliation of these non-GAAP financial measures to their most directly comparable GAAP financial measure as detailed above.
Adobe Financial Targets
September 19, 2017

This document summarizes Adobe’s Q4 fiscal year 2017 financial targets and target commentary provided by Adobe, and reconciles GAAP to non-GAAP targets.

Q4 Fiscal Year 2017 Targets
The following fourth quarter FY2017 targets and target commentary were provided by Adobe on September 19, 2017.

| Revenue | ~$1.950 billion |
| Non-operating other expense | ~$13 million |
| Tax rate | GAAP: 24% | Non-GAAP: ~21% |
| Earnings per share | GAAP: ~$0.86 | Non-GAAP: ~$1.15 |
| Share count | ~500 million shares |

- Expect to achieve approximately $330 million of net new Digital Media ARR
- Expect Digital Media segment year-over-year revenue growth of approximately 25%
- Expect Adobe Experience Cloud year-over-year revenue growth of approximately 17%; Adobe Experience Cloud Q4 FY2017 year-over-year growth rate will be affected by a material amount of perpetual revenue achieved in Q4 FY2016

Reconciliation of GAAP to Non-GAAP Financial Targets
(In millions, except per share data)

The following tables show Adobe's fourth quarter fiscal year 2017 financial targets reconciled to non-GAAP financial targets included in this document.

### Diluted net income per share:

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| Shares used to compute diluted net income per share | 500.0 |

### Effective income tax rate:

<table>
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<td>Non-GAAP effective income tax rate</td>
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Use of Non-GAAP Financial Information

Adobe continues to provide all information required in accordance with GAAP, but believes evaluating its ongoing operating results may not be as useful if an investor is limited to reviewing only GAAP financial measures. Adobe uses non-GAAP financial information to evaluate its ongoing operations and for internal planning and forecasting purposes. Adobe's management does not itself, nor does it suggest that investors should, consider such non-GAAP financial measures in isolation from, or as a substitute for, financial information prepared in accordance with GAAP. Adobe presents such non-GAAP financial measures in reporting its financial results to provide investors with an additional tool to evaluate Adobe's operating results. Adobe believes these non-GAAP financial measures are useful because they allow for greater transparency with respect to key metrics used by management in its financial and operational decision-making. This allows institutional investors, the analyst community and others to better understand and evaluate our operating results and future prospects in the same manner as management.

Adobe's management believes it is useful for itself and investors to review, as applicable, both GAAP information as well as non-GAAP measures, which may exclude items such as stock-based and deferred compensation expenses, restructuring and other charges, amortization of purchased intangibles and certain activity in connection with technology license arrangements, investment gains and losses, the related tax impact of all of these items, income tax adjustments, and the income tax effect of the non-GAAP pre-tax adjustments from the provision for income taxes. Adobe uses these non-GAAP measures in order to assess the performance of Adobe's business and for planning and forecasting in subsequent periods. Whenever such a non-GAAP measure is used, Adobe provides a reconciliation of the non-GAAP financial measure to the most closely applicable GAAP financial measure. Investors are encouraged to review the related GAAP financial measures and the reconciliation of these non-GAAP financial measures to their most directly comparable GAAP financial measure as detailed above.

Calculating Annualized Recurring Revenue ("ARR")

<table>
<thead>
<tr>
<th>Creative ARR</th>
<th>Annual Value of Creative Cloud Subscriptions and Services + Annual Digital Publishing Suite Contract Value + Annual Creative ETLa Contract Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Digital Media ARR</td>
<td>Creative ARR + Document Cloud ARR</td>
</tr>
</tbody>
</table>

Note: ARR targets and results are adjusted for constant currency based on exchange rates in December each year.
Forward-Looking Statements Disclosure

Our financial targets contain forward-looking statements and projections, including those related to revenue, annualized recurring revenue, non-operating other expense, tax rate on a GAAP and non-GAAP basis, earnings per share on a GAAP and non-GAAP basis, and share count, all of which involve risks and uncertainties that could cause actual results to differ materially. Factors that might cause or contribute to such differences include, but are not limited to: failure to develop, market and offer products and services that meet customer requirements, introduction of new products, services and business models by competitors, fluctuations in subscription renewal rates, our ability to predict such renewals and risks related to the timing of revenue recognition from our subscription offerings and ETLAs, complex and unpredictable sales cycles for some enterprise offerings, failure to successfully manage transitions to new business models and markets, uncertainty in economic conditions and the financial markets, risks associated with cyber-attacks and information security, potential interruptions or delays in hosted services provided by us or third parties, changes in accounting principles, and failure to realize the anticipated benefits of past or future acquisitions.

For a discussion of these and other risks and uncertainties, please refer to Adobe’s Annual Report on Form 10-K for our fiscal year 2016 and Adobe’s Quarterly Reports on Form 10-Q issued in fiscal year 2017. Adobe assumes no obligation to, and does not currently intend to, update these forward-looking statements.
FOR IMMEDIATE RELEASE

Adobe Reports Record Revenue
Strong Cash Flow and Earnings Highlight Third Quarter Results


Financial Highlights

- Adobe achieved record quarterly revenue of $1.84 billion in its third quarter of fiscal year 2017, which represents 26 percent year-over-year revenue growth.
- Diluted earnings per share was $0.84 on a GAAP-basis, and $1.10 on a non-GAAP basis.
- Digital Media segment revenue was $1.27 billion, with Creative revenue growing to $1.06 billion.
- Digital Media Annualized Recurring Revenue (“ARR”) grew to $4.87 billion exiting the quarter, a quarter-over-quarter increase of $308 million.
- Adobe Experience Cloud achieved revenue of $508 million, which represents 26 percent year-over-year growth.
- Operating income grew 48 percent and net income grew 55 percent year-over-year on a GAAP-basis; operating income grew 43 percent and net income grew 46 percent year-over-year on a non-GAAP basis.
- Cash flow from operations was $704 million, and deferred revenue grew to approximately $2.20 billion.
- The company repurchased approximately 2.1 million shares during the quarter, returning $298 million of cash to stockholders.

A reconciliation between GAAP and non-GAAP results is provided at the end of this press release and on Adobe's website.

Executive Quotes

"Adobe delivered another record quarter with stellar year-over-year revenue growth of 26 percent," said Shantanu Narayen, president and CEO, Adobe. "The imperative to deliver intelligent, intuitive and effective customer experiences is key to the C-suite agenda of digital transformation, and Adobe's Cloud offerings are critical to that business mandate."

"Our results in Q3 once again reflect the leverage of our financial model, with record revenue driven by our cloud-based subscription offerings, strong earnings and cash flow from operations," said Mark Garrett, executive vice president and CFO, Adobe.
Adobe to Webcast Earnings Conference Call

Adobe will webcast its third quarter fiscal year 2017 earnings conference call today at 2:00 p.m. Pacific Time from its investor relations website: www.adobe.com/ADBE. Earnings documents, including Adobe management’s prepared conference call remarks with slides, financial targets and an investor datasheet are posted to Adobe’s investor relations website in advance of the conference call for reference. A reconciliation between GAAP and non-GAAP earnings results and financial targets is also provided on the website.

Forward-Looking Statements Disclosure

This press release contains forward-looking statements, including those related to the importance of our products to our customers, product adoption, revenue, annualized recurring revenue, non-operating other expense, tax rate on a GAAP and non-GAAP basis, earnings per share on a GAAP and non-GAAP basis, and share count, all of which involve risks and uncertainties that could cause actual results to differ materially. Factors that might cause or contribute to such differences include, but are not limited to: failure to develop, market and offer products and services that meet customer requirements, introduction of new products, services and business models by competitors, fluctuations in subscription renewal rates, our ability to predict such renewals and risks related to the timing of revenue recognition from our subscription offerings and ETLAs, complex and unpredictable sales cycles for some enterprise offerings, failure to successfully manage transitions to new business models and markets, uncertainty in economic conditions and the financial markets, risks associated with cyber-attacks and information security, potential interruptions or delays in hosted services provided by us or third parties, changes in accounting principles, and failure to realize the anticipated benefits of past or future acquisitions. For a discussion of these and other risks and uncertainties, please refer to Adobe’s Annual Report on Form 10-K for our fiscal year 2016 ended Dec. 2, 2016, and Adobe’s Quarterly Reports on Form 10-Q issued in fiscal year 2017.

The financial information set forth in this press release reflects estimates based on information available at this time. These amounts could differ from actual reported amounts stated in Adobe's Quarterly Report on Form 10-Q for our quarter ended Sept. 1, 2017, which Adobe expects to file in Sept. 2017.

Adobe assumes no obligation to, and does not currently intend to, update these forward-looking statements.

About Adobe Systems Incorporated

Adobe is changing the world through digital experiences. For more information, visit www.adobe.com.

###

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### Condensed Consolidated Statements of Income

(In thousands, except per share data; unaudited)

<table>
<thead>
<tr>
<th></th>
<th>Three Months Ended</th>
<th>Nine Months Ended</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>September 1, 2017*</td>
<td>September 2, 2016</td>
</tr>
<tr>
<td><strong>Revenue:</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Subscription</td>
<td>$1,570,336</td>
<td>$1,168,602</td>
</tr>
<tr>
<td>Product</td>
<td>158,961</td>
<td>180,960</td>
</tr>
<tr>
<td>Services and support</td>
<td>111,777</td>
<td>114,405</td>
</tr>
<tr>
<td><strong>Total revenue</strong></td>
<td>1,841,074</td>
<td>1,463,967</td>
</tr>
<tr>
<td><strong>Cost of revenue:</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Subscription</td>
<td>168,915</td>
<td>116,990</td>
</tr>
<tr>
<td>Product</td>
<td>11,709</td>
<td>15,435</td>
</tr>
<tr>
<td>Services and support</td>
<td>82,298</td>
<td>70,276</td>
</tr>
<tr>
<td><strong>Total cost of revenue</strong></td>
<td>262,922</td>
<td>202,701</td>
</tr>
<tr>
<td><strong>Gross profit</strong></td>
<td>1,578,152</td>
<td>1,261,266</td>
</tr>
<tr>
<td><strong>Operating expenses:</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Research and development</td>
<td>315,555</td>
<td>248,450</td>
</tr>
<tr>
<td>Sales and marketing</td>
<td>550,093</td>
<td>477,475</td>
</tr>
<tr>
<td>General and administrative</td>
<td>147,402</td>
<td>143,364</td>
</tr>
<tr>
<td>Amortization of purchased intangibles</td>
<td>19,428</td>
<td>22,652</td>
</tr>
<tr>
<td><strong>Total operating expenses</strong></td>
<td>1,032,478</td>
<td>891,941</td>
</tr>
<tr>
<td><strong>Operating income</strong></td>
<td>545,674</td>
<td>369,325</td>
</tr>
<tr>
<td><strong>Non-operating income (expense):</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Interest and other income (expense), net</td>
<td>13,539</td>
<td>2,725</td>
</tr>
<tr>
<td>Interest expense</td>
<td>(18,809)</td>
<td>(17,281)</td>
</tr>
<tr>
<td>Investment gains (losses), net</td>
<td>975</td>
<td>1,532</td>
</tr>
<tr>
<td><strong>Total non-operating income (expense), net</strong></td>
<td>(4,295)</td>
<td>(13,024)</td>
</tr>
<tr>
<td>Income before income taxes</td>
<td>541,379</td>
<td>356,301</td>
</tr>
<tr>
<td>Provision for income taxes</td>
<td>121,810</td>
<td>85,513</td>
</tr>
<tr>
<td><strong>Net income</strong></td>
<td>$419,569</td>
<td>$270,788</td>
</tr>
<tr>
<td><strong>Basic net income per share</strong></td>
<td>$0.85</td>
<td>$0.54</td>
</tr>
<tr>
<td>Shares used to compute basic net income per share</td>
<td>493,426</td>
<td>498,584</td>
</tr>
<tr>
<td>Diluted net income per share</td>
<td>$0.84</td>
<td>$0.54</td>
</tr>
<tr>
<td>Shares used to compute diluted net income per share</td>
<td>500,398</td>
<td>503,669</td>
</tr>
</tbody>
</table>

* We early adopted ASU No. 2016-09, Improvements to Employee Share-Based Payment Accounting, during the first quarter of fiscal 2017. As required by the standard, excess tax benefits recognized on stock-based compensation expense were reflected in our provision for income taxes rather than paid-in capital on a prospective basis. We recorded excess tax benefits within our provision for income taxes, rather than paid-in capital, starting the first quarter of fiscal 2017.
## Condensed Consolidated Balance Sheets
(In thousands, except par value; unaudited)

### ASSETS

<table>
<thead>
<tr>
<th></th>
<th>September 1, 2017</th>
<th>December 2, 2016</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash and cash equivalents</td>
<td>$1,774,550</td>
<td>$1,011,315</td>
</tr>
<tr>
<td>Short-term investments</td>
<td>3,593,936</td>
<td>3,749,985</td>
</tr>
<tr>
<td>Trade receivables</td>
<td>1,006,187</td>
<td>833,033</td>
</tr>
<tr>
<td>Prepaid expenses and other</td>
<td>206,384</td>
<td>245,441</td>
</tr>
<tr>
<td>Total current assets</td>
<td>6,581,057</td>
<td>5,839,774</td>
</tr>
<tr>
<td>Property and equipment, net</td>
<td>939,809</td>
<td>816,264</td>
</tr>
<tr>
<td>Goodwill</td>
<td>5,820,656</td>
<td>5,406,474</td>
</tr>
<tr>
<td>Purchased and other intangibles</td>
<td>420,667</td>
<td>414,405</td>
</tr>
<tr>
<td>Investment in lease receivable</td>
<td>—</td>
<td>80,439</td>
</tr>
<tr>
<td>Other assets</td>
<td>144,626</td>
<td>139,890</td>
</tr>
<tr>
<td>Total assets</td>
<td>$13,906,815</td>
<td>$12,697,246</td>
</tr>
</tbody>
</table>

### LIABILITIES AND STOCKHOLDERS' EQUITY

<table>
<thead>
<tr>
<th></th>
<th>September 1, 2017</th>
<th>December 2, 2016</th>
</tr>
</thead>
<tbody>
<tr>
<td>Trade payables</td>
<td>$90,327</td>
<td>$88,024</td>
</tr>
<tr>
<td>Accrued expenses</td>
<td>932,292</td>
<td>739,630</td>
</tr>
<tr>
<td>Income taxes payable</td>
<td>56,754</td>
<td>38,362</td>
</tr>
<tr>
<td>Deferred revenue</td>
<td>2,136,771</td>
<td>1,945,619</td>
</tr>
<tr>
<td>Total current liabilities</td>
<td>3,216,144</td>
<td>2,811,635</td>
</tr>
<tr>
<td>Debt</td>
<td>1,889,218</td>
<td>1,892,200</td>
</tr>
<tr>
<td>Deferred revenue</td>
<td>68,093</td>
<td>69,131</td>
</tr>
<tr>
<td>Income taxes payable</td>
<td>173,023</td>
<td>184,381</td>
</tr>
<tr>
<td>Deferred income taxes</td>
<td>276,271</td>
<td>217,660</td>
</tr>
<tr>
<td>Other liabilities</td>
<td>113,632</td>
<td>97,404</td>
</tr>
<tr>
<td>Total liabilities</td>
<td>5,736,381</td>
<td>5,272,411</td>
</tr>
<tr>
<td>Preferred stock, $0.0001 par</td>
<td>—</td>
<td>—</td>
</tr>
<tr>
<td>Common stock, $0.0001 par value</td>
<td>61</td>
<td>61</td>
</tr>
<tr>
<td>Additional paid-in-capital</td>
<td>4,988,491</td>
<td>4,616,331</td>
</tr>
<tr>
<td>Retained earnings</td>
<td>9,072,321</td>
<td>8,114,517</td>
</tr>
<tr>
<td>Accumulated other comprehensive income (loss)</td>
<td>(98,630)</td>
<td>(173,602)</td>
</tr>
<tr>
<td>Treasury stock, at cost (107,960 and 106,580 shares, respectively), net of reissuances</td>
<td>(5,791,809)</td>
<td>(5,132,472)</td>
</tr>
<tr>
<td>Total stockholders' equity</td>
<td>8,170,434</td>
<td>7,424,835</td>
</tr>
<tr>
<td>Total liabilities and stockholders' equity</td>
<td>$13,906,815</td>
<td>$12,697,246</td>
</tr>
</tbody>
</table>
Condensed Consolidated Statements of Cash Flows  
(In thousands; unaudited)

<table>
<thead>
<tr>
<th>Three Months Ended</th>
<th>September 1, 2017*</th>
<th>September 2, 2016</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Cash flows from operating activities:</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Net income</td>
<td>$419,569</td>
<td>$270,788</td>
</tr>
<tr>
<td>Adjustments to reconcile net income to net cash provided by operating activities:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Depreciation, amortization and accretion</td>
<td>82,319</td>
<td>84,014</td>
</tr>
<tr>
<td>Stock-based compensation expense</td>
<td>117,042</td>
<td>84,503</td>
</tr>
<tr>
<td>Unrealized investment (gains) losses, net</td>
<td>(643)</td>
<td>(1,471)</td>
</tr>
<tr>
<td>Changes in deferred revenue</td>
<td>129,872</td>
<td>116,353</td>
</tr>
<tr>
<td>Changes in other operating assets and liabilities</td>
<td>(43,723)</td>
<td>(36,302)</td>
</tr>
<tr>
<td>Net cash provided by operating activities</td>
<td>704,436</td>
<td>517,885</td>
</tr>
</tbody>
</table>

| **Cash flows from investing activities:** |                     |                    |
| Purchases, sales and maturities of short-term investments, net | 21,215 | (247,601) |
| Purchases of property and equipment | (54,238) | (55,213) |
| Purchases and sales of long-term investments, intangibles and other assets, net | (3,791) | (3,774) |
| Net cash used for investing activities | (36,814) | (306,588) |

| **Cash flows from financing activities:** |                     |                    |
| Purchases of treasury stock | (300,000) | (400,000) |
| Proceeds from treasury stock reissuances, net of taxes paid related to net share settlement of equity awards | 82,117 | 71,128 |
| Repayment of capital lease obligations | (416) | (65) |
| Excess tax benefits from stock-based compensation | — | 3,980 |
| Net cash used for financing activities | (218,299) | (324,957) |

| Effect of exchange rate changes on cash and cash equivalents | 8,277 | (5,047) |
| Net increase (decrease) in cash and cash equivalents | 457,600 | (118,707) |
| Cash and cash equivalents at beginning of period | 1,316,950 | 886,379 |
| Cash and cash equivalents at end of period | $1,774,550 | $767,672 |

* We early adopted ASU No. 2016-09, Improvements to Employee Share-Based Payment Accounting, during the first quarter of fiscal 2017. As required by the standard, excess tax benefits recognized on stock-based compensation expense were reflected in our provision for income taxes rather than paid-in capital on a prospective basis. We also elected to prospectively apply the change in presentation of excess tax benefits wherein excess tax benefits recognized on stock-based compensation expense were classified as operating activities in our condensed consolidated statements of cash flows starting the first quarter of fiscal 2017. Prior period classification of cash flows related to excess tax benefits was not adjusted.
Non-GAAP Results  
(In thousands, except per share data)

The following tables show Adobe’s GAAP results reconciled to non-GAAP results included in this release.

<table>
<thead>
<tr>
<th>Operating income:</th>
<th>September 1, 2017</th>
<th>September 2, 2016</th>
<th>June 2, 2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>GAAP operating income</td>
<td>$545,674</td>
<td>$369,325</td>
<td>$504,082</td>
</tr>
<tr>
<td>Stock-based and deferred compensation expense</td>
<td>117,968</td>
<td>86,070</td>
<td>118,591</td>
</tr>
<tr>
<td>Restructuring and other charges</td>
<td>—</td>
<td>(338)</td>
<td>(97)</td>
</tr>
<tr>
<td>Amortization of purchased intangibles</td>
<td>36,655</td>
<td>36,082</td>
<td>36,556</td>
</tr>
<tr>
<td>Non-GAAP operating income</td>
<td>$700,297</td>
<td>$491,139</td>
<td>$659,132</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Net income:</th>
<th>September 1, 2017</th>
<th>September 2, 2016</th>
<th>June 2, 2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>GAAP net income*</td>
<td>$419,569</td>
<td>$270,788</td>
<td>$374,390</td>
</tr>
<tr>
<td>Stock-based and deferred compensation expense</td>
<td>117,968</td>
<td>86,070</td>
<td>118,591</td>
</tr>
<tr>
<td>Restructuring and other charges</td>
<td>—</td>
<td>(338)</td>
<td>(97)</td>
</tr>
<tr>
<td>Amortization of purchased intangibles</td>
<td>36,655</td>
<td>36,082</td>
<td>36,556</td>
</tr>
<tr>
<td>Investment (gains) losses, net</td>
<td>(975)</td>
<td>(1,532)</td>
<td>(1,729)</td>
</tr>
<tr>
<td>Income tax adjustments</td>
<td>(24,146)</td>
<td>(14,569)</td>
<td>(17,419)</td>
</tr>
<tr>
<td>Non-GAAP net income</td>
<td>$549,071</td>
<td>$376,501</td>
<td>$510,292</td>
</tr>
</tbody>
</table>

Diluted net income per share:

| GAAP diluted net income per share* | $0.84 | $0.54 | $0.75 |
| Stock-based and deferred compensation expense | 0.24 | 0.17 | 0.23 |
| Amortization of purchased intangibles | 0.07 | 0.07 | 0.07 |
| Income tax adjustments | (0.05) | (0.03) | (0.03) |
| Non-GAAP diluted net income per share | $1.10 | $0.75 | $1.02 |

Shares used in computing diluted net income per share | 500,398 | 503,669 | 500,351 |
Non-GAAP Results (continued)

Effective income tax rate:

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
<th>Rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>GAAP effective income tax rate*</td>
<td></td>
<td>22.5%</td>
</tr>
<tr>
<td>Stock-based and deferred compensation expense</td>
<td>(0.4)</td>
<td></td>
</tr>
<tr>
<td>Amortization of purchased intangibles</td>
<td>(0.1)</td>
<td></td>
</tr>
<tr>
<td>Income tax adjustments</td>
<td>(1.0)</td>
<td></td>
</tr>
<tr>
<td>Non-GAAP effective income tax rate**</td>
<td></td>
<td>21.0%</td>
</tr>
</tbody>
</table>

* We early adopted ASU No. 2016-09, Improvements to Employee Share-Based Payment Accounting, during the first quarter of fiscal 2017. As required by the standard, excess tax benefits recognized on stock-based compensation expense were reflected in our provision for income taxes rather than paid-in capital on a prospective basis. We recorded excess tax benefits within our provision for income taxes, rather than paid-in capital, starting the first quarter of fiscal 2017.

** Our non-GAAP effective income tax rate of 21% is an annualized rate based on estimates for the entire fiscal year, whereas the GAAP effective income tax rate of 22.5% is the rate for the quarter based on tax events within the quarter. Income tax adjustments, which are included in both GAAP and non-GAAP earnings, will fluctuate from quarter-to-quarter but will normalize over the fiscal year due to the timing of tax events including the timing of recognition of excess tax benefits within each quarter.

Use of Non-GAAP Financial Information

Adobe continues to provide all information required in accordance with GAAP, but believes evaluating its ongoing operating results may not be as useful if an investor is limited to reviewing only GAAP financial measures. Adobe uses non-GAAP financial information to evaluate its ongoing operations and for internal planning and forecasting purposes. Adobe’s management does not itself, nor does it suggest that investors should, consider such non-GAAP financial measures in isolation from, or as a substitute for, financial information prepared in accordance with GAAP. Adobe presents such non-GAAP financial measures in reporting its financial results to provide investors with an additional tool to evaluate Adobe’s operating results. Adobe believes these non-GAAP financial measures are useful because they allow for greater transparency with respect to key metrics used by management in its financial and operational decision-making. This allows institutional investors, the analyst community and others to better understand and evaluate our operating results and future prospects in the same manner as management.

Adobe’s management believes it is useful for itself and investors to review, as applicable, both GAAP information as well as non-GAAP measures, which may exclude items such as stock-based and deferred compensation expenses, restructuring and other charges, amortization of purchased intangibles and certain activity in connection with technology license arrangements, investment gains and losses, the related tax impact of all of these items, income tax adjustments, and the income tax effect of the non-GAAP pre-tax adjustments from the provision for income taxes. Adobe uses these non-GAAP measures in order to assess the performance of Adobe’s business and for planning and forecasting in subsequent periods. Whenever such a non-GAAP measure is used, Adobe provides a reconciliation of the non-GAAP financial measure to the most closely applicable GAAP financial measure. Investors are encouraged to review the related GAAP financial measures and the reconciliation of these non-GAAP financial measures to their most directly comparable GAAP financial measure as detailed above.
Good afternoon and thank you for joining us today. Joining me on the call are Adobe’s President and
CEO, Shantanu Narayen; and Mark Garrett, Executive Vice President and CFO.

In our call today, we will discuss Adobe's third quarter fiscal year 2017 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, financial targets 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, September 19th, 2017, 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 2016, and our quarterly reports filed on Form 10-Q in fiscal 2017.

During this call, we will discuss GAAP and 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.
SHANTANU NARAYEN

Thanks, Mike and good afternoon.

Adobe had another record quarter with revenue of $1.84 billion, representing 26 percent year-over-year growth. GAAP earnings per share in Q3 was 84 cents, and non-GAAP earnings per share was $1.10. We continue to deliver strong top-line and bottom-line growth, with expanding operating margins and strong cash flow from operations.

Digital transformation has become the top agenda item for C-suites across the globe, and Adobe’s Cloud offerings are mission-critical for CMOs, CIOs, CTOs and CEOs charged with modernizing their businesses and the way they engage with their customers. At the same time, we are significantly growing our footprint in the creative space well beyond our loyal base of creative professional customers. Whether it’s designing the user experience for a personal blog or editing a short film, Creative Cloud’s capabilities are expanding to address the needs of today’s youth, social media mavens and creative enthusiasts while continuing to push the technology boundaries for our most demanding creative pros.

In addition to delivering continuous product innovation, we are investing deeply in Adobe Sensei to dramatically improve the accessibility, design and delivery of digital experiences. Adobe Sensei leverages Adobe’s massive volume of content and data assets as well as our deep domain expertise in the creative, document and marketing segments. We are making the Adobe Sensei framework and intelligent services available to our ecosystem of partners, ISVs and developers who will deliver additional magic.
Central to our strong performance this quarter was record revenue in our Digital Media business. We achieved $1.27 billion in Digital Media revenue in Q3, a 28 percent year-over-year increase. We exited the quarter with over $4.87 billion of Digital Media Annualized Recurring Revenue, or ARR. The net ARR increase in Q3 was $308 million, and was driven by continued strength in our Creative Cloud and Adobe Document Cloud businesses.

Creative Cloud is the one-stop shop for creativity and we increased revenue 33% year-over-year in Q3. Creative Cloud growth was driven by net-new subscriptions, continued focus on customer value that fuels retention, adoption of enterprise services, and focus on high-potential segments like education.

The video category is exploding and we continue to drive strong growth with our market-leading Creative Cloud video solutions. At the IBC Conference in Amsterdam, we highlighted our latest innovations in virtual reality, animation, motion graphics, editing, collaboration and Adobe Stock video.

We unveiled new premium features in Adobe Spark, a family of easy-to-use services for creating high-quality social graphics, web pages and video stories. Spark with premium features is now available as a standalone subscription, and is also included in our Creative Cloud All Apps subscription.

In addition to Adobe XD for Experience Design and Project Felix for 2D to 3D photo-realistic rendering, we are driving innovation to enable authoring for emerging media types such as AR and VR. We recently acquired best-in-class 360-degree and virtual reality software from Mettle. The acquisition complements Adobe Creative Cloud’s existing 360/VR cinematic production technology, and we will integrate this functionality natively into future releases of Premiere Pro and After Effects.
Next month’s MAX in Las Vegas will be the world’s largest creativity conference. At MAX we will outline our expanding vision for Creatives, release new Creative Cloud apps and services, and showcase amazing new technology that our brilliant scientists are working on in our labs.

The world’s leading digital document service, Adobe Document Cloud is enabling businesses to automate their paper-based processes. In Q3, Document Cloud revenue was $206 million, a year-over-year increase of 10%, and we grew Document Cloud ARR to $556 million exiting the quarter. We drove strong uptake of Acrobat across both Creative Cloud and Adobe Document Cloud.

Adobe Sign is helping drive Adobe Document Cloud ARR growth. Earlier this month, we announced Adobe Sign is now Microsoft’s preferred e-signature solution across the company’s portfolio, including the 100 million monthly commercial active users of Microsoft Office 365.

Adobe Scan is at the heart of our mobile PDF creation strategy. Adobe Scan has had over 2.7 million downloads across iOS and Android, delivering revolutionary scanning and text-recognition capabilities through integration with Adobe Document Cloud.
The leader in the Digital Marketing category, Adobe Experience Cloud is enabling enterprises to deliver intelligent, intuitive and effective customer experiences. We achieved record Adobe Experience Cloud revenue of $508 million in Q3, which represents 26% year-over-year revenue growth.

The breadth of Adobe Experience Cloud, which includes Adobe Marketing Cloud, Adobe Analytics Cloud and Adobe Advertising Cloud, is enabling us to address an expanding array of customer experience categories. Central to the differentiation of Adobe Experience Cloud is our data and analytics platform, which provides unique insight into customer behavior and ROI across every digital touchpoint. In the trailing four quarters, we’ve helped our customers manage more than 150 trillion data transactions across our Experience Cloud solutions.

Adobe Marketing Cloud enables marketers to deliver hyper-personalized content and campaigns to their customers. We announced new capabilities in Adobe Target to further enhance customer recommendations and targeting, optimize experiences and automate the delivery of personalized offers. In Adobe Campaign, marketers can now predict the highest performing images, forecast likely customer churn and gain real-time insights to adjust their campaigns.

Adobe Analytics Cloud is foundational to the digital enterprise. We announced new voice analytics capabilities that enable brands to deliver personalized customer experiences using voice-based interfaces. Through deep analysis of voice data, brands can gain robust audience insights and recommendations, while automating the traditionally cumbersome, manual analysis.
Adobe Advertising Cloud enables marketers to deliver video, display and search advertising across any screen in any format. We announced the addition of digital audio advertising formats on desktop and mobile devices. We added Spotify as a premium inventory source for digital audio, display and video advertising formats. At Advertising Week, we are extending automated buying and data-driven optimization to all TV advertising for the first time in a cross-channel platform.

Last week, we announced new automotive focused analytics, personalization and advertising capabilities in Adobe Experience Cloud that give brands the ability to deliver unique consumer experiences including personalized playlists, on-route recommendations and audio ads. The 10 largest automakers in the world already use Adobe Experience Cloud and Adobe is working with these brands along with ecosystem players to advance new digital in-car capabilities.

Our strategic partnership with Microsoft is providing us with an expanded footprint in the enterprise with Microsoft Azure, Dynamics 365 and PowerBI complementing Adobe Experience Cloud. We see a strong pipeline of joint customer opportunities with enterprise customers who are navigating their digital transformation.

Significant customer wins this quarter included Adidas, HSBC, Kellogg’s, Marks & Spencer and University of Maryland.

Despite this success with global enterprise customers, we were disappointed with our Experience Cloud bookings in Q3 but remain confident in our ability to execute against this large opportunity.
Two weeks ago, we held our second annual internal Adobe & Women Leadership Summit and announced that we will be at 100% pay parity between women and men in the U.S. by the end of this fiscal year. Achieving pay parity underscores our leadership and commitment to being a diverse and inclusive employer.

In Q3 we were named one of the Best Workplaces for Millennials and one of the top 10 Best Places to Work in both India and Australia. And for the second year in a row, Adobe has been named to the Dow Jones Sustainability Index World, the gold standard of corporate responsibility reporting for the investment community.

Adobe is the clear leader in creating and delivering digital experiences across all segments and geographies. Our strategy has never been more relevant and we continue to execute well against our plan. No other company empowers every individual to tell their story while enabling businesses to compete more effectively in the digital age. With the world’s best employees, partners and customers, we are equipped to continue to deliver on our mission and look forward to a strong close to our fiscal year.

Mark.
MARK GARRETT

Thanks, Shantanu.

<table>
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<tr>
<th>Q3 FY2017 Results</th>
<th>$1.84 billion</th>
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</thead>
<tbody>
<tr>
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<tr>
<td>EPS</td>
<td>GAAP: $0.84</td>
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- Record quarterly Creative revenue of $1.06 billion
- Strong Document Cloud revenue of $206 million
- Strong net new Digital Media ARR of $308 million
- Record Adobe Experience Cloud revenue of $508 million
- Strong year-over-year growth in operating income and net income
- Record deferred revenue and strong cash flow from operations
- 28% of Q3 revenue from recurring sources

In the third quarter of FY17, Adobe achieved record revenue of 1.84 billion dollars, which represents 26% year-over-year growth. GAAP diluted earnings per share in Q3 was 84 cents and non-GAAP diluted earnings per share was $1.10.

Highlights in Q3 included:

- Record Creative revenue of $1.06 billion;
- Strong Document Cloud revenue of $206 million;
- Strong net new Digital Media ARR of $308 million;
- Record Adobe Experience Cloud revenue of $508 million;
- Strong year-over-year growth in operating profit and net income;
- Record deferred revenue of $2.2 billion;
• More than $700 million in cash flow from operations;
• And a record 88% of revenue during the quarter came from recurring sources.

In Digital Media, we grew segment revenue by 28% year-over-year. The addition of $308 million net new Digital Media ARR during the quarter grew total Digital Media ARR to $4.87 billion exiting Q3.

Within Digital Media, we delivered Creative revenue of $1.06 billion which represents 33% year-over-year growth. In addition, we increased Creative ARR by $272 million during Q3 and exited the quarter with $4.32 billion of Creative ARR.

Driving the momentum with our Creative business was continued strength with Creative Cloud across all segments, including individual, team and enterprise. Notable Q3 highlights included the achievement of strong net new subscriptions; maintaining or growing ARPU across all key Creative Cloud offerings and strength in Japan.
With Document Cloud, we achieved revenue of $206 million, and Document Cloud ARR grew to $556 million exiting Q3. Across Creative Cloud and Document Cloud, Acrobat adoption accelerated again when compared to recent quarters, achieving 19% year-over-year unit growth. In addition, our electronic signature service Adobe Sign continues to show strength – and we expect the recent partnership we announced with Microsoft to fuel growth of Adobe Sign moving forward.

In Digital Marketing, we achieved record Adobe Experience Cloud revenue of $508 million, which represents 26% year-over-year growth. Notable areas of strength include Adobe Audience Manager, Adobe Campaign, and Adobe Advertising Cloud. We now have approximately $3 billion of annualized ad spend across search, social, display and video. Mobile remains a key driver for our Experience Cloud business; mobile data transactions grew to 57% of total Adobe Analytics transactions in the quarter.
Overall interest in digital marketing and Adobe Experience Cloud is strong, and we continue to drive subscription bookings growth. The scale of our engagements is growing with customers increasingly adopting multiple Adobe solutions which is leading to larger deal sizes but longer sales cycles. As a result, we did not achieve our Q3 bookings goal and are no longer on track to achieve our 30% net new ASV bookings growth target for the year. However, we do expect greater than 20% organic annual growth in FY17 on the subscription book of business.

From a quarter-over-quarter currency perspective, FX increased revenue by $9.6 million. We had $200,000 in hedge gains in Q3 FY17, versus $13.3 million in hedge gains in Q2 FY17; thus, the net sequential currency decrease to revenue considering hedging gains was $3.5 million.

From a year over year currency perspective, FX decreased revenue by $11.3 million. We had $200,000 in hedge gains in Q3 FY17, versus $3.9 million in hedge gains in Q3 FY16; thus, the net year-over-year currency decrease to revenue considering hedging gains was $15 million.

In Q3, Adobe’s effective tax rate was 22.5% on a GAAP-basis and 21% on a non-GAAP basis. The GAAP rate was slightly lower than targeted due to stronger-than-forecasted profits from outside the U.S., as well as certain tax benefits we were entitled to claim upon filing our U.S. income tax returns.
Our trade DSO was 50 days, which compares to 45 days in the year-ago quarter, and 46 days last quarter.

Deferred revenue grew to a record $2.2 billion, up 23% year-over-year – primarily driven by strength in Digital Media.

Our ending cash and short-term investment position exiting Q3 was $5.4 billion.

Cash flow from operations was $704 million in the quarter.

In Q3, we repurchased approximately 2.1 million shares at a cost of $298 million. We have approximately $2.2 billion remaining of our $2.5 billion stock repurchase authority granted in January 2017.

Now I will provide our financial outlook. In Q4 FY17, we are targeting:

- Revenue of approximately $1.950 billion;
- Net new Digital Media ARR of approximately $330 million;
• Digital Media segment year-over-year revenue growth of approximately 25%;

• Adobe Experience Cloud year-over-year revenue growth of approximately 17%; as a reminder, last quarter we outlined that the Experience Cloud Q4 FY17 year-over-year growth rate will be affected by a material amount of perpetual revenue that we achieved in Q4 FY16;

• Share count of approximately 500 million shares;

• Net non-operating expense of approximately $13 million on both a GAAP and non-GAAP basis;

• Tax rate of approximately 24% on a GAAP basis, and 21% on a non-GAAP basis;

• GAAP earnings per share of approximately 86 cents, and non-GAAP earnings per share of approximately $1.15.

Our Q4 targets, combined with our year-to-date performance, would yield the following annual FY17 revenue results:

• Total Digital Media segment growth of approximately 26%;

• Total Adobe Experience Cloud growth of approximately 24%; and

• Total Adobe growth of approximately 24%.

Our strong results coupled with our Q4 targets demonstrate that FY17 will be another record year for Adobe.

Mike.
MIKE SAVIAGE

Thanks, Mark.

As we highlighted last quarter, Adobe MAX is coming up in Las Vegas during the week of October 16th. Day One of our conference is Wednesday October 18th, and Adobe management will host a meeting with financial analysts and investors that afternoon. An invitation with registration and discounted MAX pricing information was sent out in August, and more details about the conference is available at max.adobe.com. Please contact Adobe Investor Relations with an email to ir@adobe.com if you wish to receive the registration information.

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 #77046940. International callers should dial 404-537-3406. The phone playback service will be available beginning at 5pm Pacific Time today, and ending at 8pm Pacific Time on September 23rd, 2017.
We would now be happy to take your questions, and we ask that you limit your questions to one per person. Operator.
Investor Relations Data Sheet

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**Supplementary Business Unit Data**

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**Revenue by Geography (in % of total revenue)**

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**Supplementary Cost of Revenue Data (in $ millions)**

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<th>Research &amp; Development</th>
<th>Sales &amp; Marketing</th>
<th>General &amp; Administrative</th>
<th>Total</th>
<th>Stock-Based and Deferred Compensation Expenses (in $ millions)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Worldwide Employees</td>
<td>12,688</td>
<td>13,266</td>
<td>13,665</td>
<td>1863</td>
<td>-</td>
<td>14,154</td>
<td>14,844</td>
<td>15,381</td>
<td>15,706</td>
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<tr>
<td>Days Sales Outstanding - Trade Receivables</td>
<td>44</td>
<td>39</td>
<td>44</td>
<td>47</td>
<td>-</td>
<td>42</td>
<td>43</td>
<td>45</td>
<td>47</td>
<td>-</td>
</tr>
<tr>
<td>Diluted Shares Outstanding</td>
<td>507.6</td>
<td>505.6</td>
<td>501.8</td>
<td>506.0</td>
<td>507.2</td>
<td>504.7</td>
<td>503.7</td>
<td>501.2</td>
<td>504.8</td>
<td>500.9</td>
</tr>
</tbody>
</table>

Adobe provides this information as of the modification date above and makes no commitment to update the information subsequently. For a full explanation of this data, you are encouraged to review Adobe’s Form 10-K and 10-Q SEC filings.
### Income Statement - Reconciliation of GAAP to Non-GAAP

**Last Updated:** September 19, 2017

#### Description

<table>
<thead>
<tr>
<th>Description</th>
<th>Q1'17</th>
<th>Q2'17</th>
<th>Q3'17</th>
<th>FY2016</th>
<th>Q1'16</th>
<th>Q2'16</th>
<th>Q3'16</th>
<th>FY2016</th>
<th>Q1'17</th>
<th>Q2'17</th>
<th>Q3'17</th>
<th>FY2017</th>
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<tbody>
<tr>
<td>Revenue</td>
<td>1,162.2</td>
<td>1,162.2</td>
<td>1,162.2</td>
<td>1,304.4</td>
<td>1,464.0</td>
<td>1,608.4</td>
<td>1,608.4</td>
<td>5,054.0</td>
<td>1,816.8</td>
<td>1,722.4</td>
<td>1,841.6</td>
<td>2,024.9</td>
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<tr>
<td>Cost of revenue</td>
<td>980.8</td>
<td>1,000.6</td>
<td>1,000.6</td>
<td>1,139.4</td>
<td>1,287.8</td>
<td>1,454.4</td>
<td>1,454.4</td>
<td>4,177.8</td>
<td>1,681.2</td>
<td>1,647.4</td>
<td>1,764.6</td>
<td>1,917.4</td>
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<tr>
<td>Gross profit</td>
<td>181.4</td>
<td>162.0</td>
<td>162.0</td>
<td>165.0</td>
<td>176.2</td>
<td>153.6</td>
<td>153.6</td>
<td>1,876.2</td>
<td>125.6</td>
<td>124.8</td>
<td>127.0</td>
<td>123.5</td>
</tr>
<tr>
<td>Operating expenses</td>
<td>769.4</td>
<td>783.4</td>
<td>783.4</td>
<td>814.6</td>
<td>877.0</td>
<td>982.4</td>
<td>982.4</td>
<td>3,450.6</td>
<td>875.3</td>
<td>1,082.7</td>
<td>1,032.5</td>
<td>1,036.5</td>
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<tr>
<td>Operating income</td>
<td>173.0</td>
<td>196.6</td>
<td>246.3</td>
<td>290.4</td>
<td>903.1</td>
<td>307.8</td>
<td>344.2</td>
<td>4,493.6</td>
<td>469.9</td>
<td>504.1</td>
<td>545.7</td>
<td>515.8</td>
</tr>
<tr>
<td>Non-operating income (expense)</td>
<td>(9.8)</td>
<td>(12.6)</td>
<td>(13.4)</td>
<td>(6.5)</td>
<td>(29.3)</td>
<td>(15.5)</td>
<td>(14.4)</td>
<td>(15.8)</td>
<td>(58.5)</td>
<td>(8.4)</td>
<td>(11.5)</td>
<td>(4.3)</td>
</tr>
<tr>
<td>Income before income taxes</td>
<td>163.2</td>
<td>181.0</td>
<td>232.6</td>
<td>296.9</td>
<td>873.8</td>
<td>292.3</td>
<td>320.8</td>
<td>4,351.6</td>
<td>460.6</td>
<td>492.6</td>
<td>541.4</td>
<td>494.6</td>
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<tr>
<td>Provision for income taxes</td>
<td>78.4</td>
<td>33.5</td>
<td>58.1</td>
<td>74.2</td>
<td>244.2</td>
<td>38.5</td>
<td>85.7</td>
<td>55.7</td>
<td>266.3</td>
<td>62.2</td>
<td>118.2</td>
<td>130.2</td>
</tr>
<tr>
<td>Net income</td>
<td>84.8</td>
<td>147.5</td>
<td>174.5</td>
<td>222.7</td>
<td>629.6</td>
<td>254.3</td>
<td>244.1</td>
<td>3,094.9</td>
<td>1,168.8</td>
<td>398.4</td>
<td>374.4</td>
<td>191.2</td>
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</table>

#### Adjustments to Reconcile to Non-GAAP (Millions)

<table>
<thead>
<tr>
<th>Description</th>
<th>Q1'17</th>
<th>Q2'17</th>
<th>Q3'17</th>
<th>FY2016</th>
<th>Q1'16</th>
<th>Q2'16</th>
<th>Q3'16</th>
<th>FY2016</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cost of revenue (Stock-based and deferred compensation)</td>
<td>(5.0)</td>
<td>(5.0)</td>
<td>(4.9)</td>
<td>(4.9)</td>
<td>(19.6)</td>
<td>(5.5)</td>
<td>(5.3)</td>
<td>(5.3)</td>
</tr>
<tr>
<td>Amortization of purchased intangibles and license agreements</td>
<td>(9.8)</td>
<td>(12.6)</td>
<td>(13.4)</td>
<td>(6.5)</td>
<td>(29.3)</td>
<td>(15.5)</td>
<td>(14.4)</td>
<td>(15.8)</td>
</tr>
<tr>
<td>Total adjustments to cost of revenue</td>
<td>(24.5)</td>
<td>(27.0)</td>
<td>(27.4)</td>
<td>(24.6)</td>
<td>(103.5)</td>
<td>(23.4)</td>
<td>(15.8)</td>
<td>(17.9)</td>
</tr>
<tr>
<td>Operating expenses (Stock-based and deferred compensation)</td>
<td>(81.6)</td>
<td>(80.4)</td>
<td>(78.9)</td>
<td>(76.8)</td>
<td>(318.5)</td>
<td>(86.2)</td>
<td>(81.9)</td>
<td>(81.1)</td>
</tr>
<tr>
<td>Restructuring and other charges</td>
<td>(1.8)</td>
<td>-</td>
<td>0.5</td>
<td>(1.6)</td>
<td>0.4</td>
<td>0.5</td>
<td>0.3</td>
<td>1.5</td>
</tr>
<tr>
<td>Amortization of purchased intangibles and license agreements</td>
<td>(14.3)</td>
<td>(18.1)</td>
<td>(18.2)</td>
<td>(18.1)</td>
<td>(68.6)</td>
<td>(18.4)</td>
<td>(19.0)</td>
<td>(22.7)</td>
</tr>
<tr>
<td>Loss contingency (reversal)</td>
<td>-</td>
<td>-</td>
<td>10.0</td>
<td>-</td>
<td>10.0</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Total adjustments to operating expenses</td>
<td>(97.7)</td>
<td>(98.5)</td>
<td>(98.3)</td>
<td>(95.3)</td>
<td>(378.7)</td>
<td>(104.2)</td>
<td>(100.4)</td>
<td>(99.5)</td>
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<tr>
<td>Non-operating income (expense)</td>
<td>(1.4)</td>
<td>(0.2)</td>
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<td>(22.0)</td>
<td>1.4</td>
<td>2.3</td>
<td>1.5</td>
<td>1.4</td>
</tr>
<tr>
<td>Taxes</td>
<td>(18.7)</td>
<td>30.8</td>
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<td>8.7</td>
<td>35.9</td>
<td>50.4</td>
<td>9.3</td>
<td>14.6</td>
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</tbody>
</table>

#### Diluted earnings per share

This section shows the earnings per share as reconciled to non-GAAP. The dilution from the number of shares outstanding results in a higher earnings per share. Non-GAAP financial information should not be considered as a substitute for, or superior to, measures of financial performance prepared in accordance with GAAP.

#### Shares

This section shows the shares outstanding and diluted earnings per share. The diluted earnings per share are calculated by dividing the net income by the number of shares outstanding.

#### Reconciliation of Diluted Earnings Per Share (Millions)

This section reconciles the GAAP diluted earnings per share to the non-GAAP diluted earnings per share. The adjustments include the effects of certain items that are not considered in calculating GAAP earnings per share.

#### Non-GAAP Operating Margin

This section shows the operating margin as reconciled to non-GAAP. Non-GAAP financial information should not be considered as a substitute for, or superior to, measures of financial performance prepared in accordance with GAAP.

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The above results are supplied to provide meaningful supplemental information regarding Adobe’s core operating results because such information excludes amounts that are not necessarily related to its core operating results. Adobe uses this non-GAAP financial information in assessing the performance of the Company's ongoing operations, and for planning and forecasting in future periods. This non-GAAP information should not be considered as a substitute for, or superior to, measures of financial performance prepared in accordance with GAAP.
<table>
<thead>
<tr>
<th>Products</th>
<th>Creative Cloud for individuals</th>
<th>Creative Cloud for students and teachers</th>
<th>Creative Cloud for teams</th>
<th>Creative Cloud for enterprises</th>
<th>Creative Cloud for education</th>
<th>Creative Cloud Photography plan</th>
<th>Services</th>
<th>Consumer Products</th>
</tr>
</thead>
<tbody>
<tr>
<td>Creative Cloud</td>
<td>Acrobat Pro DC</td>
<td>Behance</td>
<td>Capture</td>
<td>Comp</td>
<td>Illustrator Draw</td>
<td>Experience Design (Beta)</td>
<td>AIR/Flash Player</td>
<td>Photoshop Fix</td>
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<tr>
<td>Behance</td>
<td>Illustrator</td>
<td>Photoshop Mix</td>
<td></td>
<td></td>
<td>Media Encoder</td>
<td>Prelude Live Logger</td>
<td>Aviary</td>
<td>Photoshop Lightroom for mobile</td>
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<tr>
<td>Creative SDK</td>
<td>InCopy</td>
<td>Portfolio</td>
<td></td>
<td></td>
<td>Media Encoder</td>
<td>Premiere Clip</td>
<td>Extension Toolkit</td>
<td>Photoshop Mix</td>
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<tr>
<td>Digital Publishing Suite</td>
<td>InDesign</td>
<td>Prelude Sketch</td>
<td></td>
<td></td>
<td>Media Encoder</td>
<td>Preview</td>
<td>Extension Manager</td>
<td>Photoshop Lightroom</td>
</tr>
<tr>
<td>Extendscript Toolkit</td>
<td>Ink &amp; Slide</td>
<td>Premiere Clip</td>
<td></td>
<td></td>
<td>Media Encoder</td>
<td>Spark Page</td>
<td>Flash Builder</td>
<td>Photoshop Elements</td>
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<tr>
<td>Extension Manager</td>
<td>Media Encoder</td>
<td>Preview</td>
<td></td>
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<td>Media Encoder</td>
<td>Spark Post</td>
<td>Gaming SDK</td>
<td>Premiere Elements</td>
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<td>Flash Builder</td>
<td>Muse</td>
<td>Scout</td>
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<td>Media Encoder</td>
<td>Spark Video</td>
<td>PhoneGap Build</td>
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<td>Sorca</td>
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<tr>
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<td>Scout</td>
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<td>Media Encoder</td>
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<td>Story Plus</td>
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<tr>
<td>Talent</td>
<td>Speedgrade</td>
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<td>Media Encoder</td>
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<td>Talent</td>
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<td></td>
<td>Media Encoder</td>
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<td></td>
</tr>
</tbody>
</table>

Adobe Experience Cloud

Adobe Marketing Cloud

Adobe Analytics Cloud

Adobe Advertising Cloud

Adobe Social

Adobe Media Optimizer

Adobe Server

Adobe Connect

eLearning Suite

PostScript

Font Folio

RoboHELP

FrameMaker

Shockwave Player

JRun

Technical Communication Suite

PageMaker

Type

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Our actual results could differ materially from our forward-looking statements. Factors that might cause or contribute to such differences include, but are not limited to, those discussed below. These and many other factors described in this report could adversely affect our operations, performance and financial condition.

If we cannot continue to develop, market and offer new products and services or enhancements to existing products and services that meet customer requirements, our operating results could suffer.

The process of developing new technology products and services and enhancing existing offerings is complex, costly and uncertain. If we fail to anticipate customers’ changing needs and emerging technological trends, our market share and results of operations could suffer. We must make long-term investments, develop or obtain appropriate intellectual property and commit significant resources before knowing whether our predictions will accurately reflect customer demand for our products and services. If we are unable to extend our core technologies into new applications and platforms and to anticipate or respond to technological trends, the market's acceptance of our products and services could decline and our results would suffer. Additionally, any delay in the development, marketing or launch of a new offering or enhancement to an existing offering could result in customer attrition or impede our ability to attract new customers, causing a decline in our revenue, earnings or stock price and weakening our competitive position. Furthermore, third parties market certain of our offerings and support certain product functionality. If we are unsuccessful in establishing or maintaining our strategic relationships with these third parties, our ability to compete in the marketplace, to reach new customers and geographies or to grow our revenue could be impaired and our operating results could suffer.

We offer our products on a variety of hardware platforms. Consumers continue to shift away from personal computers to tablet and mobile devices. If we cannot continue to adapt our products to tablet and mobile devices, our business could be harmed. To the extent that significant demand arises for our products or competitive products on other platforms before we offer our products on those platforms, our business could be harmed. Releases of new devices or operating systems may make it more difficult for our products to perform or may require significant costs in order for us to adapt our solutions to such devices or operating systems. These potential costs and delays could harm our business.

Introduction of new products, services and business models by competitors or others could harm our competitive position and results of operations.

The markets for our products and services are characterized by intense competition, evolving industry standards, emerging business and distribution models, disruptive technology developments, short life cycles, customer price sensitivity and frequent new product introductions (including alternatives with limited functionality available at lower costs or free of charge). Any of these factors could create downward pressure on pricing and gross margins and could adversely affect our renewal and upgrade rates, as well as our ability to attract new customers. Our future success will depend on our continued ability to enhance and better integrate our existing products and services, introduce new products and services in a timely and cost-effective manner, meet changing customer needs, extend our core technology into new applications, and anticipate emerging standards, business models, software delivery methods and other technological developments. If any competing products, services or operating systems that are not compatible with our solutions achieve widespread acceptance, our operating results could suffer. In addition, consolidation has occurred among some of the competitors in the markets in which we compete. Further consolidations in these markets may subject us to increased competitive pressures and may therefore harm our results of operations.

The introduction of certain technologies may reduce the effectiveness of our products. For example, some of our products rely on third-party cookies, which are placed on individual browsers when consumers visit websites that contain advertisements. We use these cookies to help our customers more effectively advertise, to gauge the performance of their advertisements, and to detect and prevent fraudulent activity. Consumers can block or delete cookies through their browsers or “ad-blocking” software or applications. The most common Internet browsers allow consumers to modify their browser settings to prevent cookies from being accepted by their browsers, or are set to block third-party cookies by default. Increased use of methods, software or applications that block cookies could harm our business.

For additional information regarding our competition and the risks arising out of the competitive environment in which we operate, see the section entitled “Competition” contained in Item 1 of our Annual Report on Form 10-K for the fiscal year ended December 2, 2016.

We may be unable to predict subscription renewal rates and the impact these rates may have on our future revenue and operating results.

The hosted business model we use in our Adobe Experience Cloud offerings typically involves selling services on a subscription basis pursuant to service agreements that are generally one to three years in length. Our individual Creative Cloud and Document Cloud subscription agreements are generally month-to-month or one year in length, ETLAs for our Digital Media products and services are generally three years in length, and subscription agreements for other products and services may provide for shorter or longer terms. Our customers have no obligation to renew their subscriptions for our services after the expiration of their initial subscription period, and some customers elect not to renew. We cannot provide assurance that our subscriptions will be renewed at the same or higher level of service, for the same number of seats or licenses or for the same duration of time, if at all. Moreover, under certain circumstances, some of our customers have the right to cancel their service agreements prior to the expiration of the terms of their agreements. We cannot provide assurance that we will be able to accurately predict future customer renewal rates. Our customers’ renewal rates may decline or fluctuate as a result of a number of factors, including their level of satisfaction with our services, our ability to continue to regularly add features and functionality, the reliability (including uptime) of our subscription services, the prices of our services, the actual or perceived information security of our systems and services, the prices of services offered by our competitors, mergers and acquisitions affecting our customer base, reductions in our customers’ spending levels or declines in customer activity as a result of economic downturns or uncertainty in financial markets. If our customers do not renew their subscriptions for our services or if they renew on terms less favorable to us, our revenue may decline.

Our future growth is also affected by our ability to sell additional features and services to our current customers, which depends on a number of factors, including customers’ satisfaction with our products and services, the level of innovation reflected in those additional features, the prices of our offerings and general economic conditions. If our efforts to cross-sell and up-sell to our customers are unsuccessful, the rate at which our business grows may decline.
Subscription offerings and ETLAs could create risks related to the timing of revenue recognition.

Our subscription model creates certain risks related to the timing of revenue recognition and potential reductions in cash flows. A portion of the subscription-based revenue we report each quarter results from the recognition of deferred revenue relating to subscription agreements entered into during previous quarters. A decline in new or renewed subscriptions in any period may not be immediately reflected in our reported financial results for that period, but may result in a decline in our revenue in future quarters. If we were to experience significant downturns in subscription sales and renewal rates, our reported financial results might not reflect such downturns until future periods. Our subscription model could also make it difficult for us to rapidly increase our revenue from subscription-based or hosted services through additional sales in any period, as revenue from new customers will be recognized over the applicable subscription term.

Additionally, in connection with our sales efforts to enterprise customers and our use of ETLAs, a number of factors could affect our revenue, including longer-than-expected sales and implementation cycles, potential deferral of revenue due to multiple-element revenue arrangements and alternative licensing arrangements. If any of our assumptions about revenue from our new businesses or our subscription-based model prove incorrect, our actual results may vary materially from those anticipated, estimated or projected.

If we fail to successfully manage transitions to new business models and markets, our results of operations could suffer.

We often release new offerings and employ new product and service delivery methods in connection with our diversification into new business models and markets. It is uncertain whether these strategies will prove successful or whether we will be able to develop the necessary infrastructure and business models more quickly than our competitors. Market acceptance of new product and service offerings will be dependent in part on our ability to (1) include functionality and usability that satisfy customer requirements, and (2) optimally price our products and services in light of marketplace conditions, our costs and customer demand. New product and service offerings may increase our risk of liability related to the provision of services and cause us to incur significant technical, legal or other costs. Market acceptance of such services is affected by a variety of factors, including, but not limited to, information security, reliability, performance, customer preference, social and community engagement, local government regulations regarding online services and user-generated content, the sufficiency of technological infrastructure to support our products and services in certain geographies, customer concerns with entrusting a third party to store and manage customer data and customer content, consumer concerns regarding data privacy and the enactment of laws or regulations that restrict our ability to provide such services to customers in the United States or internationally. If we are unable to respond to these factors, our business could be harmed.

From time to time we open-source certain of our technology initiatives, provide broader open access to our technology, license certain of our technology on a royalty-free basis or release selected technology for industry standardization. Additionally, customer requirements for open standards or open-source products could impact adoption or use of some of our products or services. To the extent we incorrectly predict customer requirements for such products or services, or if there is a delay in market acceptance of such products or services, our business could be harmed.

We also devote significant resources to the development of technologies and service offerings in markets where our operating history is less extensive. These new offerings and markets may require a considerable investment of technical, financial, compliance and sales resources, and a scalable organization. Some of our competitors may have advantages over us due to their larger presence, larger developer network, deeper market experience and larger sales, consulting and marketing resources. In addition, the metrics we use to gauge the status of our business model transition may evolve as significant trends emerge. If we are unable to successfully establish new offerings in light of the competitive environment, our results of operations could suffer.

Uncertainty about current and future economic conditions and other adverse changes in general political conditions in any of the major countries in which we do business could adversely affect our operating results.

As our business has grown, we have become increasingly subject to the risks arising from adverse changes in economic and political conditions, both domestically and globally. Uncertainty about the effects of current and future economic and political conditions on us, our customers, suppliers and partners makes it difficult for us to forecast operating results and to make decisions about future investments. If economic growth in countries where we do business slows, customers may delay or reduce technology purchases, advertising spending or marketing spending. This could result in reductions in sales of our products and services, more extended sales cycles, slower adoption of new technologies and increased price competition. Our customers include government entities, including the U.S. federal government, and if spending cuts impede the government’s ability to purchase our products and services, our revenue could decline. Deterioration in economic conditions in any of the countries in which we do business could also cause slower or impaired collections on accounts receivable, which may adversely impact our liquidity and financial condition.

A financial sector credit crisis could impair credit availability and the financial stability of our customers, including our distribution partners and channels. A disruption in the financial markets may also have an effect on our derivative counterparties and could also impair our banking partners, on which we rely for operating cash management. Any of these events would likely harm our business, results of operations and financial condition.

Political instability or adverse political developments in or around any of the major countries in which we do business would also likely harm our business, results of operations and financial condition.

Certain of our enterprise offerings have extended and complex sales cycles, which can make our sales cycles unpredictable.

Sales cycles for some of our enterprise offerings, including our Adobe Experience Cloud solutions and ETLAs in our Digital Media business, are multi-phased and complex. The complexity in these sales cycles is due to a number of factors, including:

- the need for our sales representatives to educate customers about the use and benefit of our large-scale deployments of our products and services, including technical capabilities, security features, potential cost savings and return on investment;
• the desire of large and medium size organizations to undertake significant evaluation processes to determine their technology requirements prior to making information technology expenditures;
• the need for our representatives to spend a significant amount of time assisting potential customers in their testing and evaluation of our products and services;
• the negotiation of large, complex, enterprise-wide contracts, as often required by our and our customers' business and legal representatives;
• the need for our customers to obtain requisition approvals from various decision makers within their organizations; and
• customer budget constraints, economic conditions and unplanned administrative delays.

We spend substantial time and expense on our sales efforts without any assurance that potential customers will ultimately purchase our solutions. As we target our sales efforts at larger enterprise customers, these trends are expected to continue and could have a greater impact on our results of operations. Additionally, our enterprise sales pattern has historically been uneven, where a higher percentage of a quarter's total sales occur during the final weeks of each quarter, which is common in our industry. Our extended sales cycle for these products and services makes it difficult to predict when a given sales cycle will close.

Security vulnerabilities in our products and systems could lead to reduced revenue or to liability claims.

Maintaining the security of our products, computers and networks is a critical issue for us and our customers. Security researchers, criminal hackers and other third parties regularly develop new techniques to penetrate computer and network security measures and, as we have previously disclosed, certain parties have in the past managed to breach certain of our data security systems and misused certain of our systems and software in order to access our end users' authentication and payment information. In addition, cyber-attackers also develop and deploy viruses, worms and other malicious software programs, some of which may be specifically designed to attack our products, systems, computers or networks. Sophisticated hardware and operating system applications that we develop or procure from third parties may contain defects in design or manufacture, including bugs and other problems that could unexpectedly compromise the security of the system or impair a customer's ability to operate or use our products. The costs to prevent, eliminate or alleviate cyber- or other security problems, bugs, viruses, worms, malicious software programs and security vulnerabilities are significant, and our efforts to address these problems may not be successful or may be delayed and could result in interruptions, delays, cessation of service and loss of existing or potential customers. It is impossible to predict the extent, frequency or impact these problems may have on us.

Outside parties have in the past and may in the future attempt to fraudulently induce our employees or users of our products or services to disclose sensitive information via illegal electronic spamming, phishing or other tactics. Unauthorized parties may also attempt to gain physical access to our facilities in order to infiltrate our information systems or attempt to gain logical access to our products, services, or information systems for the purpose of exfiltrating content and data. These actual and potential breaches of our security measures and the accidental loss, inadvertent disclosure or unauthorized dissemination of proprietary information or sensitive, personal or confidential data about us, our customers, our or their end users, including the potential loss or disclosure of such information or data as a result of hacking, fraud, trickery or other forms of deception, could expose us, our employees, our customers or the individuals affected to a risk of loss or misuse of this information. This may result in litigation and liability or fines, governmental inquiry or oversight or a loss of customer confidence, any of which could harm our business or damage our brand and reputation, possibly impeding our present and future success in retaining and attracting new customers and thereby requiring time and resources to repair our brand and reputation.

These problems affect our products and services in particular because cyber-attackers tend to focus their efforts on popular offerings with a large user base, and we expect them to continue to do so. Critical vulnerabilities may be identified in certain of our applications. These vulnerabilities could cause such applications to crash and could allow an attacker to take control of the affected system, which could result in liability to us or limit our ability to conduct our business and deliver our products and services to customers. We devote significant resources to address security vulnerabilities through engineering more secure products, enhancing security and reliability features in our products and systems, code hardening, conducting rigorous penetration tests, deploying updates to address security vulnerabilities and improving our incident response time, but these security vulnerabilities cannot be totally eliminated. The cost of these steps could reduce our operating margins, and we may be unable to implement these measures quickly enough to prevent cyber-attackers from gaining unauthorized access into our systems and products. Despite our preventative efforts, actual or perceived security vulnerabilities in our products and systems may harm our reputation or lead to claims against us (and have in the past led to such claims), and could lead some customers to stop using certain products or services, to reduce or delay future purchases of products or services, or to use competing products or services. If we do not make the appropriate level of investment in our technology systems or if our systems become out-of-date or obsolete and we are not able to deliver the quality of data security customers require, our business could be adversely affected. Customers may also adopt security measures designed to protect their existing computer systems from attack, which could delay adoption of new technologies. Further, if we or our customers are subject to a future attack, or our technology is used in a third-party attack, it may be necessary for us to take additional extraordinary measures and make additional expenditures to take appropriate responsive and preventative steps. Any of these events could adversely affect our revenue or margins. Moreover, delayed sales, lower margins or lost customers resulting from disruptions caused by cyber-attacks or preventative measures could adversely affect our financial results, stock price and reputation.

We rely on data centers managed both by Adobe and third parties to host and deliver our services, as well as collect, use, transmit, and store data, and any interruptions or delays in these hosted services, security or privacy breaches, or failures in data collection or transmission could expose us to liability and harm our business and reputation.

Much of our business relies on hardware and services that are hosted, managed, and controlled directly by Adobe or third-party service providers, including our online store at adobe.com, Creative Cloud, Document Cloud, and Adobe Experience Cloud solutions. We do not have redundancy for all of our systems, many of our critical applications reside in only one of our data centers, and our disaster recovery planning may not account for all eventualities. If our business relationship with a third-party provider of hosting or content delivery services is negatively affected, or if one of our content delivery suppliers were to terminate its agreement with us, we might not be able to deliver the corresponding hosted offerings to our customers, which could subject us to reputational harm and cause us to lose customers and future business.
We process and store significant amounts of employee and customer data, most of which is hosted by third-party service providers. A security incident impacting our own data centers or those controlled by our service providers may compromise the confidentiality, integrity or availability of this data. Unauthorized access to or disclosure of data stored by Adobe or our service providers may be accessed through break-ins, breaches of a secure network by an unauthorized party, employee theft or misuse or other misconduct. It is also possible that unauthorized access to or disclosure of customer data may be obtained through inadequate use of security controls by customers or employees. Accounts created with weak or recycled passwords could allow cyber-attackers to gain access to customer data. Additionally, failure by customers to remove accounts of their own employees, or the granting of accounts by the customer in an uncontrolled manner, may allow for access by former or unauthorized customer representatives. If there were an inadvertent disclosure of customer information, or if a third party were to gain unauthorized access to the information we possess on behalf of our customers, our operations could be disrupted, our reputation could be damaged and we could be subject to claims or other liabilities, regulatory investigations, or fines. In addition, such perceived or actual unauthorized disclosure of the information we collect or breach of our security could damage our reputation, result in the loss of customers and harm our business.

It is also possible that hardware or software failures or errors in our systems (or those of our third-party service providers) could result in data loss or corruption, cause the information that we collect or maintain to be incomplete or contain inaccuracies that our customers regard as significant, or cause us to fail to meet committed service levels. Furthermore, our ability to collect and report data may be delayed or interrupted by a number of factors, including access to the Internet, the failure of our network or software systems, security breaches or significant variability in visitor traffic on customer websites. In addition, computer viruses or other malware may harm our systems, causing us to lose data, and the transmission of computer viruses or other malware could expose us to litigation. We may also find, on occasion, that we cannot deliver data and reports to our customers in near real time because of a number of factors, including significant spikes in customer activity on their websites or failures of our network or software. If we supply inaccurate information or experience interruptions in our ability to capture, store and supply information in near real time or at all, our reputation could be harmed and we could lose customers, or we could be found liable for damages or incur other losses.

Changes in accounting principles, or interpretations thereof, could have a significant impact on our financial position and results of operations.

We prepare our condensed consolidated financial statements in accordance with accounting principles generally accepted in the United States of America (“GAAP”). These principles are subject to interpretation by the U.S. Securities and Exchange Commission and various bodies formed to interpret and create appropriate accounting principles. A change in these principles can have a significant effect on our reported results and may even retroactively affect previously reported transactions. Additionally, the adoption of new or revised accounting principles may require that we make significant changes to our systems, processes and controls.

For example, the Financial Accounting Standards Board has issued new accounting standards for revenue recognition and leasing and, while we know they will have an impact, we are still evaluating the extent that these new accounting standards will have on our consolidated financial statements and related disclosures. Changes resulting from these new standards may result in materially different financial results and may require that we change how we process, analyze and report financial information and that we change financial reporting controls. For additional information regarding these updated standards, see the section titled "Recent Accounting Pronouncements Not Yet Effective" within Part I. Item 1, Note 1. Basis of Presentation and Summary of Significant Accounting Policies."

We may not realize the anticipated benefits of past or future investments or acquisitions, and integration of acquisitions may disrupt our business and management.

We may not realize the anticipated benefits of an investment or acquisition of a company, division, product or technology, each of which involves numerous risks. These risks include:

- difficulty in integrating the operations and personnel of the acquired business;
- difficulty in effectively integrating the acquired technologies, products or services with our current technologies, products or services;
- difficulty in maintaining controls, procedures and policies during the transition and integration;
- entry into markets in which we have minimal prior experience and where competitors in such markets have stronger market positions;
- disruption of our ongoing business and distraction of our management and other employees from other opportunities and challenges;
- inability to retain personnel of the acquired business;
- inability to retain key customers, distributors, vendors and other business partners of the acquired business;
- inability to achieve the financial and strategic goals for the acquired and combined companies;
- inability to take advantage of anticipated tax benefits;
- incurring acquisition-related costs or amortization costs for acquired intangible assets that could impact our operating results;
- elevated delinquency or bad debt write-offs related to receivables of the acquired business we assume;
- increased accounts receivables collection times and working capital requirements associated with acquired business models;
- additional exposure to fluctuations in currency exchange rates;
- additional costs of bringing acquired companies into compliance with laws and regulations applicable to us as a multinational corporation;
- impairment of our relationships with employees, customers, partners, distributors or third-party providers of our technologies, products or services;
- failure of our due diligence processes to identify significant problems, liabilities or other challenges of an acquired company or technology, including, but not limited to, issues with the acquired company’s intellectual property, product quality or product architecture, data back-up and security (including security from cyber-attacks), privacy practices, revenue recognition or other accounting practices, employee, customer or partner issues or legal and financial contingencies;
- exposure to litigation or other claims in connection with, or inheritance of claims or litigation risk as a result of, an acquisition, including, but not limited to, claims from terminated employees, customers, former stockholders or other third parties;
- incurring significant exit charges if products or services acquired in business combinations are unsuccessful;
- inability to conclude that our internal controls over financial reporting are effective;
• inability to obtain, or obtain in a timely manner, approvals from governmental authorities, which could delay or prevent such acquisitions;
• the failure of strategic investments to perform as expected or to meet financial projections;
• delay in customer and distributor purchasing decisions due to uncertainty about the direction of our product and service offerings; and
• incompatibility of business cultures.

Mergers and acquisitions of technology companies are inherently risky. If we do not complete an announced acquisition transaction or integrate an acquired business successfully and in a timely manner, we may not realize the benefits of the acquisition to the extent anticipated, and in certain circumstances an acquisition could harm our financial position.

The success of certain of our product and service offerings depends on our ability to continue to attract and retain customers of and contributors to our online marketplaces for creative content.

The success of certain of our product and service offerings, such as Adobe Stock, depends on our ability to continue to attract new customers and contributors to these online marketplaces for creative content, as well as our ability to continue to retain existing customers and contributors. To maintain and grow these businesses, we must regularly add new customers and retain existing customers. An increase in paying customers has generally resulted in more content from contributors, which increases the size of our collection and in turn attracts new paying customers. To attract new customers and contributors and retain existing ones, we rely on the functionality and features of our online marketplaces, the size and content of our collection and the effectiveness of our marketing efforts. New technologies may render the features of our online marketplaces obsolete, our collection may fail to grow as anticipated or our marketing efforts may be unsuccessful, any of which may adversely affect our results of operations.

We may incur substantial costs enforcing or acquiring intellectual property rights and defending against third-party claims as a result of litigation or other proceedings.

In connection with the enforcement of our intellectual property rights, the acquisition of third-party intellectual property rights, or disputes relating to the validity of alleged infringement of third-party intellectual property rights, including patent rights, we have been, are currently and may in the future be subject to claims, negotiations and complex, protracted litigation. Intellectual property disputes and litigation are typically costly and can be disruptive to our business operations by diverting the attention of management and key personnel. We may not prevail in every lawsuit or dispute. Third-party intellectual property disputes, including those initiated by patent assertion entities, could subject us to significant liabilities, require us to enter into royalty and licensing arrangements on unfavorable terms, prevent us from licensing certain of our products or offering certain of our services, subject us to injunctions restricting our sale of products or services, cause severe disruptions to our operations or the markets in which we compete, or require us to satisfy indemnification commitments with our customers, including contractual provisions under various license arrangements and service agreements. In addition, we may incur significant costs in acquiring the necessary third-party intellectual property rights for use in our products, in some cases to fulfill contractual obligations with our customers. Any of these occurrences could significantly harm our business.

Our intellectual property portfolio is a valuable asset and we may not be able to protect our intellectual property rights, including our source code, from infringement or unauthorized copying, use or disclosure.

Our intellectual property portfolio is a valuable asset. Infringement or misappropriation of assets in this portfolio could result in lost revenues and thereby ultimately reduce their value. Preventing unauthorized use or infringement of our intellectual property rights is inherently difficult. We actively combat software piracy as we enforce our intellectual property rights, but we nonetheless lose significant revenue due to illegal use of our software. If piracy activities continue at historical levels or increase, they may further harm our business.

If unauthorized disclosure of our source code occurs through security breach, cyber-attack or otherwise, we could lose future trade secret protection for that source code. The loss of future trade secret protection could make it easier for third parties to compete with our products by copying functionality, which could cause us to lose customers and could adversely affect our revenue and operating margins. We also seek to protect our confidential information and trade secrets through the use of non-disclosure agreements with our customers, contractors, vendors and partners. However, there is a risk that our confidential information and trade secrets may be disclosed or published without our authorization, and in these situations, enforcing our rights may be difficult or costly.

Increasing regulatory focus on privacy issues and expanding laws and regulations could impact our business models and expose us to increased liability.

U.S. privacy and data security laws apply to our various businesses. We also do business globally in countries that have more stringent data protection laws than those in the United States that may be inconsistent across jurisdictions and are subject to evolving and differing interpretations. Governments, privacy advocates and class action attorneys are increasingly scrutinizing how companies collect, process, use, store, share and transmit personal data. Globally, new laws (such as the General Data Protection Regulation in Europe) and industry self-regulatory codes have been enacted and more are being considered that may affect our ability (and our enterprise customers’ ability) to reach current and prospective customers, to respond to both enterprise and individual customer requests under the laws (such as individual rights of access, correction, and deletion of their personal information), and to implement our business models effectively. These new laws may also impact our innovation and business drivers in developing new and emerging technologies (e.g., artificial intelligence and machine learning). Any perception of our practices, products or services as a violation of individual privacy rights, whether or not consistent with current regulations and industry practices, may subject us to public criticism, class action lawsuits, reputational harm, or investigations or claims by regulators, industry groups or other third parties, all of which could disrupt our business and expose us to increased liability. Additionally, laws regulating privacy and third-party products purporting to address privacy concerns could negatively affect the functionality of, and demand for, our products and services, thereby resulting in loss of customers and harm to our business.

On behalf of certain customers, we collect and store both anonymous and personal information derived from the activities of consumers with various channels, including traditional websites, mobile websites and applications, email interactions, direct mail, point of sale, text messaging and call centers. Federal, state and foreign governments and agencies have adopted or are considering adopting laws regarding the collection, storage, use and disclosure of this information. Our compliance with
privacy laws and regulations and our reputation among consumers depend in part on our customers’ adherence to privacy laws and regulations and their use of our services in ways consistent with such consumers’ expectations. We also rely on contractual representations made to us by customers that their own use of our services and the information they provide to us via our services do not violate any applicable privacy laws, rules and regulations or their own privacy policies. As a component of our standardized customer contract, we obligate customers to provide their consumers the opportunity to obtain the appropriate level of consent (including opt outs) for the information collection associated with our services, as applicable. We do not formally audit such customers to confirm compliance with these representations. If these representations are false, inaccurate, or if our customers do not otherwise comply with applicable privacy laws, we could face adverse publicity and possible legal or other regulatory action. In addition, some countries have enacted laws that expand the scope of privacy-related obligations required of service providers, such as Adobe, requiring additional compliance expense and increasing our liability risk.

Transferring personal information across international borders is becoming increasingly complex. For example, European data transfers outside the European Economic Area are highly regulated. The mechanisms that we and many other companies rely upon for European data transfers (e.g., Privacy Shield and Model Clauses) are being contested in the European court system. In the last year, at least one EU regulator determined that, with respect to a small number of vendors that process certain of our EU employee data, we did not implement appropriate means quickly enough, resulting in a small fine levied against us. We are closely monitoring developments related to requirements for transferring personal data outside the EU. These requirements may result in an increase in the obligations required to provide our services in the EU or in sanctions and fines for non-compliance. Several other countries, including Australia and Japan, have also established specific legal requirements for cross-border transfers of personal information. These developments in Europe and elsewhere could harm our business, financial condition and results of operations.

**Failure to manage our sales and distribution channels and third-party customer service and technical support providers effectively could result in a loss of revenue and harm to our business.**

We contract with a number of software distributors, none of which is individually responsible for a material amount of our total net revenue for any recent period. Nonetheless, if any single agreement with one of our distributors were terminated, any prolonged delay in securing a replacement distributor could have a negative impact on our results of operations.

Successfully managing our indirect distribution channel efforts to reach various customer segments for our products and services is a complex process across the broad range of geographies where we do business or plan to do business. Our distributors and other channel partners are independent businesses that we do not control. Notwithstanding the independence of our channel partners, we face legal risk and potential reputational harm from the activities of these third parties including, but not limited to, export control violations, workplace conditions, corruption and anti-competitive behavior. We cannot be certain that our distribution channel will continue to market or sell our products and services effectively. If our distribution channel is not successful, we may lose sales opportunities, customers and revenue.

Our distributors also sell our competitors’ products and services, and if they favor our competitors’ products or services for any reason, they may fail to market our products or services effectively or to devote resources necessary to provide effective sales, which would cause our results to suffer. We also distribute some products and services through our OEM channel, and if our OEMs decide not to bundle our applications on their devices, our results could suffer.

In addition, the financial health of our distributors and our continuing relationships with them are important to our success. Some of these distributors may be unable to withstand adverse changes in economic conditions, which could result in insolvency and/or the inability of such distributors to obtain credit to finance purchases of our products and services. In addition, weakness in the end-user market could negatively affect the cash flows of our distributors who could, in turn, delay paying their obligations to us, which would increase our credit risk exposure. Our business could be harmed if the financial condition of some of these distributors substantially weakened and we were unable to secure replacement distributors in a timely manner.

We also sell certain of our products and services through our direct sales force. Risks associated with this sales channel include more extended sales and collection cycles associated with direct sales efforts, challenges related to hiring, retaining and motivating our direct sales force, and substantial amounts of training for sales representatives, including regular updates to cover new and upgraded systems, products and services. Moreover, recent hires may not become as productive as we would like, as in most cases it takes a significant period of time before they achieve full productivity. Our business could be seriously harmed if our expansion efforts do not generate a corresponding significant increase in revenue and we are unable to achieve the efficiencies we anticipate. In addition, the loss of key sales employees could impact our customer relationships and future ability to sell to certain accounts covered by such employees.

We also provide products and services, directly and indirectly, to a variety of government entities, both domestically and internationally. Risks associated with licensing and selling products and services to government entities include more extended sales and collection cycles, varying governmental budgeting processes and adherence to complex procurement regulations and other government-specific contractual requirements. Ineffectively managing these risks could result in various civil and criminal penalties and administrative sanctions, including termination of contracts, payment of fines, and suspension or debarment from future government business, as well as harm to our reputation.

We outsource a substantial portion of our customer service and technical support activities to third-party service providers. We rely heavily on these third-party customer service and technical support representatives working on our behalf, and we expect to continue to rely heavily on third parties in the future. This strategy presents risks to our business due to the fact that we may not be able to influence the quality of support as directly as we would be able to do if our own employees performed these activities. Our customers may react negatively to providing information to, and receiving support from, third-party organizations, especially if these third-party organizations are based overseas. If we encounter problems with our third-party customer service and technical support providers, our reputation may be harmed and we could lose customers and associated revenue.
If we are unable to recruit and retain key personnel, our business may be harmed.

Much of our future success depends on the continued service, availability and performance of our senior management. These individuals have acquired specialized knowledge and skills with respect to Adobe. The loss of any of these individuals could harm our business, especially in the event that we have not been successful in developing adequate succession plans. Our business is also dependent on our ability to retain, hire and motivate talented, highly skilled personnel across all levels of our organization. Experienced personnel in the information technology industry are in high demand and competition for their talents is intense in many areas where our employees are located. If we are unable to continue to successfully attract and retain key personnel, our business may be harmed. Effective succession planning is also a key factor for our long-term success. Our failure to enable the effective transfer of knowledge and facilitate smooth transitions of our key employees could adversely affect our long-term strategic planning and execution.

We believe that a critical contributor to our success to date has been our corporate culture, which we have built to foster innovation, teamwork and employee satisfaction. As we grow, including from the integration of employees and businesses acquired in connection with previous or future acquisitions, we may find it difficult to maintain important aspects of our corporate culture, which could negatively affect our ability to retain and recruit personnel who are essential to our future success.

Changes in tax rules and regulations, or interpretations thereof, may adversely affect our effective tax rates.

We are a U.S.-based multinational company subject to tax in multiple U.S. and foreign tax jurisdictions. A significant portion of our foreign earnings for the current fiscal year were earned by our Irish subsidiaries. In addition to providing for U.S. income taxes on earnings from the United States, we provide for U.S. income taxes on the earnings of foreign subsidiaries unless the subsidiaries’ earnings are considered permanently reinvested outside the United States. While we do not anticipate changing our intention regarding permanently reinvested earnings, if certain foreign earnings previously treated as permanently reinvested are repatriated, the related U.S. tax liability may be reduced by any foreign income taxes paid on these earnings.

Our income tax expense has differed from the tax computed at the U.S. federal statutory income tax rate due primarily to discrete items and to earnings considered as permanently reinvested in foreign operations. Unanticipated changes in our tax rates could affect our future results of operations. Our future effective tax rates could be unfavorably affected by changes in the tax rates in jurisdictions where our income is earned, by changes in or our interpretation of tax rules and regulations in the jurisdictions in which we do business, by unanticipated decreases in the amount of earnings in countries with low statutory tax rates, or by changes in the valuation of our deferred tax assets and liabilities. The United States, the European Commission, countries in the EU and other countries where we do business have been considering changes in relevant tax, accounting and other laws, regulations and interpretations, including changes to tax laws applicable to corporate multinationals such as Adobe. These potential changes could adversely affect our effective tax rates or result in other costs to us.

In addition, we are subject to the continual examination of our income tax returns by the U.S. Internal Revenue Service ("IRS") and other domestic and foreign tax authorities. These tax examinations are expected to focus on our intercompany transfer pricing practices as well as other matters. We regularly assess the likelihood of outcomes resulting from these examinations to determine the adequacy of our provision for income taxes and have reserved for adjustments that may result from the current examinations. We cannot provide assurance that the final determination of any of these examinations will not have an adverse effect on our operating results and financial position.

We may incur losses associated with currency fluctuations and may not be able to effectively hedge our exposure.

Because our products are distributed and used globally, our operating results are subject to fluctuations in foreign currency exchange rates. We attempt to mitigate a portion of these risks through foreign currency hedging, based on our judgment of the appropriate trade-offs among risk, opportunity and expense. We have established a program to partially hedge our exposure to foreign currency exchange rate fluctuations for various currencies and we regularly review this hedging program and make adjustments as necessary based on the factors discussed above. Our hedging activities may not offset more than a portion of the adverse financial impact resulting from unfavorable movement in foreign currency exchange rates, which could adversely affect our financial condition or results of operations.

If we fail to process transactions effectively, our revenue and earnings may be harmed.

We process a significant volume of transactions on a daily basis in our Digital Marketing and Digital Media businesses. Due to the size and volume of transactions that we handle, effective processing systems and controls are essential, but even the most sophisticated systems and controls may not be effective in preventing all errors. The systems supporting our business are comprised of multiple technology platforms that may be difficult to scale. If we are unable to effectively manage these systems and processes, we may be unable to process customer data in an accurate, reliable and timely manner, which may harm our customer relationships or results of operations.

Net revenue, margin or earnings shortfalls or the volatility of the market generally may cause the market price of our stock to decline.

The market price for our common stock has in the past experienced significant fluctuations and may do so in the future. A number of factors may affect the market price for our common stock, including:

- shortfalls in our revenue, margins, earnings, Annualized Recurring Revenue ("ARR"), bookings within our Adobe Experience Cloud business, or other key performance metrics;
- changes in estimates or recommendations by securities analysts;
- whether our results meet analysts’ expectations;
- compression or expansion of multiples used by investors and analysts to value high technology SaaS companies;
- the announcement of new products or services, product enhancements or service introductions by us or our competitors;
- the loss of large customers or our inability to increase sales to existing customers, retain customers or attract new customers;
• variations in our or our competitors’ results of operations, changes in the competitive landscape generally and developments in our industry; and
• unusual events such as significant acquisitions, divestitures, litigation, general socio-economic, regulatory, political or market conditions and other factors, including factors unrelated to our operating performance.

In addition, the technology industry as a whole may experience uneven investor confidence, which may cause the market price for our common stock to decline for reasons unrelated to our operating performance.

**We are subject to risks associated with compliance with laws and regulations globally, which may harm our business.**

We are a global company subject to varied and complex laws, regulations and customs, both domestically and internationally. These laws and regulations relate to a number of aspects of our business, including trade protection, import and export control, data and transaction processing security, payment card industry data security standards, records management, user-generated content hosted on websites we operate, privacy practices, data residency, corporate governance, anti-trust and competition, employee and third-party complaints, anti-corruption, gift policies, conflicts of interest, employment and labor relations laws, securities regulations and other regulatory requirements affecting trade and investment. The application of these laws and regulations to our business is often unclear and may at times conflict.

Compliance with these laws and regulations may involve significant costs or require changes in our business practices that result in reduced revenue and profitability. Non-compliance could also result in fines, damages, criminal sanctions against us, our officers or our employees, prohibitions on the conduct of our business, and damage to our reputation. We incur additional legal compliance costs associated with our global operations and could become subject to legal penalties if we fail to comply with local laws and regulations in U.S. jurisdictions or in foreign countries, which laws and regulations may be substantially different from those in the United States. In many foreign countries, particularly in those with developing economies, it is common to engage in business practices that are prohibited by U.S. regulations applicable to us, including the Foreign Corrupt Practices Act. We cannot provide assurance that all of our employees, contractors and agents, as well as those companies to which we outsource certain of our business operations, including those based in or from countries where practices that violate such U.S. laws may be customary, will not take actions in violation of our internal policies or U.S. laws and regulations. Any such violation could have an adverse effect on our business.

**We face various risks associated with our operating as a multinational corporation.**

As a global business that generates approximately 42% of our total revenue from sales to customers outside of the Americas, we are subject to a number of risks, including:

• foreign currency fluctuations;
• changes in government preferences for software procurement;
• international and regional economic, political and labor conditions, including any instability or security concerns abroad;
• tax laws (including U.S. taxes on foreign subsidiaries);
• increased financial accounting and reporting burdens and complexities;
• changes in, or impositions of, legislative or regulatory requirements;
• changes in laws governing the free flow of data across international borders;
• failure of laws to protect our intellectual property rights adequately;
• inadequate local infrastructure and difficulties in managing and staffing international operations;
• delays resulting from difficulty in obtaining export licenses for certain technology, tariffs, quotas and other trade barriers;
• the imposition of governmental economic sanctions on countries in which we do business or where we plan to expand our business;
• costs and delays associated with developing products in multiple languages;
• operating in locations with a higher incidence of corruption and fraudulent business practices; and
• other factors beyond our control, including terrorism, war, natural disasters and pandemics.

If sales to any of our customers outside of the Americas are reduced, delayed or canceled because of any of the above factors, our revenue may decline.

In addition, approximately 52% of our employees are located outside the United States. Accordingly, we are exposed to changes in laws governing our employee relationships in various U.S. and foreign jurisdictions, including laws and regulations regarding wage and hour requirements, fair labor standards, employee data privacy, unemployment tax rates, workers’ compensation rates, citizenship requirements and payroll and other taxes, which likely would have a direct impact on our operating costs. We may continue to expand our international operations and international sales and marketing activities. Expansion in international markets has required, and will continue to require, significant management attention and resources. We may be unable to scale our infrastructure effectively or as quickly as our competitors in these markets, and our revenue may not increase to offset these expected increases in costs and operating expenses, which would cause our results to suffer.

**We have issued $1.9 billion of notes in debt offerings and may incur other debt in the future, which may adversely affect our financial condition and future financial results.**

We have $1.9 billion in senior unsecured notes outstanding. We also have a $1 billion senior unsecured revolving credit agreement, which is currently undrawn. This debt may adversely affect our financial condition and future financial results by, among other things:

• requiring the dedication of a portion of our expected cash flow from operations to service our indebtedness, thereby reducing the amount of expected cash flow available for other purposes, including capital expenditures and acquisitions; and
• limiting our flexibility in planning for, or reacting to, changes in our business and our industry.
Our senior unsecured notes and senior unsecured revolving credit agreement impose restrictions on us and require us to maintain compliance with specified covenants. Our ability to comply with these covenants may be affected by events beyond our control. If we breach any of the covenants and do not obtain a waiver from the lenders or noteholders, then, subject to applicable cure periods, any outstanding indebtedness may be declared immediately due and payable.

In addition, changes by any rating agency to our credit rating may negatively impact the value and liquidity of both our debt and equity securities, as well as the potential costs associated with a refinancing of our debt. Under certain circumstances, if our credit ratings are downgraded or other negative action is taken, the interest rate payable by us under our revolving credit facility could increase. Downgrades in our credit ratings could also affect the terms of any such financing and restrict our ability to obtain additional financing in the future.

**If our goodwill or amortizable intangible assets become impaired, then we could be required to record a significant charge to earnings.**

Under GAAP, we review our goodwill and amortizable intangible assets for impairment when events or changes in circumstances indicate the carrying value may not be recoverable. GAAP requires us to test for goodwill impairment at least annually. Factors that may be considered a change in circumstances indicating that the carrying value of our goodwill or amortizable intangible assets may not be recoverable include declines in stock price, market capitalization or cash flows, and slower growth rates in our industry. We could be required to record a significant charge to earnings in our financial statements during the period in which any impairment of our goodwill or amortizable intangible assets were determined, negatively impacting our results of operations.

**Catastrophic events may disrupt our business.**

We are a highly automated business and rely on our network infrastructure and enterprise applications, internal technology systems and our website for our development, marketing, operations, support, hosted services and sales activities. In addition, some of our businesses rely on third-party hosted services, and we do not control the operation of third-party data center facilities serving our customers from around the world, which increases our vulnerability. A disruption, infiltration or failure of these systems or third-party hosted services in the event of a major earthquake, fire, flood, tsunami or other weather event, power loss, telecommunications failure, software or hardware malfunctions, cyber-attack, war, terrorist attack or other catastrophic event that our disaster recovery plans do not adequately address, could cause system interruptions, reputational harm, loss of intellectual property, delays in our product development, lengthy interruptions in our services, breaches of data security and loss of critical data. Any of these events could prevent us from fulfilling our customers’ orders or could negatively impact a country or region in which we sell our products, which could in turn decrease that country’s or region’s demand for our products. Our corporate headquarters, a significant portion of our research and development activities, certain of our data centers and certain other critical business operations are located in the San Francisco Bay Area, and additional facilities where we conduct significant operations are located in the Salt Lake Valley Area, both of which are near major earthquake faults. A catastrophic event that results in the destruction or disruption of any of our data centers or our critical business or information technology systems could severely affect our ability to conduct normal business operations and, as a result, our future operating results could be adversely affected.

**Climate change may have a long-term impact on our business.**

Access to clean water and reliable energy in the communities where we conduct our business, whether for our offices or for our vendors, is a priority. Our major sites in California and India are vulnerable to prolonged droughts due to climate change. While we seek to partner with organizations that mitigate their business risks associated with climate change, we recognize that there are inherent risks wherever business is conducted. In the event of a natural disaster that disrupts business due to limited access to these resources, Adobe has the potential to experience losses to our business, time required to recover, and added costs to resume operations. Additionally, climate change may pose regulatory and environmental challenges that affect where we locate our offices, who we partner with, and how we deliver products and services to our customers.

**Our investment portfolio may become impaired by deterioration of the financial markets.**

Our cash equivalent and short-term investment portfolio as of September 1, 2017 consisted of corporate bonds and commercial paper, U.S. agency securities and U.S. Treasury securities, money market mutual funds, municipal securities, time deposits and asset-backed securities. We follow an established investment policy and set of guidelines to monitor and help mitigate our exposure to interest rate and credit risk. The policy sets forth credit quality standards and limits our exposure to any one issuer, as well as our maximum exposure to various asset classes.

Should financial market conditions worsen in the future, investments in some financial instruments may pose risks arising from market liquidity and credit concerns. In addition, any deterioration of the capital markets could cause our other income and expense to vary from expectations. As of September 1, 2017, we had no material impairment charges associated with our short-term investment portfolio, and although we believe our current investment portfolio has little risk of material impairment, we cannot predict future market conditions, market liquidity or credit availability, and can provide no assurance that our investment portfolio will remain materially unimpaired.