


The slide features a red background with a grid of white Adobe logos on the right side. On the left, the Adobe logo is displayed above the text "Adobe Q3 FY2020 Earnings Call" and "September 15, 2020".

 Adobe Q3 FY2020
Earnings Call

September 15, 2020



The slide features a red background with a grid of white Adobe logos on the right side. On the left, the Adobe logo is displayed above the text "Introduction" and "Jonathan Vaas | VP, Investor Relations".

 Introduction

Jonathan Vaas | VP, Investor Relations

JONATHAN VAAS

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

On this call we will discuss Adobe’s third quarter fiscal year 2020 financial results. By now, you should have a copy of the press release, which crossed the wire approximately one hour ago. We’ve also posted PDFs of our prepared remarks and financial results on Adobe’s Investor Relations website.

Financial Disclaimer

Some of the information discussed in this presentation, including our financial targets and product plans, is based on information as of today, September 15, 2020, and contains forward-looking statements that involve risk, uncertainty and assumptions. 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 2019, and our quarterly reports filed on Form 10-Q in fiscal 2020.

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

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Before we get started, we want to emphasize that some of the information discussed in this call, including our financial targets and product plans, is based on information as of today, September 15, and contains forward-looking statements that involve risk, uncertainty and assumptions. Actual results may differ materially from those set forth in these statements. For a discussion of these risks, you should review the Forward-Looking Statements Disclosure in our press release we issued today, as well as Adobe's SEC filings.

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

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

I will now turn the call over to Shantanu.



SHANTANU NARAYEN

Thanks, Jonathan.

Good afternoon. I hope all of you are safe and taking good care.

The ongoing pandemic continues to result in a challenging environment everywhere around the world. People are seeking new ways to communicate, learn and conduct business virtually. Content creation and consumption are exploding in a world where connecting *visually* has become even more essential.

Students are adapting to learning remotely instead of in a classroom. Entire industries, from media and entertainment to pharma, retail, automotive and financial services, have had to pivot overnight to digital operations to engage with customers and ensure business continuity. Electronic workflows and signatures are the only way to efficiently complete business transactions. The world has changed in a way that none of us could have ever foreseen.

Adobe's Strategy



Delivered strong Q3 revenue and earnings

Achieved \$458 million of net new Digital Media ARR

This reality has created new tailwinds for Adobe. Our mission to change the world through digital experiences has never been more critical. Our strategy of unleashing creativity for all, accelerating document productivity and powering digital businesses is more relevant than ever and driving our strong performance across every geography and audience.

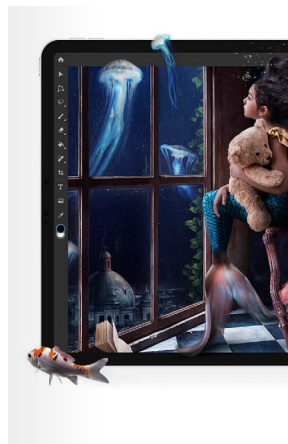
Adobe had an outstanding third quarter. We saw strength across Creative Cloud, Document Cloud and Experience Cloud. We achieved \$3.23 billion in revenue in Q3, representing 14 percent year-over-year growth. GAAP earnings per share for the quarter was \$1.97, representing 22 percent year-over-year growth, and non-GAAP earnings per share was \$2.57, representing 25 percent year-over-year growth.

Digital Media

In our Digital Media business, we drove strong revenue growth in both Creative Cloud and Document Cloud in Q3, achieving \$2.34 billion in revenue, representing 19 percent year-over-year growth. Net new Digital Media Annualized Recurring Revenue or “ARR” was \$458 million, and total Digital Media ARR exiting Q3 grew to \$9.63 billion.

Adobe Creative Cloud

- Net new Creative ARR of \$360 million and revenue of \$1.96 billion
- Record traffic to Adobe.com, our acquisition engine, using proprietary models for attribution and optimization
- Strength in single-app and complete offerings across all geographies
- Improvement in retention driven by increased engagement and product usage
- Adobe MAX, the world’s largest creativity conference, will be hosted virtually in October



Digital Media: Creative Cloud

We believe that everyone has a story to tell and our goal is to give all creators – from students, to social media influencers, business communicators and creative professionals – the ability to create and amplify

their stories. Creation and consumption across phones, tablets and desktops is exploding. Web content, mobile application creation, imaging, video, animation, screen design, AR and 3D are all surging in this new era of digital storytelling and business transformation. Enabling the capture, authoring and collaboration across each of these categories and inspiring our global communities, Creative Cloud is driving this massive content revolution.

Q3 Creative Cloud performance was outstanding, with net new Creative Cloud ARR of \$360 million and revenue of \$1.96 billion.

Driving our Q3 Creative Cloud performance was:

- Record traffic to Adobe.com, our acquisition engine, using proprietary models for attribution and optimization;
- Strength in our Creative Cloud single-app and complete offerings across all geographies;
- Growth in our creative mobile apps, delivering discrete revenue as well as a funnel to our multi-surface Creative Cloud offerings;
- Improvement in retention driven by increased engagement and product usage among individuals, teams and enterprises;
- Outstanding performance in the imaging and video categories with Photoshop, Lightroom and Premiere Pro; and
- Strong performance in the education segment across students, educators and institutions.

Adobe MAX, the world's largest creativity conference, will be hosted virtually in October. In addition to showcasing exciting new Creative Cloud products and services, our programming includes 56 hours of around-the-world content and features incredible creators like actor Keanu Reeves, photographer Annie Leibovitz and award-winning filmmaker Ava DuVernay. We expect a record turnout and are thrilled to already have over 200,000 registrations.

Adobe Document Cloud

- Net new Document Cloud ARR of \$98 million and revenue of \$375 million
- Acrobat Mobile installs up 33% year to date
- Significant momentum with Adobe Sign, which grew enterprise bookings more than 200% Y/Y
- Adobe Document Cloud Resource Hub for Education: a one-stop destination outlining how Document Cloud can assist with remote learning



 Adobe

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Digital Media: Document Cloud

With Adobe Document Cloud, we've reinvented how people create, edit, share and sign digital documents with Acrobat and PDF. While digital documents have always helped small, mid-sized and large businesses realize productivity and efficiency gains, they have now become central to businesses operating remotely. Supported with a rich set of APIs, Adobe Document Cloud enables seamless workflows and collaboration across devices.

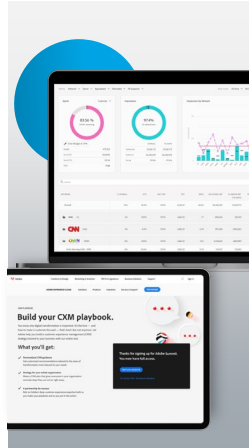
Q3 Document Cloud performance was exceptional, with net new Document Cloud ARR of \$98 million and record revenue of \$375 million.

Q3 highlights included:

- Strong growth in gross new ARR coming from the Adobe Reader funnel;
- Significant gains in Acrobat web monthly average use;
- Acrobat Mobile installs up 33% year to date;
- Significant momentum with Adobe Sign, including our announcement to pursue FedRAMP Moderate status;
- Key customer wins, including Citi, PwC, Pepsi, HSBC, Merkle and J-Power; and
- The release of the Adobe Document Cloud Resource Hub for Education, a one-stop-destination outlining how Document Cloud can assist with remote learning.

Adobe Experience Cloud

- Adobe is helping our customers build their own Customer Experience Management (“CXM”) playbooks, leveraging Adobe’s data-driven operating model
- Digital Experience revenue was \$838 million in Q3. Subscription revenue excluding Advertising Cloud grew 14% year-over-year
- Accelerated adoption of Adobe Experience Manager Cloud Service and Adobe Experience Platform
- Significant quarter-over-quarter growth for Adobe Commerce, powered by Magento
- Partnership with IBM and Red Hat to further strengthen data security for enterprises in regulated industries



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Digital Experience

The shelter-in-place requirements instituted across the globe created a heightened sense of urgency among all companies to accelerate their digital transformation. Overnight, small, mid-sized and large B2C and B2B companies shifted every aspect of their customer relationships – from acquisition all the way through renewals – to digital. As a company that has been through its own digital transformation, we have a deep understanding of what it takes to be a digital business and that experience makes us the ideal partner to help other companies do the same.

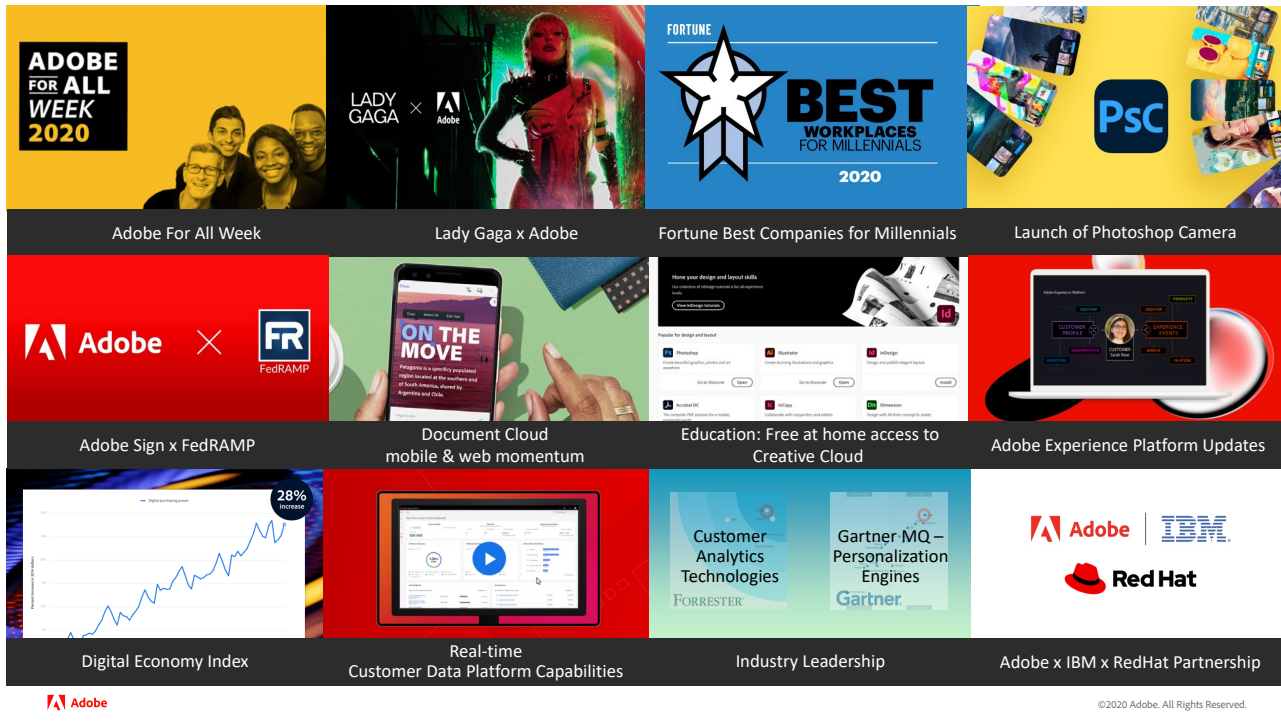
Over the past decade, we have put the right technology, processes and people in place to precisely and persistently measure and manage performance every day at scale across each of our businesses. We developed a cross-company, real-time, data-driven operating model (DDOM), that leverages all of our Experience Cloud technology. The CXM playbook – which relies on continuous product, platform and process innovation – has fundamentally changed the way we run our company and today we are helping our customers build their own CXM playbooks.

The industry’s most comprehensive offering, Adobe Experience Cloud features industry-leading applications and services built on the Adobe Experience Platform, leveraging Adobe Sensei – our AI and Machine Learning framework.

Digital Experience revenue was \$838 million in Q3. Subscription revenue excluding Advertising Cloud grew 14% year-over-year.

Q3 highlights include:

- Increased adoption of Adobe Experience Platform and the launch of new capabilities that allow marketers to accelerate data collection across channels to enable faster, personalized experiences based on real-time insights;
- General availability of Data Governance capabilities in the Real-time Customer Data Platform (CDP);
- Early traction with our Customer Journey Analytics service, which provides customers a complete view of the customer journey—online and offline;
- Acceleration in the deployment of our Adobe Experience Manager Cloud Service;
- Significant quarter-over-quarter growth for Commerce offerings;
- Working with our Advertising Cloud customers to wind-down our transaction-based offerings;
- Key customer wins, including Eli Lilly, Truist, Nike, Lowe's, Shell, Lloyds and the US Department of Commerce;
- A partnership with IBM and Red Hat to enable Experience Cloud deployment in hybrid cloud environments that further strengthens real-time data security for enterprises in regulated industries; and
- Recognition as a Leader in six Gartner Magic Quadrant and Forrester Wave reports. In the Gartner Magic Quadrant for CRM Lead Management, Adobe was the leader, achieving the best scores across 'Ability to Execute' and 'Completeness of Vision.'



Summary

Adobe’s record results would not be possible without the ongoing contributions and unwavering dedication of our employees around the world. They have demonstrated incredible resilience by quickly pivoting to a remote work environment without missing a beat. I am proud and grateful.

Great companies are defined by how they manage through difficult times. Our strong corporate culture, focus on innovation, exceptional customers and partners, and always doing right by our communities, drives us and our success. We are excited about the tremendous opportunity ahead of us and look forward to continuing our strong momentum in 2020 and beyond.

John.



JOHN MURPHY

Thanks, Shantanu.

Adobe delivered outstanding performance in Q3, highlighted by strong net new Digital Media ARR, Digital Experience subscription revenue growth and record operating cash flows. Despite challenging macroeconomic conditions, the ongoing remote work and learning-from-home environment provided an opportunity to offset normal Q3 Summer seasonality.

Our success was driven by Adobe's unique ability to draw insights across our business in real-time utilizing our data-driven operating model. This enables us to understand demand for our solutions, make strategic investments to capitalize on the highest returns, and drive engagement and conversion across our channels, most notably our web properties.

Throughout the quarter we generated sustained levels of traffic and demand across our Adobe.com offerings, including during the Summer holidays where purchasing patterns have historically softened. Utilizing our proprietary attribution technologies, we made variable marketing investments that enabled us to attract and engage new customers, delivering the strongest Q3 on record for Adobe, while at the same time maintaining fiscal discipline to accelerate earnings growth.

Q3 FY2020 Results

Total Adobe revenue	\$3.23 billion (14% Y/Y growth)	
Digital Media segment revenue	\$2.34 billion (19% Y/Y growth)	
Digital Media ARR	\$458 million of net new ARR	
Digital Experience segment revenue	\$838 million (2% Y/Y growth)	
Digital Experience subscription revenue growth	7% Y/Y growth	14% Y/Y growth (Excl. Advertising Cloud)
Earnings per share	GAAP: \$1.97	Non-GAAP: \$2.57

- Generated record \$1.44 billion of cash flows from operations
- Repurchased 1.5 million shares
- Grew Remaining Performance Obligation (RPO) by 18% Y/Y to \$10.34 billion



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As a result, in Q3 Adobe achieved record revenue of \$3.23 billion, which represents 14 percent year-over-year growth. On a constant currency basis, total Adobe revenue grew 15 percent year-over-year. GAAP diluted earnings per share in Q3 was \$1.97 and non-GAAP diluted earnings per share was \$2.57.

Business and financial highlights included:

- Digital Media revenue of \$2.34 billion;
- Net new Digital Media ARR of \$458 million;
- Digital Experience revenue of \$838 million;
- Record cash flows from operations of \$1.44 billion;
- Remaining Performance Obligation of \$10.34 billion exiting the quarter; and
- Repurchasing approximately 1.5 million shares of our stock during the quarter.

Adobe's strong third quarter performance shows the continued momentum across our cloud businesses. From knowledge workers to creative professionals, from small businesses to large enterprises, people are driven to engage digitally and are seeking tools that enable them to communicate more proficiently across digital platforms.

Digital Media

In our Digital Media segment, we achieved 19 percent year-over-year revenue growth in Q3. On a constant-currency basis, Digital Media grew 20 percent year-over-year, and we exited the quarter with \$9.63 billion of Digital Media ARR.

Adobe Creative Cloud | Results

- Creative revenue of \$1.96 billion growing 19% Y/Y, with \$360 million of net new Creative ARR
- Investing to acquire new users across all geos and segments
- Focusing on engagement to drive retention and renewal
- Successfully closing enterprise term licenses with educational institutions
- Driving awareness and licensing of professional video products
- Focusing on converting free mobile app users to paid subscriptions

 Adobe



Within Digital Media, we achieved another strong quarter with our Creative business. We achieved Creative revenue of \$1.96 billion, which represents 19 percent year-over-year growth, and we added \$360 million of net new Creative ARR.

Our Creative growth in Q3 was driven by:

- Investing to acquire new users across all geographies and segments;
- Continuing our relentless focus on engagement to drive retention and renewal of existing customers;
- Successfully closing enterprise term licenses with educational institutions, as well as growing our education business through individual subscriptions by students;
- Driving awareness and licensing of our professional video products;
- Focusing on converting free mobile app users to paid mobile subscriptions, including strong growth in Lightroom Mobile; and
- Utilizing insights from our data-driven operating model to run targeted campaigns and promotions.

Adobe Document Cloud | Results

- Document Cloud revenue of \$375 million growing 22% Y/Y, with \$98 million of net new Document Cloud ARR
- Investing and driving awareness in Acrobat web
- Continuing to build momentum with mobile monetization efforts with Adobe Reader
- Increasing demand for Acrobat subscriptions across all geos
- Strength in Adobe Sign, which grew enterprise bookings more than 200% Y/Y



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Adobe Document Cloud delivered another quarter of strong revenue growth. We achieved Document Cloud revenue of \$375 million, which represents 22 percent year-over-year growth, and we added a record \$98 million of net new Document Cloud ARR. As with our Creative business, Document Cloud is benefiting from the changing nature of work and the continued importance of digital document solutions, as individuals, enterprises and governments look to pivot away from paper-based dependencies to digital workflows.

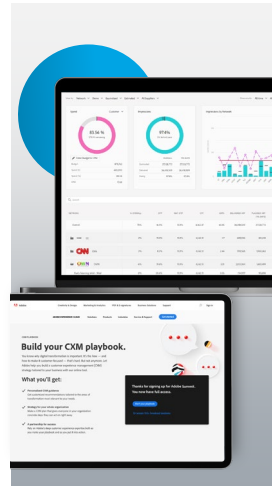
Our Document Cloud growth in Q3 was driven by:

- Investing and driving awareness in our Acrobat web business;
- Continuing to build momentum with our mobile monetization efforts with Acrobat Reader;
- Increasing demand for Acrobat subscriptions across all geos; and
- Building, progressing and closing pipeline for our enterprise offerings, with particular strength in Adobe Sign, which grew enterprise bookings more than 200 percent year-over-year.

While we saw some recovery in the SMB segment during Q3 across Digital Media, smaller businesses continue to be impacted by the macroeconomic environment. We expect this to continue to impact our Team offering across the reseller channel and on Adobe.com.

Adobe Experience Cloud | Results

- Digital Experience revenue of \$838 million
- Digital Experience subscription revenue Y/Y growth of 7%
 - Excluding Advertising Cloud, Digital Experience subscription revenue Y/Y growth of 14%
- Acceleration of Adobe Commerce business
- Increased adoption of AEM Cloud Service and Adobe Experience Platform
- Strength with customer transactions greater than \$1 million in new ASV



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Digital Experience

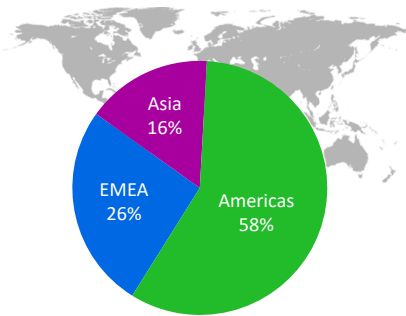
Turning to our Digital Experience segment, in Q3 we achieved revenue of \$838 million, which represents 2 percent year-over-year growth.

Digital Experience subscription revenue was \$729 million, representing 7 percent year-over-year growth. Excluding Advertising Cloud, Digital Experience subscription revenue grew 14 percent year-over-year. We continue to wind down the transaction-driven ad network business in Advertising Cloud.

During Q3 enterprise sales and services implementations settled into a new normal of virtual engagements. We drove strong pipeline and customer acquisition across our Digital Experience solutions, as the digital transformation imperative continues to resonate with our customers. We saw acceleration of our Commerce business, and we drove increased adoption of our AEM Cloud Service and Adobe Experience Platform, which we expect to be growth drivers over the next decade. We saw particular strength with the number of transactions greater than \$1 million in new annual subscription value that we closed in the quarter.

While enterprises and smaller businesses continue to be impacted by the macroeconomic environment, spending in customer experience management is reemerging as the primary imperative to enable businesses to engage with their customers and ignite growth.

Q3 FY2020 Results



Q3 Revenue by Geography

Investing for Profitable Growth

- Drove savings from travel and entertainment and facilities operations
- Hiring to ramp in Q4 and FY '21 to capitalize on large addressable markets

Currency ("FX") Impact

- Net sequential quarterly increase in revenue considering hedging was \$10 million
- Net year-over-year decrease in revenue considering hedging was \$25 million



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Income Statement and Balance Sheet

Overall, while our focus is on investing for profitable growth, particularly in research and development, we drove significant savings from travel and entertainment and facilities operations as our employees work from home. After ensuring that our current resources are focused on the key priorities, we expect to ramp our hiring in Q4 and FY '21 to capitalize on our large addressable markets.

From a quarter-over-quarter currency perspective, FX increased revenue by \$15 million. Net of impacts from hedging, the sequential currency increase to revenue was \$10 million. From a year-over-year currency perspective, FX decreased revenue by \$14 million. Net of impacts from hedging, the year-over-year currency decrease to revenue was \$25 million.

Adobe's effective tax rate in Q3 was 10 percent on both a GAAP and non-GAAP basis, in line with our targets.

Q3 FY2020 Results

- Trade DSO of 37 days
- Remaining Performance Obligation (RPO) of \$10.34 billion
- Cash and short-term investments of \$5.26 billion
- Record cash flows from operations of \$1.44 billion
- Repurchased 1.5 million shares



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Our trade DSO was 37 days, which compares to 44 days in the year-ago quarter, and 40 days last quarter.

Remaining Performance Obligation or “RPO” grew by 18 percent year-over-year to \$10.34 billion exiting Q3 and grew sequentially by 4 percent quarter-over-quarter. Deferred Revenue exiting the quarter was \$3.45 billion. As I mentioned last quarter, our Adobe.com offerings, typically billed monthly, are reported as unbilled backlog, whereas channel offerings billed annually up front are reported as deferred revenue. The strength in acquisition on Adobe.com during the quarter continues to drive a mix-shift from deferred revenue to unbilled backlog.

Our ending cash and short-term investment position exiting Q3 was \$5.26 billion, and cash flows from operations in Q3 were a record \$1.44 billion.

In Q3 we repurchased approximately 1.5 million shares at a cost of \$617 million. We currently have \$2.9 billion remaining of our \$8 billion repurchase authority granted in May 2018, which goes through 2021.

Q4 FY2020 Financial Targets | September 15, 2020

Total Adobe revenue	~\$3.35 billion	
Digital Media segment revenue	~18% Y/Y growth	
Digital Media ARR	~\$540 million of net new ARR	
Digital Experience segment revenue	~Flat Y/Y	
Digital Experience subscription revenue	~1% Y/Y growth	~12% Y/Y growth <small>(excl. Advertising Cloud revenue)</small>
Tax rate	GAAP: ~(90)%	Non-GAAP: ~10%
Share count	~485 million shares	
Earnings per share	GAAP: ~\$4.29	Non-GAAP: ~\$2.64

Targets factor current macroeconomic conditions, typical year-end seasonal strength and the strategic shift related to the company’s Advertising Cloud business. The information discussed on this slide contains forward looking statements that involve risk and uncertainty. Actual results may differ materially. For a discussion of these risks and uncertainties, you should review Adobe’s SEC filings. Please see our website for a discussion of these targets and a detailed reconciliation between GAAP and non-GAAP targets.



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Q4 Targets

For Q4, factoring current macroeconomic conditions, typical year-end seasonal strength and the strategic shift related to our Advertising Cloud business, we are targeting:

- Total Adobe revenue of approximately \$3.35 billion;
- Digital Media segment year-over-year revenue growth of approximately 18 percent;
- Net new Digital Media ARR of approximately \$540 million;
- Digital Experience segment revenue approximately flat year-over-year;
- Digital Experience subscription revenue growing approximately 1 percent year-over-year, or 12 percent when excluding Advertising Cloud revenue;
- Tax rate of approximately minus 90 percent on a GAAP basis and 10 percent on a non-GAAP basis;
- Share count of approximately 485 million shares;
- GAAP earnings per share of approximately \$4.29; and
- Non-GAAP earnings per share of approximately \$2.64.

The GAAP tax rate is benefitting from planned changes to optimize our international structure in Q4 to better align ownership of certain intellectual property rights with how our business operates, as we discussed during our Q1 call earlier this year.

Summary

In summary, we expect a strong Q4 to conclude another year of record revenues and earnings for Adobe. Through these times, the resilience of our employees and our business model have been evident. As our market-leading solutions continue to resonate with individuals and enterprises across the globe, we remain excited about the growth opportunities ahead.

Back to you, Jonathan.

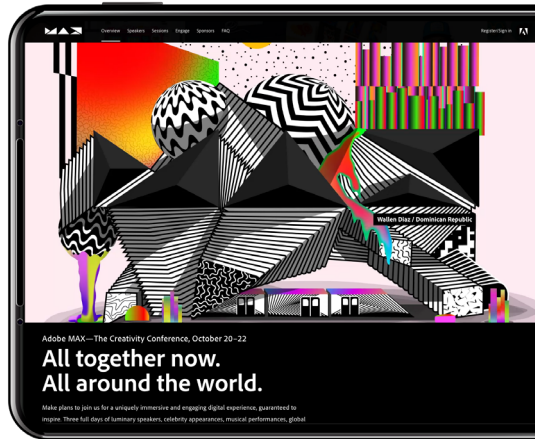
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Conference ID #6066096
Available 5:00pm PT on September 15, 2020
through 5:00pm PT on September 22, 2020



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JONATHAN VAAS

Thanks, John.

As we announced earlier this year, Adobe MAX – our annual creativity conference – will be an online event this October. Information about the event can be found at max.adobe.com. Today we also announced that Adobe will host its fourth quarter and fiscal year 2020 earnings conference call and financial analyst meeting online on December 10, where we will provide an overview of the company's strategy and financial targets for fiscal year 2021. Invitations will be sent to our analyst and investor list in the coming weeks.

If you wish to listen to a playback of today's conference call, a webcast archive will be available on Adobe's IR site later today. You can also listen to a phone replay by calling the numbers shown above. The phone playback service will be available beginning at 5pm Pacific Time today and ending at 5pm Pacific Time on September 22nd.

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

Q & A

