

## 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 second quarter fiscal year 2021 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, June 17, 2021, 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 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, I 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, June 17, 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 the 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.

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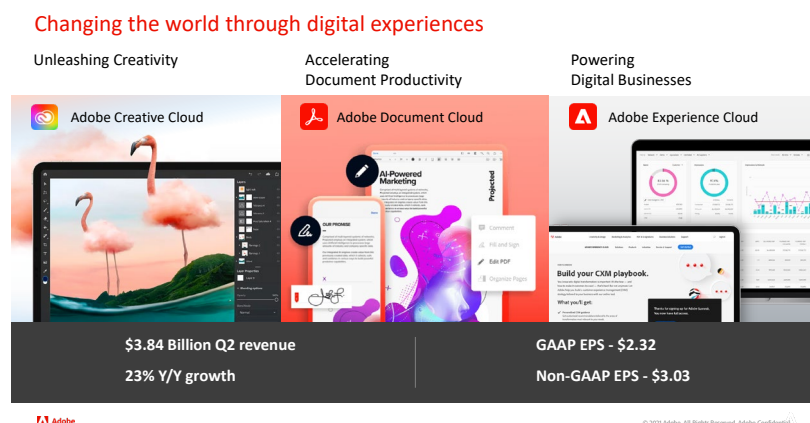
I will now turn the call over to Shantanu.



## SHANTANU NARAYEN

Thanks, Jonathan.

Adobe had another outstanding quarter as the shift to a digital-first world continues to accelerate. From students to creative professionals to small businesses to the world's largest global enterprises, digital is transforming how we work, learn and play.




Adobe's mission to change the world through digital experiences has never been more relevant. Our strategy to unleash creativity for all, accelerate document productivity and power digital businesses is working. Fueled by our ground-breaking innovation, proven capability to create and lead categories and our expansive global customer base, our opportunity and momentum has never been greater.


In Q2, Adobe achieved \$3.84 billion in revenue, representing 23 percent year-over-year growth. GAAP

earnings per share for the quarter was \$2.32 and non-GAAP earnings per share was \$3.03.

## **Digital Media**

In our Digital Media business, we drove strong revenue growth in Q2 in both Creative Cloud and Document Cloud, achieving \$2.79 billion in revenue, representing 25 percent year-over-year growth. Net new Digital Media Annualized Recurring Revenue or “ARR” was \$518 million, and total Digital Media ARR exiting Q2 grew to \$11.21 billion.



 Adobe Creative Cloud

- Net new Creative ARR of \$405 million and revenue of \$2.32 billion
- New product innovations, including updates to Lightroom, Photoshop, Illustrator and Substance
- Increasing engagement and retention across offerings
- Momentum in Creative Cloud Teams offering globally
- Strong customer acquisition in core creative and emerging categories, including photography, video and 3D&I
- Continued growth of mobile traffic
- New partnerships to inspire the next generation of creators

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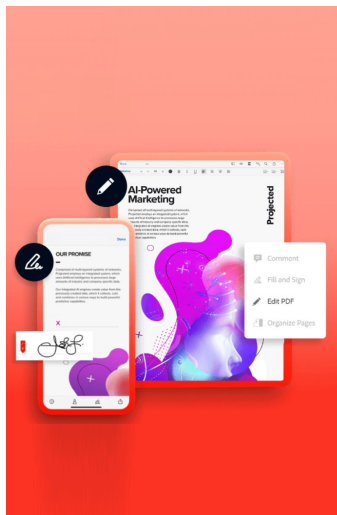
## **Digital Media: Creative Cloud**

Over the last year, we have seen the critical role creativity has played in the world. Creative Cloud is empowering everyone, from the most demanding professional, to the high school student, to the next generation of social media creators, to tell their stories. Adobe is the leader in core creative categories such as imaging, design, video and illustration, and we are expanding our leadership in exciting new media types, including screen design and prototyping, 3D and AR. In a world that requires anyone to be able to create from anywhere, we are building products and services for every surface and platform. Our vibrant creative communities continue to be a tremendous source of inspiration and our goal remains to provide access to a larger and increasingly diverse set of creators and design teams, furthering our strategy of unleashing creativity for all.

Q2 Creative Cloud performance was strong, with net new Creative Cloud ARR of \$405 million and revenue of \$2.32 billion, representing 24 percent year-over-year growth.

Q2 highlights include:

- **New product innovations**, including updates to Lightroom, Photoshop and Illustrator that deliver enhanced creation and collaboration capabilities and greater speed and performance; next week, we will unveil new innovations for Substance, our 3D solution, designed to improve the creation process with new tools to help assemble, style and sculpt;
- **Increasing engagement and retention across offerings**, including greater customer uptake of training, participation in community events and continuous product enhancements derived from insights about customer usage and value;
- **Momentum in our Creative Cloud Teams offering globally**, reinforcing the growth in adoption of Creative Cloud within small and medium businesses;
- **Strong customer acquisition in core creative and emerging categories**, especially photography and video, supported by exciting marketing campaigns globally for Photoshop and Premiere; and accelerating demand for 3D&I in key verticals such as gaming, automotive, fashion & e-commerce;
- **Continued growth of mobile traffic**, leading to new customer acquisition of mobile offerings, like Lightroom Mobile and Photoshop Express, and a strong funnel for desktop applications;
- **Strong growth for Adobe Stock**, with an increasingly robust content library and growing submissions that provide sustained earnings for our contributors;
- **Global momentum**, with accelerated demand in EMEA and Asia Pacific;
- **Key customer wins**, including ByteDance, Netflix, Microsoft and Unity; and
- **New partnerships to inspire the next generation of creators**, including one with Netflix that gives emerging creators access to tools, resources and mentorship to bring their stories to life, and another with Khan Academy, designed to provide teachers and students in underserved communities with access to digital tools and learning resources.



## Adobe Document Cloud

- Net new Document Cloud ARR of \$113 million and revenue of \$469 million
- New product innovations, including new features in Liquid Mode, Scan and Sign
- Strength in Acrobat across all routes to market and offerings
- Accelerated demand for Sign, with new customers doubling Y/Y
- Explosive growth in Acrobat Web services, offering capabilities for over 20 different document verbs
- Momentum across all geographies

Adobe

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### Digital Media: Document Cloud

In this digital-first business environment, seamless document workflows across every device and platform are more important than ever for the modern workforce to collaborate and be productive.

Document Cloud is accelerating document productivity by powering the paper-to-digital transformation and enabling all document actions – including editing, sharing, scanning and signing – to be frictionless across web, desktop and mobile applications.

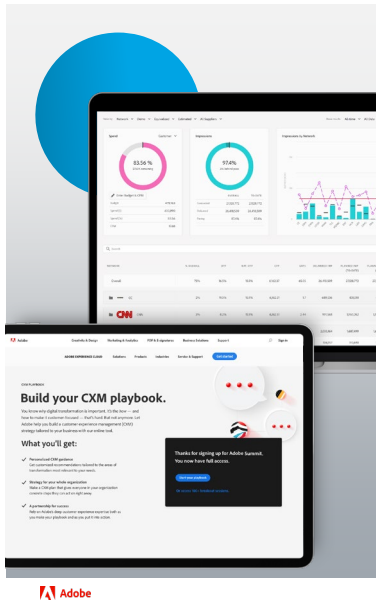
We delivered strong Document Cloud revenue in Q2, with net new Document Cloud ARR of \$113 million and outstanding revenue of \$469 million, representing 30 percent year-over-year growth.

Q2 highlights include:

- **New product innovations**, including new features in Acrobat Liquid Mode that further improve accessibility on mobile devices; new Adobe Scan functionality that enables users to combine, save and store scans more efficiently; and new Sign capabilities in Acrobat to help small and medium sized businesses improve their digital footprint with easily embeddable forms and digital payments;
- **Strength in Acrobat** across all routes to market and offerings, with enterprise bookings growth up over 60 percent year over year;

- **Accelerated demand for Sign**, with new Sign customers doubling year over year and an increasing share of Acrobat users leveraging Sign capabilities;
- **Explosive growth in Acrobat Web services**, driven by significant improvements in SEO for a new set of customers. In Q2, we drove 30 million visits to frictionless PDF pages and now offer capabilities for over 20 different document verbs;
- **Continued growth of mobile traffic**, including over 110 million mobile downloads of Adobe Scan and one billion scans to date, and a greater than 20 percent year-over-year increase in Acrobat mobile app adoption;
- **Momentum across all geographies**, with accelerated demand in Europe, Latin America, Australia and New Zealand; and
- **Key customer wins**, including ADP, AstraZeneca, GlaxoSmithKline, Toyota and Wells Fargo.

I am thrilled to welcome back David Wadhwani, who has rejoined Adobe as Executive Vice President and Chief Business Officer of our Digital Media business. His impressive track record and passion for Adobe and our customers make him the ideal person to lead our Digital Media business through its next phase of growth.



## Adobe Experience Cloud

- Digital Experience revenue was \$938 million in Q2 with subscription revenue of \$817 million
- Adobe Summit in April drove 20 million views
- Strength in core offerings, including explosive bookings growth for Adobe Experience Platform
- Success with large multi-solution deals in Q2
- Continued recognition by industry analysts as a leader across customer experience management segments
- Key customer wins with brands like Nike, NatWest, NTT Docomo and T-Mobile

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## Digital Experience

Digital transformation has become an imperative for businesses of every size in every industry.

According to our recent Adobe Digital Economy Index, e-commerce spending is projected to be \$4.2 trillion globally this year and reach \$1 trillion in the U.S. alone in 2022. We predict that U.S. online spending on the upcoming Prime Day will surpass the \$10.9 billion mark that Cyber Monday reached in 2020. Across both B2C and B2B, companies around the globe are investing in digital to deliver personalized and engaging customer experiences.

Experience Cloud is the most comprehensive solution for content and commerce, data insights and audiences, customer journeys and marketing workflow. With unified customer profiles and an open and extensible architecture, Adobe Experience Platform is the clear platform of choice for enterprises to deliver real-time personalization at scale, powering more than 17 trillion audience segment evaluations every day.

Experience Cloud revenue was \$938 million in Q2, representing 21 percent year-over-year growth, and subscription revenue was \$817 million, representing 25 percent year-over-year growth.

In April, we held our annual digital experience conference, Adobe Summit, virtually. We drove an



unprecedented 20 million views of Summit content from individuals around the globe, underscoring the significant interest and demand for customer experience management. Highlights of product announcements include:

- Adobe Journey Optimizer, which helps marketers optimize the customer journey across outbound and inbound customer touchpoints;
- Adobe Customer Journey Analytics, which enables brands to integrate and standardize their online and offline data and is years ahead of any competitive offering;
- The next generation of Adobe's Real-time Customer Data Platform to help brands optimize their acquisition and engagement strategies in a first-party data world;
- A preview of a pioneering marketing system of record, built on Workfront technology, designed to manage complex marketing workflows for greater efficiency and agility; and
- New intelligent commerce capabilities and a strategic partnership with FedEx that will allow every small and medium business to offer expedited shipping capabilities as part of their commerce platform.

Beyond Summit, Q2 accomplishments include:

- **Strength in core offerings**, including explosive bookings growth for Adobe Experience Platform, and associated services like Customer Journey Analytics and Real-time CDP, which combined blew past the \$100 million book of business mark in Q2;
- **Success with large multi-solution deals** in transformational accounts and improving close rates across geographies, customer segments and product pillars;
- **Building the future workforce** by offering college instructors and students globally free access and curriculum for Adobe Analytics, the industry-leading customer data analytics platform;
- **Continued industry analyst recognition** across all customer experience management segments, including being named a leader in the Forrester Wave for Enterprise Marketing

Software Suites, achieving the top spot each of the five times the report has been published, and leadership in the Gartner Multichannel Marketing Hubs Magic Quadrant for the fourth year in a row; and

- **Key customer wins** with brands like Nike, NatWest, NTT Docomo and T-Mobile.



## Summary

We are proud of the tremendous results and momentum across our business.

As we plan for a post-pandemic world, we will remain flexible as different regions recover at different times. While offices in Australia and parts of Asia have been open for some time, and conditions in the U.S. and parts of Europe are improving, we will continue to support our employees in places like India and Brazil where the situation remains challenging. Over the last year, we have been building a blueprint for the future of work at Adobe, which will be hybrid and flexible. In the U.S., we will be piloting a return to our San Jose office, starting with a small group of fully vaccinated employees in July. We are committed to leveraging the best of in-person and digital interactions to harness what makes Adobe special – our creativity, innovation and culture – driven by our most important asset, people.

I want to thank all of our employees for their dedication and resilience during a year that was not only marked by the pandemic but by violence and racial injustice. I am proud of the progress we

have made in advancing our efforts around diversity, equity and inclusion. We have made strides in our strategy to accelerate the representation, growth and advancement of the Black community. But as Juneteenth approaches later this week, we know we have so much left to do. As we celebrate Pride Month in June, we are honoring and spotlighting our LGBTQ+ communities both inside and outside of Adobe. These efforts represent Adobe's longstanding commitment to supporting our diverse employee base and making an impact in the communities where we live and work, a principle our co-founders, John Warnock and Chuck Geschke, instilled in us.

In Q2, we lost our beloved co-founder Chuck Geschke. Chuck left an indelible mark on Adobe, the technology industry and the world. While we miss him tremendously, it gives me great comfort knowing that Chuck was so proud of the company that Adobe has become.

Adobe's strong culture, revered brand, innovative product roadmap and the world's best employees, customers and partners position us for continued success in 2021 and beyond.

John.



## JOHN MURPHY

Thanks, Shantanu.

Q2 was an excellent quarter for Adobe, with strong revenue growth, enterprise bookings in Digital Experience and net new ARR in Digital Media, showing how our solutions are resonating with customers of all types in an increasingly digital world.

With our data-driven operating model (or “DDOM”) we continue to utilize our own Experience Cloud technology to optimize customer journeys, driving increasing amounts of traffic to Adobe.com to acquire new customers and raise awareness of our products. We continue to invest for growth in sales and marketing, while also increasing headcount in Q2 to drive product innovation.

### Q2 FY2021 Results

Total Adobe revenue	\$3.84 billion (23% Y/Y growth)	
Digital Media segment revenue	\$2.79 billion (25% Y/Y growth)	
Digital Media ARR	\$518 million of net new ARR	
Digital Experience segment revenue	\$938 million (21% Y/Y growth)	
Digital Experience subscription revenue	\$817 million (25% Y/Y growth)	
Earnings per share	GAAP: \$2.32	Non-GAAP: \$3.03

- Generated \$1.99 billion of cash flows from operations
- Repurchased 2.1 million shares
- Grew Remaining Performance Obligations (RPO) by 23% Y/Y to \$12.23 billion



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As a result, in Q2 Adobe achieved revenue of \$3.84 billion, which represents 23 percent year-over-year growth.

Business and financial highlights included:

- GAAP diluted earnings per share of \$2.32 and non-GAAP diluted earnings per share of \$3.03;
- Digital Media revenue of \$2.79 billion;
- Net new Digital Media ARR of \$518 million;
- Digital Experience revenue of \$938 million;
- Record cash flows from operations of \$1.99 billion;
- RPO of \$12.23 billion exiting the quarter; and
- Repurchasing approximately 2.1 million shares of our stock during the quarter.

### **Digital Media**

In our Digital Media segment, we achieved 25 percent year-over-year revenue growth in Q2, and we exited the quarter with \$11.21 billion of Digital Media ARR.



#### **Adobe Creative Cloud | Results**

- Creative revenue of \$2.32 billion growing 24% Y/Y, with \$405 million of net new Creative ARR
- Strong retention and renewal across all Creative products and customer segments
- New user acquisition, driven by global marketing campaigns
- Accelerated recovery in the SMB segment with our Creative Cloud for Teams offering
- Success in enterprise licensing, driven by account expansion at renewal
- Momentum with our Adobe Stock
- Driving subscriptions in the education segment
- Generating net new ARR through app store sales of mobile and iPad applications



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We achieved Creative revenue of \$2.32 billion, which represents 24 percent year-over-year growth, and we added \$405 million of net new Creative ARR.

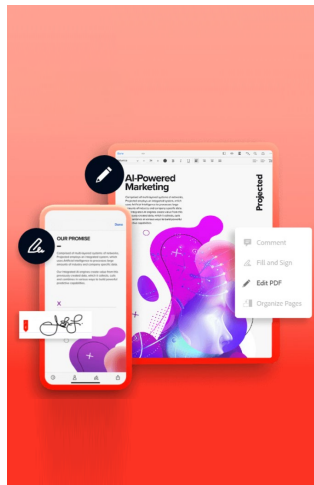
## Second quarter Creative growth drivers included:

- Strong retention and renewal across all Creative products and customer segments;
- New user acquisition, driven by global marketing campaigns utilizing our DDOM insights;
- Accelerated recovery in the SMB segment with our Creative Cloud for Teams offering;
- Success in enterprise licensing, driven by account expansion at renewal;
- Momentum with our Adobe Stock business, which continues to outpace industry peers in terms of revenue growth;
- Driving subscriptions in the education segment, both with individuals and institutions; and
- Generating net new ARR through app store sales of our mobile and iPad applications.



### Adobe Document Cloud | Results

- Document Cloud revenue of \$469 million growing 30% Y/Y, with \$113 million of net new Document Cloud ARR
- Increasing demand for Acrobat subscriptions across all geos
- Strong subscription licensing of Team offering in SMB
- Success in enterprise licensing, with broad seat expansion across enterprise accounts
- Accelerated adoption of Acrobat Web offering, driving top-of-funnel awareness and conversion to paid subscriptions
- Continued strength with Adobe Sign, which grew ARR greater than 40 percent year over year exiting Q2
- Improved conversion on Adobe.com



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Adobe achieved Document Cloud revenue of \$469 million, which represents 30 percent year-over-year growth, and we added \$113 million of net new Document Cloud ARR in the quarter.

## Second quarter Document Cloud growth drivers included:

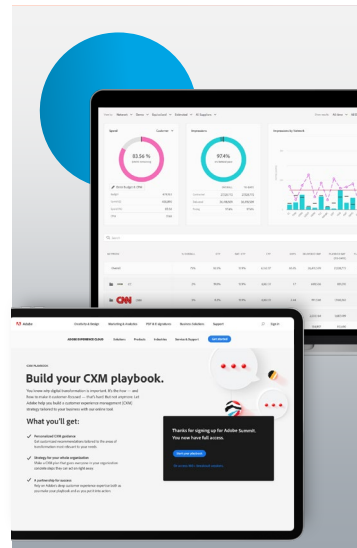
- Increasing unit demand for Acrobat subscriptions across all geos;
- Strong subscription licensing of our Teams offering in the SMB segment;
- Success in enterprise licensing, with broad seat expansion across enterprise accounts;

- Accelerated adoption of our Acrobat Web offering, driving top-of-funnel awareness and conversion to paid subscriptions;
- Continued strength with Adobe Sign, which grew ARR greater than 40 percent year over year exiting the quarter; and
- Driving improved conversion on Adobe.com.



### Adobe Experience Cloud | Results

- Digital Experience revenue of \$938 million growing 21% Y/Y, with subscription revenue of \$817 million growing 25% Y/Y
- Strong bookings for Adobe Experience Platform and native applications built on AEP—including Real-Time CDP and Customer Journey Analytics
- Driving adoption of Analytics, Commerce and Campaign
- Workfront success, combining best-in-class workflow solution with CXM offerings to create industry-leading marketing system of record
- Momentum signing up transformational, multi-solution engagements with enterprise customers across geographies
- Strengthening customer renewal and expansion rates



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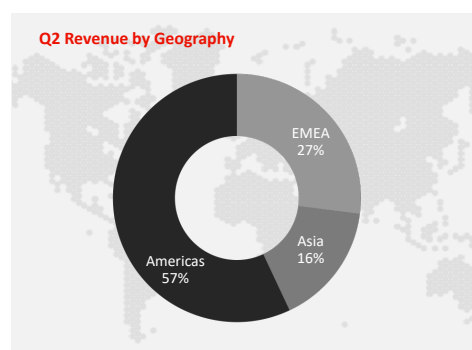
## Digital Experience

Turning to our Digital Experience segment, in Q2 we achieved revenue of \$938 million, which represents 21 percent year-over-year growth. Digital Experience subscription revenue was \$817 million, representing 25 percent year-over-year growth.

On the heels of Adobe Summit, we had success in Q2 generating pipeline and closing strategic customer deals across our portfolio of customer experience management (“CXM”) solutions. Deal volume was sustained throughout the quarter, with several large transactions closing earlier in the quarter contributing to our revenue performance in Q2. We continue to see broad macroeconomic recovery, including in the commercial segment, and enterprises of all sizes are investing in digital transformation.

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

- Strong bookings for Adobe Experience Platform (“AEP”) and native applications built on AEP—including Real-Time CDP and Customer Journey Analytics—which continue to build momentum;
- Recent innovations and partnerships driving awareness and adoption of our Analytics, Commerce and Campaign solutions;
- Continued success with our Workfront offering, as we realize the value of combining a best-in-class workflow solution with our CXM offerings to create an industry-leading marketing system of record;
- Momentum signing up transformational, multi-solution engagements with enterprise customers across geographies; and
- Strengthening customer renewal and expansion rates.



- Continued savings from T&E and site operations
- Investing in facilities, with many employees returning to offices and business travel during Q3

#### Currency (“FX”) Impact

- Net sequential quarterly increase in revenue considering hedging was \$10 million
- Net year-over-year increase in revenue considering hedging was \$78 million

## **Income Statement and Balance Sheet**

Savings from T&E and site operations are continuing as our employees work from home. We are investing in our facilities as we reimagine the future of work, and many of our employees return to offices and business travel during Q3.



From a quarter-over-quarter currency perspective, FX increased revenue by \$10 million, both before and after applying the net impacts from hedging. From a year-over-year currency perspective, FX increased revenue by \$94 million. Net of impacts from hedging, the year-over-year currency increase to revenue was \$78 million.

Adobe's effective tax rate in Q2 was 19.5 percent on a GAAP basis and 16 percent on a non-GAAP basis, in line with our expectations for the quarter.

### Q2 FY2021 Results

- Trade DSO of 35 days
- RPO of \$12.23 billion
- Cash and short-term investments of \$5.77 billion
- Cash flows from operations a record \$1.99 billion
- Repurchased 2.1 million shares



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Our trade DSO was 35 days, which compares to 40 days in the year-ago quarter, and 38 days last quarter.

RPO grew by 23 percent year over year to \$12.23 billion exiting Q2, benefitting from strong enterprise licensing during the quarter. Deferred Revenue exiting the quarter was \$4.28 billion, growing 24 percent year over year.

Our ending cash and short-term investment position exiting Q2 was \$5.77 billion. Cash flows from operations in Q2 were a record \$1.99 billion.

We repurchased approximately 2.1 million shares in the quarter at a cost of \$983 million. We currently have \$15.1 billion in remaining authority, of which \$100 million was granted in May 2018 and \$15 billion was granted in December 2020.

## Q3 FY2021 Financial Targets | June 17, 2021

Total Adobe revenue	~\$3.88 billion	
Digital Media segment revenue	~22% Y/Y growth	
Digital Media ARR	~\$440 million of net new ARR	
Digital Experience segment revenue	~21% Y/Y growth	
Digital Experience subscription revenue	~25% Y/Y growth	
Tax rate	GAAP: ~19%	Non-GAAP: ~16%
Share count	~480 million shares	
Earnings per share	GAAP: ~\$2.27	Non-GAAP: ~\$3.00

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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## Targets

The following Q3 targets factor current macroeconomic conditions and expected return of summer seasonality associated with the months of June, July and August.

- Total Adobe revenue of approximately \$3.88 billion;
- Digital Media segment revenue growth of approximately 22 percent year over year;
- Net new Digital Media ARR of approximately \$440 million;
- Digital Experience segment revenue growth of approximately 21 percent year over year;
- Digital Experience subscription revenue growth of approximately 25 percent year over year;
- Tax rate of approximately 19 percent on a GAAP basis and 16 percent on a non-GAAP basis;
- Share count of approximately 480 million shares;
- GAAP earnings per share of approximately \$2.27; and
- Non-GAAP earnings per share of approximately \$3.00.

We are pleased with our first half performance, and we expect the momentum to continue, with typical Q4 strength.

## Summary

With the momentum we are seeing across creativity, digital documents and customer experience management, we are on track for another record year with a strong first half already in the books. Few companies of our scale can boast 20 percent plus revenue growth, world-class operating margins and a recurring-revenue model built for long-term growth and profitability.

I will now turn the call over to the operator to take your questions.

Q&A

