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FOR IMMEDIATE RELEASE

Adobe Reports Strong Q1 FY2014 Results

Recurring Revenue More Than Half of Company's First Quarter Revenue

SAN JOSE, Calif. — March 18, 2014 — Adobe (Nasdaq:ADBE) today reported financial results for its first quarter fiscal year 2014 ended Feb. 28, 2014.

First Quarter Financial Highlights

- Adobe achieved revenue of \$1.0 billion, at the high end of its targeted range of \$950 million to \$1.0 billion.
- Adobe exited Q1 with 1 million 844 thousand paid Creative Cloud subscriptions, an increase of 405 thousand when compared to the number of subscriptions as of the end of Q4 fiscal year 2013.
- Creative Annualized Recurring Revenue ("ARR") grew to \$987 million, and total Digital Media ARR grew to \$1.15 billion.
- Adobe Marketing Cloud quarterly revenue was \$267 million, representing 24 percent year-over-year growth.
- Diluted earnings per share were \$0.09 on a GAAP-basis, and \$0.30 on a non-GAAP basis.
- Cash flow from operations was \$252 million.
- Deferred revenue grew by \$52 million to a record \$881 million.
- More than half of Adobe's Q1 revenue was from recurring sources such as Creative Cloud subscriptions and Adobe Marketing Cloud.
- The company repurchased 4.5 million shares during the quarter, returning approximately \$263 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's Q1 momentum was driven by strong adoption of Creative Cloud and Adobe Marketing Cloud, said Shantanu Narayen, president and chief executive officer, Adobe. "We have an amazing pipeline of innovation that we will deliver in the coming months, as well as plans to differentiate ourselves by further integrating our Cloud businesses."

"We achieved a significant milestone with our transition to the Cloud in our first quarter with more than half of Adobe's total revenue coming from recurring sources such as Creative Cloud subscriptions and Adobe Marketing Cloud adoption," said Mark Garrett, executive vice president and chief financial officer, Adobe. "In our Creative business, reported revenue from subscriptions exceeded revenue from legacy perpetual licenses for the first time."

Adobe to Webcast Earnings Conference Call

Adobe will webcast its first quarter fiscal year 2014 earnings conference call today at 2:00 p.m. Pacific Time from its investor relations website: www.adobe.com/ADBE. A copy of Adobe management's prepared remarks, including financial targets and conference call slides, has been posted to Adobe's investor relations website in advance of the conference call for reference.

A reconciliation between GAAP and non-GAAP financial targets is also provided on the website.

Forward-Looking Statements Disclosure

This press release contains forward-looking statements, including those related to business momentum, innovation in our products, future product features and updates, and growth in recurring revenue, 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 distribute products and services that meet customer requirements, introduction of new products and business models by competitors, failure to successfully manage transitions to new business models and markets, fluctuations in subscription renewal or upgrade rates, uncertainty in economic conditions and the financial markets, risks associated with cyber-attacks and information security, difficulty in predicting revenue from new businesses and the potential impact on our financial results from changes in our business models, 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 ended Nov. 29, 2013.

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 Feb. 28, 2014, which Adobe expects to file in March 2014.

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)

	Three Months Ended	
	February 28, 2014	March 1, 2013
Revenue:		
Products.....	\$ 471,454	\$ 675,789
Subscription.....	423,563	224,266
Services and support.....	105,103	107,818
Total revenue.....	<u>1,000,120</u>	<u>1,007,873</u>
Cost of revenue:		
Products.....	27,498	51,982
Subscription.....	76,732	62,580
Services and support.....	44,279	42,122
Total cost of revenue.....	<u>148,509</u>	<u>156,684</u>
Gross profit.....	851,611	851,189
Operating expenses:		
Research and development.....	209,525	209,638
Sales and marketing.....	410,141	398,033
General and administrative.....	138,984	132,853
Restructuring and other charges.....	663	2
Amortization of purchased intangibles.....	13,552	12,439
Total operating expenses.....	<u>772,865</u>	<u>752,965</u>
Operating income.....	78,746	98,224
Non-operating income (expense):		
Interest and other income (expense), net.....	3,145	1,246
Interest expense.....	(16,590)	(16,834)
Investment gains (losses), net.....	(409)	848
Total non-operating income (expense), net.....	<u>(13,854)</u>	<u>(14,740)</u>
Income before income taxes.....	64,892	83,484
Provision for income taxes.....	17,846	18,367
Net income.....	<u>\$ 47,046</u>	<u>\$ 65,117</u>
Basic net income per share.....	<u>\$ 0.09</u>	<u>\$ 0.13</u>
Shares used to compute basic net income per share.....	496,948	498,607
Diluted net income per share.....	<u>\$ 0.09</u>	<u>\$ 0.13</u>
Shares used to compute diluted net income per share.....	<u>508,340</u>	<u>507,840</u>

Condensed Consolidated Balance Sheets
(In thousands, except par value; unaudited)

	February 28, 2014	November 29, 2013
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 733,916	\$ 834,556
Short-term investments.....	2,398,176	2,339,196
Trade receivables, net of allowances for doubtful accounts of \$8,637 and \$10,228, respectively.....	510,507	599,820
Deferred income taxes	91,149	102,247
Prepaid expenses and other current assets	208,643	170,110
Total current assets.....	3,942,391	4,045,929
Property and equipment, net.....	651,083	659,774
Goodwill	4,782,448	4,771,981
Purchased and other intangibles, net.....	570,171	605,254
Investment in lease receivable	207,239	207,239
Other assets	92,550	90,121
Total assets.....	\$ 10,245,882	\$ 10,380,298
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Trade payables.....	\$ 64,508	\$ 62,096
Accrued expenses	584,273	656,939
Debt and capital lease obligations.....	613,310	14,676
Accrued restructuring.....	6,193	6,171
Income taxes payable.....	12,986	10,222
Deferred revenue.....	831,077	775,544
Total current liabilities.....	2,112,347	1,525,648
Long-term liabilities:		
Debt and capital lease obligations.....	896,418	1,499,297
Deferred revenue.....	50,010	53,268
Accrued restructuring.....	6,992	7,717
Income taxes payable.....	135,202	132,545
Deferred income taxes	362,859	375,634
Other liabilities.....	71,171	61,555
Total liabilities.....	3,634,999	3,655,664
Stockholders' equity:		
Preferred stock, \$0.0001 par value; 2,000 shares authorized.....	—	—
Common stock, \$0.0001 par value.....	61	61
Additional paid-in-capital	3,475,186	3,392,696
Retained earnings.....	6,734,701	6,928,964
Accumulated other comprehensive income.....	56,592	46,103
Treasury stock, at cost (102,333 and 104,573 shares, respectively), net of reissuances	(3,655,657)	(3,643,190)
Total stockholders' equity.....	6,610,883	6,724,634
Total liabilities and stockholders' equity.....	\$ 10,245,882	\$ 10,380,298

Condensed Consolidated Statements of Cash Flows
(In thousands; unaudited)

	Three Months Ended	
	February 28, 2014	March 1, 2013
Cash flows from operating activities:		
Net income	\$ 47,046	\$ 65,117
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation, amortization and accretion	77,636	76,752
Stock-based compensation expense	82,750	77,282
Unrealized investment (gains) losses, net	975	(418)
Changes in deferred revenue	52,275	79,514
Changes in other operating assets and liabilities	(9,009)	23,784
Net cash provided by operating activities	<u>251,673</u>	<u>322,031</u>
Cash flows from investing activities:		
Purchases, sales and maturities of short-term investments, net	(61,746)	(245,775)
Purchases of property and equipment	(29,393)	(60,190)
Purchases and sales of long-term investments, intangibles and other assets, net	(3,283)	(43,793)
Acquisitions, net of cash	—	(96,356)
Net cash used for investing activities	<u>(94,422)</u>	<u>(446,114)</u>
Cash flows from financing activities:		
Purchases of treasury stock	(200,000)	(100,000)
Proceeds from (cost of) reissuance of treasury stock, net	(53,776)	88,566
Proceeds from debt and capital lease obligations	—	25,703
Repayment of debt and capital lease obligations	(4,433)	(2,507)
Debt issuance costs	—	(357)
Net cash (used for) provided by financing activities	<u>(258,209)</u>	<u>11,405</u>
Effect of exchange rate changes on cash and cash equivalents	318	(5,992)
Net decrease in cash and cash equivalents	<u>(100,640)</u>	<u>(118,670)</u>
Cash and cash equivalents at beginning of period	834,556	1,425,052
Cash and cash equivalents at end of period	<u>\$ 733,916</u>	<u>\$ 1,306,382</u>

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.

	Three Months Ended		
	February 28, 2014	March 1, 2013	November 29, 2013
Operating income:			
GAAP operating income	\$ 78,746	\$ 98,224	\$ 102,836
Stock-based and deferred compensation expense	83,549	85,086	86,468
Restructuring and other charges	663	2	2,294
Amortization of purchased intangibles & technology license arrangements	32,054	57,377	32,789
Loss contingency	10,000	—	—
Non-GAAP operating income	<u>\$ 205,012</u>	<u>\$ 240,689</u>	<u>\$ 224,387</u>
Net income:			
GAAP net income	\$ 47,046	\$ 65,117	\$ 65,320
Stock-based and deferred compensation expense	83,549	85,086	86,468
Restructuring and other charges	663	2	2,294
Amortization of purchased intangibles & technology license arrangements	32,054	57,377	32,789
Investment (gains) losses	409	(848)	(1,461)
Loss contingency	10,000	—	—
Income tax adjustments	(22,383)	(28,840)	(20,806)
Non-GAAP net income	<u>\$ 151,338</u>	<u>\$ 177,894</u>	<u>\$ 164,604</u>
Diluted net income per share:			
GAAP diluted net income per share	\$ 0.09	\$ 0.13	\$ 0.13
Stock-based and deferred compensation expense	0.16	0.17	0.17
Amortization of purchased intangibles & technology license arrangements	0.06	0.11	0.06
Loss contingency	0.02	—	—
Income tax adjustments	(0.03)	(0.06)	(0.04)
Non-GAAP diluted net income per share	<u>\$ 0.30</u>	<u>\$ 0.35</u>	<u>\$ 0.32</u>
Shares used in computing diluted net income per share	508,340	507,840	511,082

Non-GAAP Results (continued)

	Three Months Ended
	February 28, 2014
Effective income tax rate:	
GAAP effective income tax rate.....	27.5%
Stock-based and deferred compensation expense	(5.3)
Amortization of purchased intangibles.....	(2.1)
Loss contingency.....	(0.6)
Income tax adjustments.....	1.5
Non-GAAP effective income tax rate	21.0%

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. Accordingly, 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 in a manner that focuses on what Adobe believes to be its ongoing business operations.

Adobe's management believes it is useful for itself and investors to review, as applicable, both GAAP information that may include 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, loss contingencies 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.