

## MIKE SAVIAGE

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.

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#### Financial Disclaimer

Some of the information discussed in this presentation, particularly our revenue and operating model targets, and our forward-looking product plans, is based on information as of today, September 19, 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 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](#).

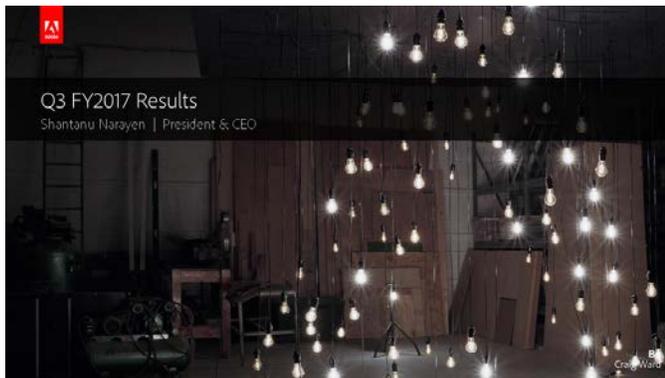
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Before we get started, we want to emphasize that some of the information discussed in this call, particularly our revenue and operating model targets, and our forward-looking product plans, is based on information as of today, September 19<sup>th</sup>, 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 the earnings press release we issued today, as well as Adobe's SEC filings.

During this call, we will discuss GAAP and non-GAAP financial measures. A reconciliation between the two is available in our earnings release and in our updated investor datasheet on Adobe's Investor Relations website.

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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.

Adobe Creative Cloud Results



- Creative revenue grew 33% year-over-year
- Strong growth with Creative Cloud video solutions
- Unveiled premium features for Adobe Spark
- Adding new functionality to 360/VR capabilities

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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 Mettler. 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.

Adobe Document Cloud Results



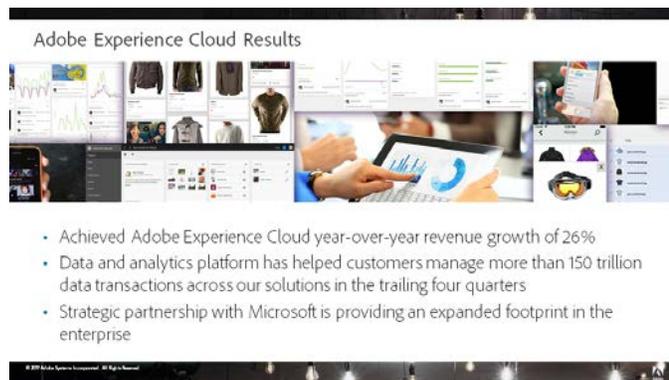
- Grew Adobe Document Cloud revenue 10% year-over-year
- Strong uptake of Acrobat across Creative Cloud and Adobe Document Cloud
- Adobe Sign is Microsoft's preferred e-signature solution
- More than 2.7 million downloads of Adobe Scan

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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.

Q3 FY2017 Results

Revenue	\$1.84 billion	
EPS	GAAP: \$0.84	Non-GAAP: \$1.10

- Record quarterly Creative revenue of \$1.06 billion
- Strong Document Cloud revenue of \$206 million
- 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
- 88% 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.

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Creative Cloud



- Creative revenue grew 33% year-over-year
- Exited Q3 with \$4.32 billion of Creative ARR
- Continued strength across all segments
- Strong net new subscriptions
- Maintained or grew ARPU across key offerings
- Strength in Japan

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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.

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#### Adobe Document Cloud



- Achieved Adobe Document Cloud revenue of \$206 million
- Grew Document Cloud ARR to \$556 million
- Acrobat adoption accelerated, achieving 19% year-over-year unit growth

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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.

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#### Adobe Experience Cloud

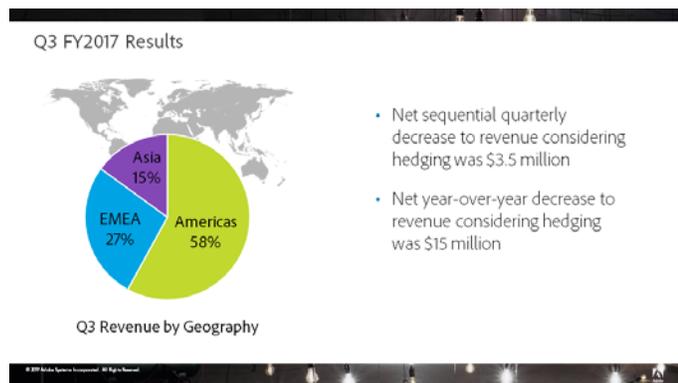


- Achieved record revenue of \$508 million, representing 26% year-over-year growth
- Areas of strength included Adobe Audience Manager, Adobe Campaign and Adobe Advertising Cloud
- Mobile remains a key driver for the business

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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.

Q3 FY2017 Results (continued)



- Trade DSO of 50 days
- Cash flow from operations of \$704 million
- Record deferred revenue of \$2.20 billion
- Cash and short-term investments of \$5.37 billion
- Repurchased approximately 2.1 million shares

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.

Q4 FY2017 Financial Targets  
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 ~\$330 million of net new Digital Media ARR
- Expect Digital Media segment year-over-year revenue growth of ~25%
- Expect Adobe Experience Cloud year-over-year revenue growth of ~17%\*

\* Adobe Experience Cloud Q4 FY2017 year-over-year growth rate will be affected by a material amount of perpetual revenue that was achieved in Q4 FY2016. The information discussed on this slide contains forward-looking statements that include 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.

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.

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Adobe MAX  
The Creativity Conference  
October 18-20, 2017, Las Vegas

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## MIKE SAVIAGE

Thanks, Mark.

As we highlighted last quarter, Adobe MAX is coming up in Las Vegas during the week of October 16<sup>th</sup>. Day One of our conference is Wednesday October 18<sup>th</sup>, 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](http://max.adobe.com). Please contact Adobe Investor Relations with an email to [ir@adobe.com](mailto: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 23<sup>rd</sup>, 2017.



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