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 fourth quarter and fiscal year 2017 financial results. By now, you should have a copy of our earnings press release which crossed the wire approximately one hour ago. We've also posted PDFs of our earnings call prepared remarks and slides, financial targets and an updated investor datasheet on Adobe.com. If you would like a copy of these documents, you can go to Adobe's Investor Relations page and find them listed under Quick Links.
Before we get started, we want to emphasize that some of the information discussed in this call, particularly our revenue and operating model targets, and our forward-looking product plans, is based on information as of today, December 14th, 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.

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

I will now turn the call over to Shantanu.
Thanks, Mike and good afternoon.

FY17 was another strong year for Adobe, highlighted by record Creative Cloud, Document Cloud and Experience Cloud revenue, and capped-off by the first ever $2 billion quarter in company history.

In Q4 we delivered revenue of $2.01 billion dollars, which represents 25% year-over-year growth. GAAP earnings per share in Q4 was $1.00, and non-GAAP earnings per share was $1.26. For the year, we grew total revenue to $7.3 billion, which represents 25% annual growth. GAAP earnings per share in FY17 was $3.38, and non-GAAP earnings per share was $4.31.

Our strong results are validation of the relevance of Adobe’s mission to change the world through digital experiences. That vision serves a broad and diversified set of customers – from artists, students, and anyone with a story to tell – to the world’s most prestigious brands, media companies and institutions – all of whom are betting their future on Adobe as they embrace the opportunities of digital transformation.
In Digital Media, Creative Cloud and Adobe Document Cloud are fundamental to how people and businesses communicate, entertain and engage with each other. We exited the year with more than $5.2 billion of Digital Media Annualized Recurring Revenue, or ARR. The net ARR increase in Q4 was $359 million, fueled by our ability to attract and retain new users, deepen product engagement, and drive new opportunities through services.

Creative Cloud remains the gold standard for creativity and design. Tens of millions of people use Creative Cloud and it is becoming the creativity platform for all. We achieved Creative revenue of $1.16 billion in Q4. For the year, we achieved Creative revenue of $4.2 billion, which represents 31% year-over-year growth.

At our annual MAX creativity conference in October, we introduced the next generation of Creative Cloud, including a set of new applications across the design, video and photography segments. Highlights included the introduction of Adobe XD, our tool for end-to-end UX/UI design, Adobe Dimension, which greatly simplifies 3D design, Adobe Character Animator, which brings 2D “puppets” to life using voice, facial expressions and gestures; and Adobe Lightroom CC, our photography cloud service that works across desktop, mobile and web – to edit, organize, store and share photos. We have delivered on Creative Cloud’s promise to bring continuous innovation through updates to our flagship products including Photoshop, Illustrator and Premiere Pro.

We introduced a premium version of Adobe Spark – our tool for helping everyone communicate their ideas visually. Spark with Premium Features offers enhanced customization capabilities for branded graphics, web pages, and video stories and is a key part of Adobe’s strategy to introduce our creative tools to a wider audience of storytellers.
The value of Creative Cloud is enhanced through the delivery of innovative, new cloud services. Adobe Stock has continued its steady growth as we innovate in areas like aesthetic search and introduce new features and content such as Motion Graphics templates. We’ve continued to add new contributor features to Adobe Stock, allowing our community to customize their portfolios and present their best work.

Last week we announced that Scott Belsky, co-founder of Behance, returned to Adobe as Chief Product Officer and EVP of Creative Cloud and has joined my staff. Scott is one of the most admired leaders in the design community. In this role, he will focus on product delivery and driving long-term innovation for Creative Cloud products and services. Scott will partner closely with Bryan Lamkin, EVP and General Manager of Digital Media, as we continue to push the boundaries of what’s possible with Creative Cloud and drive continued growth and customer engagement.

The world’s leading digital document service, Adobe Document Cloud, is enabling businesses to transform inefficient paper-based processes to digital. In Q4, Document Cloud revenue was $235 million and we grew Document Cloud ARR to $600 million. We achieved annual revenue of $837 million for Document Cloud in FY17.

Mobile has become the new frontier for Document Cloud. This quarter, we announced new updates to Adobe Scan which leverage Adobe Sensei to capture and create intelligent PDFs on your mobile device. To date, Adobe Scan has had more than 5 million downloads.
Adobe created and is the leader in the digital marketing category, which has redefined the enterprise software landscape. Today, we are targeting the much broader Experience Business opportunity which we estimate to be a $53 billion addressable market in 2020. In Q4 we achieved Adobe Experience Cloud revenue of $550 million, resulting in annual revenue of $2.03 billion.

In an era when entire industries are being disrupted, every business must now compete for the hearts and minds of their customers with every click and every interaction. With Adobe Experience Cloud, we are transforming how businesses compete in this new reality. Our offering includes Adobe Marketing Cloud, Adobe Analytics Cloud and Adobe Advertising Cloud, making it the industry's most complete and integrated offering.

Adobe Advertising Cloud is the first end-to-end platform that helps marketers manage their ad spend across all digital formats including display, search and video, as well as traditional TV. It's been a year since our acquisition of TubeMogul and we have successfully integrated the technology with Adobe Media Optimizer. This has played a key role in driving strong Advertising Cloud performance and leadership in the digital advertising space. We introduced several advancements to Advertising Cloud, including the release of the Adobe Advertising Cloud Mobile App, the industry's first mobile app for cross-channel advertising campaign management.

Adobe Analytics Cloud continues to be the intelligence engine for the enterprise, combining digital and offline data to help brands move from insight to action. Recently, Gartner positioned Adobe as a leader in its "Magic Quadrant for Digital Marketing Analytics" research report, for the third year in a row. Adobe was also recognized as a leader in the recent "The Forrester Wave: Web Analytics" report.
Adobe Experience Cloud processed approximately 65 trillion data transactions for its customers in Q4, and 186 trillion data transactions in the trailing four quarters. The insights gleaned from this data provide a valuable window into customer behavior and business trends. Our annual Holiday Shopping Report has become the industry benchmark for measuring the trajectory of ecommerce spending and trends. This year we accurately predicted Cyber Monday to be the largest online sales day in U.S. history. Underscoring the importance of delivering a great mobile shopping experience, revenue driven by smartphones hit an all-time high of more than $1.59 billion on Cyber Monday.

Together with Microsoft, we are now enabling enterprise marketers to deliver one-to-one personalization of web content at scale and connect any lead generation data captured on the web to their CRM system through Adobe Experience Manager integration with Microsoft Dynamics 365. To date, more than 50 enterprises leverage Adobe and Microsoft’s joint offerings including Air Canada, Great West Life Assurance and the U.S. Army.

Other significant customer wins in the quarter included Allianz, Barclays, BNP Paribas, Ikea, JP Morgan, Mattel, and Opel.

The centerpiece of our innovation efforts across Adobe is Sensei, our artificial intelligence and machine learning framework. We've invested heavily to make Sensei a foundational part of our offerings to both our creative and enterprise customers. With Adobe’s massive volume of content and data assets fueling Adobe Sensei, and our unmatched domain expertise in creativity, documents and experiences, Sensei is a critical differentiator for our business.
Last week, we celebrated Adobe’s 35th anniversary. I know I speak for our ~18,000 Adobe employees around the world when I share how proud we are of everything we’ve achieved as a company – not only the strong business results, but the impact Adobe has made in the markets we serve and in the communities where we do business.

We were recently recognized by Glassdoor as a "2018 Best Places to Work", as well as a "World’s Best Workplace" and one of the "Best Workplaces for Diversity" by Fortune.

We recently announced that Adobe has achieved equal pay between men and women in the U.S., an important milestone in Adobe’s ongoing efforts to create an inclusive and rewarding environment for all employees.

The pride in what we've accomplished is exceeded by our excitement about Adobe's future. With our strong brand, our compelling strategy, and our culture of innovation, our best days remain ahead of us. We're looking forward to a fantastic 2018.

Mark.
MARK GARRETT

Thanks, Shantanu.

Our earnings report today covers both Q4 and fiscal year 2017 results.

**FY2017 Results**

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<td>Revenue</td>
<td>$7.3 billion</td>
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<tr>
<td>EPS</td>
<td></td>
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<tr>
<td>GAAP: $3.38</td>
<td></td>
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<tr>
<td>Non-GAAP: $4.31</td>
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- Record Creative revenue of $4.17 billion with 31% year-over-year growth
- Record Document Cloud revenue of $837 million with strong ARR growth
- Record Experience Cloud revenue of $2.03 billion with 24% year-over-year growth
- Record cash flow from operations of $2.91 billion
- Record deferred revenue of $2.3 billion, with unbilled backlog of ~$3.9 billion
- Returned $1.1 billion of cash through stock repurchase program

In FY17, Adobe achieved record annual revenue of $7.3 billion, which represents 25% year-over-year growth. GAAP EPS for the year was $3.38, and non-GAAP EPS was $4.31. This performance is the result of strong execution against our strategy, and noteworthy achievements, including:

- Record Creative revenue with 31% year-over-year revenue growth and exiting the year with $4.63 billion of Creative ARR;

- Record Document Cloud revenue of $837 million and exiting the year with $600 million of Document Cloud ARR;

- Record Adobe Experience Cloud revenue of $2.03 billion, which represents 24 percent annual year-over-year growth;

- Generating a record $2.91 billion in operating cash flow during the year;
• Growing deferred revenue to approximately $2.5 billion, and increasing our unbilled backlog to approximately $3.9 billion exiting the year; together, this represents approximately $6.4 billion of contracted revenue; and

• Returning over $1.1 billion in cash to stockholders through our stock repurchase program.

<table>
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<tr>
<th>Q4 FY2017 Results</th>
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<tbody>
<tr>
<td>Revenue</td>
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<tr>
<td>EPS</td>
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- Record Creative revenue of $1.16 billion
- Record Adobe Document Cloud revenue of $235 million
- Record Adobe Experience Cloud revenue of $550 million
- Record net new Digital Media ARR of $359 million
- Record cash flow from operations of $833 million

In the fourth quarter of FY17, Adobe achieved record revenue of $2.01 billion, which represents 25% year-over-year growth. GAAP diluted earnings per share in Q4 was $1.00 and non-GAAP diluted earnings per share was $1.26.

Highlights in Q4 included:

• Record Creative revenue of $1.16 billion;

• Record Adobe Document Cloud revenue of $235 million;

• Record Adobe Experience Cloud revenue of $550 million;

• Record net new Digital Media ARR of $359 million;

• And record cash flow from operations of $833 million.

In Digital Media, we grew segment revenue by 29% year-over-year. The addition of $359 million net new Digital Media ARR during the quarter grew the total to $5.23 billion exiting Q4.
Within Digital Media, Creative revenue grew 30% year-over-year and we increased Creative ARR by $315 million during Q4. The strong quarter for our Creative business was achieved across several areas: strong net new subscriptions, helped by increased Adobe.com traffic after the Adobe MAX announcements and end-of-year promotions; stable or improving ARPU across key offerings; the attachment of services with Team and Enterprise offerings; and continued momentum with Adobe Stock.

With Document Cloud, we achieved record revenue with 23% year-over-year growth. The performance in Q4 was driven by continued strength with Acrobat subscription adoption, normal Q4 enterprise seasonality, and strong year-end Acrobat perpetual product licensing through the channel. Unit growth for Acrobat DC across Creative Cloud and Document Cloud accelerated again in Q4, pushing total year-over-year Acrobat unit growth to over 20% for FY17. Adobe Sign also achieved strong results, and contributed to Document Cloud ARR growth.
In Digital Marketing, we exceeded $2 billion of Adobe Experience Cloud revenue for the year, with 24% annual revenue growth. Advertising Cloud had a strong year, and we achieved the expectations we set in January for TubeMogul. Excluding the addition of TubeMogul, Experience Cloud subscription revenue grew 22% year-over-year during FY17. Subscription revenue growth was helped by strong performance with Adobe Experience Manager, Adobe Campaign and Adobe Audience Manager during the year.

In Q4, we achieved record Adobe Experience Cloud revenue of $550 million, which represents 18% year-over-year growth. We drove strong sequential subscription bookings growth from Q3 to Q4, reflecting typical enterprise year-end strength. Multi-solution selling in our top accounts and strong bookings of the Adobe/Microsoft solutions drove this sequential growth.

From a quarter-over-quarter currency perspective, FX increased revenue by $11.1 million. We had $1 million in hedge gains in Q4 FY17, versus $0.2 million in hedge gains in Q3 FY17; thus, the net sequential currency increase to revenue considering hedging gains was $11.9 million.
From a year over year currency perspective, FX increased revenue by $4.1 million. We had $1 million in hedge gains in Q4 FY17, versus $8.1 million in hedge gains in Q4 FY16; thus, the net year-over-year currency decrease to revenue considering hedging gains was $3 million.

In Q4, Adobe’s effective tax rate was 22% on a GAAP-basis and 21% on a non-GAAP basis.

Our trade DSO was 55 days, which compares to 47 days in the year-ago quarter, and 50 days last quarter. Our DSO has increased slightly over the past year given the nature of the Advertising Cloud business model and the addition of the TubeMogul business.

Deferred revenue grew to a record $2.49 billion, up 24% year-over-year.

Our ending cash and short-term investment position exiting Q4 was $5.8 billion.

Cash flow from operations was a record $833 million in the quarter.

In Q4, we repurchased approximately 1.9 million shares at a cost of $297 million. During the year, we repurchased 8.2 million shares, returning $1.1 billion dollars to stockholders. We have approximately $1.9 billion remaining of our $2.5 billion stock repurchase authority granted in January 2017.
Now I will provide our financial outlook.

Entering FY18, we are excited about our momentum and the large addressable markets we discussed at our recent analyst meeting. We remain well-positioned to continue to deliver strong top-line and bottom line growth.

As you know, we measure ARR on a constant currency basis during a fiscal year, and if necessary we revalue ARR at year-end for the current currency rates. FX rate changes between December of last year and this year have resulted in a $154 million increase in Digital Media ARR. This increases our FY18 beginning Digital Media ARR to $5.39 billion. The effect of this revision is reflected in our updated investor data sheet, and ARR results will be measured against this amount during FY18.

In FY18, we are targeting:

- Total Adobe revenue of approximately $8.725 billion;
- Digital Media segment revenue growth of approximately 23%;
- Adobe Experience Cloud subscription revenue growth of approximately 20%;
- Adobe Experience Cloud total revenue growth of approximately 15%;
- GAAP earnings per share of approximately $4.40;
- Non-GAAP earnings per share of approximately $5.50;
- Net new Digital Media ARR of approximately $1.1 billion; and
- Adobe Experience Cloud subscription bookings growth of approximately 20%.
We expect quarterly revenue, earnings per share and Digital Media ARR results to follow similar seasonality as was achieved in FY2017.

**Q1 FY2018 Financial Targets**

<table>
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<tr>
<th>Target</th>
<th>Goal</th>
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<tr>
<td>Adobe total revenue</td>
<td>$2.40 billion</td>
</tr>
<tr>
<td>Digital Media segment revenue</td>
<td>25% year-over-year growth</td>
</tr>
<tr>
<td>Experience Cloud total revenue</td>
<td>15% year-over-year growth</td>
</tr>
<tr>
<td>Net non-operating other expense</td>
<td>$6 million</td>
</tr>
<tr>
<td>Tax rate (GAAP)</td>
<td>~9%</td>
</tr>
<tr>
<td>Tax rate (Non-GAAP)</td>
<td>~27%</td>
</tr>
<tr>
<td>Share count</td>
<td>~500 million shares</td>
</tr>
<tr>
<td>Earnings per share (GAAP)</td>
<td>$1.15</td>
</tr>
<tr>
<td>Earnings per share (Non-GAAP)</td>
<td>$1.27</td>
</tr>
<tr>
<td>Net new Digital Media ARR</td>
<td>~$275 million</td>
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In Q1 FY18, we are targeting:

- Revenue of approximately 2 billion 40 million dollars;
- Digital Media segment year-over-year revenue growth of approximately 25%;
- Experience Cloud year-over-year total revenue growth of approximately 15%;
- Tax rate of approximately 9% on a GAAP basis, and 21% on a non-GAAP basis;
- Share count of approximately 500 million shares;
- GAAP earnings per share of approximately $1.15;
- Non-GAAP earnings per share of approximately $1.27; and
- Net new Digital Media ARR of approximately $275 million.

As a reminder, our operating cash flow is seasonally higher in Q4, and typically decreases sequentially in Q1 due to several year-end related disbursements made during our first quarter.

In summary, 2017 was another strong year for Adobe. We are the market leader across our key businesses, and are executing well against a large and growing addressable market. We're excited about what lies ahead for Adobe and look forward to sharing more progress with you in the coming year.

Mike.
MIKE SAVIAGE

Thanks, Mark.

Beginning with our Q1 FY18 earnings report in March, we will modify our segment reporting moving forward. LiveCycle and Connect, which have been reported in our Digital Marketing segment, will be moved to a new segment called Publishing which will include the current Print and Publishing segment products. We will also rename our Digital Marketing segment to Digital Experience. As we’ve done in the past, we will publish an updated investor data sheet in late January with historical information adjusted to reflect the segment changes. The updated data sheet will coincide with the issuance of our Annual Report on Form 10-K for FY17 which will also reflect these changes.

Adobe Summit – the world’s largest digital marketing conference – is scheduled for the last week in March, with Day One on Tuesday March 27th. An invitation with registration and discounted Summit pricing information will be sent out in January to our investor and analyst email list. More details about the conference will be available at summit.adobe.com.

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 #9467178. International callers should dial 404-537-3406. The phone playback service will be available beginning at 5pm Pacific Time today, and ending at 5pm Pacific Time on December 20th, 2017.

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