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 first quarter fiscal year 2018 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, March 15th, 2018, 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.

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.

FY2018 is off to a strong start for Adobe as we continue to successfully execute against our strategy. In Q1, we delivered record revenue of $2.08 billion dollars, which represents 24% year-over-year growth. GAAP earnings per share in Q1 was $1.17, and non-GAAP earnings per share was $1.55.

Our strategy to empower people to create and transform how businesses compete is working. Our relentless focus on delivering innovation to our customers is continuing to drive our outstanding performance.

Across the globe, individuals and companies now recognize that great experiences have become the basis of differentiation in an increasingly competitive and complex world. With the world's best digital media and digital experience cloud-based solutions, Adobe has become the go-to company for helping customers develop and deliver transformative digital experiences.
In our Digital Media business, we achieved strong growth in both Creative revenue and Document Cloud revenue for Q1, achieving net new Annualized Recurring Revenue, or “ARR” growth of $336 million. We exited Q1 with Creative ARR of $5.07 billion, marking the first time Creative ARR has surpassed $5 billion.

Across our individual, team and enterprise offerings, we continue to acquire new subscribers through Creative Cloud single app and all app offerings. We focus on retention by driving customer engagement through products, services and community. In addition to strength in our major geographies, emerging markets such as Korea, China and Southeast Asia are beginning to contribute to subscriber growth.

Creative Cloud remains the gold standard for creativity and design. We deliver ongoing value to our subscribers through major feature enhancements in our existing flagship applications across desktop and mobile devices. In addition, we are attracting a broader set of consumers and creative professionals through innovative new applications like Adobe Character Animator, Spark, Lightroom CC, Dimension and XD.

Adobe XD is an innovative new app for designing experiences across multiple screens. In addition to graphic, mobile and website designers, product managers are adopting this all-in-one solution that combines design, prototyping and collaboration capabilities. We recently delivered workflow enhancements, tighter integration with Photoshop and deeper support for new modalities such as pen and touch. Major companies including Wipro have standardized on XD as their core design product.

Video continues to be an explosive category, and our editing and production products including Adobe Premiere Pro and After Effects, continue to gain momentum among large production houses as well as independent film makers. More than half of the films at the recent Sundance Film Festival were edited...
with Premiere Pro, as were the majority of virtual reality projects.

Adobe Spark makes it easy for everyday communicators to transform their ideas into beautiful visual stories that make an impact with graphics, videos and web pages. Starting next month, Adobe Spark Premium will be accessible to every student globally, and we’re already beginning to see strong adoption across school districts in areas like Anaheim in California, Roanoke in Virginia, Burnsville in Minnesota and Deer Park in Texas.

In addition to the world’s best desktop and mobile tools, we continue to focus on community and services to provide inspiration and accelerate the creative process. Adobe Stock now has a library of more than 80 million images, videos and creative assets. Last month we announced a partnership with the Pantone Color Institute to curate a collection of Adobe Stock Premium images inspired by the top colors in fashion, as well as a gallery of Adobe Stock images that captures the essence of Pantone’s always highly-anticipated "Color of the Year." It’s Pantone:18-3838 Ultra Violet, for those of you who are curious. Adobe Stock achieved record revenue in the quarter, with greater than 20% year-over-year growth.

Adobe Document Cloud is the world’s leading digital document service, enabling individuals and businesses to automate inefficient paper-based processes. Acrobat performance across Creative Cloud and Document Cloud was particularly strong in Q1. Document Cloud subscriptions and Acrobat perpetual licensing drove 18% year-over-year revenue growth, and $33 million in net new ARR.
As worldwide PDF adoption continues, we are focused on delivering new services including Adobe Scan and Adobe Sign. Adobe Scan, our mobile PDF application that leverages Adobe Sensei to capture and create intelligent PDFs, has been downloaded more than 7 million times. Adobe Sign is now the preferred e-signature solution in Office 365, and we closed our first set of joint customers in the quarter.

Digital transformation and the ability to deliver immersive, intelligent and impactful customer experiences is a strategic imperative for businesses and governments worldwide. To drive customer engagement and growth, you need to be an experience business and the Adobe Experience Cloud is the industry’s most complete and integrated offering.

We achieved Experience Cloud revenue of $554 million in Q1, and strong bookings across Adobe Marketing Cloud, Adobe Analytics Cloud and Adobe Advertising Cloud. Key customer deals included Braun, City National Bank, Expedia, Ford, the NFL, Rakuten, Samsung and T. Rowe Price.

In Q1, Adobe was once again recognized as a leader by industry analyst firms, achieving top scores among evaluated vendors in “The Forrester Wave: Enterprise Marketing Software Suites” and “The Forrester Wave: Cross Channel Campaign Management” reports. Adobe was positioned as a “Major Player” in IDC’s “Marketscape Worldwide AI in Enterprise Marketing Clouds Vendor Assessment”, with Adobe Sensei ranking highest in capabilities. In the competitive category of Digital Experiences, Adobe was recognized as a leader in the “Gartner Magic Quadrant for Digital Experience Platforms.”
We are in a world where businesses are challenged to reach, engage and influence their customers across multiple digital touch points and new interfaces including voice, augmented reality and virtual reality. Our goal is to be a mission-critical partner to governments and enterprises as they undergo this essential digital transformation. Our success is a result of our comprehensive offering, our deep investment in technology and a rich ecosystem of partners.

In two weeks we will be hosting Summit, our annual digital experience conference that brings together the world’s biggest brands, agencies, consulting firms and media companies. Leaders from Coca-Cola, the NFL, Mercedes Benz, Tourism Australia, Marriott and more will share how they’re tackling digital transformation and capitalizing on new opportunities in the experience era. We plan to unveil a spectrum of new Experience Cloud capabilities, including new Sensei-powered features that will use new algorithms to simplify complex tasks.

We've long recognized that our Experience Cloud customers need more than just innovative products – they need a partner, who can help them navigate the many challenges involved in digital transformation. Adobe has always prided itself on being that trusted partner, and at Summit we will introduce a broad spectrum of programs that champion and enable our customers.

We have made great strides in delivering new magic through Adobe Sensei, our artificial intelligence and machine learning framework across Creative Cloud, Document Cloud and Experience Cloud. Last month we were recognized by Fast Company as one of the Most Innovative Companies in Artificial Intelligence.
We are keenly aware that our continued growth as a company is made possible by an innovative and exceptional team of employees around the world.

We were recently recognized by FORTUNE as one of the World’s Most Admired Software Companies. FORTUNE also named Adobe one of its 100 Best Companies To Work For, the 18th year we've been honored with that designation.

Adobe continues to have the right strategy, products and people in place to drive future growth. And we’re fortunate to go to market with the industry's best partners and serve the world’s most innovative customers – across all industries and geographies. 2018 is off to an outstanding start and we look forward to building on this momentum.

Mark.
MARK GARRETT

Thanks, Shantanu.

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<th>Q1 FY2018 Results</th>
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<td>EPS</td>
<td>GAAP: $1.17</td>
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<td>Non-GAAP: $1.55</td>
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- Creative revenue of $1.23 billion
- Adobe Document Cloud revenue of $231 million
- Adobe Experience Cloud revenue of $554 million
- Net new Digital Media ARR of $336 million
- Cash flow from operations of $990 million
- Repurchased 16 million shares
- 88% of revenue from recurring sources

In the first quarter of FY18, Adobe's momentum continued with record revenue of $2.08 billion, which represents 24% year-over-year growth. GAAP diluted earnings per share in Q1 was $1.17 and non-GAAP diluted earnings per share was $1.55. We drove strong performance across our product offerings and geographies during the quarter.

Highlights in Q1 included:

- Record Digital Media revenue, including Creative revenue of $1.23 billion and Adobe Document Cloud revenue of $231 million;
- Record Adobe Experience Cloud revenue of $554 million;
- Net new Digital Media ARR of $336 million, and exiting Q1 with more than $5 billion of Creative ARR;
- Deferred revenue growth of 25% year-over-year;
• Record cash flow from operations of $990 million;
• Returning over $300 million of cash to our stockholders through stock buyback;
• And a record 88% of our revenue in Q1 was from recurring sources.

In Digital Media, we grew segment revenue by 28% year-over-year. The addition of $336 million net new Digital Media ARR during the quarter grew the total to $5.72 billion exiting Q1.

Within Digital Media, Creative revenue grew 30% year-over-year in Q1 and we increased Creative ARR by $303 million. Several key factors helped drive this growth, including:

• Strong net new subscriptions across user segments and geographies, spanning creative professionals to consumers and students;
• And quarter-over-quarter growth in ARPU across all product categories.

In addition, services are helping to grow Creative ARR and revenue. Adobe Stock had a strong quarter, and Stock and collaboration services helped grow Creative Cloud enterprise ARR. 86% of creative enterprise agreements signed during Q1 included services, which helps expand the use of Creative Cloud within companies and makes it more mission critical to content workflows.

During Q1, we finalized a transition on Adobe.com from using US dollar estimates from our third-party ecommerce platform in certain emerging markets, to using transactional level data denominated in local currencies. This transition resulted in a one-time catch-up of approximately $20 million to our ending ARR balance, and is reflected in the Q1 ARR increase.
With Document Cloud, we achieved strong revenue with 18% year-over-year growth. The performance in Q1 was driven by continued strength with Acrobat subscription adoption, and perpetual licensing of Acrobat through the channel. Acrobat year-over-year unit growth across Creative Cloud and Document Cloud again exceeded 20%, and Adobe Sign contributed with another solid quarter of revenue and ARR growth.

In our Digital Experience segment, we achieved Adobe Experience Cloud revenue of $554 million, which represents 16% year-over-year revenue growth. Subscription revenue grew 22% year-over-year. Experience Cloud performance in Q1 was driven by success across our Analytics Cloud, Marketing Cloud and Advertising Cloud offerings, with emerging solutions such as Audience Manager, Campaign, Target and Media Optimizer solutions achieving strong results.
From a quarter-over-quarter currency perspective, FX increased revenue by $12.2 million. We had $1 million in hedge gains in Q1 FY18, versus $1 million in hedge gains in Q4 FY17; thus, the net sequential currency increase to revenue considering hedging gains was $12.2 million.

From a year-over-year currency perspective, FX increased revenue by $35.6 million. We had $1 million in hedge gains in Q1 FY18, versus $18.3 million in hedge gains in Q1 FY17; thus, the net year-over-year currency increase to revenue considering hedging gains was $18.3 million.

In Q1, Adobe's effective tax rate was 17% on a GAAP-basis and 11% on a non-GAAP basis. These rates are consistent with the updated tax rate targets we provided in January which reflect the impact of the new Tax Act.

Our trade DSO was 47 days, which compares to 46 days in the year-ago quarter, and 55 days last quarter. Deferred revenue grew to a record $2.57 billion, up 25% year-over-year.

Our ending cash and short-term investment position exiting Q1 was $6.15 billion.

Cash flow from operations was a record $990 million in the quarter.
In Q1 FY18 we repurchased 1.6 million shares at a cost of $301 million, which lowered our diluted share count to less than 500 million shares. We have approximately $1.6 billion remaining of our $2.5 billion stock repurchase authority granted in January 2017.

Now I will provide our financial outlook. In Q2 FY18, we are targeting:

- Revenue of approximately 2 billion 150 million dollars;
- Digital Media segment year-over-year revenue growth of approximately 25%;
- Digital Experience segment year-over-year revenue growth of approximately 15%;
- Tax rate of approximately 13% on a GAAP basis, and 11% on a non-GAAP basis;
- Share count of approximately 499 million shares;
- GAAP earnings per share of approximately $1.16;
- Non-GAAP earnings per share of approximately $1.53; and
- Net new Digital Media ARR of approximately $330 million.

We expect revenue, earnings per share and Digital Media ARR results in Q3 and Q4 to follow similar seasonality as was achieved in FY17.

Our leadership in the large addressable markets we created, combined with Adobe's leveraged operating model, contributed to another record quarter in Q1. We look forward to seeing you at Summit.

Mike.
MIKE SAVIAGE

Thanks, Mark.

Day One of Adobe Summit – the world’s largest digital experience conference is Tuesday March 27th. An invitation with registration and discounted pricing information to attend Summit in Las Vegas was sent out in January to our investor and analyst email list. We will host an informal Q&A session with financial analyst attendees and Adobe management on the afternoon of the 27th. Attendees can also attend educational sessions, meet with customers and partners, and learn more about our solutions at the conference. More details about Summit are 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 #6388567. 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 March 21st, 2018.

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