Financial Disclaimer

Some of the information discussed in this presentation 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 the risks and uncertainties, you should review Adobe’s SEC filings, including the annual report on Form 10-K for fiscal year 2017 and the quarterly reports on Form 10-Q filed by the company in 2018. In our presentation, we may discuss non-GAAP financial measures. The GAAP financial measures that correspond to such non-GAAP measures, as well as the reconciliation between the two, are available on our website at http://www.adobe.com/ADBE.

Adobe does not undertake an obligation to update forward-looking statements.

Adobe’s Vision

Changing the World
Through Digital Experiences
EXPERIENCES MATTER
MORE THAN EVER

EMPOWERING
PEOPLE TO CREATE

TRANSFORMING
HOW BUSINESSES COMPETE
Key Market Trends

Beyond Mobility  Cloud Native  Intelligence Everywhere  Open Ecosystem

Adobe's Strategy

Adobe Sensei
Powering experiences with intelligence

Massive volume of content and data assets at its core
Unified artificial intelligence/machine learning framework
Deep domain expertise in creative, documents and marketing
Adobe's Cloud Platform

ADOBE SENSEI
Artificial Intelligence/Machine Learning Framework and Intelligent Services

CONTENT

DATA

Digital Media

Adobe Creative Cloud

Adobe Document Cloud
Digital Media Customers
Creative Professionals
Students
Photo Enthusiasts
Knowledge Workers
CMOs & CIOs

Digital Media Market Trends
Creativity unleashed
Every story, every surface
Harness the collective IQ
Digital Media Products

Adobe Creative Cloud

- Ae
- Pr
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- Ch
- Xd
- An
- Mu
- Dn
- Ps
- Lr
- St
- Sp
- Tk
- Lr
- Be
- Pf

Adobe Document Cloud

Digital Media Product Momentum

Product News in 2017

Adobe Creative Cloud

- New products including Adobe XD, Adobe Dimension and Adobe Lightroom Photography service plus hundreds of new features & enhancements
- Video advancements including HDR/4K/VR, animation, motion graphics capabilities
- New Adobe Stock editorial content and Adobe Sensei-powered search
- New Adobe Spark paid premium mobile offering

Adobe Document Cloud

- New Adobe Acrobat Pro desktop release
- New Adobe Scan mobile app (‘PDF for mobile”)
- Year-round Adobe Sign product updates, plus 15 new partner integrations and global expansion
- Adobe Sign partnership signed with Microsoft
- Launched digital signature open standards consortium with top digital identity providers
Creative Cloud

- Desktop apps, mobile apps and cloud-based services
- Subscription service with monthly pricing expands market opportunity
  - Lower entry price point
  - New customer acquisition
  - Combats piracy
  - ARPU growth potential through services such as Adobe Stock
- Subscribers get frequent delivery of new features and capabilities

Creative Cloud Business Momentum
Annualized Recurring Revenue ("ARR") and Revenue

Source: Adobe
Creative Cloud Business Momentum

Revenue Mix

FY2014 Revenue Mix

- Perpetual and OEM: ~$0.7B
- Subscription: ~$1.1B
- Service & Support: ~$0.7B

FY2017 Revenue Mix

- Perpetual and OEM: ~$0.2B
- Subscription: ~$4.2B
- Service & Support: ~$4.0B

Source: Adobe

Creative Cloud Business Momentum

Metrics

- >40% New to Creative Cloud franchise
- ~66% Creative Cloud Enterprise seats licensed with services
- >10M Behance members
- 2X Y/Y growth in Adobe Stock ARR
- >1M Adobe XD beta downloads

Source: Adobe, as of Q3 FY2017

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Creative Cloud
2020 Total Addressable Market

$24.2B
Total Addressable Market

$11.4B
Core
Current Creative Cloud installed base and ARR, Creative Suite and Acrobat migration, new Creative user growth, education and enterprise user growth, new media authoring (3D/AR/VR), upsell and price optimization

$5.7B
Market Expansion
Photo hobbyist growth, Adobe Lightroom and Photoshop Elements migration, new paid mobile users, premium photo service, new creative offerings for consumers and creatives at work, online video creators

$7.1B
Value Expansion
Adobe Stock, training content and services, collaboration services, Creative Cloud enterprise services

Source: Adobe, October 2017
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Adobe Document Cloud

- Desktop apps, mobile apps and cloud services deliver streamlined workflows and compelling document experiences that accelerate business transformation
- Leverages ubiquitous PDF format and ~1 billion Adobe Reader installed base on desktops and mobile devices
- Using Creative Cloud playbook and cloud strategy to reinvigorate growth
  - Lower entry price point with subscriptions
  - New customer acquisition
  - Combats piracy
  - GTM synergies
- Gradual transition to more recurring revenue

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Adobe Document Cloud Business Momentum
Annualized Recurring Revenue ("ARR") and Revenue

Revenue and ARR over FY2014 to FY2017:
- Revenue: ~$800 million in FY2014, increasing to ~$900 million in FY2017.
- ARR: ~$100 million in FY2014, increasing to ~$300 million in FY2017.

Source: Adobe

Adobe Document Cloud Business Momentum
Revenue Mix

FY2014 Revenue Mix:
- Perpetual and OEM: ~$0.6B
- Subscription: ~$0.2B
- Service & Support: ~$0.04B

FY2017 Revenue Mix:
- Perpetual and OEM: ~$0.3B
- Subscription: ~$0.6B
- Service & Support: ~$0.0B

Source: Adobe

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Adobe Document Cloud Business Momentum

Metrics

- ~19% Y/Y Acrobat unit growth in Q3 FY17 *
- ~200B PDFs opened per year in Acrobat & Acrobat Reader
- >500M Document Cloud mobile apps installs
- ~33% Of subscribers new to Acrobat franchise
- ~30% Y/Y growth of documents signed on mobile devices with Adobe Sign

Source: Adobe, as of Q3 FY2017
* Acrobat perpetual and subscription units licensed as Single App
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Adobe Document Cloud
2020 Total Addressable Market

$5.3B
Total Addressable Market

$1.4B
Core
Current Acrobat subscription installed base and ARR, Acrobat migration to subscriptions; PDF creation market, electronic documents market

$3.9B
Value Expansion
Electronic signatures, document protection, form fill and sign, review and approve markets

Source: Adobe, October 2017
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Digital Media
Growth Drivers in 2018

**CORE**
- Creative Suite & Acrobat migration to subscriptions
- New user growth & enterprise seat expansion
- New media authoring categories
- Upsell and price optimization

**MARKET EXPANSION**
- Photography
- Photo hobbyist growth
- New mobile paid offerings
- Premium Cloud service
- Next generation apps
  - Adobe Spark
  - Adobe Scan
  - Adobe XD

**VALUE EXPANSION**
- Adobe Stock
- Adobe Sign
- Training, marketplace & collaboration services
- Creative Cloud enterprise services
- Document Cloud business automation

---

Digital Media
Summary

- Content explosion and mobility trends continue to be a tailwind
- Broader strategy creating larger TAM opportunity
- Multiple drivers continue to fuel ARR growth moving forward
  - New user acquisition
  - Creative Suite and Acrobat migration
  - Value expansion via services
  - Upsell and pricing optimization

---

### 2020 MARKET OPPORTUNITY

<table>
<thead>
<tr>
<th>Segment</th>
<th>Value ($)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Core</td>
<td>$12.8B</td>
</tr>
<tr>
<td>Market Expansion</td>
<td>$5.7B</td>
</tr>
<tr>
<td>Value Expansion</td>
<td>$11.0B</td>
</tr>
</tbody>
</table>

*$\sim$30B Addressable Market

Source: Adobe

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Adobe Experience Cloud

A complete set of integrated, cloud-based solutions that enable marketers to gain deep customer insight, build personalized campaigns, and manage/deliver their content

- Data-driven marketing – organize and analyze large amounts of data to gain actionable marketing insight
- Mobile marketing – effectively make, manage, measure and monetize mobile apps
- Customer experiences – deliver personalized and relevant digital experiences across screens and devices
- Cross-channel marketing – deliver and measure campaigns that are consistent across all marketing channels
- Programmatic advertising – automate ad buying based on data
Adobe Experience Cloud Media Market Trends

People buy experiences, not products
Put art & science to work
Architect for action

Adobe Experience Cloud Products

Adobe Marketing Cloud
Integrated marketing solutions
- Differentiate brand story, connect with customers on personal level, engage them in moments that matter
- Experience personalization & optimization
- Campaign orchestration & journey management
- Experience management & delivery
- Monetization of video experiences

Adobe Analytics Cloud
Intelligence engine for the enterprise
- Combine digital and offline data to help brands move from insights to action, smarter and faster
- Customer journey context
- Meaningful measurement
- Automated audience creation
- Insights into action

Adobe Advertising Cloud
Industry’s first end-to-end platform
- Manage advertising spanning traditional TV and all digital formats
- Automated media execution – plan, buy, measure, optimize ad buys
- Cross-channel
- Real-time bidding, private marketplace and curated inventory
- Dynamic creative optimization

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Adobe Experience Cloud Business Momentum

**Metrics**

155 Trillion
Annual customer data transactions

57%
Of analytics transactions from mobile devices

$4.9M
Average ARR of top 100 customers

~70%
Of top 500 customers have 3+ solutions

---

Adobe Experience Cloud
2020 Total Addressable Market

$53.1B
Total Addressable Market

$13.6B
Adobe Analytics Cloud
Adobe Analytics, Adobe Audience Manager

$31.5B
Adobe Marketing Cloud
Adobe Experience Manager, Adobe Target, Adobe Campaign, Adobe Primetime, Adobe Social

$8.0B
Adobe Advertising Cloud
Adobe Media Optimizer

---

Source: Adobe
1. Transactions based on trailing 4 quarters as of Q3 FY2017
2. Of analytics server calls from mobile devices in Q3 FY2017
3. Based on Q3 FY2017 top 100 estimated ARR customers
4. Based on Q3 FY2017 top 500 estimated ARR customers
Architecting for the Experience Business

Unified Experiences

Adobe Cloud Platform

Real-time Unified Profile

Orchestration
Product Use
Subscriptions
Content Preferences
Preferred Device
Demographics

Front Office

POS
Merchandising
Commerce
CRM

Back Office

Inventory Mgmt.
Store Operations
ERP
Business Intelligence

Scaling for the Experience Business

Direct Sales

Partner Sales

Agencies, ISVs, Regional Partners, SIs

accenture
deloitte.digital
omnicomgroup
publicis.groupe
sapient.razorfish

IFG
IBM
dentsu.aegis
wpp
Adobe Experience Cloud
Growth Drivers in 2018

CUSTOMER ENGAGEMENT
• Demand for omnichannel customer engagement & analytics
• Shift in ad spend to digital
• Account penetration (upsell, cross-sell)
• Geographic & vertical market expansion

PARTNER LEVERAGE
• Partner ecosystem for digital transformation implementation
• Microsoft partnership to broaden go-to-market reach and enterprise value proposition

PRODUCT DIFFERENTIATION
• Data & content platform as foundation for delivering customer experiences
• Adobe Sensei to provide new capabilities and increase competitive advantage

Adobe Experience Cloud
Summary

• Large and growing "Experience Business" opportunity
• Market leader with most integrated offering for customers
• Content and data platform provides differentiation and competitive advantage
• Investments in innovation, go-to-market and partners fueling long-term growth potential

2020 MARKET OPPORTUNITY
<table>
<thead>
<tr>
<th>Cloud Service</th>
<th>Market Size</th>
</tr>
</thead>
<tbody>
<tr>
<td>Marketing Cloud</td>
<td>$31.5B</td>
</tr>
<tr>
<td>Analytics Cloud</td>
<td>$13.6B</td>
</tr>
<tr>
<td>Advertising Cloud</td>
<td>$8.0B</td>
</tr>
</tbody>
</table>

$53B Addressable Market

Source: Adobe
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Business Momentum
Deferred Revenue and Unbilled Backlog

FY2013: $1,860
- Deferred Revenue: $1,032
- Unbilled Backlog: $829

FY2014: $3,343
- Deferred Revenue: $2,188
- Unbilled Backlog: $1,155

FY2015: $4,377
- Deferred Revenue: $2,892
- Unbilled Backlog: $1,485

FY2016: $5,437
- Deferred Revenue: $3,422
- Unbilled Backlog: $2,015

FY2017: $6,437
- Deferred Revenue: $2,495

Source: Adobe

Business Momentum
Operating Cash Flow

FY2014: $1,287

FY2015: $1,470

FY2016: $2,201

FY2017: $2,912

Source: Adobe
## ASC 606 Implementation Update
### October 18, 2017

<table>
<thead>
<tr>
<th>Context</th>
<th>Expected Impact</th>
<th>Financial Implications</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Effective for Adobe beginning in FY2019 (starting December 1, 2018)</td>
<td>• Negligible impact expected for Creative Cloud and Document Cloud services-enabled offerings</td>
<td>• Some contract types will change from ratable to upfront revenue recognition (e.g., non-services-enabled Creative Cloud and Document Cloud contracts, on-premise term licenses)</td>
</tr>
<tr>
<td>• Implementation on track</td>
<td>• Negligible impact expected for fully-hosted products (e.g., Adobe Analytics, Adobe Target, Adobe Sign and managed services offerings of Adobe Experience Manager and Adobe Campaign)</td>
<td>• One-time reduction expected for deferred revenue and unbilled backlog</td>
</tr>
<tr>
<td>• In process of assessing comprehensive adoption impacts</td>
<td>• Some impact expected with enterprises utilizing non-services enabled Creative Cloud and Document Cloud deployments and on-premise term licenses which are currently recognized as subscription revenue (e.g., some Adobe Experience Manager and Adobe Campaign, some Print &amp; Publishing products)</td>
<td>• Annual revenue expected to remain largely unchanged</td>
</tr>
</tbody>
</table>

The information presented on this slide contains forward-looking information that involves risk and uncertainty. Actual results may differ materially. For a discussion of these risks and uncertainties, you should review Adobe’s SEC filings.

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## Capital Structure

- **Strong liquidity position**
  - $5.8B of cash and short-term investments
  - $1.0B unutilized credit facility, remains available until 2020
- **Conservative leverage approach**
  - $1.9B of public debt outstanding
  - Rated A by S&P
  - Rated A3 by Moody’s
- **Excess domestic cash returned to stockholders through stock repurchase**

Source: Adobe, exiting FY2017
Growth and Margin at Scale

- Large, expanding opportunity
- ~$83B TAM in 2020
- Strong business momentum and market leadership
- Significant top-line and bottom-line growth

MAKE IT AN EXPERIENCE
FOR IMMEDIATE RELEASE

Adobe Reports Record Revenue
Adobe Document Cloud Achieves Year-Over-Year Growth of 22 Percent

SAN JOSE, Calif. — June 14, 2018 — Adobe (Nasdaq:ADBE) today reported strong financial results for its second quarter fiscal year 2018 ended June 1, 2018.

Financial Highlights

• Adobe achieved record quarterly revenue of $2.20 billion in its second quarter of fiscal year 2018, which represents 24 percent year-over-year revenue growth.

• Diluted earnings per share was $1.33 on a GAAP-basis, and $1.66 on a non-GAAP basis.

• Digital Media segment revenue was $1.55 billion, with Creative revenue growing to $1.30 billion and Document Cloud achieving record revenue of $243 million, which represents 22 percent year-over-year growth.

• Digital Media Annualized Recurring Revenue ("ARR") grew to $6.06 billion exiting the quarter, a quarter-over-quarter increase of $343 million. Creative ARR grew to $5.37 billion, and Document Cloud ARR grew to $694 million.

• Digital Experience segment revenue was $586 million, which represents 18 percent year-over-year growth.

• Operating income grew 39 percent and net income grew 77 percent year-over-year on a GAAP-basis; operating income grew 33 percent and net income grew 62 percent year-over-year on a non-GAAP basis.

• Cash flow from operations was $976 million, and deferred revenue grew 27 percent year-over-year to approximately $2.63 billion.

• Adobe repurchased approximately 2.6 million shares during the quarter, returning $589 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 delivers all the capabilities to enable transformative digital experiences, including content creation and management, predictive analytics and commerce," said Shantanu Narayen, president and CEO, Adobe. "Our record results in Q2 reflect continued execution against this significant opportunity where Adobe is the clear market leader."

"Adobe delivered record revenue with strong earnings and cash flow, and we expect our momentum to continue in the second half of fiscal 2018," said John Murphy, executive vice president and CFO, Adobe.
Adobe to Webcast Earnings Conference Call

Adobe will webcast its second quarter fiscal year 2018 earnings conference call today at 2 p.m. Pacific Time from its investor relations website: www.adobe.com/ADBE. Earnings documents, including Adobe management’s prepared conference call remarks with slides, financial targets and an investor datasheet are posted to Adobe’s investor relations website in advance of the conference call for reference. A reconciliation between GAAP and non-GAAP earnings results and 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, our market opportunity, revenue, annualized recurring revenue, non-operating other expense, tax rate on a GAAP and non-GAAP basis, earnings per share on a GAAP and non-GAAP basis, and share count, all of 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, acquire, market and offer products and services that meet customer requirements, failure to compete effectively, introduction of new technology, complex sales cycles, risks related to the timing of revenue recognition from our subscription offerings, fluctuations in subscription renewal rates, potential interruptions or delays in hosted services provided by us or third parties, risks associated with cyber-attacks, information security and privacy, failure to realize the anticipated benefits of past or future acquisitions, changes in accounting principles and tax regulations, uncertainty in the financial markets and economic conditions in the countries where we operate, and other various risks associated with being a multinational corporation. 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 2017 ended Dec. 1, 2017, and Adobe’s Quarterly Reports on Form 10-Q issued in fiscal year 2018.

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 June 1, 2018, which Adobe expects to file in June 2018.

Adobe assumes no obligation to, and does not currently intend to, update these forward-looking statements.

About Adobe

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)

<table>
<thead>
<tr>
<th></th>
<th>Three Months Ended</th>
<th>Six Months Ended</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>June 1, 2018</td>
<td>June 2, 2017</td>
</tr>
<tr>
<td></td>
<td>$1,923,131</td>
<td>$1,483,690</td>
</tr>
<tr>
<td>Revenue:</td>
<td>$3,716,489</td>
<td>$2,867,546</td>
</tr>
<tr>
<td>Subscription</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Product</td>
<td>$150,993</td>
<td>$171,545</td>
</tr>
<tr>
<td>Services and support</td>
<td>$121,236</td>
<td>$116,955</td>
</tr>
<tr>
<td>Total revenue</td>
<td>$2,195,360</td>
<td>$1,772,190</td>
</tr>
</tbody>
</table>

|                          | June 1, 2018       | June 2, 2017    |
| Cost of revenue:         | $186,355           | $142,734        |
|                          | $351,040           | $283,915        |
|                          | $10,779            | $15,488         |
|                          | $23,656            | $29,821         |
|                          | $84,210            | $81,138         |
|                          | $165,550           | $162,961        |
| Total cost of revenue    | $281,344           | $239,360        |

|                          | $1,914,016         | $1,532,830      |
| Gross profit             | $3,734,061         | $2,977,139      |

| Operating expenses:      |                    |                 |
| Research and development| $374,128           | $299,401        |
| Sales and marketing     | $646,215           | $553,098        |
| General and administrative| $178,040           | $156,929        |
| Amortization of purchased intangibles | $17,149 | $19,320 |
| Total operating expenses | $1,215,532         | $1,028,748      |

| Operating income         | $698,484           | $504,082        |
|                          | $1,401,217         | $973,081        |

| Non-operating income (expense): |                    |                 |
| Interest and other income (expense), net | $11,599 | $5,154 |
| Interest expense           | ($20,363)         | ($18,347)       |
| Investment gains (losses), net | $1,079 | $1,729 |
| Total non-operating income (expense), net | $(7,685) | $(11,464) |

| Income before income taxes | $690,799         | $492,618        |
| Provision for income taxes | $27,632          | $118,228        |

| Net income                | $663,167         | $374,390        |
| Basic net income per share | $1.35            | $0.76           |
| Shares used to compute basic net income per share | $491,914 | $494,371 |
| Diluted net income per share | $1.33           | $0.75           |
| Shares used to compute diluted net income per share | $498,252 | $500,351 |

| Shares used to compute basic net income per share | $491,993 | $494,492 |
| Shares used to compute diluted net income per share | $2.50 | $1.54 |
| Shares used to compute diluted net income per share | $501,032 | $501,032 |
### Condensed Consolidated Balance Sheets
**(In thousands, except par value; unaudited)**

<table>
<thead>
<tr>
<th>ASSETS</th>
<th>June 1, 2018</th>
<th>December 1, 2017</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Current assets:</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cash and cash equivalents</td>
<td>$2,987,986</td>
<td>$2,306,072</td>
</tr>
<tr>
<td>Short-term investments</td>
<td>3,346,078</td>
<td>3,513,702</td>
</tr>
<tr>
<td>Trade receivables, net of allowances for doubtful accounts of $9,869 and $9,151, respectively.</td>
<td>1,074,877</td>
<td>1,217,968</td>
</tr>
<tr>
<td>Prepaid expenses and other current assets</td>
<td>332,503</td>
<td>210,071</td>
</tr>
<tr>
<td><strong>Total current assets</strong></td>
<td>$7,741,444</td>
<td>$7,247,813</td>
</tr>
<tr>
<td><strong>Property and equipment, net</strong></td>
<td>993,486</td>
<td>936,976</td>
</tr>
<tr>
<td><strong>Goodwill</strong></td>
<td>5,823,792</td>
<td>5,821,561</td>
</tr>
<tr>
<td><strong>Purchased and other intangibles, net</strong></td>
<td>320,478</td>
<td>385,658</td>
</tr>
<tr>
<td><strong>Deferred income taxes</strong></td>
<td>117,970</td>
<td>—</td>
</tr>
<tr>
<td><strong>Other assets</strong></td>
<td>166,234</td>
<td>143,548</td>
</tr>
<tr>
<td><strong>Total assets</strong></td>
<td>$15,163,404</td>
<td>$14,535,556</td>
</tr>
</tbody>
</table>

| LIABILITIES AND STOCKHOLDERS' EQUITY | | |
| **Current liabilities:** | | |
| Trade payables | $117,194 | $113,538 |
| Accrued expenses | 1,030,367 | 993,773 |
| Income taxes payable | 37,933 | 14,196 |
| Deferred revenue | 2,543,462 | 2,405,950 |
| **Total current liabilities** | $3,728,956 | $3,527,457 |
| **Long-term liabilities:** | | |
| Debt | 1,874,057 | 1,881,421 |
| Deferred revenue | 90,805 | 88,592 |
| Income taxes payable | 611,509 | 173,088 |
| Deferred income taxes | — | 279,941 |
| Other liabilities | 152,494 | 125,188 |
| **Total liabilities** | $6,457,821 | $6,075,687 |
| **Stockholders' equity:** | | |
| Preferred stock, $0.0001 par value; 2,000 shares authorized | — | — |
| Common stock, $0.0001 par value | 61 | 61 |
| Additional paid-in-capital | 5,354,175 | 5,082,195 |
| Retained earnings | 10,471,066 | 9,573,870 |
| Accumulated other comprehensive income (loss) | (129,230) | (111,821) |
| Treasury stock, at cost (110,399 and 109,572, respectively), net of reissuances | (6,990,489) | (6,084,436) |
| **Total stockholders' equity** | $8,705,583 | $8,459,869 |
| **Total liabilities and stockholders' equity** | $15,163,404 | $14,535,556 |
## Condensed Consolidated Statements of Cash Flows
(In thousands; unaudited)

<table>
<thead>
<tr>
<th></th>
<th>Three Months Ended</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>June 1, 2018</td>
<td>June 2, 2017</td>
</tr>
<tr>
<td><strong>Cash flows from operating activities:</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Net income</td>
<td>$663,167</td>
<td>$374,390</td>
</tr>
<tr>
<td>Adjustments to reconcile net income to net cash provided by operating activities:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Depreciation, amortization and accretion</td>
<td>76,360</td>
<td>81,635</td>
</tr>
<tr>
<td>Stock-based compensation</td>
<td>144,322</td>
<td>116,049</td>
</tr>
<tr>
<td>Unrealized investment (gains) losses, net</td>
<td>(573)</td>
<td>(1,579)</td>
</tr>
<tr>
<td>Changes in deferred revenue</td>
<td>62,063</td>
<td>14,746</td>
</tr>
<tr>
<td>Changes in other operating assets and liabilities</td>
<td>31,067</td>
<td>59,586</td>
</tr>
<tr>
<td><strong>Net cash provided by operating activities</strong></td>
<td></td>
<td>976,406</td>
</tr>
<tr>
<td><strong>Cash flows from investing activities:</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Purchases, sales and maturities of short-term investments, net</td>
<td>131,896</td>
<td>(30,079)</td>
</tr>
<tr>
<td>Purchases of property and equipment</td>
<td>(45,316)</td>
<td>(55,297)</td>
</tr>
<tr>
<td>Purchases and sales of long-term investments, intangibles and other assets, net</td>
<td>(4,287)</td>
<td>(2,171)</td>
</tr>
<tr>
<td>Acquisitions, net of cash</td>
<td>(14,614)</td>
<td>—</td>
</tr>
<tr>
<td><strong>Net cash provided by (used for) investing activities</strong></td>
<td></td>
<td>67,679</td>
</tr>
<tr>
<td><strong>Cash flows from financing activities:</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Purchases of treasury stock</td>
<td>(700,000)</td>
<td>(300,000)</td>
</tr>
<tr>
<td>Taxes paid related to net share settlement of equity awards, net of proceeds from treasury stock reissuances</td>
<td>(16,854)</td>
<td>(13,788)</td>
</tr>
<tr>
<td>Repayment of capital lease obligations</td>
<td>(511)</td>
<td>(644)</td>
</tr>
<tr>
<td><strong>Net cash used for financing activities</strong></td>
<td></td>
<td>(717,365)</td>
</tr>
<tr>
<td><strong>Effect of exchange rate changes on cash and cash equivalents</strong></td>
<td></td>
<td>(5,715)</td>
</tr>
<tr>
<td><strong>Net increase in cash and cash equivalents</strong></td>
<td>321,005</td>
<td>248,054</td>
</tr>
<tr>
<td>Cash and cash equivalents at beginning of period</td>
<td>2,666,981</td>
<td>1,068,896</td>
</tr>
<tr>
<td><strong>Cash and cash equivalents at end of period</strong></td>
<td>$2,987,986</td>
<td>$1,316,950</td>
</tr>
</tbody>
</table>
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.

<table>
<thead>
<tr>
<th></th>
<th>June 1, 2018</th>
<th>June 2, 2017</th>
<th>March 2, 2018</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Operating income:</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>GAAP operating income</td>
<td>$698,484</td>
<td>$504,082</td>
<td>$702,733</td>
</tr>
<tr>
<td>Stock-based and deferred compensation expense</td>
<td>146,773</td>
<td>118,591</td>
<td>136,414</td>
</tr>
<tr>
<td>Restructuring and other charges</td>
<td>—</td>
<td>(97)</td>
<td>—</td>
</tr>
<tr>
<td>Amortization of purchased intangibles</td>
<td>32,378</td>
<td>36,556</td>
<td>31,704</td>
</tr>
<tr>
<td>Non-GAAP operating income</td>
<td>$877,635</td>
<td>$659,132</td>
<td>$870,851</td>
</tr>
</tbody>
</table>

| **Net income:**          |              |              |               |
| GAAP net income          | $663,167     | $374,390     | $583,076      |
| Stock-based and deferred compensation expense | 146,773 | 118,591 | 136,414 |
| Restructuring and other charges | — | (97) | — |
| Amortization of purchased intangibles | 32,378 | 36,556 | 31,704 |
| Investment (gains) losses, net | (1,079) | (1,729) | (2,996) |
| Income tax adjustments   | (15,812)     | (17,419)     | 23,987        |
| Non-GAAP net income      | $825,427     | $510,292     | $772,185      |

| **Diluted net income per share:** |              |              |               |
| GAAP diluted net income per share | $1.33        | $0.75        | $1.17         |
| Stock-based and deferred compensation expense | 0.29 | 0.23 | 0.27 |
| Amortization of purchased intangibles | 0.06 | 0.07 | 0.06 |
| Income tax adjustments | (0.02) | (0.03) | 0.05 |
| Non-GAAP diluted net income per share | $1.66 | $1.02 | $1.55 |

Shares used in computing diluted net income per share | 498,252 | 500,351 | 499,433 |
Non-GAAP Results (continued)

Effective income tax rate:

<table>
<thead>
<tr>
<th>Description</th>
<th>Three Months Ended June 1, 2018</th>
</tr>
</thead>
<tbody>
<tr>
<td>GAAP effective income tax rate</td>
<td>4.0%</td>
</tr>
<tr>
<td>Trading structure change</td>
<td>6.0</td>
</tr>
<tr>
<td>Impacts of the Tax Act</td>
<td>(3.0)</td>
</tr>
<tr>
<td>Income tax adjustments</td>
<td>(2.0)</td>
</tr>
<tr>
<td>Non-GAAP effective income tax rate*</td>
<td>5.0%</td>
</tr>
</tbody>
</table>

* The GAAP effective income tax rate of 4% is the rate for the quarter based on tax events within the quarter. Income tax adjustments, which are included in both GAAP and non-GAAP earnings, will fluctuate from quarter-to-quarter but will normalize over the fiscal year due to the timing of tax events including the timing of recognition of excess tax benefits within each quarter.

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. 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. Adobe believes these non-GAAP financial measures are useful because they allow for greater transparency with respect to key metrics used by management in its financial and operational decision-making. This allows institutional investors, the analyst community and others to better understand and evaluate our operating results and future prospects in the same manner as management.

Adobe’s management believes it is useful for itself and investors to review, as applicable, both GAAP information as well as non-GAAP measures, which may exclude items such as 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, the related tax impact of all of these items, income tax adjustments, and the income tax effect of the non-GAAP pre-tax adjustments from the provision for income taxes. Adobe uses these non-GAAP measures in order to assess the performance of Adobe’s business and for planning and forecasting in subsequent periods. Whenever such a non-GAAP measure is used, Adobe 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.
Adobe Financial Targets
June 14, 2018

This document summarizes financial targets and target commentary provided by Adobe, and reconciles GAAP to non-GAAP targets.

Q3 Fiscal Year 2018 Targets
The following third quarter fiscal year 2018 targets were provided by Adobe on June 14, 2018.

| Adobe total revenue                        | ~$2.240 billion |
| Digital Media segment revenue              | ~25% year-over-year growth |
| Digital Experience segment revenue         | ~15% year-over-year growth |
| Net non-operating other expense            | ~$7 million |
| Tax rate                                  | GAAP: ~7%        |
|                                          | Non-GAAP: ~5%    |
| Share count                               | ~498 million shares |
| Earnings per share                        | GAAP: ~$1.27     |
|                                          | Non-GAAP: ~$1.68 |
| Net new Digital Media annualized recurring revenue (“ARR”) | ~$310 million |

Adobe’s Q3 fiscal year 2018 targets do not include the impact of the anticipated acquisition of Magento Commerce.

Fiscal Year 2019 Tax Rate
Adobe expects fiscal year 2019 GAAP and non-GAAP effective tax rates to stabilize at a rate of approximately 14 percent, below its fiscal year 2017 rate of approximately 21 percent, and lower than the company’s prior expectation of approximately 18 percent.

Calculating Annualized Recurring Revenue (“ARR”)

<table>
<thead>
<tr>
<th>Creative ARR</th>
<th>Annual Value of Creative Cloud Subscriptions and Services + Annual Digital Publishing Suite Contract Value + Annual Creative ETLA Contract Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Digital Media ARR</td>
<td>Creative ARR + Document Cloud ARR</td>
</tr>
</tbody>
</table>

Note: ARR targets and results are adjusted for constant currency based on exchange rates in December each year.
### Reconciliation of GAAP to Non-GAAP Financial Targets

(In millions, except per share data)

The following tables show Adobe's third quarter fiscal year 2018 financial targets reconciled to non-GAAP financial targets included in this document.

<table>
<thead>
<tr>
<th>Diluted net income per share:</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>GAAP diluted net income per share</td>
<td>$1.27</td>
</tr>
<tr>
<td>Stock-based and deferred compensation expense</td>
<td>0.33</td>
</tr>
<tr>
<td>Amortization of purchased intangibles</td>
<td>0.07</td>
</tr>
<tr>
<td>Income tax adjustments</td>
<td>0.01</td>
</tr>
<tr>
<td>Non-GAAP diluted net income per share</td>
<td>1.68</td>
</tr>
</tbody>
</table>

| Shares used to compute diluted net income per share | 498.0 |

<table>
<thead>
<tr>
<th>Effective income tax rate:</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>GAAP effective income tax rate</td>
<td>7.0%</td>
</tr>
<tr>
<td>Stock-based and deferred compensation expense</td>
<td>(1.7)%</td>
</tr>
<tr>
<td>Amortization of purchased intangibles</td>
<td>(0.3)%</td>
</tr>
<tr>
<td>Income tax adjustments</td>
<td>(1.0)%</td>
</tr>
<tr>
<td>Impact of Tax Act</td>
<td>1.0</td>
</tr>
<tr>
<td>Non-GAAP effective income tax rate</td>
<td>5.0%</td>
</tr>
</tbody>
</table>

### Use of Non-GAAP Financial Information

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Forward-Looking Statements Disclosure

Our financial targets contain forward-looking statements and projections, including those related to revenue, earnings per share on a GAAP and non-GAAP basis, annualized recurring revenue, share count, non-operating other expense, and tax rate on a GAAP and non-GAAP basis, 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, acquire, market and offer products and services that meet customer requirements, failure to compete effectively, introduction of new technology, complex sales cycles, risks related to the timing of revenue recognition from our subscription offerings, fluctuations in subscription renewal rates, potential interruptions or delays in hosted services provided by us or third parties, risks associated with cyber-attacks, information security and privacy, failure to realize the anticipated benefits of past or future acquisitions, changes in accounting principles and tax regulations, uncertainty in the financial markets and economic conditions in the countries where we operate, and other various risks associated with being a multinational corporation.

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 2017 ended Dec. 1, 2017, and Adobe's Quarterly Reports on Form 10-Q issued in fiscal year 2018.
FOR IMMEDIATE RELEASE

Adobe Completes Acquisition of Magento Commerce

SAN JOSE, Calif. — June 19, 2018 — Adobe (Nasdaq:ADBE) today announced the completion of its acquisition of Magento Commerce, a market-leading commerce platform. The addition of the Magento Commerce Cloud to the Adobe Experience Cloud will deliver a single, end-to-end digital experience platform including content creation, marketing, advertising, analytics and commerce for B2B and B2C customers. The Magento Platform brings together digital commerce, order management and predictive intelligence to enable shopping experiences that scale for businesses of any size.

Adobe is the world’s leader in designing and delivering digital experiences. At the core of every great experience are content and data, which enable the consistent, personal, intuitive experiences consumers have come to expect. Commerce is integral to the customer experience—whether on the web, mobile, social, in-product or in-store. Adding commerce to the Adobe Experience Cloud enables our customers to make every moment personal and every experience shoppable.

Magento Commerce Cloud brings digital commerce and order orchestration for both physical and digital goods across a range of industries, including consumer packaged goods, retail, wholesale, manufacturing and the public sector. The Magento Platform is built on proven, scalable technology supported by a vibrant community of more than 300,000 developers. The Magento partner ecosystem provides thousands of pre-built extensions, including payment, shipping, tax and logistics. This level of flexibility enables businesses to quickly ramp and iterate their commerce experience with their changing business needs.

“Across every industry, people aren’t just buying products, they’re buying experiences,” said Brad Rencher, executive vice president and general manager, Digital Experience, Adobe. “Adobe is the leader in delivering end-to-end digital experiences and with Magento Commerce, Adobe will further solidify its leadership position.”

“Digital transformation starts with a creative spark or a specific business need and comes to life with best-in-class technology,” said Mark Lavelle, CEO, Magento. “As a part of Adobe, we see a tremendous business opportunity to power experience-driven commerce for brands and merchants of all sizes."

With the acquisition now closed, Magento Commerce CEO Mark Lavelle will lead the Magento Commerce Cloud business, reporting to executive vice president and general manager of Adobe’s Digital Experience business unit, Brad Rencher.

About Adobe Experience Cloud
Adobe Experience Cloud is a comprehensive set of cloud services designed to give enterprises everything needed to deliver exceptional customer experiences. Comprised of Adobe Marketing Cloud, Adobe Advertising Cloud and Adobe Analytics Cloud, Adobe Experience Cloud is built on the Adobe Cloud Platform and integrated with Creative Cloud and Adobe Document Cloud. Leveraging Adobe Sensei’s machine learning and artificial intelligence capabilities, Adobe Experience Cloud combines world-class solutions, a complete extensive platform, comprehensive data and content systems, and a robust partner ecosystem that offer an unmatched expertise in experience delivery.

About Magento Commerce
Magento Commerce is a leading provider of cloud commerce innovation to merchants and brands across B2C and B2B industries and was recently named a leader in the 2018 Gartner Magic Quadrant for Digital Commerce. In addition to its flagship digital...
commerce platform, Magento Commerce boasts a strong portfolio of cloud-based omnichannel solutions that empower merchants to successfully integrate digital and physical shopping experiences. Magento Commerce is the #1 provider to the Internet Retailer Top 1000, the B2B 300 and the Top 500 Guides for Europe and Latin America. Magento Commerce is supported by a vast global network of solution and technology partners, a highly active global developer community and the largest eCommerce marketplace for extensions available for download on the Magento Marketplace. More information can be found at www.magento.com.

Forward-Looking Statements Disclosure
This press release includes forward-looking statements within the meaning of applicable securities law. All statements, other than statements of historical fact, are statements that could be deemed forward-looking statements. Forward-looking statements relate to future events and future performance and reflect Adobe's expectations regarding the ability to extend its leadership in the experience business through expansion of its commerce platform and other anticipated benefits of the transaction with Magento. Forward-looking statements involve risks, including general risks associated with Adobe's and Magento's business, uncertainties and other factors that may cause actual results to differ materially from those referred to in the forward-looking statements. Factors that could cause or contribute to such differences include, but are not limited to: Adobe's ability to embed Magento technology into Adobe Experience Cloud; and any statements of assumptions underlying any of the foregoing. The reader is cautioned not to rely on these forward-looking statements. All forward-looking statements are based on information currently available to Adobe and are qualified in their entirety by this cautionary statement. For a discussion of these and other risks and uncertainties, individuals should refer to Adobe's SEC filings. Adobe does not assume any obligation to update any such forward-looking statements or other statements included in this press release.

Helpful Links
- Adobe Completes Acquisition of Magento Commerce
- Magento is now part of Adobe

About Adobe
Adobe is changing the world through digital experiences. For more information, visit www.adobe.com.

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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 John Murphy, Executive Vice President and CFO.

In our call today, we will discuss Adobe's second 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, June 14th, 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.

Adobe delivered record revenue in our second quarter with strong financial results. Q2 revenue was $2.20 billion dollars, which represents 24% year-over-year growth. GAAP earnings per share for the quarter was $1.33, and non-GAAP earnings per share was $1.66.

Adobe enables individuals, companies, governments and educational institutions to design and deliver transformative digital experiences – immersive, intelligent experiences that inspire, entertain, and drive loyalty and growth. The breadth of our product portfolio, the deep science embedded in our Adobe Cloud platform, the insights derived from the trillions of data transactions we process every year on behalf of our customers, and our global ecosystem of partners and developers have made Adobe the leader in enabling great customer experiences.
In our Digital Media business, we achieved strong growth in both Creative and Document Cloud revenue in Q2. We added net new Digital Media Annualized Recurring Revenue, or “ARR” of $343 million, which grew total Digital Media ARR exiting Q2 to $6.06 billion.

We continue to drive steady adoption of Creative Cloud subscriptions and services by individuals, teams and enterprises across all segments and geographies. This resulted in another strong quarter for Creative Cloud, with Creative revenue growing to $1.3 billion.

At Adobe, we believe everyone has a story to tell. Our strategy to empower more of the world’s storytellers to express themselves depends on our ability to make our tools more accessible, enjoyable and invaluable to a broader set of creative customers – from creative pros, to hobbyists, to young creatives.

Experience Design is one of the fastest growing creative segments and we recently introduced a new starter plan for Adobe XD, our all-in-one UX/UI design platform. Adobe XD is the most modern, cloud-based solution available for designing, prototyping and collaborating with colleagues across multiple platforms. We recently announced several new integrations between XD and designers’ existing workflows inside of tools such as Photoshop and Illustrator. We launched a $10 million design investment fund to support designers and developers who innovate and push the boundaries of Experience Design.
Enabling creativity in the Education segment remains a passion for Adobe. Adobe Spark Premium, our application for everyday communicators to transform their ideas into beautiful visual stories, is now available to every student globally. We’ve achieved strong adoption of Spark in school districts across the nation. To further bolster our commitment to K-12 students, we introduced a new offering that gives students more affordable access to applications including Photoshop, Illustrator, Premiere Pro, and XD. These actions are part of our commitment to partner with educators, promote STEAM, and ensure art and creativity remain an essential part of education and professional development.

Adobe’s video editing and production tools – including Adobe Premiere Pro and After Effects – are the gold standard for creating films and video from the silver screen to the mobile screen. At NAB, Adobe unveiled innovative updates to Creative Cloud’s digital video tools. In addition, partners including Canon, RED Cameras, AMD, and Sony announced tools and updates that allow users to work in an integrated, collaborative production environment.

Our mission is to push the limits of creativity and storytelling while supporting exciting new mediums. We provided a sneak peek of Project Aero, a powerful new augmented reality, or “AR” authoring tool at Apple’s WWDC last week. Project Aero is a system that makes it easier for designers and developers to create immersive content and bridge the gap between the physical and digital worlds. With close to one billion AR-enabled devices expected to be in market next year, AR can drive a new wave of digital transformation and creativity.

In addition to the world’s best desktop and mobile tools, Creative Cloud services are driving growth in our business while offering new ways to inspire our customers and accelerate their creative process. Adobe Stock achieved record revenue in the quarter, with greater than 25% year-over-year growth. Adobe Stock now has a library of more than 100 million images, videos and creative assets including new curated HD and 4K videos, as well as Motion Graphics templates.
Adobe Document Cloud is the world’s leading digital document service, enabling individuals and businesses to digitize inefficient paper-based processes. In Q2 we achieved record revenue for Document Cloud of $243 million. Document Cloud subscriptions and Acrobat perpetual licensing drove 22% year-over-year revenue growth, and $47 million in net new Document Cloud ARR.

This week marks the 25th anniversary of Acrobat and PDF – the innovation that ushered in the era of digital documents. Twenty-five years later, the pace at which we’re innovating with Document Cloud has only accelerated as digital documents become more collaborative and mobile. More than 800 million PDFs are opened in Adobe Acrobat Reader on mobile devices each month. Adobe Scan, our mobile PDF creation app powered by Adobe Sensei that turns your phone or tablet into a scanning and text recognition tool, has been downloaded more than 10 million times.

Adobe Sign, our digital signature solution for Document Cloud, continues to have strong momentum. Today, over half of Fortune 100 companies use Adobe Sign. Last September we teamed up with Microsoft to integrate Adobe Sign into Microsoft Office 365. Next week we’ll be unveiling industry-first innovations in Adobe Sign focused on delivering superior digital document experiences to millions of customers.
Adobe Experience Cloud is the most comprehensive, integrated, and actionable set of solutions in the market, designed to help companies deliver consistent, continuous and compelling experiences across every touch point and channel. In Q2 we achieved Experience Cloud revenue of $586 million, and strong bookings across Adobe Marketing Cloud, Adobe Analytics Cloud and Adobe Advertising Cloud. Key customer deals in the quarter included Audible, Intuit, Shell, H&R Block, Japan Airlines, PNC Bank and Samsung.

In May we announced our intent to acquire Magento, a leading commerce platform. Commerce is an integral part of an end-to-end customer experience as consumers and businesses now expect every interaction to be shoppable. The addition of Magento Commerce will enable commerce to be seamlessly integrated into Adobe Experience Cloud, delivering a single platform that serves both B2B and B2C customers globally while providing the flexibility to scale to serve mid-market and large enterprise customers. The Magento Platform is supported by a robust community of more than 300,000 developers and a partner ecosystem that provides thousands of pre-built extensions, including payment, shipping, tax and logistics.

The acquisition of Magento will make Adobe the only company with leadership in content creation, marketing, advertising, analytics and now commerce – enabling real-time personalized experiences across the entire customer journey – whether on the web, mobile, social, in-product or in-store. We believe the addition of Magento expands our available market opportunity, builds out our product portfolio, and addresses a key underserved customer need.
When combined with our world-class content and data platform, and leveraging our Sensei machine learning and AI framework, this latest capability will further differentiate Adobe Experience Cloud as the leading platform for Experience Businesses. We expect the acquisition to close next week.

We continue to host successful customer Summits across the globe where we roll out new innovations across Adobe Experience Cloud, including major enhancements to the Adobe Cloud Platform. Recent advancements include a new Unified Customer Profile that combines data across an enterprise, intelligent services, and General Data Protection Regulation, or “GDPR” readiness – all aimed at solving key challenges facing marketers, data scientists and developers.

Adobe was once again recognized for our leadership in technology segments that help to deliver and orchestrate experiences across the entire customer journey. We were named a Leader in the Forrester Wave: Digital Asset Management for Customer Experience, achieving the highest score for “current offering” of the vendor leaders. Adobe was positioned as a Leader in the Gartner Magic Quadrant for Multichannel Marketing Hubs. In this inaugural report, Adobe had the strongest ranking for “completeness of vision” among the 21 vendors evaluated.
Adobe Sensei, our artificial intelligence and machine learning framework forms the foundation of the innovative “Adobe Magic” across Creative Cloud, Document Cloud and Experience Cloud. We were pleased to be recognized again as one of the World’s Most Innovative Companies by Forbes for 2018.

The talent and passion of our more than 18,000 employees worldwide continues to be the catalyst for Adobe’s success. We take pride in making Adobe one of the world’s best workplaces and cultivating a diverse and innovative team of global employees. This summer we’re pleased to welcome over 1000 interns and university graduates to Adobe, the largest such group in company history.

Adobe has the right strategy, partners, products and people in place to win. We look forward to building on the momentum we’re driving across our entire business and expect a strong second half of the year.

John.
Thanks, Shantanu.

In the second quarter of FY18, Adobe's momentum continued with record revenue of $2.20 billion, which represents 24% year-over-year growth. GAAP diluted earnings per share in Q2 was $1.33 and non-GAAP diluted earnings per share was $1.66. We drove strong performance across our product offerings and geographies during the quarter.

Highlights in Q2 included:

- Record Digital Media revenue, including Creative revenue of $1.30 billion and Adobe Document Cloud revenue of $243 million;
- Record Adobe Experience Cloud revenue of $586 million;
- Net new Digital Media ARR of $343 million, and exiting Q2 with $5.37 billion of Creative ARR;
- Deferred revenue growth of 27% year-over-year;
• Cash flow from operations of $976 million;

• Returning $589 million of cash to our stockholders through stock buyback;

• And approximately 89% of our revenue in Q2 was from recurring sources.

In Digital Media, we grew segment revenue by 28% year-over-year. The addition of $343 million net new Digital Media ARR during the quarter grew the total to $6.06 billion exiting Q2.

Within Digital Media, we achieved another record quarter with our Creative business. Creative revenue grew 29% year-over-year in Q2 and we increased Creative ARR by $296 million. Several key factors helped drive this growth, including:

• Strong net new subscriptions across user segments and geographies, helped by robust traffic and conversion on Adobe.com;

• Continued momentum with Creative Cloud adoption in emerging markets;

• Stable or increasing ARPU across key offerings, which continues to be driven by retention of users on promotional prices migrating to standard prices, as well as attachment of services in the enterprise and the recently introduced price increase in North America;

• And strong growth with Adobe Stock.
With Document Cloud, we achieved record revenue of $243 million, which represents 22% year-over-year growth. The performance in Q2 was driven by continued momentum with Acrobat subscription adoption as well as strength in the enterprise with Acrobat and Document Cloud services.

In our Digital Experience segment, we achieved record Adobe Experience Cloud revenue of $586 million, which represents 18% year-over-year revenue growth. Subscription revenue grew 24% year-over-year. Experience Cloud performance in Q2 was driven by success across our Analytics Cloud, Marketing Cloud and Advertising Cloud offerings. Experience Cloud data transactions grew to 97 trillion in the quarter, with 60% of Analytics transactions driven by mobile device usage.
From a quarter-over-quarter currency perspective, FX increased revenue by $15.2 million. We had $0.3 million in hedge gains in Q2 FY18, versus $1 million in hedge gains in Q1 FY18; thus, the net sequential currency increase to revenue considering hedging gains was $14.5 million.

From a year over year currency perspective, FX increased revenue by $51.3 million. We had $0.3 million in hedge gains in Q2 FY18, versus $13.3 million in hedge gains in Q2 FY17; thus, the net year-over-year currency increase to revenue considering hedging gains was $38.3 million.

In Q2, Adobe’s effective tax rate was 4% on a GAAP-basis and 5% on a non-GAAP basis. These rates are below the targets we provided due to a structural change we made during Q2 in how we serve foreign customers based on the new U.S. Tax Act. Our recent international tax structure change will benefit our tax rates for the remainder of FY2018 as well as next year.

Our trade DSO was 44 days, which compares to 46 days in the year-ago quarter, and 47 days last quarter.

Deferred revenue grew to a record $2.63 billion, up 27% year-over-year.

Our ending cash and short-term investment position exiting Q2 was $6.33 billion.
Cash flow from operations was $976 million in the quarter.

In Q2, we repurchased approximately 2.6 million shares at a cost of $589 million. We currently have $900 million remaining of our $2.5 billion authority granted in January 2017. We expect this authorization to be exhausted by the end of this fiscal year. On May 21st we announced that our Board has authorized an incremental $8 billion stock repurchase program through fiscal year 2021, which will be funded from future cash flow generation.

Now I will provide our financial outlook. In January we updated our financial targets to reflect provisions of the new U.S. Tax Act which became law during our fiscal Q1. The Tax Act affords companies like Adobe the ability to make changes to the way we serve our foreign customers with our international corporate structure. During Q2 we made a structural change and the effect of it results in even lower tax rates than we discussed previously for both this year and subsequent fiscal years.

In fiscal 2018, we anticipate an incremental six percentage point reduction in our GAAP and non-GAAP tax rates when compared to the rates we provided in January. We are now expecting a GAAP tax rate of approximately 7% in Q3 and Q4 of fiscal 2018; and a non-GAAP tax rate of approximately 5% in Q3 and Q4 of fiscal 2018.

Our November fiscal year calendar and the timing of certain Tax Act provisions make our FY18 a unique year from a tax rate perspective. We indicated in January that we anticipated our tax rates would stabilize at a new rate of approximately 18% on both a GAAP and a non-GAAP basis in FY19. Based on the structural change we made in Q2, we now estimate our tax rates in FY19 will stabilize at GAAP and non-GAAP rates of approximately 14%.
Turning to Q3 FY18, we are targeting:

- Revenue of approximately 2 billion 240 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 7% on a GAAP basis, and 5% on a non-GAAP basis;
- Share count of approximately 498 million shares;
- GAAP earnings per share of approximately $1.27;
- Non-GAAP earnings per share of approximately $1.68; and
- Net new Digital Media ARR of approximately $310 million.

Our Q3 targets do not reflect our pending acquisition of Magento Commerce. We have received regulatory clearance and anticipate closing the acquisition next week. For the second half of calendar year 2018, Magento's internal plan projected achieving approximately $100 million in revenue. After the transition to Adobe's November fiscal calendar and the write-down of deferred revenue due to purchase accounting rules, we anticipate Adobe will report approximately $40 million of Magento revenue in the second half of Adobe's fiscal 2018, with approximately $10 million of it in our fiscal Q3. We expect the closing of Magento to be slightly dilutive to our Q3 GAAP earnings per share target. We do not expect the closing to impact our non-GAAP Q3 earnings per share target.

In Q4, we anticipate normal seasonal strength and a strong finish to the year.

I'll now turn the call back over to Mike.
MIKE SAVIAGE

Thanks, John.

Adobe MAX returns to Los Angeles this fall, and Day One of our user conference is Monday October 15th. We plan to host a financial analyst meeting on the afternoon of the 15th, and an invitation with registration information will be sent out in early July. More details about MAX are available at max.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 #4599054. 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 June 20, 2018.

We would now be happy to take your questions, and we ask that you limit your questions to one per person. Operator.
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<tr>
<th>Description</th>
<th>Q1’16</th>
<th>Q2’16</th>
<th>Q3’16</th>
<th>Q4’16</th>
<th>FY2016</th>
<th>Q1’17</th>
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<th>Q2’18</th>
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<td><strong>Revenue by Segment (in $Millions)</strong></td>
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<td><strong>Revenue by Segment (in $Millions)</strong></td>
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<td>499.4</td>
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Adobe provides this information as of the modification date above and makes no commitment to update the information subsequently. For a full explanation of this data, you are encouraged to review Adobe's Form 10-K and 10-Q SEC filings.
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<thead>
<tr>
<th>Description</th>
<th>Q1'16</th>
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<td>Non-operating income</td>
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<td>(13.0)</td>
<td>(15.6)</td>
<td>(58.5)</td>
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<td>(4.3)</td>
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<td>(7.9)</td>
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<td>1,693.9</td>
<td>583.1</td>
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**Diluted earnings per share**

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<th></th>
<th>FY2016</th>
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<th>FY2018</th>
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<tr>
<td>GAAP</td>
<td>$ 0.50</td>
<td>$ 0.48</td>
<td>$ 0.54</td>
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<tr>
<td>Non-GAAP</td>
<td>$ 0.48</td>
<td>$ 0.54</td>
<td>$ 0.80</td>
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<tr>
<td>Adjustments to reconcile to Non-GAAP (Millions)</td>
<td>$ (0.04)</td>
<td>$ (0.05)</td>
<td>$ (0.31)</td>
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| Operating expenses Stock-based and deferred compensation Amortization of purchased intangibles and technology license arrangements Total adjustments to cost of revenue | (23.4) | (18.9) | (18.4) | (17.9) |
| Restructuring and other charges Amortization of purchased intangibles and technology license arrangements Total adjustments to operating expenses Non-operating income (expense) | (0.4) | (0.5) | (0.3) | (0.3) | 1.5 | (0.1) | 0.4 | 0.5 | 0.5 | - | (18.4) | (19.0) | (22.7) | (18.5) | 0.01 | (0.15) | (1.4) | 1.0 | (2.6) | (1.7) | (1.0) | (2.3) | (7.6) | (17.1) | (17.1) | (34.2) |
| Taxes                | 50.4 | 9.3 | 14.6 | 63.1 | 137.4 | 63.2 | 17.4 | 24.1 | 26.0 | 130.7 | 24.0 | 15.8 | (8.2) |

**Diluted earnings per share**

<table>
<thead>
<tr>
<th></th>
<th>FY2016</th>
<th>FY2017</th>
<th>FY2018</th>
</tr>
</thead>
<tbody>
<tr>
<td>GAAP diluted earnings per share</td>
<td>$ 0.66</td>
<td>$ 0.71</td>
<td>$ 0.75</td>
</tr>
<tr>
<td>Non-GAAP diluted earnings per share</td>
<td>$ 0.71</td>
<td>$ 0.75</td>
<td>$ 0.80</td>
</tr>
</tbody>
</table>

The above results are supplied to provide meaningful supplemental information regarding Adobe’s core operating results because such information excludes amounts that are not necessarily related to its core operating results. Adobe uses this non-GAAP financial information in assessing the performance of the Company’s ongoing operations, and for planning and forecasting in future periods. This non-GAAP information should not be considered as a substitute for, or superior to, measures of financial performance prepared in accordance with GAAP.
## FY2018 Business Segment Classifications

**Creative Cloud**

<table>
<thead>
<tr>
<th>Products</th>
<th>Creative Cloud Desktop Apps</th>
<th>Creative Cloud Mobile Apps</th>
</tr>
</thead>
<tbody>
<tr>
<td>Creative Cloud for individuals</td>
<td>Acrobat Pro DC</td>
<td>Behance</td>
</tr>
<tr>
<td>Creative Cloud for students and teachers</td>
<td>After Effects</td>
<td>Capture</td>
</tr>
<tr>
<td>Creative Cloud for teams</td>
<td>Animate</td>
<td>Comp</td>
</tr>
<tr>
<td>Creative Cloud for enterprises</td>
<td>Audition</td>
<td>XD (Experience Design)</td>
</tr>
<tr>
<td>Creative Cloud for education</td>
<td>Bridge</td>
<td>Illustrator Draw</td>
</tr>
<tr>
<td>Creative Cloud Photography plan</td>
<td>Character Animator</td>
<td>Photo Editor by Aviary</td>
</tr>
<tr>
<td></td>
<td>Dimension</td>
<td>Photoshop Express</td>
</tr>
<tr>
<td>Services</td>
<td>Dreamweaver</td>
<td>Photoshop Fix</td>
</tr>
<tr>
<td>XA/Flash Player</td>
<td>XD (Experience Design)</td>
<td>Photoshop Lightroom for mobile</td>
</tr>
<tr>
<td>Aviary</td>
<td>Fireworks CS6</td>
<td>Photoshop Mix</td>
</tr>
<tr>
<td>Behance</td>
<td>Fuse (Beta)</td>
<td>Photoshop Sketch</td>
</tr>
<tr>
<td>Creative SDK</td>
<td>Illustrator</td>
<td>Portfolio</td>
</tr>
<tr>
<td>Digital Publishing Suite</td>
<td>InCopy</td>
<td>Prelude Live Logger</td>
</tr>
<tr>
<td>Extendscript Toolkit</td>
<td>InDesign</td>
<td>Premiere Clip</td>
</tr>
<tr>
<td>Extension Manager</td>
<td>Ink &amp; Slide</td>
<td>Preview</td>
</tr>
<tr>
<td>Flash Builder</td>
<td>Media Encoder</td>
<td>Scout</td>
</tr>
<tr>
<td>Gaming SDK</td>
<td>Muse</td>
<td>Spark Page</td>
</tr>
<tr>
<td>PhoneGap Build</td>
<td>Photoshop</td>
<td>Spark Post</td>
</tr>
<tr>
<td>Portfolio</td>
<td>Photoshop Lightroom</td>
<td>Spark Video</td>
</tr>
<tr>
<td>Stock</td>
<td>Prelude</td>
<td></td>
</tr>
<tr>
<td>Story Plus</td>
<td>Premiere Pro</td>
<td>Consumer Products</td>
</tr>
<tr>
<td>Talent</td>
<td>Scout</td>
<td>Photoshop Elements</td>
</tr>
<tr>
<td>Typekit</td>
<td>Story</td>
<td>Premiere Elements</td>
</tr>
</tbody>
</table>

**Document Cloud**

- Acrobat Pro DC
- Acrobat Standard DC
- Reader DC
- Document Cloud ExportPDF
- Document Cloud Send
- Scan
- Sign
- PDF Pack

**Adobe Marketing Cloud**

- Adobe Experience Manager
- Adobe Target
- Adobe Analytics
- Assets
- Communities
- Forms
- Livetfy
- Mobile
- Sites
- Adobe Primetime
- TV SDKs (Player, DRM, Packaging)
- Adobe Campaign
- Ad Insertion, Ad Decisioning

**Adobe Experience Cloud**

- Adobe Audience Manager
- Adobe Advertising Cloud
- Adobe Social
- Adobe Media Optimizer
- Adobe Analytics
- Assets
- Communities
- Forms
- Livetfy
- Mobile
- Sites
- Adobe Primetime
- TV SDKs (Player, DRM, Packaging)
- Adobe Campaign
- Ad Insertion, Ad Decisioning

**Adobe Analytics Cloud**

- Adobe Audience Manager
- Adobe Advertising Cloud
- Adobe Social
- Adobe Media Optimizer
- Adobe Analytics
- Assets
- Communities
- Forms
- Livetfy
- Mobile
- Sites
- Adobe Primetime
- TV SDKs (Player, DRM, Packaging)
- Adobe Campaign
- Ad Insertion, Ad Decisioning

**Adobe Publishing**

- Authorware
- Captivate
- ColdFusion
- Connect
- Contribute
- Director
- eLearning Suite
- Font Folio
- FrameMaker
- JRRun
- LiveCycle
- PageMaker
- PostScript
- Robohelp
- Shockwave Player
- Technical Communication Suite
- Type

Adobe provides this information as of the modification date above and makes no commitment to update the information subsequently. For a full explanation of this data, you are encouraged to review Adobe's Form 10-K and 10-Q SEC filings.
Our actual results could differ materially from our forward-looking statements. Factors that might cause or contribute to such differences include, but are not limited to, those discussed below. These and many other factors described in this report could adversely affect our operations, performance and financial condition.

**If we cannot continue to develop, acquire, market and offer new products and services or enhancements to existing products and services that meet customer requirements, our operating results could suffer.**

The process of developing and acquiring new technology products and services and enhancing existing offerings is complex, costly and uncertain. If we fail to anticipate customers’ rapidly changing needs and expectations or adapt to emerging technological trends, our market share and results of operations could suffer. We must make long-term investments, develop, acquire or obtain appropriate intellectual property and commit significant resources before knowing whether our predictions will accurately reflect customer demand for our products and services. If we misjudge customer needs in the future, our new products and services may not succeed and our revenues and earnings may be harmed. Additionally, any delay in the development, acquisition, marketing or launch of a new offering or enhancement to an existing offering could result in customer attrition or impede our ability to attract new customers, causing a decline in our revenue, earnings or stock price and weakening our competitive position.

We offer our products on a variety of hardware platforms. Consumers continue to migrate from personal computers to tablet and mobile devices. If we cannot continue adapting our products to tablet and mobile devices, or if our competitors can adapt their products more quickly than us, our business could be harmed. Releases of new devices or operating systems may make it more difficult for our products to perform or may require significant costs in order for us to adapt our solutions to such devices or operating systems. These potential costs and delays could harm our business.

**Our competitive position and results of operations could be harmed if we do not compete effectively.**

The markets for our products and services are characterized by intense competition, new industry standards, evolving distribution models, limited barriers to entry, disruptive technology developments, short product life cycles, customer price sensitivity and frequent product introductions (including alternatives with limited functionality available at lower costs or free of charge). Any of these factors could create downward pressure on pricing and gross margins and could adversely affect our renewal and upsell and cross-sell rates, as well as our ability to attract new customers. Our future success will depend on our continued ability to enhance and integrate our existing products and services, introduce new products and services in a timely and cost-effective manner, meet changing customer expectations and needs, extend our core technology into new applications, and anticipate emerging standards, business models, software delivery methods and other technological developments. Furthermore, some of our competitors and potential competitors enjoy competitive advantages such as greater financial, technical, sales, marketing and other resources, broader brand awareness, and access to larger customer bases. As a result of these advantages, potential and current customers might select the products and services of our competitors, causing a loss of our market share. In addition, consolidation has occurred among some of our competitors. Further consolidations in these markets may subject us to increased competitive pressures and may harm our results of operations.

For additional information regarding our competition and the risks arising out of the competitive environment in which we operate, see the section entitled “Competition” contained in Part I. Item 1 of our Annual Report on Form 10-K for the fiscal year ended December 1, 2017.

**Introduction of new technology could harm our business and results of operations.**

The expectations and needs of technology consumers are constantly evolving. Our future success depends on a variety of factors, including our continued ability to innovate, introduce new products and services efficiently, enhance and integrate our products and services in a timely and cost-effective manner, extend our core technology into new applications, anticipate emerging standards, business models, software delivery methods and other technological developments. Integration of our products and services with one another and other companies’ offerings creates an increasingly complex ecosystem that is partly reliant on third parties. If any disruptive technology, or competing products, services or operating systems that are not compatible with our solutions, achieve widespread acceptance, our operating results could suffer and our business could be harmed.

The introduction of certain technologies may reduce the effectiveness of our products. For example, some of our products rely on third-party cookies, which are placed on individual browsers when consumers visit websites that contain advertisements. We use these cookies to help our customers more effectively advertise, gauge the performance of their advertisements, and detect and prevent fraudulent activity. Consumers can block or delete cookies through their browsers or “ad-blocking” software or applications. The most common Internet browsers allow consumers to modify their browser settings to prevent cookies from being accepted by their browsers, or are set to block third-party cookies by default. Increased use of methods, software or applications that block cookies could harm our business.

**Some of our enterprise offerings have extended and complex sales cycles, which can make our sales cycles unpredictable.**

Sales cycles for some of our enterprise offerings, including our Adobe Experience Cloud solutions and ETLAs in our Digital Media business, are multi-phased and complex. The complexity in these sales cycles is due to several factors, including:

- the need for our sales representatives to educate customers about the use and benefit of large-scale deployments of our products and services, including technical capabilities, security features, potential cost savings and return on investment;
- the desire of organizations to undertake significant evaluation processes to determine their technology requirements prior to making information technology expenditures;
- the need for our representatives to spend a significant amount of time assisting potential customers in their testing and evaluation of our products and services;
- intensifying competition within the industry;
- the negotiation of large, complex, enterprise-wide contracts;
- the need for our customers to obtain requisition approvals from various decision makers within their organizations due to the complexity of our solutions touching multiple departments within customers’ organizations; and
customer budget constraints, economic conditions and unplanned administrative delays.

We spend substantial time and expense on our sales efforts without assurance that potential customers will ultimately purchase our solutions. As we target our sales efforts at larger enterprise customers, these trends are expected to continue and could have a greater impact on our results of operations. Additionally, our enterprise sales pattern has historically been uneven, where a higher percentage of a quarter’s total sales occur during the final weeks of each quarter, which is common in our industry. Our extended sales cycle for these products and services makes it difficult to predict when a given sales cycle will close.

**Subscription offerings could create risks related to the timing of revenue recognition.**

We generally recognize revenue from subscription offerings ratably over the terms of their subscription agreements, which range from 1 to 36 months. As a result, most of the subscription revenue we report in each quarter is the result of subscription agreements entered into during previous quarters. Any reduction in new or renewed subscriptions in a quarter may not be reflected in our revenue results until a later quarter. Declines in new or renewed subscriptions may decrease our revenue in future quarters. Lower sales, reduced demand for our products and services, and increases in our attrition rate may not be fully reflected in our results of operations until future periods. Our subscription model could also make it difficult for us to rapidly increase our revenue from subscription-based or hosted services through additional sales in any period, as revenue from new customers will be recognized over the applicable subscription term.

Additionally, in connection with our sales efforts to enterprise customers and our use of ETLAs, a number of factors could affect our revenue, including longer-than-expected sales and implementation cycles, potential deferral of revenue due to multiple-element revenue arrangements and alternative licensing arrangements. If any of our assumptions about revenue from our subscription-based offerings prove incorrect, our actual results may vary materially from those anticipated.

**If our customers fail to renew subscriptions in accordance with our expectations, our future revenue and operating results could suffer.**

Our Adobe Experience Cloud, Creative Cloud, and Document Cloud offerings typically involve subscription based offerings pursuant to product and service agreements. Revenue from our subscription customers is generally recognized ratably over the term of their agreements, which typically range from 1 to 36 months. Our customers have no obligation to renew their subscriptions for our services after the expiration of their initial subscription period, and customers may not renew their subscriptions at the same or higher level of service, for the same number of seats or for the same duration of time, if at all. Moreover, under certain circumstances, some of our customers have the right to cancel their agreements prior to the expiration of the terms. Our varied customer base combined with the flexibility we offer in the length of our subscription-based agreements complicates our ability to precisely forecast renewal rates. Therefore, we cannot provide assurance that we will be able to accurately predict future customer renewal rates.

Our customers’ renewal rates may decline or fluctuate as a result of a number of factors, including their level of satisfaction with our services, our ability to continue enhancing features and functionality, the reliability (including uptime) of our subscription offerings, the prices of offerings and those offered by our competitors, the actual or perceived information security of our systems and services, decreases in the size of our customer base, reductions in our customers’ spending levels or declines in customer activity as a result of economic downturns or uncertainty in financial markets. If our customers do not renew their subscriptions or if they renew on terms less favorable to us, our revenue may decline.

**Security breaches in data centers we manage, or third parties manage on our behalf, may compromise the confidentiality, integrity, or availability of employee and customer data, which could expose us to liability and adversely affect our reputation and business.**

We process and store significant amounts of employee and customer data, most of which is hosted by third-party service providers. A security incident impacting our own data centers or those controlled by our service providers may compromise the confidentiality, integrity or availability of this data. Unauthorized access to or disclosure of data stored by Adobe or our service providers may occur through break-ins, breaches of a secure network by an unauthorized party, employee theft or misuse or other misconduct. It is also possible that unauthorized access to or disclosure of customer data may be obtained through inadequate use of security controls by customers or employees. Accounts created with weak or recycled passwords could allow cyber-attackers to gain access to customer data. Additionally, failure by customers to remove accounts of their own employees, or the granting of accounts by the customer in an uncontrolled manner, may allow for access by former or unauthorized customer representatives. If there were an inadvertent disclosure of customer information, or if a third party were to gain unauthorized access to the information we possess on behalf of our customers, our operations could be disrupted, our reputation could be damaged and we could be subject to claims or other liabilities, regulatory investigations, or fines. In addition, such perceived or actual unauthorized disclosure of the information we collect or breach of our security could damage our reputation, result in the loss of customers and harm our business.

**We rely on data centers managed both by Adobe and third parties to host and deliver our services, as well as access, collect, use, transmit, and store data, and any interruptions or delays in these hosted services, or failures in data collection or transmission could expose us to liability and harm our business and reputation.**

Much of our business relies on hardware and services that are hosted, managed, and controlled directly by Adobe or third-party service providers, including our online store at adobe.com, Creative Cloud, Document Cloud, and Experience Cloud solutions. We do not have redundancy for all of our systems, many of our critical applications reside in only one of our data centers, and our disaster recovery planning may not account for all eventualities. If our business relationship with a third-party provider of hosting or content delivery services is negatively affected, or if one of our content delivery suppliers were to terminate its agreement with us, we might not be able to deliver the corresponding hosted offerings to our customers, which could subject us to reputational harm, costly and time intensive notification requirements, and cause us to lose customers and future business. Occasionally, we migrate data among data centers and to third-party hosted environments. If a transition among data centers or third-party service providers encounters unexpected interruptions, unforeseen complexity, or unplanned disruptions despite precautions undertaken during the process, this may impair our delivery of products and services to customers and result in increased costs and liabilities, which may harm our operating results and our business.
It is also possible that hardware or software failures or errors in our systems (or those of our third-party service providers) could result in data loss or corruption, cause
the information that we collect or maintain to be incomplete or contain inaccuracies that our customers regard as significant, or cause us to fail to meet committed
service levels or comply with regulatory notification requirements. Furthermore, our ability to collect and report data may be delayed or interrupted by a number of
factors, including access to the Internet, the failure of our network or software systems, security breaches or significant variability in visitor traffic on customer websites.
In addition, computer viruses, worms, or other malware may harm our systems, causing us to lose data, and the transmission of computer viruses or other malware
could expose us to litigation or regulatory investigation, and costly and time intensive notification requirements.

We may also find, on occasion, that we cannot deliver data and reports to our customers in near real time because of a number of factors, including significant spikes in
customer activity on their websites or failures of our network or software. If we fail to plan infrastructure capacity appropriately and expand it proportionally with the
needs of our customer base, and we experience a rapid and significant demand on the capacity of our data centers or those of third parties, service outages could occur
and our customers could suffer impaired performance of our services. Such a strain on our infrastructure capacity could subject us to regulatory notification
requirements, violations of service level agreement commitments, financial liabilities, result in customer dissatisfaction, or harm our business. If we supply inaccurate
information or experience interruptions in our ability to capture, store and supply information in near real time or at all, our reputation could be harmed and we could
lose customers, or we could be found liable for damages or incur other losses.

*Increasing regulatory focus on privacy issues and expanding laws could impact our business models and expose us to increased liability.*

U.S. privacy and data security laws apply to our various businesses. We also conduct business globally in countries that may have more stringent data protection laws
than those in the United States that may be inconsistent across jurisdictions and are subject to evolving and differing interpretations. Government regulators, privacy
advocates and class action attorneys are increasingly scrutinizing how companies collect, process, use, store, share and transmit personal data. This increased scrutiny
may result in new interpretations of existing laws, thereby further impacting Adobe's business. Globally, new laws, such as the General Data Protection Regulation
("GDPR") in Europe, and industry self-regulatory codes have been enacted and more are being considered. While we have invested in GDPR readiness, these new laws,
regulations and codes may affect our ability (and our enterprise customers' ability) to reach current and prospective customers, to respond to both enterprise and
individual customer requests under the laws (such as individual rights of access, correction, and deletion of their personal information), and to implement our business
models effectively. These new laws may also impact our innovation and business drivers in developing new and emerging technologies (e.g., artificial intelligence and
machine learning). These requirements, among others, may impact demand for our offerings and force us to bear the burden of more onerous obligations in our
contracts. Any perception of our practices, products or services as a violation of individual privacy rights may subject us to public criticism, class action lawsuits,
reputational harm, or investigations or claims by regulators, industry groups or other third parties, all of which could disrupt our business and expose us to increased
liability. Additionally, we store information on behalf of our customers and if our customers fail to comply with contractual obligations or applicable laws, it could result
in litigation or reputational harm to us.

Transferring personal information across international borders is complex. For example, European data transfers outside the European Economic Area are highly
regulated. The mechanisms that we and many other companies rely upon for European data transfers (e.g. Privacy Shield and Model Clauses) are being contested in the
European court system. We are closely monitoring developments related to requirements for transferring personal data outside the EU. These requirements may result
in an increase in the obligations required to provide our services in the EU or in sanctions and fines for non-compliance. Several other countries, including Australia and
Japan, have also established specific legal requirements for cross-border transfers of personal information. If the mechanisms for transferring personal information from
Europe to the United States should be found invalid or if other countries implement more restrictive regulations for cross-border data transfers (or not permit data to
leave the country of origin), such developments could harm our business, financial condition and results of operations.

*Security vulnerabilities in our products and systems could lead to reduced revenue or to liability claims.*

Maintaining the security of our products, computers and networks is a critical issue for us and our customers. Security researchers, criminal hackers and other third
parties regularly develop new techniques to penetrate computer and network security measures and, as we have previously disclosed, certain parties have in the past
managed to breach our data security systems and misused some of our systems and software in order to access our end users’ authentication and payment information.
In addition, cyber-attackers also develop and deploy viruses, worms, credential stuffing attack tools, and other malicious software programs, some of which may be
specifically designed to attack our products, systems, computers or networks. Sophisticated hardware and operating system applications that we develop or procure
from third parties may contain defects in design or manufacture, including bugs and other problems that could unexpectedly compromise the security of the system or
impair a customer’s ability to operate or use our products. The costs to prevent, eliminate, notify affected parties of, or alleviate cyber- or other security problems, bugs,
viruses, worms, malicious software programs and security vulnerabilities are significant, and our efforts to address these problems may not be successful or may be
delayed and could result in interruptions, delays, cessation of service and loss of existing or potential customers. It is impossible to predict the extent, frequency or
impact these problems may have on us.

Outside parties have in the past and may in the future attempt to fraudulently induce our employees or users of our products or services to disclose sensitive
information via illegal electronic spamming, phishing or other tactics. Unauthorized parties may also attempt to gain physical access to our facilities in order to infiltrate
our information systems or attempt to gain logical access to our products, services, or information systems for the purpose of exfiltrating content and data. These actual
and potential breaches of our security measures and the accidental loss, inadvertent disclosure or unauthorized dissemination of proprietary information or sensitive,
personal or confidential data about us, our employees, our customers or their end users, including the potential loss or disclosure of such information or data as a result
of hacking, fraud, trickery or other forms of deception, could expose us, our employees, our customers or the individuals affected to a risk of loss or misuse of this
information. This may result in litigation and liability or fines, our compliance with costly and time intensive notice requirements, governmental inquiry or oversight or a
loss of customer confidence, any of which could harm our business or damage our brand and reputation, possibly impeding our present and future success in retaining
and attracting new customers and thereby requiring time and resources to repair our brand and reputation. These risks will likely increase as we expand our hosted offerings, integrate our products and services, and store and process more data, including personal information.

These problems affect our products and services in particular because cyber-attackers tend to focus their efforts on popular offerings with a large user base, and we expect them to continue to do so. Critical vulnerabilities may be identified in some of our applications. These vulnerabilities could cause such applications to crash and could allow an attacker to take control of the affected system, which could result in liability to us or limit our ability to conduct our business and deliver our products and services to customers. We devote significant resources to address security vulnerabilities through engineering more secure products, enhancing security and reliability features in our products and systems, code hardening, conducting rigorous penetration tests, deploying updates to address security vulnerabilities and improving our incident response time, but these security vulnerabilities cannot be totally eliminated. The cost of these steps could reduce our operating margins, and we may be unable to implement these measures quickly enough to prevent cyber-attackers from gaining unauthorized access into our systems and products. Despite our preventative efforts, actual or perceived security vulnerabilities in our products and systems may harm our reputation or lead to claims against us (and have in the past led to such claims), and could lead some customers to stop using certain products or services, to reduce or delay future purchases of products or services, or to use competing products or services. If we do not make the appropriate level of investment in our technology systems or if our systems become out-of-date or obsolete and we are not able to deliver the quality of data security customers require, our business could be adversely affected. Customers may also adopt security measures designed to protect their existing computer systems from attack, which could delay adoption of new technologies. Further, if we or our customers are subject to a future attack, or our technology is used in a third-party attack, we could be subject to costly and time intensive notice requirements, and it may be necessary for us to take additional extraordinary measures and make additional expenditures to take appropriate responsive and preventative steps. Any of these events could adversely affect our financial results, stock price and reputation. Moreover, delayed sales, lower margins or lost customers resulting from disruptions caused by cyber-attacks or preventative measures could adversely affect our financial results, stock price and reputation.

**We may not realize the anticipated benefits of past or future investments or acquisitions, and integration of acquisitions may disrupt our business and management.**

We may not realize the anticipated benefits of an investment or acquisition of a company, division, product or technology, each of which involves numerous risks. These risks include:

- inability to achieve the financial and strategic goals for the acquired and combined businesses;
- difficulty in, and the cost of, effectively integrating the operations, technologies, products or services, and personnel of the acquired business;
- entry into markets in which we have minimal prior experience and where competitors in such markets have stronger market positions;
- disruption of our ongoing business and distraction of our management and other employees from other opportunities and challenges;
- inability to retain personnel of the acquired business;
- inability to retain key customers, distributors, vendors and other business partners of the acquired business;
- inability to take advantage of anticipated tax benefits;
- incurring acquisition-related costs or amortization costs for acquired intangible assets that could impact our operating results;
- elevated delinquency or bad debt write-offs related to receivables of the acquired business we assume;
- increased accounts receivables collection times and working capital requirements associated with acquired business models;
- additional costs of bringing acquired companies into compliance with laws and regulations applicable to a multinational corporation;
- difficulty in maintaining controls, procedures and policies during the transition and integration;
- impairment of our relationships with employees, customers, partners, distributors or third-party providers of our technologies, products or services;
- failure of our due diligence processes to identify significant problems, liabilities or other challenges of an acquired company or technology;
- exposure to litigation or other claims in connection with, or inheritance of claims or litigation risk as a result of, an acquisition, such as claims from terminated employees, customers, former stockholders or other third parties;
- incurring significant exit charges if products or services acquired in business combinations are unsuccessful;
- inability to conclude that our internal controls over financial reporting are effective;
- inability to obtain, or obtain in a timely manner, approvals from governmental authorities, which could delay or prevent such acquisitions;
- the failure of strategic investments to perform as expected or to meet financial projections;
- delay in customer and distributor purchasing decisions due to uncertainty about the direction of our product and service offerings; and
- incompatibility of business cultures.

Mergers and acquisitions of technology companies are inherently risky. If we do not complete an announced acquisition transaction or integrate an acquired business successfully and in a timely manner, we may not realize the benefits of the acquisition to the extent anticipated, and in certain circumstances an acquisition could harm our financial position.

**Changes in accounting principles, or interpretations thereof, could have a significant impact on our financial position and results of operations.**

We prepare our condensed consolidated financial statements in accordance with accounting principles generally accepted in the United States of America (”GAAP”). These principles are subject to interpretation by the SEC and various bodies formed to interpret and create appropriate accounting principles. A change in these principles, how the principles are interpreted, or the adoption of new accounting principles can have a significant effect on our reported results, and could even retroactively affect previously reported transactions, and may require that we make significant changes to our systems, processes and controls.
Changes resulting from these new standards may result in materially different financial results and may require that we change how we process, analyze and report financial information and that we change financial reporting controls. For additional information regarding these updated standards, see the section titled “Recent Accounting Pronouncements Not Yet Effective” within Part II, Item 8, Note 1. Basis of Presentation and Summary of Significant Accounting Policies.

Such changes in accounting principles may have an adverse effect on our business, financial position, and income, or cause an adverse deviation from our revenue and profitability targets, which may negatively impact our financial results.

**Changes in tax rules and regulations, or interpretations thereof, may adversely affect our effective tax rates.**

We are a United States-based multinational company subject to tax in multiple U.S. and foreign tax jurisdictions. The Tax Act, enacted into law on December 22, 2017, changes existing U.S. tax law applicable to us and includes adoption of a territorial tax system requiring us to incur a transition tax on previously untaxed earnings and profits of our foreign subsidiaries. A significant portion of our foreign earnings for the current fiscal year were earned by our Irish subsidiaries. As part of the adoption of a territorial tax system, the Tax Act also provides an exemption from federal income taxes for distributions from foreign subsidiaries made after December 31, 2017 that were not subject to the one-time transition tax. In addition, certain international provisions introduced in the Tax Act will be effective for us in fiscal 2019. These provisions and changes that we may make to our corporate tax structure could adversely affect our tax rate and cash flow in future years.

Our income tax expense has differed from the tax computed at the U.S. federal statutory income tax rate due primarily to discrete items and to tax on earnings from foreign operations. Unanticipated changes in our tax rates could affect our future results of operations. Our future effective tax rates could be unfavorably affected by changes in the tax rates in jurisdictions where our income is earned, by changes in or our interpretation of tax rules and regulations in the jurisdictions in which we do business, by unanticipated decreases in the amount of earnings in countries with low statutory tax rates, by unexpected negative changes in business and market conditions that could reduce certain tax benefits, or by changes in the valuation of our deferred tax assets and liabilities.

In addition, in the United States, the European Commission, countries in the European Union and other countries where we do business, we are subject to potential changes in relevant tax, accounting and other laws, regulations and interpretations, including changes to tax laws applicable to corporate multinationals such as Adobe. These countries and other governmental bodies have or could make unprecedented assertions about how taxation is determined in their jurisdictions that are contrary to the way in which we have interpreted and historically applied the rules and regulations described above in our income tax returns filed in such jurisdictions. In the current global tax policy environment, any changes in laws, regulations and interpretations related to these assertions could adversely affect our effective tax rates or result in other costs to us which could adversely affect our operations and financial results.

Moreover, we are subject to the continual examination of our income tax returns by the U.S. Internal Revenue Service (“IRS”) and other domestic and foreign tax authorities. These tax examinations are expected to focus on our intercompany transfer pricing practices as well as other matters. We regularly assess the likelihood of outcomes resulting from these examinations to determine the adequacy of our provision for income taxes and have reserved for adjustments that may result from these examinations. We cannot provide assurance that the final determination of any of these examinations will not have an adverse effect on our operating results and financial position.

*The success of some of our product and service offerings depends on our ability to continue to attract and retain customers and contributors to our online marketplaces for creative content.*

The success of some of our product and service offerings, such as Adobe Stock, depends on our ability to continue to attract new customers and contributors to these online marketplaces for creative content, as well as our ability to continue to retain existing customers and contributors. An increase in paying customers has generally resulted in more content from contributors, which increases the size of our collection and in turn attracts new paying customers. We rely on the functionality and features of our online marketplaces, the size and content of our collection and the effectiveness of our marketing efforts to attract new customers and contributors and retain existing ones. New technologies may render the features of our online marketplaces obsolete, our collection may fail to grow as anticipated or our marketing efforts may be unsuccessful, any of which may adversely affect our results of operations.

*We face various risks associated with our operating as a multinational corporation.*

As a global business that generates approximately 44% of our total revenue from sales to customers outside of the Americas, we are subject to a number of risks, including:

- foreign currency fluctuations and controls;
- international and regional economic, political and labor conditions, including any instability or security concerns abroad;
- tax laws (including U.S. taxes on foreign subsidiaries);
- increased financial accounting and reporting burdens and complexities;
- changes in, or impositions of, legislative or regulatory requirements;
- changes in laws governing the free flow of data across international borders;
- failure of laws to protect our intellectual property rights adequately;
- inadequate local infrastructure and difficulties in managing and staffing international operations;
- delays resulting from difficulty in obtaining export licenses for certain technology, tariffs, quotas and other trade barriers;
- the imposition of governmental economic sanctions on countries in which we do business or where we plan to expand our business;
- costs and delays associated with developing products in multiple languages;
- operating in locations with a higher incidence of corruption and fraudulent business practices; and
- other factors beyond our control, such as terrorism, war, natural disasters and pandemics.
Some of our third-party business partners have international operations and are also subject to these risks and if our third-party business partners are unable to appropriately manage these risks, our business may be harmed. If sales to any of our customers outside of the Americas are reduced, delayed or canceled because of any of the above factors, our revenue may decline.

We are subject to risks associated with compliance with laws and regulations globally, which may harm our business.

We are a global company subject to varied and complex laws, regulations and customs, both domestically and internationally. These laws and regulations relate to a number of aspects of our business, including trade protection, import and export control, data and transaction processing security, payment card industry data security standards, records management, user-generated content hosted on websites we operate, privacy practices, data residency, corporate governance, anti-trust and competition, employee and third-party complaints, anti-corruption, gift policies, conflicts of interest, securities regulations and other regulatory requirements affecting trade and investment. The application of these laws and regulations to our business is often unclear and may at times conflict. For example, in many foreign countries, particularly in those with developing economies, it is common to engage in business practices that are prohibited by U.S. regulations applicable to us, including the Foreign Corrupt Practices Act. We cannot provide assurance that our employees, contractors, agents, and business partners will not take actions in violation of our internal policies or U.S. laws. Compliance with these laws and regulations may involve significant costs or require changes in our business practices that result in reduced revenue and profitability. Non-compliance could also result in fines, damages, criminal sanctions against us, our officers or our employees, prohibitions on the conduct of our business, and damage to our reputation.

In addition, approximately 52% of our employees are located outside the United States. Accordingly, we are exposed to changes in laws governing our employee relationships in various U.S. and foreign jurisdictions, including laws and regulations regarding wage and hour requirements, fair labor standards, employee data privacy, unemployment tax rates, workers’ compensation rates, citizenship requirements and payroll and other taxes, which likely would have a direct impact on our operating costs.

Uncertainty about current and future economic conditions and other adverse changes in general political conditions in any of the major countries in which we do business could adversely affect our operating results.

As our business has grown, we have become increasingly subject to the risks arising from adverse changes in economic and political conditions, both domestically and globally. Uncertainty about the effects of current and future economic and political conditions on us, our customers, suppliers and partners makes it difficult for us to forecast operating results and to make decisions about future investments. If economic growth in countries where we do business slows, customers may delay or reduce technology purchases, advertising spending or marketing spending. This could result in reductions in sales of our products and services, more extended sales cycles, slower adoption of new technologies and increased price competition. Among our customers are government entities, including the U.S. federal government, and our revenue could decline if spending cuts impact the government’s ability to purchase our products and services. Deterioration in economic conditions in any of the countries in which we do business could also cause slower or impaired collections on accounts receivable, which may adversely impact our liquidity and financial condition.

A disruption in financial markets could impair our banking partners, on which we rely for operating cash management and affect our derivative counterparties. Any of these events would likely harm our business, financial condition, and results of operations.

Political instability or adverse political developments in or around any of the major countries in which we do business would also likely harm our business, results of operations and financial condition.

Our intellectual property portfolio is a valuable asset and we may not be able to protect our intellectual property rights, including our source code, from infringement or unauthorized copying, use or disclosure.

Our intellectual property portfolio is a valuable asset. Infringement or misappropriation of our patents, trademarks, trade secrets, copyrights and other intellectual property rights could result in lost revenues and ultimately reduce their value. Preventing unauthorized use or infringement of our intellectual property rights is inherently difficult. We actively combat software piracy as we enforce our intellectual property rights, but we nonetheless lose significant revenue due to illegal use of our software. If piracy activities continue at historical levels or increase, they may further harm our business. We apply for patents in the U.S. and internationally to protect our newly created technology and if we are unable to obtain patent protection for the technology described in our pending patent, or if the patent is not obtained timely, this could result in revenue loss, adverse effects on operations, and harm to our business. We offer our products and services in foreign countries and we may seek intellectual property protection from those foreign legal systems. Some of those foreign countries may not have as robust or comprehensive of intellectual property protection laws and schemes as those offered in the U.S. In some foreign countries, the mechanisms to enforce intellectual property rights may be inadequate to protect our technology, which could harm our business.

If unauthorized disclosure of our source code occurs through security breach, cyber-attack or otherwise, we could lose future trade secret protection for that source code. The loss of future trade secret protection could make it easier for third parties to compete with our products by copying functionality, which could cause us to lose customers and could adversely affect our revenue and operating margins. We also seek to protect our confidential information and trade secrets through the use of non-disclosure agreements with our customers, contractors, vendors and partners. However, there is a risk that our confidential information and trade secrets may be disclosed or published without our authorization, and in these situations, enforcing our rights may be difficult or costly.

We may incur substantial costs defending against third parties alleging that we infringe their proprietary rights.

We have been, are currently, and may in the future be, subject to claims, negotiations and complex, protracted litigation relating to disputes regarding the validity or alleged infringement of third-party intellectual property rights, including patent rights. Intellectual property disputes and litigation are typically costly and can be disruptive to our business operations by diverting the attention of management and key personnel. We may not prevail in every lawsuit or dispute. Third-party
We may incur losses associated with currency fluctuations and may not be able to effectively hedge our exposure.

Our operating results are subject to fluctuations in foreign currency exchange rates due to the global scope of our business. We attempt to mitigate a portion of these risks through foreign currency hedging based on our judgment of the appropriate trade-offs among risk, opportunity and expense. We regularly review our program to partially hedge our exposure to foreign currency fluctuations and make adjustments as necessary. Our hedging activities may not offset more than a portion of the adverse financial impact resulting from unfavorable movement in foreign currency exchange rates, which could adversely affect our financial condition or results of operations.

Failure of our third-party customer service and technical support providers to adequately address customers’ requests could harm our business and adversely affect our financial results.

Our customers rely on our customer service support organization to resolve issues with our products and services. We outsource a substantial portion of our customer service and technical support activities to third-party service providers. We depend heavily on these third-party customer service and technical support representatives working on our behalf, and we expect to continue to rely heavily on third parties in the future. This strategy presents risks to our business due to the fact that we may not be able to influence the quality of support as directly as we would be able to do if our own employees performed these activities. Our customers may react negatively to providing information to, and receiving support from, third-party organizations, especially if these third-party organizations are based overseas. If we encounter problems with our third-party customer service and technical support providers, our reputation may be harmed, our ability to sell our offerings could be adversely affected, and we could lose customers and associated revenue.

Failure to manage our sales and distribution channels effectively could result in a loss of revenue and harm to our business.

We contract with a number of software distributors and other strategic partners, none of which is individually responsible for a material amount of our total net revenue for any recent period. Nonetheless, if any single agreement with one of our distributors were terminated, any prolonged delay in securing a replacement distributor could have a negative impact on our results of operations.

Successfully managing our indirect distribution channel efforts to reach various customer segments for our products and services is a complex process across the broad range of geographies where we do business or plan to do business. Our distributors and other channel partners are independent businesses that we do not control. Notwithstanding the independence of our channel partners, we face legal risk and potential reputational harm from the activities of these third parties including, but not limited to, export control violations, workplace conditions, corruption and anti-competitive behavior.

We cannot be certain that our distribution channel will continue to market or sell our products and services effectively. If our distribution channel is not successful, we may lose sales opportunities, customers and revenue. Our distributors also sell our competitors’ products and services, and if they favor our competitors’ products or services for any reason, they may fail to market our products or services effectively or to devote resources necessary to provide effective sales, which would cause our results to suffer. We also distribute some products and services through our OEM channel, and if our OEMs decide not to bundle our applications on their devices, our results could suffer. In addition, the financial health of our distributors and our continuing relationships with them are important to our success. Some of these distributors may be unable to withstand adverse changes in economic conditions, which could result in insolvency, the inability of such distributors to obtain credit to finance purchases of our products and services, or a delay in paying their obligations to us.

We also sell some of our products and services through our direct sales force. Risks associated with this sales channel include more extended sales and collection cycles associated with direct sales efforts, challenges related to hiring, retaining and motivating our direct sales force, and substantial amounts of ongoing training for sales representatives. Moreover, recent hires may not become as productive as we would like, as in most cases it takes a significant period of time before they achieve full productivity. Our business could be seriously harmed if our expansion efforts do not generate a corresponding significant increase in revenue and we are unable to achieve the efficiencies we anticipate. In addition, the loss of key sales employees could impact our customer relationships and future ability to sell to certain accounts covered by such employees.

Contracting with government entities exposes us to additional risks inherent in the government procurement process.

We provide products and services, directly and indirectly, to a variety of government entities, both domestically and internationally. Risks associated with licensing and selling products and services to government entities include more extended sales and collection cycles, varying governmental budgeting processes and adherence to complex procurement regulations and other government-specific contractual requirements. We may be subject to audits and investigations relating to our government contracts and any violations could result in various civil and criminal penalties and administrative sanctions, including termination of contracts, payment of fines, and suspension or debarment from future government business, as well as harm to our reputation and financial results.

Revenue, margin or earnings shortfalls or the volatility of the market generally may cause the market price of our stock to decline.

In the past, the market price for our common stock experienced significant fluctuations and it may do so in the future. A number of factors may affect the market price for our common stock, such as:
• shortfalls in, or changes in expectations about our revenue, margins, earnings, Annualized Recurring Revenue ("ARR"), sales of our Adobe Experience Cloud offerings, or other key performance metrics;
• changes in estimates or recommendations by securities analysts;
• whether our results meet analysts’ expectations;
• compression or expansion of multiples used by investors and analysts to value high technology SaaS companies;
• the announcement of new products or services, product enhancements, service introductions, strategic alliances or significant agreements by us or our competitors;
• the loss of large customers or our inability to increase sales to existing customers, retain customers or attract new customers;
• recruitment or departure of key personnel;
• variations in our or our competitors’ results of operations, changes in the competitive landscape generally and developments in our industry;
• general socio-economic, political or market conditions; and
• unusual events such as significant acquisitions by us or our competitors, divestitures, litigation, regulatory actions and other factors, including factors unrelated to our operating performance.

In addition, the market for technology stocks or the stock market in general may experience uneven investor confidence, which may cause the market price for our common stock to decline for reasons unrelated to our operating performance. Volatility in the market price of a company's securities for a period of time may increase the company's susceptibility to securities class action litigation. Oftentimes, this type of litigation is expensive and diverts management's attention and resources which may adversely affect our business.

**If we are unable to recruit and retain key personnel, our business may be harmed.**

Much of our future success depends on the continued service, availability and performance of our senior management. These individuals have acquired specialized knowledge and skills with respect to Adobe. The loss of any of these individuals could harm our business, especially if we have not been successful in developing adequate succession plans. Our business is also dependent on our ability to retain, hire and motivate talented, highly skilled personnel across all levels of our organization. Experienced personnel in the information technology industry are in high demand and competition for their talents is intense in many areas where our employees are located. We may experience higher compensation costs to retain senior management and experienced personnel that may not be offset by improved productivity or increased sales. If we are unable to continue to successfully attract and retain key personnel, our business may be harmed.

We continue to hire personnel in countries where exceptional technical knowledge and other expertise are offered at lower costs, which increases the efficiency of our global workforce structure and reduces our personnel related expenditures. Nonetheless, as globalization continues, competition for these employees in these countries has increased, which may impact our ability to retain these employees and increase our expenses resulting from competitive compensation. We may continue to expand our international operations and international sales and marketing activities, which would require significant management attention and resources. We may be unable to scale our infrastructure effectively or as quickly as our competitors in these markets, and our revenue may not increase to offset these expected increases in costs and operating expenses, causing our results to suffer.

We believe that a critical contributor to our success to date has been our corporate culture, which we have built to foster innovation, teamwork and employee satisfaction. As we grow, including from the integration of employees and businesses acquired in connection with previous or future acquisitions, we may find it difficult to maintain important aspects of our corporate culture, which could negatively affect our ability to retain and recruit personnel who are essential to our future success.

**If our goodwill or amortizable intangible assets become impaired, then we could be required to record a significant charge to earnings.**

GAAP requires us to test for goodwill impairment at least annually. In addition, we review our goodwill and amortizable intangible assets for impairment when events or changes in circumstances indicate the carrying value may not be recoverable. Factors that may be considered a change in circumstances indicating that the carrying value of our goodwill or amortizable intangible assets may not be recoverable include declines in stock price, market capitalization or cash flows, and slower growth rates in our industry. Depending on the results of our review, we could be required to record a significant charge to earnings in our financial statements during the period in which any impairment of our goodwill or amortizable intangible assets were determined, negatively impacting our results of operations.

**We have issued $1.9 billion of notes in debt offerings and may incur other debt in the future, which may adversely affect our financial condition and future financial results.**

We have $1.9 billion in senior unsecured notes outstanding. We also have a $1 billion senior unsecured revolving credit agreement, which is currently undrawn. This debt may adversely affect our financial condition and future financial results by, among other things:

• increasing our vulnerability to adverse changes in general economic and industry conditions;
• requiring the dedication of a portion of our expected cash flow from operations to service our indebtedness, thereby reducing the amount of expected cash flow available for other purposes, including capital expenditures and acquisitions; and
• limiting our flexibility in planning for, or reacting to, changes in our business and our industry.

Our senior unsecured notes and senior unsecured revolving credit agreement impose restrictions on us and require us to maintain compliance with specified covenants. Our ability to comply with these covenants may be affected by events beyond our control. If we breach any of the covenants and do not obtain a waiver from the lenders or noteholders, then, subject to applicable cure periods, any outstanding indebtedness may be declared immediately due and payable.

In addition, changes by any rating agency to our credit rating may negatively impact the value and liquidity of both our debt and equity securities, as well as the potential costs associated with a refinancing of our debt. Under certain circumstances, if our credit ratings are downgraded or other negative action is taken, the interest
rate payable by us under our revolving credit facility could increase. Downgrades in our credit ratings could also affect the terms of any such financing and restrict our ability to obtain additional financing in the future.

Catastrophic events may disrupt our business.

We are a highly automated business and rely on our network infrastructure and enterprise applications, internal technology systems and website for our development, marketing, operations, support, hosted services and sales activities. In addition, some of our businesses rely on third-party hosted services, and we do not control the operation of third-party data center facilities serving our customers from around the world, which increases our vulnerability. A disruption, infiltration or failure of these systems or third-party hosted services in the event of a major earthquake, fire, flood, tsunami or other weather event, power loss, telecommunications failure, software or hardware malfunctions, pandemics, cyber-attack, war, terrorist attack or other catastrophic event that our disaster recovery plans do not adequately address, could cause system interruptions, reputational harm, loss of intellectual property, delays in our product development, lengthy interruptions in our services, breaches of data security and loss of critical data. Any of these events could prevent us from fulfilling our customers’ orders or could negatively impact a country or region in which we sell our products, which could in turn decrease that country’s or region’s demand for our products. Our corporate headquarters, a significant portion of our research and development activities, certain of our data centers and certain other critical business operations are located in the San Francisco Bay Area, and additional facilities where we conduct significant operations are located in the Salt Lake Valley Area, both of which are near major earthquake faults. A catastrophic event that results in the destruction or disruption of any of our data centers or our critical business or information technology systems could severely affect our ability to conduct normal business operations and, as a result, our future operating results could be adversely affected.

Climate change may have a long-term impact on our business.

While we seek to partner with organizations that mitigate their business risks associated with climate change, we recognize that there are inherent risks wherever business is conducted. Access to clean water and reliable energy in the communities where we conduct our business, whether for our offices or for our vendors, is a priority. Our major sites in California, Utah and India are vulnerable to prolonged droughts due to climate change. In the event of a natural disaster that disrupts business due to limited access to these resources, we have the potential to experience losses to our business, and added costs to resume operations.

Our investment portfolio may become impaired by deterioration of the financial markets.

Our cash equivalent and short-term investment portfolio as of June 1, 2018 consisted of corporate debt securities, foreign government securities and U.S. Treasury securities, money market mutual funds, municipal securities, time deposits and asset-backed securities. We follow an established investment policy and set of guidelines to monitor and help mitigate our exposure to interest rate and credit risk. The policy sets forth credit quality standards and limits our exposure to any one issuer, as well as our maximum exposure to various asset classes.

Should financial market conditions worsen in the future, investments in some financial instruments may pose risks arising from market liquidity and credit concerns. In addition, any deterioration of the capital markets could cause our other income and expense to vary from expectations. As of June 1, 2018, we had no material impairment charges associated with our short-term investment portfolio, and although we believe our current investment portfolio has little risk of material impairment, we cannot predict future market conditions, market liquidity or credit availability, and can provide no assurance that our investment portfolio will remain materially