Adobe Investor Presentation

April, 2019

#AdobeRemix

S1T2

Adobe Investor Presentation

April, 2019

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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 2018 and the quarterly reports on Form 10-Q filed by the company in 2019 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.

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Adobe's Vision
Changing the World
Through Digital Experiences
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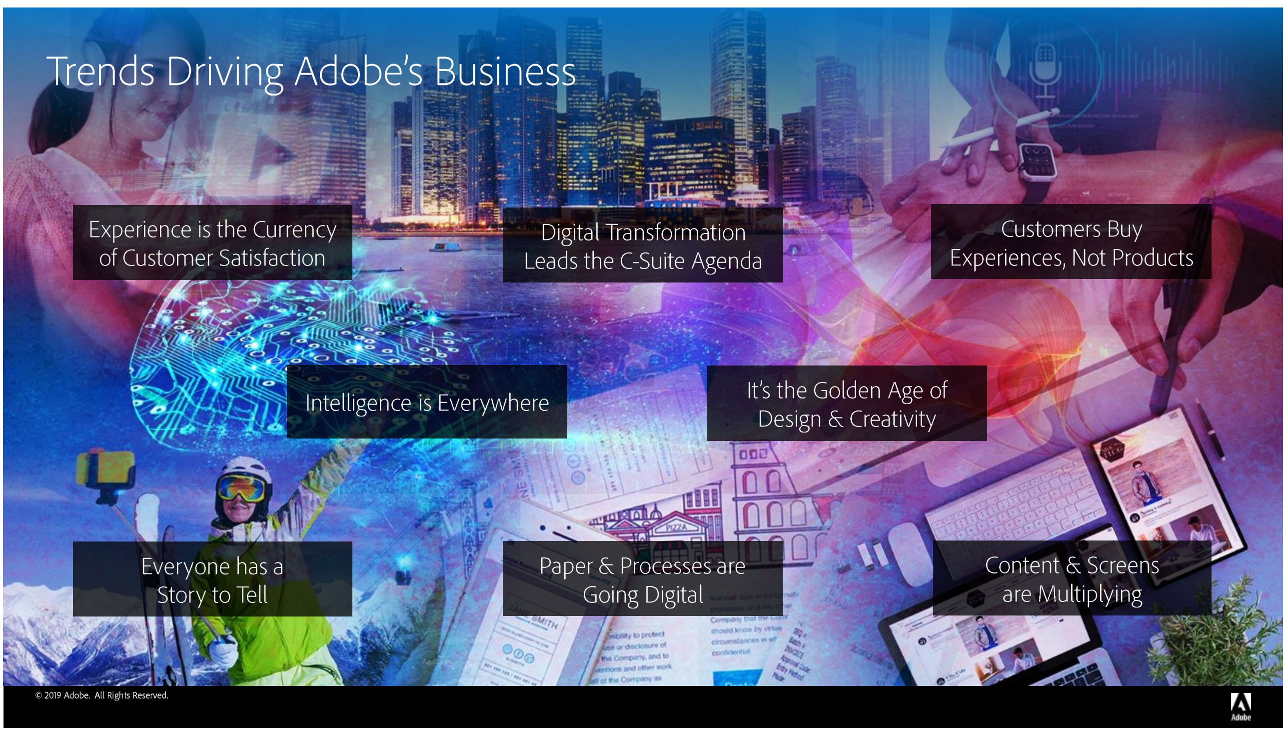
Trends Driving Adobe's Business
Experience is the Currency of Customer Satisfaction
Digital Transformation Leads the C-Suite Agenda
Customers Buy Experiences, Not Products
Intelligence is Everywhere
It's the Golden Age of Design & Creativity
Everyone has a Story to Tell
Paper & Processes are Going Digital
Content & Screens are Multiplying
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Changing the World Through Digital Experiences

Breakthrough *Experiences*

- World beyond screens
- Multi-surface & cloud-first workflows
- Democratizing creativity with AI
- Understanding documents
- Reimagined enterprise experience

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Changing the World Through Digital Experiences

- Connecting SaaS silos
- Hyper-scale & multi-cloud
- True cross-cloud unlock
- Enabling new enterprise ecosystem

Foundational *Platforms*

Adobe


Adobe's Proven Track Record of Transformation
Empowering
People
To Create
From Applications to Suites
• Graphics & publishing
• Acrobat & PDF franchise
• Creative pro desktop
Move to the Cloud
• Subscriptions & recurring revenue
• New users & new services
• Digital Marketing leadership
Platforms & Intelligence
• Creativity for All
• Platform for Digital Documents
• Reimagining Customer Experience Management (CXM)
Adobe Revenue
Transforming
How
Businesses Compete
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Adobe Sensei
Creative intelligence
Document intelligence
Experience intelligence
Putting domain-specific artificial intelligence and machine learning at the center of amazing digital experiences
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Adobe Sensei Examples

Automated Forms Conversion · Impression Ranker · Smart Trim · Characterizer · Select Subject · Remix · Auto Creation
Global Editing · Performance Optimization · Freeform Gradients · Boundary Detection · Candid Moments · Auto Crop & Zoom
Curvature Tool · Viewability Optimization · Automated Personalization · Audience Clustering · Auto Lip Sync · Morph Cut
Automatic Text Summarization · Font Recognition · Algorithmic Attribution · TV Planning · Content-aware Fill
Contribution Analysis · Expert Scoring · Trait Recommendations · Visual Search · Show Only Documents
Auto Creation · Predictive Audiences · Personalization Insights Reports · Performance Forecasting · Form Field Recognition
Intelligent Alerts · Personalized Recommendations · Color Theme Tag Suggestions · Ad Rotation Optimization · Magic Wand
Smart Crop · People Search · Content AI · Attribution AI · Predictive Content · Add to Contacts · Content-aware Crop
Segment Compare · Content-aware Fit · Puppet Warp · Auto Clean · Anomaly Detection · Depth of Field
Curvature Tool · Auto Target · Customer AI · Photo Collage · Enhance Details · Color Match · Tile Suggestions
Auto-clean and Shadow Removal · Probabilistic Device Linking · Auto Settings · Lookalike Modeling · Auto Selection · Autoducking
Copy Space · Spend Recommendations · Smart Layout · Predictive Subject Line · Recommendations · Auto Curate
Propensity Modeling · Find Similar Fonts · Journey AI · Open Closed Eyes · Smart Tags · Auto Audio Classification
Vivid Colors · Segment Size Estimator · Auto Allocate · Moderation Recommendations · Face-aware Liquify · SAFE system
Match Image · Missing Model Alert · Photo Search · Find Similar Controls · Content-aware Layout · Place Graphic

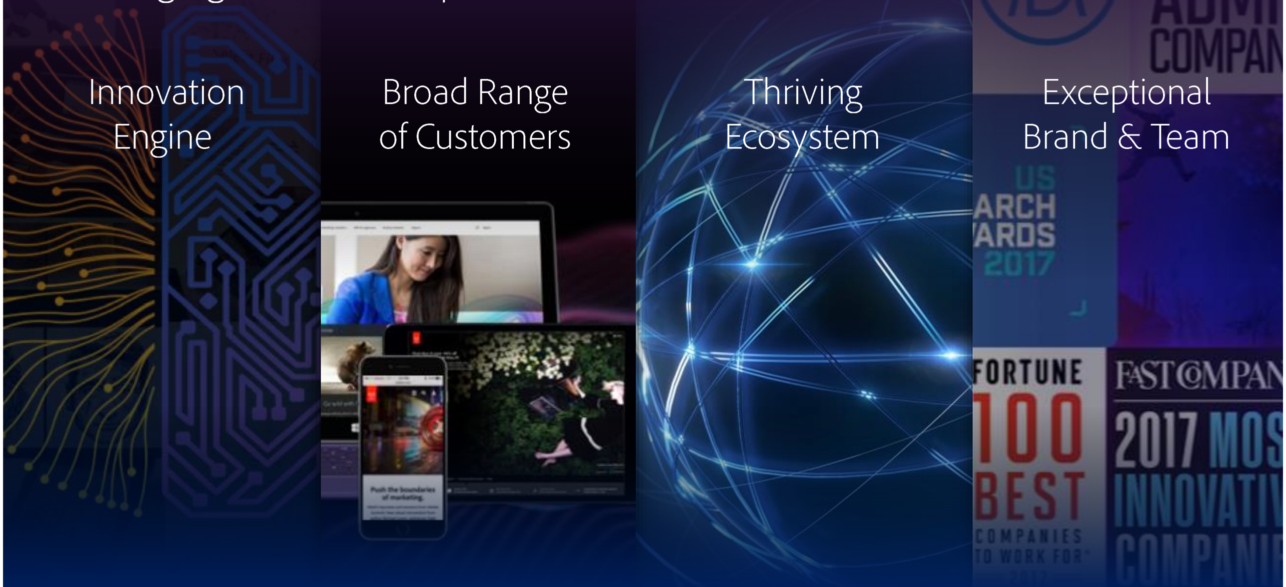
Leveraging Our Core Capabilities

Innovation Engine

Broad Range of Customers

Thriving Ecosystem

Exceptional Brand & Team




Broad Range of Customers
Empowering
People
To Create
Transforming
How
Businesses Compete
ADOBE.COM
Data-driven consumer engagement & "Customer Zero"
MID-MARKET
Resellers, inside sales & volume demand-gen to SMB & enterprises
ENTERPRISE
High touch, consultative selling to Fortune 5000 & public sector
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Thriving Ecosystem
Community
Technology
Go-to-Market
>300,000
Magento Developers
~14M
Behance Members
>150,000
Experience League Members
>550,000
Education Exchange Members
Microsoft
SAP
SAMSUNG
facebook
Hootsuite
NVIDIA
workday
PayPal
servicenow
slack
ATLASSIAN
PUBLICIS GROUPE
accenture
WPP
Deloitte.
dentsu AEGIS network
Cognizant
EY
pwc
TATA
OmnicomGroup
wipro
Infosys
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Expanding Total Addressable Market

Category Creation & Expansion

Creativity for All
Platform for Digital Documents
Reimagining CXM

Technology Drivers

- New media, devices & modalities
- Intelligence everywhere
- Investments in platforms

Customer Expansion

- Creative pros, office workers, consumers, students
- Marketers, data scientists, developers
- CMO, CDO, CRO, CIO
- Vertical & global markets

Adobe's Growth Story

Empowering People To Create

Transforming How Businesses Compete

~$108B

Total Addressable Market

Innovation Engine

Broad Customer Reach

Thriving Ecosystem

Exceptional Brand & Team

Source: Adobe, October 2018


Adobe's Digital Media Business
Empowering
People
To Create
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Trends Driving Digital Media Business
Democratization of Creativity
Experience Business
Paper-to-Digital
Emerging Social Platforms
Everyone is a Storyteller
Experience Businesses
Mobile & Cloud Productivity
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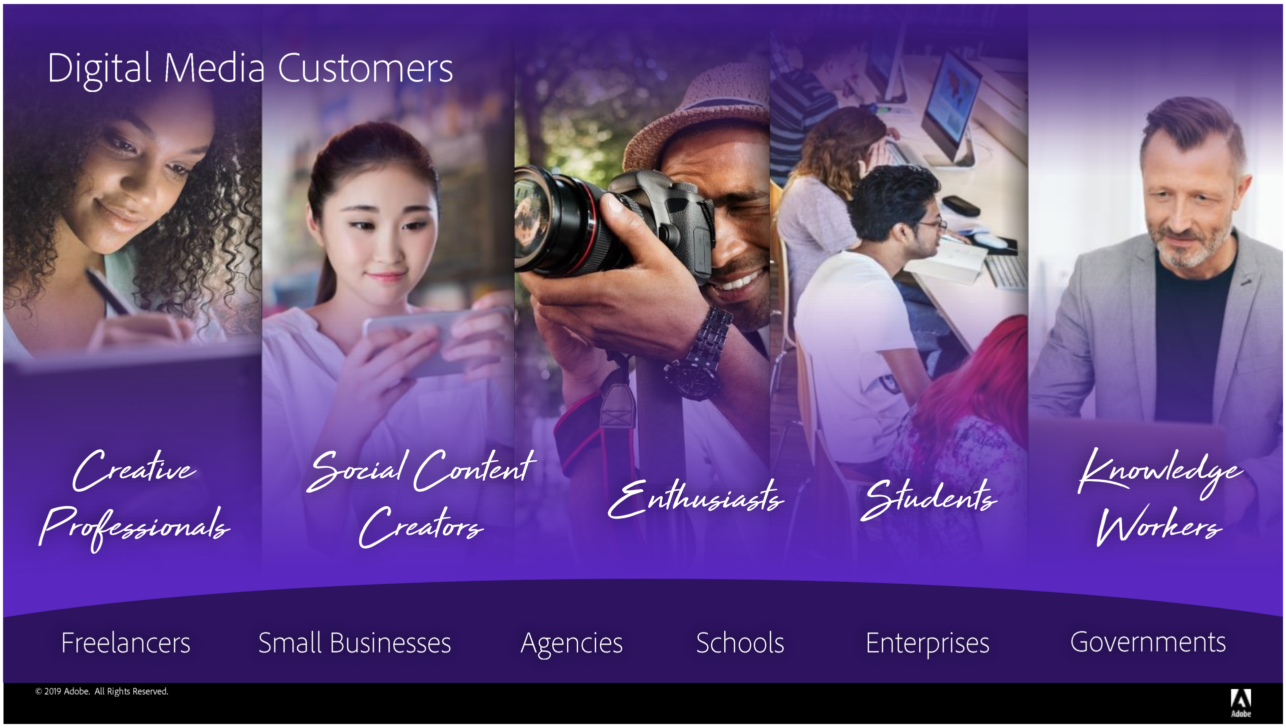

Digital Media Customers
Creative Professionals
Social Content Creators
Enthusiasts
Students
Knowledge Workers
Freelancers
Small Businesses
Agencies
Schools
Enterprises
Governments
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Digital Media Business Momentum
Digital Media Annualized Recurring Revenue (ARR)
$8.0B
$7.0B
$6.0B
$5.0B
$4.0B
$3.0B
$2.0B
$1.0B
$.0B
$6.83B
Q1FY15
Q2FY15
Q3FY15
Q4FY15
Q1FY16
Q2FY16
Q3FY16
Q4FY16
Q1FY17
Q2FY17
Q3FY17
Q4FY17
Q1FY18
Q2FY18
Q3FY18
Q4FY18
Creative Cloud
Document Cloud
Source: Adobe
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1
8
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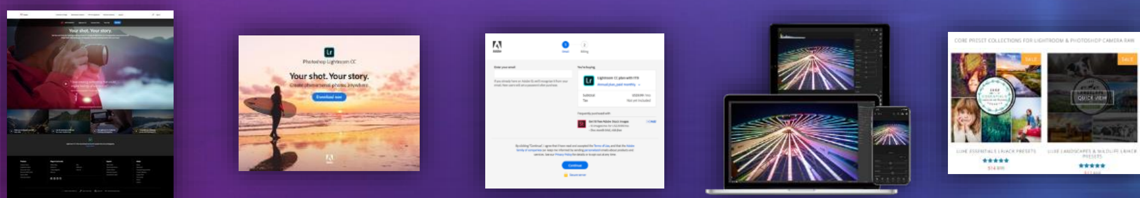
Data-Driven Operating Model (DDOM)

World Class Customer Experience Management



DISCOVER
- Expanded touchpoints
- Customer segmentation
- Marketing attribution

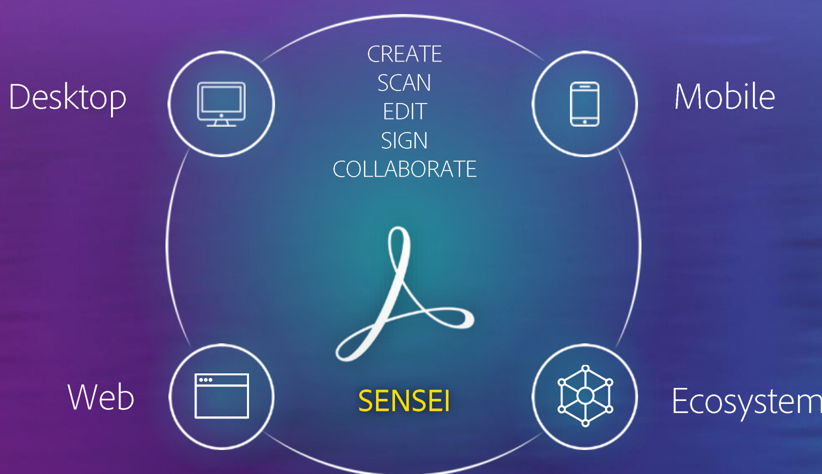
TRY
- Geographic differences
- Cross-device experience
- Tailored paywalls

BUY
- Mobile offerings
- Multi-year offerings
- Targeted promotions
- Conversion optimization

USE
- Value discovery
- Triggered actions
- Community
- Training

RENEW/UPSELL
- Upsell/cross-sell
- Stock attach
- Sign attach
- Seat expansion

Adobe Document Cloud: The Platform for Digital Documents



Adobe Document Cloud Business Momentum

>250B
PDFs opened in Adobe apps in last 4 quarters

~630M
Document Cloud mobile app installs

>20%
Acrobat Y/Y unit growth for 5 consecutive quarters[1]

>40%
Of subscribers new to Acrobat franchise

>45%
Channel units are subscription[2]

~50%
Acrobat Enterprise seats licensed with services

>50%
Fortune 100 use Adobe Sign

Source: Adobe, as of Q3FY18
[1] Across Creative Cloud and Adobe Document Cloud, Q2FY17 through Q3FY18
[2] Subscription units as a percentage of total units licensed through reseller channel including perpetually licensed units

Adobe Document Cloud Powers Digital Transformation

Digital Enrollment
Modern processes for customer onboarding

HSBC Retail Banking

Forms and eSignatures transformed customer experience, reducing enrollment time from weeks to minutes

Paper to Digital
Reduce paper and accelerate efficiency

State of Hawaii

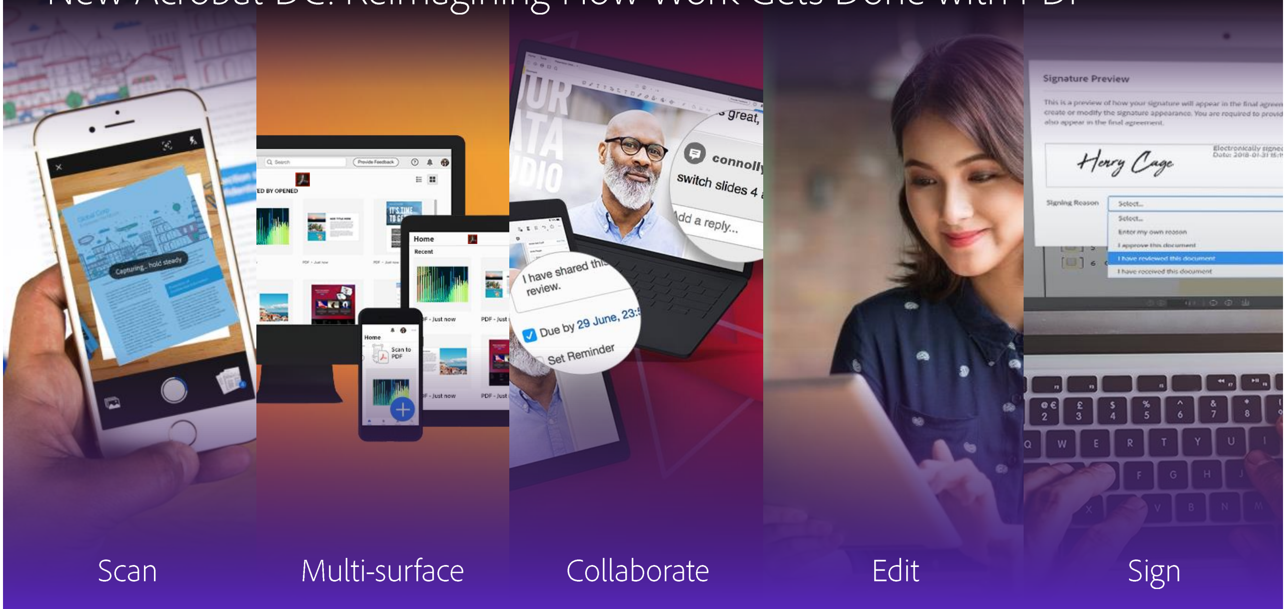
Moved ~400k documents online, improving citizen access and saving ~$5M over 2.5 years

Sales Acceleration
Contracts reviewed, approved and signed faster

Merck

eSignatures accelerated business with ~14x faster time to close, from >7 days to hours

New Acrobat DC: Reimagining How Work Gets Done with PDF



Adobe Document Cloud Growth Drivers

CORE

- PDF category growth and reinvention
- Acrobat migration to subscription
- Free to paid conversion
- SMB & enterprise seat expansion
- International growth
- Product line optimization
- Anti-piracy

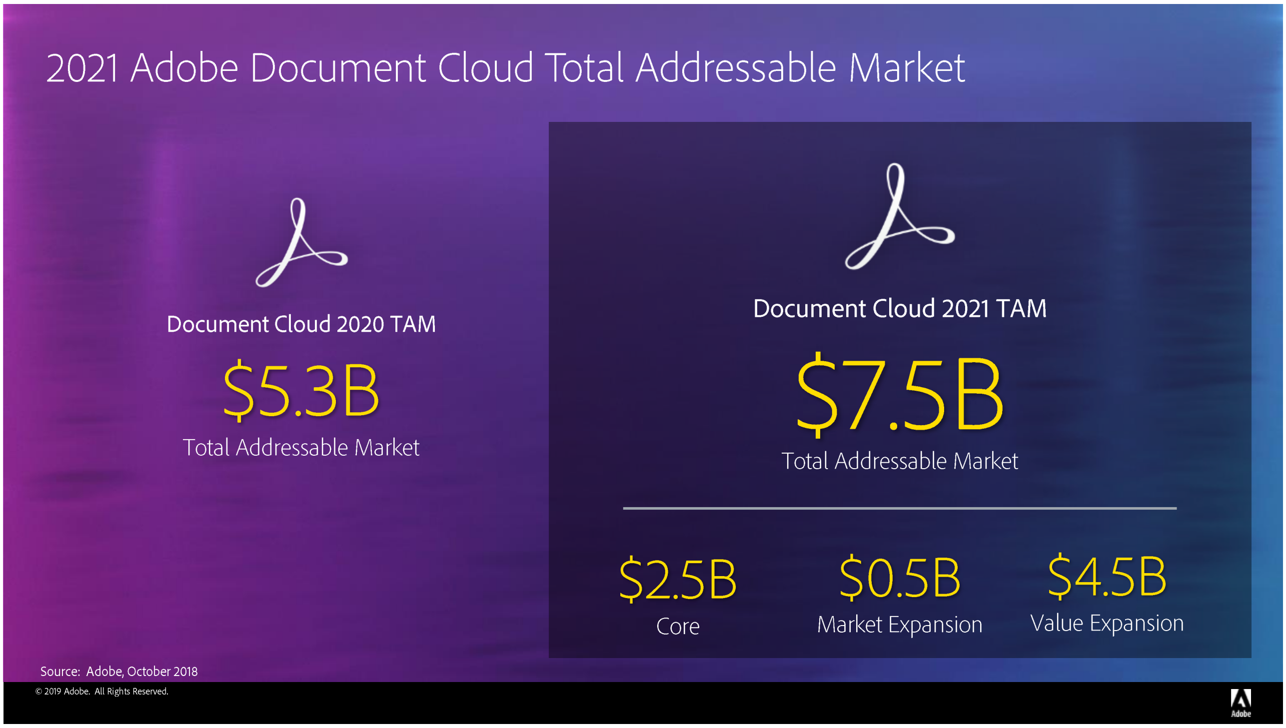
MARKET EXPANSION

- New mobile users
- Cloud services: Scan, Edit, Collaborate, Sign
- Partnerships

VALUE EXPANSION

- Paper to Digital transformation, including eSignatures
- Collaboration
- Document intelligence

Source: Adobe, October 2018


2021 Adobe Document Cloud Total Addressable Market
Document Cloud 2020 TAM
$5.3B
Total Addressable Market
Document Cloud 2021 TAM
$7.5B
Total Addressable Market
$2.5B
Core
$0.5B
Market Expansion
$4.5B
Value Expansion
Source: Adobe, October 2018
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Creative Cloud: The Platform for Creativity
Mobile
CLOUD SERVICES
Desktop
Web
SENSEI
Community
Marketplace
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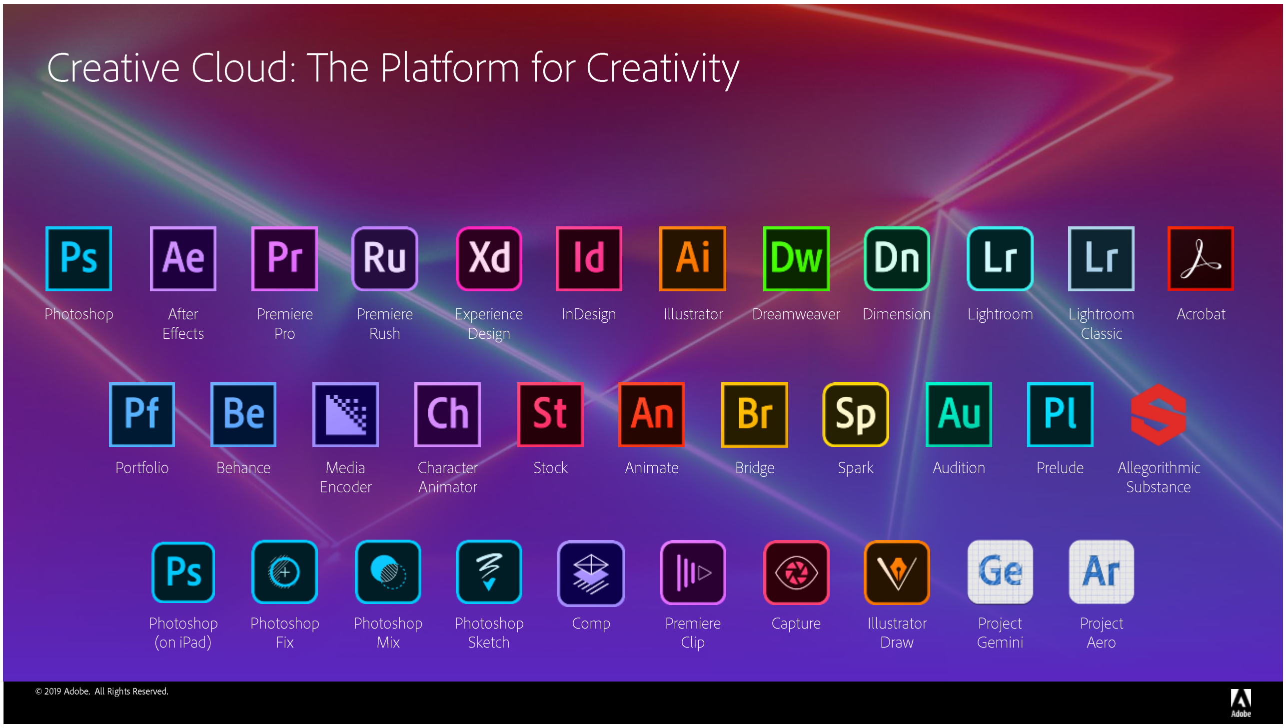
Creative Cloud: The Platform for Creativity
Ps
Photoshop
Ae
After Effects
Pr
Premiere Pro
Ru
Premiere Rush
Xd
Experience Design
Id
InDesign
Ai
Illustrator
Dw
Dreamweaver
Dn
Dimension
Lr
Lightroom
Lr
Lightroom Classic
Acrobat
Pf
Portfolio
Be
Behance
Media Encoder
Ch
Character Animator
St
Stock
An
Animate
Br
Bridge
Sp
Spark
Au
Audition
Pl
Prelude
Allegorithmic Substance
Ps
Photoshop (on iPad)
Photoshop Fix
Photoshop Mix
Photoshop Sketch
Comp
Premiere Clip
Capture
Illustrator Draw
Ge
Project Gemini
Ar
Project Aero
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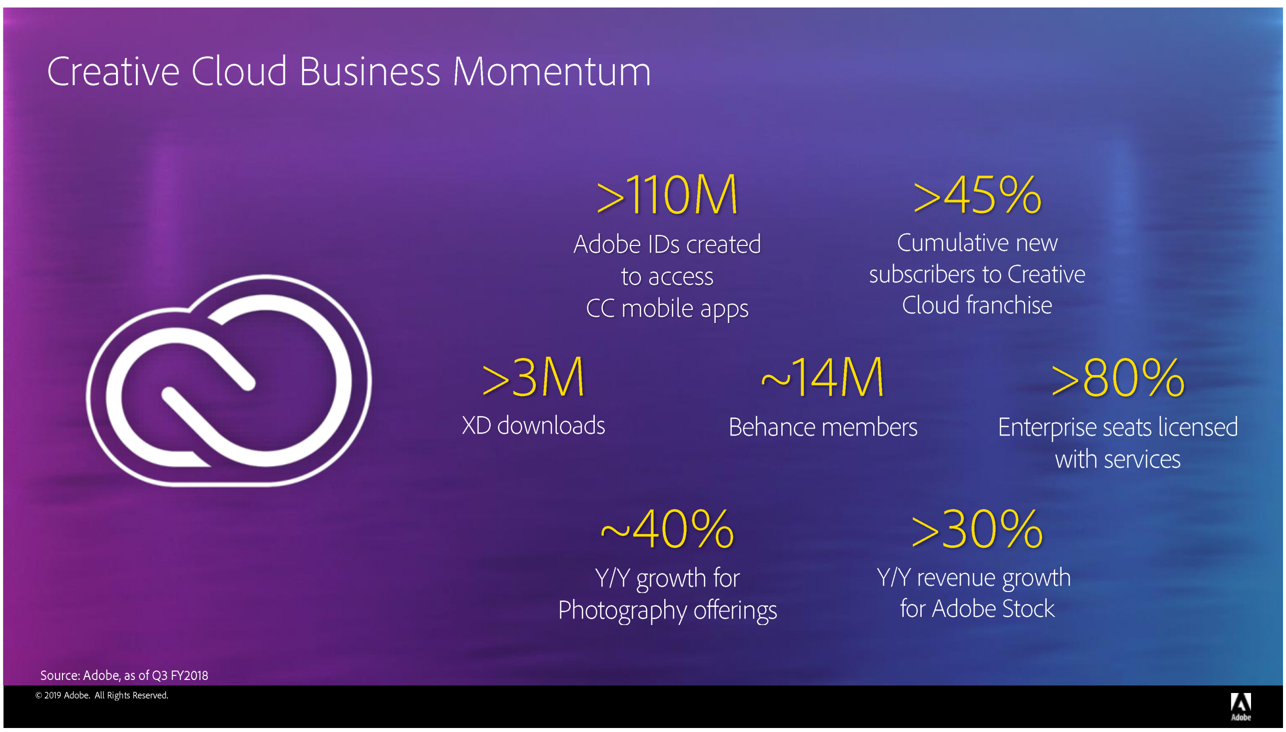
Creative Cloud Business Momentum
>110M
Adobe IDs created to access CC mobile apps
>45%
Cumulative new subscribers to Creative Cloud franchise
>3M
XD downloads
~14M
Behance members
>80%
Enterprise seats licensed with services
~40%
Y/Y growth for Photography offerings
>30%
Y/Y revenue growth for Adobe Stock
Source: Adobe, as of Q3 FY2018
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Creative Cloud Growth Drivers

CORE

- CS migration to subscription
- Growth in new creative jobs
- Growth with student use
- New media types
- SMB & enterprise seat expansion
- International & emerging markets
- Anti-piracy
- Product line optimization
- Free-to-paid conversion

MARKET EXPANSION

- Photo & video enthusiasts
- Social media marketers
- Mobile app users
- Photoshop on the iPad
- Lightroom perpetual and Elements migration to subscriptions
- Partnerships

VALUE EXPANSION

- Stock content
- Collaboration
- Marketplace for learn and creative services

2021 Creative Cloud Total Addressable Market

Creative Cloud 2020 TAM

$24.2B

Total Addressable Market

Creative Cloud 2021 TAM

$29.2B

Total Addressable Market

$14.5B	$7.2B	$7.5B
Core	Market Expansion	Value Expansion

Source: Adobe, October 2018

Empowering People to Create
Digital Media Summary

- Explosion of new content and document experiences
- Continued innovation in Creative Cloud features, products, apps, services and support driving subscriber value
- Expanding customer opportunities resulting in larger TAM
- Strong Document Cloud growth driven by product innovation and move to subscriptions, apps and cloud services
- Mobile is powerful new frontier for demand and innovation
- Data-driven operating model and long list of growth drivers can fuel continued Digital Media ARR growth

2021 MARKET OPPORTUNITY

Creative Cloud	$29.2B
Document Cloud	$7.5B

$36.7B
Addressable Market

Source: Adobe, October 2018

Adobe's Digital Experience Business

Transforming
How
Businesses Compete

Adobe Experience Cloud

A collection of best-in-class solutions for marketing, analytics, advertising and commerce, integrated on a cloud platform along with service, support and an open ecosystem – enabling the delivery of exceptional digital experiences

- Data-driven marketing – organize and analyze large amounts of data to gain actionable marketing insight
- Mobile marketing – 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 B2B and B2C campaigns that are consistent across all marketing channels
- Programmatic advertising – automate ad buying based on data
- Commerce – orchestrate the entire customer journey and make every experience shoppable


Digital Experience Business Momentum
Annual Revenue
$2.43B
$2.5B
$1.9B
$1.3B
$0.6B
$0.0B
FY2009
FY2010
FY2011
FY2012
FY2013
FY2014
FY2015
FY2016
FY2017
FY2018
Source: Adobe
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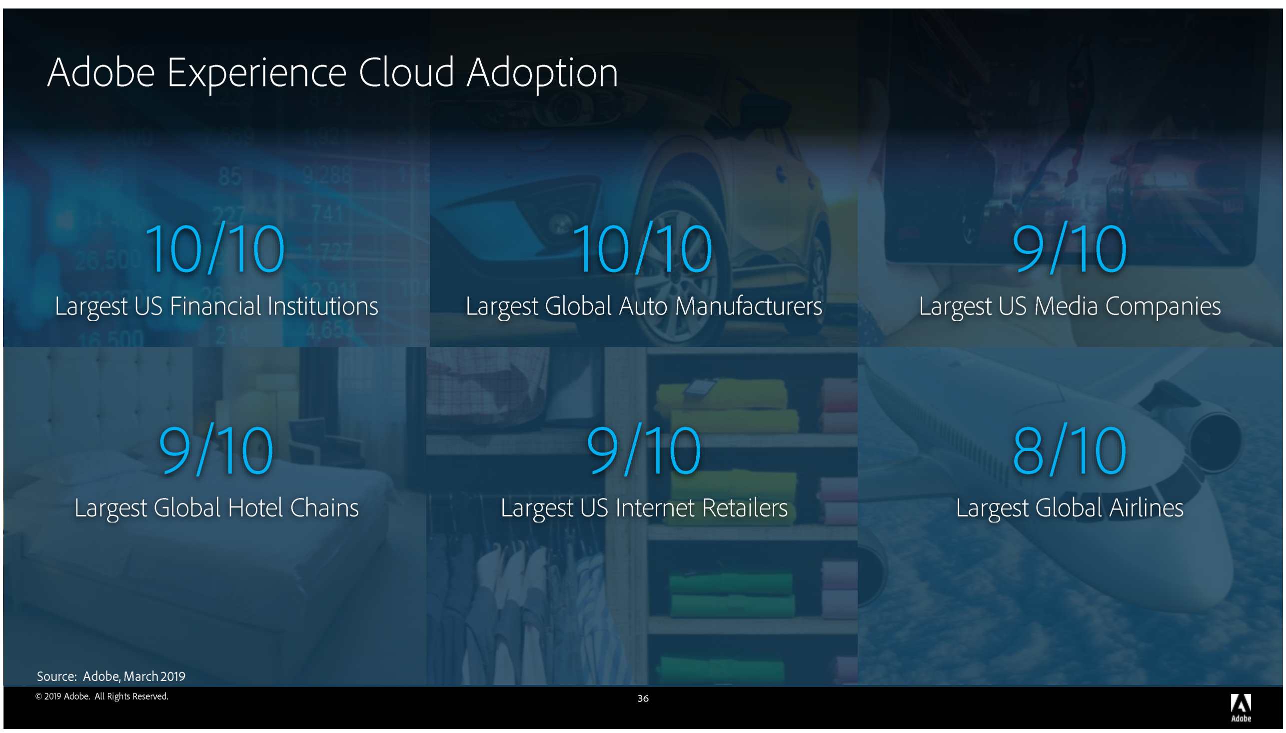
Adobe Experience Cloud Adoption
10/10
Largest US Financial Institutions
10/10
Largest Global Auto Manufacturers
9/10
Largest US Media Companies
9/10
Largest Global Hotel Chains
9/10
Largest US Internet Retailers
8/10
Largest Global Airlines
Source: Adobe, March 2019
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Adobe Experience Cloud Impact

Product

~3.5M
Ad opportunities per second

~3.3B
Offers delivered per day

~15B
Web pages delivered per day

~$155B
GMV transacted annually

~1T
Marketing activities per year via Marketo Engage

~14T
Segment activations per day

Ecosystem

~51K
Solution partners

~196K+
Customer activations

300K+
Magento developers

~4,400
Apps in Magento Marketplace

65K+
Marketing Nation community members

~176K
Visitors to Experience League Community

Business Value

~25%
Increase in web & mobile conversions

~40%
Reduction in contact center volume

~242%
ROI

~7
Month payback period

~14%
Improvement in NPS

Leader in
24
Forrester & Gartner marketing technology categories

Source: Adobe, March 2019

Adobe Experience Cloud Momentum

Land & Expand

~33%
Of new bookings from new customers[1]

~39%
Of all customers have 2+ solutions[2]

~77%
Of top 500 customers have 3+ solutions[2]

~92%
Of top 100 customers have 3+ solutions[2]

Ecosystem

>200%
Y/Y growth in Microsoft partnership related bookings[1]

~92%
Uplift in new ASV on deals sold with a partner[1]

~139%
Y/Y growth in Adobe Exchange tech partners

>300k
Developers in Magento community

[1] Based on FY2018 YTD new Annual Subscription Value (ASV) bookings, as of Q3FY18
[2] As of Q3FY18

Land & Expand with Customers

Industry	Use Cases	ARR Growth	Business Impact
Large Multi-Channel Retailer	• Increase e-commerce revenue • More efficient audience reach in advertising • Decrease time to update/change website	$3.6M Year 1 $8.6M Year 4	~$250M in incremental revenue
Large Telecommunications Provider	• Reduce churn to competitive carrier • Increase ARPU via cross selling new plans • Increase sales within shopping cart	$1.6M Year 1 $4.4M Year 4	~$50M in profits
Large Automotive Manufacturer	• Increase online appointments for dealerships • Match financing offers to website visitors • Increase email campaign click through to offer rate	$3.4M Year 1 $9.6M Year 4	~2x email open rate Increased engagement

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Land & Expand with Customers

Industry	Use Cases	ARR Growth	Business Impact
Large Financial Services Company	• Increase credit card application conversions • Ensure regulatory data compliance • Lower acquisition costs in commercial banking	$2.8M Year 1 $8.0M Year 4	~70% increase in customer engagement tied to high value actions
Large International Airline	• Improve continuity across channels • Automate media campaigns • Increased loyalty program membership	$0.2M Year 1 $2.4M Year 4	Personalization: Created more contextual emails that saw the revenue generated from the emails increase by ~66 percent
Large Media Company	• Asset centralization • Lower operating cost • More profitable audience segmentation	$2.6M Year 1 $5.7M Year 4	~$14 million in annual incremental revenue

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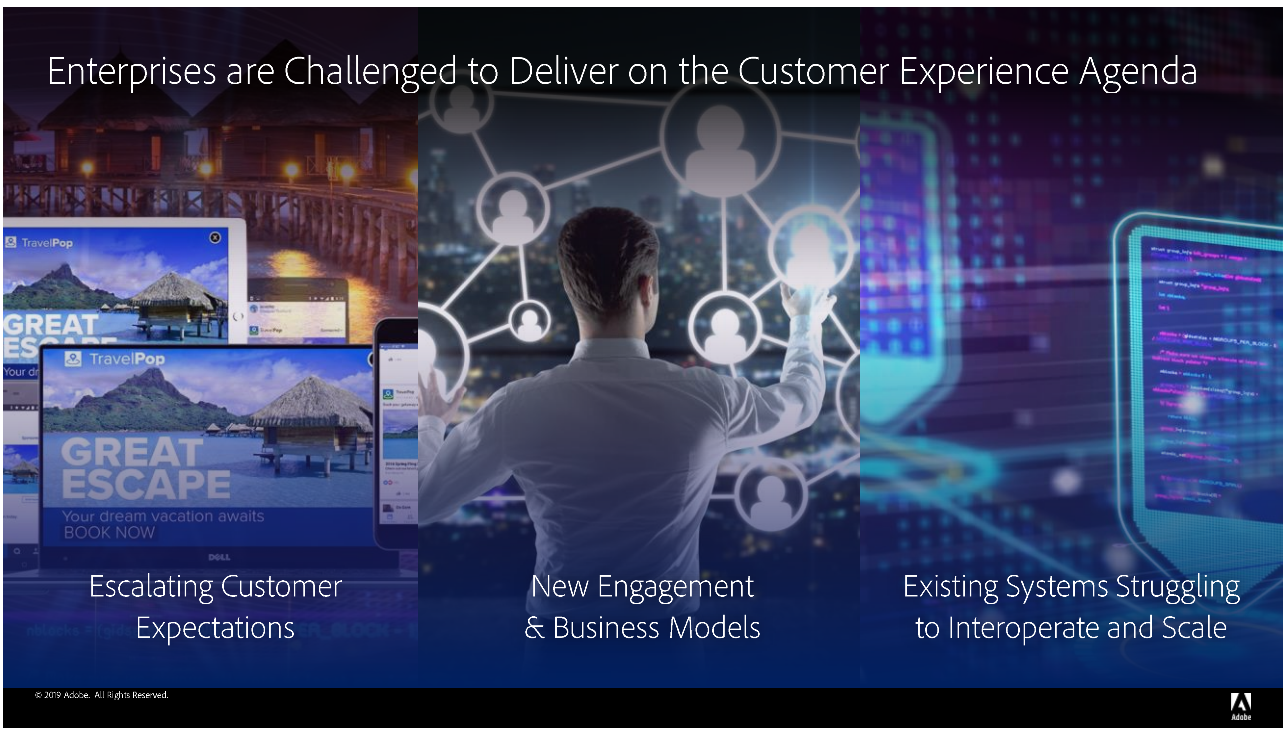
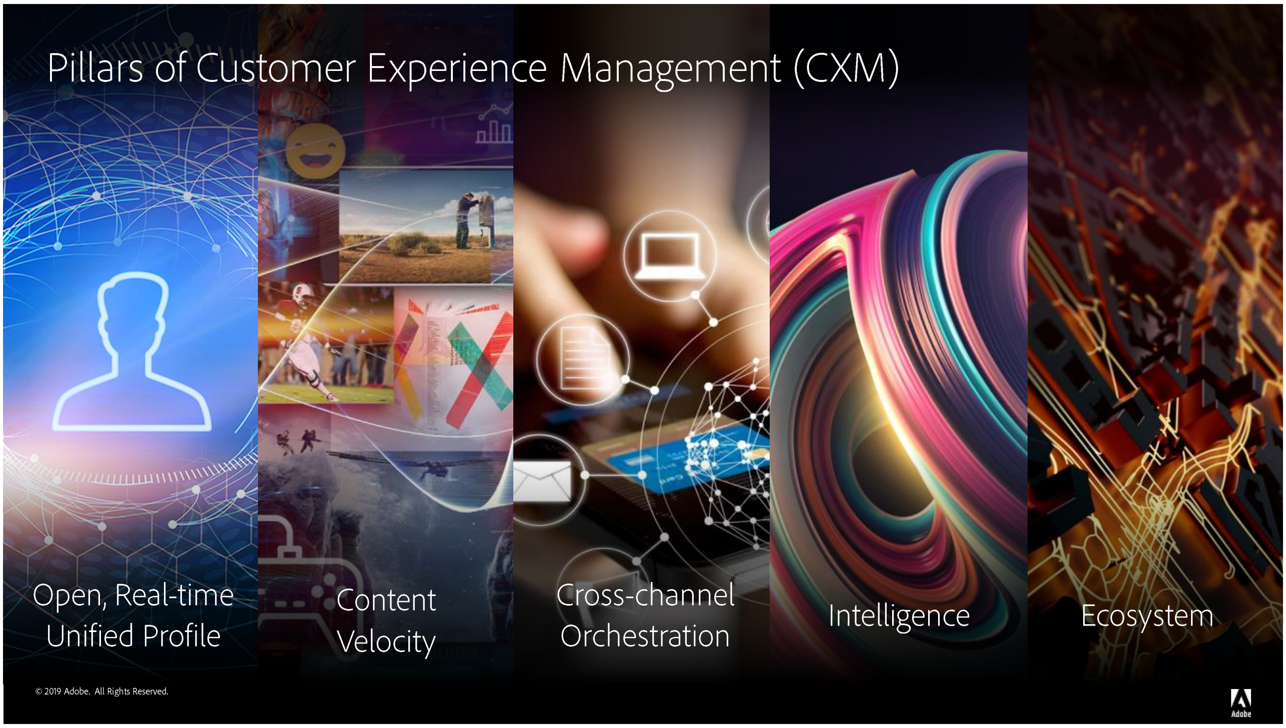
Land & Expand with Customers

Industry	Use Cases	ARR Growth	Business Impact
B2B Power Management Company	• Asset centralization • Lower operating cost • Create relevant experiences across channels	Year 1: $51K Year 4: $340K	~4X efficiency gains
Small Financial Services Company	• Decrease cost-per-conversion • Increase application completion rate • Integrate online and offline data for one customer view across brands and channels	Year 1: $51K Year 4: $800K	~300% increase in conversions across channels
Mid-sized International Airline	• Improve continuity across channels • Automate media campaigns • Increased loyalty program membership	Year 1: $165K Year 4: >$1M	Reduced campaign launch time by ~90%, increased website update capacity by ~10X




Pillars of Customer Experience Management (CXM)
Open, Real-time Unified Profile
Content Velocity
Cross-channel Orchestration
Intelligence
Ecosystem
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Adobe is the Leader in CXM Category
Open, Real-time Unified Profile
Content Velocity
Cross-channel Orchestration
Intelligence
Ecosystem
Customer Analytics/Data Management & Platform Leadership
Content Creation & Management Leadership
Real-time, Cross-channel, Experience Delivery Management Leadership
Adobe Sensei AI Leadership
Partner & Developer Leadership
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Adobe is the Leader in the CXM Category
Adobe Experience Cloud
Adobe Advertising Cloud
Adobe Analytics Cloud
Adobe Marketing Cloud
Adobe Commerce Cloud
Adobe Sensei
Adobe Experience Platform
Breakthrough experiences
Integrated workflows
Platform-led innovations
Intelligence at the core
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Adobe Experience Cloud
Advertising Cloud
Unify media silos
Advertising & analytics integration
Holistic campaign planning including TV
DSP
Search
Creative
TV
Analytics Cloud
Experience system of intelligence
Democratizing insights
Real-time Customer Data Platform ("CDP")
Sense-powered analytics
Analytics
Audience Manager
Marketing Cloud
Omnichannel journey orchestration
Content velocity
B2C, B2B, B2E
Sensei-powered marketing
Experience Manager
Marketo Engage
Target
Campaign
Commerce Cloud
Content & commerce integration
Integration of personalization & analytics
Sensei-powered commerce
Extend the ecosystem
Magento Commerce
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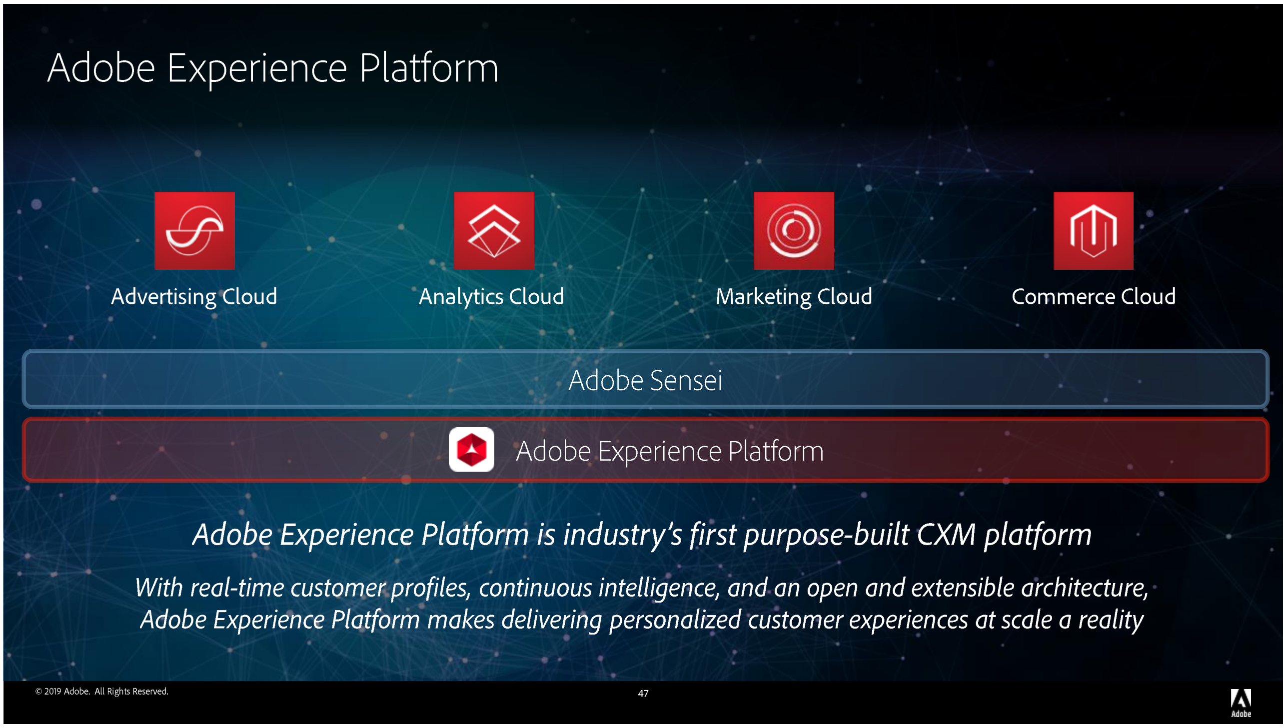
Adobe Experience Platform
Advertising Cloud
Analytics Cloud
Marketing Cloud
Commerce Cloud
Adobe Sensei
Adobe Experience Platform
Adobe Experience Platform is industry's first purpose-built CXM platform
With real-time customer profiles, continuous intelligence, and an open and extensible architecture, Adobe Experience Platform makes delivering personalized customer experiences at scale a reality
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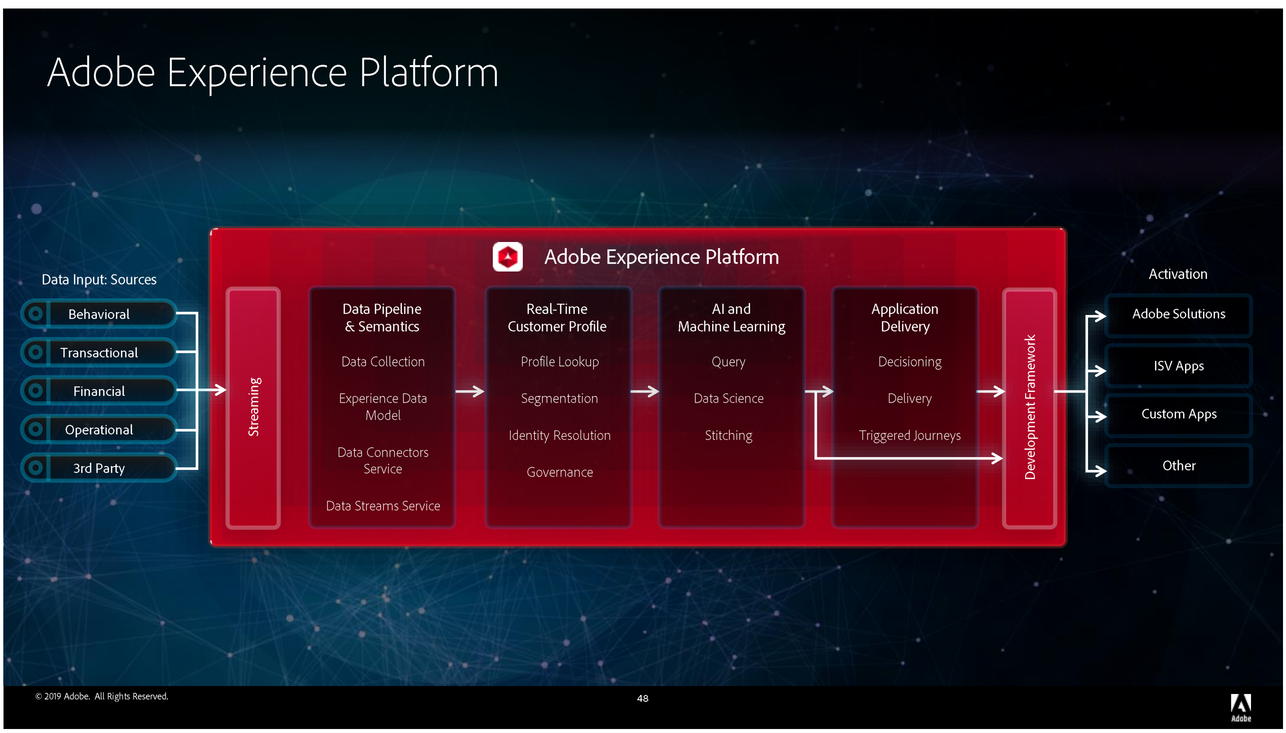
Adobe Experience Platform
Data Input: Sources
Behavioral
Transactional
Financial
Operational
3rd Party
Adobe Experience Platform
Streaming
Data Pipeline & Semantics
Data Collection
Experience Data Model
Data Connectors Service
Data Streams Service
Real-Time Customer Profile
Profile Lookup
Segmentation
Identity Resolution
Governance
AI and Machine Learning
Query
Data Science
Stitching
Application Delivery
Decisioning
Delivery
Triggered Journeys
Development Framework
Activation
Adobe Solutions
ISV Apps
Custom Apps
Other
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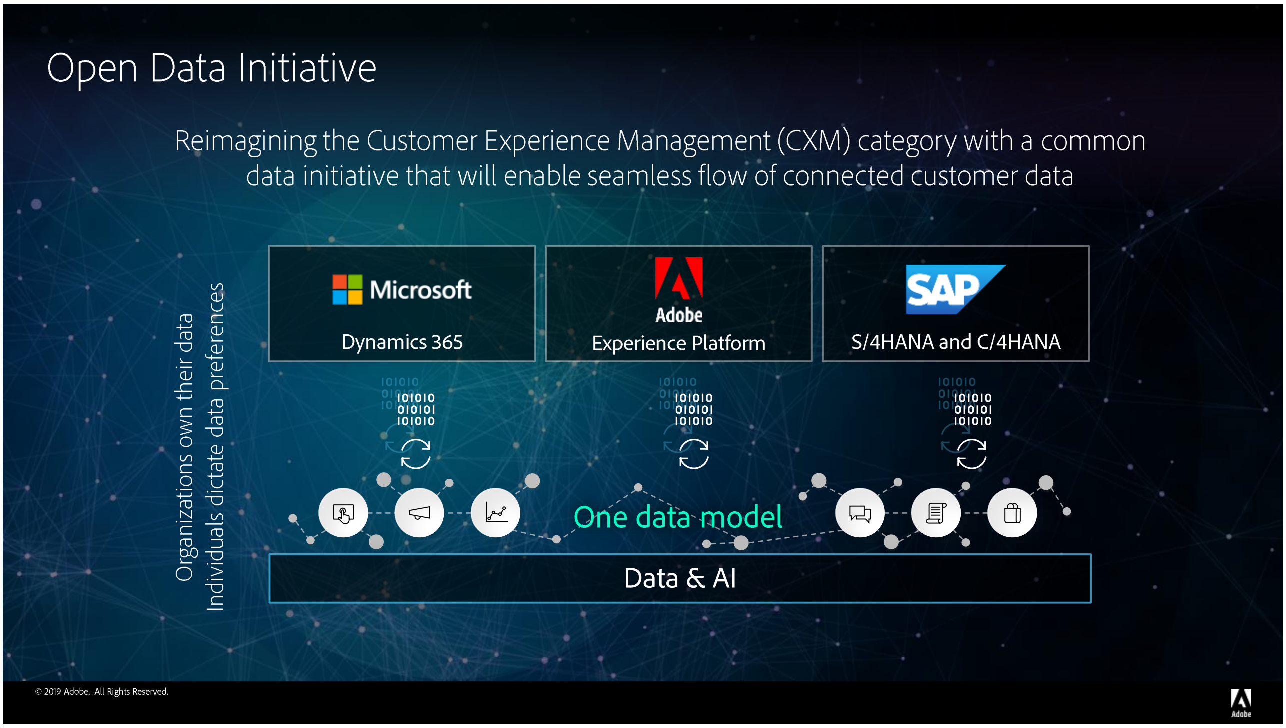
Open Data Initiative
Reimagining the Customer Experience Management (CXM) category with a common data initiative that will enable seamless flow of connected customer data
Organizations own their data
Individuals dictate data preferences
Microsoft
Dynamics 365
Adobe
Experience Platform
SAP
S/4HANA and C/4HANA
One data model
Data & AI
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Adobe Experience Cloud Growth Drivers
X OX
Go-to-Market Expansion
New logos, cross-sell and upsell
• Customer segmentation drives account penetration
• Industry approach creates new opportunities
• International markets offer significant expansion opportunity
Product & Category Expansion
New logos, cross-sell and upsell
• Customer Experience Management
• B2B opportunity
• Commerce opportunity
• Adobe Experience Platform and Open Data Initiative
Ecosystem Leverage
Grow ARR and win rate %
• Go-to-market partners
• Innovation partners
• New monetization (marketplaces and platforms)
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2021 Digital Experience Total Addressable Market

Experience Cloud 2020 TAM

$53.2B

Total Addressable Market

Experience Cloud 2021 TAM

$71.2B

Total Addressable Market

$37.6B*	Marketing Cloud
$18.5B**	Analytics Cloud
$9.2B	Advertising Cloud
$5.9B	Commerce Cloud

* Includes incremental Marketo TAM
** Includes Incremental Adobe Experience Platform TAM

Source: Adobe, October 2018

Enabling Digital Transformation

Digital Experience Summary

- Large tailwinds continue to be fueled by digital transformation and customer experience waves
- First mover and market leader with most complete customer experience offering
- Land and expand strategy with existing customers and success acquiring new logos driving growth
- Strong partnerships increasing opportunities and building competitive advantage
- Expansion into commerce and strong B2B offering increase an already large TAM, and will accelerate growth rates

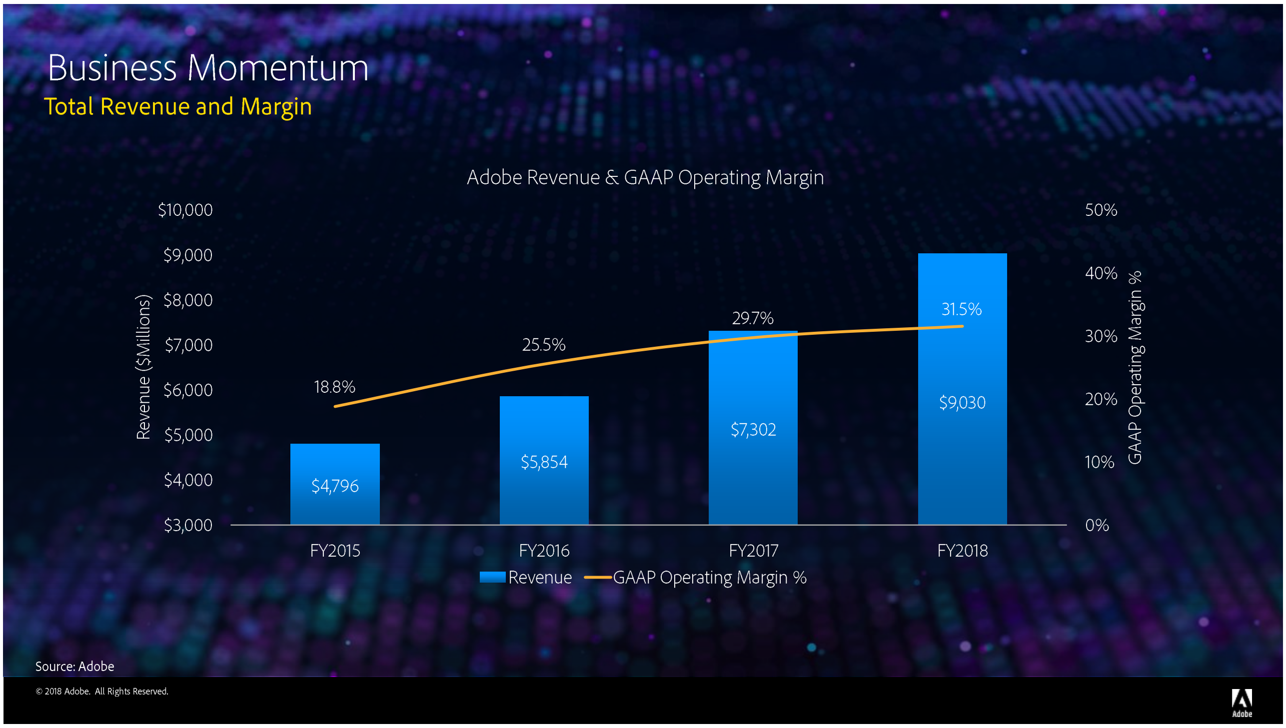
2021 MARKET OPPORTUNITY

Marketing Cloud	$37.6B
Analytics Cloud	$18.5B
Advertising Cloud	$9.2B
Commerce Cloud	$5.9B

$71.2B

Addressable Market

Source: Adobe, October 2018



Business Momentum
Total Revenue and Margin
Adobe Revenue & GAAP Operating Margin
$10,000
$9,000
$8,000
$7,000
$6,000
$5,000
$4,000
$3,000
Revenue ($Millions)
50%
40%
30%
20%
10%
0%
GAAP Operating Margin %
18.8%
25.5%
29.7%
31.5%
$4,796
$5,854
$7,302
$9,030
FY2015
FY2016
FY2017
FY2018
Revenue
GAAP Operating Margin %
Source: Adobe
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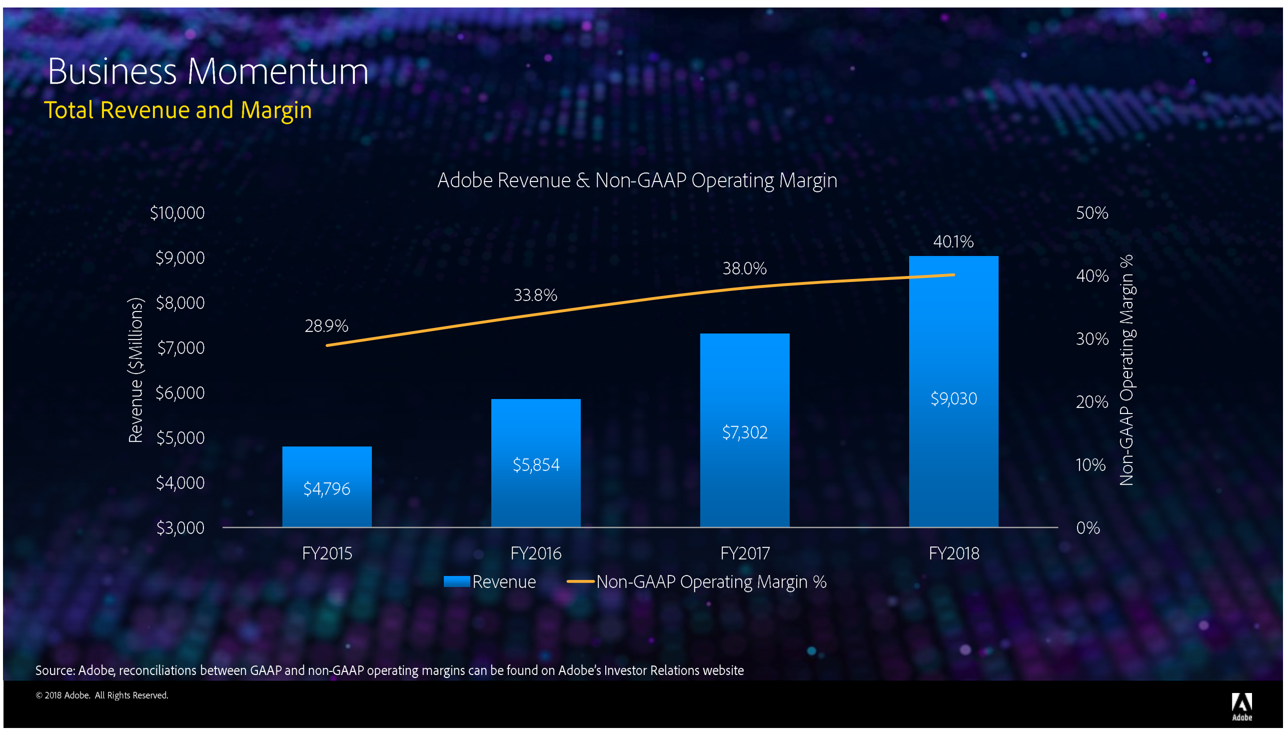

Business Momentum
Total Revenue and Margin
Adobe Revenue & Non-GAAP Operating Margin
$10,000
$9,000
$8,000
$7,000
$6,000
$5,000
$4,000
$3,000
Revenue ($Millions)
50%
40%
30%
20%
10%
0%
Non-GAAP Operating Margin %
28.9%
33.8%
38.0%
40.1%
$4,796
$5,854
$7,302
$9,030
FY2015
FY2016
FY2017
FY2018
Revenue
Non-GAAP Operating Margin %
Source: Adobe, reconciliations between GAAP and non-GAAP operating margins can be found on Adobe's Investor Relations website
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Adobe's Business Momentum
Creative Cloud Revenue Mix
FY2017 Revenue Mix
Perpetual & OEM
$0.2B
$4.2B
Subscription
$4.0B
FY2018 Revenue Mix
Perpetual & OEM
~$0.1B
~$5.3B
~$5.2B
Subscription
Source: Adobe
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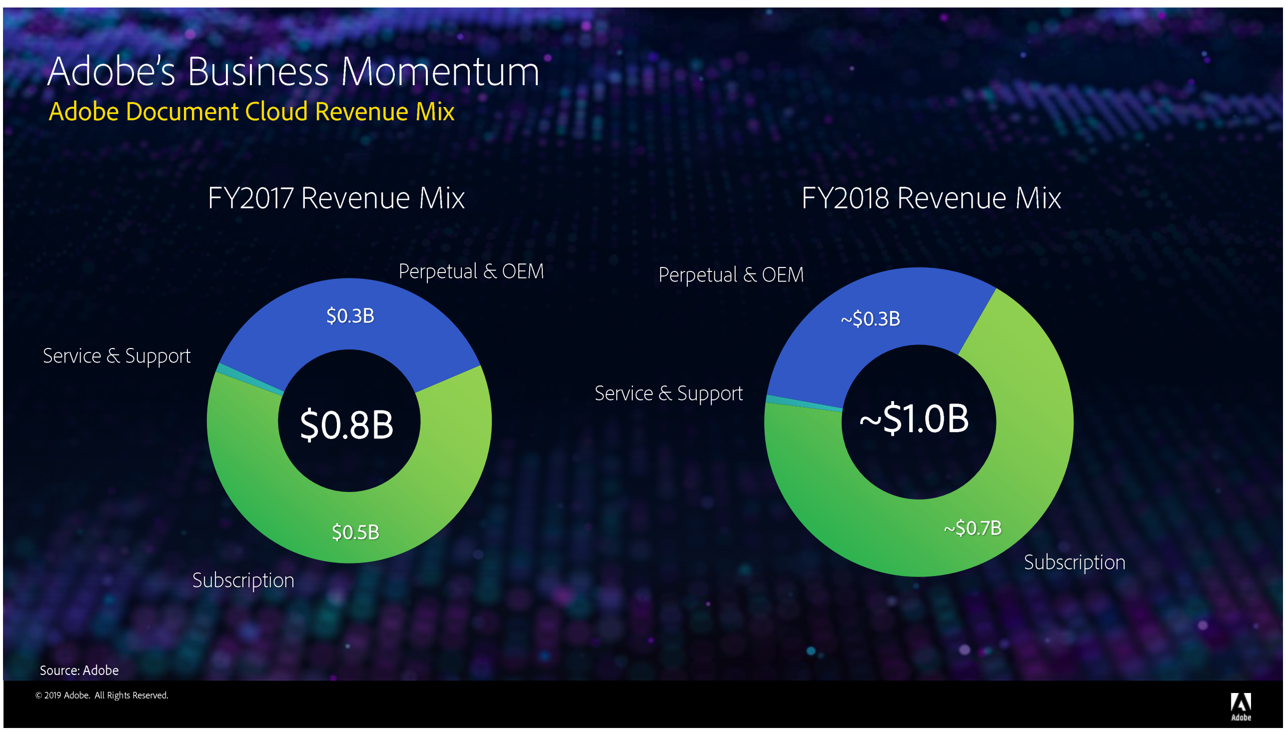
Adobe's Business Momentum
Adobe Document Cloud Revenue Mix
FY2017 Revenue Mix
Perpetual & OEM
$0.3B
Service & Support
$0.8B
$0.5B
Subscription
FY2018 Revenue Mix
Perpetual & OEM
~$0.3B
Service & Support
~$1.0B
~$0.7B
Subscription
Source: Adobe
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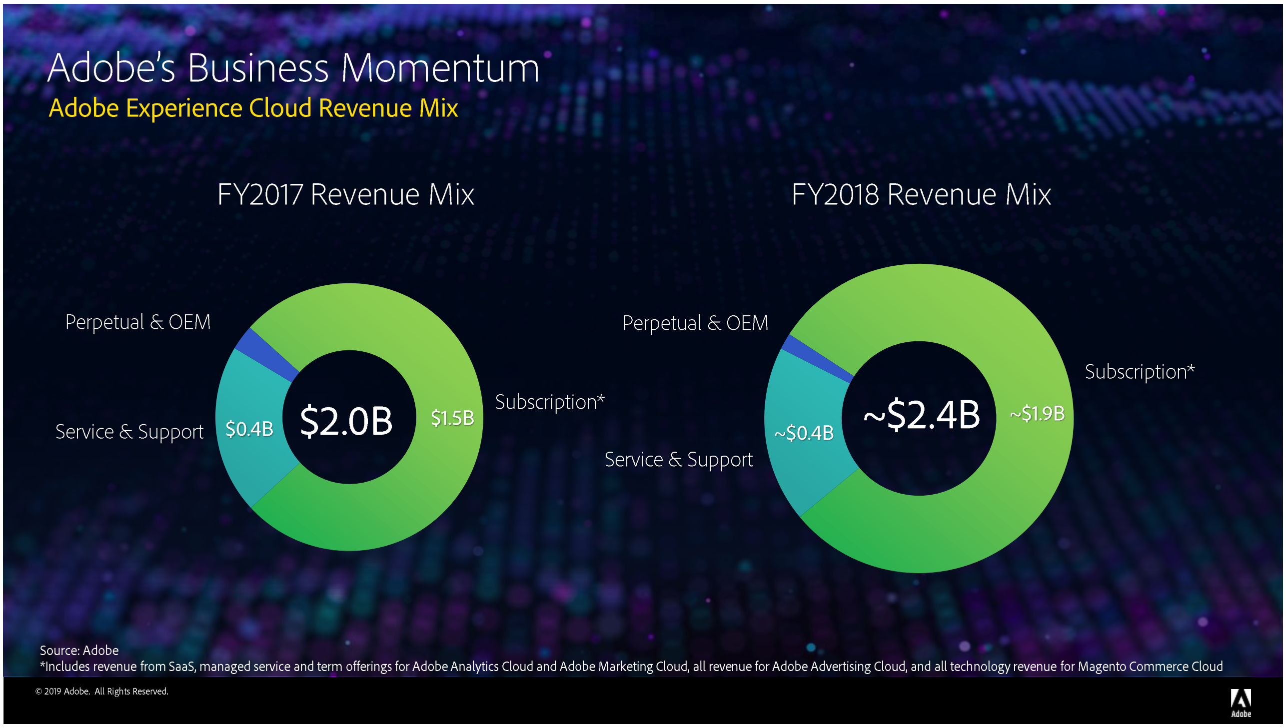
Adobe's Business Momentum
Adobe Experience Cloud Revenue Mix
FY2017 Revenue Mix
Perpetual & OEM
Service & Support
$0.4B
$2.0B
$1.5B
Subscription*
FY2018 Revenue Mix
Perpetual & OEM
Service & Support
~$0.4B
~$2.4B
~$1.9B
Subscription*
Source: Adobe
*Includes revenue from SaaS, managed service and term offerings for Adobe Analytics Cloud and Adobe Marketing Cloud, all revenue for Adobe Advertising Cloud, and all technology revenue for Magento Commerce Cloud
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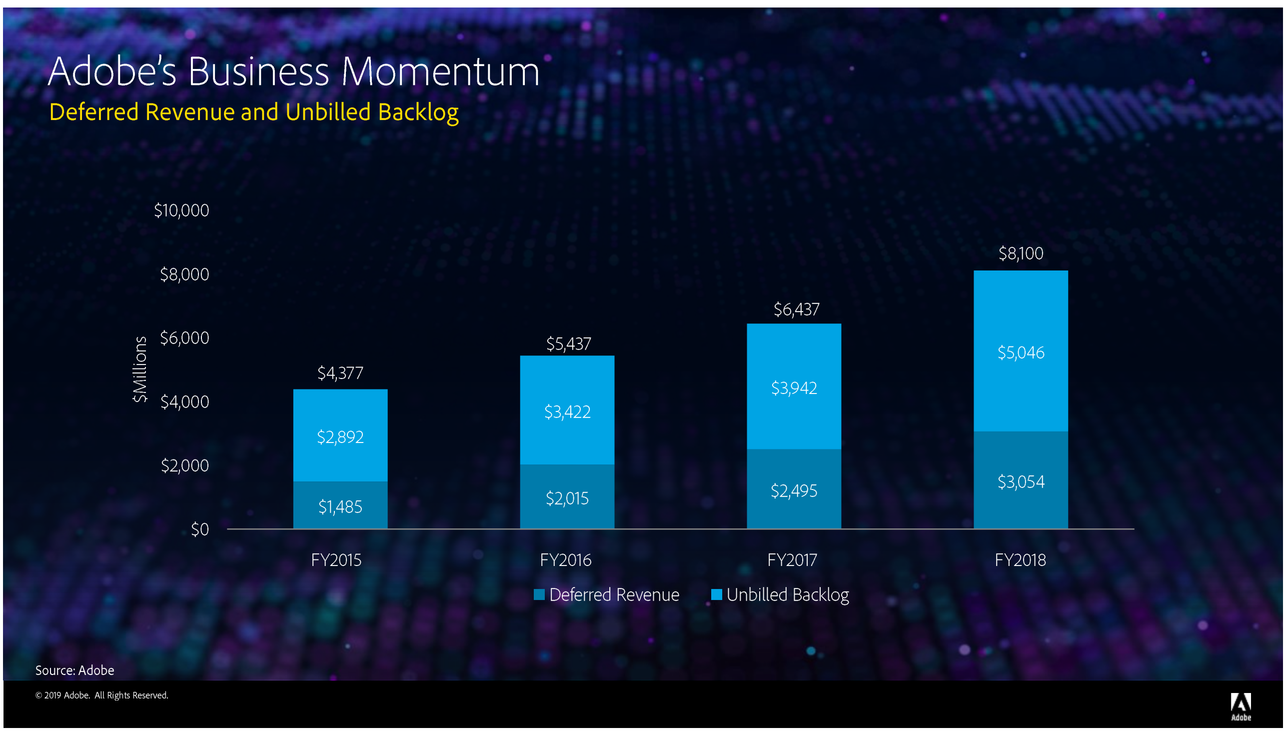
Adobe's Business Momentum
Deferred Revenue and Unbilled Backlog
$Millions
$10,000
$8,000
$6,000
$4,000
$2,000
$0
$4,377
$2,892
$1,485
$5,437
$3,422
$2,015
$6,437
$3,942
$2,495
$8,100
$5,046
$3,054
FY2015
FY2016
FY2017
FY2018
Deferred Revenue
Unbilled Backlog
Source: Adobe
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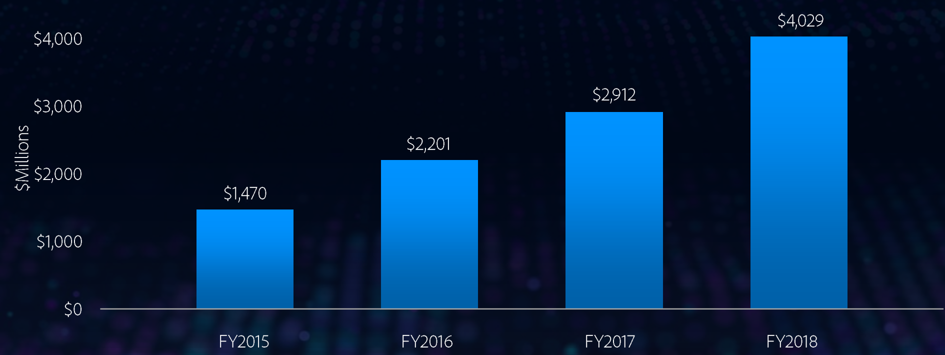
Business Momentum

Operating Cash Flow



Source: Adobe

Adobe Summary: Growth and Margin at Scale

Large, expanding opportunity ~$108B TAM in 2021

Strong business momentum and market leadership

Strong ecosystem and partnerships

Investing for top-line and bottom-line growth

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FOR IMMEDIATE RELEASE

Adobe Reports Record Revenue

Strong Results Include Record Adobe Document Cloud Performance; Company Increases Fiscal 2019 Targets

SAN JOSE, Calif. — March 14, 2019 — Adobe (Nasdaq:ADBE) today reported financial results for its first quarter fiscal year 2019 ended March 1, 2019.

Adobe adopted revenue accounting standard Accounting Standards Codification ("ASC") 606 for its fiscal year 2019. Financial targets provided by the company in Dec. 2018 were based on the prior revenue accounting standard ASC 605. This release reports results based on ASC 606, and where applicable results under the prior ASC 605 standard have been provided for comparison purposes against the company's ASC 605-based targets.

Q1 FY2019 Financial Highlights Under ASC 606

- Adobe achieved quarterly revenue of $2.60 billion in its first quarter of fiscal year 2019. Diluted earnings per share was $1.36 on a GAAP-basis, and $1.71 on a non-GAAP basis.
- Digital Media segment revenue was $1.78 billion, with Creative revenue growing to $1.49 billion and Document Cloud achieving record revenue of $282 million. Digital Media Annualized Recurring Revenue ("ARR") grew to $7.07 billion exiting the quarter, a quarter-over-quarter increase of $357 million. Creative ARR grew to $6.21 billion, and Document Cloud ARR grew to $856 million.
- Digital Experience segment revenue was a record $743 million.
- GAAP operating income in the first quarter was $695 million, and non-GAAP operating income was $985 million. GAAP net income was $674 million, and non-GAAP net income was $844 million.
- Cash flow from operations was $1.01 billion, and deferred revenue grew to $3.22 billion exiting the quarter.
- Adobe repurchased approximately 2.1 million shares during the quarter.

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 is fueling the creative economy, driving the paper-to-digital revolution and enabling businesses to transform through our leadership in customer experience management," said Shantanu Narayen, president and CEO, Adobe. "Our results in Q1 reflect continued momentum across Adobe Creative Cloud, Document Cloud and Experience Cloud."

"We're off to a strong start in fiscal 2019, with record revenue, strong earnings and more than $1 billion of operating cash flow in our first quarter," said John Murphy, executive vice president and CFO, Adobe.

ASC 606 to ASC 605 Comparison

The following table summarizes Adobe's financial results with a comparison to targets that Adobe previously provided based on ASC 605.

	Q1 FY2019 Result Based on ASC 606	Q1 FY2019 Result Based on ASC 605	Q1 FY2019 Target[1] Based on ASC 605
Total revenue	$2.60 billion	$2.58 billion	~$2.54 billion
Digital Media segment revenue	22% year/year growth	22% year/year growth	~20% year/year growth
Digital Experience segment revenue	34% year/year growth	32% year/year growth	~31% year/year growth
GAAP EPS	$1.36	$1.31	~$1.14
Non-GAAP EPS	$1.71	$1.65	~$1.60

[1] Adobe provided Q1 FY2019 targets on Dec. 13, 2018 based on ASC 605

Adobe Updates Fiscal Year 2019 Financial Targets Based on ASC 606

Adobe provided annual fiscal year 2019 financial targets on Dec. 13, 2018, based on ASC 605. The company is today updating these targets to be based on ASC 606, and to reflect first quarter reported results.

Adobe total fiscal year 2019 revenue	~$11.150 billion
Digital Media segment revenue	~20% year/year growth
Digital Experience segment revenue	~34% year/year growth
Net new Digital Media annualized recurring revenue ("ARR")	~$1.500 billion
Digital Experience annual subscription bookings[1]	~25% year/year growth
GAAP tax rate	~10%
Non-GAAP tax rate	~11%
GAAP EPS	~$5.59
Non-GAAP EPS	~$7.80

[1] Includes annualized subscription value of SaaS, managed service and term offerings under contract for Analytics Cloud, Marketing Cloud and Magento Commerce Cloud

Adobe anticipates Q3 FY2019 and Q4 FY2019 year-over-year revenue growth rates to be similar to the growth rate implied in its Q2 FY2019 revenue target. As in prior years, the company expects summer seasonality which can lead to sequentially lower net new Digital Media ARR in Q3 FY2019, followed by typical year-end strength in Q4 FY2019. As the impact of lost deferred revenue due to purchase accounting from the acquisitions of Magento and Marketo tapers off during fiscal year 2019 and the business grows, Adobe expects quarterly operating margins to increase in the second half of the year.

A reconciliation between GAAP and non-GAAP targets is provided at the end of this press release and on Adobe's website.

Adobe Provides Second Quarter Fiscal Year 2019 Financial Targets

The following table summarizes Adobe's second quarter fiscal year 2019 targets.

Adobe total Q2 fiscal year 2019 revenue	~$2.700 billion	
Digital Media segment revenue	~20% year/year growth	
Digital Experience segment revenue	~32% year/year growth	
Net new Digital Media annualized recurring revenue ("ARR")	~$370 million	
Net non-operating other expense	~$36 million	
Tax rate	GAAP: ~12%	Non-GAAP: ~11%
Share count	~495 million shares	
Earnings per share	GAAP: ~$1.20	Non-GAAP: ~$1.77

A reconciliation between GAAP and non-GAAP targets is provided at the end of this press release and on Adobe's website.

Adobe to Webcast Earnings Conference Call

Adobe will webcast its first quarter fiscal year 2019 earnings conference call today at 2:00 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 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, customer success, revenue, operating margin, seasonality, 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 compete effectively, failure to develop, acquire, market and offer products and services that meet customer requirements, introduction of new technology, potential interruptions or delays in hosted services provided by us or third parties, risks associated with information security and privacy, cyber-attacks, complex sales cycles, risks related to the timing of revenue recognition from our subscription offerings, fluctuations in subscription renewal rates, 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 2018 ended November 30, 2018, and Adobe's Quarterly Reports on Form 10-Q issued in fiscal year 2019.

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 March 1, 2019, which Adobe expects to file in March 2019.

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)

	Three Months Ended	
	March 1, 2019 (*)	March 2, 2018
Revenue:		
Subscription	$ 2,304,967	$ 1,793,358
Product	170,554	171,608
Services and support	125,425	113,981
Total revenue	2,600,946	2,078,947
Cost of revenue:		
Subscription	288,031	164,685
Product	12,105	12,877
Services and support	97,150	81,340
Total cost of revenue	397,286	258,902
Gross profit	2,203,660	1,820,045
Operating expenses:		
Research and development	464,637	348,769
Sales and marketing	781,518	580,957
General and administrative	216,109	170,440
Amortization of purchased intangibles	46,566	17,146
Total operating expenses	1,508,830	1,117,312
Operating income	694,830	702,733
Non-operating income (expense):		
Interest and other income (expense), net	4,266	16,672
Interest expense	(40,593)	(19,899)
Investment gains (losses), net	43,831	2,996
Total non-operating income (expense), net	7,504	(231)
Income before income taxes	702,334	702,502
Provision for income taxes	28,093	119,426
Net income	$ 674,241	$ 583,076
Basic net income per share	$ 1.38	$ 1.18
Shares used to compute basic net income per share	488,056	492,061
Diluted net income per share	$ 1.36	$ 1.17
Shares used to compute diluted net income per share	494,188	499,433

* Adobe adopted ASU No. 2014-09, *Revenue from Contracts with Customers,* using the modified retrospective method during the first quarter of fiscal 2019. Prior period results have not been restated to reflect this change in accounting standards. Refer to our Form 10-Q for the first quarter of fiscal year 2019 for additional information.

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

	March 1, 2019 (*)	November 30, 2018
ASSETS		
Current assets:		
Cash and cash equivalents	$ 1,738,846	$ 1,642,775
Short-term investments	1,487,411	1,586,187
Trade receivables, net of allowances for doubtful accounts of $14,639 and $14,980, respectively	1,304,796	1,315,578
Prepaid expenses and other current assets	565,115	312,499
Total current assets	5,096,168	4,857,039
Property and equipment, net	1,104,065	1,075,072
Goodwill	10,707,715	10,581,048
Purchased and other intangibles, net	2,017,103	2,069,001
Other assets	542,938	186,522
Total assets	$ 19,467,989	$ 18,768,682
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Trade payables	$ 145,292	$ 186,258
Accrued expenses	1,129,882	1,163,185
Debt	892,754	—
Income taxes payable	24,422	35,709
Deferred revenue	3,083,839	2,915,974
Total current liabilities	5,276,189	4,301,126
Long-term liabilities:		
Debt	3,236,833	4,124,800
Deferred revenue	134,353	137,630
Income taxes payable	655,036	644,101
Deferred income taxes	125,660	46,702
Other liabilities	168,433	152,209
Total liabilities	9,596,504	9,406,568
Stockholders' equity:		
Preferred stock, $0.0001 par value; 2,000 shares authorized	—	—
Common stock, $0.0001 par value	61	61
Additional paid-in-capital	5,857,440	5,685,337
Retained earnings	12,579,311	11,815,597
Accumulated other comprehensive income (loss)	(150,432)	(148,130)
Treasury stock, at cost (112,330 and 113,171, respectively), net of reissuances	(8,414,895)	(7,990,751)
Total stockholders' equity	9,871,485	9,362,114
Total liabilities and stockholders' equity	$ 19,467,989	$ 18,768,682

* Adobe adopted ASU No. 2014-09, *Revenue from Contracts with Customers,* using the modified retrospective method during the first quarter of fiscal 2019. Prior period results have not been restated to reflect this change in accounting standards. Refer to our Form 10-Q for the first quarter of fiscal year 2019 for additional information.

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

	Three Months Ended	
	March 1, 2019	March 2, 2018
Cash flows from operating activities:		
Net income	$ 674,241	$ 583,076
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation, amortization and accretion	144,898	76,522
Stock-based compensation	184,688	135,526
Unrealized investment (gains) losses, net	(41,678)	(929)
Changes in deferred revenue	190,334	77,662
Changes in other operating assets and liabilities	(139,035)	117,744
Net cash provided by operating activities	1,013,448	989,601
Cash flows from investing activities:		
Purchases, sales and maturities of short-term investments, net	110,270	7,894
Purchases of property and equipment	(65,268)	(95,142)
Purchases and sales of long-term investments, intangibles and other assets, net	(77,103)	(6,514)
Acquisitions, net of cash acquired	(99,817)	—
Net cash used for investing activities	(131,918)	(93,762)
Cash flows from financing activities:		
Purchases of treasury stock	(500,000)	(300,000)
Taxes paid related to net share settlement of equity awards, net of proceeds from treasury stock reissuances	(280,981)	(240,969)
Repayment of capital lease obligations	(2,931)	(304)
Net cash used for financing activities	(783,912)	(541,273)
Effect of exchange rate changes on cash and cash equivalents	(1,547)	6,343
Net increase in cash and cash equivalents	96,071	360,909
Cash and cash equivalents at beginning of period	1,642,775	2,306,072
Cash and cash equivalents at end of period	$ 1,738,846	$ 2,666,981

Non-GAAP Results
(In thousands, except per share data)

The following table shows Adobe's GAAP results reconciled to non-GAAP results included in this release.

	Three Months Ended		
	March 1, 2019 (*)	March 2, 2018	November 30, 2018
Operating income:			
GAAP operating income	$ 694,830	$ 702,733	$ 720,546
Stock-based and deferred compensation expense	187,115	136,414	166,504
Amortization of purchased intangibles	102,690	31,704	65,397
Non-GAAP operating income	$ 984,635	$ 870,851	$ 952,447
Net income:			
GAAP net income	$ 674,241	$ 583,076	$ 678,240
Stock-based and deferred compensation expense	187,115	136,414	166,504
Amortization of purchased intangibles	102,690	31,704	65,397
Investment (gains) losses, net	(43,831)	(2,996)	3,113
Income tax adjustments	(76,221)	23,987	(7,051)
Non-GAAP net income	$ 843,994	$ 772,185	$ 906,203
Diluted net income per share:			
GAAP diluted net income per share	$ 1.36	$ 1.17	$ 1.37
Stock-based and deferred compensation expense	0.38	0.27	0.34
Amortization of purchased intangibles	0.21	0.06	0.13
Investment (gains) losses, net	(0.09)	—	0.01
Income tax adjustments	(0.15)	0.05	(0.02)
Non-GAAP diluted net income per share	$ 1.71	$ 1.55	$ 1.83
Shares used in computing diluted net income per share	494,188	499,433	495,118

* Adobe adopted ASU No. 2014-09, *Revenue from Contracts with Customers,* using the modified retrospective method during the first quarter of fiscal 2019. Prior period results have not been restated to reflect this change in accounting standards. Refer to our Form 10-Q for the first quarter of fiscal year 2019 for additional information.

Non-GAAP Results (continued)

The following table show Adobe's GAAP first quarter fiscal year 2019 tax rate reconciled to the non-GAAP tax rate included in this release.

	First Quarter Fiscal 2019
Effective income tax rate:	
GAAP effective income tax rate	4.0 %
Stock-based and deferred compensation expense	(1.2)
Amortization of purchased intangibles	(0.6)
Income tax adjustments	8.5
Investment (gains) losses	0.3
Non-GAAP effective income tax rate	11.0 %

The following table shows Adobe's first quarter fiscal year 2019 GAAP earnings per share result under ASC 605 reconciled to the non-GAAP earnings per share result included in this release.

	First Quarter Fiscal 2019
Diluted net income per share:	
GAAP diluted net income per share	$ 1.31
Stock-based and deferred compensation expense	0.38
Amortization of purchased intangibles	0.21
Investment (gains)/losses	(0.09)
Income tax adjustments	(0.16)
Non-GAAP diluted net income per share	$ 1.65
Shares used to compute diluted net income per share	494.2

Reconciliation of GAAP to Non-GAAP Financial Targets

The following table shows Adobe's second quarter fiscal year 2019 GAAP earnings per share target reconciled to the non-GAAP financial target included in this release.

	Second Quarter Fiscal 2019
Diluted net income per share:	
GAAP diluted net income per share	$ 1.20
Stock-based and deferred compensation expense	0.43
Amortization of purchased intangibles	0.20
Income tax adjustments	(0.06)
Non-GAAP diluted net income per share	$ 1.77
Shares used to compute diluted net income per share	495.0

Reconciliation of GAAP to Non-GAAP Financial Targets (continued)

The following table shows Adobe's second quarter fiscal year 2019 tax rate target reconciled to the non-GAAP target included in this release.

	Second Quarter Fiscal 2019
Effective income tax rate:	
GAAP effective income tax rate	12.0%
Stock-based and deferred compensation expense	(1.0)
Amortization of purchased intangibles	(0.5)
Income tax adjustments	0.5
Non-GAAP effective income tax rate	11.0%

The following tables show Adobe's annual fiscal year 2019 financial targets reconciled to non-GAAP financial targets included in this release.

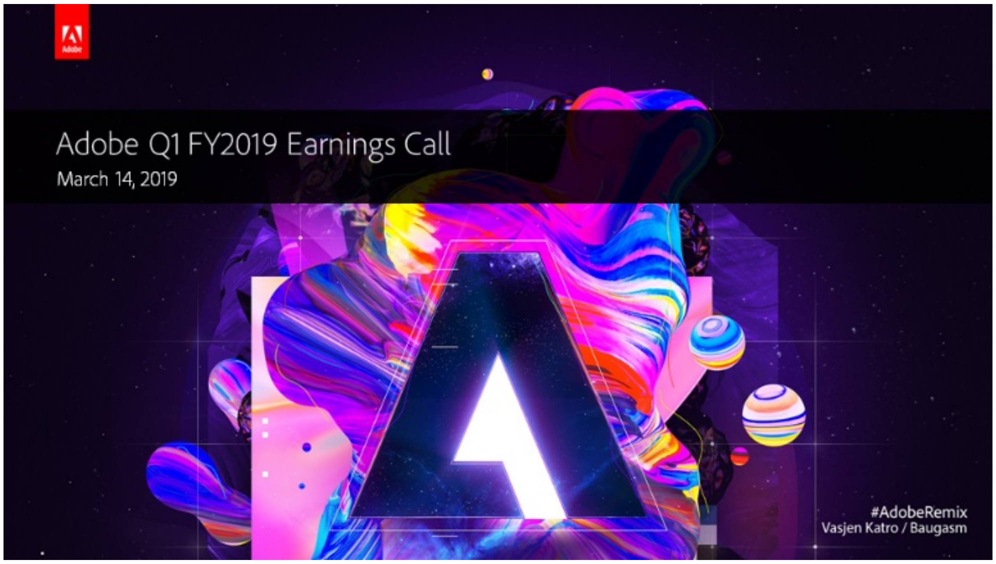
	Fiscal Year 2019
Diluted net income per share:	
GAAP diluted net income per share	$ 5.59
Stock-based and deferred compensation expense	1.73
Amortization of purchased intangibles	0.81
Income tax adjustments	(0.33)
Non-GAAP diluted net income per share	$ 7.80
Shares used to compute diluted net income per share	493.0

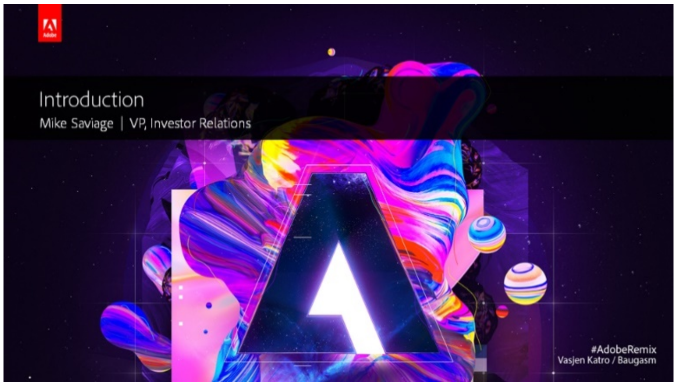
	Fiscal Year 2019
Effective income tax rate:	
GAAP effective income tax rate	10.0%
Stock-based and deferred compensation expense	(1.0)
Amortization of purchased intangibles	(0.5)
Income tax adjustments	2.5
Non-GAAP effective income tax rate	11.0%

Use of Non-GAAP Financial Information

Adobe continues to provide all information required in accordance with GAAP, but believes evaluating its ongoing operating results may not be as useful if an investor is limited to reviewing only GAAP financial measures. 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.

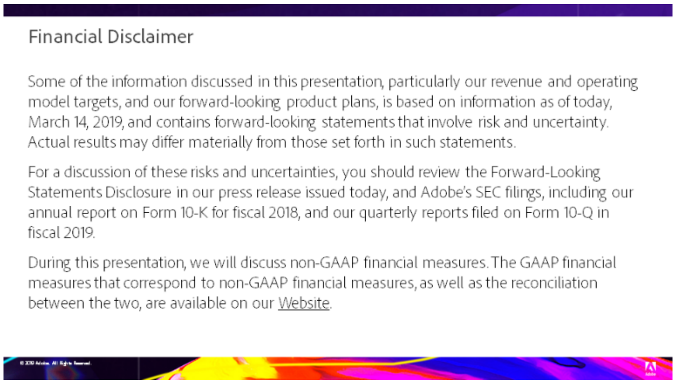




MIKE SAVIAGE

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 first quarter fiscal year 2019 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, and an updated investor datasheet on Adobe.com. If you would like a copy of these documents, you can go to Adobe's Investor Relations page and find them listed under Quick Links.



Before we get started, we want to emphasize that some of the information discussed in this call, particularly our revenue and operating model targets, and our forward-looking product plans, is based on information as of today, March 14th, 2019, 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.

On our Q4 FY18 call in December, we provided targets for fiscal year 2019 and for Q1 FY19 based on revenue accounting standard ASC 605. As required, we have adopted ASC 606 for FY19, and today are reporting our results based on ASC 606. Where applicable, we will call out differences in our results between ASC 605 and ASC 606 for comparison purposes against our prior ASC 605-based targets.

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

Call participants are advised that the audio of this conference call is being webcast live, 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.

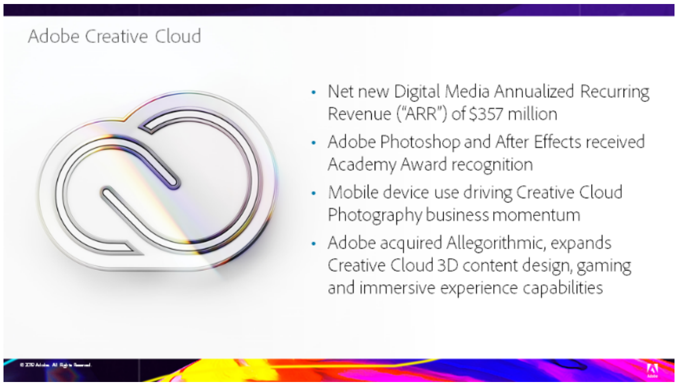
I will now turn the call over to Shantanu.

SHANTANU NARAYEN

Thanks, Mike and good afternoon.

Fiscal 2019 is off to a strong start for Adobe as we delivered another record quarter in Q1. We achieved $2.60 billion in revenue, representing 25% year-over-year growth. GAAP earnings per share for the quarter was $1.36, and non-GAAP earnings per share was $1.71.

Adobe empowers people to create and transforms how businesses compete, a highly differentiated strategy that we continued to execute well on in Q1. Across all industries and geographies, we are helping customers large and small transform themselves and their businesses with Adobe Creative Cloud, Document Cloud and Experience Cloud.



In our Digital Media business, we achieved strong revenue in both Creative Cloud and Document Cloud in Q1. Net new Digital Media Annualized Recurring Revenue or "ARR" was $357 million, and total Digital Media ARR exiting Q1 grew to $7.07 billion. Q1 Creative revenue was $1.49 billion, which represents 22% year-over-year growth.

Adobe Creative Cloud is democratizing creativity by delivering innovative new ways for everyone – from businesses, to students, to creative professionals, to hobbyists – to tell their story.

Our flagship digital imaging and video solutions – including Photoshop, Premiere Pro and After Effects – have long been the go-to tools for indie and feature filmmakers and editors. At this year's Academy Awards, both Adobe Photoshop and After Effects received Scientific and Engineering awards for their contributions to the filmmaking industry. It's a tremendous honor for Adobe, and we're very proud of the product and engineering teams who contribute to the development and ongoing innovation in these iconic products. Most recently, Photoshop was used in the making of *Spider-Man: Into the Spider-Verse* – which won this year's Oscar for Best Animated Film.

Our photography business including mobile usage continues to show strong momentum. The number of Lightroom CC mobile subscribers has increased by more than 400% over the past year. Beyond film and photography, Adobe is pushing the boundaries of creativity onto new canvases and broadening the appeal of Creative Cloud to entirely new segments of users.

New media types, including 3D, video and augmented reality, continue to emerge, which will enable more immersive and engaging digital experiences. In January, we acquired Allegorithmic, the industry standard in tools for 3D material and texture creation for gaming and entertainment.

The addition of Allegorithmic further expands Creative Cloud into interactive content design and allows us to better equip video game creators, Visual FX artists working in film and television, designers and marketers, to deliver the next generation of immersive experiences.

Premiere Rush CC, our popular video editing app for social media creators, is expanding its footprint to Android, and was recently showcased at Samsung's Galaxy S10 event. We continue to innovate with Adobe XD, our solution for designing and prototyping websites and apps, adding expanded collaboration, prototyping and voice capabilities – all supported by a growing ecosystem of plug-ins and integrations with companies like Microsoft, Slack and Atlassian.

We feel passionately that creative skills are a critical component for success across K-12 and higher education classrooms. We recently announced a partnership with the Royal Shakespeare Company in England. Together, we'll make new creative teaching resources and tools – including Creative Cloud and Adobe Spark – available to teachers, and to millions of students learning the works of Shakespeare in schools throughout the UK. This quarter we partnered with the California State University System to give students and staff at 21 campuses access to our full suite of Creative Cloud tools. Since Adobe launched Spark for Education in April 2018, over 7 million licenses have been provided to students and teachers worldwide.

With Adobe Document Cloud, we're reinventing how people create, scan, edit, collaborate, sign and share documents, and leading the paper-to-digital revolution. Document Cloud revenue in Q1 was a record $282 million and we grew Document Cloud ARR to $856 million.

Overall momentum for Acrobat is fueled by strong demand for Adobe PDF among individuals and businesses worldwide. Our mobile footprint continues to grow. Adobe Reader and Adobe Scan downloads have now surpassed 600 million, and our partnership with Samsung contributed significantly to downloads of Adobe Scan in Q1.

In addition, Adobe Reader is now available in the "Made for Samsung" section of the Galaxy App Store, increasing our potential reach to millions of Samsung smartphone users.

We recently launched the "PDF Like a Boss" global advertising campaign to drive further awareness for new Document Cloud, Acrobat and Adobe PDF capabilities. Last month we announced a partnership with the PGA TOUR, which will feature our new campaign in TV coverage for 10 tournaments this year.

Adobe Sign has strong momentum and has become the e-signature solution of choice for organizations across all industries. We continue to enable resellers such as Nintex to sell Adobe Sign to thousands of partners, public, private, and government organizations on their platforms.

In our Digital Experience business, we achieved Experience Cloud revenue of $743 million for the quarter, which represents 34% year-over-year growth. The success of our Digital Experience business is bolstered by several industry tailwinds: the mandate for enterprises and organizations to digitally transform their businesses, and the need to deliver the world-class, end-to-end customer experiences consumers have come to expect. More and more businesses are choosing Adobe Experience Cloud – the industry's only end-to-end solution for marketing, advertising, analytics and commerce – serving both B2C and B2B customers.

Key Experience Cloud customer wins in the quarter include HSBC, NBC Universal, Bass Pro Shops and WebMD.

Delivering exceptional experiences requires a lot more than tapping into a customer database to deliver a personalized email. Businesses need a full range of capabilities from creation through commerce, and acquisition through renewal. For today's digital businesses, it's not enough to have data – you need the right data – behavioral, transactional and operational – to understand your customer, and the intelligence to act on it in context.

With our Adobe Experience Platform and breadth of Adobe Experience Cloud solutions, Adobe is enabling enterprises to achieve a unified, real-time view of their customers, and harness these insights to deliver engaging digital experiences.

Last year we made several significant investments to further expand the range of capabilities we offer to Experience Cloud customers with the acquisitions of Magento, with its best-in-class ecommerce capabilities, and Marketo, the leader in B2B marketing engagement. We're off to a strong start with both Magento and Marketo, and we're successfully integrating them into Adobe Experience Cloud. This is creating an unmatched value proposition for customers, and growing Adobe's addressable opportunity in the Customer Experience Management category.

We are focused on product integration while driving acceleration of the Magento and Marketo businesses, leveraging Adobe's brand, enterprise sales and go-to-market organization, while maintaining a strong global footprint in the mid-market. With Magento, we are driving momentum by cross-selling our commerce offering to existing Adobe Experience Manager customers. With Marketo, we delivered our first integrated deployment of Adobe Experience Platform Launch, our tag management system. We are seeing strong interest from strategic Adobe accounts, many of which are B2C, who have significant B2B operations as part of a broader digital transformation strategy.

Industry analysts continue to recognize Adobe Experience Cloud as the market leader. This quarter, Adobe Experience Cloud was named a leader in the Gartner Magic Quadrant for Digital Experience Platforms and once again achieved the strongest position in the quadrant out of 17 vendors for "Completeness of Vision".

Our upcoming Summit in Las Vegas will be our largest to date, and we will welcome the Marketo Marketing Nation community to the event. We are excited to share our Customer Experience Management vision, strategy and technology roadmap with our customers and partners.

At Adobe, our employees are our greatest asset and we are proud to have a brand that continues to be recognized for its innovation, progressive workplace practices, and commitment to the communities in which we do business. For the third consecutive year, we were named one of Fast Company's Most Innovative Companies. Forbes recently recognized Adobe as one of its Best Employers for Diversity. And Fortune included Adobe on its annual Most Admired Companies in Software list again this year.

Adobe is the clear leader in empowering people to create, and helping businesses transform to deliver the customer experiences needed to compete and win in today's competitive climate. These two tremendous market opportunities are fueling our business. With the world's best employees, customers and partners, we are well positioned for further growth and continued success in 2019.

John.

JOHN MURPHY

Thanks, Shantanu.

Our strong results in Q1 reflect a solid start to fiscal year 2019.

As we discussed on our Q4 FY18 call in December, we provided targets for Q1 FY19 based on ASC 605. We are reporting results today based on our adoption of ASC 606 as required. Where applicable, we will call out differences in our results between 605 and 606 for comparison purposes against our prior 605-based targets.

Q1 FY2019 Results

	ASC 606	ASC 605
Total revenue	$2.60 billion	$2.58 billion
GAAP EPS	$1.36	$1.31
Non-GAAP EPS	$1.71	$1.65

Digital Media segment revenue	$1.78 billion
Digital Experience segment revenue	$743 million
Net new Digital Media ARR	$357 million

- Deferred revenue of $3.22 billion
- Cash flow from operations of $1.01 billion
- Repurchased 2.1 million shares
- ~91% of revenue from recurring sources

In Q1 FY19, Adobe achieved record revenue of $2.60 billion under 606, which represents 25% year-over-year growth when compared to $2.08 billion reported in Q1 FY18 under 605. Q1 FY19 revenue would have been $2.58 billion under 605, which represents 24% growth. Based on 606, GAAP diluted earnings per share in Q1 was $1.36 and non-GAAP diluted earnings per share was $1.71. Based on 605, GAAP diluted EPS in Q1 would have been $1.31 and non-GAAP EPS would have been $1.65. This compares to our EPS targets based on 605 of $1.14 on a GAAP-basis and $1.60 on a non-GAAP basis.

Business and financial highlights in Q1 included:

- Digital Media revenue of $1.78 billion, including Creative revenue of $1.49 billion and Adobe Document Cloud revenue of $282 million;
- Net new Digital Media ARR of $357 million;
- Digital Experience revenue of $743 million;
- Exiting the quarter with deferred revenue of $3.22 billion;
- Cash flow from operations of $1.01 billion;
- Repurchasing 2.1 million shares of our stock through stock buyback;
- And approximately 91% of our revenue in Q1 was from recurring sources.

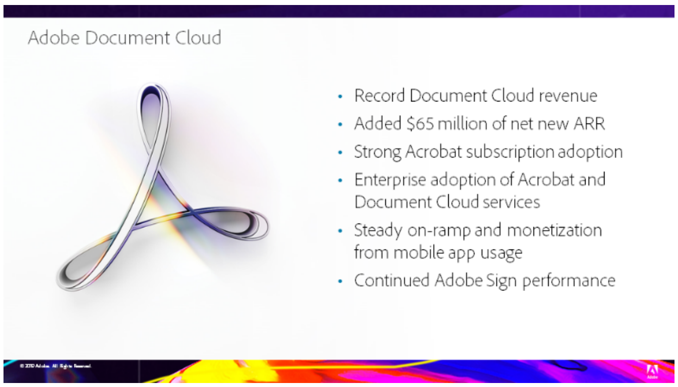
In Digital Media, we grew segment revenue by 22% year-over-year under both ASC 606 and ASC 605. The addition of $357 million net new Digital Media ARR during the quarter grew the total to $7.07 billion. Exiting Q1 ARR included an approximately $20 million cumulative adjustment from adoption of ASC 606.

Within Digital Media, we achieved another strong quarter with our Creative business. Creative revenue grew 22% year-over-year in Q1 and we increased Creative ARR by $292 million.

Notable growth drivers in Q1 included:

- New customer acquisition across all offerings and geographies;
- Subscription momentum and strength with Creative Cloud enterprise deployments;

- Continued growth in emerging markets;
- ARPU increases, particularly in markets where price optimizations were introduced last year; and
- Services adoption including continued momentum with Adobe Stock, which again achieved greater than 20% year-over-year revenue growth.



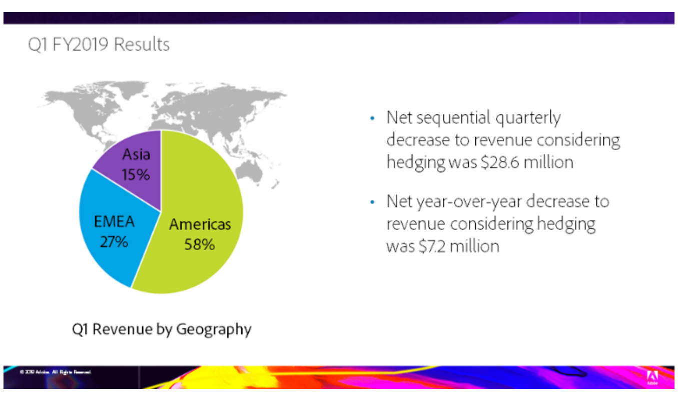
We achieved record Document Cloud revenue of $282 million in Q1, which represents 22% year-over-year growth, and we added $65 million of net new Document Cloud ARR during the quarter. In addition to delivering another strong quarter with Acrobat and Document Cloud, some of the revenue strength in Q1 is attributed to a benefit from the move to ASC 606 revenue recognition.

Notable drivers of Document Cloud growth include continued strength with Acrobat subscription adoption, helped by a steady on-ramp and conversion of free mobile app usage to paid subscriptions, strength with enterprise adoption of Acrobat and Document Cloud services, and strong performance with Adobe Sign.

In our Digital Experience segment, we achieved record quarterly Experience Cloud revenue of $743 million, which represents 34% year-over-year growth. There were minor benefits from adoption of ASC 606, and year-over-year growth would have been 32% under ASC 605. Experience Cloud subscription revenue was a record $612 million.

In addition to new revenue from our recent Magento and Marketo acquisitions, Experience Cloud performance in Q1 was driven by success across many offerings – with strength in Adobe Campaign and Adobe Experience Manager. Cross-sell of Magento within existing Experience Cloud accounts was notable, and Marketo delivered solid results in their first full quarter as part of Adobe.

Our Publishing segment, which includes OEM contracts, saw a sizable benefit from the move to ASC 606, and benefited from a large renewal deal in the quarter.



From a quarter-over-quarter currency perspective, FX decreased revenue by $6.6 million. We had $8.5 million in hedge gains in Q1 FY19, versus $30.5 million in hedge gains in Q4 FY18; thus the net sequential currency decrease to revenue considering hedging gains was $28.6 million.

From a year-over-year currency perspective, FX decreased revenue by $14.7 million. The $8.5 million in hedge gains in Q1 FY19 versus $1 million in hedge gains in Q1 FY18 resulted in a net year-over-year currency decrease to revenue considering hedging gains of $7.2 million.

In Q1, Adobe's effective tax rate was 4% on GAAP-basis and 11% on a non-GAAP basis.

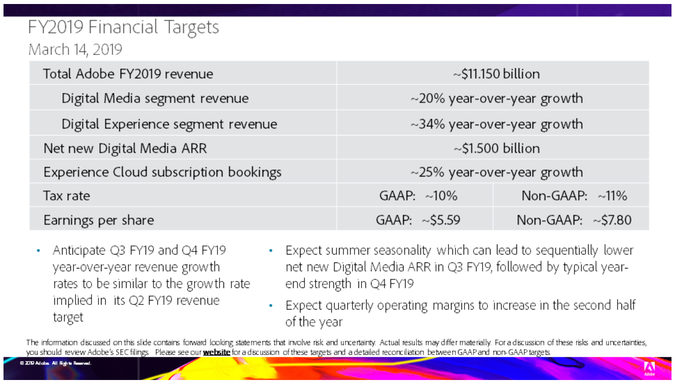
Our trade DSO was 46 days, which compares to 47 days in the year-ago quarter, and 49 days last quarter.

Deferred revenue grew to a record $3.22 billion, up 25% year-over-year.

Remaining Performance Obligations ("RPO"), a financial measure required with reporting under ASC 606, was approximately $8.13 billion exiting Q1. RPO includes approximately $600 million of non-cancelable and non-refundable committed funds related to some of our enterprise customer agreements. These funds do provide our customers options to either renew monthly on-premise term-based licenses, or use some or all funds to purchase other Adobe products or services.

Our ending cash and short-term investment position exiting Q1 was $3.23 billion, and cash flow from operations was $1.01 billion in the quarter.

In Q1 we repurchased approximately 2.1 million shares at a cost of $491 million. We currently have $7.35 billion remaining of our $8 billion repurchase authority granted in May 2018 which goes through 2021.



Now I will discuss our financial targets. We are providing ASC 606-based annual fiscal 2019 targets that reflect our Q1 results. In FY19 we are targeting:

- Total Adobe revenue of approximately 11 billion 150 million dollars;
- Digital Media segment revenue growth of approximately 20%;
- Net new Digital Media ARR of approximately $1.5 billion;
- Digital Experience segment revenue growth of approximately 34%;
- Digital Experience subscription bookings growth of approximately 25%;
- A GAAP tax rate of approximately 10% and a non-GAAP tax rate of approximately 11%;
- GAAP earnings per share of approximately $5.59; and
- Non-GAAP earnings per share of approximately $7.80.

We anticipate Q3 and Q4 year-over-year revenue growth rates to be similar to the growth rate implied in our Q2 revenue target. As in prior years, we expect summer seasonality which can lead to sequentially lower net new Digital Media ARR in Q3, followed by normal year-end strength in Q4.

As the impact of lost deferred revenue due to purchase accounting from our acquisitions of Magento and Marketo tapers off during FY19, and as we grow our business, we expect quarterly operating margins to increase in the second half of the year.

Q2 FY2019 Financial Targets
March 14, 2019

Total revenue	~$2.700 billion	
Digital Media segment revenue	~20% year-over-year growth	
Digital Experience segment revenue	~32% year-over-year growth	
Net new Digital Media ARR	~$370 million	
Net non-operating other expense	~$36 million	
Tax rate	GAAP: ~12%	Non-GAAP: ~11%
Earnings per share	GAAP: ~$1.20	Non-GAAP: ~$1.77

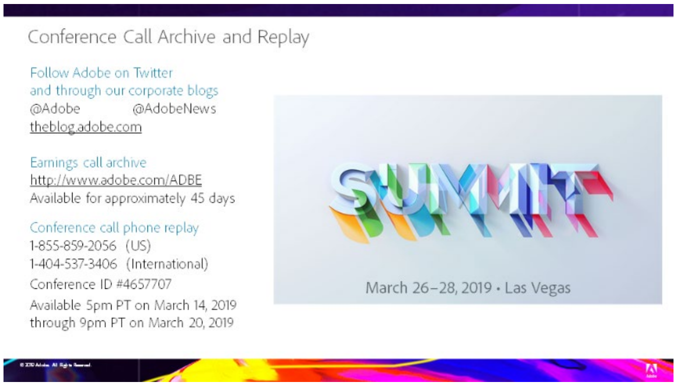
The information discussed on this slide contains forward looking statements that involve risk and uncertainty. Actual results may differ materially. For a discussion of these risks and uncertainties, you should review Adobe's SEC filings. Please see our **website** for a discussion of these targets and a detailed reconciliation between GAAP and non-GAAP targets.

In Q2 FY19, we are targeting:

- Q2 revenue of approximately 2 billion 700 million dollars;
- Digital Media segment year-over-year revenue growth of approximately 20%;
- Net new Digital Media ARR of approximately $370 million;
- Digital Experience segment year-over-year revenue growth of approximately 32%;
- Other Expense of approximately $36 million;
- Tax rate of approximately 12% on a GAAP basis, and 11% on a non-GAAP basis;
- Share count of approximately 495 million shares;
- GAAP earnings per share of approximately $1.20; and
- Non-GAAP earnings per share of approximately $1.77.

As a reminder, Q2 continues to be impacted by lost deferred revenue and acquisition-related costs.

In summary, Q1 was a great start to what we expect will be another record year for Adobe. We look forward to seeing many of you at Summit. I'll now turn the call back over to Mike.



MIKE SAVIAGE

Thanks, John.

Adobe Summit is just around the corner. Day one of The Digital Experience Conference in Las Vegas at the Venetian-Palazzo is Tuesday March 26th. In addition to the day one general session, we will host a Q&A session with financial analysts and investors in attendance at 2pm Pacific Time. Invitations to the conference with registration information to Summit were sent out in January. More details about Summit and the agenda are available at summit.adobe.com.

We would also like to extend an invitation to the Adobe EMEA Summit in London on May 15th. If any Europe-based investors or analysts wish to attend, please email us at ir@adobe.com and we will send you registration information.

If you wish to listen to a playback of today's conference call, a webcast 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 #4657707. International callers should dial 404-537-3406. The phone playback service will be available beginning at 5pm Pacific Time today, and ending at 9pm Pacific Time on March 20th, 2019.

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

Adobe Investor Relations Data Sheet

Last Updated: March 14, 2019; financial results beginning in FY2019 are being reported based on Accounting Standards Codification (ASC) 606; prior fiscal year results were reported based on ASC 605

	Description	Q1FY17	Q2FY17	Q3FY17	Q4FY17	FY2017	Q1FY18	Q2FY18	Q3FY18	Q4FY18	FY2018	Q1FY19
Revenue ($Millions)	**Total Revenue**	1,681.6	1,772.2	1,841.1	2,006.6	7,301.5	2,078.9	2,195.4	2,291.1	2,464.6	9,030.0	2,600.9
Revenue by Segment ($Millions)	**Digital Media**	1,138.1	1,212.0	1,270.2	1,390.3	5,010.6	1,460.5	1,546.4	1,608.9	1,709.5	6,325.3	1,776.6
	Digital Experience	477.3	495.4	507.8	549.9	2,030.4	554.1	586.0	614.0	689.7	2,443.8	743.3
	Publishing	66.2	64.8	63.1	66.4	260.5	64.3	63.0	68.2	65.4	260.9	81.0
Revenue by Segment (as % of total revenue)	**Digital Media**	68%	68%	69%	69%	69%	70%	70%	70%	69%	70%	68%
	Digital Experience	28%	28%	28%	28%	28%	27%	27%	27%	28%	27%	29%
	Publishing	4%	4%	3%	3%	3%	3%	3%	3%	3%	3%	3%
Supplementary Segment Data	**Digital Media**											
	Creative Revenue ($Millions)	942.2	1,012.1	1,063.9	1,155.7	4,173.9	1,229.5	1,303.4	1,360.0	1,450.6	5,343.5	1,494.9
	Creative ARR[1,2] ($Millions) - *Updated for December 2016 Currency Rates*	3,759	4,044	4,316	4,631	-	-	-	-	-	-	-
	Creative ARR[1,2] ($Millions) - *Updated for December 2017 Currency Rates*	-	-	-	4,771	-	5,074	5,370	5,659	6,032	-	-
	Creative ARR[1,2] ($Millions) - *Updated for December 2018 Currency Rates*	-	-	-	-	-	-	-	-	5,919	-	6,211
	Document Cloud Revenue ($Millions)	195.9	199.9	206.3	234.6	836.7	231.0	243.0	248.9	258.9	981.8	281.7
	Document Cloud ARR[2,3] ($Millions) - *Updated for December 2016 Currency Rates*	493	520	556	600	-	-	-	-	-	-	-
	Document Cloud ARR[2,3] ($Millions) - *Updated for December 2017 Currency Rates*	-	-	-	614	-	647	694	744	801	-	-
	Document Cloud ARR[2,3] ($Millions) - *Updated for December 2018 Currency Rates*	-	-	-	-	-	-	-	-	791	-	856
	Total Digital Media ARR[2] ($Millions) - *Updated for December 2016 Currency Rates*	4,252	4,564	4,872	5,231	-	-	-	-	-	-	-
	Total Digital Media ARR[2] ($Millions) - *Updated for December 2017 Currency Rates*	-	-	-	5,385	-	5,721	6,064	6,403	6,833	-	-
	Total Digital Media ARR[2] ($Millions) - *Updated for December 2018 Currency Rates*	-	-	-	-	-	-	-	-	6,710	-	7,067
	[1] Creative Annualized Recurring Revenue ("ARR") = Annual Value of Creative Cloud Subscriptions and Services + Annual Value of Creative ETLA Contracts + Annual Value of Digital Publishing Suite ("DPS") Contracts [2] ARR is forecasted annually at December currency rates, and currency rates are held constant through that fiscal year for measurement purposes; end-of-year actual ARR balances are revalued at new December rates for the next fiscal year [3] Document Cloud Annualized Recurring Revenue ("ARR") = Annual Value of Document Cloud Subscriptions and Services + Annual Value of Acrobat ETLA Contracts											
	Digital Experience											
	Experience Cloud Subscription Revenue[4] ($Millions)	352.9	377.1	395.2	427.3	1,552.5	430.9	469.4	494.6	554.4	1,949.3	611.9
	[4] Includes revenue from SaaS, managed service and term offerings for Adobe Analytics Cloud, Adobe Marketing Cloud and Magento Commerce Cloud, as well as total revenue for Adobe Advertising Cloud											
Revenue by Geography ($Millions)	**Americas**	975.8	1,026.7	1,063.1	1,151.0	4,216.6	1,170.7	1,239.6	1,299.6	1,406.9	5,116.8	1,509.9
	EMEA	459.1	475.9	500.8	549.2	1,985.0	587.2	621.8	646.7	694.3	2,550.0	702.9
	Asia	246.7	269.6	277.2	306.4	1,099.9	321.0	334.0	344.8	363.4	1,363.2	388.1
Revenue by Geography (as % of total revenue)	**Americas**	58%	58%	58%	58%	58%	56%	56%	57%	57%	57%	58%
	EMEA	27%	27%	27%	27%	27%	28%	28%	28%	28%	28%	27%
	Asia	15%	15%	15%	15%	15%	16%	16%	15%	15%	15%	15%
Supplementary Cost of Revenue Data ($Millions)	**Digital Media**	55.0	58.4	69.5	57.1	240.0	55.5	54.7	61.4	77.8	249.4	68.2
	Digital Experience	176.8	175.1	187.6	207.5	747.0	198.8	220.7	227.7	275.2	922.4	323.7
	Publishing	5.5	5.9	5.8	6.3	23.5	4.6	5.9	6.4	6.3	23.2	5.4
	Total	237.3	239.4	262.9	270.9	1,010.5	258.9	281.3	295.5	359.3	1,195.0	397.3
Stock-Based and Deferred Compensation Expenses ($Millions)	**Direct Costs**	7.4	8.7	8.3	8.9	33.3	9.7	9.6	10.2	12.6	42.1	12.4
	Research & Development	38.6	48.0	48.4	50.9	185.9	60.0	69.8	73.7	74.4	277.9	85.6
	Sales & Marketing	37.7	40.8	41.0	40.6	160.1	44.4	48.5	56.1	57.0	206.0	63.3
	General & Administrative	19.9	21.1	20.3	21.8	83.1	22.3	18.9	21.1	22.6	84.9	25.8
	Total	103.6	118.6	118.0	122.2	462.4	136.4	146.8	161.1	166.5	610.8	187.1
Other Data	**Worldwide Employees**	16,637	17,322	17,788	17,973	-	18,133	18,681	19,560	21,357	-	21,428
	Days Sales Outstanding - Trade Receivables	46	46	50	55	-	47	44	41	49	-	46
	Diluted Shares Outstanding	500.9	500.4	500.4	500.1	501.1	499.4	498.3	496.9	495.1	497.8	494.2

Adobe Investor Relations Data Sheet

Income Statement - Reconciliation of GAAP to Non-GAAP

Last Updated: March 14, 2019; financial results beginning in FY2019 are being reported based on Accounting Standards Codification (ASC) 606; prior fiscal year results were reported based on ASC 605

	Description	Q1FY17	Q2FY17	Q3FY17	Q4FY17	FY2017	Q1FY18	Q2FY18	Q3FY18	Q4FY18	FY2018	Q1FY19
GAAP ($Millions, except EPS)	Revenue	1,681.6	1,772.2	1,841.1	2,006.6	7,301.5	2,078.9	2,195.4	2,291.1	2,464.6	9,030.0	2,600.9
	Cost of revenue	237.3	239.4	262.9	270.9	1,010.5	258.9	281.3	295.5	359.3	1,195.0	397.3
	Gross profit	1,444.3	1,532.8	1,578.2	1,735.7	6,291.0	1,820.0	1,914.0	1,995.6	2,105.4	7,835.0	2,203.6
	Operating expenses	975.3	1,028.7	1,032.5	1,086.4	4,122.9	1,117.3	1,215.5	1,277.0	1,384.8	4,994.6	1,508.8
	Operating income	469.0	504.1	545.7	649.3	2,168.1	702.7	698.5	718.6	720.5	2,840.4	694.8
	Non-operating income (expense)	(8.4)	(11.5)	(4.3)	(6.3)	(30.5)	(0.2)	(7.7)	(17.2)	(21.3)	(46.5)	7.5
	Income before income taxes	460.6	492.6	541.4	643.0	2,137.6	702.5	690.8	701.4	699.2	2,793.9	702.3
	Provision for income taxes	62.2	118.2	121.8	141.5	443.7	119.4	27.6	35.1	21.0	203.1	28.1
	Net income	398.4	374.4	419.6	501.5	1,693.9	583.1	663.2	666.3	678.2	2,590.8	674.2
	Diluted earnings per share	$ 0.80	$ 0.75	$ 0.84	$ 1.00	$ 3.38	$ 1.17	$ 1.33	$ 1.34	$ 1.37	$ 5.20	$ 1.36
Adjustments to Reconcile to Non-GAAP ($Millions)	Cost of revenue											
	Stock-based and deferred compensation	(7.4)	(8.7)	(8.3)	(8.9)	(33.2)	(9.7)	(9.6)	(10.2)	(12.6)	(42.1)	(12.4)
	Amortization of purchased intangibles and technology license arrangements	(16.3)	(17.2)	(17.2)	(16.1)	(66.9)	(14.6)	(15.2)	(20.9)	(32.5)	(83.2)	(56.1)
	Total adjustments to cost of revenue	(23.7)	(26.0)	(25.5)	(25.0)	(100.2)	(24.3)	(24.8)	(31.1)	(45.1)	(125.3)	(68.5)
	Operating expenses											
	Stock-based and deferred compensation	(96.2)	(109.9)	(109.7)	(113.3)	(429.1)	(126.7)	(137.2)	(150.9)	(154.0)	(568.8)	(174.7)
	Restructuring and other charges	-	0.1	-	0.4	0.5	-	-	-	-	-	-
	Amortization of purchased intangibles and technology license arrangements	(19.1)	(19.3)	(19.4)	(18.7)	(76.6)	(17.1)	(17.1)	(23.9)	(32.9)	(91.1)	(46.6)
	Total adjustments to operating expenses	(115.4)	(129.1)	(129.1)	(131.6)	(505.2)	(143.8)	(154.3)	(174.8)	(186.9)	(659.9)	(221.3)
	Non-operating income (expense)	(2.6)	(1.7)	(1.0)	(2.3)	(7.6)	(3.0)	(1.1)	(2.3)	3.1	(3.2)	(43.8)
	Taxes	63.2	17.4	24.1	26.0	130.7	(24.0)	15.8	10.2	7.1	9.1	76.2
Non-GAAP ($Millions, except EPS)	Revenue	1,681.6	1,772.2	1,841.1	2,006.6	7,301.5	2,078.9	2,195.4	2,291.1	2,464.6	9,030.0	2,600.9
	Cost of revenue	213.7	213.4	237.4	245.9	910.4	234.6	256.5	264.4	314.2	1,069.8	328.8
	Gross profit	1,468.0	1,558.8	1,603.7	1,760.7	6,391.2	1,844.3	1,938.8	2,026.7	2,150.4	7,960.2	2,272.1
	Operating expenses	859.9	899.7	903.4	954.7	3,617.7	973.5	1,061.2	1,102.2	1,197.9	4,334.8	1,287.5
	Operating income	608.0	659.1	700.3	806.0	2,773.4	870.9	877.6	924.5	952.4	3,625.4	984.6
	Non-operating income (expense)	(10.9)	(13.2)	(5.3)	(8.6)	(38.0)	(3.2)	(8.8)	(19.5)	(18.2)	(49.7)	(36.3)
	Income before income taxes	597.1	645.9	695.0	797.4	2,735.4	867.6	868.9	905.0	934.2	3,575.7	948.3
	Provision for income taxes	125.4	135.6	146.0	167.4	574.4	95.4	43.4	45.3	28.0	212.1	104.3
	Net income	471.7	510.3	549.1	629.9	2,161.0	772.2	825.4	859.8	906.2	3,363.6	844.0
	Diluted earnings per share	$ 0.94	$ 1.02	$ 1.10	$ 1.26	$ 4.31	$ 1.55	$ 1.66	$ 1.73	$ 1.83	$ 6.76	$ 1.71
Shares	Diluted shares outstanding	500.9	500.4	500.4	500.1	501.1	499.4	498.3	496.9	495.1	497.8	494.2
Reconciliation of Diluted Earnings Per Share ($)	GAAP diluted earnings per share	0.80	0.75	0.84	1.00	3.38	1.17	1.33	1.34	1.37	5.20	1.36
	Stock-based and deferred compensation	0.21	0.23	0.24	0.24	0.92	0.27	0.29	0.32	0.34	1.23	0.38
	Amortization of purchased intangibles and technology license arrangements	0.07	0.07	0.07	0.07	0.29	0.06	0.06	0.09	0.13	0.35	0.21
	Non-operating income (expense)	(0.01)	-	-	-	(0.02)	-	-	-	0.01	(0.01)	(0.09)
	Income tax adjustments	(0.13)	(0.03)	(0.05)	(0.05)	(0.26)	0.05	(0.02)	(0.02)	(0.02)	(0.01)	(0.15)
	Non-GAAP diluted earnings per share	$ 0.94	$ 1.02	$ 1.10	$ 1.26	$ 4.31	$ 1.55	$ 1.66	$ 1.73	$ 1.83	$ 6.76	$ 1.71
Reconciliation of GAAP to Non-GAAP Operating Margin	GAAP operating margin	27.9%	28.4%	29.6%	32.4%	29.7%	33.8%	31.8%	31.4%	29.2%	31.5%	26.7%
	Stock-based and deferred compensation	6.2%	6.7%	6.4%	6.1%	6.3%	6.6%	6.7%	7.0%	6.8%	6.8%	7.2%
	Amortization of purchased intangibles and technology license arrangements	2.1%	2.1%	2.0%	1.7%	2.0%	1.5%	1.5%	2.0%	2.6%	1.8%	4.0%
	Non-GAAP operating margin	36.2%	37.2%	38.0%	40.2%	38.0%	41.9%	40.0%	40.4%	38.6%	40.1%	37.9%

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

FY2019 Business Segment Classifications

Last Updated: March 14, 2019

	Products		
	Creative		
Digital Media	**Creative Cloud**	**Creative Cloud Desktop Apps**	**Creative Cloud Mobile Apps**
	Creative Cloud for individuals	Acrobat Pro DC	Behance
	Creative Cloud for students and teachers	After Effects	Capture
	Creative Cloud for teams	Animate	Comp
	Creative Cloud for enterprises	Audition	XD (Experience Design)
	Creative Cloud for education	Bridge	Gemini (Beta)
	Creative Cloud Photography plan	Character Animator	Illustrator Draw
		Dimension	Photoshop Express
	Services	Dreamweaver	Photoshop Fix
	AIR/Flash Player	XD (Experience Design)	Photoshop Lightroom for mobile
	Behance	Fireworks CS6	Photoshop Mix
	Creative SDK	Fuse (Beta)	Photoshop Sketch
	Digital Publishing Suite	Illustrator	Portfolio
	Extendscript Toolkit	InCopy	Prelude Live Logger
	Extension Manager	InDesign	Premiere Clip
	Flash Builder	Ink & Slide	Premiere Rush
	Fonts	Media Encoder	Preview
	Gaming SDK	Muse	Scout
	PhoneGap Build	Photoshop	Spark Page
	Portfolio	Photoshop Lightroom	Spark Post
	Stock	Prelude	Spark Video
	Story Plus	Premiere Pro	
	Talent	Scout	**Consumer Products**
		Story	Photoshop Elements
	Substance (Allegorithmic)		Premiere Elements
	Adobe Document Cloud		
	Acrobat Pro DC	Document Cloud ExportPDF	Scan
	Acrobat Standard DC	Document Cloud Send	Sign
	Reader DC	PDF Pack	
Digital Experience	**Adobe Experience Cloud**		
	Adobe Advertising Cloud	**Adobe Analytics Cloud**	
	Adobe Media Optimizer	**Adobe Analytics**	**Adobe Audience Manager**
	Media Optimizer Search	Standard	Audience Manager
	Media Optimizer DCO	Premium	
	Media Optimizer DSP (TubeMogul)	Video	
		Mobile Apps	
	Adobe Marketing Cloud		
	Adobe Campaign	**Adobe Primetime**	**Adobe Target**
	Campaign	PayTV Pass	Targeting & Personalization
		TV SDKs (Player, DRM, Packaging)	Search & Merchandising
	Adobe Experience Manager	Ad Insertion, Ad Decisioning	Mobile App Targeting & Optimization
	Assets		
	Communities	**Adobe Social**	**Marketo Engagement Platform**
	Forms	Social	Marketing Suite
	Livefyre		Sales Suite
	Mobile		
	Sites		
	Magento Commerce Cloud		
	Magento Commerce	Business Intelligence	Social
	Order Management	Shipping	
Publishing	Authorware	eLearning Suite	PostScript
	Captivate	Font Folio	Robohelp
	ColdFusion	FrameMaker	Shockwave Player
	Connect	JRun	Technical Communication Suite
	Contribute	LiveCycle	Type
	Director	PageMaker	

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FOR IMMEDIATE RELEASE

Adobe Acquires Allegorithmic, the Leader in 3D Editing and Authoring for Gaming and Entertainment

Industry Standard for 3D Textures and Materials Behind AAA Gaming Titles and Award-Winning Movies Coming to Creative Cloud

SAN JOSE — Jan. 23, 2019 —Adobe (Nasdaq:ADBE) today announced that it has acquired Allegorithmic, makers of Substance, the industry standard for 3D textures and material creation in game and video post-production. By combining Allegorithmic's Substance 3D design tools with Creative Cloud's industry-leading imaging, video and motion graphics tools, Adobe will empower video game creators, VFX artists working in film and television, designers and marketers to deliver the next generation of immersive experiences.

In the near future, we will live in a world where real and virtual creations blend. As brands look to compete and differentiate themselves, compelling, interactive experiences enabled by 3D content, VR and AR will become more critical to their future success. 3D content is already transforming traditional workflows into fully immersive and digital ones that save time, reduce cost and open new creative horizons. With the acquisition of Allegorithmic, Adobe takes a powerful step forward in adding expanded 3D and immersive workflows to Creative Cloud and provides Adobe's core customer base of designers a new set of tools for 3D projects.

"We are seeing an increasing appetite from customers to leverage 3D technology across media, entertainment, retail and marketing to design and deliver fully immersive experiences," said Scott Belsky, chief product officer and executive vice president, Creative Cloud, Adobe. "Creative Cloud is the creativity platform for all and Substance products are a natural complement to existing Creative Cloud apps that are used in the creation of immersive content, including Photoshop, Dimension, After Effects and Project Aero."

Allegorithmic is based in France and has a diverse customer base across gaming, film and television, ecommerce, retail, automotive, architecture, design and advertising industries, including leading creative brands like Electronic Arts, Ubisoft, BMW, Ikea, Louis Vuitton, Foster + Partners and more. Allegorithmic is the recognized leader in 3D material and texture authoring for most AAA[1] gaming franchises, including *Call of Duty*, *Assassin's Creed* and *Forza*, and the tools used in the making of award-winning movies, including *Blade Runner 2049*, *Pacific Rim Uprising* and *Tomb Raider*.

"Allegorithmic and Adobe share the same passion for bringing inspiring technologies to creators," said Sebastien Deguy, CEO and founder, Allegorithmic. "We are excited to join the team, bring together the strength of Allegorithmic's industry-leading tools with the Creative Cloud platform and transform the way businesses create powerful, interactive content and experiences."

Adobe's strong track record of successfully integrating acquisitions will help further accelerate Allegorithmic's product roadmap and go-to-market and extend its reach among enterprise, SMB and individual customers. Allegorithmic CEO and founder, Sebastien Deguy will take a leadership role in Adobe's broader 3D and immersive design efforts as vice president, 3D and Immersive, reporting into Scott Belsky.

Allegorithmic tools are already offered as a subscription service to individuals and enterprise customers, and in the future Adobe will focus on expanding the availability of Allegorithmic tools via subscription. Later this year, Adobe will announce an update on new offerings that will bring the full power of Allegorithmic technology and Adobe Creative Cloud together.

Terms of the transaction were not disclosed. For additional information on Adobe's acquisition of Allegorithmic:

- Blog Post - Adobe Acquires Allegorithmic, the Leader in 3D Editing and Authoring for Gaming and Entertainment
- Blog Post - Gaming Technology is Changing How We Design & Visualize Products
- Behance Gallery

About Adobe
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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 its ability to add expanded 3D and immersive workflows to Creative Cloud and other anticipated benefits of the transaction. Forward-looking statements involve risks, including general risks associated with Adobe's and Allegorithmic'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 Allegorithmic's technology into Adobe Creative 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.

[1] – AAA refers to video games produced and distributed by mid-sized or major publishers.

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FOR IMMEDIATE RELEASE

Adobe Summit 2019: Driving the Future of Customer Experience Management

Adobe Showcases Innovation across Adobe Experience Cloud, Unveils Adobe Commerce Cloud, Marketo Engage and Adobe Experience Platform; Announces New Partnerships with Microsoft, LinkedIn and ServiceNow

LAS VEGAS — March 26, 2019 — Today, Adobe (Nasdaq:ADBE) kicked off Adobe Summit 2019, the world's largest customer experience conference. Digital transformation is the mandate for every business and thousands of companies rely on Adobe Experience Cloud every day to manage their digital businesses across every stage of the customer journey. At Adobe Summit, Adobe unveiled the latest Adobe Experience Cloud innovations, including Adobe Commerce Cloud and Marketo Engage, as well as global availability of Adobe Experience Platform. Microsoft CEO Satya Nadella, Best Buy CEO Hubert Joly, Chegg CEO Dan Rosensweig, Intuit CIO Atticus Tysen and SunTrust Bank CMO Susan Johnson shared their respective enterprise playbooks for digital transformation. Additionally, Adobe announced key strategic partnerships with ServiceNow, Microsoft and LinkedIn to accelerate Customer Experience Management (CXM) across enterprises.

"Customer Experience Management unlocks digital transformation and Adobe is leading the way with continuous innovation in Adobe Experience Cloud and through key partnerships with ServiceNow, Microsoft, LinkedIn and SAP," said Shantanu Narayen, president and CEO, Adobe. "Today, at Adobe Summit, we unveiled significant new capabilities in Adobe Experience Cloud, including the introduction of Adobe Commerce Cloud and Marketo Engage, and general availability of Adobe Experience Platform."

New Innovations in Adobe Experience Cloud

Today, Adobe shared how Adobe Experience Cloud, powered by Adobe Experience Platform, is integrating workflows between solutions and adding more real-time intelligence powered by Adobe Sensei. The new innovations make cross-channel experience design, delivery and optimization even more frictionless. Adobe Experience Cloud has seen massive adoption across businesses of all sizes and is used by the largest travel, media and entertainment, financial services, automotive and telecommunications companies.

Available globally today, **Adobe Experience Platform** is an open and extensible platform that stitches together data from across the entire enterprise, enabling real-time customer profiles leveraging Adobe Sensei artificial intelligence (AI) and machine learning. Adobe Experience Platform activates content based on these customer profiles to deliver rich, relevant experiences in real time. It empowers the company's global ecosystem, which now includes 13,000 agency, solution and technology partners and more than 300,000 developers (see separate press release).

Adobe Analytics Cloud, the core system of intelligence and activation for CXM, is adding more capabilities to provide accurate and timely insight into cross-channel consumer behavior, along with intuitive, automated audience segmentation. Now, Adobe Audience Manager, combined with Adobe Experience Platform, delivers a real-time Customer Data Platform (CDP) that brings together known and anonymous data to activate real-time customer profiles across multiple channels throughout the customer journey. Adobe Analytics, with Adobe Experience Platform, is giving brands a new way to interpret insights from both online and offline data in real time. New Journey IQ in Adobe Analytics stitches together the full customer journey to ensure the right customers are targeted at the right time. A deeper integration with Adobe Advertising Cloud unites disparate data and inventory solutions, eliminating media silos and ensuring that marketing and advertising efforts are aligned. Additionally, Adobe Analytics has integrated commerce dashboards from Adobe Commerce Cloud (see separate blog post).

Adobe Marketing Cloud, the foundation to optimize content, activate conversations and personalize experiences for cross-channel journey orchestration, has added the industry's leading B2B marketing automation solution, Marketo Engage, into the

Marketing Cloud. First integrations will enable marketers to seamlessly pull or edit content from Adobe Experience Manager or Adobe Creative Cloud and automatically build target lists to understand the next-best-action to take in B2B sales (Marketo Engage). Other Adobe Marketing Cloud innovations power content velocity through personalized content delivery with more automated, personalized push notification capabilities (Adobe Campaign); a new intelligent content recommendation engine (Adobe Experience Manager and Adobe Target); and capabilities for automatic video cropping (Adobe Experience Manager).

Adobe Advertising Cloud gives brands the functionality needed to plan, buy, measure and optimize advertising. Adobe Advertising Cloud added capabilities to unite and automate cross-channel advertising campaigns, including all forms of video, with brand safety built in. In a new partnership with Roku, Inc., **Adobe Advertising Cloud** customers can now leverage first-party data — including a brand's own audience segments gleaned from marketing and advertising efforts via Adobe Analytics Cloud — to target audiences on Roku's over-the-top TV inventory (see separate press release).

Adobe introduced **Adobe Commerce Cloud** — built on Magento Commerce and leveraging an ecosystem of more than 300,000 developers — providing an end-to-end solution to optimize both customer experience and business operations by powering integrated and fully managed commerce across all storefronts — physical, digital and virtual. Native integrations with Adobe Experience Cloud, including Adobe Analytics and Adobe Experience Manager, and added intelligence powered by Adobe Sensei offer rich insights in commerce dashboards and deliver engaging commerce experiences in real time (see separate blog post).

New Partnerships

Adobe and ServiceNow announced plans to enable integrations between Adobe Experience Platform and the ServiceNow Now Platform to enhance Adobe's real-time customer profiles with ServiceNow's rich customer support data. This will create a more comprehensive view of a customer across the entire digital journey, from acquisition to service. Additionally, Adobe Experience Cloud solutions will integrate with the ServiceNow Now Platform, including its Customer Service Management (CSM) solutions. Adobe and ServiceNow will partner to enable their mutual customers to integrate and leverage digital workflows, service catalogs, intelligent content and knowledge management capabilities (see separate press release).

Adobe's partnership with **Microsoft** and **LinkedIn** will create account-based experiences (ABX) through data integrations and new marketing and sales capabilities. By aligning key data sources to populate account-based profiles, the companies are collectively empowering B2B marketers to easily identify, understand and engage customer buying teams. This partnership will result in a more personalized experience at both the individual and account level on critical marketing and sales platforms like LinkedIn (see separate press release).

Adobe Sensei

Adobe unveiled the next generation of Adobe Sensei, the company's AI and machine learning technology that is deeply embedded into Adobe Experience Cloud solutions, driving deeper insights, real-time decisioning and smarter workflows. With the global availability of Adobe Experience Platform, new AI services (available in beta) provide the intelligence layer to connect data and content, ensuring brands consistently deliver the right message, on the right channel, at the right time, in the right context. Adobe Sensei capabilities are now widely accessible to any business.

Technology Previews

Adobe will preview technology coming out of its R&D labs at Adobe Sneaks. Hosted by actress and producer Mindy Kaling, Sneaks offers the audience an exciting and entertaining look into the future. Sneaks is a perennial highlight of Summit and audience favorites often become part of future product offerings.

Movers, Shakers and Experience Makers

Also taking stage at Adobe Summit will be Academy Award-winning actress, producer and Draper James founder Reese Witherspoon and New Orleans Saints quarterback Drew Brees, who have both led transformative change in their respective industries. Adobe Summit also featured the first-ever Adobe Experience Maker Awards, as well as Marketo's Revvie Awards, which celebrate brands driving the world's best customer experiences (see separate press release).

About Adobe Experience Cloud

Adobe is reimagining Customer Experience Management (CXM) with Adobe Experience Cloud, the industry's only end-to-end solution for experience creation, marketing, advertising, analytics and commerce. Unlike legacy enterprise platforms with static, siloed customer profiles, Adobe Experience Cloud helps companies deliver consistent, continuous and compelling experiences across customer touchpoints and channels—all while accelerating business growth. Industry analysts have named Adobe a leader in over 20 major reports focused on experience—more than any other technology company.

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FOR IMMEDIATE RELEASE

Adobe Experience Platform Powers Customer Experience Management

Adobe Announces Global Availability of Adobe Experience Platform; Best Buy and The Home Depot Among Beta Customers

LAS VEGAS – March 26, 2019 – Adobe (Nasdaq:ADBE) today announced the global availability of Adobe Experience Platform, the industry's first real-time platform for customer experience management (CXM). An open and extensible platform, Adobe Experience Platform stitches together data from across the enterprise, enabling real-time customer profiles leveraging Adobe Sensei artificial intelligence (AI) and machine learning. Adobe Experience Platform activates content based on customer profiles to deliver personalized experiences in real time. Some of the world's largest brands are already using Adobe Experience Platform in beta, including Best Buy, DXC Technology, The Home Depot, Verizon Wireless and Sony Interactive Entertainment.

Every enterprise today is struggling to handle the massive explosion of data that is being driven by rich customer experiences, multiple devices and IoT. These companies are spending massive amounts of time and resources trying to build their own infrastructure to manage and sort the data. Adobe is offering Adobe Experience Platform to bring together all data sources from across the enterprise and rationalize the data for real-time actionability.

Adobe Experience Platform collects and processes real-time data — tens of millions of events per second — from multiple sources and organizes the data into Experience Data Models (XDM). Brands are able to leverage Adobe Experience Platform to activate insights across all Adobe Experience Cloud solutions. In addition, enterprises can bring in their unique data from Enterprise Resource Planning (ERPs), Customer Relationship Management (CRMs) and other sources.

"Solving today's data challenges requires a cloud-based, hyper-scale architecture with a rich data pipeline and real-time customer profile powered by AI and machine learning," said Abhay Parasnis, executive vice president and CTO, Adobe. "Adobe Experience Platform is purpose-built for capturing, processing and actioning data in real time, enabling enterprises to deliver rich and relevant experiences to their customers."

Adobe Experience Platform offers:

- **A rich data pipeline and semantics:** Adobe Experience Platform is built with a rich data pipeline, pulling data from multiple sources across a globally distributed edge network that enriches the real-time customer profile. The data is then organized into the Experience Data Model with more than 50 customer experience schemas that use a standard language and data vocabulary. Adobe Experience Platform also offers a robust set of tools that are natively integrated to ensure compliance with current regulations and policies controlling the management of data such as GDPR. With an open architecture, IT teams can also easily add data governance of their own on top of Adobe Experience Platform to meet all their compliance needs.
- **Real-time personalization at scale:** Adobe Experience Platform powers Adobe's new real-time Customer Data Platform (CDP), which brings together known and anonymous data to activate real-time customer profiles across multiple channels throughout the customer journey, with intelligent decisioning and segmentation. Customers can rationalize these profiles and apply Adobe Sensei AI and machine learning to transform these building blocks into valuable audiences.
- **Intelligent decisioning to enable real-time actionability:** Customer journey intelligence, powered by Adobe Sensei, leverages predefined data-driven operational best practices, AI and business intelligence to enable real-time decisions and actions. Data scientists can quickly stitch together data from across the enterprise, powering a real-time customer profile on Adobe Experience Platform to continuously optimize business processes. Businesses can either access Adobe Sensei models, create their own or leverage existing models and seamlessly train them — backed by a fully managed, secure and scalable infrastructure.
- **Adobe Sensei AI Services:** With the global availability of Adobe Experience Platform, new AI services (available in beta) provide the intelligence layer to connect data and content — ensuring brands consistently deliver the right message on

the right channel at the right time. Adobe Sensei services, now widely accessible to any business, include: Customer AI, which lets brands accurately uncover specific segments of users and target each with the right marketing campaign; Journey AI, which gives brands a means to orchestrate journeys across millions of users, constantly analyze behavioral data and activate brand experiences at the optimal times; and Attribution AI that enables brands to see the conversion impact driven by owned, earned and paid media and make informed resourcing decisions.

- **An open platform and robust ecosystem:** Adobe Experience Platform is an open platform powered by a common semantic data model to standardize and organize all data, intelligent tools and services to create new experience applications and a broad industry ecosystem to help brands scale. Adobe XDM is being integrated with Microsoft's CDM and SAP's CDM into one common data model as part of the Open Data Initiative, announced by the three leaders last September. Adobe Experience Platform supports the framework of the initiative, enabling brands to bring their data from other applications and data sources together to surface new insights.

As enterprise architecture moves to put customer experience at the core, Adobe Experience Platform is enabling enterprises to reduce time and resources spent trying to create their own infrastructure so that they can focus more on driving their business outcomes. Adobe Experience Platform is available today. For more information visit www.adobe.com/experienceplatform.

About Adobe

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FOR IMMEDIATE RELEASE

Adobe, Microsoft and SAP Announce New Open Data Initiative Details

Global Industry Partners Join Effort to Connect Data and Gather Powerful Insights Fueled by AI and Intelligent Services

LAS VEGAS — March 27, 2019 — Today at Adobe Summit, the industry's leading customer experience conference, Adobe (Nasdaq:ADBE) CEO Shantanu Narayen and Microsoft (Nasdaq "MSFT" @microsoft) CEO Satya Nadella revealed additional details about the Open Data Initiative (ODI). As originally announced last September, Adobe, Microsoft and SAP (NYSE:SAP) have embarked on a new approach to business data that will help companies transform their customer experiences through real-time insights delivered from the cloud.

The three partners outlined a common approach and set of resources for customers in an initial announcement last September, with the ambition of helping customers create new connections across previously siloed data, more seamlessly garner intelligence, and ultimately better serve brands with an improved view of their customer interactions.

From the beginning, the ODI has been focused on enhancing interoperability between the applications and platforms of the three partners through a common data model with data stored in a customer-chosen data lake. This unified data lake is intended to allow customers their choice of development tools and applications to build and deploy services.

To improve that process, the three companies plan to deliver in the coming months a new approach for publishing, enriching and ingesting initial data feeds from Adobe Experience Platform, activated through Adobe Experience Cloud, Microsoft Dynamics 365 and Office 365 and SAP C/4HANA, into a customer's data lake. This will enable a new level of AI and machine learning enrichment to garner new insights and better serve customers.

Unilever, a mutual customer and one of the early global brands to express support and excitement about the ODI, today announced their intention to simplify a previously complex business outcome based on these data connections.

At Adobe Summit, Unilever is demonstrating how they plan to bring together disparate customer, product and resource data and use AI-driven insights to help reduce their plastic packaging and encourage consumer recycling. By eliminating the silos of data, Unilever will be able to tie inventory and plastics data into Adobe data to enhance customer experiences and encourage participation.

To accelerate development of the initiative, Adobe, Microsoft and SAP also announced today plans to convene a Partner Advisory Council consisting of over a dozen companies including Accenture, Amadeus, Capgemini, Change Healthcare, Cognizant, EY, Finastra, Genesys, Hootsuite, InMobi, Sprinklr and WPP. These organizations span myriad industries and customer segments and believe there is significant opportunity in the ODI for them to drive net new value to their customers.

"Our customers are all trying to integrate behavioural, CRM, ERP and other internal data sets to have a comprehensive understanding of each consumer, and they're struggling with the challenges of integrating this data," said Stephan Pretorius, CTO of WPP. "We're excited about the initiative Adobe, Microsoft and SAP have taken in this area, and we see a lot of opportunity to contribute to the development of the ODI."

About Adobe
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About Microsoft
Microsoft (Nasdaq "MSFT" @microsoft) enables digital transformation for the era of an intelligent cloud and an intelligent edge. Its mission is to empower every person and every organization on the planet to achieve more.

Note to editors: For more information, news and perspectives from Microsoft, please visit the Microsoft News Center at http://news.microsoft.com. Web links, telephone numbers and titles were correct at time of publication but may have changed. For additional assistance, journalists and analysts may contact Microsoft's Rapid Response Team or other appropriate contacts listed at http://news.microsoft.com/microsoft-public-relations-contacts.

About SAP
As market leader in enterprise application software, SAP (NYSE: SAP) helps companies of all sizes and industries run better. From back office to boardroom, warehouse to storefront, desktop to mobile device – SAP empowers people and organizations to work together more efficiently and use business insight more effectively to stay ahead of the competition. SAP applications and services enable more than 404,000 business and public sector customers to operate profitably, adapt continuously, and grow sustainably. For more information, visit www.sap.com.

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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.

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 filing on Form 10-K for fiscal year 2018.

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.

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, and 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.

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, a large volume 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 loss or disclosure of data stored by Adobe or our service providers may occur through physical break-ins, breaches of a secure network by an unauthorized party, software vulnerabilities or coding errors, employee theft or misuse or other misconduct. It is also possible that unauthorized access to or disclosure of employee or 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 the 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 data, or if a third party were to gain unauthorized access to the data 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 loss or 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, process, 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, without adequate notice, 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 to 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, or the failure of our third-party service providers' 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 and customer 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 as a result, or we could be found liable for damages or incur other losses.

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

As a global company, Adobe is subject to global data privacy and security laws, regulations, and codes of conduct that apply to our various business units. These laws and regulations may be inconsistent across jurisdictions and are subject to evolving and differing (sometimes conflicting) interpretations. Government officials and 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 and emerging laws, such as the General Data Protection Regulation ("GDPR") and the Network and Information Systems Directive ("NISD") in Europe, state laws in the U.S. on privacy, data and related technologies, such as the California Consumer Privacy Act, as well as industry self-regulatory codes create new compliance obligations and expand the scope of potential liability, either jointly or severally with our customers and suppliers. While we have invested in readiness to comply with applicable requirements, these new and emerging 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 collect and store information on behalf of our business 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 becoming increasingly 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 and other countries that have similar trans-border data flow requirements. 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. Other countries, such as India, are considering requirements for data localization (e.g. where personal data must remain in the country). If the mechanisms for transferring personal information from certain countries or areas, including 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 and misuse 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, vulnerabilities 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 and services and those of our third-party service providers. These vulnerabilities could cause such applications and services 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, reviewing our service providers' security controls, 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 revenue or margins. 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.

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 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.

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.

Our business could be harmed if we fail to effectively manage critical strategic third-party business relationships.

As our offerings expand and our customer base grows, our relationships with strategic partners become increasingly valuable. If our contractual relationships with these third parties were to terminate, or if we were unable to renew on favorable terms, our business could be harmed. This is especially the case when the third party's offerings are integrated with our products and services, or where the third party's offerings are difficult to substitute or replace. Alternative arrangements for such products and services may not be available to us, or on commercially reasonable terms, and we may experience business interruptions upon a transition to an alternative partner. The failure of third parties to provide acceptable products and services or to update their technology may result in a disruption to our business operations and those of our customers, which may reduce our revenues and profits, cause us to lose customers and damage our reputation.

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

As a global business that generates approximately 42% 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 49% 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.

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

We prepare our 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 standards 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 new 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. A significant portion of our foreign earnings for the current fiscal year were earned by our Irish subsidiaries. The Tax Cuts and Jobs Act, enacted into law on December 22, 2017, changed existing U.S. tax law applicable to us and included certain international provisions effective for us in fiscal 2019. The applicability and impact of these new tax provisions is dependent in part on changes we may make to our trading structure. The net impact of such potential change(s) is uncertain and 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 our repatriation policy, 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 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.

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.

The success of some of our product and service offerings depends on our ability to continue to attract and retain customers of 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.

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 intellectual property disputes, including those initiated by patent assertion entities, could subject us to significant liabilities, require us to enter into royalty and licensing arrangements on unfavorable terms, prevent us from licensing certain of our products or offering certain of our services, subject us to injunctions restricting our sale of products or services, cause severe disruptions to our operations or the markets in which we compete, or require us to satisfy indemnification commitments with our customers, including contractual provisions under various license arrangements and service agreements. In addition, we may incur significant costs in acquiring the necessary third-party intellectual property rights for use in our products, in some cases to fulfill contractual obligations with our customers. Any of these occurrences could significantly harm our business.

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. Global economic events, including trade disputes, economic sanctions and emerging market volatility, and associated uncertainty may cause currencies to fluctuate. 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.

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.

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.

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.

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.

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 have a $2.25 billion term loan, 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 and a $2.25 billion senior unsecured term loan 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 credit agreements 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 and term loan 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. To accurately assess and take potential proactive action as appropriate, Adobe is aligned with the guidelines of the Financial Stability Board's ("FSB") Task Force on Climate-related Financial Disclosures ("TCFD") recommendations.

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

Our cash equivalent and short-term investment portfolio as of March 1, 2019 consisted of asset-backed securities, corporate debt securities, foreign government securities, money market mutual funds, municipal securities, and time deposits. 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 March 1, 2019, 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 unimpaired.