

Investor Relations Contact

Mike Saviage
Adobe
408-536-4416
ir@adobe.com

Public Relations Contact

Dan Berthiaume
Adobe
408-536-2584
dberthia@adobe.com

FOR IMMEDIATE RELEASE

Adobe Reports Record Revenue

Strong Adoption of Cloud Solutions Drives 20 Percent Year-over-year Revenue Growth

SAN JOSE, Calif. — June 21, 2016 — Adobe (Nasdaq:ADBE) today reported financial results for its second quarter fiscal year 2016 ended June 3, 2016.

Second Quarter Financial Highlights

- Adobe achieved record quarterly revenue of \$1.40 billion, representing year-over-year growth of 20 percent.
- Diluted earnings per share were \$0.48 on a GAAP-basis, and \$0.71 on a non-GAAP basis.
- Digital Media segment revenue grew by 26 percent year-over-year to a record \$943 million, with Creative revenue growing 37 percent year-over-year to a record \$755 million.
- Strong Creative Cloud and Document Cloud adoption drove Digital Media Annualized Recurring Revenue ("ARR") to \$3.41 billion exiting the quarter, a quarter-over-quarter increase of \$285 million.
- Adobe Marketing Cloud achieved record revenue of \$385 million that represents year-over-year growth of 18 percent.
- Year-over-year operating income grew 78 percent and net income grew 66 percent on a GAAP-basis; operating income grew 45 percent and net income grew 48 percent on a non-GAAP basis.
- Cash flow from operations was \$489 million, and deferred revenue grew to \$1.68 billion.
- The company repurchased approximately 2.2 million shares during the quarter, returning \$205 million of cash to stockholders.

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

Executive Quotes

"Adobe's cloud solutions are powering digital transformation at the world's biggest brands, educational institutions and government agencies," said Shantanu Narayen, Adobe president and chief executive officer. "Our record revenue reflects our market leadership and the exploding demand for digital experience solutions."

"Record revenue with strong profit and cash flow highlight our second quarter results," said Mark Garrett, Adobe executive vice president and chief financial officer. "Based on our first half performance and momentum, we're on track to meet or exceed all of our annual fiscal year 2016 targets."

Adobe to Webcast Earnings Conference Call

Adobe will webcast its second quarter fiscal year 2016 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, financial targets and an investor datasheet are posted to Adobe's investor relations website in advance of the conference call for reference. A reconciliation between GAAP and non-GAAP earnings results and financial targets is also provided on the website.

Forward-Looking Statements Disclosure

This press release contains forward-looking statements, including those related to product adoption and innovation, business momentum, revenue, profit, annualized recurring revenue, bookings, earnings per share and operating cash flow, all of which involve risks and uncertainties that could cause actual results to differ materially. Factors that might cause or contribute to such differences include, but are not limited to: failure to develop, market and offer products and services that meet customer requirements, introduction of new products, services and business models by competitors, failure to successfully manage transitions to new business models and markets, risks associated with the timing of revenue recognition, uncertainty in economic conditions and the financial markets, risks associated with our cloud strategy, fluctuations in subscription renewal rates, risks associated with cyber-attacks and information security, potential interruptions or delays in hosted services provided by us or third parties, and failure to realize the anticipated benefits of past or future acquisitions. 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 2015 ended Nov. 27, 2015, and Adobe's Quarterly Reports on Form 10-Q issued in fiscal year 2016.

The financial information set forth in this press release reflects estimates based on information available at this time. These amounts could differ from actual reported amounts stated in Adobe's Quarterly Report on Form 10-Q for our quarter ended June 3, 2016, which Adobe expects to file in June 2016.

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

About Adobe Systems Incorporated

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

###

Condensed Consolidated Statements of Income

(In thousands, except per share data; unaudited)

| | Three Months Ended | | Six Months Ended | |
|--|--------------------|-------------------|-------------------|-------------------|
| | June 3, 2016 | May 29, 2015 | June 3, 2016 | May 29, 2015 |
| Revenue: | | | | |
| Subscription | \$ 1,083,708 | \$ 773,963 | \$ 2,153,958 | \$ 1,487,405 |
| Product | 196,500 | 274,538 | 397,612 | 565,312 |
| Services and support..... | 118,501 | 113,657 | 230,474 | 218,622 |
| Total revenue | <u>1,398,709</u> | <u>1,162,158</u> | <u>2,782,044</u> | <u>2,271,339</u> |
| Cost of revenue: | | | | |
| Subscription | 115,399 | 103,694 | 222,674 | 199,221 |
| Product | 15,756 | 21,467 | 36,055 | 41,170 |
| Services and support..... | 70,924 | 60,012 | 141,922 | 111,580 |
| Total cost of revenue | <u>202,079</u> | <u>185,173</u> | <u>400,651</u> | <u>351,971</u> |
| Gross profit..... | 1,196,630 | 976,985 | 2,381,393 | 1,919,368 |
| Operating expenses: | | | | |
| Research and development | 232,484 | 208,047 | 469,688 | 423,556 |
| Sales and marketing..... | 462,789 | 426,998 | 937,680 | 819,739 |
| General and administrative..... | 138,596 | 130,208 | 285,531 | 275,289 |
| Restructuring and other charges | (466) | 34 | (885) | 1,789 |
| Amortization of purchased intangibles | 18,988 | 18,081 | 37,382 | 32,353 |
| Total operating expenses | <u>852,391</u> | <u>783,368</u> | <u>1,729,396</u> | <u>1,552,726</u> |
| Operating income | 344,239 | 193,617 | 651,997 | 366,642 |
| Non-operating income (expense): | | | | |
| Interest and other income (expense), net | 6,083 | 3,739 | 10,270 | 7,077 |
| Interest expense..... | (17,174) | (16,605) | (35,643) | (31,150) |
| Investment gains (losses), net..... | (3,318) | 223 | (4,487) | 1,653 |
| Total non-operating income (expense), net | <u>(14,409)</u> | <u>(12,643)</u> | <u>(29,860)</u> | <u>(22,420)</u> |
| Income before income taxes | 329,830 | 180,974 | 622,137 | 344,222 |
| Provision for income taxes | 85,756 | 33,481 | 123,756 | 111,841 |
| Net income..... | <u>\$ 244,074</u> | <u>\$ 147,493</u> | <u>\$ 498,381</u> | <u>\$ 232,381</u> |
| Basic net income per share | <u>\$ 0.49</u> | <u>\$ 0.30</u> | <u>\$ 1.00</u> | <u>\$ 0.47</u> |
| Shares used to compute basic net income per share..... | 499,974 | 499,290 | 499,534 | 499,022 |
| Diluted net income per share..... | <u>\$ 0.48</u> | <u>\$ 0.29</u> | <u>\$ 0.99</u> | <u>\$ 0.46</u> |
| Shares used to compute diluted net income per share..... | 504,725 | 505,582 | 505,666 | 507,061 |

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

| | June 3, 2016 | November 27, 2015 |
|--|-------------------------|------------------------------|
| ASSETS | | |
| Current assets: | | |
| Cash and cash equivalents..... | \$ 886,379 | \$ 876,560 |
| Short-term investments..... | 3,432,029 | 3,111,524 |
| Trade receivables, net of allowances for doubtful accounts of \$5,723 and \$7,293, respectively..... | 666,736 | 672,006 |
| Prepaid expenses and other current assets..... | 253,420 | 161,802 |
| Total current assets..... | 5,238,564 | 4,821,892 |
| Property and equipment, net..... | 796,077 | 787,421 |
| Goodwill..... | 5,444,556 | 5,366,881 |
| Purchased and other intangibles, net..... | 494,193 | 510,007 |
| Investment in lease receivable..... | 80,439 | 80,439 |
| Other assets..... | 162,954 | 159,832 |
| Total assets..... | \$ 12,216,783 | \$ 11,726,472 |
| LIABILITIES AND STOCKHOLDERS' EQUITY | | |
| Current liabilities: | | |
| Trade payables..... | \$ 75,582 | \$ 93,307 |
| Accrued expenses..... | 661,013 | 679,884 |
| Income taxes payable..... | 15,774 | 6,165 |
| Deferred revenue..... | 1,633,221 | 1,434,200 |
| Total current liabilities..... | 2,385,590 | 2,213,556 |
| Long-term liabilities: | | |
| Debt..... | 1,918,389 | 1,907,231 |
| Deferred revenue..... | 48,411 | 51,094 |
| Income taxes payable..... | 273,221 | 256,129 |
| Deferred income taxes..... | 245,611 | 208,209 |
| Other liabilities..... | 96,950 | 88,673 |
| Total liabilities..... | 4,968,172 | 4,724,892 |
| Stockholders' equity: | | |
| Preferred stock, \$0.0001 par value; 2,000 shares authorized..... | — | — |
| Common stock, \$0.0001 par value..... | 61 | 61 |
| Additional paid-in-capital..... | 4,428,270 | 4,184,883 |
| Retained earnings..... | 7,444,115 | 7,253,431 |
| Accumulated other comprehensive income (loss)..... | (133,047) | (169,080) |
| Treasury stock, at cost (101,862 and 103,025 shares, respectively), net of reissuances..... | (4,490,788) | (4,267,715) |
| Total stockholders' equity..... | 7,248,611 | 7,001,580 |
| Total liabilities and stockholders' equity..... | \$ 12,216,783 | \$ 11,726,472 |

Condensed Consolidated Statements of Cash Flows

(In thousands; unaudited)

| | Three Months Ended | |
|--|---------------------------|-------------------------|
| | June 3, 2016 | May 29, 2015 |
| Cash flows from operating activities: | | |
| Net income..... | \$ 244,074 | \$ 147,493 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| Depreciation, amortization and accretion..... | 84,461 | 85,929 |
| Stock-based compensation expense..... | 85,570 | 84,649 |
| Unrealized investment losses (gains), net..... | 3,340 | (276) |
| Changes in deferred revenue..... | 68,356 | 44,772 |
| Changes in other operating assets and liabilities..... | 2,914 | 108,917 |
| Net cash provided by operating activities..... | <u>488,715</u> | <u>471,484</u> |
| Cash flows from investing activities: | | |
| Purchases, sales and maturities of short-term investments, net..... | (148,797) | 3,541 |
| Purchases of property and equipment..... | (53,759) | (35,730) |
| Purchases and sales of long-term investments, intangibles and other assets, net..... | (522) | (1,083) |
| Acquisitions, net of cash..... | (48,427) | (5,637) |
| Net cash used for investing activities..... | <u>(251,505)</u> | <u>(38,909)</u> |
| Cash flows from financing activities: | | |
| Purchases of treasury stock..... | (225,000) | (200,000) |
| Proceeds from (cost of) issuance of treasury stock, net..... | (6,297) | 2,911 |
| Repayment of capital lease obligations..... | (21) | — |
| Debt issuance costs..... | — | (153) |
| Excess tax benefits from stock-based compensation..... | 50,430 | 11,140 |
| Net cash used for financing activities..... | <u>(180,888)</u> | <u>(186,102)</u> |
| Effect of exchange rate changes on cash and cash equivalents..... | <u>(639)</u> | <u>(3,210)</u> |
| Net increase in cash and cash equivalents..... | 55,683 | 243,263 |
| Cash and cash equivalents at beginning of period..... | 830,696 | 712,884 |
| Cash and cash equivalents at end of period..... | <u>\$ 886,379</u> | <u>\$ 956,147</u> |

Non-GAAP Results

(In thousands, except per share data)

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

| | Three Months Ended | | |
|--|---------------------------|-------------------------|--------------------------|
| | June 3, 2016 | May 29, 2015 | March 4, 2016 |
| Operating income: | | | |
| GAAP operating income..... | \$ 344,239 | \$ 193,617 | \$ 307,758 |
| Stock-based and deferred compensation expense..... | 87,209 | 85,374 | 91,690 |
| Restructuring and other charges..... | (466) | 34 | (419) |
| Amortization of purchased intangibles and technology license arrangements..... | 32,567 | 40,080 | 36,264 |
| Non-GAAP operating income..... | <u>\$ 463,549</u> | <u>\$ 319,105</u> | <u>\$ 435,293</u> |
| Net income: | | | |
| GAAP net income..... | \$ 244,074 | \$ 147,493 | \$ 254,307 |
| Stock-based and deferred compensation expense..... | 87,209 | 85,374 | 91,690 |
| Restructuring and other charges..... | (466) | 34 | (419) |
| Amortization of purchased intangibles and technology license arrangements..... | 32,567 | 40,080 | 36,264 |
| Investment (gains) losses, net..... | 3,318 | (223) | 1,169 |
| Income tax adjustments..... | (9,260) | (30,829) | (50,403) |
| Non-GAAP net income..... | <u>\$ 357,442</u> | <u>\$ 241,929</u> | <u>\$ 332,608</u> |
| Diluted net income per share: | | | |
| GAAP diluted net income per share..... | \$ 0.48 | \$ 0.29 | \$ 0.50 |
| Stock-based and deferred compensation expense..... | 0.17 | 0.17 | 0.18 |
| Amortization of purchased intangibles and technology license arrangements..... | 0.06 | 0.08 | 0.07 |
| Investment (gains) losses..... | 0.01 | — | — |
| Income tax adjustments..... | (0.01) | (0.06) | (0.09) |
| Non-GAAP diluted net income per share..... | <u>\$ 0.71</u> | <u>\$ 0.48</u> | <u>\$ 0.66</u> |
| Shares used in computing diluted net income per share..... | 504,725 | 505,582 | 505,676 |

Non-GAAP Results (continued)

| | Three Months Ended June 3, 2016 |
|--|--|
| Effective income tax rate: | |
| GAAP effective income tax rate..... | 26.0% |
| Stock-based and deferred compensation expense..... | (3.6) |
| Amortization of purchased intangibles..... | (1.4) |
| Non-GAAP effective income tax rate | <u>21.0%</u> |

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.