Q1 2020 Earnings Call

Company Participants

- John Murphy, Executive Vice President and Chief Financial Officer
- Mike Saviage, Vice President of Investor Relations
- Shantanu Narayen, Chairman, President and Chief Executive Officer

Other Participants

- Brad Zelnick, Analyst
- Brent Thill, Analyst
- Jay Vleeschhouwer, Analyst
- Jennifer Lowe, Analyst
- Kash Rangan, Analyst
- Keith Bachman, Analyst
- Keith Weiss, Analyst
- Kirk Materne, Analyst
- Saket Kalia, Analyst
- Sterling Auty, Analyst
- Walter Pritchard, Analyst

Presentation

Operator

Good afternoon. I would like to welcome you to the Adobe First Quarter Fiscal Year 2020 Earnings Conference Call. Today's call is being recorded. There will be a question-and-answer session following the prepared remarks.

I would like to now turn the call over to Mr. Mike Saviage, Vice President of Investor Relations. Please go ahead, sir.

Mike Saviage {BIO 3176226 <GO>}

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 2020 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'd 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 12, 2020 and contains forward-looking statements that involve risks 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 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 {BIO 3332391 <GO>}

Thanks, Mike and good afternoon. We delivered another record quarter in Q1, achieving $3.09 billion in revenue, representing 19% year-over-year growth. GAAP earnings per share for the quarter was $1.96, and non-GAAP earnings per share was $2.27. Our strategy of unleashing creativity for all, accelerating document productivity and powering digital businesses continues to drive strong top and bottom-line performance. Adobe's unique advantage of enabling everyone from students to creative professionals to small businesses and large enterprises to create and deliver exceptional digital experiences is enabling our customers' success and fueling our business momentum.

With Creative Cloud, Document Cloud and Experience Cloud, we're growing across all geographies and industries and appealing to a broader set of customers than ever before. In our Digital Media business, we achieved record revenue in both Creative Cloud and Document Cloud in Q1. Net new Digital Media Annualized Recurring Revenue or ARR was $400 million, and total Digital Media ARR exiting Q1 grew to $8.73 billion. Q1 Creative revenue was $1.82 billion, which represents 22% year-over-year growth. The desire to create rich and expressive experiences is universal. Adobe is giving everyone including newer customer segments like business communicators and social media creators, the inspiration and tools to tell their story.

We're proud of the impact our flagship digital imaging solutions have had in shaping culture and creative expression. This year, Photoshop turns 30 years old. Photoshop has helped push the limits of creativity across a broad range of creative disciplines from photography to graphic design. It is truly the heart of the creative world and we continue to develop a steady stream of innovative new Photoshop capabilities and applications across surfaces. Demand for our mobile applications like Photoshop on iPad, Lightroom and Photoshop Express continues to grow. With more than 35 million new Adobe IDs in

Q1, mobile is proving to be a strong pipeline for paid mobile-only as well as desktop subscriptions.

Film has always had the incredible power to connect us through compelling stories and Adobe continues to be the leader in video production software. At the recent Sundance Film Festival, more than 80% of the films created used Creative Cloud. Now, more than ever, we believe every voice needs to be heard. As part of our efforts to empower diverse voices and support the next generation of film makers, Adobe launched the inaugural Women at Sundance Adobe Fellowship and renewed our commitment to the Sundance Ignite program, which supports young film makers. This quarter, Adobe Character Animator took home an Emmy for breaking new ground in television animation. This recognition reflects our continued ability to create innovative applications and establish new categories.

Adobe Spark, our easy-to-use application for creating social graphics, videos and web pages is now a top destination for hundreds of basic creative tasks. We are seeing great momentum with Spark, with organic search alone contributing more than 1 million new registered users per quarter. Business communicators and social marketers are increasingly turning to Spark to help them engage with their audiences in compelling ways. Creativity is a fundamental skill in the digital age, and we remain committed to building STEAM skills for the next generation. We recently announced a one-of-a-kind partnership with Teach for America to provide educator training, workshops and tools to put creativity front and center in the classroom. Together, in this first phase our goal is to reach 15,000 teachers and 500,000 students in the US who otherwise wouldn't have access to creative tools or programs.

Our efforts to improve digital literacy extend across the globe. While visiting India recently, I had the opportunity to meet with students who were finalists in an Adobe creativity competition. In conjunction with the 150th anniversary of Mahatma Gandhi's birth, students from 20,000 schools were encouraged to depict how Gandhi's values can help our modern world prosper. I was inspired and moved by students' messages of humanity and the brilliant ways they chose to tell their stories using Creative Cloud. With Adobe Document Cloud, we're accelerating document productivity, modernizing how people work with documents across all devices. Document Cloud revenue in Q1 was $351 million and we grew Document Cloud ARR to $1.15 billion. This momentum is being driven by strong customer acquisition and the expanding portfolio of PDF mobile and web applications. Key wins in the quarter included Equifax, Gannett, Shell and Cummins.

Acrobat continues to be the gold standard for creating, editing, scanning, signing and sharing digital documents. As more people are working on the go, our mobile app usage continues to rise. More than 600 million people have installed Acrobat on their mobile devices. As digital transformation continues at organizations across the globe, Adobe Sign continues to power paper-to-digital workflows across all industries, including the majority of Fortune 100 companies. This quarter we extended the reach of Adobe Sign with an enhanced integration with SharePoint that enables people to easily create and sign digital forms.

We recently launched the ability to convert to and from PDF via one-click access on the web, providing a seamless onramp to PDF services and an Acrobat subscription. We're providing PDF functionality through APIs and expanding integrations with partners. Our recent integration with Google Drive gives its more than 1 billion users instant access to Acrobat's best-in-class tools to create, view, annotate, modify and share PDFs without leaving Google Drive.

In our Digital Experience business, we achieved revenue of $858 million in Q1, which represents 15% year-over-year growth. Now more than ever, every business across B2C and B2B, and mid-market to enterprise must be a digital business, driving opportunity for Adobe Experience Cloud. The industry's most comprehensive offering, Adobe Experience Cloud features innovative applications and services built on the Adobe Experience Platform and leveraging Adobe Sensei's AI and Machine Learning framework. Key wins this quarter included Intuit, PayPal, Bank of America, CommonSpirit Health, Travelzoo, State of Oklahoma, Kohl's, National Instruments, Toyota Motor and Accenture.

Only Adobe has data from trillions of transactions, tens of millions of products and thousands of retailers, which gives us the unique ability to assess the global digital economy in real-time. Building on the success of our annual Holiday Shopping report, we're developing an economic index to help companies get a better understanding of local and global trends so they can anticipate changes and manage their businesses effectively in this dynamic market. A great experience starts with compelling content and is informed by data and insights. Harnessing the power of Adobe Experience Platform to stitch together siloed data across the enterprise, our recently released Customer Journey Analytics service gives our customers a set of analytics tools that provides a complete picture of the customer journey online and offline.

We're continuing to drive strong performance with Adobe Experience Manager for omnichannel content delivery. This quarter, we launched Adobe Experience Manager as a Cloud Service enabling brands to go live with personalized campaigns and experiences across any channel, device or mobile app in days, instead of months. It provides agility and flexibility for enterprises and mid-sized companies with brands like Under Armour, Coca-Cola and Morningstar becoming early customers. Adobe Commerce Cloud enables our customers to make every moment personal and every experience shoppable. With new functionality that enables merchants to natively add high-quality media assets to their websites and create personalized recommendations, we drove more than 50 percent year-over-year bookings growth.

For the third consecutive year, our industry leadership was validated in the Gartner Magic Quadrant for Digital Experience Platforms and achieved the strongest position in Completeness of Vision. The digital experience opportunity is immense, our roadmap is robust, and we're excited to have Anil Chakravarthy lead this business. Anil brings a powerful combination of business and product leadership and his impact is already being felt. We're proud to have created a unique employee culture that embraces diversity and inclusion and supports the communities in which we live and work. This commitment has made Adobe one of Fortune's 100 Best Companies for the past 20 years. This quarter we were honored for our sustainability efforts on the CDP A List for climate change for the fourth consecutive year and we were included in the Bloomberg Gender Equality Index, recognizing our transparency in gender reporting and advancing women's equality in the workplace.

While Q1 was a typically strong quarter, I know what's top of mind for all of us is navigating the impact of COVID-19. The well-being of our employees and customers is our number one priority. In addition to encouraging employees in impacted regions to work from home for the next two weeks, we are restricting travel and cancelling in-person events. In keeping with that strategy, we made the tough decision to cancel the in-person Adobe Summit in Las Vegas and replace it with a digital event at the end of the month. We are proactively engaging digitally with our current customers to support their businesses and continuing to drive enterprise pipeline globally.

We are fortunate that the company's revenue and earnings are relatively predictable as a result of our move to a subscription-based business model. We have seen little to no impact on Adobe.com for Creative Cloud and Document Cloud demand thus far and will continue to acquire and engage customers digitally. In my conversations with business leaders across the globe, it is evident that investments in digital will continue to be critical but dealing with the implications of COVID-19 is the immediate priority. As a result, we expect some enterprises will delay bookings, postpone services implementation and reduce expenses. We will be using Adobe digital solutions to mitigate impact and to engage with our customers.

While the situation is concerning and there is tremendous uncertainty, the long-term fundamentals of our business remain undiminished. Adobe is at the center of three massive market opportunities across creativity, digital documents and customer experience management which will fuel growth in the near and long term. Businesses must transform to deliver a personalized digital relationship with every customer. The paper-to-digital revolution continues. Creativity and design have never been more relevant. We will continue to lead in these categories and manage the company for the long run while we navigate through this environment. At times like this, the best companies like Adobe continue to innovate, drive increased focus and emerge stronger than ever before.

John?

John Murphy {BIO 16018871 <GO>}

Thanks, Shantanu. In the first quarter of FY20, Adobe achieved record revenue of $3.09 billion, which represents 19% year-over-year growth. GAAP diluted earnings per share in Q1 was $1.96 and non-GAAP diluted earnings per share was $2.27. Our earnings per share results include a charge related to the cancellation of corporate events including Adobe Summit due to the COVID-19 situation, which lowered both GAAP and non-GAAP EPS by $0.07 in the quarter.

Business and financial highlights in Q1 included, Digital Media revenue of $2.17 billion; net new Digital Media ARR of $400 million, a record for Q1; Digital Experience revenue of $858 million; generating strong cash flow from operations of $1.32 billion; growing

Remaining Performance Obligation, or RPO, to $9.91 billion; and repurchasing 2.4 million shares of our stock during the quarter.

In our Digital Media segment, we achieved 22% year-over-year revenue growth in Q1. The addition of $400 million net new Digital Media ARR grew the total exiting the quarter to $8.73 billion. Within Digital Media, we achieved another strong quarter with our Creative business. Creative revenue grew 22% year-over-year and we increased Creative ARR by $329 million. Q1 Creative growth drivers included strong new user growth, starting early in the quarter with Cyber Monday, followed by continued customer acquisition throughout the quarter. Single app adoption, as we target new users who are more inclined to adopt Creative Cloud through the use of a specialized application such as Photoshop, Illustrator, Premiere and Acrobat. Mobile app subscriptions, including adoption of Photoshop on the iPad, continued momentum with creative services including Adobe Stock, where revenue again grew by 30% year-over-year; and continued focus on engagement and retention.

Strong Adobe Document Cloud revenue growth continued in Q1. We achieved record Document Cloud revenue of $351 million which represents 24% year-over-year growth, and we added $71 million of net new Document Cloud ARR during the quarter. Document Cloud performance during Q1 was driven by consumer adoption of mobile apps, PDF services and Acrobat subscriptions. Conversion of free mobile app users to paid subscriptions for services such as Create PDF Online. Strong performance with enterprise customers, including new logos and renewals, and Document Cloud services adoption, including continued momentum with Adobe Sign revenue which grew greater than 20% year-over-year in Q1.

In Digital Media, the COVID-19 situation did not impact our overall business on Adobe.com in Q1. However, we did experience weakness in China, which is primarily a channel-based reseller market. In our Digital Experience segment, we achieved quarterly revenue of $858 million, which represents 15% year-over-year growth in Q1. Subscription revenue for the quarter was $739 million, growing 21% year-over-year, and we grew our Digital Experience bookings by greater than 20% year-over-year.

Q1 Digital Experience highlights include success with our Content and Commerce solutions where we drove notable adoption of Adobe Experience Manager and Adobe Commerce Cloud. During the quarter, we continued to focus on closing Adobe Experience Platform opportunities while growing the pipeline. Our strategy and value proposition continue to resonate with customers who wish to increase their digital engagement with their customers. In Digital Experience, the impact of the COVID-19 situation in Q1 was some unanticipated deal slippage during the last 10 days of the quarter.

From a quarter-over-quarter currency perspective, FX increased revenue by $1 million. We had $7 million in hedge gains in Q1 FY20, versus $12 million in hedge gains in Q4 FY19; thus, the net sequential currency decrease to revenue considering hedging gains was $4 million. From a year-over-year currency perspective, FX decreased revenue by $27 million. The $7 million in hedge gains in Q1 FY20 versus the $9 million in hedge gains in Q1 FY19 resulted in a net year-over-year currency decrease to revenue considering hedging gains of $29 million.

Adobe's effective tax rate in Q1 was minus 4% on a GAAP basis and 10% on a non-GAAP basis. Both rates were lower than targeted due to a larger-than-expected deduction associated with the vesting of stock-based compensation. The reduction in our quarterly tax rates benefited GAAP and non-GAAP EPS by $0.17 and $0.03, respectively, in the quarter. Our trade DSO was 41 days, which compares to 46 days in the year-ago quarter, and 47 days last quarter. Remaining Performance Obligation or RPO grew by 22% year-over-year to $9.91 billion exiting Q1, which compares to $9.82 billion exiting Q4. The sequential quarter-over-quarter growth was consistent with normal seasonality. Deferred revenue exiting Q1 was $3.61 billion. Our ending cash and short-term investment position exiting Q1 was $4.17 billion, and cash flow from operations was $1.32 billion in the quarter. In Q1 we repurchased approximately 2.4 million shares at a cost of $795 million. We currently have $4.25 billion remaining of our $8 billion repurchase authority which goes through 2021.

Turning to our financial targets, I'd like to review two areas as you think about modeling the rest of our fiscal year. First, our Q1 tax rates came in lower than planned as I discussed earlier, and we now anticipate both our GAAP and non-GAAP rates to be lower than we originally targeted for the full year. We continue to focus on managing costs and optimizing Adobe's international structure to deliver more value to our customers and investors. We anticipate making changes to our international structure during Q2 and Q4 of this year that will better align ownership of certain intellectual property rights with how our business operates, while allowing us to remain tax efficient. We now anticipate our GAAP quarterly tax rates to be minus 10%, 10% and minus 85%, in Q2, Q3 and Q4 respectively. The changes to our international structure do not impact our non-GAAP tax rates, and we expect our non-GAAP quarterly tax rate to be 10% in Q2, Q3 and Q4.

The second area is the consideration of business impact we could see because of COVID-19. We have factored into our Q2 targets the expected impact of the global uncertainty caused by the COVID-19 situation as we understand it to date. While our revenue and earnings are relatively predictable as a result of our subscription-based business model, we do expect to be impacted in the following areas. Enterprises deferring bookings decisions, delaying consulting services implementations and reducing marketing spend. Consumers reducing spending in countries more adversely impacted by the COVID-19 situation, and software license revenue driven by channel partners. These impacts are expected to be more prominent in countries and industries most affected by the crisis.

In Q2 FY20 we are targeting revenue of approximately $3.175 billion, Digital Media segment year-over-year revenue growth of approximately 19%. Net new Digital Media ARR of approximately $385 million. Digital Experience segment year-over-year revenue growth of approximately 12%. Net non-operating expense of approximately $14 million. Tax rate of approximately minus 10% on a GAAP basis and 10% on a non-GAAP basis. Share count of approximately 486 million shares. GAAP earnings per share of approximately $2.10 and non-GAAP earnings per share of approximately $2.35.

In summary, we continue to believe we are well positioned as the market leader in large, growing categories. The benefits of running a real-time business and the high percentage of our revenue that is recurring enables us to monitor and take action in how we drive revenue or control costs, all of which should enable us to deliver solid results as the world navigates the COVID-19 situation.

Finally, I want to share with you the news that Mike Saviage has decided to retire from Adobe later this year. As the head of Investor Relations, Mike has been an important champion of Adobe's growth and transformation story over the past three decades. We will be appointing an internal replacement and Mike will be on board for the next few months to help us transition the new leader. I want to thank Mike for his many contributions to Adobe and wish him well in his retirement.

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

Mike Saviage {BIO 3176226 <GO>}

Thanks, John and thank you for those comments. As we announced last week, we have shifted Adobe Summit, our annual Digital Experience user conference to be an online event and virtual conference starting on Tuesday March 31st. As the event draws closer, we will provide instructions on the summit.adobe.com website for how to access online keynote presentations and educational sessions, along with the timing of them. 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 888-203-1112; use conference ID 4347041. International callers should dial 719-457-0820. The phone playback service will be available beginning at 5pm Pacific Time today and ending at 5pm Pacific Time on March 19th, 2020.

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

Questions And Answers

Operator

Thank you. (Operator Instructions) We'll take our first question from Brent Thill with Jefferies. Please go ahead.

Q - Brent Thill {BIO 1556691 <GO>}

Thanks, and good afternoon Mike. Congrats on three decades. Very happy for you. Shantanu, just on the Creative business, there are many questions around, obviously no one knows how long the current situation is going to last. But many are kind of asking how insulated do you believe the Creative business is, the guidance for the next quarter was encouraging and probably a little bit better than most thought. So if you could just walk through, how you're thinking about that business over the next several quarters.

A - Shantanu Narayen {BIO 3332391 <GO>}

Sure, Brent. You know, clearly, I think, let me start off by saying we would all acknowledge that the situation is pretty unprecedented. And so as it relates to the creative business, maybe I'll give you color, not just for Q1, but also actually for the first few days of March.

And I'll talk about that in the context of the customers that we serve. And maybe again as sort of preview to what John talked about, let me just tell you a little bit about the options that we considered.

I mean clearly, given the situation we could have sort of chosen to give no forward-looking guidance. We could have provided a range given the uncertainty or what we thought was most appropriate was given we have fairly good visibility on a direct basis to guide based on a number and then provide more color. On Creative Cloud specifically Brent and on Document Cloud in the direct-to-consumer on Adobe.com, we saw actually little to no impact on Q1 on Adobe.com across all geographies for both Creative and Document Cloud products. And thus far, it's early in Q2, the overall traffic and conversion pattern have actually continued.

In China, where we have a little bit more of an indirect route to market for CC and DC, which is through resellers, we know that the business is small but we saw some impact in Q1. And as you saw, despite that we had pretty awesome overall ARR for Digital Media in Q1. In South Korea, we've actually seen relatively stable business in our Digital Media business to date. In Italy, what we saw was that as the situation worsen, we saw some impact on the reseller business, but we actually appeared to have seen some additional strength on Adobe.com and the fact that I guess we have multiple routes to market there sort of helps ameliorate that.

So, I mean in sort of conclusion, we're continuing to monitor, we think that clearly long term the Creative Expression business continues to be really strong. And specifically as it relates to Q2, absent the COVID situation, we would have probably again had sequential increase to Digital Media ARR. But we're trying to factor what we've seen a little bit of the uncertainty in the reseller impact and enterprise. And even in revenue, we have a little perpetual revenue. So, I know there was a little bit of a long answer, but hopefully that gives color in terms of all of the work that's gone in over the last 10 days. We've already done a couple of business reviews. And this is as of what we know today. While there is uncertainty, that's our best estimate of how we think this plays out in Q2.

Q - Brent Thill {BIO 1556691 <GO>}

Thanks for all the color.

Operator

We'll take our next question from Keith Weiss with Morgan Stanley. Please go ahead.

Q - Keith Weiss {BIO 6993337 <GO>}

Excellent. Thank you, guys. Thank you for taking the question. Mike, it's been great working with you. I think you're way too young for your retiring, but that's your business. Shantanu, thank you so much for kind of given that detail on how you guys are thinking about the outlook. I think it definitely helps investors to understand how you're thinking about it and that you are imparting some conservatism into the guidance for kind of what's going on out there. I was hoping to get some view from John on how you guys are thinking about the expense side of the equation. How aggressively that you will sort of look to match sort of expense growth rates to kind of what you're seeing in the environment. Is there -- are you looking at kind of protect the margins and protect the contribution margins in the business, as the demand fluctuates?

A - John Murphy {BIO 16018871 <GO>}

Sure. Thanks, Keith. As we think about our ability to understand our business, we've got a great ability with through our DDOM model or Data-Driven Operating Model to understand how we can actually drive growth while still expanding margins and protecting the profitability of the company. And that thesis hasn't changed, we are still a growth company and we do focus on the profitability of the company. So we're able to shift our expenses and our spending in our investments to appropriately capture the opportunity but at the same time be able to hit our goals of expanding operating margin as we set out at Analyst Day this year.

A - Shantanu Narayen {BIO 3332391 <GO>}

And Keith, maybe I'll add a couple more things. I mean, I think we've always done a good job of balancing the top line and bottom line. I have no doubt that companies like Adobe actually will emerge stronger as a result of this. And what John has already instituted is we are looking at every expense associated with that. There is certainly some areas where we have great online solutions to help our customers where we will be investing more. And there are other areas where we will be far more prudent as it relates to what happens. And maybe John, you can also specifically comment on what happened in Q1 as it relates to that one-time charge, so that everybody understands that.

A - John Murphy {BIO 16018871 <GO>}

Yes. So when we decided to cancel the in-person corporate events that caused us to pull in the expenses into Q1. So we made that decision before we finished Q1. So we took that charges $40 million associated with that. The -- typically much of that expense will be in Q2 and would be offset actually by revenue, we would get through registration fees for participants as well as sponsorship dollars as well. So the way that we've approached it, it is obviously the sponsors and with the participants we will not be taking that money and so we pulled all that expense forward. So that one-time charge that you had in Q1 associated with this -- with this activity was obviously a significant impact, our margin would have been 41.6% otherwise had we not had to take that charge.

Q - Keith Weiss {BIO 6993337 <GO>}

That's super helpful. Thanks so much guys.

Operator

We'll take our next question from Kash Rangan with Bank of America. Please go ahead.

Q - Kash Rangan {BIO 22095432 <GO>}

Hi, thank you very much for all the details, John. You talked about how things finished up once every quarter. I'm more curious about your guidance for the May quarter. What are the assumptions, especially as it relates to the geography that we're all most concerned about that could potentially worsen from a COVID perspective. What kind of close rates and what kind of U-shaped or V-shaped recovery are you assuming for your two businesses in the US? Thank you so much and stay safe everybody.

A - Shantanu Narayen {BIO 3332391 <GO>}

Well, Kash, I think we'd all agree that the situation is rapidly evolving, it was interesting, just even watching after 1 o'clock the six or seven announcements that went out. And so clearly we're trying to give you the best color that we have as of today and not sure that I can predict or anybody can actually predict what happens. But I think we gave you color on Digital Media, which is we continue to expect to see the notion of both creativity and accelerating document productivity and where there is a direct engagement with customers to continue to invest and engaging with them digitally and continuing to drive our business because there is clear value associated with that.

I think, maybe just similarly, I can give you a little color on the enterprise. I mean, as you know with enterprise selling, the end of the quarter represents a fairly large chunk of business for most people. And while that does not have impact on revenue and you never expect to close your entire pipeline, I think as we said in the prepared remarks as well Kash, we saw some unanticipated slippage at the end of the quarter. And so the way we've tried to think about it for Q2, I've had a ton of conversations from CEOs across all industries. And I think the two themes that are absolutely consistent, the first theme is everybody is first and foremost, making sure that they take care of the well-being of their employees, they're all dealing with travel restrictions, they're all dealing with the outbreak.

The second thing that they all tell me is that, hey, this if anything will accentuate the need to engage digitally not just internal to the corporation to keep the corporation going, but externally in order to engage with customers. But given what's happening with travel, we just expect that there is going to be some delays associated with that, we've tried to factor that in. And the way I would describe that is absent any COVID, we would have certainly seen Digital Experience being targeted higher than what we targeted. So I think we've tried to factor it in and maybe just a little bit more color on that Kash. When you look at the revenue components for our business, there are three components. There is the revenue that comes off of bookings, bookings translating into revenue. There is usage-based advertising Cloud revenue that goes into that. And there's delivery-based, our revenue and services are delivered and implemented.

We suspect that the services will go out a little bit. The importance remains but as people are concerned about people traveling, that will perhaps slow down a little bit. And depending on the industry or vertical that will be different. Some of it may be more immediate in terms of the bounce back, some of it may be a little bit more detailed. And so what we know is that we expect bookings will probably take a little longer. We think services, delivery may go a little bit longer. We feel like the Advertising Cloud might be impacted. Those are all factored into how we thought about it. If the world falls apart, that could certainly change. But we will continue to monitor it. What I have not heard from anybody is any issue associated with keeping digital front and center, because I think this demonstrates more than ever before if you can't engage with your customers digitally, you're dead in the water. So hopefully that helps.

Q - Kash Rangan {BIO 22095432 <GO>}

Absolutely. Thank you so much.

Operator

We'll take our next question from Sterling Auty with JPMorgan. Please go ahead.

Q - Sterling Auty {BIO 2070271 <GO>}

Yeah, thanks. Hi guys. So, Shantanu I'm just curious if anything with COVID-19 would actually impact any new product introduction in terms of feature functionality or any changes that may be you would have considered in the near term around pricing in any of the geographies?

A - Shantanu Narayen {BIO 3332391 <GO>}

Sterling, not to the best. I mean, we are excited. We will be doing our first digital Summit, so Anil Chakravarthy is busy. I mean, all the exciting things that we were going to announce in person, the plan is to announce it actually virtually coming up. A couple of exciting things there. I mean the Adobe Experience Manager that we just introduced which is a cloud-based approach, that significantly again, I think as we said, reduces the time for people to do through self-serve and get new websites and campaigns up and running.

So on the Experience side, it was really going to be an event where we describe everything that's on. Now with the Creative Cloud space as well, I mean, I think there's one group that works more from home and has a more flexible work policy, it tends to be the product team. So I think we're all navigating what it means for nobody to be in offices, Sterling. But I think we're actually as well placed as anybody in terms of doing it. The one other thing I'll mention is we are actually for universities given how much, universities closure that there is, we're making available our Creative and other tools available for people for this online training.

And so I think while the situation is crazy, I think there are a whole bunch of our solutions, whether it's all the documents that are going to be shared right now, whether what's going to happen with signatures, whether what you're going to do with respect to helping people engage digitally. So nothing yet that's changed, it all depends on how long the situation continues from my perspective, Sterling.

Q - Sterling Auty {BIO 2070271 <GO>}

And Mike congratulations, it's been one (inaudible) you've done a great job as IR. So, congratulations and enjoy your retirement.

A - Mike Saviage {BIO 3176226 <GO>}

Thanks, Sterling.

Q - Sterling Auty {BIO 2070271 <GO>}

We'll take our next question from Saket Kalia with Barclays Capital. Please go ahead.

Q - Saket Kalia {BIO 16417197 <GO>}

Hi guys, thanks for taking my question here, and I echo my congrats to you as well, Mike, on your retirement. Shantanu, maybe for you just thinking a little higher level. Can you just talk a little bit about bringing Anil Chakravarthy on to the team? And maybe what's some of his longer-term goals are in the Digital Experience business?

A - Shantanu Narayen {BIO 3332391 <GO>}

Sure, Saket. I mean, I think we are clearly the undisputed leader and have the most comprehensive offering as it relates to when we created the Digital Marketing category. I think as we focused on what we call as generational technology platform development, we recognize that the ability to create this unified profile and to really make sure that your first-party data you're taking more advantage of it were two massive opportunities that every enterprise was going to have to figure out how to take advantage of much like Adobe did with our DDOM.

Anil's background as it relates to what he had done both at Informatica and prior to that, and the fact that as CEO, he had the ability to look across the entire business. Both of those are going to be extremely important for us as we continue to invest in product and as we continue to focus on ensuring that the CIO and the people who engage with data, which is an area that he is completely familiar with are ones that we continue to invest in and differentiate our solution. It's early, as I said, his presence is already being felt. But what he has been really up to is going and meeting with a number of customers. I may have to ground him for a little while right now, but he also actually have the ability to go meet with all the product people. So I think both on the product and the customer stuff, just continuing to make sure that we extend our lead, and have a unified leader. Those were really the two reasons for having him on board.

Q - Saket Kalia {BIO 16417197 <GO>}

Great. Thanks.

A - Shantanu Narayen {BIO 3332391 <GO>}

Thank you.

Operator

We'll take our next question from Jay Vleeschhouwer with Griffin Securities. Please go ahead.

Q - Jay Vleeschhouwer {BIO 1498201 <GO>}

Thank you. Good evening. A shorter-term question, and Shantanu and for you, John as well. I noticed that you had a small sequential decrease from Q4 in your head count, which we've not seen in a while. On the other hand, a quick spot-check this afternoon shows that you continue to have a growing number of open positions by rather substantial amount since the end of fiscal '19 your total open positions, up over 60% including a more than doubling in sales positions. So maybe talk about that, what the thinking is behind maintaining or growing that large number of open positions in terms of priorities and by product or GL and so forth. And Michael, what can I say, it's been a great two-thirds of my Adobe coverage to have worked with you and we'll hope to get together before you leave. Thank you very much.

A - Mike Saviage {BIO 3176226 <GO>}

Thanks, Jay.

A - Shantanu Narayen {BIO 3332391 <GO>}

Well, first, Jay, I would say, apart from this recent COVID, what we would all be talking about is we've got this $128 billion addressable market opportunity, we have tailwinds, we have growth in three areas, I think what you saw was really concerted effort again by John to rationalize, as we had done these M&As and to make sure that we're not duplicating functions. And so I think as part of every annual planning process, we first prove to make sure that we're investing in the right areas and I think we did a really good job of looking at that.

So for somebody like you who follows us and sees that sort of ebb and flow, it's just a continuous process that we do. We have opportunities, I mean we're going to continue. I think again based on the question that I think Keith asked, we'll be prudent about how we look at this stuff. But even if you look at our targets for Q2, I think you'll see that we are one of the companies that's best positioned in the entire industry to continue to make sure that we have cash flow. So, we have great exciting opportunities, and we're going to continue to hire. But we'll be prudent and we'll continue to monitor this.

Q - Jay Vleeschhouwer {BIO 1498201 <GO>}

Thanks, Shantanu.

Operator

We'll take our next question from Kirk Materne with Evercore ISI. Please go ahead.

Q - Kirk Materne {BIO 5771115 <GO>}

Yeah, thanks very much. I guess at the outset, I'd say, thanks very much for the guidance with COVID. And I realize things are moving quickly but even just the color you've given today I think it's more helpful and just help us think where this adequacy [ph] evolve. And my question Shantanu would be on the Experience Cloud obviously a year later I think you integrate the acquisitions, if we weren't talking about COVID right now, how is your feeling about just sort of the integration of the products and the set up for that business as we had entered calendar 2020?

A - Shantanu Narayen {BIO 3332391 <GO>}

Yeah, I think Kirk, what we would have said absent COVID was good Q1, greater than 20% increase in the book of business, revenue growing nicely, highlighting the progress that we would have made, I think I shared a number of customers. We've had the Experience Platform customers go live. I would have talked about Cloud AUM. I think we touched on

Adobe Commerce. And that's only because I wouldn't have had time to talk about what we are doing with B2B and B2C, how we've integrated Marketo into that.

And so I think that fundamental customer demand for Digital and for Engagement nothing changes. And so that's what I would have said, if it weren't for this situation would be Q1. I mean, in fact what we would have been John and I would have been here talking about record performance in Q1, continued momentum from Q4, robust cash flows, strong EPS performance. And I think all of you guys would have been saying, why aren't you raising targets if it weren't for COVID. And so I think -- I continue to feel good about the long-term opportunity.

Q - Kirk Materne {BIO 5771115 <GO>}

That's great. Thanks. And Mike congrats on your retirement.

A - Mike Saviage {BIO 3176226 <GO>}

Thanks, Kirk.

Operator

We'll take our next question from Brad Zelnick with Credit Suisse. Please go ahead.

Q - Brad Zelnick {BIO 16211883 <GO>}

Great, thank you so much. And Mike, I got to echo my congrats. I always thought maybe I would be able to retire before you but not with how the market have been performing in the last few weeks, for sure, I think I'm going to be working a long time. But anyway Shantanu thank you so much for all the color you provided on Digital Media so far. But just wanted to understand its resiliency because realistically if we think about your end markets, it includes a lot of small businesses and hobbyists. Were there may be more stress or not thought of as much as a top of wallet item? Are you may be able to share what that represents as a percentage of the overall ARR even ballpark if you can? And what's the leading indicators are that you see through your DDOM to being able to see things like engagement renewal rates, maybe even by SKU as it relates to the segment of the market? Thanks.

A - Shantanu Narayen {BIO 3332391 <GO>}

You're right, Brad, in that the real blessing of that business is how broad and how diverse it is and how our tools, whether they'd be on the creative side or whether they'd be on the document side or as pervasive and market leaders as they are. We tried to give the color, even during this current situation and the impact. And as we said on Adobe.com, there's been little to no impact. We have become really good at how we engage with these customers. And the thing that also gives us long term confidence in that, Brad, is there are different price points. And so you have to think about it with respect to the different price points that we have, and we've got really good at understanding where the mobile offerings need to be.

With all these people being at home, they will have to do some things and hopefully expressing their creativity. We just have to continue to help them do that. And so we're not saying that we're completely going to be unimpacted. But so far, and just looking at what we've seen thus far, these tools and creativity and the importance of design, nothing that's happened in the last few weeks, diminishes the importance of that.

Q - Brad Zelnick {BIO 16211883 <GO>}

Thanks very much Shantanu, and be healthy everyone. Thanks.

A - Shantanu Narayen {BIO 3332391 <GO>}

Thanks, Brad.

Operator

And we'll take our next question from Jennifer Lowe with UBS. Please go ahead.

Q - Jennifer Lowe {BIO 6926228 <GO>}

Great, thank you. And I would like to echo the congrats to Mike on a well-deserved retirement after pretty impressive run. So just looking at the slip deals that were discussed in the call, obviously, it sort of unprecedented times and there's a lot of moving pieces there. But is there any sort of commonalities to the deals that seem to slip in terms of size, whether those were new versus upsell transaction, whether they were sort of just logistical issues that cropped up? I'm just trying to get a better sense of where it's tougher to get business done at this point. Thanks.

A - Shantanu Narayen {BIO 3332391 <GO>}

There weren't really any patterns, Jennifer. I mean I think there was a couple of, if people were at home and you know you expect that to have people in the office to close. So, just some examples of in certain countries where people were maybe not at work. I mean you followed enterprise software for a long time, there are number of stakeholders that are required, we do use Adobe Signature to close them. But I would say it's a little bit more of just getting the stakeholders involved and I would actually attributed to a large degree to the preoccupation correctly of dealing with employees and employees well-being. I mean I'm sure this is true of your company as well.

Everybody is just dealing with are employees safe, how do we make sure, all of that. So I would attribute it more to that and we'll just have to continue to monitor what happens. But the conversations that I'm having and we are -- so one of the things we're doing is actually proactively reaching out to every single customer of what is the right way to engage with them digitally in terms of saying, here's how we can help. I think all of you are probably seeing more communication. I should acknowledge that a number of the deals that slipped actually did close in the time there was past cut, but it's uncertain time. So hopefully that gives you some color into what we were observing.

Q - Jennifer Lowe {BIO 6926228 <GO>}

Great. Thank you.

Operator

(Operator Instructions) We'll hear next from Walter Pritchard with Citi. Please go ahead.

Q - Walter Pritchard {BIO 4672133 <GO>}

Hi, thanks. Two questions. One, just on Sign, you've talked pretty positively about this business for a number of quarters. I'm wondering if you could update us on what are the strongest demand drivers there? Are they kind of direct deals out selling as part of larger engagements or is it more transactional attached to Acrobat and especially in the mid-market low end.

A - Shantanu Narayen {BIO 3332391 <GO>}

I think, Walter, it's actually all across the map, we had a good quarter as it related to Sign revenue and make no mistake the reader distribution and wanting to do stuff with PDF and workflows associated with PDF. That's a big part of that business. We've talked about how we are going to make those APIs available as well so that people can embed it. We talked a little bit about the integration with Google, but it's all across. I mean as a ingredient service or a web as we talk about it, Sign is certainly part of the solution across all those segments. As a complete offering with respect to what we have with PDF across Acrobat and in the enterprise and with Adobe Experience Manager. But it really is across the board.

And I think you're going to see more demand for those services right now because physical signatures are going to be less easy to manage than electronic signatures.

Q - Walter Pritchard {BIO 4672133 <GO>}

Got it. And then just, John. I'm not sure if you're breaking this out, but I guess we're getting this question quite a bit. On the DX business with the transactional piece where we broke out those three pieces. Anyway to give us, let us know if that's the smallest of the piece or any range in terms of revenue exposure from transactional in DX would be helpful.

A - John Murphy {BIO 16018871 <GO>}

Yeah. If you go back to the analyst meeting, we broke out each of those three components for you. And so you can see that it's actually roughly 20% of the business, 25% of the total DX business in terms of our cloud and professional services space.

Q - Walter Pritchard {BIO 4672133 <GO>}

Okay. That hasn't changed.

A - Shantanu Narayen {BIO 3332391 <GO>}

No.

Q - Walter Pritchard {BIO 4672133 <GO>}

Okay, thank you very much.

A - John Murphy {BIO 16018871 <GO>}

Operator. We're coming up on the top of the hour, we'll take one more question, please.

Operator

Thank you. We'll take our last question from Keith Bachman with BMO. Please go ahead.

Q - Keith Bachman {BIO 3018411 <GO>}

Hi, thank you very much. Shantanu, I just wanted to revisit, a little bit on the Experience revenue. You're guiding the current quarter, the second quarter rather, to 12% year-over-year growth. Back in December, you talked about the growth potential for '20 being plus or minus 16%. Just how should we think about the rest of the year in the Digital Experience segment given macro is really tough and the COVID virus obviously is making it challenging but also including any kind of competitive comments that you want to make surrounding it. Thanks.

A - Shantanu Narayen {BIO 3332391 <GO>}

Yeah, I think what we see frankly right now is the color associated with what's happening in Q2. As you know, in December, we provide targets based on the product roadmap. And from my perspective, Q1 execution and performance was terrific. And while we are giving you as much color as we know for Q2 as of today, given the unprecedented times, we're really not going to comment on the second half, we will continue to monitor, none of this changes long-term trends. And so that's how we think about it.

A - John Murphy {BIO 16018871 <GO>}

And maybe I could just add in there, because we didn't give a lot of commentary in the prepared remarks around updating tax rates for the year because of the fluctuation. And I know in terms of modeling the folks have been asking what do we think about beyond FY20. And so as we said at the Analyst Meeting, we expected an increase in FY21. And so based on these changes that I highlighted in my prepared remarks on the tax rates, you can kind of expect FY21 to be roughly 17% non-GAAP rate about 19% on a GAAP basis.

A - Shantanu Narayen {BIO 3332391 <GO>}

And since that was the last question, let me also echo, I think all of your sentiments which is thank Mike for his outstanding contributions to Adobe. I've certainly observe firsthand his passion for the business and his IR leadership has been invaluable to me as a partner as we've transformed the company. I told them that we've been doing this call together since 2001 and I will certainly miss him and wish him well. But with his help, we will make sure that we have a smooth transition. So thank you, Mike.

As it relates to the business, Q1 was strong, we will continue to execute on our strategy and focus on the three large opportunities ahead of us, unleashing creativity, accelerating document productivity and powering digital businesses. And I don't think that the recent situation changes the relevance or importance of any of this for our customers and it will only magnify the need to go digital with more urgency.

Given the situation is fluid we tried to give you as much insight into what's happening in our business. The demand for Creative Document and Enterprise is strong, but the impact, as we said of COVID will probably would be felt a little bit more in the short term in the Enterprise business. But again, we believe that we're better positioned than most to continue to innovate, to drive both top and bottom line and emerge stronger and more mission-critical. We really hope you guys will join us for our Digital Summit. And much like a number of you have said, stay safe and thank you for joining us today.

Operator

Thank you. This concludes our call.