Q3 2021 Earnings Call

Company Participants

- John Murphy, Executive Vice President and Chief Financial Officer
- Jonathan Vaas, Vice President-Investor Relations
- Shantanu Narayen, Chairman, President, and Chief Executive Officer

Other Participants

- Alex Zukin
- Brad Sills
- Brent Thill
- Gregg Moskowitz
- J. Derrick Wood
- J. Parker Lane
- Jay Vleeschhouwer
- Kash Rangan
- Keith Weiss
- Ken Wong
- Kirk Materne
- Michael Turn
- Saket Kalia

Presentation

Operator

Good day and welcome to the Q3 FY '21 Adobe Earnings Conference Call. Today's call is being recorded. At this time, I'd like to turn the conference over to Jonathan Vaas, VP of Investor Relations. Please go ahead.

Jonathan Vaas {BIO 21700508 <GO>}

Good afternoon, and thank you for joining us. With me on the call today are Shantanu Narayen, Adobe's President and CEO; and John Murphy, Executive Vice President and CFO. On this call, which is being recorded, we will discuss Adobe's third quarter fiscal year 2021 financial results. You can find our Q3 press release, as well as PDFs of our prepared remarks and financial results on Adobe's Investor Relations website.

The information discussed in this call, including our financial targets and product plans, is as of today, September 21, and contains forward-looking statements that involve risks, uncertainties and assumptions. Actual results may differ materially from those set forth in these statements. For a discussion of these risks, you should review the factors discussed in today's press release and in Adobe's SEC filings.

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

I will now turn the call over to Shantanu.

Shantanu Narayen {BIO 3332391 <GO>}

Thanks, Jonathan. Good afternoon. I hope you are all staying safe and healthy. Adobe had another outstanding quarter as people across the globe continue to embrace new ways of storytelling, learning and customer engagement in a digital-first environment. This quarter, we delivered significant new product innovations, announced the exciting acquisition of Frame.io and continued to increase customer engagement across an ever-expanding customer base. We're executing on our strategy of unleashing creativity for all, accelerating document productivity and powering digital businesses as reflected in our strong performance.

In Q3, Adobe achieved $3.94 billion in revenue, representing 22% year-over-year growth. GAAP earnings per share for the quarter was $2.52 and non-GAAP earnings per share was $3.11. In Q3, we drove record performance in our Digital Media business, achieving $2.87 billion in revenue, representing 23% year-over-year growth. Net new Digital Media annualized recurring revenue or ARR, was $455 million and total Digital Media ARR exiting Q3 grew to $11.67 billion.

Creativity has always played a central role in the human experience. Over the last year, we have all witnessed the way creativity has sustained us. We've shared photographs with loved ones on different continents, taught art classes to students at their kitchen tables and launched entirely new businesses online. Building on decades of leadership, Adobe continues to pave the way in core creative categories, including photography and design, while pushing the boundaries across a wide range of emerging categories, such as AR and 3D.

Whether it's the latest binge-worthy streaming+ series, a social media video that sparks a movement, or a corporate video, creation and consumption of video is experiencing explosive growth. In August, we announced an agreement to acquire Frame.io, a leading cloud-based video collaboration platform. Video editing is rarely a solo activity and it's traditionally been highly inefficient. Frame.io streamlines the video production process by enabling editors and key projects stakeholders to seamlessly collaborate using cloud-first workflows.

The combination of our leading video editing offerings, including Photoshop, Premiere Pro and After Effects with Frame.io's cloud-based review and approval functionality will radically accelerate the creative process and deliver an end-to-end video platform. The addition of Frame.io creates an opportunity for Adobe in conjunction with the partner ecosystem to expand beyond video editors to a broader set of customers, teams, and enterprises. We hope to close the Frame.io transaction in Q4 and look forward to welcoming the team to Adobe.

Next month, we'll host Adobe MAX, the world's largest creativity conference. MAX has always been the place to be inspired, connect with the creative community and experience the latest Creative Cloud innovations. Our programming will feature iconic speakers, including Oscar-winning writer, director, producer Chloe Zhao, actress Tilda Swinton and SNL star and executive producer, Kenan Thompson. This year's fully digital experience allows us to expand our reach and engage with more people across our global creative community than ever before. MAX will be hosted on Adobe's custom digital event platform built on Adobe Experience Cloud.

In Q3, we achieved Creative revenue of $2.37 billion with strong new user acquisition, engagement and renewal across all Creative products and geographies with particular strength in our Creative Cloud for Teams offering.

Q3 Creative Cloud highlights include: innovative enhancements to our photography offerings, including new services and AI-driven capabilities in Lightroom; Creative Cloud applications now running natively on Apple's new Silicon M1 chip, delivering a boost in performance; the release of Adobe Substance 3D Collection, a suite of interoperable tools and services that support 3D creativity; partnerships, such as "The Great Untold" with Netflix, enabling next-gen creators to tell their stories; and key customer wins at the Department of Education of the Philippines, Facebook, Nike, Rutgers University and the U.S. Department of the Interior.

Document Cloud is accelerating document productivity by powering the paper-to-digital revolution and enabling all document actions to be frictionless across the web, desktop, and mobile. From complex legal documents to sales contracts to employee welcome kits, documents are at the core of work. Using the power of AI with Adobe Sensei, Document Cloud is automating workflows and adding new value across all Document verbs. In Q3 Document Cloud achieved record revenue of $493 million, growing 31% year-over-year. Driving this performance was increased unit demand for Acrobat subscriptions globally and strength in the SMB segment.

Q3 Document Cloud highlights include: continued adoption of Adobe Sign in Acrobat with transactions growing over 10x in the last three years; growth across Acrobat web and frictionless PDF, which optimize the customer journey and capture organic search-driven demand; increased adoption and usage of mobile applications, including Acrobat, Scan and Sign with over 100 million monthly active users; proliferation of Liquid Mode, an adaptive and responsive mobile experience with over 300 million PDF files reflowed in the last year; key customer wins at Daimler AG, Fujifilm, Micron, and PwC.

Businesses of every size across every category are investing in customer experience management. Adobe Experience Cloud is powering CXM for B2B and B2C companies with applications focused on customer journey management, data insights and audiences, content and personalization, commerce and marketing workflows. Adobe Experience

Cloud empowers companies to deliver predictive, personalized, real-time digital experiences across every touchpoint of the customer lifecycle.

In the digital economy, companies are relying on digital presence and commerce as the dominant channel to drive business growth. According to the Adobe Digital Economy Index, U.S. consumers spent over $541 billion in e-commerce from January through August, 58% more than what we saw two years ago.

In Q3, we delivered Experience Cloud revenue of $985 million, driven by strong performance across both subscription and professional services. Q3 subscription revenue was $864 million, representing 29% year-over-year growth. As businesses reopen around the world, interest in Adobe CXM solutions as an enterprise priority is resulting in increasing spending in both software and services.

Q3 Experience Cloud highlights include: product innovations including new personalization capabilities in Adobe Experience Cloud to help customers move from third-party cookies to first-party data strategies; workfront momentum, reflecting the need for workflow and collaboration to deliver global campaigns and growing customer interest in a pioneering marketing system of record; key partnerships in commerce with Walmart to integrate their omnichannel fulfillment technologies and with PayPal to offer a robust, secure and integrated payment solution for companies of all sizes; continued industry analyst recognition, including being recognized as a leader in the Forrester Wave, digital experience platforms and achieving the highest score of all participating vendors for current offering.

Adobe was also named a leader in the 2021 Gartner Magic Quadrant for personalization engines and a leader in the Gartner Magic Quadrant for digital commerce. Strong customer adoption of Adobe Sensei-powered capabilities in the Adobe Experience Cloud as over 80% of customers now rely on our AI-powered capabilities to drive data insights and optimizations. Key customer wins at Accor, the Australian government, Bertelsmann, Capital One, CVS Pharmacy, Daimler AG, Facebook, Ford Motor Company, Fidelity Brokerage Services, Honeywell, Real Madrid, and The GAP.

Adobe's strength has always come from our most important asset, our people. I want to thank our 25,000-plus employees for their dedication and resilience, our customers and partners for their trust, as we continue to navigate a dynamic external environment. I'm proud of the continued industry recognition we receive as a great and equitable place to work.

This quarter, Adobe received a 100% score on the Disability Equality index for Best Places to Work for disability inclusion and we were named to People Magazine's Companies that Care list for the fifth consecutive year.

Last week, we held our Adobe for All virtual conference designed to bring employees together around our shared values of diversity, equity, and inclusion. As part of that event, we reaffirmed pay parity. We continue to pioneer opportunity parity to ensure that employees are offered equal career development and growth across all demographic groups.

As part of our ongoing efforts to bring in more diverse talent, Adobe has established partnerships with historically black colleges and universities and Hispanic-serving institutions. This new program offers a $1 million donation to schools, scholarships, internships and career readiness programs. Our goal with these deep focused partnerships is to provide opportunities for students to learn technology and creative skills. The health and safety of our employees remain our top priority. Our offices are slowly reopening to fully vaccinated employees on a voluntary basis.

As we look ahead to the future of work at Adobe, we will remain hybrid and flexible and continue to do what's best for our employees and our business. I'm confident that Adobe's culture of innovation, category-defining products, strong brand, and the unwavering dedication of our employees will drive our continued business success and a strong close to the fiscal year. John?

John Murphy {BIO 16018871 <GO>}

Thanks, Shantanu. Our financial results feature strong growth across revenue, Digital Media ARR, Digital Experience subscription revenue, RPO and EPS, demonstrating the power of our category-defining offerings. In a digital-first world, Adobe's market opportunity is larger than ever and we are investing for sustained growth through product innovation and by driving awareness and demand for our products with customers of all sizes. With our data-driven operating model or DDOM, we continue to leverage our Experience Cloud technology to create personalized experiences for our customers in real-time, driving traffic to Adobe.com and app stores to acquire new customers.

As a result, in Q3, Adobe achieved record revenue of $3.94 billion, which represents 22% year-over-year growth. Business and financial highlights included: GAAP diluted earnings per share of $2.52 and non-GAAP diluted earnings per share of $3.11; Digital Media revenue of $2.87 billion; net new Digital Media ARR of $455 million; Digital Experience revenue of $985 million; cash flows from operations of $1.42 billion; RPO of $12.63 billion exiting the quarter; and repurchasing approximately 1.7 million shares of our stock during the quarter.

In our Digital Media segment, we achieved 23% year-over-year revenue growth in Q3 and we exited the quarter with $11.67 billion of Digital Media ARR.

As anticipated, with regions beginning to reopen across the globe, we saw pronounced summer seasonality in Q3. This is consistent with the experience of businesses across industries, as evidenced by data from the Adobe Digital Index, which showed that June and July marked the highest consumer travel season in 2 years. This correlated with lower web traffic, while individuals enjoyed their summer holidays. We do see continued recovery in the SMB segment associated with the reopening.

We achieved Creative revenue of $2.37 billion, which represents 21% year-over-year growth and we added $348 million of net new Creative ARR. Our strong Q3 results demonstrate continued demand for our offerings and execution driven by our DDOM insights. Third quarter Creative growth drivers included strong engagement, retention and renewal across all Creative products and customer segments; new user acquisition for Creative Cloud All Apps, driven by global marketing campaigns; continued recovery in the SMB segment with our Creative Cloud for Teams offering, including through our reseller channel; driving subscriptions for our flagship products, including our photography and video applications on both desktop and mobile; and adoption of our 3D and immersive applications, including Adobe Substance.

Adobe achieved Document Cloud revenue of $493 million, which represents 31% year-over-year growth and we added $107 million of net new Document Cloud ARR in the quarter. Digital documents are essential to the changing nature of work and we saw the paper-to-digital transformation continue in Q3 as Document Cloud remained our fastest-growing business. Third quarter Document Cloud growth drivers included adoption of Sign in Acrobat driven by the increased need to collaborate in a hybrid work environment; increasing unit demand for Acrobat subscriptions globally; strength in new licensing and renewal for our Acrobat for Teams offering in the SMB segment; and continued adoption of our Acrobat web and Acrobat mobile offerings.

Turning to our Digital Experience segment. In Q3, we achieved revenue of $985 million, which represents 26% year-over-year growth. Digital Experience subscription revenue was $864 million, representing 29% year-over-year growth. We continue to see subscription revenue acceleration in Digital Experience as large and midsized enterprises increase their investments in customer experience management. Business performance in Digital Experience during the quarter was driven by strong deal volume, including several large Adobe Experience Platform deals; momentum in Adobe Commerce, with strong revenue growth and new customer acquisition; merchant services growth through new strategic partnerships; increasing adoption of our Workfront and Customer Journey Management offerings; strong customer retention, as we focus relentlessly on value realization for our customers; and demand for Adobe's professional services.

Operating expenses increased in Q3 as we continued to make strategic investments and increased headcount. We began to reopen our facilities and return to moderate levels of business travel. The majority of our employees continue to work from home, while the return to business travel is expected to ramp slowly. And we expect to further ramp our hiring in Q4. From a quarter-over-quarter currency perspective, the impact of FX net of accounting for hedging activities caused a sequential currency increase to revenue of $10 million. From a year-over-year currency perspective, the impact of FX net of accounting for hedging activities caused a currency increase to revenue of $80 million.

Adobe's effective tax rate in Q3 was 14.5% on a GAAP basis and 16% on a non-GAAP basis. The sequential reduction in our GAAP tax rate is primarily due to a decrease in U.S. tax accrued on foreign earnings and tax benefits associated with share-based payments. Our trade DSO was 36 days, which compares to 37 days in the year-ago quarter, and 35 days last quarter. RPO grew by 22% year-over-year to $12.63 billion exiting Q3, benefitting from strong enterprise licensing during the quarter. Our ending cash and short-term investment position exiting Q3 was $6.16 billion. Cash flows from operations in Q3 were

$1.42 billion, sequentially down from Q2 due to increases in prepaid expenses, income tax payments and a decrease in accrued expenses.

We repurchased approximately 1.7 million shares in the quarter at a cost of $1 billion. We currently have $14.1 billion remaining of our $15 billion authority granted in December 2020, which goes through 2024. The following Q4 targets factor current macroeconomic conditions and typical year-end seasonal strength, including an expected increase in back-to-school spending and year-end enterprise licensing strength. Total Adobe revenue of approximately $4.07 billion; Digital Media segment revenue growth of approximately 20% year-over-year; net new Digital Media ARR of approximately $550 million; Digital Experience segment revenue growth of approximately 22% year-over-year; Digital Experience subscription revenue growth of approximately 26% year-over-year; tax rate of approximately 17% on a GAAP basis and 16% on a non-GAAP basis; share count of approximately 480 million shares; GAAP earnings per share of approximately $2.52; and non-GAAP earnings per share of approximately $3.18.

Given Adobe's year-to-date performance and our Q4 targets, we are clearly on track to exceed our updated annual targets for fiscal 2021 provided in March. With the massive opportunities across creativity, digital documents and customer experience management, we continue to invest and drive strong business results.

I will now turn the call over to the operator to take your questions.

Questions And Answers

Operator

(Question And Answer)

Thank you. (Operator Instructions) We'll take our first question from Alex Zukin with Wolfe Research. Please go ahead.

Q - Alex Zukin {BIO 18006605 <GO>}

Hey, guys. Thanks for taking the question. Maybe just -- can we double click on the seasonality commentary in the quarter. Because if we look at the beat versus guidance on kind of net new digital media ARR, it looks -- yes, at the same time, you had kind of the weakest beat, but then the strongest guide in the last three years, which kind of speaks to and confirm some of those seasonality comments that you made. Can we just dive in to get a better sense of exactly what drove that for the Creative Cloud business and then separately, what you're seeing in the enterprise adoption, particularly around AEP and on the CDP front that's driving some of the really strong guidance there?

A - Shantanu Narayen {BIO 3332391 <GO>}

Happy to do that, Alex. So first on your DME question, as it related to the ARR, overall, we were really pleased. And I think it really speaks to the strength of our DDOM and the insights that we get associated with the business. I think going into the quarter, we had expected that the consumer with a little bit more return to normalcy as what's happening in the environment. Now, this may have been a little prior to the Delta variant that we expected travel to increase and therefore, as a result as summer seasonality and summer holidays was really sort of a two-year time-off from what they had to do. So, as expected, we saw a little bit of less web traffic on that particular front.

The SMB was a highlight for us. The SMB, which was impacted a little bit more. We are continuing to see strengths associated with the SMB. And to your point about the guide, I mean I think our optimism and the relevance of our products and what's happening with digital as a tailwind really leads us to guide as you pointed out to $550 million, which would be the largest ever guide that we've given for a Q4. And if you take a step back, relative to the approximately $1,750 million ARR guide that we had given at the beginning of the year or the $1.8 billion that we had given in March, we're going to exceed easily all of those numbers.

So as it relates to individual categories, imaging continues to do really well; video continues to do well; the Acrobat business, which is reflected both in the Creative Cloud and the Document Cloud is doing well; MAX is going to be an exciting. So net-net, I would say that the growth prospects for that particular business and the growth drivers remain intact, but again, very much in line. And this is what we feel good about the insights that we're getting on the business. So that's to answer your question on DME. And again, remember, we have a seasonally strong quarter in Q4 for DME. The enterprise deals tend to be a Q4. We also see education start to ramp up in Q4. So that hopefully gives you some color as to what happened in Q3 and what we expect in Q4.

And on the DX side, to your second question, really pleased with what we saw in the adoption of the Adobe Experience Platform and the applications on top of that, the Adobe Journey Optimizer, the Customer Journey Analytics, continue to see strength. I think we're very unique and differentiated in the platform that we have the real time nature of what we are doing with personalization. And again, there, I think if -- last year there was a lot of interest in that particular digital transformation and customer experience management. I think people recognize that this needs to be an enterprise spend priority for all of the businesses, irrespective of size, which is why both in terms of the Q3 performance as well as the Q4 targets we continue to think that Digital Experience will also do well. So hopefully, that gives you color on both, Alex.

Q - Alex Zukin {BIO 18006605 <GO>}

It does. Thanks. Thanks a lot, Shantanu.

Operator

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

Q - Kirk Materne {BIO 5771115 <GO>}

Hi. Yes, thanks very much and congrats on the quarter. Shantanu, I was wondering if you could expand a little bit more on a couple of the bigger experience platform wins that you had. Are these existing customers competitive? And I guess if you had to step back, what's helping you all win these kind of larger deals? I was also impressed with 80% of your clients seem to be using some of the AI-powered capabilities, which is to be really high uptake rate or take rate. So I was just kind of curious if you expand on some of those larger enterprise -- experience platform deals you had this quarter? Thanks.

A - Shantanu Narayen {BIO 3332391 <GO>}

Sure, Kirk. And at the end of the day, I think the macro trend that everybody is finding is that a digital presence in commerce and data and insights and analytics is absolutely sort of table stakes for anybody doing business. And so, I think everybody started with a website, everybody started with the analytics, but I think where we've delivered the Adobe Experience Platform and what we are talking about our personalization, I think that's a key differentiator.

And whether you're a B2B company or a B2C company, you just have to invest in this particular business. And I think the team has done a particularly good job both of messaging in different industries. The healthcare industry, for example, continues to do well and there is more interest associated with that. The consumer businesses are starting to see a little bit of a comeback, as there is a little bit more normalcy.

And so, a lot of them we're going after existing customers, we're going after new logos and selling more, but I would say it's the strength of the experience platform, the ability to have these profiles, the behavioral data that we're collecting in real-time, the marketing message associated with telling them that they really need to focus on getting their first-party data to be an asset that they could put on their balance sheet and the nature of what's happening with digital commerce. I think all of those are trends. And then, we win the deals because of the strength of our offering and the fact that we are a really pure play marketing that is significantly differentiated relative to anybody else.

Q - Kirk Materne {BIO 5771115 <GO>}

Thank you.

Operator

We'll take our next question from Gregg Moskowitz with Mizuho. Please go ahead.

Q - Gregg Moskowitz {BIO 5721834 <GO>}

Okay. Thank you very much for taking the question. Shantanu, I know that you only have three quarters of data thus far, but is Workfront driving larger average deal sizes in DX? Is that something that's already showing through?

A - Shantanu Narayen {BIO 3332391 <GO>}

It's a great question, Gregg. And then maybe as I had responded to Kirk as well, I should have talked about the big thing that we're hearing from our customers in that space, Gregg, is they have more and more campaigns, they want to do agility of the campaigns. These are global and how do they not only have an integrated suite of products, but how do they get the workflow to be more efficient, especially as you're all working in a hybrid or working from home environment.

So Workfront is definitely helping us. It's helping us with existing customers. It's helping us with deal sizes. And in many ways, it's the glue both to enable if you have people, technology and processes. It's helping with the processes part. But the promise of what we've also said there in terms of this pioneering marketing system of record. That's another area for the interest. And I think this was always a great company. I think they were looking to become more general purpose. I think what Anil and the team has done of really focusing on marketing workflows and solving it for all of the different personas, that's definitely resonating. But all of the large deals that we do, Workfront is definitely a part of the interest and a part of the bill of materials associated with that.

Q - Gregg Moskowitz {BIO 5721834 <GO>}

Very helpful. Thank you very much.

A - Shantanu Narayen {BIO 3332391 <GO>}

Thanks, Gregg.

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 for taking the question and very nice quarter. And maybe digging a little bit more on the M&A side of the equation. We've definitely heard really good things about Workfront getting into a lot of the deals upfront. Perhaps, can you characterize sort of the performance of Workfront versus your expectations and kind of the contribution you're seeing in the quarter? Secondarily, with Frame.io, just for a clarification, is that in the forward ARR guide? So is that included in the $550 million for Q4? And then perhaps, more broadly just on M&A strategy, the last two big deals seem to have a common thread in terms of collaboration. Is that just a sell-side analyst putting together two data points and drawing the trend line, or is that sort of a particular area of focus for Adobe in terms of adding to the portfolio on a go-forward basis? Thank you, guys.

A - Shantanu Narayen {BIO 3332391 <GO>}

So, Keith, I actually think there were three questions in that. So let me parse each one of them. First, I think as it relates to Workfront, we are very clearly targeting a need that exists. And we had originally, I think, said something like Workfront would do a $140 million or a $150 million in revenue for FY '21. And then, I think we've said that it's on track to significantly beat that and that continues to be the case. As we do these larger deals, Keith, we don't breakout Workfront. And so, that's the way we think about the business, but Workfront is definitely appealing to that.

Your second question, as it relates to Frame.io, no, it is not in the ARR guide. I mean, clearly, until we close the deal, we would not. And so, when that happens, as we said, we expect that to happen in Q4. We'll certainly update you on what that happens as it relates to Frame, but we're excited about that.

And your third question as it relates to collaboration as a theme, it's part of what we've been talking about for a while, if you remember what we done with XD in terms of being able to do live editing. I think what we've done with the multi-surface applications, where our applications run on mobile devices or iPads or tablets as well as desktops. It's just one of those themes that people are working from different locations, people are increasingly working with people. And so, I think you know we have the ability to really provide value for our existing customers and attract new customers.

I think with Frame in particular, we're excited because it expands dramatically the potential of the number of people who will become participants in the video workflow. And if they become, I hope you like the videos that we placed at the beginning of the earnings call and it's all of that stuff is being done remotely, and so, we're pleased. And as you know, we're always thoughtful, Keith, about the acquisitions and making sure it's a case where we can bring significant value both to our shareholders and to our customers.

Q - Keith Weiss {BIO 6993337 <GO>}

Outstanding. Thanks for the color, guys.

A - Shantanu Narayen {BIO 3332391 <GO>}

Thank you.

Operator

We'll take our next question from Michael Turn with Wells Fargo Securities. Please go ahead.

Q - Michael Turn {BIO 6243556 <GO>}

Hey, there. Good afternoon, and thanks for taking the question. On margin, the year-to-date margins are now above 46%. I think you previously referenced potential for more of a second half step down there. So just how should we think about the margin profile here and other benefits you'd point to that that could normalize, assuming more of a return to normal?

A - Shantanu Narayen {BIO 3332391 <GO>}

John, do you want to start and then I can add?

A - John Murphy {BIO 16018871 <GO>}

Yes, that'd be great. Yes, you're right. The margins at 46% this quarter, we had indicated that with the more of a reopening across different regions, we would start to see our facilities come online, our business travel come back, and certainly continue our hiring ramps. With the Delta variant probably slowed that down a little bit and so that contributed to margin expansion you saw in Q3, but overall, it was an outstanding quarter for all of our businesses. And what we've said is the -- the long road, the path to margin expansion is related to revenue growth, given the leverage in our model. And after the contributions from the revenue performance in the quarter continued expense savings that I just talked about, that contributed overall to the performance, but we expect those expenses to come back in a phased reentry now, maybe a little slower than we originally thought when we talk about the second half.

But that being said, when I think about our original targets in December, it implied margin expansion. We did our updated targets in Q1, it was even larger margin expansion from what we saw, but we're executing against these huge market opportunities and we'll continue to do that with an eye on that continued top line growth, such as areas that Shantanu touched on, which is 3D and immersive Adobe Experience Platform, sign stock mobile, all that.

A - Shantanu Narayen {BIO 3332391 <GO>}

Well said, John. And maybe the only other thing I would add is that I -- certainly, I think when you look at some of the T&E or facilities expenses, it's a little artificial in terms of what's happening on expenses, but our big position is when you have $110-plus billion addressable market, I think driving profitable growth is where we are focused on, which is why I think John also referred to, we continue to be in the market to hire talent to make sure that we can continue to address all the market opportunities that we have. And so, we're focused on driving profitable growth.

Q - Michael Turn {BIO 6243556 <GO>}

Thank you.

Operator

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

Q - Jay Vleeschhouwer {BIO 1498201 <GO>}

Yes. Thank you. Good evening, Shantanu and John. Shantanu, for you first, as I'm sure you recall over the last number of years, particularly at a conference like MAX, we've talked about the integration in many ways the unique integration that you have between Digital Media and the DX business and if you recall, it's gone by a certain acronym over time. The question is, can you quantify or in some way describe the business effect of that combination, even going back to the old DPS days of how this mutuality does in fact help you drive business through the integration across the two segments?

Relatedly with regard to DX specifically, you'll recall that over the last number of years, the company is often refer to you're having about four dozen or so use cases that you were targeting for DX. That was a number of years ago. So perhaps you could talk about how the number of targeted use cases has increased for DX in the last number of years, particularly now with the introduction of payment services and other new capabilities.

A - Shantanu Narayen {BIO 3332391 <GO>}

Sure, Jay. First, I think as it relates to your question around the integration between the clouds, as you know, first, let's even talk about Acrobat, right, because so much of the Acrobat business is reflected both in Creative Cloud and Document Cloud. And so, that's a one very tangible example of how we've integrated the clouds. I think taking a step back, the area that I would say is of the most interest to customers right now is what we have referred to in the past also as content velocity, which is people are creating more digital assets. They are spending more on content and how they both ensure that all of that content seamlessly is distributed, whether it's a marketing campaign, whether it's something that goes on a mobile application, whether it's something that goes on the website.

And so, I think that's the hard problem that we've been able to help facilitate for our customers, which is creating all of this content and making sure that it's -- the delivery is accelerated through marketing campaigns is an area of real integration between DME as well as DX. And where that shows up also in the revenue is the continued growth of AEM and AEM assets specifically, because that's where the assets are really flowing between these two solutions. So hopefully, that gives you a little bit of the flavor I think to the earlier questions that Gregg and others had -- and Kirk had asked. I mean, it also on the workflow, that's when people are looking at it and saying, wow, if my freelancers have created content, how is that now being reflected in the DX. So that's what I would answer your first question.

I think as it relates to the DX use cases and we should certainly do an update, it's increased very dramatically. And the ones that I would say, maybe as highlight is the B2B use cases. The number of large B2B companies that are coming to us and saying, hey, we recognize that whether it's for lead generation, whether it's for identification of customers, whether it's for even doing commerce, that's been a fairly big driver. I would say regulated industries, which is the original push around customer experience management was B2C and consumer-based companies. Now, I think you're seeing way more of those workflows and use cases in regulated industries. So, that's another one that I would do.

I would say the global aspect of this, which is you have companies, whether you're an automotive company or you're a fast food company and you want to do this globally. I think that's a use case that we've seen a fairly dramatic increase, but so hopefully, that gives you one. And then, this is where the partner ecosystem candidly also is driving so much more. And so, the partner ecosystem is also building a lot of their value-added solutions on top of our horizontal platforms.

So net, I would say, it doesn't matter what business you are, what size you are, part of DX is relevant to what you need to do in order to engage with your customers.

Q - Jay Vleeschhouwer {BIO 1498201 <GO>}

Thank you very much.

Operator

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

Q - Saket Kalia {BIO 16417197 <GO>}

Okay. Great. Hey guys. Thanks for taking my question here. John, maybe for you, just -- maybe just to switch gears a bit. I was wondering if you could just talk about seasonality in the Document Cloud business specifically. I think the net new ARR there has historically sort of been up into the right kind of through the year. I guess, the question is, are we getting to a point in that business where the seasonality could start to look a little bit more like Creative, or are there any things to maybe consider for Document Cloud ARR seasonality this quarter?

A - John Murphy {BIO 16018871 <GO>}

Yes. I think when we look -- think about the situation we've been in the pandemic and the need for more paper to digital transformation that's impacting, not just enterprises and institutions that have obviously seen great growth in, but individuals as well as they're engaging with the services that they use. As we said, I think when you look at the individual offerings that we have across Creative and Document Cloud, we just saw a little bit lower traffic there, but that's associated with, we believe, with individuals enjoying their holidays and it's pretty indicative using our own Adobe Digital Index data that shows that June and July were the highest travel months in two years.

So I think that seasonality is hitting it a little bit, but again, we've got such a strong presence in both institutions, educational, governments and enterprises on Document Cloud that we still see great growth and strength and it's demonstrated in just the continued growth of that business, which is our fastest growing business right now.

Q - Saket Kalia {BIO 16417197 <GO>}

Very helpful. Thanks.

A - John Murphy {BIO 16018871 <GO>}

You bet. Thanks, Saket.

Operator

We'll take our next question from Ken Wong with Guggenheim Securities. Please go ahead.

Q - Ken Wong {BIO 20723645 <GO>}

Great. Thank you for taking my question. This one for you, Shantanu. You guys have a history of bringing your professional tools down to the consumers. You had light additions, you have mobile additions. I think in your prepared remarks, you mentioned the addition of Frame.io creating additional opportunities in the -- in sort of across the customer base, teams and enterprises. I guess, do you envision this as a platform that could be brought down to consumers, prosumers, or is this still mainly going to be in that professional bucket?

A - Shantanu Narayen {BIO 3332391 <GO>}

Ken, it's a very important area of expansion for us. I mean I think the Creative has always been a segment that looks to us to deliver mission-critical products that enable them to make a livelihood. But the halo effect of that, when you look at what we talk about at our analyst meetings and how big our communicator business already is as well as the outreach of that even into the consumer business, but stay tuned.

On that front, I think as we talk about our product roadmap and the excitement that we have to fulfill this vision of creativity for all and target a broader and broader and broader set of customers with some great solutions using our artificial intelligence and Sensei technology. We have some very exciting things underway that will start to be served to customers.

So very excited about that opportunity. It's a big opportunity. It's already a big business for us. I mean, when we talk about the fact that we're adding over $0.5 billion of net new ARR as our expectation for Q4, a significant portion of that is also going to what you would call communicators or prosumers and we're going to be delivering more and more really phenomenal products targeted at that customer segment.

Q - Ken Wong {BIO 20723645 <GO>}

Got it. Fantastic. Looking forward to MAX. Thanks, guys.

A - Shantanu Narayen {BIO 3332391 <GO>}

Thank you.

Operator

We'll take our next question from Kash Rangan with Goldman Sachs. Please go ahead.

Q - Kash Rangan {BIO 22095432 <GO>}

Thank you very much. Congratulations, Shantanu, and team on a fantastic quarter. Shantanu, I remember, I think it was on MAX 2019, we talked about video and how that could be as big of an opportunity as photos and I'm curious to get your thoughts on the total available market that is new and incremental to Adobe's creative business as a result of the acquisition that you made of Frame. And in particular, you used the word dramatically expands the scope of what you can do meaning collaborators in addition to content creators. Can you just talk about what you meant by that? If you could just put a finer point, this does mean that the Creative TAM will be larger than what Wall Street thinks, which has always been the case for the past 10 years or so?

And secondly, not to -- not that it's a negative, but with the seasonal pattern in summer showing some sign of activity where people went on vacations et cetera, is there at all any risk that digital transformation takes a bit of a back seat as we go shopping, not online, but go to stores. Therefore, e-commerce activity might actually slow down a little bit, but the secular trend is still pretty solid. In terms of an adjustment or reinforce some adjustment or maybe not, but I just wanted to get your thoughts on that. Thank you so much.

A - Shantanu Narayen {BIO 3332391 <GO>}

Thanks, Kash. I mean, as it relates to your first question around video, I think we've been signaling for a while that video is really one of the exciting expansion opportunities for us. And that's really played out. It's played out from the products that we've delivered. Premiere and After Effects continuing to be the leaders in that category, certainly, Photoshop and Illustrator used a lot. But if you look at what's happening with all these streaming plus services, right, I mean, there isn't a company that isn't delivering a streaming plus service. And so, I think the insatiable demand for video among consumers is only requiring more and more companies to have these streaming services and deliver more genre as it relates to video.

All of that work right now, I mean, we talked a little bit of what we are doing as our partnership with Netflix as well. I mean all of that is happening now with people in different locations through a collaborative process. So, anytime you can take a creative idea and make that happen quicker, faster to the right audience, that's only going to be incredibly valuable to our customers. And so, I think that trend is only going to continue. And so, we feel really good about what's happening in that particular space with video frame. We used to use frame a bunch in the production of our own videos, and it's been exciting, as we've talked to different people who after the acquisition of Frame have come and said, hey, Adobe, that's such a great product, but we think we can do more with it. So I think that gives us a lot of optimism around whether it's the script writer, whether it's the reviewer of that, whether it's a creative agency just being able to -- or all the corporate videos that's being done.

And so, certainly, I think as you add that as a enterprise product as well, you can certainly get a lot more TAM associated with it. We will update our TAMs cash as we typically do. I think Jonathan referred or will talk about how we do our Q4 as well as our 2022 and we'll talk to you about TAMs on that front. But really excited about that. I think the external partnerships that exist for Frame and how it's plugged in not just to the Adobe solutions, but other solutions is also an area of strength.

And I think to your second question around shopping and online, when we look at our DX business and the success that we had in Q3, I mean, a big part of that is more and more companies are certainly doing the multi-channel, omni-channel, whatever they want to call it. And I think that's only going to continue to be a driver of our Digital Experience solutions because today, that stable stakes. And so, we just look at it and say, whether you're shopping in store or whether you're shopping online, you need a solution that treats you like a customer that we know of.

And so, I think that's going to only be an imperative for companies. I mean, one thing we should have probably talked about also is if you look at our Q3 results, I mean they were stronger than what we had said. There were a couple of non-recurring items as part of that. And some of that actually had to do with usage in commerce. And so, we are seeing that usage also ramp up. So I just wanted to get that also out there as we talk about the shopping online and shopping in the store.

And in terms of the demand for our DME solutions, we expect, as we said the seasonal Q4 will be the strength and as education comes back and there is more and more end of quarter activity not just within Adobe, but all companies, that's going to lead to increased demand and acceleration.

Q - Kash Rangan {BIO 22095432 <GO>}

Sounds fantastic. Thank you so much.

A - Shantanu Narayen {BIO 3332391 <GO>}

Thanks, Kash.

Operator

We'll take our next question from Derrick Wood with Cowen & Company. Please go ahead.

Q - J. Derrick Wood {BIO 4963641 <GO>}

Thanks for taking my question. John, I wanted to come back to the Document Cloud business, because it looks perhaps to me that there were some outsized strength from licensed products that may have been in lieu of revenue coming from ARR products, and I think you can see this with total Document Cloud revenue growth actually accelerating even though total ARR growth decelerated, so is that the right assessment? And should we be looking at total revenue, not ARR? And I guess, so, is there any reason for a mix shift towards more licensed products? And as you look into Q4, given it's a big ELA quarter, should we expect that to continue?

A - John Murphy {BIO 16018871 <GO>}

Yes. No, I mean we've -- we'll certainly, I think in terms of the strength in ELA as Shantanu and I spoke about in terms of Q4, we did see expansion in Q3 as well, but we are still migrating base of customers as well. So, ARR is still going to be important for us and we want to drive more ARR. And I think the strength in ARR growth frankly over the last -- over a year really has been really impressive. It's always going to give us this opportunity to drive healthy subscription growth, but ELA are not going to give us outsized revenue in Q4. It's going to be, yes, sizable contribution, but we're driving subscription, that's the strategy. And we do still have customers that by perpetual, and so there'll be some fluctuations to that.

Q - J. Derrick Wood {BIO 4963641 <GO>}

Yes. Got it. Okay. Thanks.

A - John Murphy {BIO 16018871 <GO>}

You bet.

Operator

We'll take our next question from Parker Lane with Stifel. Please go ahead.

Q - J. Parker Lane {BIO 20490953 <GO>}

Yes. Hi, thanks for taking my question. Shantanu, I was wondering if you could talk about the nature of Creative wins in the public sector with organizations like the Department of Interior. What are these type of organizations historically relied upon for Creative needs and how fully are they embracing the features of the Creative Cloud versus using maybe a particular application like Photoshop or a distinct set of applications? Thanks.

A - Shantanu Narayen {BIO 3332391 <GO>}

To your point, I think public sector has always been an important part, but I think it's just the amount of content that people are creating is increasing. And when the amount of content that people are creating, then content management becomes an important issue, workflow becomes an important issue and standardization of the products. And one of the things we did really well is what we called our named user deployment and how? When we have these enterprise licensing agreements, we offer enterprises the ability to download and distribute within the companies and the more we do training and evangelism of the products, that leads to adoption.

So I would say there is an element of standardization, there is an element of more content. I mean even if you're a public sector company right now, I mean what you transact online is becoming dramatically greater than it's ever been, because the physical presence is seeing cut back as a result of what's happened in the pandemic. So I think all of those are macro trends that are going to continue, but we've also done a really good job of actively making sure we evangelize what the solutions are good for. We do more training within these enterprises. We allow these named user deployments, as I said, which then leads to true-ups and the ability to get them into higher bands. So I think the execution on the sales front associated with going into these enterprises, that's getting better and better.

Q - J. Parker Lane {BIO 20490953 <GO>}

Great feedback. Thank you.

A - Jonathan Vaas {BIO 21700508 <GO>}

Operator, we're coming up on the top of the hour. We have time for two more questions. Thanks.

Operator

Thank you. We'll take our second to last question from Brad Sills, Bank of America Securities.

Q - Brad Sills {BIO 15854296 <GO>}

Oh, great. Thanks guys for taking my question here. Just with your view across the broader marketing stack here with Experience Cloud, I'm curious what you're observing with regard to these Customer 360 initiatives. Are you finding customers are taking more of multi-product deals here to get that view across multiple channels here, e-commerce, marketing automation, CMS, you've got workflow automation in there? Are there any combinations of any of that that you're seeing trending more recently than in the past? Thank you so much.

A - Shantanu Narayen {BIO 3332391 <GO>}

It clearly has been a push for us, Brad, in terms of what we are doing, which is how do we sell the entire suite offering. And I think every year, we give you an update on how that is actually indeed, how we are selling it. And so, from our perspective, the marketing stack -- what's completely unique about us is the data and insights that we're getting, the ability to do commerce and the digital presence. I think as it relates to Customer 360, where we are unique -- and I think we're years ahead of any other large company that has space is this real-time nature of what we've delivered, it's scalable. We've got billions of profiles. And so, I think a lot of other companies are talking about how they take something that may be in a record somewhere, and do things with it. But for us, it's the activation of that data and that's where I think most people are really excited about what Adobe has to offer.

And the other thing that I think has really happened as people recognize that they have to get control of their first-party data. I think a lot of interest used to exist about customer acquisition and third-party data. But I think right now, it's about, do we have even control of our first-party data, do we have control of our behavioral and what is happening on multiple channels and the fact that that can be very easily answered as it relates to what we have done with the Adobe Experience Platform.

And last but not least, I mean, remember, we're the only company that can go in and say, hey, we have a B2B business and a B2C business and when we talk about how we are using this in terms of the playbook on Adobe.com, I think that really opens up a lot of people's ideas as to how they can use this and utilize it. And so, I think the playbook that we delivered for DDOM earlier this year and how we talk about what they can do, I think that's what -- that really resonates with customers.

Q - Brad Sills {BIO 15854296 <GO>}

That's great to hear. Thanks, Shantanu.

A - Shantanu Narayen {BIO 3332391 <GO>}

Thank you.

Operator

We'll take our final question from Brent Thill with Jefferies. Please go ahead.

Q - Brent Thill {BIO 1556691 <GO>}

Shantanu, the DX growth accelerated from Q2. Can you just walk through the drivers of what you're seeing in terms of that acceleration? And maybe for John, just as it relates to seasonality with Magento and commerce in the Q4, anything that to keep in mind there or do you just feel like this, you keep powering through these tougher comps, given the tailwinds you're seeing in that business? Thanks.

A - Shantanu Narayen {BIO 3332391 <GO>}

Yes, Brent. And I think what really drove that revenue was both subscription as well as the services. And as you know for the services, we're again really reliant on a large partner ecosystem. But if over the last 18 months, as we've always talked about the interest is high, how they're all implementing it. And so, as they continue to implement it and as they continue to say, we need to invest in these solutions, I think that's driving it.

And I think to your point, if you take a step back, we -- I think guided to something like 19% revenue at the beginning of the year and 22% in subscriptions, we then increase that in March to 20% and 23% respectively and we just posted 26% and 29%. And so, and if you look at it for Q4 as well, as you point out with the large comps, we continue to be excited about that opportunity.

So I think this is front and center. It's an enterprise priority. And I think since people are saying, we've got to deal with this new reality, there is no time to waste in terms of implementing it. Again, there were, as we said, a couple of non-recurring items. Some of those had to do with usage in commerce and that actually is also indicative that may be a little bit more depends on the quarter, but it's up into the right as far as we are concerned in terms of the business opportunity and the business.

Q - Brent Thill {BIO 1556691 <GO>}

Thank you.

A - Shantanu Narayen {BIO 3332391 <GO>}

No, go ahead. Sorry, John. I didn't hear you.

A - John Murphy {BIO 16018871 <GO>}

Yes, no problem. I was just going to -- just come up with the top on that -- on Brent's question on seasonality related to commerce, of course, Q4 is the strong commerce quarter anyway, given the holiday spending time. So, we're excited about the opportunity there as well. It's just trying to step us up into the right. I think we have a great momentum.

A - Shantanu Narayen {BIO 3332391 <GO>}

And overall, since that was the last question, I mean, again, I think we were really pleased with our performance in Q3. We do expect a strong end of year for our business as you saw from our targets. It's clear that we're in this unique position that we have three large growth opportunities ahead of us, and we're executing well against all three of those and the innovation and the roadmap that exist across all three of those clouds just gives us continued optimism that we will serve our customers well, and we feel fortunate. I think the future of work and the fact that it's more hybrid will only continue to emphasize digital as a priority for companies of every size, and so whether that's an increase in content for personalization, whether that's more automation of digital documents and whether that's every business thing, we need to understand how to do customer experience management. I believe Adobe is very uniquely positioned to drive those particular macroeconomic trends. But thank you for joining us today. We look forward to MAX as well as the Q4 earnings call.

And with that, I will turn it back over to Jonathan.

A - Jonathan Vaas {BIO 21700508 <GO>}

Thanks, Shantanu, and thanks everyone for joining us on the call today. As we mentioned in the press release today, we look forward to connecting with you again on Thursday, December 16 for our Q4 earnings and virtual Financial Analyst Day. We will be sending out more details in the coming weeks. And if you have any questions, feel free to contact us at ir@adobe.com. I look forward to speaking with many of you soon and we appreciate your interest in Adobe. This concludes the call.