

Adobe Inc.

Q3 2024 Quarterly Report

Q3 2024 Financial Highlights

Revenue: \$48.7M (Q2: \$45.1M, Q3 2023: \$39.2M) -- +8.0% QoQ, +24.2% YoY

Gross Profit: \$34.8M (Q2: \$31.9M) -- +9.1% QoQ, +28.4% YoY

Operating Income: \$8.1M (Q2: \$7.0M) -- +15.7% QoQ, +50.0% YoY

Net Income: \$6.5M (Q2: \$5.6M) -- +16.1% QoQ, +51.2% YoY

Gross Margin: 71.5% (Q2: 70.7%) -- +0.8pp QoQ, +2.4pp YoY

Operating Margin: 16.6% (Q2: 15.5%) -- +1.1pp QoQ, +2.8pp YoY

Revenue by Segment

Enterprise Solutions: \$30.8M (Q2: \$28.1M, +9.6%)

SMB Products: \$13.0M (Q2: \$12.5M, +4.0%)

Professional Services: \$4.9M (Q2: \$4.5M, +8.9%)

Key Achievements

AI Analytics Platform v2.0 launched to 50 beta customers -- 93% positive feedback.

Cloud Migration Toolkit v3.1 shipped with automated assessment capabilities.

14 feature releases across the product portfolio.

234 new enterprise deals closed (vs. 198 in Q2).

Three Fortune 500 wins: Meridian Corp (\$5.2M ARR), Atlas Industries (\$7.1M ARR), Nexus Financial (\$6.1M ARR).

Average deal size increased to \$142K (from \$135K in Q2).

Sales pipeline grew to \$298M (+12% from Q2).

Customer Metrics

Net Revenue Retention: 118% (Q2: 115%, Target: >110%)

Gross Revenue Retention: 93% (Q2: 94%, Target: >90%)

Active Enterprise Accounts: 3,280 (Q2: 3,046, Target: 3,200)

CSAT Score: 68% (Q2: 72%, Target: 80%)

Avg Ticket Resolution: 7.8 hrs (Q2: 6.4 hrs, Target: <5 hrs)

Operational Concerns -- Customer Support Decline

Customer satisfaction continued its downward trajectory in Q3, declining from 72% to 68%. Contributing factors:

- Volume surge: Support tickets increased 34% QoQ following the AI Analytics Platform beta launch.
- Staffing gaps: Support team 22% understaffed, 12 open positions.

3. Knowledge gaps: New product documentation lagged releases by ~3 weeks.
4. Escalation rate increased to 14.2% (from 10.8% in Q2).

Operational Concerns -- Marketing Pipeline Weakness

Marketing-qualified leads: 4,200 vs. 6,500 quarterly target (65% attainment).

Paid Search ROI: 2.8x (Q2: 3.4x, Benchmark: 4.0x)

Social Ads ROI: 1.9x (Q2: 2.3x, Benchmark: 3.0x)

Content/SEO ROI: 5.1x (Q2: 4.8x, Benchmark: 4.0x)

Events ROI: 3.2x (Q2: 3.1x, Benchmark: 3.5x)

Content marketing and SEO outperform paid channels, suggesting strategic reallocation.

Critical Risks -- Q3

1. Cybersecurity Incident: On September 14, OAuth vulnerability identified in routine security audit. No customer data compromised. Existed ~6 weeks before detection. Patched within 48 hours. Root cause: insufficient code review for auth modules. Remediation: mandatory security review, pen testing in Q4.
2. Supply Chain: Semiconductor shortages impacted 18 enterprise customers. Average delay: 6 weeks. Financial impact: \$2.1M in deferred revenue.
3. Client Concentration: Revenue from top 3 clients = 35% of total (\$17.0M in Q3).
4. Regulatory: EU Digital Services Act deadline accelerated to Q1 2025. Additional \$1.2M approved for compliance engineering.
5. Talent Attrition: Q3 voluntary turnover 6.2% (annualized: 24.8%). Engineering lost 18 senior developers. Support turnover: 28% annualized.

Department Scorecards -- Q3

Engineering: 87/100 (Target: 85) -- On Target

Sales: 95/100 (Target: 85) -- Exceeding

Marketing: 58/100 (Target: 80) -- Below Target

Customer Support: 52/100 (Target: 80) -- Below Target

Operations: 88/100 (Target: 85) -- On Target

HR / People: 62/100 (Target: 80) -- Below Target

Finance: 91/100 (Target: 85) -- On Target

Headcount

Engineering: 312 (Q2: 298, +14, 25 open positions)

Sales: 145 (Q2: 138, +7, 12 open)

Marketing: 68 (Q2: 72, -4, 8 open)

Customer Support: 94 (Q2: 102, -8, 18 open)

Operations: 56 (Q2: 54, +2, 4 open)

HR/People: 28 (Q2: 27, +1, 3 open)

Finance: 34 (Q2: 33, +1, 2 open)

Total: 737 (Q2: 724, +13, 72 open positions)

Outlook

Q4 revenue projected at \$52-54M. Management reaffirms FY 2024 guidance of \$187-190M.

Priority Q4 initiatives:

1. Customer Support stabilization: accelerated hiring + AI tool pilot
2. Marketing strategy reset: shift budget from paid to ABM and content
3. Security hardening: comprehensive penetration testing program
4. Regulatory compliance: EU DSA readiness by year-end