Q1 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

- Brent Thill, Analyst
- J. Derrick Wood, Analyst
- Jay Vleeschhouwer, Analyst
- Jennifer Lowe, Analyst
- Kasthuri Rangan, Analyst
- Keith Bachman, Analyst
- Keith Weiss, Analyst
- Ken Wong, Analyst
- Kirk Materne, Analyst
- Mark Moerdler, Analyst
- Saket Kalia, Analyst
- Sterling Auty, Analyst

Presentation

Operator

Good day everyone, and welcome to the Adobe Q1 FY'21 Earnings Conference Call. Today's call is being recorded. All lines are currently in a listen-only mode. There will be time for a question-and-answer session at the end of today's presentation. Instructions will be given at that time.

At this time, I would like to turn things 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 we will discuss Adobe's First Quarter Fiscal Year 2021 Financial Results. By now, you should have a copy of the press release, which crossed the wire approximately one hour ago. We've also posted PDFs of our prepared remarks and financial results on Adobe's Investor Relations website.

Before we get started, I want to emphasize that some of the information discussed in this call, including our financial targets and product plans, is based on information as of today, March 23, and contains forward-looking statements that involve risk, uncertainty and assumptions. Actual results may differ materially from those set forth in these statements. For a discussion of these risks, you should review the Forward-Looking Statements Disclosure in the press release we issued today, as well as 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.

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. The call audio and the webcast may not be re-recorded, or otherwise reproduced or distributed without Adobe's prior written permission.

I will now turn the call over to Shantanu.

Shantanu Narayen {BIO 3332391 <GO>}

Thanks, Jonathan. Good afternoon. I hope you're all well and staying safe. It is hard to believe it has been over a year since the pandemic began and the world changed forever. During this unprecedented time, we have gone from a world with digital to a digital-first world. Digital experiences have played a vital role in making every aspect of our lives possible -- from keeping families and co-workers connected, to enabling new ways of learning, to powering digital commerce and ensuring continuity of essential business operations. Overnight, we have transitioned to a global digital economy.

Adobe's mission is to change the world through digital experiences. At Adobe, we are helping fuel the digital economy with our continuous innovation, our large and diverse set of global customers and partners and the unique expertise we have garnered from undergoing our own digital transformation. Our strategy of unleashing creativity, accelerating document productivity and powering digital businesses is mission critical and driving our top and bottom-line growth.

Adobe had an outstanding first quarter with strong results across Creative Cloud, Document Cloud and Experience Cloud. We achieved $3.91 billion in revenue in Q1, representing 26% year-over-year growth. GAAP earnings per share for the quarter was $2.61, representing 33% year-over- year growth, and non-GAAP earnings per share was $3.14, representing 38% year-over-year growth.

In our Digital Media business, we drove strong revenue growth in both Creative Cloud and Document Cloud in Q1, achieving $2.86 billion in revenue, representing 32% year-over-year growth. Net new Digital Media Annualized Recurring Revenue or ARR was $435 million, and total Digital Media ARR exiting Q1 grew to $10.69 billion. This past year, we have seen the tremendous power creativity has to inspire, connect and entertain us. Whether it is a student uploading his video assignment or social media influencer advocating for change, or a small business owner designing her first website, everyone has a story to tell.

Creative Cloud remains a market leader in core creative categories, including imaging, design, video, screen design and illustration, and we are expanding that leadership into emerging media types like 3D and AR. Creation and consumption across phones, tablets and desktops is exploding. We are building solutions for every surface and platform, enabling customers of every skill level to create whenever and wherever inspiration strikes.

Our Behance community has grown to 25 million people and programs like Adobe Live provide ongoing forums for creatives to engage as a global community. In November, we turned Adobe MAX, our annual creativity conference, into a global digital event, culminating in 10 million livestreams. Creative Cloud has truly become the world's creative engine, and our future opportunities are endless. Q1 Creative Cloud performance was strong, with net new Creative Cloud ARR of $337 million and revenue of $2.38 billion.

Q1 highlights include: strength in our student offering, enabling next-gen creators to tell their stories in the midst of an unprecedented remote learning environment; momentum in our teams offering, demonstrating the increased demand for collaboration solutions globally; growth in our core creative categories, including imaging, led by Photoshop and Lightroom; demand for Premiere Pro, the leader in the exploding video category, and the overwhelming favorite at the Sundance Film Festival for the third year in a row, with 68% of films using it; significant growth in our creative mobile applications, including Lightroom mobile and Photoshop Express; an increase in demand for Creative Cloud services like Adobe Stock, which helped fill the void created when live photography and video shoots had to be postponed; and all of this results in record traffic to Adobe.com, our world-class acquisition and growth engine, and our hub for customer engagement across all surfaces.

We continue to deliver groundbreaking product innovation, including Neural Filters and Super Resolution features in Photoshop that harness the power of AI and machine learning to simplify complex workflows and enhance images in seconds, extending our applications to multiple surfaces with Illustrator on the iPad and Fresco on the iPhone and building collaboration capabilities with Creative Cloud libraries. In support of our commitment to digital citizenship, we are leading the Content Authenticity Initiative, now with over 150 members, to set the standard for transparency and attribution across the content ecosystem. We recently founded the Coalition for Content Provenance and Authenticity to advance broad adoption of content authenticity standards.

This year has shown us the mission-critical role that digital documents increasingly play in powering a modern business of any size. In a world where work needs to be done from anywhere and with anyone, digital workflows have become the critical underpinning to drive productivity and efficiency across global teams. With Document Cloud, we are accelerating document productivity, redefining how people view, edit, share, scan and sign documents across desktops, web, mobile and through frictionless PDF services. Through our document services, we are unleashing the PDF ecosystem with APIs for third-party developers to customize the digital document experience. Q1 Document Cloud performance was stellar, with net new Document Cloud ARR of $98 million and record revenue of $480 million.

Q1 highlights include: outstanding Acrobat growth across all routes to market; significant traffic increases to our Acrobat Web experience, which delivers the ability to successfully complete PDF verb functionality in the browser, driven by best-in-class search engine optimization; powerful new Acrobat capabilities to accomplish converting, protecting and merging PDFs in the browser, furthering our strategy to make the PDF experience frictionless across devices and platforms; demand for our Acrobat Mobile and Adobe Scan apps; strong momentum for Adobe Sign, which is enabling critical e-signature workflows in businesses and government institutions around the world; delivery of an enhanced PDF reading experience with Acrobat Liquid Mode, which leverages Adobe Sensei to automatically reformat PDFs for quick and easy consumption; and key customer wins, including Amazon, Aon Services, Bank of America, Federal Aviation Administration, Merck and National Australia Bank.

The pandemic accelerated the need for digital transformation among businesses of all sizes across both B2C and B2B. Small and mid-sized businesses had to quickly set up digital storefronts, enterprises that had not yet made substantial digital investments took the leap and those with significant digital footprints doubled down further. As the world begins to reopen, digital businesses will be the winners. Only companies that have a deep understanding of their customers' preferences and the ability to personalize experiences at every stage of the customer journey will survive and thrive.

Adobe created the customer experience management category 10 years ago, that we continue to lead. Experience Cloud, built on a next-gen open platform, is the most comprehensive solution for content and commerce, data insights and audiences, customer journeys, and most recently, marketing workflow.

Through our acquisition of Workfront, Adobe has a unique opportunity to create a unified marketing system of record, bringing workflow management, efficiency and productivity gains to marketing teams challenged with siloed applications. Over 1,000 shared customers are already benefiting from the integration and synergies between Experience Cloud and Workfront. Experience Cloud revenue was $934 million in Q1 with subscription revenue of $812 million, representing 27% year-over-year growth.

Q1 highlights include: momentum for Adobe Experience Platform, which continues to be the platform of choice for enterprise customers to deliver real-time personalization at scale; increasing demand for our commerce offerings. The Adobe Digital Index predicts that the pandemic has permanently boosted online spend by 20%, and 2022 will be the first trillion-dollar year in e-commerce; solid performance in the Workfront business, demonstrating the need for a unified marketing workflow solution to drive productivity across global teams; enhancements in Customer Journey Analytics, delivering advanced anomaly detection, contribution analysis and intelligent alerts that identify hidden data patterns to more precisely understand customer behavior; powering the digital modernization of government agencies across state, county and city levels in all 50 U.S. states. Governments are revamping their online presence, making websites and apps easier to navigate, ensuring content is personalized and updated in real-time and creating intuitive forms that work on any device; key customer wins, including Abbott Labs, Deutsche Post, Coca-Cola, FedEx, Kaiser Permanente, Mondelez, State of Illinois and Sydney Water Corporation; and industry analyst recognition in the Gartner Magic Quadrant for Digital Experience Platforms and the Forrester Agile Content Management Systems Wave report.

This is the fourth year in a row that Adobe was placed as a leader in the DXP Magic Quadrant and the sixth consecutive time Forrester has recognized Adobe's industry leadership in their CMS-focused wave reports.

Adobe Summit, our annual digital experience conference, will be hosted virtually at the end of April across the globe. In addition to unveiling exciting new technology innovation in Experience Cloud, we will have customers and inspirational leaders from companies that have been on the front lines, including Albert Bourla, CEO of Pfizer and Rajesh Subramaniam, President and COO of FedEx.

Adobe's fortitude is rooted in an unwavering focus on our employees, groundbreaking innovation and our purpose, which is to harness the best of Adobe to make a significant impact in the world. At Adobe, it is not only about what we do, but how we do it. I'm proud of our continued industry recognition, including being named to multiple lists celebrating Adobe as a great and equitable place to work for all, and being recognized on Fast Company's Most Innovative Companies List, Fortune's Most Admired Companies List and the CDP's Climate Change A-list. I'm especially thankful to our 23,000 employees around the globe, whose dedication and talents delivered extraordinary results across every dimension of our business during these unprecedented times.

Q1 was a record quarter for Adobe. As a result of our outstanding performance, tremendous opportunity across our business and continued confidence in our global execution, we are raising our annual targets.

John?

John Murphy {BIO 16018871 <GO>}

Thanks, Shantanu. Q1 was a fantastic start to the year for Adobe, with strong financial results across all of our businesses. We accelerated revenue growth, expanded operating margins, and continued to drive demand across our portfolio of products and services, which are clearly resonating with enterprises and individuals in a world where digital has become the default.

Harnessing the power of data, we continue to utilize our data-driven operating model or DDOM, to drive traffic to Adobe.com, generate demand for our products, acquire new customers and increase engagement. We are investing in massive market opportunities, delivering innovations across our products, and Workfront had a great first quarter as part of the Adobe family. As a result, in Q1 Adobe achieved record revenue of $3.91 billion, which represents 26% year-over- year growth. Recall that Q1 was a 14-week quarter for us versus the typical 13-week quarter.

Business and financial highlights included: GAAP diluted earnings per share of $2.61 and non-GAAP diluted earnings per share of $3.14; Digital Media revenue of $2.86 billion; Net new Digital Media ARR of $435 million; Digital Experience revenue of $934 million; cash flows from operations of $1.77 billion; Remaining Performance Obligation of $11.61 billion exiting the quarter; and repurchasing approximately 1.9 million shares of our stock during the quarter.

In Q1 we saw continuing recovery in the business environment both in the U.S. and internationally, particularly with small and medium businesses, which contributed to our strong financial performance in the quarter. In our Digital Media segment, we achieved 32% year-over-year revenue growth in Q1, and we exited the quarter with $10.69 billion of Digital Media ARR. We achieved Creative revenue of $2.38 billion, which represents 31% year-over-year growth, and we added $337 million of net new Creative ARR.

Our Creative growth in Q1 was driven by: strong consumer demand for our Creative solutions on Adobe.com; driving improvements in usage, retention and engagement across our products; growth in our mobile business, through app store subscriptions and top-of-funnel awareness; continued recovery in the SMB segment, which we target with our Creative Cloud for Teams offering; and investing in targeted campaigns and promotions to drive awareness and acquire new users, including in emerging markets.

Adobe Document Cloud delivered another quarter of accelerated revenue growth. We achieved Document Cloud revenue of $480 million, which represents 37% year-over-year growth, and we added $98 million of net new Document Cloud ARR. Documents are the currency of business, and the imperative for digitization has never been greater.

Our Document Cloud growth in Q1 was driven by: increasing demand for Acrobat subscriptions across all geos; strong enterprise term licensing with institutions; utilizing DDOM insights to drive improved conversion on Adobe.com; success in the reseller channel, both for subscriptions and our perpetual offering, including seat growth in the SMB segment; and strength in Adobe Sign, which grew revenue more than 50% year-over-year in the quarter.

Turning to our Digital Experience segment, in Q1 we achieved revenue of $934 million, which represents 24% year-over-year growth. Digital Experience subscription revenue was $812 million, representing 27% year-over-year growth. Our Q1 results continue to validate the strength of our industry-leading customer experience management or CXM solutions. Large enterprises across industries and geographies are standardizing on Adobe to manage customer interactions, gain actionable insights and unify their customer data with Adobe Experience Platform.

In our Commerce business we continued to sign large deals with new customers and drive upsells at renewal points, enabling every business to transact online. Optimizing customer journeys across all channels in a digital-first world is critical to enterprises, and we see momentum with our larger customers adopting our complete Experience Cloud offering to drive omni-channel personalization at scale. We are driving the global CXM mandate across B2B and B2C, from large enterprises to mid-sized companies, across multiple verticals. Recent wins included expanding our reach in the public sector, where we are enabling critical constituent-facing services, and adoption in the mid-market of our new AEM Cloud Service, Adobe Commerce and Marketo Engage.

Lastly, we are off to a fast start in integrating Workfront and driving the strategic value proposition of combining best-in-class workflow technology with Adobe's leading CXM and Creative solutions. Workfront contributed $38 million of revenue in Q1 after purchase accounting adjustments to deferred revenue.

We continue to drive savings from travel and entertainment and facilities operations as our employees work from home. We are expanding investment in hiring globally, particularly for R&D and sales and marketing roles, in order to capitalize on our large addressable markets. From a quarter-over-quarter currency perspective, FX increased revenue by $37 million. Net of impacts from hedging, the sequential currency increase to revenue was $34 million. From a year-over-year currency perspective, FX increased revenue by $62 million. Net of impacts from hedging, the year-over-year currency increase to revenue was $44 million.

Adobe's effective tax rate in Q1 was 12% on a GAAP basis and 16% on a non-GAAP basis. The tax rate came in lower than expected primarily due to a favorable tax ruling in the quarter which allowed us to reduce our withholding taxes and receive refunds for certain prior payments. And to a lesser extent, larger than expected tax benefits associated with share-based payments, and favorable resolutions of other income tax matters.

Our trade DSO was 38 days, which compares to 41 days in the year-ago quarter, and 37 days last quarter. Remaining Performance Obligation grew 17% year-over-year to $11.61 billion exiting Q1. Deferred Revenue exiting the quarter was $4.29 billion, growing 19% year-over-year. Our ending cash and short-term investment position exiting Q1 was $4.96 billion, which is sequentially down quarter-over-quarter due to the acquisition of Workfront. Cash flows from operations in Q1 were $1.77 billion. We repurchased approximately 1.9 million shares in the quarter at a cost of $888 million. We currently have $1.1 billion remaining of our $8 billion repurchase authority granted in May 2018, which we expect to be exhausted by the end of this fiscal year. In December 2020, we announced that our Board authorized an additional $15 billion stock repurchase program through fiscal year 2024, which will be funded from future cash flow generation.

For Q2, we are targeting: total Adobe revenue of approximately $3.72 billion; Digital Media segment year-over-year revenue growth of approximately 21%; net new Digital

Media ARR of approximately $450 million; Digital Experience segment revenue growth of approximately 18%; Digital Experience subscription revenue growth of approximately 20%; tax rate of approximately 19.5% on a GAAP basis and 16% on a non-GAAP basis; share count of approximately 482 million shares; GAAP earnings per share of approximately $2.09; and non-GAAP earnings per share of approximately $2.81.

In light of Adobe's strong Q1 business performance and the momentum reflected in our second quarter targets, we are increasing our annual targets for fiscal 2021. We are now targeting: total Adobe revenue of approximately $15.45 billion; Digital Media segment year-over-year revenue growth of approximately 22%; net new Digital Media ARR of approximately $1.8 billion; Digital Experience segment revenue growth of approximately 20%; Digital Experience subscription revenue growth of approximately 23%; tax rate of approximately 17.5% on a GAAP basis and 16% on a non-GAAP basis; share count of approximately 481 million shares; GAAP earnings per share of approximately $9.13; non-GAAP earnings per share of approximately $11.85.

In Digital Media ARR, we expect a return to normal pre-COVID summer seasonality, which can lead to sequentially lower net new ARR in Q3, followed by year-end strength in Q4. We expect operating margin to be relatively flat from Q2 to Q3 and then dip slightly in Q4 as we get back to spending on travel and reoccupying our facilities.

In summary, Q1 was a great start, and we expect fiscal 2021 to be another record year. Combining our strength in customer acquisition and engagement, our leading technologies and talented employee base, Adobe is poised to continue our track record of impressive top- and to bottom-line growth.

Lastly, as reported in our press release earlier today, I have expressed my intent to retire this year. It is a very difficult decision for me because I love Adobe. You may ask, why now? I have been very fortunate in my career and I still have the passion and energy to fully dedicate myself to my philanthropic interests as well as prioritize my family and friends. We have navigated our way extremely well during the pandemic and our Q1 results and raised targets are evidence that the company is on solid footing. So I feel comfortable that this is the right time for me. Our highly tenured finance and operations team is top notch, and I plan on helping Shantanu through a transition period as the Company launches a search for my successor.

Now, I'll turn it back to Shantanu.

Shantanu Narayen {BIO 3332391 <GO>}

John has played a critical role in Adobe's strong performance for which I'm deeply grateful. John and the entire finance and operations organization have helped drive top- and bottom-line growth with a relentless focus on shareholder value. In addition to his accomplishments as CFO, John embodies Adobe's values, always operating with the highest integrity and ethical standards. John will work with me to ensure a smooth transition and I'm happy that John will be able to focus on his family and philanthropic pursuits and wish him all the best.

Adobe's global brand, unparalleled innovation, broad spectrum of customers and partners, and dedicated employees provide an unmatched competitive advantage. I remain bullish that technology will continue to transform work, learn and play, resulting in a brighter future for all of us.

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

Questions And Answers

Operator

Thank you. (Operator Instructions) And we will go first to Kash Rangan of Goldman Sachs.

Q - Kasthuri Rangan {BIO 2022907 <GO>}

Hello. Thank you very much and congratulations on a spectacular quarter. Shantanu, my question again, naggingly, unknowingly [ph] is about Creative term [ph]. You've been very consistent in talking about how large the term of Creative is, I think it goes back to 10 years prior. Can you talk -- and you mentioned today on this call that it's seemingly endless in terms of the opportunity. Can you expand on that, why is that the case? Because there is a view, not that I shared that once the economy opens up, that the creative folks are going to get out and enjoy the summer vacations and do less creative stuff. So we take a bit of that step of digital transformation.

I don't know how you feel about that, but if you can just talk to that tactical opening of the economy? And if that might impede digital transformation or maybe not. And then talk about why your confidence in the time of Creative is even greater than, than it was say five years back? Thank you so much.

A - Shantanu Narayen {BIO 3332391 <GO>}

Happy to do that Kash, and it's good to have you back on our calls now at Goldman. So first let me, let me just say that when you think about content and design there is no question that is fueling the global economy. And the way we segment our business as we think about what we are doing for creative pros, what we are doing for communicators and what we are doing for consumers. And first to, I think just share some numbers associated with that. I think we've said there 49 million creative professionals who use our products to make a living. The 700 million communicators and approximately 4 billion consumers.

And so when you think about the TAM whether that's 20 billion for the creative pros, 15 billion for communicators or 6 billion for consumers, in 2023. I mean, that represents a $41 billion addressable market opportunity, given the importance of design. So it's a massive opportunity. What gives us confidence? I think when we think about strategically what we are trying to do, certainly the first thing we're trying to do is advance every creative category. And I'll just give you one example, Kash, I mean what's happening with the immersive media and when you think about 3D to 2D and being able to do all these virtual shoots as the amount of content that's an emerging business. I had a really great quarter, that continues on what we had said about video, being one of the growth initiatives for us.

So I think these new media types and advancing it is certainly critical. I think multi-surface systems, what we can do associated with making some mobile. Mobiles been a really good growth opportunity for us and the way we look at that, it's both as a result of the funnel that it provides for both mobile and desktop. But also as part of a system, so people can create whenever they want. So even if they are going to be out in summer, as you say, they'll have access to all of our Creative tools, wherever they go. The third one I would say is, what we are doing with collaboration and the team and everything associated with allowing people to collaborate.

Services, I mean stock had another great quarter. We grew that business approximately 30% year-over-year, and the notion of just continuing to make sure that we do creativity for all, I think the world is going to be in a place where creative expression is going to dominate everything associated with education and productivity. So all of that give us really a high confidence associated with the opportunity and our execution. And then if you think about it for Q1, really just quickly, Q1 was a record quarter, we continue to see really great demand on the web associated with what's happening. And the absolute ARR was strong again. And this is, as you point out, despite the recovery being complete. And so, we're just feel like we're in absolutely sweet spot, as it relates to what people want to do with our tools and services.

Q - Kasthuri Rangan {BIO 2022907 <GO>}

Thank you very much, and congratulations.

A - Shantanu Narayen {BIO 3332391 <GO>}

Thanks, Kash.

Operator

Our next question will come from Jennifer Lowe of UBS.

Q - Jennifer Lowe {BIO 6926228 <GO>}

Great. Thank you. Maybe just following along through the commentary on recovery. One of the things (inaudible) to me is the strength that you saw in SMB this quarter. So maybe two questions on that. First, are you kind of back to pre-COVID levels at this point, in terms of the SMB momentum or is there still more to gain there?

And then secondly, just specific on Experience Cloud, I know, even pre-COVID, there were some execution challenges that you're experiencing in the SMB space. So if those execution challenge has been sort of fully addressed and you're seeing some of those more mid-market oriented products that you've acquired executing the way you'd like to -- work the way you'd like them to. That's it from me. Thanks.

A - Shantanu Narayen {BIO 3332391 <GO>}

Yeah. First, I think as it relates to the SMB segment, as we mentioned, both in the Document Cloud and Creative Cloud, and into your question specifically around Experience Cloud, we did see continued momentum and growth. So I still think that, when you think about what's happening in the world is still not fully back, right, to normal. And we're still in a sort of a pandemic situation. So, I clearly think there is upside and every day you have good news in certain geographies and unfortunately not so good news. And so that only augurs well for us as we look at our business moving forward.

But if I take a big picture view associated with Experience Cloud, which was the second part of your question. Digital transformation, just talking to all the CEOs, that I'm talking to, those who have already invested in digital are absolutely doubling down, because they recognize that this is the way to further differentiate. And those who are not, are clearly investing in the people, technology and processes to be in this market, whether it's transformational accounts at the enterprise level, that Anil talked about at the financial analyst meeting or whether it's at the small and medium business, your question associated with what we are able to do to enable them to have a digital storefront, which is a absolute necessity for doing business today. There is a lot of interest in demand in both of those. I know a lot of you, as I read your reports, the checks that you're doing, you're hearing the interest in our solutions and part from both the customers and the partners is high. And so we are going to see more demand for this, we had a good quarter. If you look at how we are targeting DX, we clearly expect acceleration of revenue with and without Workfront, Q3 over Q2 and Q4 over Q3. So we're really excited, and I think we're in the sweet spot on all three of our growth areas.

Q - Jennifer Lowe {BIO 6926228 <GO>}

Thank you.

Operator

And the next question will come from Mark Moerdler of Bernstein Research.

Q - Mark Moerdler {BIO 16855032 <GO>}

Thank you very much, and congratulations on the quarter, and a great start to the year. John, we're going to miss you, but completely understand the desire to spend more time with family and philanthropy. So, enjoy it.

Two quarters ago, you called out, your increased focus on driving Experience Cloud margin improvement. Can you give us an update on where you are in driving Experience Cloud margin improvement? And any sense what you think about long-term margins could be for what Experience Cloud is today versus the future? Thank you.

A - Shantanu Narayen {BIO 3332391 <GO>}

Well, Mark, I'll let John speak to his decision after this as well. But I think the decisions we made associated with reducing our focus on the transaction based advertising revenue, if you look at everything that's happening associated with that business. So there are other companies in that space, I think that was a good way to do it. But we've done with the experience platform and with Anil coming in taking, (inaudible) approach associated with that entire P&L and the business opportunity, these been able to align and simplify and improve it. And so, I mean, you don't accomplish the kinds of margins that we accomplished in the year without a focus across all of our businesses.

And so we have a incredibly good leverage model, but there is more. I mean, Digital Experience is still in that area where we're growing revenue, I mean, 20% is what we've targeted for the entire year. We had 27% of subscription revenue in Q1. And so it really is one of those areas that the growth opportunity and you will see that translate into the bottom line over time. But John, maybe I'll have you also add to that.

A - John Murphy {BIO 16018871 <GO>}

Yeah. Absolutely. I think the continued focus that we have both on gross margin and on operating margin in the business is key. And that, Mark, thanks for the words, I definitely miss you guys as well, but I'll be here for a little while during the transition. You can imagine, it was a difficult decision to make, you think that essential a while. But I -- I've said, even last year during the pandemic, you kind of refocus on two priorities. And so I'm really fortunate for the (inaudible) and thankful to shops -- at Adobe, to allow me this opportunity to pursue my passion.

Q - Mark Moerdler {BIO 16855032 <GO>}

Thank you. I appreciate it. Thank you.

A - Shantanu Narayen {BIO 3332391 <GO>}

Thank you.

Operator

Next we'll go to Brent Thill of Jefferies.

Q - Brent Thill {BIO 1556691 <GO>}

Good afternoon. Shan, you had mentioned a couple of years ago at Summit, that the customer being the platform architecture was a revolutionary architecture and was going to bring, some really interesting opportunities to Adobe. It sounds like some of those customers are going live now. And I'm just curious to get your perspective on where you are on that journey? And what you're starting to see in the Experience Cloud with CDP coming online?

A - Shantanu Narayen {BIO 3332391 <GO>}

Yeah, Brent, I mean, we have seen some quite a bit of success. I think we had some really blue-chip customers that we talked about, the conversations that I'm having with each of these customers. And people talk about customer 360, with the only major company that has anything out there, of this scale to be able to do real time personalization at scale. We have billions of profiles that are already going through this, absolutely blue chip customers, whether it's the financial services, whether it's in other online like retail. What we are doing with telecommunications and so. Not only do we have that, but it's really served us the basis. So what we've done with Customer Journey Analytics, so if you take a step back and the big areas that we talked about content and commerce data insights and audiences which is such a key part. I think that becomes even more important with what's happening in the (inaudible), so that you can have access to all your first-party data and profiles.

So, I think the decision to invest in that was right. The success that we're seeing in the marketplace and the leadership, I think, positions us incredibly well, Brent. And you'll hear a lot more about that at Summit, certainly, I think the Workfront acquisition also has had the unique opportunity to be able to add to what we have in terms of our solutions and get workflow also an attribution associated with that. So, I feel really good, but I feel really good about the infrastructure with CDP, and we focus a lot more on the real time nature of what we can do with personalization, as the key differentiation. But some great customer wins.

Q - Brent Thill {BIO 1556691 <GO>}

Just a quick follow-up for John. On the 20% growth you're now guiding, just back to Jen's question, does that assume a full recovery for SMB? Or is that still contemplating here, that there is still some improvement that you could squeeze out of that segment of the market?

A - John Murphy {BIO 16018871 <GO>}

Thanks, Brent. For sure, it really reflects the continued recovery. But it's not -- we don't expect to be back to pre-COVID levels. I think, as we saw, as we exited FY'20, that momentum in it will be kind of recovery. It's just gradual continued recovery and we're going to get benefit of that.

Q - Brent Thill {BIO 1556691 <GO>}

Great. Thank...

A - Shantanu Narayen {BIO 3332391 <GO>}

Hey, Brent. You didn't followed us for a significant amount of time. We don't bank on anything dramatically changing. We look at the demand that we have in the current trends. And yeah, -- we're not macroeconomic experts. And so as the recovery happens more, but we are not banking on it, just to be clear.

Q - Brent Thill {BIO 1556691 <GO>}

Thanks, Shantanu.

Operator

And we'll go now to Kirk Materne of Evercore ISI.

Q - Kirk Materne {BIO 5771115 <GO>}

Hi. Yes. Thanks very much. Shantanu, I was just kind of curious as we come out of the pandemic, I mean, your businesses has executed incredibly well. Are there parts of the business, so that would benefit from getting back in front of the customer base? I'm thinking about sort of the Experience Cloud business in particular. You guys have obviously been able to actually really well in virtual world. But I do wonder if there is areas whether it's Experience Cloud, maybe in the education market, areas like that, where being able to get out and talk to the customers, again would actually be beneficial. So, I was just curious if you had any thoughts on that?

A - Shantanu Narayen {BIO 3332391 <GO>}

I think so. I mean, the world has done a pretty amazing job of pivoting to working at home and being able to do as much as you can. And I've talked about the fact, that being able to visit with customers all across the globe without travel is in many ways, a real ability to scale. But I also I'm one who believes that being in front of the customers and getting the partners that we have together and accelerating the rollout and sharing best practices, and that social part is only going to help.

I don't think the world is going back to everybody being in the office. But I do believe that it will be an accelerant. And -- because peoples desire to also invest more as the economic situation improves, can only be another tailwind for us. And so, we've done a pretty incredible job, when you look at our numbers. But there is no question in my mind, I mean, if we can go travel and if we can meet with this customers and do it, there is only upside associated with that.

Q - Kirk Materne {BIO 5771115 <GO>}

And then just one...

A - Shantanu Narayen {BIO 3332391 <GO>}

(Multiple Speakers) in terms of we can do, as well as -- sorry, both in terms of what we can do as well as their own confidence, right, in continuing to expand their investments.

Q - Kirk Materne {BIO 5771115 <GO>}

Thanks for that. And then just maybe a quick one for John. John, on the Workfront revenue came in a little bit higher than your initial expectation. Was that just mainly around sort of deferred accounting or relative product took fairly conservative view on that, given that closed the acquisition we talk to us in December. But it sounds like you got to a good start. Is there, any uplift maybe in the bookings to revenue, just in terms of the combination? Or is that mainly just sort of a factor of accounting? Thanks.

A - John Murphy {BIO 16018871 <GO>}

Yeah. Thanks, Ken (Sic - Kirk). No, the Workfront actually really been a great performance. So, outside of the accounting adjustments for purchase accounting, we saw momentum in the business. And we had kind of suggested maybe about $140 million, $150 million and Workfront revenue impacting (inaudible) in '21. But we think it'll be a bit more than that given the performance. The combined offering is really resonating with our customer base, and that was really the -- from the business case of doing this acquisition to begin with.

A - Shantanu Narayen {BIO 3332391 <GO>}

We can take next question...

Operator

We'll go to the next question. And that will come from Jay Vleeschhouwer of Griffin Securities.

Q - Jay Vleeschhouwer {BIO 1498201 <GO>}

Thank you. Good evening. Shantanu for you first. At the Analyst Meeting in December, the company had some very interesting things to say about your technology and where you're investing. You referred for example, in the case of Creative to what you called a deeply collaborative shared system in the case of Doc Cloud, you refer to intelligence applied to PDF as with liquid mode. All of that in the context of your applications and intelligence services. The question is, could you foresee the role for or need for new configurations or a new kind of segmentation of the product line? New SKUs, new packaging, anything of that sort, particularly as you become more domain specific oriented.

And then for John, over the last three quarters, you've had a very steep almost V-shaped recovery in your job openings, from almost none back in June, July to now over 1,000 and up four months in a row of year-over-year. Could you talk about that in terms of your on-boarding in the context of how you're thinking about OpEx growth for the year?

A - Shantanu Narayen {BIO 3332391 <GO>}

Jay, maybe I'll take your question. And since they haven't been as many questions yet on Document Cloud, I'll use Document Cloud with the technology lens, to answer your question. I mean, first liquid mode. I was on the road, I was traveling on the road last week and the entire preparation for this, I was doing on a mobile device with liquid mode. And I will tell you liquid mode for me was an absolute life saver, in terms of being able to look at all these documents and do everything collaboratively on the road. So an unabashed plug for those who haven't tried liquid mode, who haven't tried Adobe scan to really see how it changes.

And so when we think about it is, when you apply that kind of AI to fundamentally change the nature and understanding the structure and semantics of documents, it opens us so many different possibilities on the segmentation. I mean, we now have revenue that we drive through Reader and Reader distribution and upsells because we understand what people are trying to do and understand the intent. We're driving revenue through search engine optimization, that we do on PDF, because we have a one-click way of having them do more and more PDF of functionality.

We have a new revenue monetization model associated with APIs and being able to have people use PDF and embed that in their particular workflows. And we've always had Acrobat Sign had a great quarter again. I think, John may have mentioned that we grew 50%. And so, to your point, I mean, AI and technology and being able to make that available and accessible in different ways, is not just serving the customers better, but it's clearly providing us new opportunities to monetize it, that previously did not exist. And so, I think you'll continue to see that, I mean, the innovation roadmap with its Summit or MAX, you'll see some really cool things, which will not just push the envelope for our creative pros, but also make it way more accessible, productive and fun for communicators and consumers. John?

A - John Murphy {BIO 16018871 <GO>}

Yeah. In regards to the -- job of headcount growth, we entered the pandemic last year, we did pause hiring initiatives. We talked about, really focus our resources on our highest priorities. And we did that, and successfully navigated the pandemic and where we came out, take advantage of the opportunities in front of us. And so with that, of course, that we talked about Q3, that we're going to start to ramp hiring. And so we have done that, and we continue to look to invest, as I said in R&D and sales capacity, and as well as variable marketing.

In terms of the impact on our backs [ph] we had originally planned for margin expansion in FY'21 over FY'20, and these updated targets actually indicated some greater margin expansion. Even though it will accounts for our phased re-entry, as we come back to traveling as we reopen our facilities. So for us, the ability to grow the top line and the leverage in our operating model allows us to be able to do that. So for us, net margin expansion is really all driven off of revenue growth, and ultimately we can perform both very well on the top line and on bottom line.

Q - Jay Vleeschhouwer {BIO 1498201 <GO>}

Okay. Thank you.

Operator

And next we will go to Saket Kalia of Barclays Capital.

Q - Saket Kalia {BIO 16417197 <GO>}

Okay, great. Hey, thanks for taking my question here guys. And congrats, John, on the well-deserved retirement.

Shantanu, maybe for you on the Creative business. Can you just talk about the product pipeline, so that growing individual user base for the rest of 2021 forward [ph] rush is of course. And how you feel about Adobe's ability to help them grow or progress in their journey to higher end Creative Cloud apps? And John, if I can just fit in one housekeeping question, that maybe might be helpful. I was wondering if you can just quantify, how much the extra week added to total revenue and net new ARR in the quarter?

A - Shantanu Narayen {BIO 3332391 <GO>}

Yeah, Saket. I mean, maybe I'll speak to that. And I'll also give you my color on sort of what happened with the ARR. But first as it relates to how we are expanding both the user base and acquisitions, I mean, the net new ARR, when you look at it, it's primarily all net new ARR in terms of customer acquisition. And whether it's the mobile-only applications that we're providing, whether it's the web-based ability to do things in the browser, with its collaboration, that's certainly the way in which we are expanding our offering.

And frankly the way we do it, is that anybody who uses one of our own-brand [ph] products, whether it's individual category app, that is then using the entire CC all apps. Or whether it's a consumer app where they start to get exposed to things like maybe layers in Photoshop or our timeline in Premiere Rush. They have the ability to then be upsold, as well as to become more productive by going to Premiere or Photoshop. So it's very much been a part of our strategy all along, which is how do you attract customers to the platform, and how do you think about then making sure that as they grow in the creative endeavors, that we have the right on ramp, whether it's an offer that we provide at the right time, whether it's engagement that we do with Adobe Creative live. I mean, Creative Live is really become and that community of Behance, a great way for people to continue to grow and learn. And I think there are whole cottage [ph] industry also, people who've done training and learning and education on creative product.

So that's the strategy, which is meet the customer where they are, whether it's on a surface or whether it's a degree of specialization and then make sure that, as they expand their creative pursuits, that we're the right product for that. And so if you think about it, I mean, Digital Media ARR what really happens is, it's not -- while revenue may be more representative of the number of weeks in the quarter. And so if you take the 14 week over 13-week, you can argue that it was probably eight points of revenue that was extra, as a result of the 14th week. But ARR is not as cyclical, because ARR, when you have an enterprise part of the business, it's probably going to be back-end loaded by most enterprise, much like enterprise. So that's why we look at the Q1 ARR, which was a record for Creative, as a really solid performance. So, hopefully that gives you a flavor. Revenue for creators is a little bit more dependent on the number of weeks, but ARR is sort of, you have these things that we do which are cyclical and that drives the strong growth that we saw, across both Creative and documents.

Q - Saket Kalia {BIO 16417197 <GO>}

Very helpful, Shantanu. Thanks.

A - Shantanu Narayen {BIO 3332391 <GO>}

Thank you.

Operator

Next we will go to Ken Wong of Guggenheim Securities.

Q - Ken Wong {BIO 20723645 <GO>}

Great. Thanks for taking my question. I just wanted to dive in a little bit on the Digital Experience business. Would love some color behind the confidence in the 23% DX sub-growth. Is this purely just improving macro? Or are you guys seeing better deal flows bigger deal specific products that are contributing to this uptick? And any help there would be fantastic.

A - Shantanu Narayen {BIO 3332391 <GO>}

Yeah, I think the confidence comes from, first, the performance in Q1. As we said, we had 27%, our subscription revenue growth. I think the confidence comes from the conversations that we're all having with companies all across the globe, from the pipeline that we have from what we know in terms of Summit. And again, as in the response to the previous question that was asked, this is not banking on any macroeconomic environment changes, for the rest of the year. So it's based on what we know today, and the interest. Commerce is an area that is seeing a fair amount of interest. The real-time customer data platform, the experience platform is seeing a significant amount of interest. Workfront, as we said and John mentioned that it's not the deferred revenue, it's the performance as well that's driving the upside in that particular business, Customer Journey Analytics and being able to address this in a multi-channel, that's seeing a lot of interest.

I think you're going to see some new products also in terms of how we evolve our campaign product and analytics product, to be more business performance related. And frankly, to a large extent, Ken, all of this is also predicated on how we run our business, right? And our DDOM and understanding what it takes to run an online business, and we're world-class at that, and we're building products for ourselves. And so that gives us a lot of confidence that it will help every other customer out there.

Q - Ken Wong {BIO 20723645 <GO>}

That's great. Thanks a lot for that insight.

Operator

And next we will go to Sterling Auty of J.P. Morgan.

Q - Sterling Auty {BIO 2070271 <GO>}

Yeah. Thanks. Hi guys. First, John, congratulations on a wonderful tenure as CFO of Adobe. Just one question from my side. You touched upon Adobe Sign in the 50% growth that you saw in the quarter. It seems like meaningful acceleration from what we saw year or so ago, where I think that business is growing about 25%. I'm going to take a stab, any sense can -- would you be willing to quantify and size the Adobe Sign business at this point?

And then secondly in terms of the accelerating growth, I think you mentioned government, but what do you particularly seeing that's driving the uptake of that e-signature business?

A - Shantanu Narayen {BIO 3332391 <GO>}

I think our key differentiation there, Sterling, is the fact that PDF as a format continues to be the format that people are using for automating these workflows. I think, the fact that we have Adobe Reader which is the operating environment in which all of these workflows are happening. I think, we've done a better job, (inaudible) of what we have in that, hopefully some of you have seen the incredibly new creative campaigns, that we're running associated with that. We're actually getting a fair amount of wins from other competitive products that people might have been using, in terms of moving over to Adobe. The partnerships that we have with Microsoft and ServiceNow, in terms of being embedded whether it's in SharePoint or Outlook or partnering with ServiceNow.

So I think we're executing on the product side, I think we have some key differentiation and this is not a zero-sum game, it's such a large opportunity. And I think the work-from-home has also certainly benefited us and everybody else in that space. So all of those -- I think are reasons why Sign just continues to be a real growth opportunity for us. The last thing I would mention is the ability to embed our Sign stuff within other people's offerings as well. I think we've made some good progress on that one as well. So all of these give us confidence.

And to your question, Sterling, we don't break it out because it's hard, right. Sometimes you have an enterprise deal, where you have all of them using Acrobat and Sign. And so even on the individual case, you have the ability to use a certain amount of Sign capability with an Acrobat. And so, I think our strength is in the combined offering.

Q - Sterling Auty {BIO 2070271 <GO>}

Got it. Thank you.

Operator

And next we will go to Keith Bachman of Bank of Montreal.

Q - Keith Bachman {BIO 3018411 <GO>}

Hi. Thank you very much. Shantanu, I was wondering if you could give an update on the Commerce Cloud. I'll break it into two parts. A. could you talk a little bit about growth rates and profiles? In other words, are you moving into larger situations with more scalable demands? And B. could you talk a little bit about, you moved through acquisition into the commerce area, and it fits into the DDOM model. And yet -- and yet you're still partnering on the services side of the equation of the Service Cloud. I just wanted to see if you could juxtapose your strategy surrounding willingness to move into commerce via M&A. And any thoughts on, as partnering still the right strategy for the services side? Thank you.

A - Shantanu Narayen {BIO 3332391 <GO>}

Yeah. At the end of the day, Keith, we are a software company. And so I think, actually just to give you a little bit of an update on numbers, I mean, the beauty of when we acquired Magento, and put it in the Commerce Cloud was --first it was B2B and B2C, that was attractive area for us. Second, it was physical goods and digital goods that was an interesting opportunity for us. I think, the third thing that was important for us, was the fact that we had the ability to have both large ecosystem of partners who are implementing this, as well as an open source community that was able to extend the functionality, and in effect be extended R&D model.

On the partner side, I mean, I think we've gone something from 2,800 or so partners that they had to well over 4,000. So, the interest in partnering with us on the Commerce Cloud is high. And our model, as we've always said, this goes back also to the earlier question, that somebody had on the P&L associated with Digital Experience. Our model is software and we are happy actually, to have a large ecosystem of partners that work with it. And maybe the last thing I would say on that particular front is that, we're really continuing to expand what we do on the merchant services offering. So, partners like PayPal, and what we can do in conjunction with them and other credit card and other partners, I think, that's going to also be a good area of continued growth for us.

Q - Keith Bachman {BIO 3018411 <GO>}

Okay. Thank you, Shantanu.

A - Shantanu Narayen {BIO 3332391 <GO>}

Thank you.

A - Jonathan Vaas {BIO 21700508 <GO>}

Operator, we'll take two more questions and then wrap up. Thanks.

Operator

Certainly. And next we will go to Derrick Wood of Cowen and Company.

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

Great. Thanks. Question on Document Cloud, maybe the first part for John. It looks like perpetual is quite strong, and I suspect that came from, not from strength in EPLA [ph] activity. But could you talk to how you're thinking about perpetual mix as we look through the rest of the year? And whether we could see another spike in any given quarter? And then maybe more for Shantanu, just kind of a refresher around the strategy, within Document Cloud on getting more customers to shift to subscription, and how to think about those efforts over the next couple of years?

A - Shantanu Narayen {BIO 3332391 <GO>}

So maybe I'll go with the strategy and then John, you can certainly add to that, which was (inaudible). First from a strategic point of view, if you go to adobe.com, it's primarily subscription. And so we have done a fantastic job of converting that business to subscription. When you look at it globally, and you consider some other markets where a lot of it is going through the reseller, even that has predominantly become subscription. But we'd be crazy not to have people if they do want some perpetual to buy the perpetual, and then convert it to subscription, because we still know that. So, I think to your uber point, yes, we did see some strengthen perpetual, China, I think had also a pretty strong quarter as it related to Acrobat and that may be a little bit more perpetual. Our strategy is clearly moving into the cloud, our strategy is clearly demonstrating the value of where people see the ongoing innovation that we're providing. But that business unlike the other business, we just want to attract more and more customers through any one of those offerings. And that's why we've continued to have the Acrobat perpetual offer out there. But it's becoming smaller and smaller, as a big -- as a part of the business it's definitely becoming smaller and smaller. And on adobe.com, it's virtually de minimis.

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

Great. Thanks.

Operator

And we'll go to our final question and that will be from Keith Weiss with Morgan Stanley.

Q - Keith Weiss {BIO 6993337 <GO>}

Excellent. Thank you guys for sneaking me in. And -- give my congratulations for John on the retirement, well deserved. And also really nice quarter, I wanted to ask you guys about a concern that I hear from investors and kind of get your take on it. While you guys are seeing a recovery on the SMB side of the equation, the fact of the matter is the Digital Media business did really well through all of last year, even in the height of the pandemic in the upcoming May quarter, you guys are really good. ARR growth was up on a year-on-year basis, which exceeded a lot of people's expectations. But now there is a concern that is a really tough comp ahead, that you guys saw work-from-home benefits or benefits that were due to sort of what's going on with the crisis, that might create a difficult compare. Could you talk about whether there is like a different compare [ph] ahead? And is there a different sort of tone or nature of the business that you're seeing now versus what you saw last year at this time as we are in the crisis?

A - Shantanu Narayen {BIO 3332391 <GO>}

I think, Keith, the question that we ask ourselves is, the big shifts that we've seen, in terms of how people work, the need to create. The new -- the different kinds of media types that exist. Is there anything that's going to fundamentally change when the economy changes? And we don't think so, because we just continue to believe that, that importance of all of those areas and the tailwinds that exist in the market will continue to exist. I think in terms of our numbers, and you look at what we are doing, where we've said, it's -- we have raised the target a little bit from what we had, the $1.75 billion to the $1.8 billion, and this is 10 years into it. When you're driving a record ARR, I would say that, that reflects the much larger market opportunity, that we've created for ourselves.

And so, is there, the way I actually look at it is, is that, it's brought more attention to what's possible with our tools. And once people experience the benefits of what they're doing with us, it's going to be hard to go back. Do you know, not using those kinds of technologies, which is what gives us a lot of interest. Hopefully, and you would certainly there, Keith, at the analyst meeting, that's why we tried to lay out completely, what we see in terms of communicators and consumers and creative pros. And I mean the business is really well. We had -- we're expanding the Digital Media segment revenue for the year. We're expanding our revenue and so that's all based on what we see as demand for what we have created and the tremendous amount of innovation that's ahead of us.

So I think all of those give us a lot of confidence in the fundamental nature of the growth opportunities that we're focused on. And since that was the last question, I mean, maybe just a couple of points, I would like to, and I know a lot of you did, also publicly, thank John. This was, I know for John a very personal decision and I'm happy that he is going to be able to focus on what's important to him, which is family and his philanthropic interest and I'm deeply grateful.

And on the overall business, it's hard to believe that a year has passed since the pandemic impacted the world. But I think what's really incredible is digital is not just a nice to have right now, it's absolutely mission critical. And most companies would be thrilled to have one area of growth. We have three areas of growth: creativity; storytelling; design. What's happening with the future of work and remote work and the limitations of what you can do with in-person interaction, which will lead to more automation of digital documents. And how every business in the planet is going to focus on engaging digitally with their customers. So massive opportunity, I think, Q1 was a really strong quarter, we have a compelling strategy, outstanding innovation roadmap. And I really have to thank all our employees, who have pivoted to work-from-home and executed magnificently in what have been difficult circumstances. And which is why, the momentum led us to increase our targets for '21.

And as I always say, I think the top line and bottom line performance really set us apart as investment for people. But stay safe, stay healthy, and we really look forward to having you attend the Summit, where we will unveil the next generation of enterprise innovation. Thank you for joining us, and I'll pass it back to Jonathan.

A - Jonathan Vaas {BIO 21700508 <GO>}

Okay. Thanks, Shantanu. And this concludes the call. Thanks everyone.

Operator

And again, everyone, this does conclude today's call. Thank you for your participation. You may now disconnect.
