Q4 2019 Earnings Call

Company Participants

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

Other Participants

- Brent Thill, Analyst
- Diana Chang, Analyst
- James Rutherford, Analyst
- Jay Vleeschhouwer, Analyst
- Jennifer Lowe, Analyst
- Kash Rangan, Analyst
- Keith Weiss, Analyst
- Ken Wong, Analyst
- Mark Chen, Analyst
- Sterling Auty, Analyst
- Tom Roderick, Analyst
- Walter Pritchard, Analyst
- Yao Tsung Chu, Analyst

Presentation

Operator

Good afternoon. I would like to welcome you to Adobe Fourth Quarter Fiscal Year 2019 Earnings Conference Call.

All participants are in a listen-only mode. Later, we will conduct a question-and-answer session and instructions will be provided at that time. As a reminder, today's call is being recorded.

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

Mike Saviage {BIO 3176226 <GO>}

Good afternoon and thank you for joining us today. Joining me on the call are Adobe's President and CEO, Shantanu Narayen and John Murphy, Executive Vice President and

CFO.

In our call today, we will discuss Adobe's fourth quarter and fiscal year 2019 financial results. By now, you should have a copy of our earnings press release, which crossed the wire approximately one hour ago. We've also posted PDFs of our earnings call prepared remarks and slides, and an updated investor datasheet on adobe.com. If you would like a copy of these documents, you can go to Adobe's Investor Relations page and find them listed under Quick Links.

Before we get started, we want to emphasize that some of the information discussed in this call, particularly our revenue and operating model targets, and our forward-looking product plans, is based on information as of today, December 12, 2019, and contains forward-looking statements that involve risk and uncertainty. Actual results may differ materially from those set forth in such statements. For a discussion of these risks and uncertainties, you should review the Forward-Looking Statements Disclosure in the earnings press release we issued today, as well as Adobe's SEC filings.

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

Call participants are advised that the audio of this conference call is being webcast live, and is also being recorded for playback purposes. An archive of the webcast will be made available on Adobe's Investor Relations website for approximately 45 days, and is the property of Adobe. The call audio and the webcast archive may not be re-recorded, or otherwise reproduced or distributed without prior written permission from Adobe.

I'll now turn the call over to Shantanu.

Shantanu Narayen {BIO 3332391 <GO>}

Thanks, Mike and good afternoon.

Fiscal 2019 was a phenomenal year for Adobe as we exceeded $11 billion in revenue, a significant milestone for the Company. Our record revenue and EPS performance in 2019 makes us one of the largest, most diversified and profitable software companies in the world.

Total Adobe revenue was $11.17 billion in FY '19, which represents 24% annual growth. GAAP earnings per share in FY '19 was $6, and non-GAAP earnings per share was $7.87. We closed the year with another record quarter, delivering Q4 revenue of $2.99 billion, representing 21% year-over-year growth. GAAP earnings per share for the quarter was $1.74, and non-GAAP earnings per share was $2.29.

Our strategy to unleash creativity for all, accelerate document productivity and power digital businesses is significantly expanding our customer universe, from students to business communicators to creative professionals to the world's largest multi-national corporations. Ground-breaking innovation in Creative Cloud, Document Cloud and Experience Cloud is accelerating our opportunity and momentum.

Creative Cloud empowers all voices from the most demanding professional to next-gen creators; enables the cutting edge of creativity across all media types; makes the creative process more productive and collaborative; and delivers Adobe magic with Sensei. We continue to invest in multiple new growth drivers, which has expanded the total addressable market for Creative Cloud to approximately $31 billion by 2022.

Innovation is at the heart of Creative Cloud's growth. This year at MAX, we announced the next generation of Creative Cloud, with goals of deepening customer engagement, continuing to attract new customers, and investing in adjacent opportunities to fuel future growth.

Key announcements at MAX included; delivering additional value to existing subscribers through feature enhancements to our flagship creative tools, including Photoshop, Lightroom, Premiere Pro, Illustrator and InDesign as well as a complete redesign of our Creative Cloud desktop app; enabling collaboration via multi-surface systems with the launch of Photoshop on iPad, Fresco on Windows, and a preview of Illustrator on iPad; extending category leadership with new innovations in Adobe XD, including live co-editing and fully integrated Creative Cloud Libraries; launching new products such as Adobe Aero, the industry's first tool that allows designers to build and share AR experiences; expanding our mobile offering with the introduction of Photoshop Camera, a consumer app that will bring Photoshop technology directly to the moment of capture; and delivering Adobe magic to enable creatives to work faster and smarter than ever before with new Adobe Sensei-powered features.

Adobe's heritage is built on providing trusted creative solutions, and we have a responsibility to play a role in addressing content authenticity. At MAX, we announced an initiative in partnership with The New York Times Company and Twitter to develop an industry standard for digital content attribution, and we're inviting other companies to join to create a long-term shared solution.

With Document Cloud, Adobe is enabling the paper-to-digital transformation that is underway at organizations and enterprises around the world. With trillions of PDFs created every year and billions of people viewing PDF documents, we've expanded our ambitions in this space, and estimate the total addressable market for Document Cloud will grow to approximately $13 billion by 2022.

Our Document Cloud strategy is to enable all common document actions, what we call Acrobat verbs, including editing, sharing, scanning and signing, to be frictionless across mobile and web by leveraging the ubiquitous PDF format. We make this possible through desktop and mobile applications, single-click web functionality in browsers, and with a rich set of APIs that can be embedded in third-party applications.

Our Document Cloud ecosystem continues to grow. At BoxWorks, we introduced a new Acrobat web experience, which includes capabilities to modify, organize, sign and collaborate on PDFs directly within Box. At Microsoft Ignite, we announced new advancements in Adobe Sign to simplify the e-signature process, and we deepened integrations between Adobe Sign and Microsoft Office 365, Dynamics 365, and Azure.

In Q4, we drove strong revenue growth across both Creative Cloud and Document Cloud. Digital Media revenue was $2.08 billion. Net new Digital Media ARR was a record $539 million, and total Digital Media ARR exiting Q4 grew to $8.4 billion.

Global interest and subscription adoption were strong throughout the quarter and accelerated after Adobe MAX. Demand for mobile offerings and overall web traffic continued to grow. We are attracting new customers, with over 50% of our cumulative subscribers being new to our Creative Cloud franchise. With 23 million students having access to Adobe Spark, we're spearheading the development of critical creative skills for the next generation.

Document Cloud growth is being driven by new customer acquisition, migration from Acrobat perpetual licenses to subscriptions, and the monetization of an ever-increasing universe of Document Cloud mobile app users.

Digital Media enterprise adoption continues to expand with outstanding seasonal Q4 performance. Finally, we drove record demand for subscriptions during the last week of the quarter, culminating in our biggest ever Black Friday on Adobe.com.

In the experience economy, every business must be a digital business and Adobe Experience Cloud is the industry leader for powering digital businesses. The ever-increasing demand for data and insights, content and personalization, customer journey management, commerce and advertising is expanding our total addressable market for Experience Cloud to $84 billion by 2022.

We're leveraging our relationships with Chief Marketing Officers and Chief Digital Officers to drive Customer Experience Management across the enterprise. With Adobe Experience Platform, we are becoming mission critical to the Chief Information Officer. We've extended our offerings and go-to-market across both B2B and B2C and are expanding our footprint in the mid-market segment.

We're rapidly evolving our CXM product strategy to deliver generational technology platforms, launch innovative new services and introduce enhancements to our market-leading applications.

Adobe Experience Platform is the industry's first purpose-built CXM platform. With real-time customer profiles, continuous intelligence, and an open and extensible architecture, Adobe Experience Platform makes delivering personalized customer experiences at scale a reality.

At Adobe, we've leveraged our highly successful data-driven operating model, or DDOM, into a transformation playbook for our customers. We're helping enterprises re-architect their technology, people and processes to drive business growth. We have a unique and valuable perspective as a company that has used its own technology to transform its business.

Our leadership in Customer Experience Management is reflected in the industry recognition we received in Q4, including being named the top leader in Forrester's Digital Intelligence Platforms Wave report, achieving the best scores across both Ability to Execute and Completeness of Vision. Adobe was named a leader by Gartner and Forrester in the categories of Enterprise Marketing Software Suites, Digital Asset Management and CRM Lead Management.

If you've watched TV, listened to the radio or read the news this past week, you could not have avoided references to Adobe's Holiday Shopping predictions report, which leverages Adobe Sensei to identify retail trends and insights from trillions of data points flowing through Adobe Analytics and Adobe Commerce Cloud. Adobe's data showed that Cyber Monday reached a record $9.4 billion in online sales, and we predict online holiday spending will surpass $140 billion this year.

Key Digital Experience transactions in the quarter included Goldman Sachs, Marriott, McDonald's and Qualcomm. Interest in the Adobe Experience Platform and our new Real-Time Customer Data Platform is strong and we successfully closed business across key verticals, including financial services, manufacturing, media and entertainment, retail, telecommunications and travel and hospitality. Key wins included 3M, Coca-Cola, Synopsys, Tommy Bahama and Verizon. As a result of the strong Q4, we exceeded 20% subscription bookings growth during FY '19.

Our performance in FY '19 was driven by the significant contributions of our global employees. They are Adobe's greatest asset and we pride ourselves on our progressive and inclusive employee policies. This year, we reaffirmed global pay parity across our workforce and in September we became the first company to announce our commitment to opportunity parity, which looks at fairness in internal promotions and horizontal movement. We are proud to once again be included on Fortune's list of the 100 Best Companies to Work For and one of the Best Employers for New Grads by Forbes.

We're pleased to have been recognized by Newsweek as one of America's Most Responsible Companies and were named to the Dow Jones Sustainability Index for the fourth consecutive year.

We were honored to receive the Hope Award from the National Center for Missing and Exploited Children for our ongoing work to further their mission of keeping every child safe.

Adobe's vision, our compelling strategy, our large and loyal customer base, and our relentless focus on these opportunities position us well for the next decade of growth. Adobe is the clear front-runner in the categories we serve; creativity, digital documents and customer experience management. Our best days remain ahead of us and we look forward to a phenomenal 2020.

John?

John Murphy {BIO 16018871 <GO>}

Thanks, Shantanu.

Our earnings report today covers both Q4 and fiscal year 2019 results. Starting with our annual results, in FY '19 Adobe achieved record revenue of $11.17 billion, which represents 24% year-over-year growth. GAAP EPS for the year was $6, and non-GAAP EPS was $7.87. This performance is the result of strong execution against our expanding strategy resulting in noteworthy achievements, including; digital Media segment revenue of $7.71 billion, representing 22% year-over-year growth; creative revenue of $6.48 billion, representing 21% year-over-year growth; Adobe Document Cloud revenue of $1.22 billion, representing 25% year-over-year growth; exiting the year with $8.4 billion of Digital Media ARR, an annual increase of $1.69 billion; Digital Experience segment revenue of $3.21 billion, representing 31% year-over-year growth; Digital Experience subscription revenue of $2.67 billion, representing 37% year-over-year growth; growing Digital Experience subscription bookings by greater than 20%; generating $4.42 billion in operating cash flow during the year; growing Remaining Performance Obligation, or RPO, to approximately $9.82 billion; and returning $2.7 billion in cash to stockholders through our stock repurchase program.

In the fourth quarter of FY '19, Adobe achieved record revenue of $2.99 billion, which represents 21% year-over-year growth. GAAP diluted earnings per share in Q4 was $1.74 and non-GAAP diluted earnings per share was $2.29. Business and financial highlights in Q4 included; Digital Media revenue of $2.08 billion, which represents 22% year-over-year growth; net new Digital Media ARR of $539 million; Digital Experience revenue of $859 million, which represents 24% year-over-year growth; record cash flow from operations of $1.38 billion; increasing RPO by more than $1 billion; and repurchasing 2.8 million shares of our stock during the quarter.

In our Digital Media segment, we achieved record revenue with 22% year-over-year growth in Q4. The addition of $539 million net new Digital Media ARR grew the total to $8.4 billion.

Within Digital Media, we achieved another strong quarter with our Creative business. Creative revenue grew 20% year-over-year and we increased Creative ARR by $445 million in Q4. Driving this performance was continued strength with acquisition, upsell and retention of Creative Cloud subscriptions, as well as the adoption of Creative Cloud services.

Key Q4 Creative growth drivers included new user growth, fueled by demand generation initiatives including targeted campaigns and promotions, an increase in mobile app users, and year-end seasonal strength; end of November strength coming from interest driven by the recent Adobe MAX conference and follow-on targeted campaigns that helped drive record performance during the last week of the quarter; continued strength with single app adoption, particularly with our imaging and video offerings; a strong finish to the year in the enterprise with renewals, upsell and enterprise services adoption; continued momentum with creative services including Adobe Stock, where revenue again grew greater than 30% year-over-year; and improvements in retention across all our offerings.

Adobe Document Cloud revenue growth accelerated once again in Q4. We achieved record Document Cloud revenue of $339 million, which represents 31% year-over-year growth, and we added $94 million of net new Document Cloud ARR during the quarter.

Document Cloud performance during Q4 and the year was driven by Acrobat subscription demand across all customer segments; the conversion of free mobile app users to paid subscriptions for services such as Create PDF Online; Document Cloud services adoption, including Adobe Sign revenue, which grew greater than 25% year-over-year in Q4; and year-end strength in perpetual and OEM licensing.

In our Digital Experience segment, we achieved record quarterly revenue of $859 million, which represents 24% year-over-year growth in Q4. Subscription revenue for the quarter was $726 million, growing 31% year-over-year. With strong Q4 bookings, we achieved greater than 20% subscription bookings growth for the year.

For the year, we achieved $3.21 billion of Digital Experience revenue, which represents 31% year-over-year growth.

Key Q4 highlights include, strong year-over-year growth in our Content & Commerce solutions, led by Adobe Experience Manager and success with cross-selling and up-selling Magento; adoption of Adobe Experience Platform, Audience Manager and Real-Time CDP in our Data & Insights solutions; and momentum in our Marketo business, including in the mid-market segment, which helped fuel growth in our Customer Journey Management solutions.

From a quarter-over-quarter currency perspective, FX decreased revenue by $5.8 million. We had $11.6 million in hedge gains in Q4 FY '19, versus $10.8 million in hedge gains in Q3 FY '19; thus, the net sequential currency decrease to revenue considering hedging gains was $5 million.

From a year-over-year currency perspective, FX decreased revenue by $39.6 million. The $11.6 million in hedge gains in Q4 FY '19 versus the $30.5 million in hedge gains in Q4 FY18 resulted in net year-over-year currency decrease to revenue considering hedging gains of $58.5 million.

We experienced strong global demand, but FX reduced reported year-over-year revenue growth, particularly in EMEA. In Q4, Adobe's effective tax rate was 11% on both a GAAP basis and a non-GAAP basis. Our trade DSO was 47 days, which compares to 49 days in the year-ago quarter, and 44 days last quarter.

Remaining Performance Obligation or RPO was $9.82 billion exiting Q4, which compares to $8.77 billion exiting Q3. Normal seasonality and strong year-end performance contributed to the more than $1 billion increase in RPO during Q4. Deferred revenue exiting Q4 was $3.5 billion.

Our ending cash and short-term investment position exiting Q4 was $4.18 billion, and cash flow from operations was $1.38 billion in the quarter.

In Q4, we repurchased approximately 2.8 million shares at a cost of $771 million. During fiscal 2019, we repurchased approximately 9.9 million shares, returning $2.7 billion of cash to stockholders. We currently have $5.1 billion remaining of our $8 billion repurchase authority granted in May 2018, which goes through 2021.

As you know, we measure ARR on a constant currency basis during a fiscal year and revalue ARR at year-end for current currency rates. FX rate changes between December of 2018 and this year have resulted in a $66 million decrease in Digital Media ARR. This decreases our FY '20 beginning Digital Media ARR balance to $8.33 billion. The effect of this revision is reflected in our updated investor data sheet, and ARR results will be measured against this amount during FY '20.

We are providing the following fiscal year 2020 targets. Total Adobe revenue of approximately $13.15 billion. Digital Media segment year-over-year revenue growth of approximately 19%. Net new Digital Media ARR of approximately $1.55 billion. Digital Experience segment year-over-year revenue growth of approximately 16%. Digital Experience subscription revenue year-over-year growth of approximately 18%; Digital Experience subscription bookings year-over-year growth of greater than 20%; tax rate of approximately 11% on a GAAP basis and non-GAAP basis; share count of approximately 486 million shares; GAAP earnings per share of approximately $7.40; and non-GAAP earnings per share of approximately $9.75.

For Q1 FY '20 we are targeting revenue of approximately $3.04 billion; Digital Media segment year-over-year revenue growth of approximately 19%; net new Digital Media ARR of approximately $360 million; Digital Experience segment year-over-year revenue growth of approximately 15%;

Net non-operating expense of approximately $20 million; tax rate of approximately 5% on a GAAP basis and 11% on a non-GAAP basis; share count of approximately 489 million shares; GAAP earnings per share of approximately $1.76; and non-GAAP earnings per share of approximately $2.23.

We expect Digital Media net new ARR in FY '20 to grow sequentially from Q1 to Q2, dip in Q3 and have a strong seasonal finish in Q4. As a reminder, Q1 FY '19 benefited from a positive one-time $20 million ARR adjustment due to the adoption of ASC 606.

We anticipate total Adobe revenue to grow by approximately 17% year-over-year in the first half of FY '20, followed by approximately 18% year-over-year growth in the second half of the year.

In summary, we finished fiscal 2019 strong with record performance in Q4. Based on our category leadership and strong momentum exiting 2019, we remain bullish about fiscal 2020 and beyond.

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

Mike Saviage {BIO 3176226 <GO>}

Thanks, John.

Adobe Summit, our annual Digital Experience user conference, will occur during the week of March 30 in Las Vegas with day one on Tuesday March 31st. An invitation to Summit for the financial community, including discounted registration information, will be sent to our analyst and investor email list in January. More information about the event can be found online at summit.adobe.com.

If you wish to listen to a playback of today's conference call, a webcast archive of the call will be available on our IR site later today. Alternatively, you can listen to a phone replay by calling 888-203-1112; use conference ID number 8536435. International callers should dial 719-457-0820. The phone playback service will be available beginning at 5 p.m. Pacific Time today and ending at 5 p.m. Pacific Time on December 19, 2019.

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

Questions And Answers

Operator

Thank you. [Operator Instructions] Our first question comes from Brent Thill with Jefferies.

Q - Brent Thill {BIO 1556691 <GO>}

Hi, good afternoon. Shantanu, I was wondering if you could take a deeper dive in the continued strength in Digital Media ARR, including the better-than-expected Q1 guide, what's driving this continued outperformance on your side?

A - Shantanu Narayen {BIO 3332391 <GO>}

Happy to, Brent. I mean, I think at the financial analyst meeting, we tried to outline all of the growth drivers that we have in that business. And as you remember, even at the FA meeting, we actually updated targets as a result of this trend that we were seeing in the quarter. And clearly that strength continued. So a couple of things that come to mind. New customer acquisition just continues to be strong across all geographies. I think the new product introductions that we were doing. Strength in Acrobat across both our offerings was clearly a strength.

We saw a very strong seasonal enterprise at the end of the quarter. The stock business just continues to do well. When you have a $539 million quarter, it's hard to point to one thing, Brent. And I think that, again, we've talked a lot about our DDOM. I'll also highlight the campaigns that we run really targeted personalized campaigns, tapping into it was clearly a tremendous online season was also another reason for the continued success.

Q - Brent Thill {BIO 1556691 <GO>}

Thank you.

Operator

And next will be Keith Weiss with Morgan Stanley.

Q - Keith Weiss {BIO 6993337 <GO>}

Excellent. Thank you guys for taking the question. And really nice quarter. I wanted to ask John a question about operating margins. You guys continue to see a really nice bounce back from the M&A impacts that you saw in -- during FY '19 into Q4. When we think about FY '20, should we continue to see that continued operating margin leverage. Is there more sort of accounting impact that's coming out, that will push margins higher, number one.

And number two, for Q1, the EPS guide seems to imply operating margins down from Q4 to Q1. And absent the acquisition, we tend not to see that historically. So what would lead sort of Q1 operating margins to be lower versus the Q4 levels?

A - John Murphy {BIO 16018871 <GO>}

Yeah, sure. Thanks, Keith. Well, when we think about FY '20, our full year guide shows that FY '20 margins do expand year-over-year. And so as we think about kind of the first half, second half, we'd expect that margins would continue to show greater than 40% each quarter, but have a larger margins in the second half like we did this past year. There's some seasonal expenses that obviously hit Q1 different from others in last year, of course, we had more expenses related to the acquisitions that kind of dramatized that downward, taking the operating margin in Q1 of FY '19.

Operator

And our next question will come from Kirk Materne with Evercore ISI.

Q - Diana Chang {BIO 18782073 <GO>}

Hi. It's Diana Chang on for Kirk Materne. Thanks for taking my question. First Shantanu, maybe now that you've been running the Experience Cloud for almost a year, what are some of the bigger factors in terms of like seeing this business potentially could outperform in 2020 next year. And maybe secondly, just like when thinking about the Experience Cloud business, can you discuss like how demand varies when you think about like the different geographies. And is it fair to say that the share from like point products or platform is further ahead in the US? Thank you.

A - Shantanu Narayen {BIO 3332391 <GO>}

Well, multiple questions there. So let me try and parse all of that. First, I would say, it's been a really good year for the Experience Cloud in terms of the product innovation, delivering the Experience Cloud, looking at experience manager and moving that to the cloud, innovative new services that we're delivering intelligent services using our AI and machine learning.

When I take a step back and look at what's happened during the year, I feel really good about the amount of innovation that's happening. And the second thing I feel really good about is the alignment across Magento, Marketo and just call it, the core DX business in terms of having a more unified and aligned go-to-market, which has not only helped our results, but it's also helped the operating expense associated with that business.

And so we just continue to have a really differentiated offering. The need for people to engage digitally with customers is not just a US phenomenon. It's a global phenomenon. And so that feels really good. And so I mean, overall, we had a very strong Q4 as we mentioned the Adobe Experience Platform adoption among various verticals. It's such a unique and differentiated product that exists in the marketplace. We're the only company at scale that has the ability to create this unified profile.

So overall, I feel really good on that business. We also have tremendous opportunities in 2020. We just continue to scale that business to be delivering it, not just across geographies and the mid-market segment. We talked about how creating an aligned mid-market-focused segment. We saw a rebound as it related to Marketo. Magento continues to do well. And I know, typically, people ask me, what's the update on the hiring front. There's good news that we will hopefully be able to share with you in the first week of January. But it feels good. We made a lot of progress in that business. Opportunity is great, and we will continue to drive innovation.

Q - Diana Chang {BIO 18782073 <GO>}

Thank you. I appreciate it.

Operator

And moving on to Jennifer Lowe with UBS.

Q - Jennifer Lowe {BIO 6926228 <GO>}

Great. Thank you. I think this is a question for John. I just wanted to drill into the comment you made that the revenue growth in the first half of the year would be 17% versus 18% in the back half. But that's a pretty bold statement to make with six months before you're actually in that 18% growth. So is that purely a function of the expectation that the strength that you're seeing in Digital Experience booking starts to convert to revenue, and you see that part of the business pick up a bit? Or are there other factors at play that we should be thoughtful about as we think of the shape of the year? Thanks.

A - John Murphy {BIO 16018871 <GO>}

Yeah. I mean, I think what we wanted to try to do because we didn't provide any Q1 guidance when we're at MAX on our (inaudible). And so what we wanted to do was to provide color of how you could think about modeling the full year. And obviously, with the full year guide, you obviously with the total year growth is. But we do expect, obviously, the bookings that we've achieved in FY '19 to burn into revenue in '20 and obviously the first half bookings to begin to convert into revenue in the second half. So the momentum that we're seeing coming out of Q4 is really what we're trying to reflect on when that converts.

A - Shantanu Narayen {BIO 3332391 <GO>}

Maybe just to add a few more color, Jennifer, I mean, I think when we at the FA meeting, we were really trying to give annual guidance, and what we were trying to do is just give you a little bit of color. And to add to what John said, as you think about the Q4 to Q1 transition, what typically happens in Q4 in the Digital Experience business is, you get a bunch of really good professional services billing as people are preparing our products to get ready for the holiday season, you see a little bit of a rush on the advertising cloud associated with that. There was a little bit of strength also.

Acrobat had strength across the board, but there was some additional strength as it related to perpetual and OEM licensing. And so I think what we were just trying to do is provide you a little bit of color as it related to how you would, in your models, look at both revenue as well as EPS as well as Digital Media ARR for the rest of the year. So that was our goal.

Q - Jennifer Lowe {BIO 6926228 <GO>}

Great, thank you.

Operator

And our next question come from Sterling Auty with JP Morgan.

Q - Sterling Auty {BIO 2070271 <GO>}

Yeah, thanks. Hi guys. Shantanu, can you remind us what is the monetization model for some of the mobile device apps, specifically thinking about now that Photohop on iPad has been out there for a while. And at MAX, you talked through Illustrator for iPad. How do you monetize that? And how much of a needle mover can something like Illustrator be to either fiscal '20 or fiscal '21.

A - Shantanu Narayen {BIO 3332391 <GO>}

Yeah, Sterling, there are multiple ways in which we monetize our mobile. The first is this multi-system approach that we've taken, maybe using a product like Lightroom, for example. I mean, it's clear when people have images, they want to manage their images across multiple devices. And so we take a system approach towards that pricing, but it changes quite dramatically, what you could see in terms of the engagement and retention associated with it. So first in terms of value provided, that's quite significant.

The second thing is, we actually have mobile-only offerings as well. And so you could have a mobile-only offering, whether it's Photoshop Express, whether it's what we do with our Photoshop on iPad. And so we have one price for -- across multiple devices, and where we have one price for mobile-only offering. And the mobile-only offering, I think in the past, we've alluded to the number of ideas that are being created. And that's also becoming a really nice revenue stream for us and growing.

And the third thing I would say is what we've done a really good job on the Acrobat side is where you have Reader and people have one-time usage, where they're trying to do things with respect to PDF. That's also become a fairly significant monetization model. So there are multiple monetization models that's attracting new customers, different price points, different segments. And I think it just enables our positioning as the one-stop shop to be very valid and very relevant for all of these customers. So now long term, we continue to be excited and bullish about the growth there.

Q - Sterling Auty {BIO 2070271 <GO>}

Thank you.

Operator

And our next question comes from Jay Vleeschhouwer with Griffin Securities.

Q - Jay Vleeschhouwer {BIO 1498201 <GO>}

Thank you. Good evening. Shantanu, it's been just over a year when you introduced the phrase, retention is the new growth. And I was wondering how you would rank that among the various sources of growth in fiscal '19, particularly given the multiple investments you've been making internally and in people to drive retention. And related to that, picking up on a theme from the latest MAX, might it be possible to think of an additional growth driver that we could call perhaps frictionless is the new growth. In other words, picking up on content-as-a-service, PDF services, DX integrations and the frictionless scheme that we talked about at MAX as an additional driver over many years?

A - Shantanu Narayen {BIO 3332391 <GO>}

Yeah, Jay, I think both of those continue to be really important strategic objectives for the Company as it relates to retention as the book of business gets larger and larger, both in terms of ensuring that they're getting value for the products as well as from an upsell perspective and being able to upsell them. And you'd be amazed how productive the retention team has been in terms of really understanding what's the right offer, what's the right way to continue to make sure that they get value out of it. The incredible work that's being done even as it relates to payment methods and just making sure that, that is a way to both attract and retain new customers to the platform.

So retention is a very big area of focus, and I continue to believe that it is an area of growth within the enterprise with named user deployment, what we are doing associated with making it really easy for people to adopt our technology. So that, again, is a way in which we are increasing both the ARPU as well as the number of users in the enterprise. And so really good focus with some significant results.

On the frictionless, I think you clearly see that customers, when they do a search, and if they want to do a search for create PDF, for example, they want that to be immediately fulfilled and get instant gratification. And so the reason and the thesis behind frictionless is when people are doing something, how can we, within one or two clicks, enable them to do it as well as, at that point, ensure that it's a monetization opportunity for us.

And so I think that'll continue to be both in the document space as well as in the creative space as we have done with Spark, where you do a Google search and you want to create a flyer, and we want to be able to fulfill that very easily. So I think it's important and I think expansion opportunity for us on frictionless. So we're doing well in both cases, and it will continue to be an area of focus.

I know you didn't ask it, but you are aware that even on the API side, making sure that all of our stuff is available as APIs is another way to just extend this reach through the partner ecosystem as well.

Q - Jay Vleeschhouwer {BIO 1498201 <GO>}

Thanks, Shantanu.

Operator

[Operator Instructions] Our next question comes from Kash Rangan with Bank of America.

Q - Kash Rangan {BIO 22095432 <GO>}

Hi, happy holidays team Adobe. Thanks for the wonderful gift. Shantanu, I had a question. We started this fiscal year with expectations for 25% bookings in Digital Experience, and we had a bit of a reset in Q4. Are we at the bottom of the curve and its execution starting to improve? Or execution is back up to the point that you had targeted earlier and that you're just playing a little bit conservative with respect to revenue growth outcome for fiscal '20? And then once we get through a couple more quarters, you'd be in a position to reexamine the target for Digital Experience. That's it. Congratulations again.

A - Shantanu Narayen {BIO 3332391 <GO>}

Thanks, Kash, and happy holidays to you as well. I mean, I would say, we were really pleased with the momentum that we saw for the business in Q4. As I said earlier, I'm also really pleased with the amount of innovation that the product team has been able to do with all of the new delivery. And the opportunity, as we have identified north of $80 billion addressable opportunity in 2022, just continues to be the area of focus for us. And so we will continue to execute. I'm not giving you different targets from the one that John just gave, but we're not opportunity constraint in that particular business.

Q - Kash Rangan {BIO 22095432 <GO>}

Wonderful. Congrats.

A - Shantanu Narayen {BIO 3332391 <GO>}

Thank you.

Operator

And moving on to Brad Zelnick with Credit Suisse.

Q - Yao Tsung Chu {BIO 7278566 <GO>}

Hi, everyone. This is Yao Tsung Chu on for Brad Zelnick. Congrats on another solid quarter. I want to take a question in slightly different route. As you're going into more mobile-centric offerings with stuff like Photoshop for iPad and Photoshop Camera, you run into a lot more mobile native or next-generation competition, whether it's Instagram or even some new apps like VSCO, it's fundamentally a very different landscape. Can you speak to the philosophy on growth in the mobile realm, how you approach user acquisition, retention and primarily how you see Adobe differentiating for what is a very different use case on a different screen?

A - John Murphy {BIO 16018871 <GO>}

It's no different in many ways from what we have done on the desktop. I mean, we have the world's best product teams and technologies in that space. And we actually have. I mean, when you see what we've done with Acrobat on PDF on the mobile. What we have done with Photoshop Express, tens of millions of users, the fact that we have hundreds of millions of mobile IDs, I think you think about the brand that Adobe has, you think about the depth of technology that we have in those spaces, I'd encourage you to try out a product like Fresco, which whether it's for oil paint, whether it's for water colors, I mean, there's nothing like that on the market with respect to the amount of precision and detail that we provide in that space.

And so we just have to continue to focus on innovating, but given our brand, given the tremendous funnel of traffic that we see to adobe.com, and as we keep pointing out the data-driven operating model that we have to be able to convert it, I feel very good about what we are doing in the mobile arena as well.

Q - Yao Tsung Chu {BIO 7278566 <GO>}

Great. Thank you.

Operator

And our next question comes from Walter Pritchard with Citi.

Q - Walter Pritchard {BIO 4672133 <GO>}

Thanks. Shantanu, I'm just wondering, if you look at the Acrobat business adopting the cloud piece, and you sort of compare with the transition from perpetual installed base to subscription installed base. Where are we? Are we in the third inning? Fifth inning? Seventh inning? Any characterization you can give us around where that is. That seems like it's been a pretty strong driver. Thanks.

A - Shantanu Narayen {BIO 3332391 <GO>}

Walter, the PDF business continues to do really well. We're attracting new customers to the platform. Sign as a business is doing really well. The new services, the mobile funnel continues to do well. As you know, we've feathered that business so that we continue to have a perpetual offering and an OEM licensing offering, those continue to do well. I mean, the reality is that automating inefficient paper-based processes and just the whole collaboration, and sharing and editing of documents is a massive opportunity. And PDF has become the lingua franca for how things happen on the Internet and the PDF brand, I mean, going back to the earlier question. The team has done an incredible job of innovating in that particular space, it's really early. As a cricket fan, we don't have three innings in cricket, but it's still very early as it relates to where we are in that space.

Operator

And our next question will come from Tom Roderick with Stifel.

Q - Tom Roderick {BIO 6678063 <GO>}

Hi, good afternoon and thanks for taking my questions. I know there's been a couple of questions on Experience Cloud already. But Shantanu, I wanted to just ask you specifically as you spend some time going back through the Marketo pipeline. And last quarter, there was a discussion about mid-market and perhaps having focused more exclusively on the high end of the market. Can you just kind of go back and talk a little bit more about how you're seeing that mid-market opportunity for Marketo? How you want to deploy resources and how you think about the mix between mid-market and enterprise for that side of the business? It sounds like you had a great fourth quarter that bounced back nicely. So would love to hear what you did and what you want to do going forward in go to market. Thank you.

A - Shantanu Narayen {BIO 3332391 <GO>}

Great, Tom. And I think the reason why we believe in the mid-market opportunity across content management across commerce, across what we are doing with the Marketo business and taking leads all the way to making them revenue for a company is that having an easy-to-use self-serve product serves not just the mid-market customer well, but it also serves the enterprise customer well. And I think Tongue & Chico have always said, every business starts at a $0 billion business. And so you want to make sure that you get a huge base of customers who are growing early. And so that's the reason for the importance of the business.

I think over the last few quarters, the demand generation team has done such a good job. A lot of the mid-market demand generation is actually created through marketing activities and then it's actually -- it has a very front touch perspective. And so having that, it's actually a more efficient process for us to do. And by investing a little bit more in demand generation in the last few quarters, we've seen that bounce back well. The product has always been good, the best product in the market. And I think just both inspecting that business and making sure that we invest appropriately and have the right leadership, all of that's really helped with that particular space.

Having a depth of offering also, given what we have with experience manager and given what we have with Magento for an end-to-end solution, also really helps in that base. So we're excited about it.

Q - Tom Roderick {BIO 6678063 <GO>}

Outstanding. Congratulations. Thank you.

A - Shantanu Narayen {BIO 3332391 <GO>}

Thank you.

Operator

Our next question comes from Patrick Walravens with JMP Securities.

Q - Mark Chen {BIO 17947740 <GO>}

Hi. This is Mark for Pat. Thank you so much for taking my question. Could you talk a little bit about customer data platform. And maybe what are some customer feedback? And what's your focus for next year?

A - Shantanu Narayen {BIO 3332391 <GO>}

I'm not sure I heard the question. Could you just repeat the question, please?

Q - Mark Chen {BIO 17947740 <GO>}

YeAH. I'm just wondering if you could talk a little bit about customer data platform, CDP, and what are some customer feedback from there?

A - Shantanu Narayen {BIO 3332391 <GO>}

Yeah, I mean, as part of our prepared remarks, we talked about the fact that the Adobe Experience Platform is really the only scalable platform that allows people to have this unified profile. As people are thinking about what they have to do, they have to deal with both known users and unknown users. And I think the combination of what we had with audience manager and the real-time CDP aspects of how we differentiate our solution makes it unique. And so every business has to think about its core segmentation. Every business has to think about what's the way in which they are creating this unified profile. And so we're excited about our offering in that space. That's a clear leader.

Q - Mark Chen {BIO 17947740 <GO>}

Great. Thank you so much.

Operator

And our next question comes from James Rutherford with Stephens.

Q - James Rutherford {BIO 18963420 <GO>}

Hey, thank you. Congrats on the quarter. Just as a follow-up to Tom's question earlier, it sounds like you're having nice success with the mid-market realignment on Marketo and Magento, and that's great to see. I was just curious what your ambitions are to bring some of the other core Adobe DX solutions like AEM, Campaign, Audience Manager and others down into the mid-market as well. And what it might require in terms of changes to product or packaging to really make a big debt in that particular size of the market. Thank you.

A - Shantanu Narayen {BIO 3332391 <GO>}

I'll touch on one, maybe in a little bit of detail, which is the Adobe Experience Manager. We have, over the last year, really innovated. We have an offering that's a completely cloud-based offering that enables you to do it. You can do headless content management. It's so far ahead of the competition. So I think that hopefully gives you a glimpse into the fact that we do believe it's an opportunity as we move to the cloud and make these all SaaS-based services, I think making that self-help.

In the content management space, in particular, as people are creating these micro sites, and they want to get it up and running quickly, but they want to use the same publishing paradigm that they use for their larger sites. That's another reason. But the new AEM product that we have that's cloud-based. The number of customers who've been able to get up and running really quickly, I think, shows the kind of innovation, take Adobe itself, for example, as we move our cloud-based AEM implementation, it really adds significant value. And as I said earlier, it's not just about the mid-market, that same technology actually translates well into enterprises seeing value from our products sooner rather than later.

A - Mike Saviage {BIO 3176226 <GO>}

Justin, we'll take one more question, please.

Operator

And that question will come from Ken Wong with Guggenheim Securities.

Q - Ken Wong {BIO 20723645 <GO>}

Great. Thanks for squeezing me in guys. This question is for you, John. I know you guys don't discuss RPO much, but the uptick in Q4 was really strong. Maybe if you can give us a little insight into what drove that. And then to the extent that you could shed a little color on maybe what seasonality of RPO might look like next year, that would be great.

A - John Murphy {BIO 16018871 <GO>}

Yeah, sure. No, the performance of RPO, and as we go forward, you'll start to get the year-over-year compare in FY '20, it's following along with revenue growth. And it's -- essentially, when we look at before, deferred and unbilled that also as an indicator of the health of the business going forward. Now we would suggest you look at the RPO as an indicator of what to expect in terms of it growing along with revenue. That has normal seasonality that we typically have seen across each of the quarters as well, so there's nothing unique about that.

A - Shantanu Narayen {BIO 3332391 <GO>}

And given that was the last question, what's exciting to us was at our Analyst Day at MAX, we shared the strategy on the three large opportunities that we had ahead of us; unleashing creativity, accelerating document productivity and powering digital businesses and how it represented a TAM of approximately $128 billion in 2022. It's nice to be the leader in those categories and continue to drive product innovation as well as GTM alignment and execution, so that we can continue on this growth agenda that we have as a company. But at the same time, we also continue to be focused on increasing cash flow as well as delivering great value to our shareholders. Clearly, pleased with our fiscal performance in Q4.

FY '20 should be another record year with strong profitability and cash flow. And I'm really excited about the progress that we made across all three clouds on product, GTM as well as organizational alignment, and we look forward to sharing that progress with you over the course of next year.

I wanted to wish you all happy holidays. Thank you for joining us today.

A - Mike Saviage {BIO 3176226 <GO>}

And this concludes our call. Thanks, everyone.

Operator

Thank you. That does conclude today's conference. We do thank you for your participation. Have a wonderful day.
