



Adobe Systems Guides Light After Another Strong Quarter

Description

Adobe Systems ([NASDAQ: ADBE](#)) announced record fiscal third-quarter 2019 results on Tuesday after the markets closed, beating expectations yet again on the relative outperformance of its subscription and cloud-based product offerings.

But the creative software leader also followed with a seemingly conservative update to its outlook — at least, relative to Wall Street’s expectations — leaving shares down modestly in after-hours trading as of this writing. Let’s dive deeper for a better idea of what Adobe accomplished over the past few months, and what we should be watching as it wraps up its fiscal year.

Adobe Systems results: The raw numbers

Metric	Fiscal Q3 2019*	Fiscal Q3 2018	Growth
Revenue	\$2.834 billion	\$2.291 billion	23.7%
GAAP net income	\$792.8 million	\$666.3 million	19%
GAAP earnings per share (diluted)	\$1.61	\$1.34	20.1%

Data source: Adobe Systems. *For the period ended Aug. 30.

What happened with Adobe Systems this quarter?

- Adjusted for items like stock-based compensation and acquisition costs, Adobe’s (non-[GAAP](#)) net income was \$1.006 billion, or \$2.05 per share, up from \$859.8 million, or \$1.73 per share in the same year-ago period.
- Both the top and bottom lines arrived above Adobe’s guidance, [provided in June](#), for adjusted earnings of \$1.95 per share on revenue of \$2.80 billion.
- Digital-media segment revenue grew 22% year over year, to \$1.96 billion — above guidance for 20% growth — including Document Cloud revenue of \$307 million and Creative revenue of \$1.65 billion.

- Digital-experience segment revenue climbed 34% to \$821 million, in line with guidance.
- Adobe added net new digital-media annualized recurring revenue (ARR) of \$386 million — above guidance for \$360 million — to bring its total digital media ARR to \$7.86 billion exiting the quarter.
- 92% of Adobe’s revenue this quarter came from recurring sources, up from 91% last quarter.
- Deferred revenue exiting the quarter was \$3.26 billion, up from \$3.13 billion last quarter.
- Adobe generated operating cash flow of \$922 million this quarter, and repurchased 2.6 million shares for \$750 million. That leaves \$5.85 billion remaining of Adobe’s original \$8 billion repurchase authorization, which is valid through the end of 2021.

What management had to say

“Customers across every industry continued to rely on Adobe to run their businesses, transform how they work, and bring their creative ideas to life as reflected in our record Q3 results,” CEO Shantanu Narayen said. “We’re excited for the opportunities in front of us and confident in our ability to drive strong top-line and bottom-line growth.”

Looking forward

For the fourth quarter of fiscal 2019, Adobe expects revenue of \$2.97 billion, assuming 20% growth in digital-media segment revenue and 23% growth from digital experience products. Adobe also anticipates net new digital media ARR of \$450 million, and adjusted earnings of \$2.25 per share. For perspective, and while we don’t typically pay close attention to Wall Street’s demands, most analysts were modeling slightly higher fourth-quarter adjusted earnings of \$2.30 per share on revenue closer to \$3.03 billion.

Still, during the subsequent conference call, CFO John Murphy insisted these figures represent a “strong finish for the year,” and promised additional color on Adobe’s strategy and growth opportunities at its financial analyst meeting at the Adobe MAX conference in early November. What’s more, in the end, considering Adobe’s penchant for underpromising and overdelivering, I suspect this seemingly light guidance could prove conservative when all is said and done next quarter.

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