

ADOBE INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

to exchange cash collateral when the net fair value of certain derivative instruments fluctuates from contractually established thresholds.

Credit risk in receivables is limited to OEMs, dealers and distributors of hardware and software products to the retail market, customers to whom we license software directly and our SaaS offerings. A credit review is completed for our new distributors, dealers and OEMs. We also perform ongoing credit evaluations of our customers' financial condition and require letters of credit or other guarantees, whenever deemed necessary. The credit limit given to the customer is based on our risk assessment of their ability to pay, country risk and other factors and is not contingent on the resale of the product or on the collection of payments from their customers. Certain contracts with advertising agencies contain sequential liability provisions, under which the agency is not required to pay until payment is received from the agency's customers. In these circumstances, we evaluate the credit-worthiness of the agency's customers in addition to the agency itself. If we license our software or provide SaaS services to a customer where we have a reason to believe the customer's ability and intention to pay is not probable, the arrangement is not considered to be a revenue contract. Accordingly, we will not recognize any consideration received as revenue until termination or substantive completion of the services.

Adopted Accounting Guidance and Accounting Pronouncements Not Yet Effective

In November 2023, the Financial Accounting Standards Board issued Accounting Standards Update No. 2023-07, Segment Reporting, which expands annual and interim disclosure requirements for reportable segments, primarily through enhanced disclosures about significant segment expenses. The updated standard is effective for our annual periods beginning in fiscal 2025 and interim periods beginning in the first quarter of fiscal 2026. Early adoption is permitted. We are currently evaluating the impact that the updated standard will have on our financial statement disclosures.

There have been no other recent accounting pronouncements, changes in accounting pronouncements or recently adopted accounting guidance during fiscal 2023 that are of significance or potential significance to us.

NOTE 2. REVENUE*Segment Information*

We report segment information based on the "management" approach. The management approach designates the internal reporting used by management for making decisions and assessing performance as the source of our reportable segments.

Our Chief Executive Officer, the chief operating decision maker, reviews revenue and gross margin information for each of our reportable segments, but does not review operating expenses on a segment by segment basis. In addition, with the exception of goodwill, we do not identify or allocate our assets by the reportable segments.

Our business is organized into the following reportable segments:

- *Digital Media*—Our Digital Media segment provides products and services that enable individuals, teams, businesses, and enterprises to create, publish and promote their content anywhere and accelerate their productivity by transforming how they view, share, engage with and collaborate on documents and creative content. Our customers include creative professionals, including photographers, video editors, graphic and experience designers and game developers; communicators, including content creators, students, marketers and knowledge workers; and consumers.
- *Digital Experience*—Our Digital Experience segment provides an integrated platform and set of products, services and solutions that enable businesses to create, manage, execute, measure, monetize and optimize customer experiences that span from analytics to commerce. Our customers include marketers, advertisers, agencies, publishers, merchandisers, merchants, web analysts, data scientists, developers and executives across the C-suite.
- *Publishing and Advertising*—Our Publishing and Advertising segment contains legacy products and services that address diverse market opportunities, including eLearning solutions, technical document publishing, web conferencing, document and forms platform, web app development, high-end printing and our Adobe Advertising offerings.

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Our segment revenue and results for fiscal 2023, 2022 and 2021 were as follows:

<i>(dollars in millions)</i>	Digital Media	Digital Experience	Publishing and Advertising	Total
Fiscal 2023				
Revenue	\$ 14,216	\$ 4,893	\$ 300	\$ 19,409
Cost of revenue	665	1,603	86	2,354
Gross profit	<u>\$ 13,551</u>	<u>\$ 3,290</u>	<u>\$ 214</u>	<u>\$ 17,055</u>
Gross profit as a percentage of revenue	95 %	67 %	71 %	88 %
Fiscal 2022				
Revenue	\$ 12,842	\$ 4,422	\$ 342	\$ 17,606
Cost of revenue	561	1,502	102	2,165
Gross profit	<u>\$ 12,281</u>	<u>\$ 2,920</u>	<u>\$ 240</u>	<u>\$ 15,441</u>
Gross profit as a percentage of revenue	96 %	66 %	70 %	88 %
Fiscal 2021				
Revenue	\$ 11,520	\$ 3,867	\$ 398	\$ 15,785
Cost of revenue	429	1,321	115	1,865
Gross profit	<u>\$ 11,091</u>	<u>\$ 2,546</u>	<u>\$ 283</u>	<u>\$ 13,920</u>
Gross profit as a percentage of revenue	96 %	66 %	71 %	88 %

We generally categorize revenue by geographic area based on where the customer manages their utilization of our offerings. Revenue by geographic area for fiscal 2023, 2022 and 2021 were as follows:

<i>(in millions)</i>	2023	2022	2021
Americas:			
United States	\$ 10,460	\$ 9,217	\$ 8,104
Other	1,194	1,034	892
Total Americas	<u>11,654</u>	<u>10,251</u>	<u>8,996</u>
EMEA	4,881	4,593	4,252
APAC	2,874	2,762	2,537
Revenue	<u>\$ 19,409</u>	<u>\$ 17,606</u>	<u>\$ 15,785</u>

Revenue by major offerings in our Digital Media reportable segment for fiscal 2023, 2022 and 2021 were as follows:

<i>(in millions)</i>	2023	2022	2021
Creative Cloud	\$ 11,517	\$ 10,459	\$ 9,546
Document Cloud	2,699	2,383	1,974
Total Digital Media revenue	<u>\$ 14,216</u>	<u>\$ 12,842</u>	<u>\$ 11,520</u>

Subscription revenue by segment for fiscal 2023, 2022 and 2021 were as follows:

<i>(in millions)</i>	2023	2022	2021
Digital Media	\$ 13,838	\$ 12,385	\$ 11,048
Digital Experience	4,331	3,880	3,379
Publishing and Advertising	115	123	146
Total subscription revenue	<u>\$ 18,284</u>	<u>\$ 16,388</u>	<u>\$ 14,573</u>

ADOBE INC.**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)***Contract Balances**Trade Receivables*

A receivable is recorded when an unconditional right to invoice and receive payment exists, such that only the passage of time is required before payment of consideration is due. Timing of revenue recognition may differ from the timing of invoicing to customers. Certain performance obligations may require payment before delivery of the license or service to the customer. Included in trade receivables on the Consolidated Balance Sheets are unbilled receivable balances which have not yet been invoiced, and are typically related to license revenue or services which are delivered prior to invoicing. As of December 1, 2023, the balance of trade receivables, net of allowances for doubtful accounts, was \$2.22 billion, inclusive of unbilled receivables of \$80 million. As of December 2, 2022, the balance of trade receivables, net of allowance for doubtful accounts, was \$2.07 billion, inclusive of unbilled receivables of \$93 million.

Allowance for Doubtful Accounts

We maintain an allowance for doubtful accounts which reflects our best estimate of potentially uncollectible trade receivables and is based on both specific and general reserves. We maintain general reserves on a collective basis by considering factors such as historical experience, credit-worthiness, the age of the trade receivable balances, current economic conditions and a reasonable and supportable forecast of future economic conditions. The allowance for doubtful accounts was \$16 million and \$23 million as of December 1, 2023 and December 2, 2022, respectively.

Contract Assets

A contract asset is recognized when a conditional right to consideration exists and transfer of control has occurred. Contract assets are typically related to subscription and hosted service contracts where the transaction price allocated to the satisfied performance obligations exceeds the value of billings to date. Contract assets are included in prepaid expenses and other current assets for the current portion and other assets for the long-term portion on the Consolidated Balance Sheets. We regularly review contract asset balances for impairment, considering factors such as historical experience, credit-worthiness, age of the balance, current economic conditions and a reasonable and supportable forecast of future economic conditions. Contract asset impairments were not material in fiscal 2023 and 2022. Contract assets were \$141 million and \$97 million as of December 1, 2023 and December 2, 2022, respectively.

Deferred Revenue and Remaining Performance Obligations

Deferred revenue primarily consists of billings or payments received in advance of revenue recognition from subscription services, including non-cancellable and non-refundable committed funds and refundable customer deposits. Deferred revenue is recognized as revenue when transfer of control to customers has occurred. Customers are typically invoiced for these agreements in regular installments and revenue is recognized ratably over the contractual subscription period. The deferred revenue balance is influenced by several factors, including the compounding effects of renewals, invoice duration, invoice timing, size and new business linearity within the quarter. Deferred revenue does not represent the total contract value of annual or multi-year non-cancellable subscription agreements.

Payment terms and conditions vary by contract type, although terms generally include a requirement of payment within 30 to 60 days. In instances where the timing of revenue recognition differs from the timing of invoicing, we have determined our contracts generally do not include a significant financing component. The primary purpose of our invoicing terms is to provide customers with simplified and predictable ways of purchasing our products and services, such as invoicing at the beginning of a subscription term with revenue recognized ratably over the contract period, and not to receive financing from our customers. Any potential financing fees are considered insignificant in the context of our contracts.

As of December 1, 2023, the balance of deferred revenue was \$5.95 billion, which includes \$115 million of refundable customer deposits. Refundable customer deposits represent arrangements in which the customer has a unilateral cancellation right for which we are obligated to refund amounts paid related to products or services not yet delivered or provided at the time of cancellation on a prorated basis. Arrangements with some of our enterprise customers with non-cancellable and non-refundable committed funds provide options to either renew monthly on-premise term-based licenses or use some or all funds to purchase other Adobe products or services. Non-cancellable and non-refundable committed funds related to these agreements comprised approximately 5% of the total deferred revenue.