

Adobe 3Q net income soars, outlook disappoints

September 21 2010, By BARBARA ORTUTAY , AP Technology Writer

(AP) -- Adobe Systems Inc. posted a 69 percent jump in quarterly net income Tuesday but its shares tumbled after the software company said its revenue in the current quarter would be less than what Wall Street expected.

Analysts cautioned investors not to read too much about the broader economy into Adobe's numbers, saying the company's niche software for creative professionals doesn't make it a good proxy for the technology sector as a whole.

Adobe's adjusted earnings and revenue for its fiscal third quarter that ended Sept. 3 surpassed analysts' expectations.

The company said it saw some weakness in its U.S. education segment and its Japanese creative business during the period due to the difficult economy, and that pulled its revenue guidance for the fiscal fourth quarter below what investors were hoping for.

CEO Shantanu Narayen told investors that, although the company is experiencing a "couple of speed bumps," overall Adobe is well positioned to take advantage of the ongoing expansion of digital content that's being consumed on phones, computers and TVs.

The San Jose, Calif.-based company, which also makes the Flash technology behind online games and video websites, earned \$230.1 million, or 44 cents per share, in its third quarter. That's up from \$136

million, or 26 cents per share, in the same period a year ago.

Adjusted earnings were 54 cents per share, handily surpassing analysts' expectations of 49 cents per share.

Revenue was also better than analysts predicted, up 42 percent to \$990.3 million from \$697.5 million last year. Analysts, on average, expected revenue of \$985 million, according Thomson Reuters.

Narayan said all of Adobe's major business segments did well during the quarter, thanks to strong demand for the company's Creative Suite 5 software package, its products targeting large businesses and its Omniture unit's Web analytics offerings.

Creative Suite, the software package for professional designers and Web developers that includes Photoshop and Illustrator, is part of Adobe's creative solutions division, which brings in about half of the company's revenue. The previous version of the software, CS4, suffered during the recession as fewer customers chose to upgrade. Demand for CS5 has strengthened as the economy has improved; however, CS5 is not selling as briskly as the pre-recession version of the software, CS3.

The company said it expects revenue between \$950 million and \$1 billion for the current quarter, lower than the \$1.03 billion analysts are looking for. The company attributed the shortfall to slower business in Japan and its U.S. education segment, both of which have been hurt by the weak economy. Japan is Adobe's second-largest geographic segment after the U.S.

Adobe would not break out what percentage of its revenue comes from those two parts of the business. Chief Financial Officer Mark Garrett said they were "the only two areas that we saw any particular weakness."

"We believe we are going to power through this," he said.

But investors did not share his confidence. Adobe's shares plunged \$5.24, or 15.9 percent, to \$27.70 in extended trading, after slipping 17 cents to end the regular session at \$32.94.

Andy Miedler, an analyst with Edward Jones, called the plunge a "bit of an overreaction."

He said CS5 is benefiting from strong pent-up demand, as customers finally upgrade after holding off during the recession.

Miedler also said it's difficult to draw a conclusion about the broader economy based on Adobe's results because so much of its business is focused on a niche: creative professionals.

Sasa Zorovic, of Janney Capital Markets, also called the stock plunge a "little bit too much."

Adobe is "basically saying, 'We are not out of the woods yet'" when it comes to the economy, Zorovic said. He added that Adobe did very well on its profit margins and remains very disciplined in how it runs its business.

Adobe also said it added 174 jobs in what it called "low-cost geographies" to finish the quarter with 8,715 employees.

For the current fourth quarter, Adobe said it expects to earn between 48 cents and 54 cents per share, excluding items. Analysts are expecting 53 cents a share.

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