

Adobe (ADBE US)

AI adoption on track, but slow pace of monetization impacts sentiment

Adobe reported 4QFY24 results: total revenue grew by 11% YoY to US\$5.61bn, in line with consensus estimate (US\$5.54bn); non-GAAP net income was up by 9% YoY to US\$2.13bn, vs. consensus estimate of US\$2.08bn. Digital Media net new ARR was up 2% YoY to US\$578mn in 4QFY24 (+9% YoY in 3QFY24), which raises investor concern on the deceleration trend and the slow pace of monetization of AI applications. That said, the company plans to accelerate the monetization of its AI applications by introducing higher-priced and higher-valued AI services offerings in FY25. For FY25E, management guides total revenue to grow by 8-10% YoY to US\$23.30-23.55bn, with Digital Media ending ARR up by 11% YoY, which represented full-year net new ARR of c.US\$1.9bn (-5% YoY). We slightly lower our FY25-26E non-GAAP net income forecast by 2%, and trim our target price to US\$634.5 based on 32x FY25E non-GAAP PE (previous: US\$645.0 based on 32x FY25E PE). Maintain BUY.

- AI application adoption on track.** Creative Cloud revenue grew by 10% YoY to US\$3.3bn in 4QFY24, with net new ARR up by 2% YoY to US\$405mn, driven by the demand for Adobe Express and adoption of Firefly services by enterprises. The cumulative generations of Firefly surpassed 16bn in 4QFY24, up over 30% QoQ. Document Cloud revenue grew by 17% YoY to US\$843mn in 4QFY24, but Document Cloud net new ARR was only up by 1% YoY to US\$173mn. As AI applications remain at an early adoption stage, Adobe focuses on driving better adoption of freemium offers in FY24. Document Cloud MAUs grew by over 25% YoY to over 650mn in 4QFY24. Looking into FY25, Adobe will accelerate monetization of its AI offerings. The company plans to launch higher-priced Firefly offering that includes its video models in early 2025, which will allow it to create additional value to customers and increase ARPU. Management guides Digital Media revenue to grow by 9-10% YoY to US\$17.25-17.40bn in FY25E.
- Digital experience maintains momentum.** Digital Experience revenue grew by 10% YoY to US\$1.4bn in 4QFY24, led by growth of Adobe Experience Manager, Adobe Journey Optimizer and Real-Time CDP. The company introduced Firefly services to Adobe GenStudio, which further integrated Creative Cloud and Experience Cloud. For FY25E, the company will expand its enterprise go-to-market teams to drive sales of integrated solutions of the Adobe GenStudio. Management guides Digital Experience revenue to grow by 8-10% YoY to US\$5.8-5.9bn in FY25E.
- Steady margin and shareholder return.** Non-GAAP OPM was steady YoY and QoQ at 46% in 4QFY24. The company also guides a stable non-GAAP OPM of c.46% in FY25E, as the efficiency gain is largely offset by R&D and S&M investments. The company maintained steady shareholder return and repurchased US\$2.5bn share in 4QFY24, with US\$17.65bn (c.7% of mkt cap) remaining share repurchase authorization which will expire in 2028.

Earnings Summary

| (YE 01 Dec) | FY23A | FY24A | FY25E | FY26E | FY27E |
|-------------------------------|---------|---------|---------|---------|----------|
| Revenue (US\$ mn) | 19,409 | 21,505 | 23,516 | 25,600 | 27,737 |
| Adjusted net profit (US\$ mn) | 7,377.0 | 8,281.0 | 8,862.7 | 9,682.9 | 10,740.2 |
| EPS (Adjusted) (US\$) | 15.70 | 18.12 | 19.83 | 22.52 | 25.57 |
| Consensus EPS (US\$) | 15.70 | na | 20.52 | 23.28 | 25.32 |

Source: Company data, Bloomberg, CMBIGM estimates

BUY (Maintain)

Target Price US\$634.50

(Previous TP) US\$645.00

Up/Downside 15.4%

Current Price US\$549.93

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Stock Data

| | |
|--------------------------|---------------|
| Mkt Cap (US\$ mn) | 251,318.0 |
| Avg 3 mths t/o (US\$ mn) | 952.3 |
| 52w High/Low (US\$) | 634.76/439.02 |
| Total Issued Shares (mn) | 457.0 |

Source: FactSet

Shareholding Structure

| | |
|--------------------|------|
| The Vanguard Group | 8.9% |
| BlackRock | 8.4% |

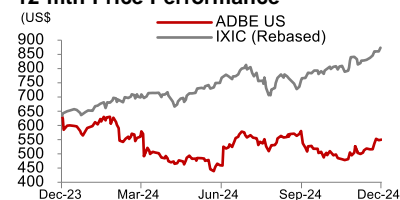
Source: Company data

Share Performance

| | Absolute | Relative |
|-------|----------|----------|
| 1-mth | 4.5% | 0.5% |
| 3-mth | -6.2% | -17.8% |
| 6-mth | 19.6% | 5.1% |

Source: FactSet

12-mth Price Performance



Source: FactSet

Business forecasts update and valuation

Figure 1: Adobe: forecast revision

| US\$ bn | Current | | | Previous | | | Change (%) | | |
|---------------------|---------|-------|-------|----------|-------|-------|------------|----------|-------|
| | FY25E | FY26E | FY27E | FY25E | FY26E | FY27E | FY25E | FY26E | FY27E |
| Revenue | 23.5 | 25.6 | 27.7 | 23.4 | 25.5 | NA | 0.3% | 0.3% | NA |
| Gross profit | 21.0 | 22.9 | 24.8 | 20.9 | 22.7 | NA | 0.6% | 0.6% | NA |
| Non-GAAP OP | 11.0 | 12.0 | 13.1 | 11.1 | 12.1 | NA | -0.9% | -0.9% | NA |
| Non-GAAP NP | 8.9 | 9.7 | 10.7 | 9.0 | 9.8 | NA | -1.2% | -1.2% | NA |
| Non-GAAP EPS (US\$) | 20.6 | 23.1 | 25.6 | 20.6 | 23.1 | NA | 0.0% | 0.0% | NA |
| Gross margin | 89.2% | 89.4% | 89.4% | 89.0% | 89.1% | NA | 0.2 ppt | 0.3 ppt | NA |
| Non-GAAP OPM | 46.7% | 46.8% | 47.2% | 47.2% | 47.4% | NA | -0.6 ppt | -0.6 ppt | NA |
| Non-GAAP NPM | 37.7% | 37.8% | 38.7% | 38.3% | 38.4% | NA | -0.6 ppt | -0.6 ppt | NA |

Source: CMBIGM estimates

Figure 2: CMBIGM estimates vs consensus

| US\$ bn | CMBIGM | | | Consensus | | | Diff (%) | | |
|---------------------|--------|-------|-------|-----------|-------|-------|----------|----------|---------|
| | FY25E | FY26E | FY27E | FY25E | FY26E | FY27E | FY25E | FY26E | FY27E |
| Revenue | 23.5 | 25.6 | 27.7 | 23.8 | 26.4 | 29.3 | -1.1% | -3.0% | -5.2% |
| Gross profit | 21.0 | 22.9 | 24.8 | 21.3 | 23.6 | 26.2 | -1.6% | -3.2% | -5.2% |
| Non-GAAP OP | 11.0 | 12.0 | 13.1 | 11.0 | 12.3 | 13.2 | -0.2% | -2.1% | -1.0% |
| Non-GAAP NP | 8.9 | 9.7 | 10.7 | 9.0 | 10.1 | 11.1 | -2.0% | -4.1% | -3.2% |
| Non-GAAP EPS (US\$) | 20.6 | 23.1 | 25.6 | 20.5 | 23.3 | 25.3 | 0.5% | -0.9% | 1.0% |
| Gross margin | 89.2% | 89.4% | 89.4% | 89.6% | 89.6% | 89.4% | -0.4 ppt | -0.2 ppt | 0.0 ppt |
| Non-GAAP OPM | 46.7% | 46.8% | 47.2% | 46.2% | 46.4% | 45.2% | 0.4 ppt | 0.4 ppt | 2.0 ppt |
| Non-GAAP NPM | 37.7% | 37.8% | 38.7% | 38.0% | 38.3% | 37.9% | -0.4 ppt | -0.5 ppt | 0.8 ppt |

Source: Bloomberg, CMBIGM estimates

Valuation

We value Adobe at US\$284bn (US\$634.5 per share) based on 32x 2025E P/E. Our target P/E is at a discount to the sector average (41x), as Adobe is at a more mature business stage with slower earnings growth.

Figure 3: Adobe: target valuation

| P/E Valuation (US\$mn) | FY25E |
|---------------------------|---------|
| Non-GAAP earnings | 8,863 |
| Target 2025E PE | 32.0 |
| Target equity valuation | 283,606 |
| Valuation per share (USD) | 634.5 |

Source: Company data, CMBIGM estimates

Figure 4: SaaS: valuation comparison

| Company | Ticker | Price (LC) | P/E (x) | | | P/S (x) | | | EPS CAGR 24-26E |
|----------------------|---------|------------|-------------|-------------|-------------|-------------|------------|------------|-----------------|
| | | | 2024E | 2025E | 2026E | 2024E | 2025E | 2026E | |
| CRM | | | | | | | | | |
| Salesforce | CRM US | 354.9 | 43.3 | 35.4 | 31.6 | 8.9 | 8.2 | 7.5 | 29% |
| HubSpot | HUBS US | 726.1 | NA | 79.6 | 64.5 | 14.2 | 12.3 | 10.5 | 22% |
| Five9 | FIVN US | 43.0 | 18.2 | 16.9 | 14.8 | 3.2 | 2.9 | 2.6 | 12% |
| ITSM | | | | | | | | | |
| ServiceNow | NOW US | 1,147.2 | NA | 69.0 | 56.9 | 21.3 | 17.6 | 14.7 | 23% |
| Atlassian | TEAM US | 274.7 | NA | NA | 67.6 | 13.8 | 11.5 | 9.6 | 28% |
| Security | | | | | | | | | |
| CrowdStrike | CRWD US | 363.0 | NA | NA | NA | 22.1 | 18.2 | 15.0 | 42% |
| ZScaler | ZS US | 207.9 | 68.9 | 69.7 | 58.4 | 11.7 | 9.7 | 8.0 | 26% |
| Fortinet | FTNT US | 98.0 | 43.7 | 40.3 | 35.5 | 12.5 | 11.1 | 9.9 | 19% |
| Palo Alto Network | PANW US | 398.4 | 71.5 | 62.7 | 54.7 | 13.7 | 11.9 | 10.3 | 18% |
| ERP | | | | | | | | | |
| SAP | SAP US | 249.5 | 52.3 | 36.1 | 26.3 | 9.0 | 8.1 | 7.2 | 23% |
| Oracle | ORCL US | 178.6 | 32.0 | 28.7 | 25.3 | 10.1 | 9.0 | 7.9 | 11% |
| Collaboration | | | | | | | | | |
| Twilio | TWLO US | 113.0 | 30.8 | 26.9 | 24.0 | 3.3 | 3.0 | 2.8 | 24% |
| Ring Central | RNG US | 41.8 | 11.3 | 9.9 | 8.8 | 2.1 | 2.0 | 1.9 | 14% |
| Zoom | ZM US | 86.6 | 17.5 | 15.9 | 16.1 | 4.2 | 4.1 | 4.0 | 7% |
| Average | | | 38.9 | 40.9 | 37.3 | 10.7 | 9.3 | 8.0 | |

Source: Bloomberg, CMBIGM

Note: data are as of 11 Dec 2024

Financial Summary

| INCOME STATEMENT | 2022A | 2023A | 2024A | 2025E | 2026E | 2027E |
|--------------------------------------|---------------|---------------|---------------|---------------|---------------|---------------|
| YE 01 Dec (US\$ mn) | | | | | | |
| Revenue | 17,606 | 19,409 | 21,505 | 23,516 | 25,600 | 27,737 |
| Cost of goods sold | 2,165 | 2,354 | 2,358 | 2,540 | 2,717 | 2,930 |
| Gross profit | 15,441 | 17,055 | 19,147 | 20,977 | 22,882 | 24,808 |
| Operating expenses | 9,343 | 10,405 | 12,406 | 12,523 | 13,633 | 14,556 |
| Selling expense | 4,968 | 5,351 | 5,764 | 6,303 | 6,861 | 7,350 |
| Admin expense | 1,219 | 1,413 | 1,529 | 1,672 | 1,820 | 1,943 |
| R&D expense | 2,987 | 3,473 | 3,944 | 4,313 | 4,695 | 4,985 |
| Others | 169 | 168 | 1,169 | 235 | 256 | 277 |
| Operating profit | 6,098 | 6,650 | 6,741 | 8,453 | 9,250 | 10,252 |
| Other income | 22 | 262 | 359 | 235 | 256 | 277 |
| Net interest income/(expense) | (112) | (113) | (169) | (118) | (128) | (139) |
| Pre-tax profit | 6,008 | 6,799 | 6,931 | 8,571 | 9,378 | 10,391 |
| Income tax | 1,252 | 1,371 | 1,371 | 1,714 | 1,876 | 2,078 |
| After tax profit | 4,756 | 5,428 | 5,560 | 6,857 | 7,502 | 8,313 |
| Net profit | 4,756 | 5,428 | 5,560 | 6,857 | 7,502 | 8,313 |
| Adjusted net profit | 6,457 | 7,377 | 8,281 | 8,863 | 9,683 | 10,740 |
| BALANCE SHEET | 2022A | 2023A | 2024A | 2025E | 2026E | 2027E |
| YE 01 Dec (US\$ mn) | | | | | | |
| Current assets | 8,996 | 11,084 | 11,232 | 15,676 | 20,741 | 31,825 |
| Cash & equivalents | 4,236 | 7,141 | 7,613 | 11,876 | 16,768 | 27,687 |
| Account receivables | 2,065 | 2,224 | 2,072 | 2,175 | 2,273 | 2,364 |
| Prepayment | 835 | 1,018 | 1,274 | 1,351 | 1,427 | 1,500 |
| Other current assets | 1,860 | 701 | 273 | 273 | 273 | 273 |
| Non-current assets | 18,169 | 18,695 | 18,998 | 19,259 | 19,538 | 19,834 |
| PP&E | 1,908 | 2,030 | 1,936 | 2,197 | 2,476 | 2,772 |
| Right-of-use assets | 407 | 358 | 281 | 281 | 281 | 281 |
| Deferred income tax | 777 | 1,191 | 1,657 | 1,657 | 1,657 | 1,657 |
| Intangibles | 1,449 | 1,088 | 782 | 782 | 782 | 782 |
| Goodwill | 12,787 | 12,805 | 12,788 | 12,788 | 12,788 | 12,788 |
| Other non-current assets | 841 | 1,223 | 1,554 | 1,554 | 1,554 | 1,554 |
| Total assets | 27,165 | 29,779 | 30,230 | 34,935 | 40,279 | 51,658 |
| Current liabilities | 8,541 | 8,178 | 11,945 | 12,758 | 13,352 | 13,983 |
| Account payables | 379 | 314 | 361 | 377 | 391 | 409 |
| Tax payable | 75 | 85 | 119 | 119 | 119 | 119 |
| Lease liabilities | 1,000 | 0 | 2,998 | 2,998 | 2,998 | 2,998 |
| Contract liabilities | 5,297 | 5,837 | 6,131 | 6,949 | 7,565 | 8,196 |
| Accrued expenses | 1,790 | 1,942 | 2,336 | 2,315 | 2,279 | 2,260 |
| Non-current liabilities | 4,986 | 5,010 | 5,604 | 5,582 | 5,591 | 5,601 |
| Long-term borrowings | 3,629 | 3,634 | 4,129 | 4,129 | 4,129 | 4,129 |
| Obligations under finance leases | 417 | 373 | 353 | 353 | 353 | 353 |
| Deferred income | 117 | 113 | 128 | 106 | 115 | 125 |
| Other non-current liabilities | 823 | 890 | 994 | 994 | 994 | 994 |
| Total liabilities | 13,527 | 13,188 | 17,549 | 18,340 | 18,943 | 19,583 |
| Share capital | 0 | 0 | 0 | 0 | 0 | 0 |
| Capital surplus | 9,868 | 11,586 | 13,419 | 15,476 | 17,715 | 20,141 |
| Retained earnings | 28,026 | 33,061 | 38,269 | 45,126 | 52,628 | 60,941 |
| Other reserves | (23,843) | (28,129) | (37,583) | (42,583) | (47,583) | (47,583) |
| Total shareholders equity | 14,051 | 16,518 | 14,105 | 18,019 | 22,760 | 33,499 |
| Total equity and liabilities | 27,578 | 29,706 | 31,654 | 36,359 | 41,703 | 53,082 |

| CASH FLOW | 2022A | 2023A | 2024A | 2025E | 2026E | 2027E |
|--|----------------|----------------|----------------|----------------|----------------|---------------|
| YE 01 Dec (US\$ mn) | | | | | | |
| Operating | | | | | | |
| Profit before taxation | 6,008 | 6,799 | 6,931 | 8,571 | 9,378 | 10,391 |
| Depreciation & amortization | 856 | 872 | 524 | 210 | 233 | 259 |
| Tax paid | 1,252 | 1,371 | 1,371 | 1,714 | 1,876 | 2,078 |
| Change in working capital | 336 | (355) | 646 | 610 | 429 | 477 |
| Others | (614) | (1,385) | (861) | (1,371) | (1,512) | (1,730) |
| Net cash from operations | 7,838 | 7,302 | 8,611 | 9,734 | 10,404 | 11,474 |
| Investing | | | | | | |
| Capital expenditure | (442) | (360) | (430) | (470) | (512) | (555) |
| Acquisition of subsidiaries/ investments | (126) | 0 | 0 | 0 | 0 | 0 |
| Net proceeds from disposal of short-term investments | (2) | 1,136 | 0 | 0 | 0 | 0 |
| Others | 0 | 0 | 0 | 0 | 0 | 0 |
| Net cash from investing | (570) | 776 | (430) | (470) | (512) | (555) |
| Financing | | | | | | |
| Net borrowings | 0 | (500) | 0 | 0 | 0 | 0 |
| Share repurchases | (7,068) | (4,989) | (5,000) | (5,000) | (5,000) | 0 |
| Others | 243 | 307 | 0 | 0 | 0 | 0 |
| Net cash from financing | (6,825) | (5,182) | (5,000) | (5,000) | (5,000) | 0 |
| Net change in cash | | | | | | |
| Cash at the beginning of the year | 3,843 | 4,235 | 7,140 | 10,321 | 14,585 | 19,476 |
| Exchange difference | (51) | 9 | 0 | 0 | 0 | 0 |
| Cash at the end of the year | 4,235 | 7,140 | 10,321 | 14,585 | 19,476 | 30,396 |
| GROWTH | 2022A | 2023A | 2024A | 2025E | 2026E | 2027E |
| YE 01 Dec | | | | | | |
| Revenue | 11.5% | 10.2% | 10.8% | 9.4% | 8.9% | 8.4% |
| Gross profit | 10.9% | 10.5% | 12.3% | 9.6% | 9.1% | 8.4% |
| Operating profit | 5.1% | 9.1% | 1.4% | 25.4% | 9.4% | 10.8% |
| Net profit | (1.4%) | 14.1% | 2.4% | 23.3% | 9.4% | 10.8% |
| Adj. net profit | 7.6% | 14.2% | 12.3% | 7.0% | 9.3% | 10.9% |
| PROFITABILITY | 2022A | 2023A | 2024A | 2025E | 2026E | 2027E |
| YE 01 Dec | | | | | | |
| Gross profit margin | 87.7% | 87.9% | 89.0% | 89.2% | 89.4% | 89.4% |
| Operating margin | 34.6% | 34.3% | 31.3% | 35.9% | 36.1% | 37.0% |
| Adj. net profit margin | 36.7% | 38.0% | 38.5% | 37.7% | 37.8% | 38.7% |
| Return on equity (ROE) | 33.0% | 35.5% | 36.3% | 42.7% | 36.8% | 29.6% |
| GEARING/LIQUIDITY/ACTIVITIES | 2022A | 2023A | 2024A | 2025E | 2026E | 2027E |
| YE 01 Dec | | | | | | |
| Current ratio (x) | 1.1 | 1.4 | 0.9 | 1.2 | 1.6 | 2.3 |
| Receivable turnover days | 42.8 | 41.8 | 35.2 | 33.8 | 32.4 | 31.1 |
| Payable turnover days | 63.9 | 48.7 | 55.9 | 54.2 | 52.6 | 51.0 |
| VALUATION | 2022A | 2023A | 2024A | 2025E | 2026E | 2027E |
| YE 01 Dec | | | | | | |
| P/E | 55.2 | 47.6 | 45.2 | 35.9 | 31.5 | 27.8 |
| P/E (diluted) | 55.6 | 47.7 | 45.4 | 36.1 | 31.7 | 28.0 |
| P/B | 18.7 | 15.6 | 17.8 | 13.6 | 10.4 | 6.9 |

Source: Company data, CMBIGM estimates. Note: The calculation of net cash includes financial assets.

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