

Adobe (ADBE US)

Inline 1QFY25 results; AI standalone products ARR to double by end-FY25

Adobe announced 1QFY25 financial results: total revenue was up by 11% YoY in constant currency to US\$5.71bn, and non-GAAP net income grew by 9% YoY to US\$2.22bn, both in line with consensus estimates. The company also reaffirms FY25 financial targets and initiates total revenue guidance of US\$5.77-5.82bn (+9-10% YoY) for 2QFY25, which is also in line with consensus estimate. Adobe disclosed that the AI-first standalone and add-on applications (e.g. Acrobat AI Assistant & Firefly App) achieved over US\$125mn ARR as of end-1QFY25; and expects the ARR to double by the end of FY25 (c.1% of total revenue). And beyond the incremental ARR from standalone AI products, AI is also driving higher user adoption and upselling of Adobe's core products. We slightly lower our FY25-27E earnings forecast by 0-1% and fine-tune our target price to US\$629.0 based on 32x FY25E non-GAAP PE (previous: US\$634.5 based on 32x FY25E PE). Maintain BUY.

■ **AI applications drove user adoption and revenue growth.** Digital Media revenue increased by 11% YoY to US\$4.23bn in 1QFY25, and the Digital Media ARR was up by 13% YoY in constant currency to US\$17.63bn, driven by the strong growth of Acrobat and Creative flagship offerings. AI Assistant in Acrobat and Reader improved user experience and drove additional adoption, with monthly active usage of Acrobat and Reader up by 23% YoY in 1Q25. The adoption of Gen AI in Creative offerings remained strong, with Photoshop/Lightroom Gen AI MAUs accounted for c.35/30% of total MAUs, and users have generated over 20bn assets with Firefly. The launch of Adobe Firefly Video Model in Feb 2025 was also well-received by customers, with over 90% of paid Firefly Standard and Pro users generating videos. Digital Experience revenue grew by 9% YoY to US\$1.41bn in 1QFY25, primarily attributable to the strong demand for Adobe Experience platform and native applications, with subscription revenue up by c.50% YoY.

■ **Customer-focused strategy and innovation to drive long-term growth.** Starting from 1QFY25, Adobe will provide breakdown of its revenue streams by customer groups, as the company continues to drive cross-cloud offerings and accelerate "One Adobe" deals. The company will implement customer-focused strategy to innovate and integrate products for different user groups. Creative & Marketing Professionals/Business Professionals & Consumers subscription revenue was up by 10%/15% YoY to US\$3.92/1.53bn respectively in 1QFY25

■ **Accelerating share repurchase.** Non-GAAP OPM was largely steady YoY at 47.5% in 1QFY25, as the efficiency gain is largely offset by R&D and S&M investments. The company accelerated its share repurchase from 4.6mn shares in 4QFY24 to 7.0mn shares (US\$3.25bn, c.2% of market cap) in 1QFY25. Supported by strong cash flow, Adobe will continue to act astutely and step up share repurchase if the management believes the company is still undervalued.

Earnings Summary

(YE 01 Dec)	FY23A	FY24A	FY25E	FY26E	FY27E
Revenue (US\$ mn)	19,409	21,505	23,429	25,435	27,489
YoY growth (%)	10.2	10.8	8.9	8.6	8.1
Adjusted net profit (US\$ mn)	7,377.0	8,281.0	8,787.1	9,571.8	10,619.9
EPS (Adjusted) (US\$)	15.70	18.12	19.66	22.26	25.29
Consensus EPS (US\$)	15.70	18.12	20.39	23.00	25.52

Source: Company data, Bloomberg, CMBIGM estimates

BUY (Maintain)

Target Price US\$629.00
 (Previous TP) US\$634.50
Up/Downside 43.4%
Current Price US\$438.60

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Stock Data

Mkt Cap (US\$ mn)	196,054.2
Avg 3 mths t/o (US\$ mn)	1,588.0
52w High/Low (US\$)	586.55/405.92
Total Issued Shares (mn)	447.0

Source: FactSet

Shareholding Structure

The Vanguard Group	8.9%
BlackRock	8.4%

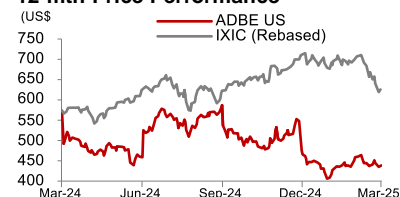
Source: Company data

Share Performance

	Absolute	Relative
1-mth	-4.5%	7.9%
3-mth	-5.8%	6.3%
6-mth	-18.3%	-18.1%

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	23.4	25.4	27.5	23.5	25.6	27.7	-0.4%	-0.6%	-0.9%
Gross profit	20.9	22.7	24.6	21.0	22.9	24.8	-0.4%	-0.7%	-0.9%
Non-GAAP OP	10.8	11.8	12.9	11.0	12.0	13.1	-1.5%	-1.8%	-1.5%
Non-GAAP NP	8.8	9.6	10.6	8.9	9.7	10.7	-0.9%	-1.1%	-1.1%
Non-GAAP EPS (US\$)	20.4	22.8	25.3	20.6	23.1	25.6	-0.9%	-1.1%	-1.1%
Gross margin	89.2%	89.4%	89.4%	89.2%	89.4%	89.4%	0.0 ppt	0.0 ppt	0.0 ppt
Non-GAAP OPM	46.1%	46.3%	46.9%	46.7%	46.8%	47.2%	-0.5 ppt	-0.6 ppt	-0.3 ppt
Non-GAAP NPM	37.5%	37.6%	38.6%	37.7%	37.8%	38.7%	-0.2 ppt	-0.2 ppt	-0.1 ppt

Source: CMBIGM estimates

Figure 2: CMBIGM estimates vs consensus

US\$ bn	CMBIGM			Consensus			Diff (%)		
	FY25E	FY26E	FY27E	FY25E	FY26E	FY27E	FY25E	FY26E	FY27E
Revenue	23.4	25.4	27.5	23.5	25.9	28.3	-0.3%	-1.7%	-2.8%
Gross profit	20.9	22.7	24.6	21.1	23.2	25.5	-0.9%	-2.1%	-3.4%
Non-GAAP OP	10.8	11.8	12.9	10.8	11.9	13.1	-0.2%	-0.8%	-1.9%
Non-GAAP NP	8.8	9.6	10.6	8.9	9.8	10.7	-1.0%	-2.2%	-0.9%
Non-GAAP EPS (US\$)	20.4	22.8	25.3	20.4	23.0	25.5	0.2%	-0.9%	-0.9%
Gross margin	89.2%	89.4%	89.4%	89.8%	89.7%	90.0%	-0.6 ppt	-0.3 ppt	-0.6 ppt
Non-GAAP OPM	46.1%	46.3%	46.9%	46.1%	45.9%	46.5%	0.1 ppt	0.4 ppt	0.4 ppt
Non-GAAP NPM	37.5%	37.6%	38.6%	37.8%	37.8%	37.9%	-0.3 ppt	-0.2 ppt	0.7 ppt

Source: Bloomberg, CMBIGM estimates

Valuation

We value Adobe at US\$281bn (US\$629.0 per share) based on 32x 2025E P/E. Our target P/E is at a discount to the sector average (44x), 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	8,787
Target 2025E PE	32.0
Target equity valuation	281,188
Valuation per share (USD)	629.0

Source: Company data, CMBIGM estimates

Figure 4: SaaS: valuation comparison

Company	Ticker	Price (LC)	P/E (x)		P/S (x)		EPS CAGR 24-26E
			2025E	2026E	2025E	2026E	
CRM							
Salesforce	CRM US	284.6	34.7	28.4	6.6	6.1	29%
HubSpot	HUBS US	611.1	76.4	66.5	10.2	8.8	22%
Five9	FIVN US	29.6	12.5	11.4	2.2	1.9	13%
ITSM							
ServiceNow	NOW US	843.1	60.6	51.4	13.0	10.9	22%
Atlassian	TEAM US	226.4	78.9	64.6	11.2	9.4	30%
Security							
CrowdStrike	CRWD US	346.8	NA	92.1	17.2	14.2	30%
ZScaler	ZS US	197.8	65.5	64.1	11.1	9.2	27%
Fortinet	FTNT US	97.9	43.6	39.9	10.7	9.5	20%
Palo Alto Network	PANW US	179.5	64.4	55.6	12.4	10.8	18%
ERP							

SAP	SAP US	264.1	56.2	38.2	8.4	7.5	17%
Oracle	ORCL US	150.9	27.0	25.1	8.9	7.8	9%
Collaboration							
Twilio	TWLO US	102.8	27.9	23.6	3.0	2.8	28%
Ring Central	RNG US	26.9	7.3	6.4	1.5	1.4	13%
Zoom	ZM US	74.0	15.0	13.6	3.1	3.0	7%
Average			43.8	41.5	8.5	7.4	

Source: Bloomberg, CMBIGM

Note: data as of 12 Mar 2025

Financial Summary

INCOME STATEMENT	2022A	2023A	2024A	2025E	2026E	2027E
YE 01 Dec (US\$ mn)						
Revenue	17,606	19,409	21,505	23,429	25,435	27,489
Cost of goods sold	2,165	2,354	2,358	2,530	2,704	2,912
Gross profit	15,441	17,055	19,147	20,899	22,731	24,577
Operating expenses	9,343	10,405	12,406	12,476	13,545	14,425
Selling expense	4,968	5,351	5,764	6,280	6,817	7,285
Admin expense	1,219	1,413	1,529	1,666	1,808	1,925
R&D expense	2,987	3,473	3,944	4,297	4,665	4,941
Others	169	168	1,169	234	254	275
Operating profit	6,098	6,650	6,741	8,422	9,186	10,152
Other income	22	262	359	234	254	275
Net Interest income/(expense)	(112)	(113)	(169)	(117)	(127)	(137)
Pre-tax profit	6,008	6,799	6,931	8,539	9,313	10,289
Income tax	1,252	1,371	1,371	1,665	1,816	2,006
After tax profit	4,756	5,428	5,560	6,874	7,497	8,283
Net profit	4,756	5,428	5,560	6,874	7,497	8,283
Adjusted net profit	6,457	7,377	8,281	8,787	9,572	10,620

BALANCE SHEET	2022A	2023A	2024A	2025E	2026E	2027E
YE 01 Dec (US\$ mn)						
Current assets	8,996	11,084	11,232	15,593	20,553	26,494
Cash & equivalents	4,236	7,141	7,613	11,806	16,604	22,391
Account receivables	2,065	2,224	2,072	2,167	2,259	2,343
Prepayment	835	1,018	1,274	1,346	1,418	1,486
Other current assets	1,860	701	273	273	273	273
Non-current assets	18,169	18,695	18,998	19,257	19,533	19,824
PP&E	1,908	2,030	1,936	2,195	2,471	2,762
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	34,850	40,086	46,318
Current liabilities	8,541	8,178	11,945	12,722	13,290	13,893
Account payables	379	314	361	376	389	407
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	6,923	7,516	8,123
Accrued expenses	1,790	1,942	2,336	2,306	2,267	2,246
Non-current liabilities	4,986	5,010	5,604	5,581	5,590	5,600
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	105	114	124
Other non-current liabilities	823	890	994	994	994	994
Total liabilities	13,527	13,188	17,549	18,303	18,880	19,493
Share capital	0	0	0	0	0	0
Capital surplus	9,868	11,586	13,419	15,410	17,572	19,909
Retained earnings	28,026	33,061	38,269	45,143	52,640	60,923
Other reserves	(23,843)	(28,129)	(37,583)	(42,583)	(47,583)	(52,583)
Total shareholders equity	14,051	16,518	14,105	17,971	22,630	28,249
Total equity and liabilities	27,578	29,706	31,654	36,274	41,510	47,742

CASH FLOW	2022A	2023A	2024A	2025E	2026E	2027E
YE 01 Dec (US\$ mn)						
Operating						
Profit before taxation	6,008	6,799	6,931	8,539	9,313	10,289
Depreciation & amortization	856	872	524	210	233	258
Tax paid	1,252	1,371	1,371	1,665	1,816	2,006
Change in working capital	336	(355)	646	587	414	459
Others	(614)	(1,385)	(861)	(1,339)	(1,470)	(1,676)
Net cash from operations	7,838	7,302	8,611	9,662	10,306	11,337
Investing						
Capital expenditure	(442)	(360)	(430)	(469)	(509)	(550)
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)	(469)	(509)	(550)
Financing						
Net borrowings	0	(500)	0	0	0	0
Share repurchases	(7,068)	(4,989)	(5,000)	(5,000)	(5,000)	(5,000)
Others	243	307	(2,709)	0	0	0
Net cash from financing	(6,825)	(5,182)	(7,709)	(5,000)	(5,000)	(5,000)
Net change in cash						
Cash at the beginning of the year	3,843	4,235	7,140	7,612	11,806	16,603
Exchange difference	(51)	9	0	0	0	0
Cash at the end of the year	4,235	7,140	7,612	11,806	16,603	22,391
GROWTH	2022A	2023A	2024A	2025E	2026E	2027E
YE 01 Dec						
Revenue	11.5%	10.2%	10.8%	8.9%	8.6%	8.1%
Gross profit	10.9%	10.5%	12.3%	9.1%	8.8%	8.1%
Operating profit	5.1%	9.1%	1.4%	24.9%	9.1%	10.5%
Net profit	(1.4%)	14.1%	2.4%	23.6%	9.1%	10.5%
Adj. net profit	7.6%	14.2%	12.3%	6.1%	8.9%	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%	36.9%
Adj. net profit margin	36.7%	38.0%	38.5%	37.5%	37.6%	38.6%
Return on equity (ROE)	33.0%	35.5%	36.3%	42.9%	36.9%	32.6%
GEARING/LIQUIDITY/ACTIVITIES	2022A	2023A	2024A	2025E	2026E	2027E
YE 01 Dec						
Current ratio (x)	1.1	1.4	0.9	1.2	1.5	1.9
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	44.0	38.0	36.1	28.5	25.2	22.2
P/E (diluted)	44.4	38.1	36.2	28.7	25.3	22.4
P/B	14.9	12.5	14.2	10.9	8.3	6.5

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

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