

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%

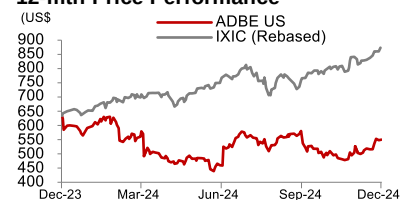
Source: Company data

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)	2024E	P/E (x) 2025E	2026E	2024E	P/S (x) 2025E	2026E	EPS CAGR 24-26E
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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