

# Adobe (ADBE US)

## 1QFY26 results: Solid AI momentum, but ARR deceleration weighs on sentiment

Adobe reported 1QFY26 results: total revenue grew by 12% YoY to US\$6.40bn, and non-GAAP net income increased by 12% YoY to US\$2.49bn, both largely in line with Bloomberg consensus estimates. Total ARR growth decelerated to +10.9% YoY in 1QFY26 (4QFY25: +11.5% YoY), mainly due to the soft traditional Stock business and the initiatives to drive freemium MAU growth. The announcement of CEO transition also added to short-term uncertainty. That said, management reaffirmed previously-set FY26 financial targets, with total revenue up by 9-10% YoY and total ending ARR up by 10.2% YoY. AI-first ARR more than tripled YoY in 1QFY26, supported by the strong performance of Firefly and AI Assistant. We maintain our FY26-28E earnings forecasts largely unchanged, but lower our target price to US\$350.0 based on 15x FY26E non-GAAP PE (previous: US\$585.0 based on 25x FY26E PE), in view of the market concern on heightening competitive pressure from AI applications.

■ **Solid AI product momentum.** Creative & marketing professionals subscription revenue grew by 11% YoY to US\$4.39bn in 1QFY26, driven by 1) strong momentum of Firefly: Firefly ending ARR surpassed US\$250mn, with generative credit consumption up by over 45% QoQ in 1QFY26, and the video generation actions grew by over 8 times YoY; 2) robust growth of freemium users: creative freemium MAU crossed 80mn, up by over 50% YoY; 3) over 30% YoY growth in ending ARR of GenStudio and AEP & Apps. Nonetheless, the traditional Stock business experienced a greater-than-anticipated decline in 1QFY26, which dragged the company's total ARR growth by c.30bps.

■ **AI integration to drive revenue and engagement growth.** Business professionals & consumers subscription revenue increased by 16% YoY to US\$1.78bn in 1QFY26, mainly attributable to: 1) Acrobat AI Assistant ARR grew by c.3 times YoY; 2) Acrobat and Express MAU increased by c.20% YoY; 3) strong upgrades to Acrobat Studio. The company launched Acrobat and Express for ChatGPT in 1QFY26, which further expanded their user reach and drove engagement. Adobe also plans to introduce Acrobat and Express to other AI applications such as Copilot, Claude and Gemini.

■ **Inline 2QFY26 outlook.** For 2QFY26E, management guided total revenue to increase by 9-10% YoY to US\$6.43-6.48bn, largely in line with the consensus estimate but a slight deceleration compared to 1QFY26. We are upbeat on the momentum of Adobe's AI products, but it still takes time for them to grow to a level that can offset the decline in certain traditional businesses, drive the reacceleration of revenue growth, and support valuation recovery. The company currently trades at 12x FY26E non-GAAP PE, offering a safety margin and representing a deep discount compared to peers. Maintain BUY.

### Earnings Summary

(YE 01 Dec)	FY24A	FY25A	FY26E	FY27E	FY28E
Revenue (US\$ mn)	21,505	23,769	26,058	28,414	30,813
YoY growth (%)	10.8	10.5	9.6	9.0	8.4
Adjusted net profit (US\$ mn)	8,281.0	8,941.0	9,408.2	10,583.1	11,801.6
EPS (Adjusted) (US\$)	18.53	20.98	23.35	26.26	29.28
Consensus EPS (US\$)	18.53	20.98	23.48	26.39	28.87
P/S (x)	5.1	4.7	4.2	3.9	3.6
P/E (x)	21.7	16.1	15.0	13.2	11.7

Source: Company data, Bloomberg, CMBIGM estimates

**BUY (Maintain)**

Target Price	US\$350.00
(Previous TP)	US\$585.00)
Up/Downside	29.7%
Current Price	US\$269.78

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### Stock Data

Mkt Cap (US\$ mn)	110,609.8
Avg 3 mths t/o (US\$ mn)	1,392.4
52w High/Low (US\$)	420.68/246.68
Total Issued Shares (mn)	410.0

Source: FactSet

### Shareholding Structure

The Vanguard Group	10.2%
BlackRock	9.3%

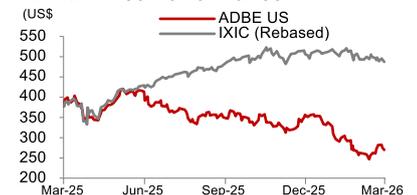
Source: Company data

### Share Performance

	Absolute	Relative
1-mth	2.2%	3.3%
3-mth	-24.3%	-21.3%
6-mth	-22.8%	-23.4%

Source: FactSet

### 12-mth Price Performance



Source: FactSet

## Business forecasts update and valuation

Figure 1: Adobe: forecast revision

US\$ bn	Current			Previous			Change (%)		
	FY26E	FY27E	FY28E	FY26E	FY27E	FY28E	FY26E	FY27E	FY28E
Revenue	26.1	28.4	30.8	26.0	28.3	30.7	0.2%	0.3%	0.5%
Gross profit	23.2	25.3	27.4	23.2	25.3	27.4	0.0%	0.0%	0.0%
Non-GAAP OP	11.7	13.0	14.4	11.7	13.1	14.5	-0.2%	-0.3%	-0.4%
Non-GAAP NP	9.4	10.6	11.8	9.4	10.6	11.8	-0.2%	-0.2%	-0.4%
Non-GAAP EPS (US\$)	23.3	26.3	29.3	23.4	26.3	29.4	-0.2%	-0.2%	-0.4%
Gross margin	89.0%	89.0%	88.9%	89.2%	89.3%	89.4%	-0.2 ppt	-0.3 ppt	-0.4 ppt
Non-GAAP OPM	44.9%	45.9%	46.8%	45.0%	46.2%	47.2%	-0.2 ppt	-0.3 ppt	-0.4 ppt
Non-GAAP NPM	36.1%	37.2%	38.3%	36.2%	37.4%	38.6%	-0.1 ppt	-0.2 ppt	-0.3 ppt

Source: CMBIGM estimates

Figure 2: CMBIGM estimates vs consensus

US\$ bn	CMBIGM			Consensus			Diff (%)		
	FY26E	FY27E	FY28E	FY26E	FY27E	FY28E	FY26E	FY27E	FY28E
Revenue	26.1	28.4	30.8	26.0	28.4	30.8	0.1%	-0.1%	0.2%
Gross profit	23.2	25.3	27.4	23.4	25.5	27.6	-0.8%	-0.8%	-0.8%
Non-GAAP OP	11.7	13.0	14.4	11.7	12.8	13.7	-0.2%	1.8%	5.3%
Non-GAAP NP	9.4	10.6	11.8	9.5	10.5	11.2	-1.2%	1.2%	5.4%
Non-GAAP EPS (US\$)	23.3	26.3	29.3	23.5	26.4	28.9	-0.6%	-0.5%	1.4%
Gross margin	89.0%	89.0%	88.9%	89.8%	89.7%	89.8%	-0.8 ppt	-0.7 ppt	-0.9 ppt
Non-GAAP OPM	44.9%	45.9%	46.8%	45.0%	45.1%	44.5%	-0.1 ppt	0.8 ppt	2.3 ppt
Non-GAAP NPM	36.1%	37.2%	38.3%	36.6%	36.8%	36.4%	-0.5 ppt	0.5 ppt	1.9 ppt

Source: Bloomberg, CMBIGM estimates

## Valuation

We value Adobe at US\$141.1bn (US\$350.0 per share) based on 15x 2026E P/E. Our target P/E is at a discount to the sector average (22x), as Adobe is at a more mature business stage with slower earnings growth.

Figure 3: Adobe: target valuation

P/E Valuation (US\$mn)	FY26E
Non-GAAP earnings	9,408
Target 2026E PE (x)	15.0
Target equity valuation	141,123
Valuation per share (USD)	350.0

Source: Company data, CMBIGM estimates

Figure 4: SaaS: valuation comparison

Company	Ticker	Price (LC)	P/E (x)			P/S (x)			EPS CAGR 25-28E
			2026E	2027E	2028E	2026E	2027E	2028E	
<b>CRM</b>									
Salesforce	CRM US	199.3	16.9	15.1	13.4	4.2	3.8	3.5	14%
HubSpot	HUBS US	257.6	20.7	16.9	14.1	3.3	2.8	2.4	24%
Five9	FIVN US	16.3	5.1	4.5	4.2	1.1	1.0	0.9	10%
<b>ITSM</b>									
ServiceNow	NOW US	113.0	27.0	22.6	18.8	6.9	5.8	4.9	20%
Atlassian	TEAM US	73.3	15.4	13.3	11.1	2.8	2.4	2.0	23%
<b>Security</b>									
CrowdStrike	CRWD US	441.5	NA	90.7	71.5	18.2	15.0	12.4	18%
ZScaler	ZS US	151.6	37.8	33.1	27.5	6.8	5.7	4.8	20%
Fortinet	FTNT US	84.4	28.3	25.5	22.7	7.9	7.1	6.5	11%
Palo Alto Network	PANW US	168.1	45.5	42.2	36.3	11.4	9.5	8.4	12%
<b>ERP</b>									

SAP	SAP US	190.5	21.8	18.5	16.1	5.8	5.2	4.6	17%
Oracle	ORCL US	159.2	21.4	19.9	14.6	8.3	6.3	4.3	22%
<b>Collaboration</b>									
Twilio	TWLO US	125.5	23.2	19.7	17.3	3.1	2.9	2.7	15%
Ring Central	RNG US	38.1	7.8	7.0	7.0	1.7	1.6	1.4	8%
Zoom	ZM US	74.9	12.4	12.9	12.2	3.0	2.9	2.8	4%
<b>Average</b>			<b>21.8</b>	<b>24.4</b>	<b>20.5</b>	<b>6.0</b>	<b>5.1</b>	<b>4.4</b>	

Source: Bloomberg, CMBIGM

Note: data are as of 12 Mar 2026

## Financial Summary

INCOME STATEMENT	2023A	2024A	2025A	2026E	2027E	2028E
YE 01 Dec (US\$ mn)						
<b>Revenue</b>	<b>19,409</b>	<b>21,505</b>	<b>23,769</b>	<b>26,058</b>	<b>28,414</b>	<b>30,813</b>
Cost of goods sold	2,354	2,358	2,551	2,855	3,118	3,410
<b>Gross profit</b>	<b>17,055</b>	<b>19,147</b>	<b>21,218</b>	<b>23,203</b>	<b>25,296</b>	<b>27,403</b>
<b>Operating expenses</b>	<b>10,405</b>	<b>12,406</b>	<b>12,512</b>	<b>13,879</b>	<b>14,830</b>	<b>15,787</b>
Selling expense	5,351	5,764	6,488	7,192	7,672	8,165
Admin expense	1,413	1,529	1,573	1,694	1,819	1,943
R&D expense	3,473	3,944	4,294	4,821	5,151	5,475
Others	168	1,169	157	172	188	204
<b>Operating profit</b>	<b>6,650</b>	<b>6,741</b>	<b>8,706</b>	<b>9,324</b>	<b>10,466</b>	<b>11,616</b>
Other income	262	359	291	130	142	1
<b>Net Interest income/(expense)</b>	<b>(113)</b>	<b>(169)</b>	<b>(263)</b>	<b>(313)</b>	<b>(284)</b>	<b>(2)</b>
<b>Pre-tax profit</b>	<b>6,799</b>	<b>6,931</b>	<b>8,734</b>	<b>9,142</b>	<b>10,324</b>	<b>11,615</b>
Income tax	1,371	1,371	1,604	1,874	2,065	2,323
<b>After tax profit</b>	<b>5,428</b>	<b>5,560</b>	<b>7,130</b>	<b>7,268</b>	<b>8,259</b>	<b>9,292</b>
<b>Net profit</b>	<b>5,428</b>	<b>5,560</b>	<b>7,130</b>	<b>7,268</b>	<b>8,259</b>	<b>9,292</b>
<b>Adjusted net profit</b>	<b>7,377</b>	<b>8,281</b>	<b>8,941</b>	<b>9,408</b>	<b>10,583</b>	<b>11,802</b>
<b>BALANCE SHEET</b>						
YE 01 Dec (US\$ mn)						
<b>Current assets</b>	<b>11,084</b>	<b>11,232</b>	<b>10,163</b>	<b>8,701</b>	<b>9,406</b>	<b>12,386</b>
Cash & equivalents	7,141	7,613	5,431	3,923	4,444	7,254
Account receivables	2,224	2,072	2,344	2,313	2,421	2,520
Prepayment	1,018	1,274	1,224	1,302	1,377	1,448
Other current assets	701	273	1,164	1,164	1,164	1,164
<b>Non-current assets</b>	<b>18,695</b>	<b>18,998</b>	<b>19,333</b>	<b>19,621</b>	<b>19,930</b>	<b>20,258</b>
PP&E	2,030	1,936	1,873	2,161	2,470	2,798
Right-of-use assets	358	281	312	312	312	312
Deferred income tax	1,191	1,657	2,186	2,186	2,186	2,186
Intangibles	1,088	782	495	495	495	495
Goodwill	12,805	12,788	12,857	12,857	12,857	12,857
Other non-current assets	1,223	1,554	1,610	1,610	1,610	1,610
<b>Total assets</b>	<b>29,779</b>	<b>30,230</b>	<b>29,496</b>	<b>28,322</b>	<b>29,336</b>	<b>32,644</b>
<b>Current liabilities</b>	<b>8,251</b>	<b>10,521</b>	<b>10,200</b>	<b>11,287</b>	<b>12,214</b>	<b>13,175</b>
Account payables	314	361	417	453	480	509
Tax payable	85	119	153	153	153	153
Lease liabilities	73	1,574	77	77	77	77
Contract liabilities	5,837	6,131	6,905	7,700	8,396	9,105
Accrued expenses	1,942	2,336	2,648	2,904	3,108	3,331
<b>Non-current liabilities</b>	<b>5,010</b>	<b>5,604</b>	<b>7,673</b>	<b>7,665</b>	<b>7,676</b>	<b>7,687</b>
Long-term borrowings	3,634	4,129	6,210	6,210	6,210	6,210
Obligations under finance leases	373	353	361	361	361	361
Deferred income	113	128	125	117	128	139
Other non-current liabilities	890	994	977	977	977	977
<b>Total liabilities</b>	<b>13,261</b>	<b>16,125</b>	<b>17,873</b>	<b>18,953</b>	<b>19,890</b>	<b>20,862</b>
Share capital	0	0	0	0	0	0
Capital surplus	11,586	13,419	15,361	17,394	19,610	22,013
Retained earnings	33,061	38,269	45,109	52,377	60,636	69,928
Other reserves	(28,129)	(37,583)	(48,847)	(60,401)	(70,800)	(80,158)
<b>Total shareholders equity</b>	<b>16,518</b>	<b>14,105</b>	<b>11,623</b>	<b>9,369</b>	<b>9,446</b>	<b>11,783</b>
<b>Total equity and liabilities</b>	<b>29,779</b>	<b>30,230</b>	<b>29,496</b>	<b>28,322</b>	<b>29,336</b>	<b>32,644</b>

<b>CASH FLOW</b>	<b>2023A</b>	<b>2024A</b>	<b>2025A</b>	<b>2026E</b>	<b>2027E</b>	<b>2028E</b>
<b>YE 01 Dec (US\$ mn)</b>						
<b>Operating</b>						
<b>Profit before taxation</b>	<b>6,799</b>	<b>6,931</b>	<b>8,734</b>	<b>9,142</b>	<b>10,324</b>	<b>11,615</b>
Depreciation & amortization	872	857	210	233	259	288
Tax paid	1,371	1,371	1,604	1,874	2,065	2,323
Change in working capital	(355)	144	718	1,033	754	801
Others	(1,385)	(1,247)	(1,235)	(1,716)	(1,913)	(2,243)
<b>Net cash from operations</b>	<b>7,302</b>	<b>8,056</b>	<b>10,031</b>	<b>10,567</b>	<b>11,489</b>	<b>12,784</b>
<b>Investing</b>						
Capital expenditure	(360)	(183)	(475)	(521)	(568)	(616)
Acquisition of subsidiaries/ investments	0	0	0	0	0	0
Net proceeds from disposal of short-term investments	1,136	332	(712)	0	0	0
Others	0	0	0	0	0	0
<b>Net cash from investing</b>	<b>776</b>	<b>149</b>	<b>(1,187)</b>	<b>(521)</b>	<b>(568)</b>	<b>(616)</b>
<b>Financing</b>						
Net borrowings	(500)	1,997	0	0	0	0
Share repurchases	(4,989)	(9,139)	(11,554)	(11,554)	(10,399)	(9,359)
Others	307	(582)	494	0	0	0
<b>Net cash from financing</b>	<b>(5,182)</b>	<b>(7,724)</b>	<b>(11,060)</b>	<b>(11,554)</b>	<b>(10,399)</b>	<b>(9,359)</b>
<b>Net change in cash</b>						
Cash at the beginning of the year	4,236	7,141	7,613	5,431	3,923	4,444
Exchange difference	9	(9)	34	0	0	0
<b>Cash at the end of the year</b>	<b>7,141</b>	<b>7,613</b>	<b>5,431</b>	<b>3,923</b>	<b>4,444</b>	<b>7,254</b>
<b>GROWTH</b>	<b>2023A</b>	<b>2024A</b>	<b>2025A</b>	<b>2026E</b>	<b>2027E</b>	<b>2028E</b>
<b>YE 01 Dec</b>						
Revenue	10.2%	10.8%	10.5%	9.6%	9.0%	8.4%
Gross profit	10.5%	12.3%	10.8%	9.4%	9.0%	8.3%
Operating profit	9.1%	1.4%	29.1%	7.1%	12.2%	11.0%
Net profit	14.1%	2.4%	28.2%	1.9%	13.6%	12.5%
Adj. net profit	14.2%	12.3%	8.0%	5.2%	12.5%	11.5%
<b>PROFITABILITY</b>	<b>2023A</b>	<b>2024A</b>	<b>2025A</b>	<b>2026E</b>	<b>2027E</b>	<b>2028E</b>
<b>YE 01 Dec</b>						
Gross profit margin	87.9%	89.0%	89.3%	89.0%	89.0%	88.9%
Operating margin	34.3%	31.3%	36.6%	35.8%	36.8%	37.7%
Adj. net profit margin	38.0%	38.5%	37.6%	36.1%	37.2%	38.3%
Return on equity (ROE)	35.5%	36.3%	55.4%	69.2%	87.8%	87.5%
<b>GEARING/LIQUIDITY/ACTIVITIES</b>	<b>2023A</b>	<b>2024A</b>	<b>2025A</b>	<b>2026E</b>	<b>2027E</b>	<b>2028E</b>
<b>YE 01 Dec</b>						
Current ratio (x)	1.3	1.1	1.0	0.8	0.8	0.9
Receivable turnover days	41.8	35.2	36.0	32.4	31.1	29.9
Payable turnover days	48.7	55.9	59.7	57.9	56.1	54.5
<b>VALUATION</b>	<b>2023A</b>	<b>2024A</b>	<b>2025A</b>	<b>2026E</b>	<b>2027E</b>	<b>2028E</b>
<b>YE 01 Dec</b>						
P/E	22.7	21.7	16.1	15.0	13.2	11.7
P/E (diluted)	22.8	21.8	16.2	15.0	13.2	11.7
P/B	7.5	8.5	9.9	11.6	11.5	9.2

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

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