

Adobe (ADBE US)

Solid 3QFY24 results but soft guidance may weigh on short-term sentiment

Adobe announced solid 3QFY24 results, but 4QFY24 guidance was softer than expected: 3QFY24 total revenue was up by 11% YoY to US\$5.41bn, in line with consensus estimate; 3QFY24 non-GAAP net income grew by 11% YoY to US\$2.08bn, in line with consensus. Digital Media net new ARR was US\$504mn in 3QFY24 and c.10% ahead of the company guidance, as product innovations drove strength in both Creative and Document Cloud, and a few large deals were closed earlier than expected. However, 4QFY24E Digital Media net new ARR guidance of ~US\$550mn (-3% YoY) was weaker than expected. This raised investor concern on revenue growth outlook in FY25E, even though the management attributed the softness to seasonality effect (absence of Cyber Monday in 4Q in this FY and certain deals closed earlier in 3QFY24). We maintain our FY24-26E revenue forecast largely unchanged and our target price of US\$645.0 is based on 32x FY25E PE. Maintain BUY.

- **GenAI drove strength in Digital Media.** Creative Cloud revenue grew by 10% YoY to US\$3.2bn in 3QFY24, with net new ARR of US\$341mn (+6% QoQ), mainly thanks to the better integration of Firefly throughout Creative Cloud offerings and the expansion of user reach via Adobe Express. Total generations of Firefly surpassed 12bn since launch and total API calls of Firefly Service tripled QoQ in 3QFY24. Adobe Express further expanded user reach, acquiring over 1,500 business customers and millions of students, which drove 70% YoY increase in cumulative exports in 3QFY24. Document Cloud revenue was up 18% YoY to US\$807mn in 3QFY24, with net new ARR of US\$163mn, driven by solid usage & MAU growth and the strength in monetization of its AI Assistant. Thanks to the capability upgrade, AI Assistant saw 70% QoQ growth in AI interactions in 3QFY24.
- **Digital experience maintains solid momentum.** Digital Experience revenue was US\$1.35bn in 3QFY24, up 10% YoY driven by strong subscription revenue growth of AEP and native applications (up over 50% YoY). The general availability of Adobe Content Hub further enhanced value of AEM Assets, which also delivered strong subscription revenue growth in 3QFY24. AEM Assets is now used by the majority of Fortune 50, incl. 8 of the 10 largest media companies and 9 of the 10 largest financial companies.
- **Maintain BUY.** Non-GAAP OPM improved by 0.2ppts YoY and 0.5ppts QoQ to 46.5% in 3QFY24, underpinned by enhanced operating efficiency and disciplined investments in AI model. We expect Adobe will continue to deliver strong financial performance (FY25E revenue growth/non-GAAP NPM: +9% YoY/38%), with enhancing shareholder return. The Company entered a US\$2.50bn share repurchase agreement in 3QFY24E, and its US\$20.15bn (c.8% of mkt cap) remaining share repurchase authorization will be expired in Mar 2028.

Earnings Summary

(YE 01 Dec)	FY22A	FY23A	FY24E	FY25E	FY26E
Revenue (US\$ mn)	17,606	19,409	21,456	23,440	25,520
Adjusted net profit (US\$ mn)	6,457.0	7,377.0	8,265.7	8,969.9	9,799.2
EPS (Adjusted) (US\$)	13.54	15.70	18.09	20.16	22.53
Consensus EPS (US\$)	13.54	15.70	18.17	20.55	23.45
P/E (x)	53.8	46.5	44.3	35.4	31.6

Source: Company data, Bloomberg, CMBIGM estimates

BUY (Maintain)

Target Price US\$645.00
Up/Downside 20.1%
Current Price US\$536.87

China Internet

Saiyi HE, CFA
 (852) 3916 1739
 hesaiyi@cmbi.com.hk

Wentao LU, CFA
 luwentao@cmbi.com.hk

Ye TAO
 franktao@cmbi.com.hk

Stock Data

Mkt Cap (US\$ mn)	245,349.6
Avg 3 mths t/o (US\$ mn)	671.2
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%

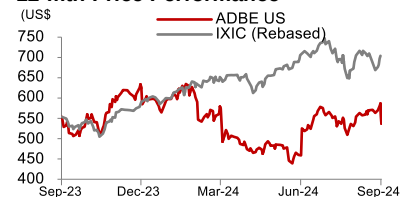
Source: Company data

Share Performance

	Absolute	Relative
1-mth	0.3%	-2.5%
3-mth	17.0%	16.9%
6-mth	-6.4%	-14.4%

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	21.5	23.4	25.5	21.5	23.5	25.5	-0.1%	-0.1%	-0.1%
Gross profit	19.0	20.9	22.7	18.9	20.7	22.5	0.7%	0.9%	1.1%
Non-GAAP OP	9.9	11.1	12.1	10.1	11.3	12.7	-2.3%	-2.2%	-4.5%
Non-GAAP NP	8.3	9.0	9.8	8.2	9.2	10.3	1.0%	-2.7%	-4.9%
Non-GAAP EPS (US\$)	18.6	20.6	23.1	17.9	20.2	22.6	3.7%	2.3%	2.3%
Gross margin	88.7%	89.0%	89.1%	88.0%	88.1%	88.1%	0.6 ppt	0.9 ppt	1.0 ppt
Non-GAAP OPM	46.2%	47.3%	47.4%	47.2%	48.3%	49.7%	-1.1 ppt	-1.0 ppt	-2.2 ppt
Non-GAAP NPM	38.5%	38.3%	38.4%	38.1%	39.3%	40.4%	0.4 ppt	-1.0 ppt	-1.9 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	21.5	23.4	25.5	21.5	23.9	26.6	0.0%	-2.0%	-4.0%
Gross profit	19.0	20.9	22.7	19.2	21.4	23.9	-0.9%	-2.6%	-4.6%
Non-GAAP OP	9.9	11.1	12.1	9.9	11.0	12.4	0.0%	0.2%	-2.1%
Non-GAAP NP	8.3	9.0	9.8	8.2	9.1	10.2	1.0%	-1.0%	-3.9%
Non-GAAP EPS (US\$)	18.6	20.6	23.1	18.2	20.5	23.5	2.2%	0.4%	-1.6%
Gross margin	88.7%	89.0%	89.1%	89.4%	89.5%	89.7%	-0.8 ppt	-0.6 ppt	-0.6 ppt
Non-GAAP OPM	46.2%	47.3%	47.4%	46.2%	46.2%	46.5%	0.0 ppt	1.1 ppt	0.9 ppt
Non-GAAP NPM	38.5%	38.3%	38.4%	38.1%	37.9%	38.4%	0.4 ppt	0.4 ppt	0.0 ppt

Source: Bloomberg, CMBIGM estimates

Valuation

We value Adobe at US\$287bn (US\$645.0 per share) based on 32x 2025E P/E. Our target P/E is at a discount to the sector average (36x), 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	8,970
Target 2025E PE	32.0
Target equity valuation	287,037
Valuation per share (USD)	645.0

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	253.4	30.9	25.1	22.7	6.4	5.9	5.4	29%
HubSpot	HUBS US	492.6	64.0	55.1	43.8	9.6	8.3	7.0	22%
Five9	FIVN US	27.8	12.3	11.1	9.4	2.1	1.9	1.7	13%
ITSM									
ServiceNow	NOW US	886.1	64.3	53.7	44.2	16.5	13.7	11.4	23%
Atlassian	TEAM US	165.7	57.7	52.1	41.1	8.3	7.0	5.7	28%
Security									
CrowdStrike	CRWD US	257.1	86.9	70.8	59.9	15.5	12.6	10.4	41%
ZScaler	ZS US	166.7	55.2	58.4	47.8	9.3	7.7	6.3	25%
Fortinet	FTNT US	74.5	36.2	33.1	29.1	9.5	8.4	7.5	16%
Palo Alto Network	PANW US	345.2	61.9	55.0	47.8	11.7	10.1	8.8	18%
ERP									
SAP	SAP US	221.0	42.7	31.5	24.8	8.0	7.2	6.4	21%
Oracle	ORCL US	161.4	28.9	26.0	22.9	9.1	8.2	7.3	11%

Collaboration									
Twilio	TWLO US	59.2	17.5	15.7	13.7	1.5	1.4	1.3	21%
Ring Central	RNG US	28.3	7.7	6.8	6.2	1.7	1.5	1.4	12%
Zoom	ZM US	66.6	13.5	12.5	12.6	2.9	2.8	2.7	7%
Average			41.4	36.2	30.4	8.0	6.9	5.9	

Source: Bloomberg, CMBIGM
Note: Data are as of 12 Sep 2024

Financial Summary

INCOME STATEMENT	2021A	2022A	2023A	2024E	2025E	2026E
YE 01 Dec (US\$ mn)						
Revenue	15,785	17,606	19,409	21,456	23,440	25,520
Cost of goods sold	1,865	2,165	2,354	2,429	2,590	2,774
Gross profit	13,920	15,441	17,055	19,027	20,850	22,746
Operating expenses	8,118	9,343	10,405	12,316	12,423	13,525
Selling expense	4,321	4,968	5,351	5,686	6,212	6,763
Admin expense	1,085	1,219	1,413	1,523	1,664	1,811
R&D expense	2,540	2,987	3,473	3,948	4,313	4,696
Others	172	169	168	1,159	234	255
Operating profit	5,802	6,098	6,650	6,712	8,428	9,221
Other income	16	22	262	322	1	1
Net Interest income/(expense)	(113)	(112)	(113)	(107)	9	9
Pre-tax profit	5,705	6,008	6,799	6,926	8,438	9,231
Income tax	883	1,252	1,371	1,385	1,688	1,846
After tax profit	4,822	4,756	5,428	5,541	6,750	7,385
Net profit	4,822	4,756	5,428	5,541	6,750	7,385
Adjusted net profit	6,003	6,457	7,377	8,266	8,970	9,799

BALANCE SHEET	2021A	2022A	2023A	2024E	2025E	2026E
YE 01 Dec (US\$ mn)						
Current assets	8,669	8,996	11,084	13,802	17,785	22,748
Cash & equivalents	3,844	4,236	7,141	9,649	13,452	18,238
Account receivables	1,878	2,065	2,224	2,360	2,475	2,587
Prepayment	993	835	1,018	1,092	1,157	1,222
Other current assets	1,954	1,860	701	701	701	701
Non-current assets	18,572	18,169	18,695	18,936	19,195	19,473
PP&E	1,673	1,908	2,030	2,271	2,530	2,808
Right-of-use assets	443	407	358	358	358	358
Deferred income tax	1,085	777	1,191	1,191	1,191	1,191
Intangibles	1,820	1,449	1,088	1,088	1,088	1,088
Goodwill	12,668	12,787	12,805	12,805	12,805	12,805
Other non-current assets	883	841	1,223	1,223	1,223	1,223
Total assets	27,241	27,165	29,779	32,738	36,980	42,221
Current liabilities	6,835	8,541	8,178	8,722	9,145	9,746
Account payables	312	379	314	314	325	338
Tax payable	54	75	85	85	85	85
Lease liabilities	0	1,000	0	0	0	0
Contract liabilities	4,733	5,297	5,837	6,479	6,927	7,541
Accrued expenses	1,736	1,790	1,942	1,844	1,808	1,782
Non-current liabilities	5,512	4,986	5,010	4,996	5,002	5,012
Long-term borrowings	4,123	3,629	3,634	3,634	3,634	3,634
Obligations under finance leases	453	417	373	373	373	373
Deferred income	145	117	113	99	105	115
Other non-current liabilities	791	823	890	890	890	890
Total liabilities	12,347	13,527	13,188	13,718	14,147	14,758
Share capital	0	0	0	0	0	0
Capital surplus	8,428	9,868	11,586	13,474	15,537	17,783
Retained earnings	23,768	28,026	33,061	38,602	45,352	52,737
Other reserves	(17,399)	(23,843)	(28,129)	(33,129)	(38,129)	(43,129)
Total shareholders equity	14,797	14,051	16,518	18,947	22,760	27,390
Total equity and liabilities	27,144	27,578	29,706	32,665	36,907	42,148

CASH FLOW	2021A	2022A	2023A	2024E	2025E	2026E
YE 01 Dec (US\$ mn)						
Operating						
Profit before taxation	5,705	6,008	6,799	6,926	8,438	9,231
Depreciation & amortization	788	856	872	188	210	233
Tax paid	883	1,252	1,371	1,385	1,688	1,846
Change in working capital	(476)	336	(355)	320	249	434
Others	323	(614)	(1,385)	(882)	(1,312)	(1,447)
Net cash from operations	7,223	7,838	7,302	7,937	9,272	10,297
Investing						
Capital expenditure	(330)	(442)	(360)	(429)	(469)	(510)
Acquisition of subsidiaries/ investments	(2,682)	(126)	0	0	0	0
Net proceeds from disposal of short-term investments	(507)	(2)	1,136	0	0	0
Others	0	0	0	0	0	0
Net cash from investing	(3,519)	(570)	776	(429)	(469)	(510)
Financing						
Net borrowings	0	0	(500)	0	0	0
Share repurchases	(4,066)	(7,068)	(4,989)	(5,000)	(5,000)	(5,000)
Others	(235)	243	307	0	0	0
Net cash from financing	(4,301)	(6,825)	(5,182)	(5,000)	(5,000)	(5,000)
Net change in cash						
Cash at the beginning of the year	4,477	3,843	4,235	7,140	9,648	13,451
Exchange difference	(37)	(51)	9	0	0	0
Cash at the end of the year	3,843	4,235	7,140	9,648	13,451	18,238
GROWTH	2021A	2022A	2023A	2024E	2025E	2026E
YE 01 Dec						
Revenue	22.7%	11.5%	10.2%	10.5%	9.2%	8.9%
Gross profit	24.9%	10.9%	10.5%	11.6%	9.6%	9.1%
Operating profit	36.9%	5.1%	9.1%	0.9%	25.6%	9.4%
Net profit	(8.3%)	(1.4%)	14.1%	2.1%	21.8%	9.4%
Adj. net profit	22.4%	7.6%	14.2%	12.0%	8.5%	9.2%
PROFITABILITY	2021A	2022A	2023A	2024E	2025E	2026E
YE 01 Dec						
Gross profit margin	88.2%	87.7%	87.9%	88.7%	89.0%	89.1%
Operating margin	36.8%	34.6%	34.3%	31.3%	36.0%	36.1%
Adj. net profit margin	38.0%	36.7%	38.0%	38.5%	38.3%	38.4%
Return on equity (ROE)	34.4%	33.0%	35.5%	31.2%	32.4%	29.4%
GEARING/LIQUIDITY/ACTIVITIES	2021A	2022A	2023A	2024E	2025E	2026E
YE 01 Dec						
Current ratio (x)	1.3	1.1	1.4	1.6	1.9	2.3
Receivable turnover days	43.4	42.8	41.8	40.2	38.5	37.0
Payable turnover days	61.1	63.9	48.7	47.2	45.8	44.4
VALUATION	2021A	2022A	2023A	2024E	2025E	2026E
YE 01 Dec						
P/E	53.6	53.8	46.5	44.3	35.4	31.6
P/E (diluted)	54.0	54.3	46.6	44.5	35.6	31.8
P/B	17.5	18.2	15.3	12.9	10.5	8.5

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

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CMB International Global Markets Limited

Address: 45/F, Champion Tower, 3 Garden Road, Hong Kong, Tel: (852) 3900 0888 Fax: (852) 3900 0800

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