

REFINITIV STREETEVENTS

# EDITED TRANSCRIPT

ADBE.OQ - Q4 2024 Adobe Inc Earnings Call

EVENT DATE/TIME: DECEMBER 11, 2024 / 10:00PM GMT

**OVERVIEW:**

Company Summary

## CORPORATE PARTICIPANTS

**Steven Day** *Adobe Inc - CFO, Digital Experience Business, Interim Head of IR*

**Shantanu Narayen** *Adobe Inc - Chairman of the Board, Chief Executive Officer*

**David Wadhwanı** *Adobe Inc - President - Digital Media Business*

**Anil Chakravarthy** *Adobe Inc - President - Digital Experience Business*

**Daniel Durn** *Adobe Inc - Chief Financial Officer, Executive Vice President - Finance, Technology Services and Operations*

## CONFERENCE CALL PARTICIPANTS

**Michael Turrin** *Wells Fargo Securities, LLC - Analyst*

**Alex Zukin** *Wolfe Research - Analyst*

**Kirk Materne** *EVERCORE ISI - Analyst*

**Keith Weiss** *Morgan Stanley - Analyst*

**Keith Bachman** *BMO Capital Markets - Analyst*

**Brad Sills** *BofA Global Research - Analyst*

**Jay Vleeschhouwer** *Griffin Securities, Inc. - Analyst*

## PRESENTATION

### Operator

Good day, and welcome to the Q4 and FY24 Adobe Earnings Conference Call. Today's conference is being recorded. At this time, I'd like to turn the conference over to Steve Day, SVP, DX, CFO and Corporate Finance Interim Head of IR. Please go ahead, sir.

---

**Steven Day** - *Adobe Inc - CFO, Digital Experience Business, Interim Head of IR*

Good afternoon, and thank you for joining us. With me on the call today are Shantanu Narayen, Adobe's Chair and CEO; David Wadhwanı, President of Digital Media; Anil Chakravarthy, President of Digital Experience; and Dan Durn, Executive Vice President and CFO.

On this call, which is being recorded, we will discuss Adobe's fourth quarter and fiscal year 2024 financial results. You can find our press release as well as PDFs of our prepared remarks and financial results on Adobe's Investor Relations website.

The information discussed on this call, including our financial targets and product plans, is as of today, December 11, and contains forward-looking statements that involve risk, uncertainty and assumptions. Actual results may differ materially from those set forth in these statements. For more information on those risks, please review today's earnings release and Adobe's SEC filings.

On this call, we will discuss GAAP and non-GAAP financial measures. Our reported results include GAAP growth rates as well as constant currency rates. During this presentation, Adobe's executives will refer to constant currency growth rates unless otherwise stated. Non-GAAP reconciliations are available in our earnings release and on Adobe's Investor Relations website.

I will now turn the call over to Shantanu.

---

**Shantanu Narayen** - *Adobe Inc - Chairman of the Board, Chief Executive Officer*

Thanks, Steve. Good afternoon, and thank you for joining us. In Q4, we achieved revenue of \$5.61 billion, representing 11% year-over-year growth. In our Digital Media business, we delivered record net new ARR of \$578 million, and our Digital Experience business achieved subscription revenue of \$1.27 billion, representing 12% year-over-year growth.

2024 was a year of records for Adobe. We achieved record revenue of \$21.51 billion, representing 11% year-over-year growth. GAAP earnings per share was \$12.36 and non-GAAP earnings per share was \$18.42, representing 5% and 15% year-over-year growth, respectively.

We had several new milestones with our AI innovations, enabling us to add more than \$2 billion in Digital Media net new ARR and surpass \$1 billion in the ending book of business for Adobe Experience Platform and native apps.

The Digital Experience business crossed \$5 billion in revenue, making us one of the mission-critical providers of marketing technology in the world. We exited the year with \$19.96 billion in RPO and cash and short-term investments of \$7.89 billion.

2024 was also a transformative year of product innovation, where we delivered foundational technology platforms. We introduced multiple generative AI models in the Adobe Firefly family, including imaging, vector, design and, most recently, video. Adobe now has a comprehensive set of generative AI models designed to be commercially safe for creative content, offering unprecedented levels of output quality and user control in our applications.

We reimagine creativity and productivity for a broader set of customers with Adobe Express, the quick and easy create anything app. The deep integration of Firefly across our flagship applications in Creative Cloud, Document Cloud, and Experience Cloud is driving record customer adoption and usage. Firefly-powered generations across our tools surpassed 16 billion, with every month this past quarter setting a new record.

We enhanced document productivity with AI Assistant in Adobe Acrobat and Reader, unlocking even greater value from the trillions of PDFs around the world.

We've successfully scaled Adobe Experience Platform and native apps to deliver the fundamental infrastructure required for customer engagement. We're accelerating automated decisioning and powering audiences, journeys, and channels to deliver truly personalized experiences at scale.

We set the stage to drive an AI content revolution by bringing content and data together in Adobe GenStudio, integrating high-velocity creative expression with enterprise activation. The release of Adobe GenStudio for Performance Marketing integrates Creative Cloud, Express, and Experience Cloud and extends our end-to-end content supply chain solution, empowering freelancers, agencies, and enterprises to accelerate the delivery of content, advertising and marketing campaigns.

I'll now turn it over to David to discuss the momentum in our Digital Media business.

---

**David Wadhwani** - *Adobe Inc - President - Digital Media Business*

Thanks, Shantanu. Hello, everyone. In Q4, we achieved net new Digital Media ARR of \$578 million and revenue of \$4.15 billion, which grew 12% year-over-year, fueled by innovation in both our Creative and Document businesses. We ended the year with just over \$2 billion of net new Digital Media ARR for the first time ever as a result of accelerated product innovation, record traffic to Adobe.com and engagement on social and mobile, as well as increasing value for enterprise customers through Firefly Services and GenStudio, which bring together our Creative and Experience Clouds.

On the Document Cloud side, PDF continues to be the global standard for digital documents, and Adobe Acrobat is revolutionizing the way people engage with them across mobile, web, and desktop.

We took a major step forward in FY24 with the introduction of AI Assistant in Acrobat and Reader. AI Assistant and other AI features, like Liquid Mode and Firefly, are accelerating productivity through faster insights, smarter document editing and integrated image generation. A recent productivity study found that users leveraging AI Assistant completed their document-related tasks 4 times faster on average. AI Assistant is now available in Acrobat across desktop, web, and mobile and integrated into our Edge, Chrome, and Microsoft Teams extensions.

In Q4, we continued to extend its value with specialized AI for contracts and scanned documents, support for additional languages, and the ability to analyze larger documents. In Acrobat Web, our integrations with Adobe Express allow users to generate images and quickly stylize content. We saw AI Assistant conversations double quarter-over-quarter, driving deeper customer value.

In Q4, we achieved Document Cloud revenue of \$843 million, growing 17% year-over-year. We set a record for net new Document Cloud ARR of \$173 million, with ending ARR of \$3.48 billion, growing 23% year-over-year.

Other highlights include: continued growth of monthly active users, which grew over 25% year-over-year, surpassing 650 million paid and free users; strong top of funnel momentum through Acrobat Web with monthly active users up nearly 50% year-over-year; strength in Acrobat Pro single app in both Document Cloud and Creative Cloud offerings; a great back-to-school season with a new AI Assistant offering in education for students; key enterprise customer wins include Abbott Laboratories, BWI GmbH, Defense Information Systems Agency, Kaiser Permanente, Novo Nordisk, Truist, US Cellular, and the US Department of State.

Creative Cloud also had a strong year as demand for content continues to grow across mobile, desktop, and streaming platforms. Adobe MAX, the Premier Creativity Conference showcased our FY24 innovation and drove over 0.5 billion video views across all channels.

We have made major strides with our generative AI models with the introduction of Firefly Image Model 3, enhancements to our vector models, richer design models, and the all-new Firefly Video Model. These models are incredibly powerful on their own and their deep integration into our tools like Lightroom, Photoshop, Premiere, InDesign, and Express have brought incredible value to millions of creative professionals around the world.

We have brought our Creative and Experience Clouds together through the introduction of Firefly Services and GenStudio, addressing the growing need for scaled content production in enterprises. Firefly generations continue to accelerate and have now crossed 16 billion cumulative generations.

In Q4, we achieved \$3.3 billion in revenue, which grew 11% year-over-year. Net new Creative Cloud ARR was \$405 million.

Other highlights include adoption of Adobe Express by approximately 4,000 businesses in the quarter and an 84% year-over-year increase in the number of students with access to Express Premium as part of this year's back-to-school season. Adobe Express saw a strong ecosystem growth with over 180 plug-ins available in the Express Marketplace and integrations with leading social, productivity, and collaboration apps like ChatGPT, Google, Slack, Wix, Box, HubSpot, and Webflow, significantly increasing our customer reach.

The launch of the Firefly Video Model and its unique integration in Premiere Pro and limited public beta garnered massive customer interest, and we look forward to making it more broadly available in early 2025. This feature drove a 70% increase in the number of Premiere Pro beta users since it was introduced at MAX.

Enhancements to Firefly Image, Vector, and Design models include 4x faster image generation and new capabilities integrated into Photoshop, Illustrator, Premiere Pro, and Adobe Express.

Strong adoption of Lightroom Mobile with customers embracing innovations like Generative Remove and Lens Blur as well as quick actions which streamlines editing and increases discovery and adoption of premium features. Just this morning, Adobe Lightroom was recognized as the Mac App of the Year in Apple's annual App Store Awards.

The launch of the new Frame.io V4 streamlines creative management for video projects to enable end-to-end editing capabilities and seamless collaboration between editors and their stakeholders.

Firefly Services adoption continued to ramp as enterprises such as Pepsi and Tapestry use it to scale content production, given the robust APIs and ease of creating custom models that are designed to be commercially safe.

Key enterprise customer wins include Alphabet, American Express, Coca-Cola, Johnson & Johnson, LVMH, Nestle, Procter & Gamble, T-Mobile and the US Department of Defense.

Our AI product releases and business evolution in FY24 has set the stage for another strong year ahead as we expand to new audiences, deliver more value to existing users, and increasingly integrate our Digital Media and Digital Experience clouds to create differentiated business solutions.

We will do this by: accelerating the adoption of freemium offers, including Express, Lightroom, and Acrobat on Web and Mobile as well as expanding access to Acrobat AI Assistant, which delivered strong financial performance in FY24.

Growing our core creative business by continuing to expand our AI innovations in our flagship applications as well as bringing them to web and mobile. In addition, we will soon introduce a new higher-priced Firefly offering that includes our video models as a comprehensive AI solution for creative professionals. This will allow us to monetize new users, provide additional value to existing customers, and increase ARPU.

And further accelerating Firefly Services, which saw significant demand in FY24 by integrating it into GenStudio to provide enterprises with solutions to exponentially scale their content production capabilities with AI.

We're thrilled with the response to our innovations in FY24, excited to release new capabilities and look forward to delighting customers in the year ahead.

I'll now pass it to Anil.

---

**Anil Chakravarthy - Adobe Inc - President - Digital Experience Business**

Thanks, David. Hello, everyone. The Experience Cloud business had a strong close to the year, achieving revenue of \$1.4 billion for the quarter and a record \$5.37 billion in revenue in fiscal 2024. Subscription revenue in the quarter was \$1.27 billion, representing 12% year-over-year growth. The book of business for Adobe Experience Platform and native apps -- real-time CDP, Customer Journey Analytics and Journey Optimizer -- surpassed \$1 billion in the quarter, with 48 of the Fortune 100 companies now leveraging these solutions.

The market opportunity for customer experience management is large and growing. Both B2B and B2C companies are selecting Adobe as their strategic technology partner to accelerate customer acquisition, engagement and retention. Our leading solutions, spanning content, data and customer journeys empower businesses to drive topline growth while simultaneously delivering productivity gains.

The AI innovations we have delivered enable our customers to accelerate the delivery of personalized experiences at scale and have been built to satisfy enterprise governance requirements. Adobe Experience Platform AI Assistant empowers marketers to automate tasks and generate new audiences and journeys. Adobe Experience Manager generates variations, provides dynamic and personalized content creation natively through AEM, enabling customers to deliver more compelling and engaging experiences on their websites.

We are transforming the content supply chain for enterprises with Adobe GenStudio, which natively integrates multiple Adobe applications across Creative Cloud and Experience Cloud, including Express, Firefly, Workfront, Experience Manager, Customer Journey Analytics, and Journey Optimizer. GenStudio enables agencies and enterprises to unlock new levels of creativity and efficiency across content creation and production, workflow and planning, asset management, delivery and activation and reporting and insights.

Adobe GenStudio for Performance Marketing is a great addition to the GenStudio portfolio, offering an integrated application to create paid social ads, display ads, banners, and marketing e-mails by leveraging preapproved on-brand content. It brings together creative teams that define the foundational requirements of a brand, including guidelines around brand voice, channels, and images with marketing teams that need to deliver numerous content variations with speed and agility.

We are seeing strong customer demand for Adobe GenStudio for Performance Marketing since its general availability at MAX. GenStudio is the answer to address how marketing is going to transform in the era of AI for CMOs, CIOs, and CFOs.

Other highlights include expanded partnership with Amazon to make Adobe Experience Platform available on Amazon Web Services and extend our leadership across public clouds. Enterprises will soon be able to access the full power of AEP and native apps on AWS. Integration partnerships with Google's Campaign Manager 360, Meta, Microsoft Advertising, Snap, and TikTok, offering marketing teams a holistic view of campaign performance directly in Adobe GenStudio to optimize the ROI of their ad spend.

Strong industry analyst recognition in major analyst reports, including the Gartner Magic Quadrant for Digital Commerce and the Forrester Wave for cross-channel marketing hubs. In particular, Gartner recognized Adobe's critical capabilities for multichannel marketing such as our differentiated ability to adapt customer journeys in real time based on customer behavior.

AI innovations delivered in the premium tiers and add-ons helped us close our largest bookings quarter ever, with key global customer wins including Air Canada, Allianz, American Express, Bank of America, BMW, Centene, CIBC, Cisco, Disney, Fanatics, Gap, GM, JPMorgan Chase, PayPal, Samsung, Tesco, and Wells Fargo.

Digital remains a critical growth imperative for businesses around the world. Adobe Digital Insights, which analyzes trillions of data points, reported that both Black Friday and Cyber Monday sales hit record highs of \$10.8 billion and \$13.3 billion, jumping 10.2% and 7.3% from last year, respectively. We expect the full holiday season to hit \$240.8 billion, up 8.4% year-over-year.

With the availability of our new offerings in FY25, Adobe has a unique opportunity to capitalize on the breadth of these solutions to further optimize our integrated go-to-market field organization. We're expanding our enterprise go-to-market teams to sell these integrated solutions that cut across Digital Media and Digital Experience globally under the new GenStudio umbrella. We have seen early success for this strategy that included Express and Firefly Services in Q4. As we enable our worldwide field organization in Q1, we anticipate acceleration of this pipeline throughout the rest of the year and beyond.

We are confident of continuing our leadership and momentum into 2025.

I will now pass it to Dan.

---

**Daniel Durn - Adobe Inc - Chief Financial Officer, Executive Vice President - Finance, Technology Services and Operations**

Thanks, Anil. Our earnings report today covers both Q4 and FY24 results, highlighting growth drivers across our businesses and I'll finish with financial targets.

We are proud of the performance we have driven in FY24, delivering record revenue, EPS, and operating cash flows while aggressively investing in AI product innovation. New AI releases, including Express, Acrobat AI Assistant, Firefly Services, DX premium tiers, and GenStudio for Performance Marketing have expanded the portfolio of products, driving proliferation and meaningful GenAI monetization. We had a strong finish to the year with records in Digital Media net new ARR and Digital Experience bookings.

In FY24, Adobe achieved record revenue of \$21.51 billion, which represents 11% year-over-year growth as reported and in constant currency.

GAAP EPS for the year was \$12.36 and non-GAAP EPS was \$18.42, growing 5% and 15% year-over-year, respectively.

FY24 business and financial highlights included: Digital Media revenue of \$15.86 billion; net new Digital Media ARR of \$2.00 billion; Digital Experience revenue of \$5.37 billion; cash flows from operations of \$8.06 billion; RPO of \$19.96 billion exiting the year; and repurchasing approximately 17.5 million shares of our stock during the year.

In the fourth quarter of FY24, Adobe achieved revenue of \$5.61 billion, which represents 11% year-over-year growth as reported and in constant currency. GAAP diluted earnings per share in Q4 was \$3.79 and non-GAAP diluted earnings per share was a record \$4.81, growing 17% and 13% year-over-year, respectively.

Q4 business and financial highlights included: Digital Media revenue of \$4.15 billion; net new Digital Media ARR of \$578 million; Digital Experience revenue of \$1.40 billion; cash flows from operations of \$2.92 billion; and added \$1.82 billion to RPO in the quarter.

In our Digital Media segment, we achieved Q4 revenue of \$4.15 billion, which represents 12% year-over-year growth as reported and in constant currency. We exited the quarter with \$17.33 billion of Digital Media ARR, growing our ending ARR book of business 13% year-over-year in constant currency.

Adobe achieved Document Cloud revenue of \$843 million, which represents 17% year-over-year growth as reported and in constant currency. In the quarter, we added \$173 million of net new Document Cloud ARR, growing our ending ARR book of business 23% year-over-year in constant currency.

Fourth quarter Document Cloud growth drivers included: strong growth across Reader and Acrobat on web and mobile and extensions such as Edge and Chrome; Acrobat subscription demand across all customer segments, routes to market and geographies; accelerated adoption and monetization of AI Assistant driven by product enhancements and delivery of French and German language support; and year-end seasonal strength in the enterprise.

We achieved Creative revenue of \$3.30 billion, which represents 10% year-over-year growth or 11% in constant currency. In the quarter, we added \$405 million of net new Creative ARR, growing our ending ARR book of business 11% year-over-year in constant currency.

Fourth quarter Creative Cloud growth drivers included: strong demand for new subscriptions for Creative Cloud All Apps across individuals, teams, enterprise, and education; strength in Creative Cloud single apps for Acrobat Pro, Lightroom, and Photoshop; momentum with new subscriptions in emerging markets; demand for Adobe Express across education, SMB, and enterprises; and adoption of Firefly Services in the enterprise.

Turning to our Digital Experience segment, in Q4, we achieved revenue of \$1.40 billion, which represents 10% year-over-year growth as reported and in constant currency. Digital Experience subscription revenue was \$1.27 billion, growing 13% year-over-year or 12% in constant currency.

Fourth quarter Digital Experience growth drivers included: strong finish to the year with the largest ever bookings quarter and robust performance across geographies, including the US and EMEA and multiple verticals, including financial services; strong subscription revenue growth led by Adobe Experience Manager, Adobe Journey Optimizer, real-time Customer Data Platform, Customer Journey Analytics and Workfront; continued strength in retention and expansion across our enterprise customers with Digital Experience solutions being leveraged by 85 of the Fortune 100 companies; momentum with AEP and native apps with FY24 ending book of business surpassing \$1.0 billion and growing greater than 40% year-over-year; and strong bookings for our umbrella GenStudio solution with interest and momentum for our new GenStudio for Performance Marketing offering.

Adobe's effective tax rate in Q4 was 15.5% on a GAAP basis and 18.5% on a non-GAAP basis. RPO exiting the quarter was \$19.96 billion, growing 16% and cRPO growing 13% year-over-year as reported.

Our cash flows from operations in the quarter were a record \$2.92 billion, and ending cash and short-term investment position exiting Q4 was \$7.89 billion. In Q4, we entered into a \$2.5 billion share repurchase agreement, and we currently have \$17.65 billion remaining of our \$25 billion authorization granted in March 2024.

Now turning to our FY 2025 financial targets. We measure ARR on a constant currency basis during the fiscal year and revalue ending ARR at year-end. FX rate changes between the end of FY23 and the end of FY24 have resulted in a \$117 million decrease to the Digital Media ARR balance entering FY25 from \$17.33 billion to \$17.22 billion and is reflected in our investor data sheet. We expect an approximate \$200 million headwind to FY25 revenue as a result of the effect of foreign exchange and a smaller impact of the continued move to subscriptions from perpetual offerings.

Factored into our financial targets is an ongoing strategy to introduce new tiered subscription offerings and add-ons.

For FY25, we're targeting total Adobe revenue of \$23.30 billion to \$23.55 billion; Digital Media segment revenue of \$17.25 billion to \$17.40 billion; Digital Media ending ARR book of business growth of 11.0% year-over-year; Digital Experience segment revenue of \$5.80 billion to \$5.90 billion; Digital Experience subscription revenue of \$5.375 billion to \$5.425 billion; GAAP earnings per share of \$15.80 to \$16.10; and non-GAAP earnings per share of \$20.20 to \$20.50.

We expect non-GAAP operating margin of approximately 46% and a non-GAAP tax rate of approximately 18.5%. For Q1 fiscal '25, we're targeting: total Adobe revenue of \$5.63 billion to \$5.68 billion; Digital Media segment revenue of \$4.17 billion to \$4.20 billion; Digital Experience segment revenue of \$1.38 billion to \$1.40 billion; Digital Experience subscription revenue of \$1.27 billion to \$1.29 billion; GAAP earnings per share of \$3.85 to \$3.90; and non-GAAP earnings per share of \$4.95 to \$5.

For Q1, we expect non-GAAP operating margin of approximately 47% and non-GAAP tax rate of approximately 18.5%.

In summary, I'm proud of our outstanding performance, which combines robust product leadership, velocity of innovation, and financial discipline, positioning us to achieve strong revenue and EPS growth in the year ahead.

Shantanu, back to you.

---

**Shantanu Narayen** - *Adobe Inc - Chairman of the Board, Chief Executive Officer*

Thanks, Dan. This quarter, Adobe was once again recognized for our exceptional culture and industry leadership, including on Forbes World's Best Employers, Fortune's 50 AI Innovators, and Fortune's Best Workplaces in Technology, and The Wall Street Journal's Best Managed Companies list.

At MAX, we announced a new global initiative aimed at helping 30 million next-generation learners develop AI literacy, content creation, and digital marketing skills using Adobe Express to thrive in the modern workforce, working with education partners and schools, nonprofits, and online learning platforms to provide training, certifications, and career pathways.

Our strategy to unleash creativity for all, accelerate document productivity, and power digital businesses represents a massive addressable market opportunity. Adobe continues to build on its strong foundation of transformative innovation, category and brand leadership, financial performance, and profitable growth.

We're delivering Adobe Magic to an expanding set of global customers and executing on the massive market opportunity ahead. Adobe couldn't be better positioned for 2025 and beyond.

Thank you, and we will now take questions. Operator?

---

## QUESTIONS AND ANSWERS

### Operator

(Operator Instructions) Kash Rangan, Goldman Sachs. (Operator Instructions) Michael Turrin, Wells Fargo.

---

**Michael Turrin - Wells Fargo Securities, LLC - Analyst**

David, you mentioned in your prepared remarks a few things, focusing on expanding innovations, including newer, higher-priced Firefly offerings and potentially accelerating Firefly by integrating further into GenStudio. I was hoping you could just maybe expand on how you're thinking about the adoption curves of those efforts.

And as a second part, Dan, if you can just add any commentary on how you're incorporating some of these newer efforts into forecast, if there's conservatism, just given they're newer, or just how to think about that, also useful.

---

**David Wadhwani - Adobe Inc - President - Digital Media Business**

Sure. Yeah, I'll go ahead and get started. So AI obviously has been a huge area of focus for us. And frankly, our community has been using it at amazing rates so we're very excited. You heard the \$16 billion -- sorry, not dollar, 16 billion generations that we talked about in the prepared remarks.

And that's really a function of the investments we've made, including the broadest set of models. We've talked about imaging, vector design in the past. We now have video and audio in beta form as well. And the foundational difference between what we do and what everyone else does in the market really comes down to three things: one is commercially safe, the way we train the models; two is the incredible control we bake into the model; and three is the integration that we make with these models into our products, increasingly, of course, in our CC flagship applications but also in Express and Lightroom and these kinds of applications but also in Anil's DX products as well. So that set of things is a critical part of the foundation and a durable differentiator for us as we go forward.

Now as we introduce the Video Model, which we expect to have in market early next year, that's going to create an opportunity to further tier our Creative Cloud offerings. As you, I'm sure, understand, video generation is a much higher-value activity than image generation. And as a result, it gives us the ability to start to tier Creative Cloud more actively there. In addition to that, we introduced -- this year, we introduced Firefly Services. That's been -- that's off to a great start.

We have a lot of customers that are using that. A couple we talked about on the call include Tapestry. They're using it for scaled content production. Pepsi, for their Gatorade brand, is enabling their customers to personalize any merchandise that they're buying in particular, starting with Gatorade bottles. And these have been very, very productive for them, and we are seeing this leveraged by a host of other companies for everything from localization at scale to personalization at scale to user engagement or just raw content production at scale as well.

And then last, not to get missed in all of this is everything we're doing with AI Assistant. AI Assistant for Acrobat is off to an incredibly strong start and we see it continuing to accelerate. So all of this has built a great foundation for us in FY24. It's given us a lot of signal from our customer base. And it's really we've learned a lot that we intend to apply as we optimize the value and the tiering for our customers going forward.

---

**Daniel Durn - Adobe Inc - Chief Financial Officer, Executive Vice President - Finance, Technology Services and Operations**

Yeah. And just building on David's comments as it relates to the FY25 guide, we talk about all of the great innovation that's in flight. I would say the velocity of innovation is greater today than it's ever been. We called out products like Express, AI Assistant, Firefly, premium tiers in DX, GenStudio. The good thing is they're meaningful contributors today to the financial performance.

And extrapolating the momentum that we see in those products, taking a point of view on the future pipeline of innovation, how we bring that to life deeply natively integrated into our products and further extend the value we offer to customers, as well as the additional segments we can access. All of this comes together to take a perspective of what 2025 looks like based on the strong start that we have and the meaningful contribution in FY24.

**Michael Turrin** - *Wells Fargo Securities, LLC - Analyst*

Thanks very much.

---

**Operator**

Alex Zukin, Wolfe Research.

---

**Alex Zukin** - *Wolfe Research - Analyst*

I guess maybe to the point that you just alluded to in terms of AI being meaningful as part of the broad growth narrative for business, can you maybe talk about how you're thinking about the growth driver from Firefly, from GenStudio? And when -- kind of how will we see that circulate through the year in terms of the net new Digital Media ARR? Is that something that you think is more going to be showing up in the DX business? It would be great to get some color there. And then anything, Dan, that we should think through, given the new guidance methodology, around seasonality or linearity for net new ARR in the Digital Media business?

---

**David Wadhwani** - *Adobe Inc - President - Digital Media Business*

Sure, I'm happy to take that. So first of all, yes, as we mentioned, we're really excited about the FY24 momentum that we're seeing that we're carrying into it. And we've had this conversation in the past around how we think about the growth algorithm for the Digital Media business. So maybe kind of let me reiterate a little bit of that. We've talked about this in the context of P times Q plus V in the past, where P is new users, bringing in more people into the franchise.

We're continuing to do that. Obviously, with the introduction of Express, we're seeing a lot of great growth there, whether it's through our phones channel reaching out to SMB, whether it's corporate reaching out to the mid-market, or whether it's working more closely with Anil and the DX business and the integrations we have between Express and the DX business reaching into large companies. We're doing a lot in terms of proliferation of Express into education. We've done a number of partnerships that we talked about with Box, ChatGPT, HubSpot, and others, but also our own products like Acrobat Workflows from Acrobat and Reader into Express. So really pushing to drive more new customers into the franchise in addition to the continued growth that we're getting in our core Creative products.

Second, in terms of the core Creative products, this is where the Q -- sorry, I said it backwards, the price actually increases with core value because when we're introducing Firefly models into the mix, we get the opportunity to integrate them more into the flagship applications. And as I mentioned earlier, with the Firefly Web application, we have the opportunity to create more tiers across the Creative products so that we can get people in the right plan for their needs. And we're very bullish about video and the breadth of our customer base that are going to need access to these video models. Again, remember, they are integrated deeply into our applications, including Premiere. So we're very excited about what that could mean for us.

And then lastly, the business value for customers in enterprise or corporate, that's where the value-based selling that we do along with the Digital Experience business really plays out. Firefly Services, as I mentioned, with Gatorade, Tapestry, and a whole host of others that have come, everyone in the space is driving towards personalization of that content, and they absolutely need a scaled production and automation pipeline to generate more content. And that's what Firefly Services does. And as it has hit this level of escape velocity, we're now integrating it more into the DX products, in particular, GenStudio, so that it becomes a more holistic solution as we go into FY25 and accelerate that. And that's -- Alex, that's what's leading to the guide of 11%.

If you really take a step back, that's one of the best guides we've given in terms of next year ARR growth. But one thing maybe to keep in mind is the composition of that growth is going to be a little different next year compared to FY24. Again, the growth algorithm is new users, new products, and value and pricing. New users and new products will be a more significant part of the mix as we go into FY25. And we look forward to sort of that foundational base of the business growing and driving the business.

---

**Daniel Durn - Adobe Inc - Chief Financial Officer, Executive Vice President - Finance, Technology Services and Operations**

And then just to build on that, Alex, and I appreciate the question around the shape of FY25. Here's what I'll share about it. We all know we changed the guidance methodology into 2025. The guide around the ending ARR book of business growth, we just have a strong point of view. It's a better indicator of business health trajectory.

David talked about the growth algorithm, the growth agenda at the company, new subscribers. The predominant driver of growth has been, continues to be. The second leg, cross-sell, upsell. This is something the company has honed a really great skill at over time once we bring people into the Adobe ecosystem to journey them through, the rich set of technologies and products that we have to bring them deeper into the ecosystem. That's an important element.

And then lastly, David mentioned pricing. This is about how we segment the product portfolio, the value that we deliver to our customers. So as we think about the innovation, as we think about the growth algorithm and as we think about increasingly monetizing the rich set of innovation that we've already brought to market as well as in the pipeline to be brought to market. Quarterly profile, we view it as less important. Really want to focus on revenue and EPS, focus on the annual book of business growth.

We think that's the most important way to look at the business. And it's also how we, as the management team, run the business.

---

**Alex Zukin - Wolfe Research - Analyst**

Understood. Thank you, guys.

---

**Operator**

Kirk Materne, Evercore ISI.

---

**Kirk Materne - EVERCORE ISI - Analyst**

David, I was wondering if I could just follow up on your last comment on sort of obviously driving new users, new adoptions, incredibly important. I just -- is there pricing sensitivity, meaning you're delivering so much value, I think that pricing given the value you're delivering would be a bigger lever unless there's pricing sensitivity. So can you just walk through that a little bit more? Because it feels like you should be able to get sort of all three vectors going at the same time, whereas I know you're going to focus more on bringing people in and making them successful. But I'm sort of -- I guess, is there something else on the pricing side that I'm missing why you're not getting that as well?

---

**David Wadhwani - Adobe Inc - President - Digital Media Business**

Yes. We've talked about this in the context of proliferation versus short-term monetization and how we have to balance both of those, and that's something that we take very seriously and we look at that. If you look at the lower end of the market, as we have entered with Express and Lightroom, Acrobat, and by the way, the web and mobile motion for us has been productive in bringing in a lot more new users. And so you'll expect to see us do more of that and introduce more products in that segment in FY25 as well. And there is certainly price sensitivity at that side of the market when it comes to both freemium users and also converted to paid users, and we'll continue to enable that.

When it comes to the core business, and this is the business of creative professionals, we are very focused on introducing new value. That is going to create more segmentation and more tiering and get -- align value and pricing to what we are delivering there. So we do see a tremendous amount of opportunity there going forward because the value that we bring and the efficiency we bring to the content creation process there is very significant. And then last and certainly not least, as we talked about in core enterprises, that's where we've been able to sort of cross that

chasm from a P times Q business over to a value sale business, and we are able to start to get more automation and workflows in place there as well. So it's a mix of these things.

We are going to continue to balance. We are obviously tracking. And we believe that proliferation, as we've said for some time, maintains -- is one of the top priorities because we know that if people start using our products today, we have the opportunity to continue to deliver value for a long time to come. And so that balances what we try to do and it's a management judgment call, but we think we're getting it right.

---

**Kirk Materne** - EVERCORE ISI - Analyst

I guess a quick follow-up for Dan. Dan, obviously, Black Monday fell into your first quarter this current year. Any color you can offer in terms of what that meant, if at all, to Creative Cloud net new ARR this quarter?

---

**Daniel Durn** - Adobe Inc - Chief Financial Officer, Executive Vice President - Finance, Technology Services and Operations

Yes. Black Friday/Cyber Monday played out about as expected. We've been talking about a multiyear trend where commercial activity is shifting left in terms of timing. We run our promotions over a larger window of time to reflect consumer behavior, and we see a similar pattern commercially from our customers this year that we've seen in prior years. If we think about online shopping this year, up 8.4%.

You can see last year, that's up from 4.8% so a nice step-up this year versus last year. But you can see Cyber Monday from a contribution standpoint, even though the growth last year was down relative to this year, Cyber Monday grew at 9.6%, this year at 7.3%. Just illustrates the flattening of the profile and consumer behavior around that. So performance as expected.

---

**Operator**

Keith Weiss, Morgan Stanley.

---

**Keith Weiss** - Morgan Stanley - Analyst

A lot of excitement from you guys on the conference call about the pace of innovation going on in the business. And we hear that excitement from creative professionals, and they talk about an acceleration in the pace of innovation. But apologies to state the obvious, but investors aren't feeling that excitement or aren't showing that excitement. The stock is a major underperformer on a year-to-date basis, and it's down again on an after-hours basis today. And I would point to, it's the lack of acceleration that we're seeing in the numbers, right?

Digital Media net new ARR this quarter grew just -- or Creative Cloud grew 2%. You're guiding to decelerating growth into the forward year despite all this innovation. And I think the question that it brings up in an investor's mind is there's some leak in the bucket, right? All this innovation, new monetization avenues, pricing going up, but the growth is going in the wrong direction. Like is there a part of the equation that's not working?

Is there share losses? Is there something that we're not seeing that is taking away the momentum in the numbers that's not -- so we're not seeing the acceleration in the numbers, if you will?

---

**Shantanu Narayen** - Adobe Inc - Chairman of the Board, Chief Executive Officer

Well, Keith, maybe I'll talk about that. I mean, if you take a step back and think about the year and I'll certainly address the feedback that you're sharing, from our perspective, when we guided at the beginning of the year, when we reguided then in the middle of the year to [\$1.95 billion] and then when we guided in Q3, I mean, the reality is we beat all those three targets that we had issued beginning of the year, middle of the year, and end of the year. I think specifically, maybe as it relates to the Q4 Digital Media net new ARR and thinking about it from the creative, the one thing that I'll point out there is that actually, Creative did better than probably is evident in that if you think about the contribution of Acrobat that

went into the Creative bucket versus the Document Cloud business. So certainly, Acrobat continues to do well, a record as you saw. But the non-Acrobat contribution in Creative actually had more growth than what you would see if you just look at it from a Creative Cloud ARR.

I think to your bigger question about what's happening in the business, and as we think about it at the scale of the business right now, certainly, as this entire world moves towards generative AI, as David said, we're executing on both the proliferation play at the bottom with Express and Acrobat. And at the high end, with the Creative Pro and with the enterprise, we are seeing significant adoption of that. And I think GenStudio will also be a good unlock because GenStudio actually brings this all together in the enterprise in a way that nobody else can. And so when we think about Firefly Services, you think about the custom models, you think about the ability to move all of that into campaigns at pace, that we are seeing significant traction in that particular space. So the business is going through a change as it relates to the lower end.

But for the core creative as well as for the enterprise, it actually headed absolutely in line with our expectations with good acceleration. And on the consumer communicator space, I think the traction that we're seeing with Express on proliferation also gives us a lot of optimism for how that part of the business is also doing well. And so we take our targets seriously. It's the beginning of the year. We want to go keep executing and innovating on it.

To the point that I think you as well as others have asked, is there opportunity in the growth agenda, not just to think about the innovation and the offerings but to make sure that as we tier these, that the pricing and the value is appropriate? Absolutely. And I think you'll continue to see us, I think David mentioned that in his prepared remarks as well as Dan did, that you'll see us also have new tiered offerings that reflect that value that we're providing to the Creative pro as well as to the business segments.

---

**Keith Weiss - Morgan Stanley - Analyst**

Thanks for the feedback.

---

**Operator**

Keith Bachman, BMO.

---

**Keith Bachman - BMO Capital Markets - Analyst**

I wanted to ask David to you, if I could, on Doc Cloud specifically. Growth was certainly strong this quarter. And I just wanted to understand some of the context associated with durability. And if you could break it into some of the parts, it looks like your monthly active users continues to grow well. And in addition to that, how are you thinking about leveraging the value there in terms of price, specifically within the growth of Doc Cloud.

And again, the broader question is just on the durability of Doc Cloud grew 23% over the course of the quarter in terms of ARR. Trying to understand how durable it is and what the pieces are, and then I have a follow-up.

---

**David Wadhwani - Adobe Inc - President - Digital Media Business**

Yes. We're -- I think Document Cloud has been -- if you think about the fact that we're 40 years into this business, it's really just the foundation is the fact that PDF has become the de facto standard for unstructured data in the world. And Adobe and Acrobat are the most trusted providers of solutions for that. And that's really what is the foundation of what is driving the business, including the fact that it's the most secure platform for leveraging and accessing the content. I think what is -- there are two things that are really the growth drivers of this business or a number of things.

First is exactly like you said. I mean, monthly active users and free and paid is a key stat that we keep looking at. We are very effective at taking free users of Reader and converting them to paid users of Acrobat. And we continue to do that across more surfaces that used to be predominantly a focus on desktop applications. As we've noted in the past, we now have Edge integrations and Chrome integrations.

We're also available in Teams. We're also available on mobile devices for iOS and Android. And the mix of all of those continue to grow on a monthly basis. One of the things that we are doing to drive that growth is helping people see the value of sharing a link to the PDF as opposed to sharing the document itself. That in doing so, you get a lot more control in terms of the conversation and feedback and review around that.

But it also drives the fact that the recipient is then guaranteed to be viewing the PDF in an Adobe surface that we can then use to close that viral loop and drive further top-of-funnel opportunity to convert. So that foundation is very strong. In addition to that, AI Assistant has been really a phenomenal add. Unlike many other players in the space, we don't require significant security and governance reviews because people can have conversations around the documents that they view. And one of the big things that I think has been unlocked this year is moving, not just by looking at a PDF that you happen to be viewing, but being able to look at and have a conversation with multiple documents, some of which don't even have to be PDF.

So that transition and that gives us the ability to really take Acrobat and make it more of a general purpose productivity platform. And that's really what drove the adoption that we saw in education this year. So that's another way of saying that the core foundation of Acrobat continues to be strong and is actually getting stronger with MAU increasing. But the new value we're adding with AI Assistant takes Acrobat to an entire new level in terms of value.

---

**Shantanu Narayen** - *Adobe Inc - Chairman of the Board, Chief Executive Officer*

And maybe the thing I'll add to that is the durability of that, to your point, in languages, as we roll that out in languages, as we roll it out across multiple documents, and as we roll it out in enterprises and B2B specifically. So again, significant headroom in terms of the innovation agenda of how Acrobat can be made even more meaningful as a knowledge tool within the enterprise.

---

**Keith Bachman** - *BMO Capital Markets - Analyst*

Okay. It sort of leads into my follow-up question, if I could sneak it in, is we've talked about, during the course of this call tonight, the various drivers of growth for ARR. And I just wanted to specifically ask about consumption as we think about FY25. And the question is, is that going to be a contributor towards ARR growth? Or should investors really be thinking about trying to maximize seats, if you will, and really shouldn't be about consumption being additive to growth in '25?

That's it for me.

---

**Shantanu Narayen** - *Adobe Inc - Chairman of the Board, Chief Executive Officer*

I think, Keith, you're going to see a quote-unquote consumption add to ARR in two or maybe three ways more so in '25 than in '24. The first, and David alluded to this, is if you have a video offering and that video offering, that will be a pure consumption pricing associated with it. I think the second is in GenStudio and for enterprises and what they are seeing. With respect to Firefly Services, which, again, I think David touched on how much momentum we are seeing in that business. So that is, in effect, a consumption business as it relates to the enterprise so I think that will also continue to increase.

And then I think you'll see us with perhaps more premium price offering. So the intention is that consumption is what's driving the increased ARR, but it may be as a result of a tier in the pricing rather than a consumption model where people actually have to monitor it. So it's just another way, much like AI Assistant is of monetizing it, but it's not like we're going to be tracking every single generation for the user, it will just be at a different tier. And we think that, that's both a better way to deliver value as well as to get the monetization.

---

**Operator**

And moving on to Brad Sills with Bank of America.

**Brad Sills** - *BofA Global Research - Analyst*

If I could ask a question, David, of you, please. In the past, you've provided some good color (inaudible) really, it sounds like there's momentum there. It seems like this will be the year, with all the Firefly Services integration into the core franchises, that we could see some acceleration in conversion of that funnel. So would love to get some updates from you on that effort and how you see that unfolding throughout the year.

**Shantanu Narayen** - *Adobe Inc - Chairman of the Board, Chief Executive Officer*

For a second, you actually cut out. And so you said Firefly, we heard that. Did you mention any other product before we answer that question, Brad, just to make sure we capture your question?

**Brad Sills** - *BofA Global Research - Analyst*

Really just Firefly Services across all the franchises, Photoshop, Lightroom, et cetera. What could that integration effort do to the conversion activity with the top of funnel?

**David Wadhwani** - *Adobe Inc - President - Digital Media Business*

Yes, so a number of things. So first of all, you're exactly right in terms of Firefly is a platform and a foundation that we're leveraging across many different products. As we talked about, everything from Express and Lightroom and even in Acrobat on mobile for a broad-base but then also in our core Creative products, Photoshop, Illustrator, Premiere. And as we've alluded to a number of times on this call, with the introduction of video, even a standalone offer for Firefly that we think will be more valuable from a tiering perspective there. And then into Firefly Services through APIs in connection to GenStudio.

So we are looking at leveraging the power of this AI foundation in all the activities. Now as it relates to top of funnel and conversion, we're very excited. Let's start with new users and move closer to the low end of the market. We're very excited with the signal we're getting from Express and Lightroom on mobile and web. Again, as we've talked about, Express is seeing some really good new user acquisition.

We added 4,000 new businesses this year. We increased education access by 84% this back-to-school versus last back-to-school. We're seeing really strong adoption through social, digital, and mobile traffic as well. So we see that when we invest in mobile and web, we are getting some very positive signals in terms of user adoption and user conversion rate. So we're using Firefly very actively to do that.

And by the way, the fact that Firefly continues to be the only commercially safe model integrated into these apps does matter when it comes to, as I said, adding 4,000 new businesses. The second thing is we are seeing in the core Creative business, when people try something like Photoshop, the onboarding experience is faster to success because of the use of generative AI and generative capabilities. So you'll start to see us continuing to drive more proliferation of those capabilities earlier in the user journeys, and that has been proven very productive. But we also noticed that more people use generative AI. Again, we've always had good retention rates, but the more people use generative AI, the longer they retain as well.

And so we are definitely leveraging generative AI for the entire flow in the funnel.

**Steven Day** - *Adobe Inc - CFO, Digital Experience Business, Interim Head of IR*

And as we pass the top of the hour, we just have time for one more question.

**Operator**

Jay Vleeschhouwer, Griffin Securities.

---

**Jay Vleeschhouwer - Griffin Securities, Inc. - Analyst**

Dan, you noted that your current RPO was up 13% in the quarter, which results in a 10% 3-year CAGR for current RPO. Would you expect that over time or at least in fiscal '25, that your current RPO growth would be closer to what you just reported for Q4 or might revert more to the lower three-year CAGR? And then for David, if I could, just since there were so many mentions of tiered offerings. Is the concept there more around functionality at the product level as compared to the olden days of tiering that was more about segmentation and packaging as in the old CS days? Or is it more currently around the functionality that you're offering on a product-by-product basis?

---

**Daniel Durn - Adobe Inc - Chief Financial Officer, Executive Vice President - Finance, Technology Services and Operations**

Yes. Thanks, Jay. And what I definitely don't want to do is get into guiding of cRPO. But when I take a step back and think about the rhythm and flow of the business, what we're seeing on the enterprise side, winning large transformational deals, exiting the year with the largest bookings quarter ever, having premium tiers in that product portfolio, momentum around AEP and apps continuing to grow at scale. Now when we think about content supply chain and bringing cross-cloud opportunities together that really get at meaningful pain points of customers over time.

And then we think about the innovation that we're driving through the Digital Media business, I feel really good about our ability to continue to drive the business going forward, and I'm very encouraged by what I see.

---

**David Wadhwani - Adobe Inc - President - Digital Media Business**

Yes. And then just adding on briefly to the question on tiering. Yes, Jay, it's -- if you think about where we -- what we've done over the last year, there's been a bit of experimentation, obviously, in the core Creative applications. We've done the generative credits model. What we saw with Acrobat was this idea of a separate package and a separate SKU that created a tier that people were able to access the feature through.

And as we learn from all of these, we think, as Shantanu had mentioned earlier, that the right tiering model for us is going to be a combination of feature, access to certain features and usage limits on it. So the higher the tier, the more features you get and the more usage you get of it.

---

**Shantanu Narayen - Adobe Inc - Chairman of the Board, Chief Executive Officer**

And since that was the last question, let me again maybe, in quick summary, just talk about first, we had a strong '24. But I think that really sets us up even better for a strong '25, given the innovation that we've had. I think as it relates to all 3 businesses that we have, the Creative Cloud with everything that we've done around AI. We have a lot of momentum going into the business and a really great diverse portfolio in terms of both the customers as well as our offerings. Acrobat continues to perform really well with AI Assistant as we bring it to other languages, get more vertical use cases for that particular solution and extend it beyond a single document.

We continue to think that the Document Cloud has significant opportunity ahead of us. And I think bringing that all together with Digital Experience, Q4 was really an extremely strong quarter as it related to us bringing all these solutions together in GenStudio. I think much like we did with AEP and apps and data and have driven that to a billion-dollar business, I feel just the same amount of excitement with what we can do with content and AI and how we can accelerate the creation of that all the way from ideation to the multiple variations that's required. So we look forward to sharing more with you at the end of our Q1. But in the interim, thank you for joining us, and happy holidays.

---

**Operator**

And that does conclude today's conference. We do thank you for your participation today.

**DISCLAIMER**

Refinitiv reserves the right to make changes to documents, content, or other information on this web site without obligation to notify any person of such changes.

In the conference calls upon which Event Transcripts are based, companies may make projections or other forward-looking statements regarding a variety of items. Such forward-looking statements are based upon current expectations and involve risks and uncertainties. Actual results may differ materially from those stated in any forward-looking statement based on a number of important factors and risks, which are more specifically identified in the companies' most recent SEC filings. Although the companies may indicate and believe that the assumptions underlying the forward-looking statements are reasonable, any of the assumptions could prove inaccurate or incorrect and, therefore, there can be no assurance that the results contemplated in the forward-looking statements will be realized.

THE INFORMATION CONTAINED IN EVENT TRANSCRIPTS IS A TEXTUAL REPRESENTATION OF THE APPLICABLE COMPANY'S CONFERENCE CALL AND WHILE EFFORTS ARE MADE TO PROVIDE AN ACCURATE TRANSCRIPTION, THERE MAY BE MATERIAL ERRORS, OMISSIONS, OR INACCURACIES IN THE REPORTING OF THE SUBSTANCE OF THE CONFERENCE CALLS. IN NO WAY DOES REFINITIV OR THE APPLICABLE COMPANY ASSUME ANY RESPONSIBILITY FOR ANY INVESTMENT OR OTHER DECISIONS MADE BASED UPON THE INFORMATION PROVIDED ON THIS WEB SITE OR IN ANY EVENT TRANSCRIPT. USERS ARE ADVISED TO REVIEW THE APPLICABLE COMPANY'S CONFERENCE CALL ITSELF AND THE APPLICABLE COMPANY'S SEC FILINGS BEFORE MAKING ANY INVESTMENT OR OTHER DECISIONS.

©2024, Refinitiv. All Rights Reserved.