

## Adobe Inc.

ADBE - NASDAQ

## Institutional Equity Research

October 25, 2023

### Adding to Best-of-Breed Bison and Upgrading to BUY

We are upgrading Adobe to a **BUY** rating and adding it to D.A. Davidson's "Best-of-Breed Bison" list, comprising a select group of long-term best in class companies with sustainable competitive moats. We believe ADBE fits all of the 12 evaluation criteria required to qualify as a "Best-of-Breed Bison" name within our framework, including its position as a market leader in a >\$200B FY'24 TAM, robust & predictable revenue streams, sustainable competitive advantage, exceptional financials, a powerful brand, and a shareholder-oriented management team.

We see Adobe as a perfect fit for our Best of Breed Bison list of quality companies (see recent [initiative introduction](#)):

- **Outstanding business:** Adobe has an easy to understand business with a significant TAM of >\$200B. The company has a strong track record of long-term recurring revenue growth with subscriptions representing 97% of revenue.
- **Enduring Moat:** Adobe has made its name through widely used products such as Photoshop, Acrobat, and Illustrator. In fact, due to their dominance these products are "verbified". Adobe also benefits from network effects bringing together content and the vast data from its cloud applications, which in turn bring in more users/developers to the platform.
- **Exceptional Financials:** Adobe has some of the best margin profiles in software, averaging ~89% gross margins in the last five years and operating margins have come in at 43% on average in the same period. The company also has strong ROE with a 39% five-year ROE and FCF margins consistently above 40%.

**They who excelled in 2023 shall prevail in 2024.** We believe Adobe's resilient results in a tough spending environment bode well for another tough enterprise spending year, which is our expectation for 2024. We believe Adobe's resilience emanates from the mission critical nature of its products and its broad customer base consolidating around its solutions and away from smaller point solutions.

**Our mobile app data analysis suggests new AI features are driving user growth, making Adobe one of a small handful of companies that can actually say that.** Our analysis of Sensor Tower data suggests addition of Firefly into the mobile apps has driven user growth and higher usage. Namely, Adobe Express and the Adobe Creative Cloud app have seen Y/Y DAU growth. We believe ease of access across platforms (incl. mobile) is a differentiating capability in this market, which facilitates top of the funnel expansion with casual creators. Further insights from our app analysis are included the following pages.

**We see Firefly 2 as one of the most important product launches in years.** The recent launch captures why we see Adobe as Best-of-Breed. This enhanced model delivers improvements across all fronts that matter in today's market (quality, ease of use, inference), strengthening its market standing against emerging solutions such as Stable Diffusion and MidJourney. Other differentiators are Adobe's enterprise-friendly approach (ethical approach to AI) and continued advances in other image, sound, and video models. These moves highlight Adobe's agility and ability to leverage its scale to defend its moat all the while layering a new revenue source.

**Increasing our estimates for FY24 above consensus to reflect benefit of Firefly to the Creative Cloud business.** We added \$200M to our revenue estimate and \$0.10 to EPS as we see the new product set helping Adobe sustain growth into next year.

**Upgrading to BUY and raising price target to \$640 from \$500.** Based on our 10-year, discounted cash flow (DCF) analysis, we are raising our price target to \$640. Our DCF used weighted average cost of capital of 10%, free cash flow growing at a 2.4% through 2034. Our new target represents 35x FY24 EPS, in line with historical averages.

FY (Dec)		2022A	2023E	Previous	Cons.	2024E	Previous	Cons.
EPS	Q1 (Mar)	\$3.37	<b>\$3.80A</b>	-	n.a.	<b>\$4.27E</b>	\$4.25	\$4.25
	Q2 (Jun)	\$3.35	<b>\$3.91A</b>	-	n.a.	<b>\$4.47E</b>	\$4.44	\$4.40
	Q3 (Sep)	\$3.40	<b>\$4.09A</b>	-	n.a.	<b>\$4.60E</b>	\$4.55	\$4.57
	Q4 (Dec)	\$3.60	<b>\$4.12E</b>	NC	\$4.14	<b>\$4.69E</b>	NC	\$4.72
		<u>\$13.72</u>	<u><b>\$15.92E</b></u>	NC	<u>\$15.92</u>	<u><b>\$18.03E</b></u>	<u>\$17.93</u>	<u>\$17.95</u>
Price/EPS		38.0x	32.8x			28.9x		
Revenue (\$B)	Q1 (Mar)	\$4.3	<b>\$4.7A</b>	-	n.a.	<b>\$5.2E</b>	NC	\$5.2
	Q2 (Jun)	\$4.4	<b>\$4.8A</b>	-	n.a.	<b>\$5.4E</b>	NC	\$5.4
	Q3 (Sep)	\$4.4	<b>\$4.9A</b>	-	n.a.	<b>\$5.5E</b>	NC	\$5.5
	Q4 (Dec)	\$4.5	<b>\$5.0E</b>	NC	\$5.0	<b>\$5.7E</b>	\$5.6	\$5.7
		<u>\$17.6</u>	<u><b>\$19.4E</b></u>	NC	<u>\$19.4</u>	<u><b>\$21.8E</b></u>	<u>\$21.6</u>	<u>\$21.7</u>
EV/Sales		13.3x	12.1x			10.8x		

Please refer to pages 18 - 19 of this report for detailed disclosure and certification information.

### Buy ↑

<b>Price Target</b>	<b>↑\$640.00</b>
Price (10/25/23)	\$521.36
Industry	TECHNOLOGY

### Valuation & Performance

Total Debt/Total Capital	18.7%
Cash per share (8/31/23)	\$16.37
BV Per Share (8/31/23)	\$34.37
Dividend	\$0.00 (0.0%)
Return on Equity (T-T-M)	34.0%

### Trading Data

Shares Outstanding (M)	459.0
Market Capitalization (\$M)	\$238,606.6
52-week range	\$278.23 - \$574.40
Avg. Volume (3-mth.) (K)	2,636.4

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### Best-of-Breed Bison Overview

The Best-of-Breed Bison is an exclusive list of the highest quality names followed at D.A. Davidson. To ensure integrity, an internal committee evaluates each company on 12 key criteria and to qualify for this prestigious list 8 of 12 criteria must be met. Our stated investment timeframe for these names is 5 years. Although current valuation may dictate a hold rating on these names from time to time, we anticipate that all the names on this list will generate positive returns over the long term.

### Company Description

Adobe Inc. is a software company headquartered in San Jose, California. The company offers cloud services, such as Adobe Creative Cloud for graphic design, video editing, web development, and photography; Adobe Document Cloud used to edit, sign, and track documents and Adobe Experience Cloud to create, manage and optimize their digital customer experiences.

### Price Performance

NASDAQ: ADBE





## BEST-OF-BREED BISON

TICKER: ADBE - [12/12]

### Evaluation Criteria

#### ● OUTSTANDING BUSINESS OPPORTUNITY

- ✓ Straightforward and easy-to-understand business model
- ✓ Sizeable market with favorable long-term trends
- ✓ Robust, steady, and predictable revenue streams

#### ● ENDURING MOAT

- ✓ Sustainable competitive edge with dominant or improving market position

#### ● EXCEPTIONAL FINANCIALS

- ✓ High margins
- ✓ Strong ROE performance
- ✓ Strong net cash flows
- ✓ Clean balance sheet

#### ● SHAREHOLDER-ORIENTED MANAGEMENT

- ✓ Strong track record of high performance; avoids “herd mentality” and fads
- ✓ Prudent stewardship of company resources and sound use of cash decisions
- ✓ Demonstrates transparency with shareholders and employees

#### ● COMPELLING RISK/REWARD

- ✓ Stock trades at a meaningful discount to its intrinsic value

#### **Best-of-Breed Bison is a high-quality stock initiative.**

The Best-of-Breed Bison is an exclusive list of the highest quality names followed at D.A. Davidson. While there are a number of well-known buy-side investors that have successfully adhered to strict quality standards to drive meaningful long-term outperformance, our Best-of-Breed initiative fills a significant void on the sell-side. To ensure integrity in our evaluation process, we have outlined above the 12 key indicators used by our Approval Advisory Team to evaluate each of our stocks. A stock must meet a minimum of 8 of the 12 indicators to be considered Best-of-Breed.

#### **Our inspiration comes from iconic investors and internal experience.**

Our evaluation criteria is inspired by a number of well-known successful investors and was generated and approved by the research group at D.A. Davidson, deriving from our decades of research experience. While most activity on Wall Street is focused on quarterly results, Best-of-Breed is aimed at long-term investors that are focused on quality. As a result, the names on this list are high-quality companies that are positioned to outperform years into the future. Our stated investment timeframe for these names is 5 years. Although current valuation may dictate a hold rating on these names from time to time, we anticipate that all the names on this list will generate positive returns over the long term.

#### **Our process is designed to ensure integrity.**

These companies are evaluated by 12 metrics across 5 different categories: 1) Outstanding Business Opportunity – is the company's business model and market significant enough to generate strong predictable returns? 2) Enduring Moat – does the company have a sustainable competitive advantage over its peers? 3) Exceptional Financials – do the numbers illustrate the superior performance we are seeking and is there a track record of results that are sustainable? 4) Shareholder-Oriented Management – is the management team capable of running the company in the most efficient manner with a track record of success and are they transparent and honest enough for investors to understand the true story? 5) Compelling Risk/Reward Profile – does the company represent an attractive investment? Great companies can have overvalued stocks so once we find the great companies, we must determine which ones are trading at a discount to intrinsic value. Each name submitted to the committee for inclusion on this list will be closely examined, including a detailed review of these 12 metrics on both a relative and absolute basis.

# Importance of Firefly Image Generation 2

*Announced at the company's annual user conference, Adobe MAX, Firefly 2 is the natural evolution of the first model introduced back in March and represents a big leap in quality and efficiency – the new model was trained on 70% more images and is able to output images 4x the previous resolution, while keeping costs at bay for ADBE. The company has put an emphasis on AI ethics to ensure its content is safe for commercial use, which should remove some of the friction in the adoption by enterprises with stringent copyright and usage requirements. The release bridges the gap versus competing solutions in quality and raises the bar for user control, showcasing Adobe's ability to swiftly respond to market needs with cutting-edge solutions.*

## **Firefly 2 is one of the most important product announcements in the company's history**

We believe the launch of Adobe's Firefly Image Generation 2, or Firefly 2, is an important product advancement for the company. It is emblematic of Adobe's aptitude for swift innovation amidst potential market disruptions, underlined by its effective utilization of core strengths in content creation. We believe this release is important for the following reasons:

- **Rapid Innovation in the face of possible disruption:** The introduction of Firefly Image Generation 2 highlights Adobe's ability to innovate rapidly in the face of possible disruption from emerging trends – in this case being the threat posed by generative artificial intelligence tools. Two of the most notable competitors, Stable Diffusion and MidJourney launched in August 2022, a full seven months before Firefly. Despite their head start, Adobe's vast resources enabled it to significantly bridge the gap in quality, while still innovating in other areas the other two simply do not have the resources to tackle. For instance, based on our extensive use of Firefly, DALL-E, and MidJourney, we determined that Firefly's user-friendly interface is the easiest to navigate for inexperienced users. The upgrade from Firefly's initial model to Generation 2 within a short period since its beta launch demonstrates a well-oiled mechanism for iterative development and deployment, efficiently leveraging feedback and performance metrics.
- **Innovative approach and sound pricing strategy broadens TAM:** Adobe is one of the best companies at broadening the top of the sales funnel, in our view. The company is pricing generative tokens to encourage adoption. While prices of generative tokens are in-line with competing solutions, we believe the amalgamation of continuous quality improvements; user-friendly features such as Generative Match, Photo Settings, and Improved Text Prompt Capabilities; availability on products the customers are already using (user does not need to use several pieces of software); and lower litigation risk (Adobe guarantees it used royalty-free or data it owns for training), give it a leg-up over its peers when competing for business.
- **Not losing the forest through the trees:** Importantly, the company seems determined to avoid margin erosion by setting a price point that balances accessibility with profitability. This judicious pricing strategy not only underscores the firm's commitment to delivering value but also illustrates a keen understanding of the market dynamics at play. The generative credits system is a significant stride towards cultivating a self-sustaining ecosystem where users have access to the power of AI-driven tools while generating sufficient profit dollars for continued investments.
- **Quality enhancements defend its market share:** The substantial leap in image quality, especially in rendering human features like skin, hair, and eyes, and the ability to generate higher-resolution images including 4K, marks a significant stride in fulfilling the demand for more lifelike and high-resolution images. While other competing solutions continue to present technological advantages over Firefly, the gap is closing quickly, and we believe ease of use and ethics friendly approach effectively defend its market share against other solutions.
- **Firefly image generation is only the beginning:** In addition to the 2<sup>nd</sup> generation image generation model, Adobe announced a broader suite of generative AI models, including Adobe Firefly Vector Model (first generative AI model for vector graphics) and Adobe Firefly Design Model (text-to-template capabilities – a direct response to Canva's offering). Further, the company also demoed impressive audio and video models that resonated well with customers at the conference. We believe these are indicative of the company's massive scale and ability to innovate beyond simply defending its share.

Through a balanced amalgamation of rapid innovation, efficient deployment, user-centric enhancements, and enterprise-friendly approach, Adobe has meticulously orchestrated the Firefly Image Generation 2 update. This move not only underlines Adobe's resilience in a competitive market landscape but also sets a robust foundation for future innovations in the realm of generative AI and content creation.

**Incremental thoughts:** The company is setting in motion a new monetization strategy for AI tools that includes a freemium model to provide broader access to AI assistants and generative capabilities, fostering user engagement and increasing the adoption of its software. Particularly, as part of the monetization strategy for Firefly, ADBE is instituting generative credits for when users generate images. This involves different plans for different amounts of credits which increase by adding additional credits through a monthly subscription plan. Notably, while other competitor tools have a similar strategy of credits, ADBE's price of \$0.05 per credit is competitive as it is lower than models such as OpenAI's at \$0.13 per credit although similar to MidJourney's \$0.05 per credit. Adobe is also securing transformational partnerships/deals to scale personalization expanding cross-cloud opportunities, notably with GenStudio, indicating a robust and multi-pronged approach to driving revenue growth. We note that the new monetization strategies should be additive to the model in 2024, but greater benefit should start 2025.

# Mobile App Analysis

## Analysis of Mobile App data useful in unveiling underlying trends and assessing new feature success

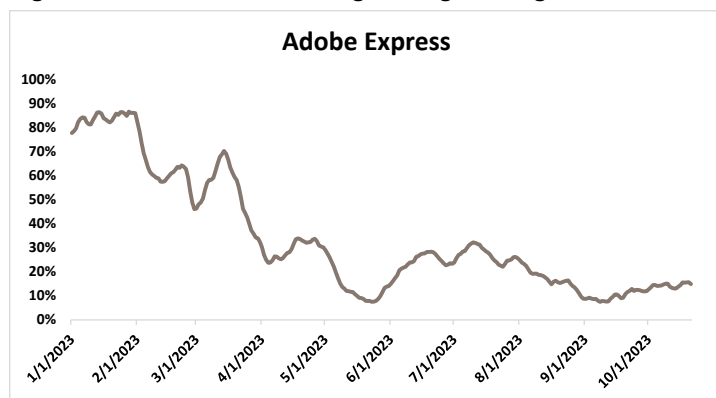
Mobile platforms are increasingly playing a pivotal role in the user engagement with Adobe's products. As more time is spent on mobile devices, there's an anticipation that these platforms will constitute a significant portion of overall usage over the coming years. One key driver behind this shift is the broader integration of AI functionalities across Adobe's offerings. The infusion of AI capabilities has notably enhanced the mobile user experience, rendering the apps more intuitive and efficient. However, it's worth noting that professional creators predominantly rely on the desktop versions of Adobe applications. These professionals often work on intricate projects that require the expansive features of the desktop versions, making it improbable for them to transition fully to mobile.

Yet, we believe a large opportunity lies outside the professional realm with the casual audience. Tracking mobile app trends can offer invaluable insights into the behavior of amateur or non-professional users. This segment, which typically leans towards simpler and more straightforward functionalities, might be increasingly drawn to Adobe's mobile ecosystem.

Take, for example, our deep dive into Sensor Tower data. This analysis underscores the positive impact of Adobe Firefly's integration on user engagement. Upon integrating Firefly features into mobile applications like Photoshop and Lightroom, Adobe's Creative Cloud app witnessed a reversal in its previously declining Daily Active Users (DAU) trend. As shown in Figure 2 below, when Firefly was announced in March 2023, DAUs for Creative Cloud grew due to as users falsely assumed that Firefly had been embedded in the hub and a similar trend was observed in app downloads rising rapidly as noted in Figure 4. That said, since the integration of Firefly in June, the DAUs for the Creative Cloud app has been on a consistent upward trajectory, registering Y/Y growth every day since, compared to the declines just before it.

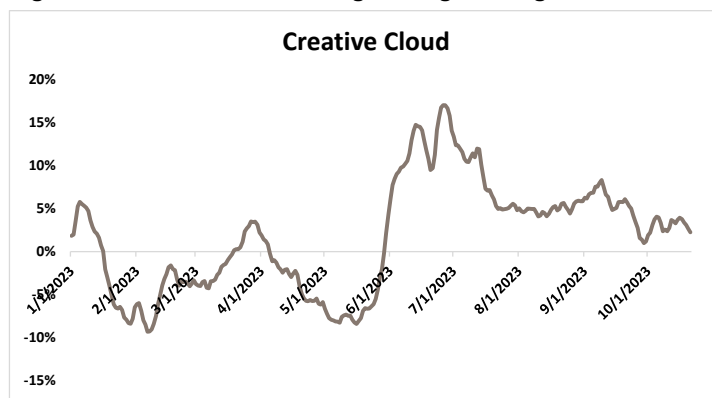
Furthermore, other Adobe applications too, have felt the Firefly effect. Just a month post Firefly's launch, Adobe Express reported an 8% uptick in its Weekly Active Users (WAU). Similarly, Lightroom's weekly engagement saw a commendable 10% increase. All these data points suggest that while desktop remains indispensable for professionals, Adobe's strategic innovations in its mobile segment are carving a promising pathway to broader user adoption.

**Figure 1. DAUs - 7D Y/Y Rolling Average Change**



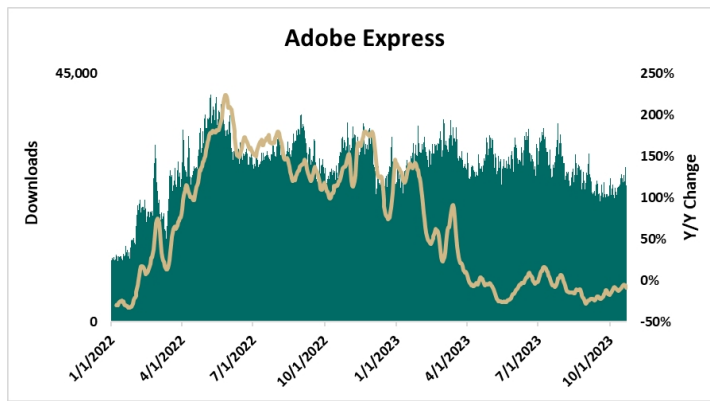
Source: Sensor Tower

**Figure 2. DAUs - 7D Y/Y Rolling Average Change**



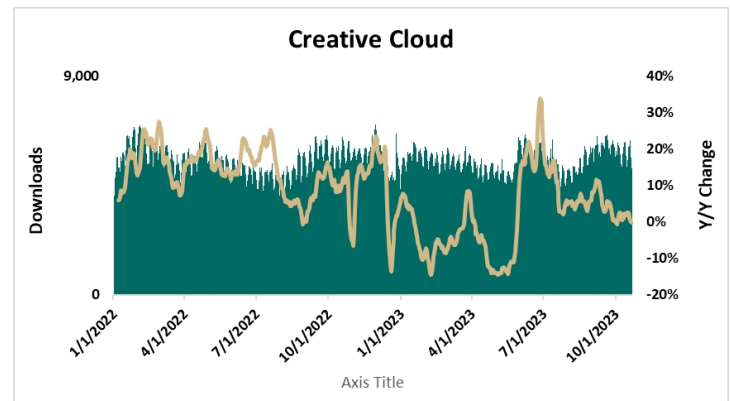
Source: Sensor Tower

Figure 3. Daily Downloads - 7D Y/Y Rolling Average Change



Source: Sensor Tower

Figure 4. Daily Downloads 7D Y/Y Rolling Average Change



Source: Sensor Tower

## Outstanding Business Opportunity

### 1. Straightforward and easy-to-understand business model (Pass):

Based in San Jose, California, Adobe is a software company that offers products and services for creating and publication enabling individuals, businesses, and creative professionals to create content, collaborate on and express their work. The company was founded in 1982 by Jack Warnock and Charles Geschke. Adobe's business model is straightforward as the company provides customers of all sizes access its software products and services through subscription-based models with subscriptions making up a larger portion of the revenue (~97% in FY'22). This approach offers Adobe a consistent and predictable revenue stream, fosters continuous customer engagement, lowers the initial cost of entry, and offers customization and scalability. The company also generates its revenue from a variety of sources, including cloud-hosted services, term-based contracts, royalties, and perpetual software licenses.

Adobe's business operates into three main segments each of which serves unique purposes and addresses distinct customer needs. *The Content Cloud segment*, offers a suite of software products, including Photoshop, Illustrator, Adobe Express, Adobe Lightroom, Adobe Premiere Pro, Adobe Stock, etc. Its target customer base involves creative professionals, such as photographers, video editors, graphic designers, and game developers. Several growth drivers for the Content Cloud segment include the increasing trend of digitization, the growing demand for multi-platform design capabilities and cross-device accessibility, and the significant surge in content creation across various domains which have further driven the demand for Adobe's image and video editing, graphic design, and content creation tools. *The Document Cloud segment* is Adobe's solution for efficient digital document management and e-signature functionalities. At its core, Adobe Acrobat, along with related services, forms the pivotal point of this segment. This segment serves a broad audience, including individuals, teams, small businesses, and enterprises. The key factors fueling growth in this segment encompass the establishment of the PDF as the industry standard for digital documents and Acrobat stands out in creating, editing, and managing PDF files. Additionally, Adobe has integrated AI technology into its Document Cloud offerings, enhancing document productivity and automation. *The Experience Cloud segment* offers a platform with applications and services to help advertisers, marketers, and publishers in the creation, management, and monetization of customer experiences. With products in this segment, Adobe is well positioned benefit from the growing demand for personalized and engaging digital experiences across several media. For instance, through sales enablement and customer journey analytics software used to grow ecommerce businesses.

Importantly, over 41 years of operation, Adobe has garnered a strong reputation within the creative, education, business space through its broad portfolio of products catering to individuals and teams of any size. We note that the company's growth has been attained through its superior product strategy, thus we view continued investments in the features and functionality of the company's solutions, should enable the company to expand share over the coming years. We anticipate average 11% organic revenue growth, coupled with solid operating leverage continued share repurchases, and some M&A activity should keep Adobe a stellar company.



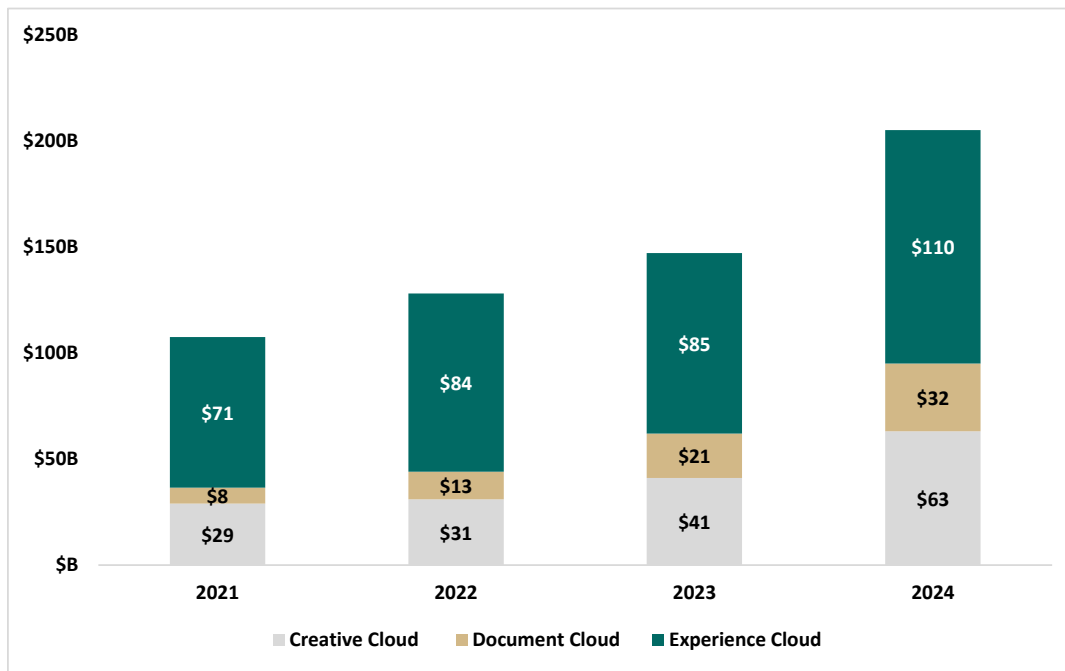
**Figure 5. The Adobe Platform**

Source: Company Presentations

## 2. Sizable market with favorable long-term trends (Pass):

Adobe has a plethora of drivers that should accelerate growth of the platform vision including growth of the digital content creator market, and the rising need for hyper-personalized content within marketing and technology transitions with the proliferation of generative AI in various aspects of education/business/entertainment. The company's products are considered best-in-breed across each of its markets, and we believe they are well positioned benefit from these emerging technological shifts. The Adobe leverages its network effects and deep pockets to keep up with market needs and defend its share against new entrants. Specifically, we view Adobe as well positioned to benefit from the continued adoption of gen AI as the tools enhance productivity for creators, saving countless hours of work, which is better spent on higher value-add tasks. Adobe released Firefly (its generative AI tool) in March 2023 and to date Firefly has a total of 20 unique models catering to a broad spectrum of media types (web, mobile, and iPad). Six months after release an astounding 3 billion images have been generated using the tool highlighting fast adoption of the company's products as creative professionals seek cutting-edge solutions for content generation.

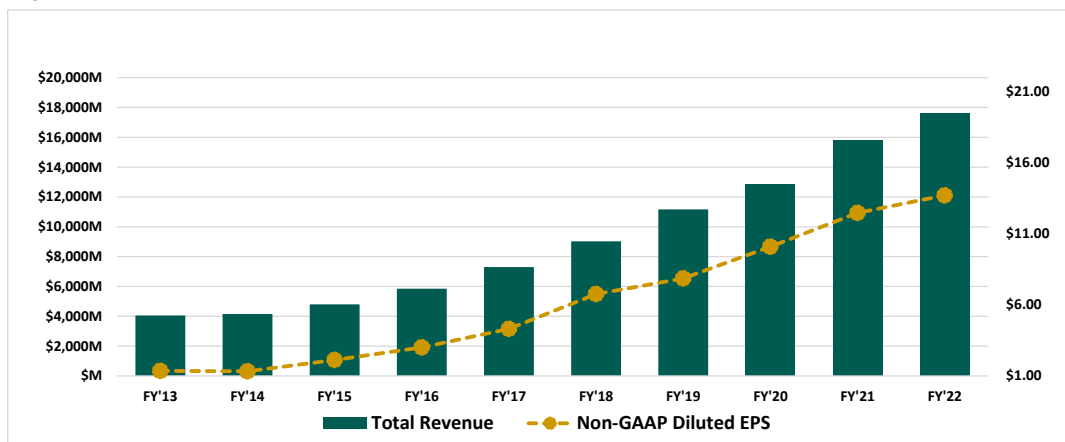
Adobe has a large TAM. During the most recent Adobe Max conference in October 2023, management reiterated its TAM forecasts for 2024 across its three key businesses representing a \$205B opportunity in 2024. Across its three product segments, the Document Cloud opportunity sits at \$32B, Creative Cloud at \$63B in, and a massive \$110B in Experience Cloud, illustrating a robust foundation for sustained growth in the coming years.

**Figure 6. Adobe's Total Addressable Market by Segment**

Source: Company Reports

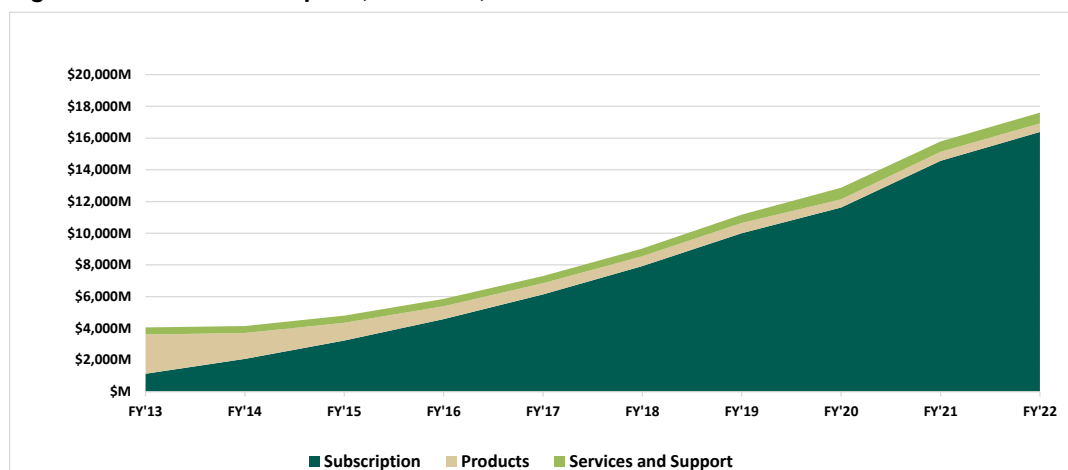
### 3. Robust, steady, and predictable revenue streams (Pass):

Adobe has an impressive long-term record of growth, generating approximately 14% compound annual growth (CAGR) in total revenue between 2018 and 2022. As a subscription business, large portion of Adobe's revenues are recurring in nature. In 2022, 97% of its revenues are driven by subscriptions. Close to a decade now, total revenue has increased every year and the company has not posted any declines Y/Y including FY'22 a year faced with uncertain macroeconomic environment conditions. Adobe reported demand resilience across products and geographies, with no significant slowdown in customer engagements and subscriber growth which underscores the resilience of the company's business and significance of Adobe's products in a digital-first world. As it relates to the bottom line, Adobe has posted non-GAAP EPS growth every year representing a 15% CAGR between 2018 and 2022. Besides robust revenue, the company has repurchased shares, reducing total share count by 6%, and hence providing EPS upside.

**Figure 7. Adobe's Historical Revenue Growth**

Source: Company Reports

Figure 8. Adobe's Subscription, Products, and Services Revenue



Source: Company Reports

## Enduring Moat

### 4. Sustainable competitive edge with dominant or improving market position (Pass):

We believe Adobe's competitive advantage is centered around its network effects across its offerings. The company's strategic adoption of network effects has become a catalyst for enhanced value as more users and developers gravitate towards Adobe's platform, it becomes not just valuable but indispensable, cementing its position as an industry leader. Particularly through the Adobe Experience Platform, where it holds dominant positions, thanks to its innovative products, broad awareness, and adaptability to market dynamics namely Creative Cloud and Document Cloud, the value of a platform increased as more users joined and engaged with it. What makes this platform stand out is that Adobe brings together content and data across various Adobe cloud apps, which in turn attracts users/developers to create applications and experiences at scale on the platform. By actively cultivating an open platform approach, in turn developers continuously add their innovations, ensuring that the platform remains relevant and appealing to users which in essence brings value on top of the platform, thus contributing to the network effect with no incurring additional costs. Moreover, the network effect plays a significant role in Adobe's pricing strategy rather than merely adding features to justify price increases. Instead, the more people that are using Adobe's platform, the more valuable it becomes, and users are more than willing to pay higher prices for a platform that is increasingly indispensable. The network effect, in this case, contributes to the stickiness of the platform, making it difficult for users to switch to alternatives, thereby giving Adobe competitive edge. In terms of momentum, as of September 2023, Adobe Experience platform has over 250B network calls and 112B API calls YTD.

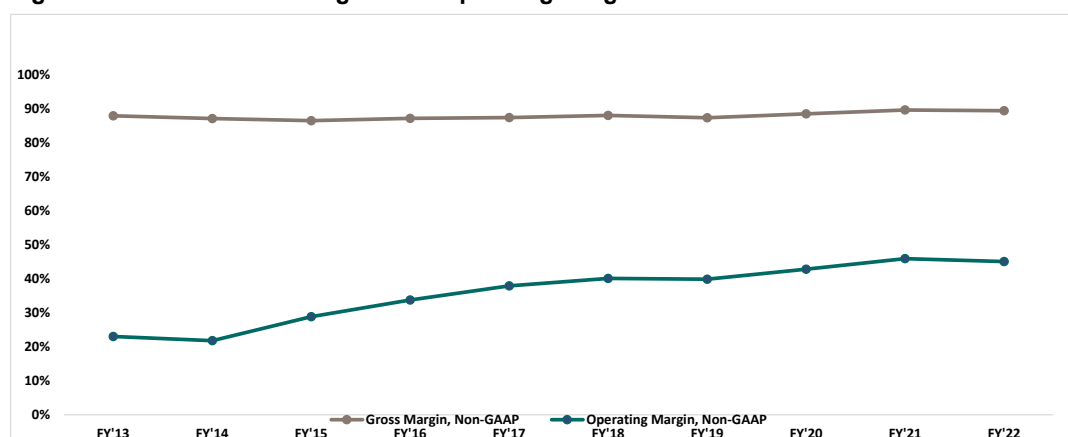
Further, Adobe is undoubtedly a powerful and globally recognized brand particularly the creative and digital industries. One of the main factors contributing to the company's prominence is its suite of products, such as Photoshop, Illustrator, and Acrobat, which are ubiquitous in graphic design, photography, and document management. In fact, these product names are "verbified". For example: Photoshop, is synonymous with photo editing, and its name is used as a verb to describe the act of editing images. Similarly, Acrobat has become the standard for creating and sharing PDF documents hence, you will often hear phrases such as "Let me PDF it and send it to the team". These examples demonstrate the extent to which Adobe's products have become ingrained in everyday language, solidifying Adobe's position as an industry leader. To put some numbers to this, Adobe averages 500M monthly active users for Acrobat & Reader, over 100B PDFs are viewed in Acrobat & Reader and 16B documents are edited in Acrobat.

## Exceptional Financials

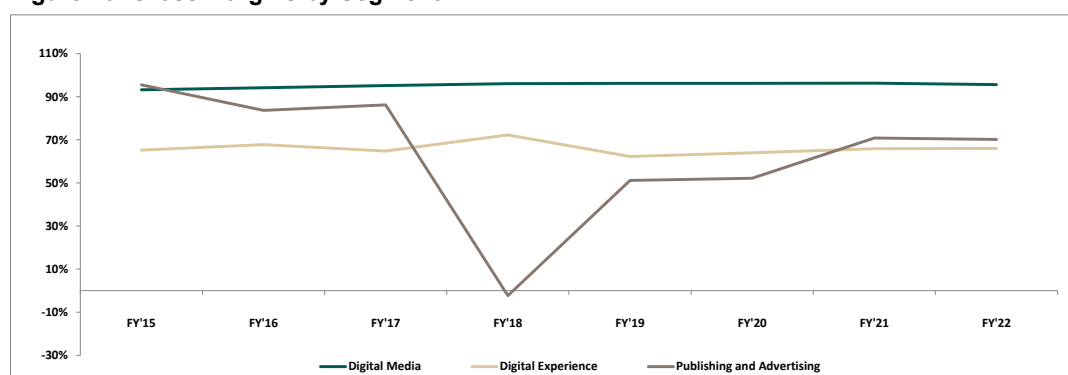
### 5. High Margins (Pass):

Adobe's margin profile is one of the best in software. As a software company, Adobe generates an extremely high gross margins averaging around ~89% for the past five years. The company has also demonstrated an ability drive solid gross margin across its three business segments as shown in figure 9 below, with a bit of a slide in 2018 as price cuts resulted in downward pressure on Publishing and Advertising gross margins, margins have since improved. Additionally, despite continuously investing in its solutions, operating margins have continued to expand. Over the last four fiscal years, operating margins have come in at 40% (FY'19), 43% (FY'20), 46% (FY'21) and 45% (FY'22). We note that the company has greatly benefited from moving to a subscription-based model, as expenses relative to as a % of revenues slowed.

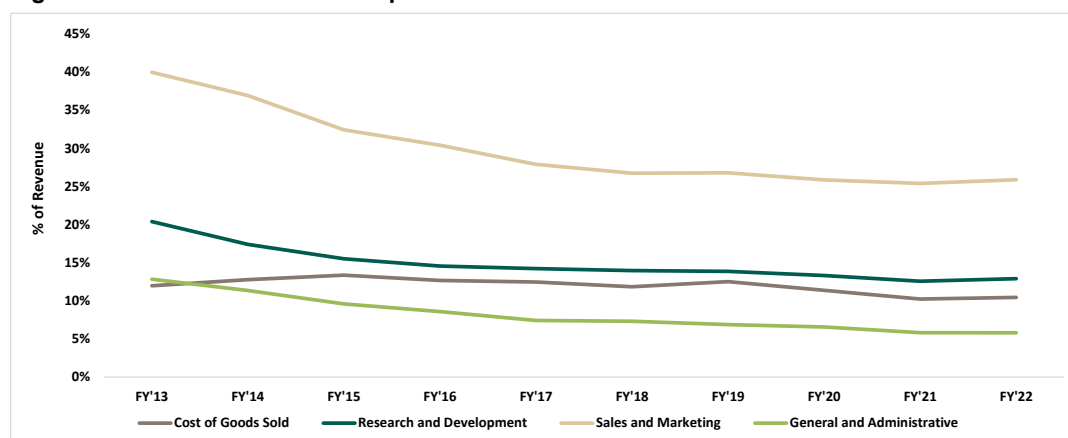


**Figure 9. Adobe's Gross Margins and Operating Margins**

Source: Company Reports

**Figure 10. Gross Margins by Segment**

Source: Company Reports

**Figure 11. Adobe's Non-GAAP Expenses as a % of Revenue**

Source: Company Reports

**6. Strong ROE Performance (Pass):**

On a GAAP and non-GAAP basis, Adobe has consistently generated positive net income, resulting to great returns on equity. The company's 5-year ROE sits at 32% on a GAAP basis and on a non-GAAP basis, the 5-year average is 39%.

**7. Strong net cash flows (Pass):**

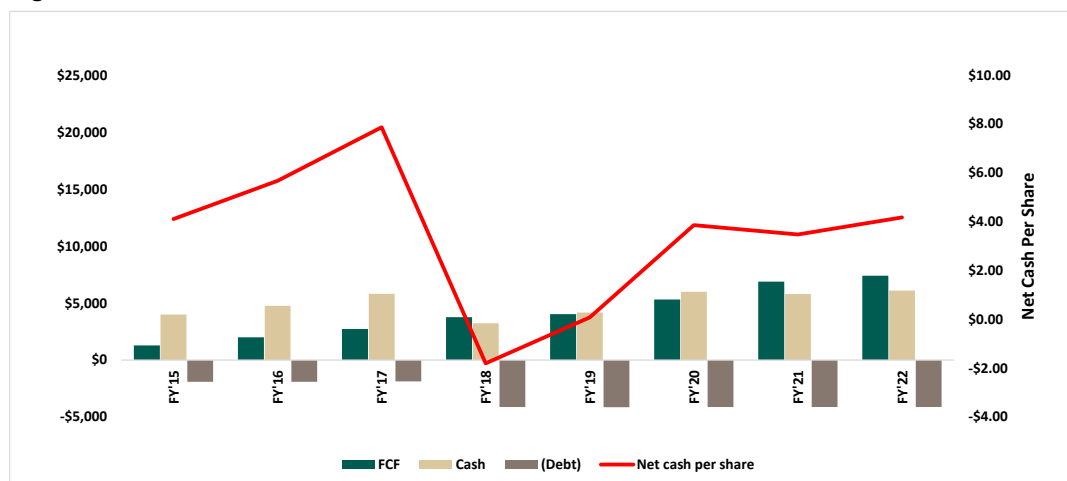
Adobe's business is highly cash generative. The company has consistently generated positive free cash flows growing at a 14% CAGR with free cash flow margin averaging 40% in the last five years only dipping to 36% in FY18. That said, cash flow growth in FY'22 slowed due to foreign currency impacts to revenue partially offset by hedging gains from the company's cash flow hedging program.

**8. Clean Balance Sheet (Pass):**

On the balance sheet front, Adobe has maintained a strong balance sheet with the net cash position growing from \$39M to just under \$2,000M from the end of FY18 to FY22. Adobe ended FY'22 with \$6.1B in cash and \$4.1B in debt, netting a nice \$4.18 net cash per

share. Given the company's ample dry powder, we believe the company is well-positioned to continue repurchasing shares and take part in M&A activity and/or complete pending acquisitions.

**Figure 12. Adobe's Cash, Debt and FCF**



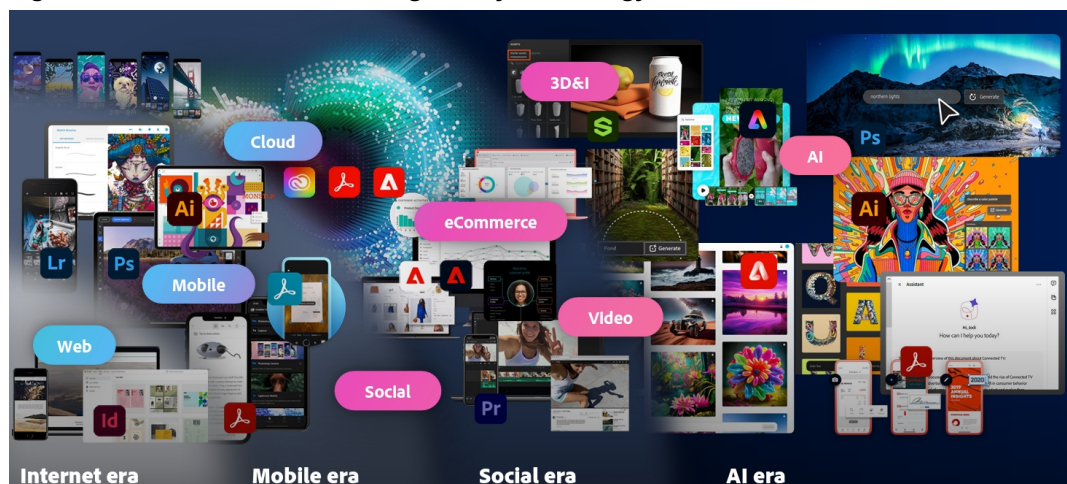
Source: Company Reports

## Shareholder-Oriented Management

### 9. Strong track record of high performance; avoids “herd mentality” and fads (Pass):

Adobe's management/leadership team has consistently demonstrated adaptability and forward-thinking in response to evolving technology trends. The company has developed products serving its customers through the internet era, mobile era, social media era, and now in the AI era. A decade ago, while the company dominated as desktop-software provider with its products such as Photoshop, and Acrobat (PDF), Adobe recognized the imperative of expanding beyond its creative software revenue to the digital content realm, catering to content creators and marketers with holistic solutions. Notably, the transitions included the shift to cloud-based services, the adoption of a subscription model, and most recently, the integration of generative AI technology into its product portfolio. Adobe successfully pivoted to the cloud with the launch of Adobe Creative Cloud in 2013, granting the company access to valuable customer data, enabling data-driven product development decisions. Moreover, Adobe's adoption of a subscription-based model introduced enhanced accessibility, making Adobe software more accessible by replacing upfront costs with periodic fees, thus broadening its user base. Customer retention received a substantial boost, as ongoing investments led to improved retention rates. As gen AI took the world by storm in December 2022, Adobe was among the few companies that launched Firefly, a family of generative AI tools that move beyond text-to-image generation to encompass audio, vectors, 3D content, and text effects. The company has since integrated gen AI technology into its product portfolio elevating the capabilities of its creative tools. We believe that Adobe's leadership will continue staying ahead of the curve on challenging technology shifts through its product strategy.

**Figure 13. Adobe's Products Through Every Technology Era**



Source: Company Presentations

**10. Prudent stewardship of company resources and sound use of cash decisions (Pass):**

The company has a solid track record of careful evaluation of investments, sticking to self-imposed ROI targets. We believe Adobe's current CFO is conservative and is not looking to over-lever the balance sheet to make acquisitions and is ready to pull levels to achieve monetization targets across its new products. Adobe has returned roughly \$20B to shareholders in the form of share buybacks in the past five years.

**11. Demonstrates transparency and honesty with shareholders and employees (Pass):**

Adobe maintains a high degree of transparency in its financial communications. It provides both GAAP and non-GAAP metrics to aid in the comparison against industry standards and compares its performance against its targets. Its compensation plans are publicly disclosed and easy to understand. Moreover, in a move towards pay transparency, Adobe has disclosed unadjusted pay gap data, becoming one of the first tech companies to do so. Insiders own \$415M worth of stock (0.17%).

## Compelling Risk/Reward

**12. Stock trades at a meaningful discount to its intrinsic value (Pass):**

Within our Best-of-Breed Bison framework, we value companies using a discounted cash flow methodology using a weighted average cost of capital (WACC). We model 10 years beyond the current year, that is out to FY'34. We use an 11.6% cost of equity based on a beta (adjusted 5-year daily) of 1.34, a risk-free rate of 4.6% which is in-line with the current yield on a 10-year Treasury, and a market premium assumption of 5%. We use Adobe's cost of debt assumption of 4.6%, resulting in a WACC of 10%. Our terminal growth rate assumption beyond FY34 is 2.4%, which compares to our FCF CAGR of 12% in our model estimates for the years between FY'23 and FY'34. These inputs yield an intrinsic value, based on the equity net present value per share of future cash flows, of \$660. This translates to 15.6x Terminal/FY'34 EBITDA Multiple and represents ~23% upside to the current stock price of \$521.36.

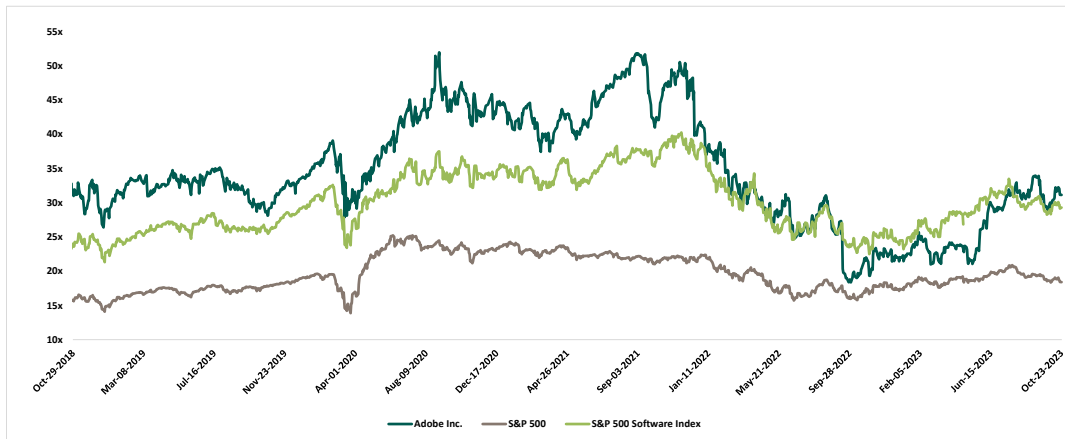
On a relative basis, Adobe is currently trading at 31x P/E compared to its five-year average of 34.5x. In comparison, against a peer group comprising other enterprise software companies with similar growth and margin profiles, and design software companies, Adobe trades at a 3% discount on an earnings basis, 3% on an EBITDA basis, and a 24% premium on a sales basis.

**Figure 14: Adobe Discounted Cash Flow Analysis****Adobe Inc. (ADBE)**

(US\$ in millions, except per share data)

	FY'23-E	FY'24-E	FY'25-E	FY'26E	FY'27E	FY'28E	FY'29E	FY'30E	FY'31E	FY'32E	FY'33E	FY'34E	
Revenue	\$19,361.0	\$21,800.0	\$24,325.0	\$27,012.9	\$29,916.7	\$33,043.0	\$36,396.9	\$39,982.0	\$43,800.3	\$47,851.8	\$52,134.6	\$56,644.2	
Y/Y % Change	10.0%	12.6%	11.6%	11.1%	10.8%	10.5%	10.2%	9.9%	9.6%	9.3%	9.0%	8.7%	
Free Cash Flow	\$11,268.7	\$11,809.6	\$13,516.6	\$14,994.8	\$16,731.3	\$18,618.4	\$20,792.6	\$22,953.9	\$25,270.7	\$27,984.3	\$30,638.7	\$33,370.8	
Y/Y % Change	13.3%	4.8%	14.5%	339.0%	424.5%	445.6%	494.3%	69.8%	68.5%	67.3%	64.6%	60.5%	
FCF Margin	58.2%	54.2%	55.6%	55.5%	55.9%	56.3%	57.1%	57.4%	57.7%	58.5%	58.8%	58.9%	
Terminal Growth Rate of Cash Flows												2.4%	
Terminal Value												\$446,623.1	
Implied Terminal EBITDA Multiple												15.5x	
Total Free Cash Flow	\$11,268.7	\$11,809.6	\$13,516.6	\$14,994.8	\$16,731.3	\$18,618.4	\$20,792.6	\$22,953.9	\$25,270.7	\$27,984.3	\$30,638.7	\$479,993.9	
Present Value		\$11,111.8	\$11,571.5	\$11,256.7	\$11,415.4	\$11,545.0	\$11,718.0	\$11,756.8	\$11,763.6	\$11,839.3	\$11,780.8	\$167,737.3	
ADBE													
Valuation												WACC	10.0%
Present Value	\$283,496.2											Cost of Debt	4.6%
Less: Debt	\$3,633.0											Cost of Equity	11.3%
Add: Cash	\$6,601.0											Debt/Capital	18.7%
Present value of the equity	\$293,730.2											Equity/Capital	81.3%
Diluted shares	459.0												
Equity value per share	\$640.00												
Current Price	\$521.36												
Implied Upside/Downside	23%												

Source: D.A. Davidson &amp; Co.

**Figure 15: Adobe's Five-year Price/Forward Earnings**

Source: Capital IQ

## Adobe Inc. - Income Statement

(\$ in Millions unless otherwise stated)

	FY'19 Nov-19	FY'20 Nov-20	FY'21 Nov-21	F1Q'22 Feb-22	F2Q'22 May-22	F3Q'22 Aug-22	F4Q'22 Nov-22	FY'22 Nov-22	F1Q'23 Feb-23	F2Q'23 May-23	F3Q'23 Aug-23	F4Q'23 Nov-23	FY'23 Nov-23	FY'24 Nov-24	FY'25 Nov-25
<b>Revenue by Segment</b>															
Digital Media	7,707.0	9,233.0	11,520.0	3,110.0	3,200.0	3,232.0	3,300.0	12,842.0	3,395.0	3,511.0	3,594.0	3,685.0	14,185.0	16,041.0	17,907.6
Digital Experience	2,795.0	3,125.0	3,867.0	1,057.0	1,095.0	1,120.0	1,150.0	4,422.0	1,176.0	1,222.0	1,229.0	1,260.0	4,887.0	5,504.6	6,199.2
Publishing and Advertising	669.0	510.0	398.0	95.0	91.0	81.0	75.0	342.0	84.0	83.0	67.0	55.1	289.1	254.4	218.1
<b>Total Revenue</b>	<b>11,171.0</b>	<b>12,868.0</b>	<b>15,785.0</b>	<b>4,262.0</b>	<b>4,386.0</b>	<b>4,433.0</b>	<b>4,525.0</b>	<b>17,606.0</b>	<b>4,655.0</b>	<b>4,816.0</b>	<b>4,890.0</b>	<b>5,000.0</b>	<b>19,361.0</b>	<b>21,800.0</b>	<b>24,325.0</b>
Non-GAAP Cost of Revenue	1,397.0	1,463.0	1,615.0	433.0	457.0	463.0	485.0	1,838.0	485.0	490.0	500.0	525.0	2,000.0	2,233.7	2,505.7
<b>Non-GAAP Gross Profit</b>	<b>9,774.0</b>	<b>11,405.0</b>	<b>14,170.0</b>	<b>3,829.0</b>	<b>3,929.0</b>	<b>3,970.0</b>	<b>4,040.0</b>	<b>15,768.0</b>	<b>4,170.0</b>	<b>4,326.0</b>	<b>4,390.0</b>	<b>4,475.1</b>	<b>17,361.1</b>	<b>19,566.3</b>	<b>21,819.2</b>
<b>Operating Expenses</b>															
Non-GAAP Research and Development	1,549.4	1,712.0	1,984.0	545.0	564.0	589.0	572.0	2,270.0	618.0	649.0	654.0	670.0	2,591.0	2,872.3	3,125.8
Non-GAAP Sales & Marketing	2,992.9	3,326.0	4,008.0	1,068.0	1,150.0	1,156.0	1,183.0	4,557.0	1,179.0	1,220.0	1,205.0	1,240.0	4,844.0	5,521.1	6,202.9
Non-GAAP General & Administrative	769.5	846.0	919.0	223.0	241.0	270.0	288.0	1,022.0	275.0	299.0	294.0	315.0	1,183.0	1,329.8	1,423.0
Other Adjustments	-	-	-	-	-	-	26	26	33	22	27	27	109	-	-
<b>Total Adjusted Operating Expenses</b>	<b>5,311.9</b>	<b>5,884.0</b>	<b>6,911.0</b>	<b>1,836.0</b>	<b>1,955.0</b>	<b>2,015.0</b>	<b>2,017.0</b>	<b>7,823.0</b>	<b>2,039.0</b>	<b>2,146.0</b>	<b>2,126.0</b>	<b>2,198.0</b>	<b>8,509.0</b>	<b>9,723.2</b>	<b>10,751.6</b>
<b>Non-GAAP Operating Income (Loss)</b>	<b>4,462.0</b>	<b>5,521.0</b>	<b>7,259.0</b>	<b>1,993.0</b>	<b>1,974.0</b>	<b>1,955.0</b>	<b>2,023.0</b>	<b>7,945.0</b>	<b>2,131.0</b>	<b>2,180.0</b>	<b>2,264.0</b>	<b>2,277.1</b>	<b>8,852.1</b>	<b>9,843.1</b>	<b>11,067.6</b>
Interest Expense	(157.2)	(116.0)	(113.0)	(28.0)	(28.0)	(28.0)	(28.0)	(112.0)	(32.0)	(26.0)	(27.0)	(27.0)	(112.0)	(108.0)	(60.0)
Other Income (Expense), Net	42.3	42.0	-	-	(1.0)	6.0	36.0	41.0	43.0	47.0	67.0	67.0	224.0	268.0	-
<b>Non-GAAP Income before Taxes</b>	<b>4,347.1</b>	<b>5,447.0</b>	<b>7,146.0</b>	<b>1,965.0</b>	<b>1,945.0</b>	<b>1,933.0</b>	<b>2,031.0</b>	<b>7,874.0</b>	<b>2,142.0</b>	<b>2,201.0</b>	<b>2,304.0</b>	<b>2,317.1</b>	<b>8,964.1</b>	<b>10,003.1</b>	<b>11,007.6</b>
Non-GAAP Tax Expense (Benefit)	478	544	1,143	363	360	338	356	1,417	396	407	426	429	1,658	1,851	2,036
Effective Tax Rate	11%	10%	16%	18%	19%	17%	18%	18%	18%	18%	18%	19%	18%	19%	19%
<b>Net Income</b>	<b>2,951.9</b>	<b>5,260.0</b>	<b>4,822.0</b>	<b>1,266.0</b>	<b>1,178.0</b>	<b>1,136.0</b>	<b>1,176.0</b>	<b>4,756.0</b>	<b>1,247.0</b>	<b>1,295.0</b>	<b>1,403.0</b>	<b>1,430.9</b>	<b>5,375.9</b>	<b>5,936.3</b>	<b>6,498.9</b>
<b>Non-GAAP Net Income</b>	<b>3,869.0</b>	<b>4,903.0</b>	<b>6,003.0</b>	<b>1,602.0</b>	<b>1,585.0</b>	<b>1,595.0</b>	<b>1,675.0</b>	<b>6,457.0</b>	<b>1,746.0</b>	<b>1,794.0</b>	<b>1,878.0</b>	<b>1,888.4</b>	<b>7,306.4</b>	<b>8,152.5</b>	<b>8,971.2</b>
<b>GAAP Diluted EPS</b>	<b>6.00</b>	<b>10.83</b>	<b>10.02</b>	<b>2.67</b>	<b>2.49</b>	<b>2.42</b>	<b>2.52</b>	<b>10.10</b>	<b>2.71</b>	<b>2.82</b>	<b>3.06</b>	<b>3.13</b>	<b>11.71</b>	<b>13.13</b>	<b>14.66</b>
<b>Non-GAAP Diluted EPS</b>	<b>7.87</b>	<b>10.10</b>	<b>12.47</b>	<b>3.37</b>	<b>3.35</b>	<b>3.40</b>	<b>3.60</b>	<b>13.72</b>	<b>3.80</b>	<b>3.91</b>	<b>4.09</b>	<b>4.12</b>	<b>15.92</b>	<b>18.03</b>	<b>20.24</b>
Diluted Shares Outstanding	491.6	485.6	481.3	475.0	473.0	469.0	465.8	470.7	460.0	459.0	459.0	457.9	459.0	452.2	443.2
<b>Line Items as % of Revenue</b>															
<b>Revenue by Segment</b>															
Digital Media	69.0%	71.8%	73.0%	73.0%	73.0%	72.9%	72.9%	72.9%	72.9%	72.9%	73.5%	73.7%	73.3%	73.6%	73.6%
Digital Experience	25.0%	24.3%	24.5%	24.8%	25.0%	25.3%	25.4%	25.3%	25.3%	25.4%	25.1%	25.2%	25.2%	25.3%	25.5%
Publishing and Advertising	6.0%	4.0%	2.5%	2.2%	2.1%	1.8%	1.7%	1.9%	1.8%	1.7%	1.4%	1.1%	1.5%	1.2%	0.9%
Cost of Goods Sold, Non-GAAP	12.5%	11.4%	10.2%	10.2%	10.4%	10.4%	10.7%	10.4%	10.4%	10.2%	10.2%	10.5%	10.3%	10.2%	10.3%
<b>Gross Margin by Segment</b>															
Digital Media	96.2%	96.2%	96.3%	95.7%	95.6%	95.8%	95.5%	95.6%	95.8%	95.7%	95.5%	95.1%	95.5%	95.4%	95.5%
Digital Experience	62.3%	64.0%	65.8%	66.7%	65.8%	65.6%	66.0%	66.0%	65.6%	67.3%	67.7%	67.8%	67.1%	67.5%	66.2%
Publishing and Advertising	51.1%	52.2%	70.9%	72.6%	73.6%	69.1%	64.0%	70.2%	73.8%	74.7%	67.2%	66.1%	71.1%	71.5%	69.4%
<b>Gross Margin, GAAP</b>	<b>85.0%</b>	<b>86.6%</b>	<b>88.2%</b>	<b>88.0%</b>	<b>87.7%</b>	<b>87.7%</b>	<b>87.4%</b>	<b>87.7%</b>	<b>87.8%</b>	<b>88.1%</b>	<b>88.1%</b>	<b>87.9%</b>	<b>88.0%</b>	<b>88.1%</b>	<b>87.8%</b>
<b>Gross Margin, Non-GAAP</b>	<b>87.5%</b>	<b>88.6%</b>	<b>89.8%</b>	<b>89.8%</b>	<b>89.6%</b>	<b>89.6%</b>	<b>89.3%</b>	<b>89.6%</b>	<b>89.6%</b>	<b>89.8%</b>	<b>89.8%</b>	<b>89.5%</b>	<b>89.7%</b>	<b>89.8%</b>	<b>89.7%</b>
Research and Development, Non-GAAP	13.9%	13.3%	12.6%	12.8%	12.9%	13.3%	12.6%	12.9%	13.3%	13.5%	13.4%	13.4%	13.4%	13.2%	12.9%
Sales and Marketing, Non-GAAP	26.8%	25.8%	25.4%	25.1%	26.2%	26.1%	26.1%	25.9%	25.3%	25.3%	24.6%	24.8%	25.0%	25.3%	25.5%
General and Administrative, Non-GAAP	6.9%	6.6%	5.8%	5.2%	5.5%	6.1%	6.4%	5.8%	5.9%	6.2%	6.0%	6.3%	6.1%	6.1%	5.9%
OpEx, Non-GAAP	47.6%	45.7%	43.8%	43.1%	44.6%	45.5%	44.6%	44.4%	43.8%	44.6%	43.5%	44.0%	43.9%	44.6%	44.2%
<b>Operating Margin, Non-GAAP</b>	<b>39.9%</b>	<b>42.9%</b>	<b>46.0%</b>	<b>46.8%</b>	<b>45.0%</b>	<b>44.1%</b>	<b>44.7%</b>	<b>45.1%</b>	<b>45.8%</b>	<b>45.3%</b>	<b>46.3%</b>	<b>45.5%</b>	<b>45.7%</b>	<b>45.2%</b>	<b>45.5%</b>
Income before Taxes, Non-GAAP	38.9%	42.3%	45.3%	46.1%	44.3%	43.6%	44.9%	44.7%	46.0%	45.7%	47.1%	46.3%	46.3%	45.9%	45.3%
Effective Tax Rate	11.0%	10.0%	16.0%	18.5%	18.5%	17.5%	17.5%	18.0%	18.5%	18.5%	18.5%	18.5%	18.5%	18.5%	18.5%
<b>Net Margin, Non-GAAP</b>	<b>34.6%</b>	<b>38.1%</b>	<b>38.0%</b>	<b>37.6%</b>	<b>36.1%</b>	<b>36.0%</b>	<b>37.0%</b>	<b>36.7%</b>	<b>37.5%</b>	<b>37.3%</b>	<b>38.4%</b>	<b>37.8%</b>	<b>37.7%</b>	<b>37.4%</b>	<b>36.9%</b>
<b>Y/Y Growth</b>															
<b>Revenue by Segment</b>															
Digital Media	21.8%	19.8%	24.8%	8.8%	14.8%	12.8%	9.7%	11.5%	9.2%	9.7%	11.2%	11.7%	10.5%	13.1%	11.6%
Digital Experience	14.4%	11.8%	23.7%	13.2%	16.7%	13.7%	13.9%	14.4%	11.3%	11.6%	9.7%	9.6%	10.5%	12.6%	12.6%
Publishing and Advertising	156.3%	-23.8%	-22.0%	-15.2%	-17.3%	-4.7%	-17.6%	-14.1%	-11.6%	-8.8%	-17.3%	-26.5%	-15.5%	-12.0%	-14.3%
<b>Total Revenue</b>	<b>23.7%</b>	<b>15.2%</b>	<b>22.7%</b>	<b>9.1%</b>	<b>14.4%</b>	<b>12.7%</b>	<b>10.1%</b>	<b>11.5%</b>	<b>9.2%</b>	<b>9.8%</b>	<b>10.3%</b>	<b>10.5%</b>	<b>10.0%</b>	<b>12.6%</b>	<b>11.6%</b>
Cost of Goods Sold, Non-GAAP	30.7%	4.7%	10.4%	12.2%	19.0%	14.3%	10.2%	13.8%	12.0%	7.2%	8.0%	8.2%	8.8%	11.7%	12.2%
<b>Gross Profit, Non-GAAP</b>	<b>22.8%</b>	<b>16.7%</b>	<b>24.2%</b>	<b>8.8%</b>	<b>13.9%</b>	<b>12.5%</b>	<b>10.1%</b>	<b>11.3%</b>	<b>8.9%</b>	<b>10.1%</b>	<b>10.6%</b>	<b>10.8%</b>	<b>10.1%</b>	<b>12.7%</b>	<b>11.5%</b>
Research and Development, Non-GAAP	23.0%	10.5%	15.9%	12.8%	18.7%	15.7%	10.6%	14.4%	13.4%	15.1%	11.0%	17.1%	14.1%	10.9%	8.8%
Sales and Marketing, Non-GAAP	23.9%	11.1%	20.5%	9.7%	15.3%	17.4%	12.5%	13.7%	10.4%	6.1%	4.2%	4.8%	6.3%	14.0%	12.3%
General and Administrative, Non-GAAP	16.6%	9.9%	8.6%	-4.3%	11.1%	20.0%	18.0%	11.2%	23.3%	24.1%	8.9%	9.4%	15.8%	12.4%	7.0%
OpEx, Non-GAAP	22.5%	10.8%	17.5%	8.6%	15.7%	17.2%	11.3%	13.2%	11.1%	9.8%	5.5%	9.0%	8.8%	14.3%	10.6%
<b>Operating Profit, Non-GAAP</b>	<b>23.1%</b>	<b>23.7%</b>	<b>31.5%</b>	<b>9.0%</b>	<b>12.0%</b>	<b>8.0%</b>	<b>8.9%</b>	<b>9.5%</b>	<b>6.9%</b>	<b>10.4%</b>	<b>15.8%</b>	<b>12.6%</b>	<b>11.4%</b>	<b>11.2%</b>	<b>12.4%</b>
Income before Taxes, Non-GAAP	21.6%	25.3%	31.2%	9.0%	12.2%	8.5%	11.1%	10.2%	9.0%	13.2%	19.2%	14.1%	13.8%	11.6%	10.0%
Effective Tax Expense	125.4%	13.8%	110.1%	26.0%	29.5%	18.6%	21.9%	24.0%	9.1%	13.1%	26.0%	20.4%	17.0%	11.6%	10.0%
<b>Net Profit, Non-GAAP</b>	<b>15.0%</b>	<b>26.7%</b>	<b>22.4%</b>	<b>5.7%</b>	<b>8.9%</b>	<b>6.6%</b>	<b>9.0%</b>	<b>7.6%</b>	<b>9.0%</b>	<b>13.2%</b>	<b>17.7%</b>	<b>12.7%</b>	<b>13.2%</b>	<b>11.6%</b>	<b>10.0%</b>
<b>Diluted EPS, Non-GAAP</b>	<b>16.4%</b>	<b>28.3%</b>	<b>23.5%</b>	<b>7.5%</b>	<b>10.7%</b>	<b>9.3%</b>	<b>12.4%</b>	<b>10.0%</b>	<b>12.5%</b>	<b>16.6%</b>	<b>20.3%</b>	<b>14.7%</b>	<b>16.0%</b>	<b>13.3%</b>	<b>12.3%</b>
Diluted Shares Outstanding	-1.2%	-1.2%	-0.9%	-1.7%	-1.7%	-2.5%	-3.0%	-2.2%	-3.2%	-3.0%	-2.1%	-1.7%	-2.5%	-1.5%	-2.0%



**Adobe Inc. - Operating Metrics**

(\$ in Millions unless otherwise stated)

**Revenue by Segment****Digital Media**

Creative Cloud

% Mix of Digital Media

Q/Q Growth

Y/Y Growth

CC Y/Y Growth

Document Cloud

% Mix of Digital Media

Q/Q Growth

Y/Y Growth

**Total Digital Media**

% of Revenue

Q/Q Growth

Y/Y Growth

**Digital Experience**

% of Revenue

Q/Q Growth

Y/Y Growth

**Publishing and Advertising**

% of Revenue

Q/Q Growth

Y/Y Growth

**Total Net Revenue**

Q/Q Growth

Y/Y Growth

**Segment Revenue by Contract Type****Digital Media**

DM Subscription

% Mix

DM Other

% Mix

**Digital Experience**

DX Subscription

% Mix

DX Other

% Mix

**Publishing and Advertising**

DX Subscription

% Mix

DX Other

% Mix

	FY'19 Nov-19	FY'20 Nov-20	FY'21 Nov-21	F1Q'22 Feb-22	F2Q'22 May-22	F3Q'22 Aug-22	F4Q'22 Nov-22	FY'22 Nov-22	F1Q'23 Feb-23	F2Q'23 May-23	F3Q'23 Aug-23	F4Q'23 Nov-23	FY'23 Nov-23	FY'24 Nov-24	FY'25 Nov-25
<b>Digital Media</b>															
Creative Cloud	6,482.3	7,736.0	9,546.0	2,548.0	2,605.0	2,625.0	2,681.0	10,459.0	2,761.0	2,852.0	2,909.0	2,983.7	11,505.7	13,061.9	14,608.3
% Mix of Digital Media	84%	84%	83%	82%	81%	81%	81%	81%	81%	81%	81%	81%	81%	81%	82%
Q/Q Growth				3%	2%	1%	2%		3%	3%	2%	3%			
Y/Y Growth	21%	19%	23%	7%	12%	11%	8%	10%	8%	9%	11%	11%	10%	14%	12%
CC Y/Y Growth															
Document Cloud	1,224.6	1,497.0	1,974.0	562.0	595.0	607.0	619.0	2,383.0	634.0	659.0	685.0	701.3	2,679.3	2,979.1	3,299.3
% Mix of Digital Media	16%	16%	17%	16%	19%	19%	19%	19%	19%	19%	19%	19%	19%	19%	18%
Q/Q Growth				6%	6%	2%	2%		2%	4%	4%	2%			
Y/Y Growth	25%	22%	32%	17%	27%	23%	16%	21%	13%	11%	13%	13%	12%	11%	11%
<b>Total Digital Media</b>	<b>7,707.0</b>	<b>9,233.0</b>	<b>11,520.0</b>	<b>3,110.0</b>	<b>3,200.0</b>	<b>3,232.0</b>	<b>3,300.0</b>	<b>12,842.0</b>	<b>3,395.0</b>	<b>3,511.0</b>	<b>3,594.0</b>	<b>3,685.0</b>	<b>14,185.0</b>	<b>16,041.0</b>	<b>17,907.6</b>
% of Revenue	69%	72%	73%	73%	73%	73%	73%	73%	73%	73%	73%	74%	73%	74%	74%
Q/Q Growth				3%	3%	1%	2%		3%	-73%	6%	3%			
Y/Y Growth	22%	20%	25%	9%	15%	13%	10%	11%	9.2%	9.7%	11.2%	11.7%	10%	13%	12%
<b>Digital Experience</b>	<b>2,795.0</b>	<b>3,125.0</b>	<b>3,867.0</b>	<b>1,057.0</b>	<b>1,095.0</b>	<b>1,120.0</b>	<b>1,150.0</b>	<b>4,422.0</b>	<b>1,176.0</b>	<b>1,222.0</b>	<b>1,229.0</b>	<b>1,260.0</b>	<b>4,887.0</b>	<b>5,504.6</b>	<b>6,199.2</b>
% of Revenue	25%	24%	24%	25%	25%	25%	25%	25%	25%	25%	25%	25%	25%	25%	25%
Q/Q Growth				5%	4%	2%	3%		2%	4%	1%	3%			
Y/Y Growth	14%	12%	24%	13%	17%	14%	14%	14%	11%	12%	10%	10%	11%	13%	13%
<b>Publishing and Advertising</b>	<b>669.0</b>	<b>510.0</b>	<b>398.0</b>	<b>95.0</b>	<b>91.0</b>	<b>81.0</b>	<b>75.0</b>	<b>342.0</b>	<b>84.0</b>	<b>83.0</b>	<b>67.0</b>	<b>55.1</b>	<b>289.1</b>	<b>254.4</b>	<b>218.1</b>
% of Revenue	6%	4%	3%	2%	2%	2%	2%	2%	2%	2%	1%	1%	1%	1%	1%
Q/Q Growth				4%	-4%	-11%	-7%		12%	-1%	-19%	-18%			
Y/Y Growth	156%	-24%	-22%	-15%	-17%	-5%	-18%	-14%	-12%	-9%	-17%	-27%	-15%	-12%	-14%
<b>Total Net Revenue</b>	<b>11,171.0</b>	<b>12,868.0</b>	<b>15,785.0</b>	<b>4,262.0</b>	<b>4,386.0</b>	<b>4,433.0</b>	<b>4,525.0</b>	<b>17,606.0</b>	<b>4,655.0</b>	<b>4,816.0</b>	<b>4,890.0</b>	<b>5,000.0</b>	<b>19,361.0</b>	<b>21,800.0</b>	<b>24,325.0</b>
Q/Q Growth				4%	3%	1%	2%		3%	-73%	5%	2%			
Y/Y Growth	23.7%	15.2%	22.7%	9.1%	14.4%	12.7%	10.1%	11.5%	9.2%	9.8%	10.3%	10.5%	10.0%	12.6%	11.6%
<b>Segment Revenue by Contract Type</b>															
<b>Digital Media</b>															
DM Subscription	7,208.2	8,813.0	11,048.0	2,995.0	3,079.0	3,116.0	3,195.0	12,385.0	3,279.8	3,387.8	3,519.6	3,610.0	13,797.1	15,739.6	17,747.5
% Mix	94%	95%	96%	96%	96%	96%	97%	96%	97%	96%	98%	98%	97%	98%	99%
DM Other	498.8	420.0	472.0	115.0	121.0	116.0	105.0	457.0	115.3	123.3	74.4	74.9	387.9	301.4	160.1
% Mix	6%	5%	4%	4%	4%	4%	3%	4%	3%	4%	2%	2%	3%	2%	1%
<b>Digital Experience</b>															
DX Subscription	2,670.7	2,660.0	3,379.0	932.0	961.0	981.0	1,006.0	3,880.0	1,042.0	1,070.0	1,096.0	1,120.0	4,328.0	4,763.3	5,370.9
% Mix	96%	85%	87%	88%	88%	88%	87%	88%	89%	88%	89%	89%	89%	87%	87%
DX Other	124.3	465.0	488.0	125.0	134.0	139.0	144.0	542.0	134.0	152.0	133.0	140.0	559.0	741.3	828.2
% Mix	4%	15%	13%	12%	12%	12%	13%	12%	11%	12%	11%	11%	11%	13%	13%
<b>Publishing and Advertising</b>															
DX Subscription	115.5	153.0	146.0	31.0	30.0	31.0	31.0	123.0	51.3	59.3	15.4	20.0	145.9	207.1	233.5
% Mix	4%	5%	4%	3%	3%	3%	3%	3%	4%	5%	1%	2%	3%	4%	4%
DX Other	553.5	357.0	252.0	64.0	61.0	50.0	44.0	219.0	32.8	23.8	51.6	35.1	143.2	47.3	(15.4)
% Mix	20%	11%	7%	6%	6%	4%	4%	5%	3%	2%	4%	3%	3%	1%	0%

## Adobe Inc. - Operating Metrics

(\$ in Millions unless otherwise stated)

	FY'19 Nov-19	FY'20 Nov-20	FY'21 Nov-21 FX Adjusted	F1Q'22 Feb-22	F2Q'22 May-22	F3Q'22 Aug-22	F4Q'22 Nov-22	FY'22 Nov-22 FX Adjusted	F1Q'23 Feb-23	F2Q'23 May-23	F3Q'23 Aug-23	F4Q'23 Nov-23	FY'23 Nov-23	FY'24 Nov-24	FY'25 Nov-25
<b>Digita Media Annualized Recurring Revenue (ARR)</b>															
Creative Cloud ARR	7,310.0	8,719.0	10,224.0	10,539.0	10,816.0	11,146.0	11,599.0	10,976.0	11,283.0	11,637.0	11,969.0	12,354.0	12,354.0		
Net New ARR	1,280	1,409	1,505	235	277	330	453	752	307	354	332	385	1,378		
Q/Q Growth				2%	3%	3%	4%		3%	3%	3%	3%			
Y/Y Growth				16%	14%	13%	13%	7%	7%	8%	7%	7%			
Document Cloud ARR	1,090.0	1,462.0	1,927.0	2,030.0	2,130.0	2,250.0	2,372.0	2,283.0	2,386.0	2,502.0	2,634.0	2,769.0	2,769.0		
Net New ARR	289	372	465	97	100	120	122	356	103	116	132	135	486		
Q/Q Growth				5%	5%	6%	5%		5%	5%	5%	5%			
Y/Y Growth				29%	26%	26%	23%	18%	18%	17%	17%	17%			
<b>Digita Media ARR</b>	<b>8,400.0</b>	<b>10,181.0</b>	<b>12,151.0</b>	<b>12,569.0</b>	<b>12,946.0</b>	<b>13,396.0</b>	<b>13,971.0</b>	<b>13,259.0</b>	<b>13,669.0</b>	<b>14,139.0</b>	<b>14,603.0</b>	<b>15,123.0</b>	<b>15,123.0</b>		
Q/Q Growth				3%	3%	3%	4%		3%	3%	3%	4%			
Y/Y Growth	23%	21%	19%	18%	15%	15%	14%	9%	9%	9%	9%	8%	14%		
<b>Net New Digital Media ARR (NNDMARR)</b>	<b>1,570.0</b>	<b>1,781.0</b>	<b>1,970.0</b>	<b>418.0</b>	<b>377.0</b>	<b>450.0</b>	<b>575.0</b>	<b>1,108.0</b>	<b>410.0</b>	<b>470.0</b>	<b>464.0</b>	<b>520.0</b>	<b>1,864.0</b>		
Q/Q Growth				-27%	-10%	19%	28%		-63%	15%	-1%	12%			
Y/Y Growth	-2%	13%	11%	-18%	-27%	-1%	1%	-44%	-2%	25%	3%	-10%	68%		
<b>Gross Profit by Segment</b>															
Digital Media	7,417.0	8,881.0	11,092.0	2,976.0	3,059.0	3,096.0	3,150.0	12,281.0	3,253.0	3,359.0	3,433.0	3,504.4	13,549.4	15,298.2	17,101.8
Digital Media Gross Margin	96.2%	96.2%	96.3%	95.7%	95.6%	95.8%	95.5%	95.6%	95.8%	95.7%	95.5%	95.1%	95.5%	95.4%	95.5%
Digital Experience	1,740.0	1,999.0	2,546.0	705.0	721.0	735.0	759.0	2,920.0	772.0	823.0	832.0	854.2	3,281.2	3,715.6	4,103.9
Digital Experience Gross Margin	62.3%	64.0%	65.8%	66.7%	65.8%	65.6%	66.0%	66.0%	65.6%	67.3%	67.7%	67.8%	67.1%	67.5%	66.2%
Publishing and Advertising	342.0	266.0	282.0	69.0	67.0	56.0	48.0	240.0	62.0	62.0	45.0	36.4	205.4	181.9	151.4
Publishing and Advertising Gross Margin	51.1%	52.2%	70.9%	72.6%	73.6%	69.1%	64.0%	70.2%	73.8%	74.7%	67.2%	66.1%	71.1%	71.5%	69.4%
<b>GAAP Gross Profit</b>	<b>9,499.0</b>	<b>11,146.0</b>	<b>13,920.0</b>	<b>3,750.0</b>	<b>3,847.0</b>	<b>3,887.0</b>	<b>3,957.0</b>	<b>15,441.0</b>	<b>4,087.0</b>	<b>4,244.0</b>	<b>4,310.0</b>	<b>4,395.1</b>	<b>17,036.1</b>	<b>19,195.7</b>	<b>21,357.1</b>
GAAP Gross Margin	85.0%	86.6%	88.2%	88.0%	87.7%	87.7%	87.4%	87.7%	87.8%	88.1%	88.1%	87.9%	88.0%	88.1%	87.8%
<b>Billings / Backlog</b>															
<b>Total Revenue</b>	<b>11,171.0</b>	<b>12,868.0</b>	<b>15,785.0</b>	<b>4,262.0</b>	<b>4,386.0</b>	<b>4,433.0</b>	<b>4,525.0</b>	<b>17,606.0</b>	<b>4,655.0</b>	<b>4,816.0</b>	<b>4,890.0</b>	<b>5,000.0</b>	<b>19,361.0</b>	<b>21,800.0</b>	<b>24,325.0</b>
<b>Deferred Revenue</b>															
S/T Deferred Revenue	3,378.0	3,629.0	4,733.0	4,894.0	4,753.0	4,829.0	5,297.0	5,297.0	5,357.0	5,265.0	5,375.0	5,849.8	5,849.8	6,346.0	6,883.2
S/T Deferred Revenue % Mix	96%	97%	97%	98%	97%	98%	98%	98%	98%	98%	98%	97.9%	98%	98%	98%
L/T Deferred Revenue	122.7	130.0	145.0	125.0	123.0	114.0	117.0	117.0	120.0	116.0	108.0	126.7	126.7	135.9	147.0
L/T Deferred Revenue % Mix	4%	3%	3%	2%	3%	2%	2%	2%	2%	2%	2%	2.1%	2%	2%	2%
<b>Total Deferred Revenue</b>	<b>3,500.7</b>	<b>3,759.0</b>	<b>4,878.0</b>	<b>5,019.0</b>	<b>4,876.0</b>	<b>4,943.0</b>	<b>5,414.0</b>	<b>5,414.0</b>	<b>5,477.0</b>	<b>5,381.0</b>	<b>5,483.0</b>	<b>5,976.5</b>	<b>5,976.5</b>	<b>6,482.0</b>	<b>7,030.2</b>
Q/Q \$ Change in Deferred Revenues				141.0	(143.0)	67.0	471.0		63.0	(33.0)	102.0	493.5			
Q/Q % Change in Deferred Revenues				2.9%	-2.8%	1.4%	9.5%		1.2%	-0.6%	1.9%	9.0%			
Y/Y \$ Change in Deferred Revenues	447.1	258.3	1,119.0	734.0	593.0	558.0	536.0	536.0	458.0	505.0	540.0	562.5	562.5	505.5	548.2
Y/Y % Change in Deferred Revenues	14.6%	7.4%	29.8%	17.1%	13.8%	12.7%	11.0%	11.0%	9.1%	10.4%	10.9%	10.4%	10.4%	8.5%	8.5%
<b>Billings</b>	<b>11,171.0</b>	<b>12,868.0</b>	<b>15,785.0</b>	<b>4,403.0</b>	<b>4,243.0</b>	<b>4,500.0</b>	<b>4,996.0</b>	<b>17,606.0</b>	<b>4,718.0</b>	<b>4,783.0</b>	<b>4,992.0</b>	<b>5,493.5</b>	<b>19,361.0</b>	<b>21,800.0</b>	<b>24,325.0</b>
Q/Q Change				-4.3%	-3.6%	6.1%	11.0%		-5.6%	-72.8%	4.4%	10.0%			
Y/Y Change	23.7%	15.2%	22.7%	-0.6%	10.7%	11.5%	8.5%	11.5%	7.2%	12.7%	10.9%	10.0%	10.0%	12.6%	11.6%
<b>Calculated Current Billings (CCB) (ST Deferred Revenue)</b>	<b>11,633.0</b>	<b>13,119.0</b>	<b>16,889.0</b>	<b>4,423.0</b>	<b>4,245.0</b>	<b>4,509.0</b>	<b>4,993.0</b>	<b>18,170.0</b>	<b>4,715.0</b>	<b>4,784.0</b>	<b>5,000.0</b>	<b>5,474.8</b>	<b>19,913.8</b>	<b>22,296.2</b>	<b>24,862.2</b>
Q/Q Change				-3.8%	-4.0%	6.2%	10.7%		-5.6%	-73.7%	4.5%	9.5%			
Y/Y Change	21.9%	12.8%	28.7%	0.3%	10.4%	11.8%	8.5%	7.6%	6.6%	12.7%	10.9%	9.7%	9.6%	12.0%	11.5%
<b>RPOs</b>	<b>9,820</b>	<b>11,340</b>	<b>13,990</b>	<b>13,830</b>	<b>13,820</b>	<b>14,110</b>	<b>15,190</b>	<b>15,190</b>	<b>15,214</b>	<b>15,215</b>	<b>15,718</b>				
ST RPOs	10,073	10,073	10,096	10,096	10,227	10,300	10,937	10,937							
ST RPO % Mix			72%	73%	74%	73%	72%	72%							
LT RPOs	3,917	3,917	3,917	3,734	3,593	3,810	4,253	4,253							
LT RPO % Mix			28%	27%	26%	27%	28%	28%							
<b>Other KPIs</b>															
Worldwide Employees	22,634.0	22,516.0	25,988.0	26,527.0	28,066.0	28,783.0	29,239.0	29,239.0	29,328.0	30,078.0	30,007.0				
Q/Q Change				2.1%	5.8%	2.6%	1.6%		0.3%	2.9%	-0.2%				
Y/Y Change	6.0%	-0.5%	15.4%	12.5%	1035.8%	14.7%	12.5%	12.5%	10.6%	7.2%	4.3%				
Days Sales Outstanding	46.2	36.7	41.1	35.6	32.6	35.0	41.1	41.1	34.8	31.5	34.1	35.0	35.0	41.0	41.0
Days Payables Outstanding	49.1	74.8	63.8	61.3	72.1	61.4	70.3	70.3	57.2	63.6	56.5	70.0	70.0	72.0	72.0
Buybacks	2,750	3,050	3,950	2,400	1,200	1,200	1,750	6,550	1,400	1,000	1,000	1,000	4,400	2,750	-
Left Under Authorization	5,250	17,200	13,250	10,850	9,650	8,450	6,700	6,550	5,150	4,150	3,150	2,150	2,150	(600)	(600)

**Adobe Inc. - Balance Sheet**

(\$ in Millions unless otherwise stated)

**ASSETS****Current Assets**

Cash and Cash Equivalents	2,650	4,478	3,844	2,739	3,365	3,870	4,236	4,236	4,072	5,456	6,601	8,132	8,132	13,546	21,277
Short-Term Investments	1,527	1,514	1,954	1,962	1,934	1,894	1,860	1,860	1,581	1,145	915	915	915	915	915
Trade receivables, net of allowances for doubtful accounts	1,535	1,398	1,878	1,685	1,588	1,723	2,065	2,065	1,801	1,685	1,851	1,944	1,944	2,586	2,885
Prepaid expenses and other current assets	783	756	993	1,090	1,021	1,002	835	835	888	988	1,043	1,043	1,043	1,043	1,043
Total Current Assets	6,495	8,146	8,669	7,476	7,908	8,489	8,996	8,996	8,342	9,274	10,410	12,035	12,035	18,090	26,120

**Non Current Assets**

Property and equipment, net	1,293	1,517	1,673	1,703	1,790	1,858	1,908	1,908	1,967	2,032	2,036	1,942	1,942	1,596	1,292
Goodwill	10,691	10,742	12,668	12,795	12,801	12,756	12,787	12,787	12,792	12,796	12,800	12,800	12,800	12,800	12,800
Other intangibles, net	1,721	1,359	1,820	1,743	1,650	1,548	1,449	1,449	1,354	1,258	1,167	1,167	1,167	1,167	1,167
Deferred income taxes	-	1,370	1,085	950	882	799	777	777	826	964	1,065	1,065	1,065	1,065	1,065
Other Assets	563	1,150	1,326	1,309	1,295	1,294	1,248	1,248	1,386	1,514	1,612	1,612	1,612	1,612	1,612
Total Assets	20,762	24,284	27,241	25,976	26,326	26,744	27,165	27,165	26,667	27,838	29,090	30,621	30,621	36,330	44,056

**Liabilities and Stockholders' Equity****Current Liabilities**

Trade payables	209	306	312	295	366	316	379	379	308	346	314	471	471	553	616
Accrued expenses	1,399	1,422	1,736	1,333	1,615	1,629	1,790	1,790	1,469	1,786	1,714	1,714	1,714	1,714	1,714
Debt and capital lease obligations, ST	3,149	-	-	499	499	500	500	500	-	-	-	-	-	1,500	-
Deferred revenue	3,378	3,629	4,733	4,894	4,753	4,829	5,297	5,297	5,357	5,265	5,375	5,850	5,850	6,346	6,883
Income taxes payable	56	63	54	83	62	76	75	75	222	548	857	857	857	857	857
Operating lease liabilities	-	92	97	93	90	88	87	87	81	74	74	74	74	74	74
Total Current Liabilities	8,191	5,512	6,932	7,197	7,385	7,438	8,128	8,128	7,437	8,019	8,334	8,965	8,965	11,044	10,144

**Non Current Liabilities**

Debt and capital lease obligations, LT	989	4,117	4,123	3,626	3,627	3,627	3,629	3,629	3,630	3,631	3,633	3,633	3,633	2,133	2,133
Deferred revenue	123	130	145	125	123	114	117	117	120	116	108	127	127	136	147
Income taxes payable	616	529	534	540	503	510	530	530	536	479	498	498	498	498	498
Deferred income taxes	140	10	5	4	4	3	28	28	-	-	-	-	-	-	-
Other Long-Term Liabilities	173	722	705	709	699	679	682	682	738	755	741	741	741	741	741
Total Liabilities	10,232	11,020	12,444	12,201	12,341	12,371	13,114	13,114	12,461	13,000	13,314	13,964	13,964	14,552	13,663

**Stockholders' Equity**

Additional Paid-In Capital	6,505	7,357	8,428	8,750	9,102	9,548	9,868	9,868	10,284	10,717	11,195	11,645	11,645	13,580	15,696
Retained Earnings	14,829	19,611	23,905	24,961	26,022	27,158	28,319	28,319	29,435	30,609	32,012	33,443	33,443	39,379	45,878
Accumulated Other Comprehensive (Loss) Income	(188)	(158)	(137)	(177)	(195)	(224)	(293)	(293)	(307)	(297)	(285)	(285)	(285)	(285)	(285)
Treasury stock	(10,615)	(13,546)	(17,399)	(19,759)	(20,944)	(22,109)	(23,843)	(23,843)	(25,206)	(26,191)	(27,146)	(28,146)	(28,146)	(30,896)	(30,896)
Total ADBE Stockholder's Equity	10,530	13,264	14,797	13,775	13,985	14,373	14,051	14,051	14,206	14,838	15,776	16,657	16,657	21,778	30,393
Total Liabilities and Stockholders' Equity	20,762	24,284	27,241	25,976	26,326	26,744	27,165	27,165	26,667	27,838	29,090	30,621	30,621	36,330	44,056

**Adobe Inc. - Cash Flow Statement**

(\$ in Millions unless otherwise stated)

	FY'19 Nov-19	FY'20 Nov-20	FY'21 Nov-21	F1Q'22 Feb-22	F2Q'22 May-22	F3Q'22 Aug-22	F4Q'22 Nov-22	FY'22 Nov-22	F1Q'23 Feb-23	F2Q'23 May-23	F3Q'23 Aug-23	F4Q'23 Nov-23	FY'23 Nov-23	FY'24 Nov-24	FY'25 Nov-25
<b>Cash Flow From Operating Activities:</b>															
Net Income (Loss)	2,951.9	5,260.0	4,822.0	1,266.0	1,178.0	1,136.0	1,176.0	4,756.0	1,247.0	1,295.0	1,403.0	1,430.9	5,375.9	5,936.3	6,498.9
Adjustments to Reconcile Net Income to Net Cash:	1,493.3	281.0	2,116.0	705.0	662.0	712.0	667.0	2,746.0	598.0	546.0	568.0	669.0	2,381.0	2,825.5	3,028.2
Depreciation, amortization and accretion	736.7	757.0	788.0	213.0	212.0	216.0	215.0	856.0	212.0	220.0	218.0	219.0	869.0	890.9	911.9
Stock-based compensation	787.7	909.0	1,069.0	322.0	352.0	378.0	388.0	1,440.0	416.0	433.0	442.0	450.0	1,741.0	1,934.6	2,116.3
Reduction of operating lease right-of-use assets	-	87.0	73.0	22.0	20.0	21.0		63.0					-	-	-
Deferred income taxes	2.7	(1,501.0)	183.0	129.0	68.0	85.0		282.0					-	-	-
Unrealized (gains) losses on investments	(47.6)	(11.0)	(4.0)	17.0	10.0	6.0	(4.0)	29.0	3.0	(5.0)	(5.0)		(7.0)	-	-
Other non-cash items	13.8	40.0	7.0	2.0	-	6.0	68.0	76.0	(33.0)	(102.0)	(87.0)		(222.0)	-	-
Changes in operating assets and liabilities	(22.9)	186.0	292.0	(202.0)	200.0	(144.0)	482.0	336.0	(152.0)	298.0	(98.0)	556.5	625.5	(53.7)	312.2
Trade receivables	(187.8)	106.0	(430.0)	191.0	96.0	(141.0)		146.0				(93.5)	(93.5)	(641.9)	(298.6)
Prepaid expenses and other current assets	(531.1)	(288.0)	(475.0)	(187.0)	47.0	7.0	11.0	(122.0)					-	-	-
Trade payables	23.1	96.0	(20.0)	6.0	54.0	(49.0)		11.0				156.5	156.5	82.8	62.5
Accrued expenses and other liabilities	171.7	86.0	162.0	(389.0)	202.0	(50.0)		(237.0)					-	-	-
Income taxes payable	4.2	(72.0)	2.0	36.0	(56.0)	22.0		2.0					-	-	-
Deferred revenue	497.0	258.0	1,053.0	141.0	(143.0)	67.0	471.0	536.0	63.0	(96.0)	102.0	493.5	562.5	505.5	548.2
<b>Net Cash From (Used in) Continuing Operations</b>	<b>4,422.2</b>	<b>5,727.0</b>	<b>7,230.0</b>	<b>1,769.0</b>	<b>2,040.0</b>	<b>1,704.0</b>	<b>2,325.0</b>	<b>7,838.0</b>	<b>1,693.0</b>	<b>2,139.0</b>	<b>1,873.0</b>	<b>2,656.5</b>	<b>8,382.5</b>	<b>8,708.1</b>	<b>9,839.2</b>
<b>Cash Flows from Investing Activities:</b>															
Purchases of short-term investments	(699.9)	(1,071.0)	(1,533.0)	(288.0)	(236.0)	(179.0)	29.0	(674.0)	287.0	446.0	236.0		969.0	-	-
Maturities of short-term investments	699.5	915.0	877.0	208.0	141.0	148.0		497.0					-	-	-
Proceeds from sales of short-term investments	86.1	167.0	191.0	54.0	105.0	62.0		221.0					-	-	-
Acquisitions, net of cash acquired	(100.7)	-	(2,682.0)	(106.0)	(20.0)	-		(126.0)					-	-	-
Purchases of property and equipment	(394.5)	(419.0)	(348.0)	(100.0)	(126.0)	(125.0)	(91.0)	(442.0)	(101.0)	(121.0)	(91.0)	(125.0)	(438.0)	(545.0)	(608.1)
Purchases of long-term investments and other assets	(48.7)	(15.0)	(42.0)	(28.0)	(2.0)	(9.0)	(7.0)	(46.0)	(30.0)	(3.0)	-		(33.0)	-	-
<b>Net Cash From (Used in) Investing Activities</b>	<b>(455.6)</b>	<b>(414.0)</b>	<b>(3,537.0)</b>	<b>(260.0)</b>	<b>(138.0)</b>	<b>(103.0)</b>	<b>(69.0)</b>	<b>(570.0)</b>	<b>156.0</b>	<b>322.0</b>	<b>145.0</b>	<b>(125.0)</b>	<b>498.0</b>	<b>(545.0)</b>	<b>(608.1)</b>
<b>Cash Flows From Financing Activities:</b>															
Purchases of treasury stock	(2,750.0)	(3,050.0)	(3,950.0)	(2,400.0)	(1,200.0)	(1,200.0)	(1,750.0)	(6,550.0)	(1,400.0)	(1,000.0)	(1,000.0)	(1,000.0)	(4,400.0)	(2,750.0)	-
Proceeds from issuance of treasury stock	232.9	270.0	291.0	91.0	-	187.0		278.0					-	-	-
Taxes paid related to net share settlement of equity awards	(440.0)	(681.0)	(719.0)	(266.0)	(101.0)	(84.0)	(67.0)	(518.0)	(95.0)	(102.0)	124.0		(73.0)	-	-
Other	11.0	(21.0)	77.0	(29.0)	51.0	37.0	(94.0)	(35.0)	(19.0)	22.0	5.0		8.0	-	-
<b>Net Cash From (Used in) Financing Activities</b>	<b>(2,946.0)</b>	<b>(3,488.0)</b>	<b>(4,301.0)</b>	<b>(2,604.0)</b>	<b>(1,250.0)</b>	<b>(1,060.0)</b>	<b>(1,911.0)</b>	<b>(6,825.0)</b>	<b>(2,014.0)</b>	<b>(1,080.0)</b>	<b>(871.0)</b>	<b>(1,000.0)</b>	<b>(4,457.0)</b>	<b>(2,750.0)</b>	<b>(1,500.0)</b>
Effect of Exchange Rate Changes on Cash and Restricted Cash	(14.0)	3.0	(26.0)	(10.0)	(26.0)	(36.0)	21.0	(51.0)	1.0	3.0	(2.0)		2.0	-	-
<b>Net Change in Cash and Restricted Cash</b>	<b>1,006.6</b>	<b>1,828.0</b>	<b>(634.0)</b>	<b>(1,105.0)</b>	<b>626.0</b>	<b>505.0</b>	<b>366.0</b>	<b>392.0</b>	<b>(164.0)</b>	<b>1,384.0</b>	<b>1,145.0</b>	<b>1,531.5</b>	<b>4,425.5</b>	<b>5,413.1</b>	<b>7,731.1</b>
Cash and Cash Equivalents, Beginning of Period	1,643.1	2,649.7	4,477.7	3,843.7	2,738.7	3,364.7	3,869.7	3,843.7	4,236.0	4,072.0	5,456.0	6,601.0	4,236.0	8,132.5	13,545.6
<b>Cash and Cash Equivalents, End of Period</b>	<b>2,649.7</b>	<b>4,477.7</b>	<b>3,843.7</b>	<b>2,738.7</b>	<b>3,364.7</b>	<b>3,869.7</b>	<b>4,235.7</b>	<b>4,235.7</b>	<b>4,072.0</b>	<b>5,456.0</b>	<b>6,601.0</b>	<b>8,132.5</b>	<b>8,661.5</b>	<b>13,545.6</b>	<b>21,276.7</b>
Operating Cash Flow	4,422.2	5,727.0	7,230.0	1,769.0	2,040.0	1,704.0	2,325.0	7,838.0	1,693.0	2,139.0	1,873.0	2,656.5	8,382.5	8,708.1	9,839.2
CapEx	(394.5)	(419.0)	(348.0)	(100.0)	(126.0)	(125.0)	(91.0)	(442.0)	(101.0)	(121.0)	(91.0)	(125.0)	(438.0)	(545.0)	(608.1)
CapEx as % of Revenue	-3.5%	-3.3%	-2.2%	-2.3%	-2.9%	-2.8%	-2.0%	-2.5%	-2.2%	-2.5%	-1.9%	-2.5%	-2.3%	-2.5%	-2.5%
<b>Free Cash Flow</b>	<b>4,027.8</b>	<b>5,308.0</b>	<b>6,882.0</b>	<b>1,669.0</b>	<b>1,914.0</b>	<b>1,579.0</b>	<b>2,234.0</b>	<b>7,396.0</b>	<b>1,592.0</b>	<b>2,018.0</b>	<b>1,782.0</b>	<b>2,531.5</b>	<b>7,944.5</b>	<b>8,163.1</b>	<b>9,231.1</b>
FCF Margin	36.1%	41.2%	43.6%	39.2%	43.6%	35.6%	49.4%	42.0%	34.2%	41.9%	36.4%	50.6%	41.0%	37.4%	37.9%

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## Potential Risks

- **The markets in which Adobe operates are intensely competitive.** Adobe's main products, Adobe Experience Cloud, Creative Cloud, and Document Cloud typically involve cloud-based subscription offerings. If Adobe does not compete effectively and its customers fail to renew subscriptions in accordance with the company's expectations, Adobe's future revenue and operating results could be adversely affected.
- **Failure to adapt to technology trends.** Due to the highly technical nature of its products, if Adobe fails to respond to the introduction of new technology by competitors, its long term growth potential could be impacted.
- **Failure to integrate acquisitions.** The company has historically acquired businesses of varying sizes, with the most recent acquisition being the largest to date, at \$20B. Failure to properly integrate these businesses could result in devaluation of its shares.

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**D.A. Davidson & Co.'s Institutional Research Rating Scale Definitions** (maintained since October 10, 2017); information regarding our previous definitions is available upon request:

**BUY:** Expected to produce a total return of over 15% on a risk adjusted basis over the next 12-18 months

**NEUTRAL:** Expected to produce a total return of -15% to +15% on a risk adjusted basis over the next 12-18 months

**UNDERPERFORM:** Expected to lose value of over 15% on a risk adjusted basis over the next 12-18 months

Rating Distribution (as of 6/30/23)	Coverage Universe Distribution			Investment Banking Distribution		
	IR	WMR	Combined	IR	WMR	Combined
<b>BUY (Buy)</b>	60%	90%	63%	10%	0%	9%
<b>NEUTRAL (Hold)</b>	40%	10%	37%	6%	0%	5%
<b>UNDERPERFORM (Sell)</b>	0%	0%	0%	0%	0%	0%

*IR denotes Institutional Research; WMR denotes Wealth Management Research whose rating scale is Buy/Add, Neutral, Sell/Reduce. Investment Banking Distribution denotes companies from whom D.A. Davidson & Co. has received compensation in the last 12 months. Best-of-Breed: Expected to outperform on a risk adjusted basis over a five-year time horizon.*



Target prices are our Institutional Research Department's evaluation of price potential over the next 12 months, based upon our assessment of future earnings and cash flow, comparable company valuations, growth prospects and other financial criteria. Certain



risks may impede achievement of these price targets including, but not limited to, broader market and macroeconomic fluctuations and unforeseen changes in the subject company's fundamentals or business trends.

While the Best-of-Breed designation does not contain a separate rating and/or price target from that of the standard ratings system referenced above, the expectation is that the security, based on the 12 criteria utilized in assessing the "Best-of-Breed" designation, will outperform over a five-year time horizon, not the standard 12-18 month time horizon.

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### Other Companies Mentioned in this Report

Company Name	Ticker	Rating	Price
Adobe Inc.	ADBE	BUY	\$521.36